



“ONGC Q3 FY10 Earnings Conference Call hosted by Antique Stock Broking Limited”

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SPEAKERS: **Senior Management-ONGC**
Mr. Amit Rustagi -Antique Stock Broking Limited



Moderator:

Ladies and gentlemen, good afternoon and welcome to the ONGC Q3 FY10 Earnings Conference Call hosted by Antique Stock Broking Limited. As a reminder for the duration of this conference, all participants' lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during the conference call, please signal an operator by pressing "*" and then "0" on your touchtone phone. Please note that this conference is being recorded. At this time, I would like to hand the conference over to Mr. Amit Rastogi from Antique Stock Broking Limited. Thank you and over to you, sir.

Amit Rustagi:

Good afternoon, ladies and gentlemen. I welcome you all to the third quarter earnings conference call for ONGC. We are pleased to have the senior management of ONGC, Mr. B.L. Ghasolia, Advisor, Finance; Ms. Priti Mathur, Executive Director, Corporate Planning; Mr. S.K. Jain, General Manager, Geology, Head, Planning and Project; Mr. A.K. Chaturvedi, Chief Manager (Finance), OVL; Mr. L. Nelson, Chief Manager, Finance, ONGC. I welcome you all. I will now hand over the call to Mr. Ghasolia. Over to you, sir.

B.L. Ghasolia:

Thank you, Amit. Let me add one more name to our team sitting here, Mr. Sanjiv Kumar, Chief Manager (Finance). I hope one of our other colleagues from OVL, Mr. Rakesh Sharma should be joining us in a short while. Thank you very much, friends, and good afternoon to all of you, those who are tuned to ONGC's conference call on third quarter. Meanwhile, my colleague, Mr. Rakesh Sharma, has just joined us. Let me give you a preamble. The Board of Directors of ONGC has approved the financial results for the third quarter ending 31st December 2009 yesterday. The result has already been published but just to recapitulate for those who have not seen result as yet, I will briefly take you through the financials. The turnover of the company for the third quarter was Rs. 15,373 crore as against Rs. 12,521 crore in Q3FY09 that is December 2008, up by 22.8%. The profit after tax for the third quarter was Rs. 3,054 crore as against Rs. 2,475 crore, up by 23.5%. The earning per share for the third quarter was 14 rupees 28 paise as against 11 rupees 57 paise. The subsidy for the third quarter ending December 2009 was Rs. 3,497 crore as against Rs. 4,899 crore, decrease by 28.6%. In terms of crude prices, the gross realization for the third quarter was 76.66 dollar per barrel as against 58.87 dollar per barrel. We had to shell out by way of subsidy discount 18.97 dollar per barrel for the third quarter of this year as against 25.03 dollar of third quarter of last year. With this



we had a net realization of 57.69 dollar per barrel against 33.84 dollar per barrel realization of last year's third quarter.

In rupee terms, our gross realisation for the third quarter was Rs. 3,575 per barrel as against Rs. 2,871 which was almost 25% up over the third quarter of last year. Discount by way of subsidy in rupee terms was Rs. 885 per barrel as against Rs. 1,220 for the last year and our net realization in rupee terms for the third quarter was Rs. 2,690 against Rs. 1,651 which indicates an upside of 63% over the last year's price. Some of the physical information, the crude production for the third quarter was 6.708 million metric tons as against 6.921 million metric tons, down by about 3%. The gas production in the third quarter was 6.457 bcm against 6.454 bcm, almost at par. The value added products production was 866 kilo tons against 848 kilo tons. In the third quarter, ONGC has made 7 new discoveries. After the end of third quarter, two more discoveries have been made in the month of January 2010 and all these discoveries have been notified to Directorate General of Hydrocarbons. . Out of the seven new discoveries in the third quarter, one was in KG onshore, one in Assam, and five in western offshore. The two other discoveries in the month of January were on two different areas in onshore.

In terms of the income, some of you may have some questions. We will clarify your questions. The interest and dividend income for the company in the third quarter has gone down. It is negative Rs. 11 crore as against Rs. 1,021 crore in the third quarter of last year and the reason for that is that the Board has decided not to charge any interest on OVL on the loans given to it. In the last year's third quarter, we have accrued the interest on the loan to OVL. So also we have accrued in the first two quarters of this year but in the third quarter the ONGC Board has decided not to charge any interest and as a result of that the third quarter's interest income is lower by about Rs. 600 crore on account of OVL interest. The interest income is also lower on account of lower yield on our investments in various banks and other deposits. The interest income is Rs. 256 crore in the third quarter, which is lower at a net yield of around 5.5%. There are significant numbers in terms of DD&A cost, that is depreciation, depletion, and amortization which comprises of four different elements. You can note down the figures. Depletion in the third quarter of this year was Rs. 1,225 crore as against Rs. 1,182 crore in the third quarter of last year, a marginal increase of just about Rs. 40 odd crore which is mainly because of addition to producing properties in the current fiscal. Depreciation in the current third quarter was Rs. 328 crore as against Rs. 336 crore in the third quarter of last year, almost at par. Dry well in the third quarter of current year was Rs. 2,480 crore as against Rs. 607 crore in the third quarter of last year.



The survey cost during the third quarter of this year was Rs. 644 crore as against Rs. 785 crore of the third quarter of last year.

In terms of dry well, we have written off 37 wells in the third quarter, and for the nine months' period ending 31st December 2009, we have written off 87 exploratory wells in all. The survey expenditure is less because of the lower size of activity in terms of both 2D and 3D surveys.

Well, with this overview on the financial results for the third quarter, I will now leave the floor to all of you, those who are tuned to the conference call to please raise your questions. Thank you.

Moderator:

Thank you, sir. Ladies and gentlemen, we will now begin with the question and answer session. Anyone who wishes to ask a question may press “*” and “1” on their touchtone telephone. If you wish to remove yourself from the question in queue, you may press “*” and “2”. Participants are requested to use handsets while asking a question. Anyone who has a question may press “*” and “1” at this time. The first question is from the line of Avadhoot Sabnis from Royal Bank of Scotland. Please go ahead.

Avadhoot Sabnis:

For the quarter one and quarter two, ONGC had picked out its share of upstream subsidy and it had worked out to roughly around 76% of the total upstream subsidies paid by the sector and we believe that this sharing was based on the actual profits of the three upstream companies in FY09. I think you would have observed that in 3Q your share has gone up from 76% to 80%. Do you have any ideas to what is the basis of the increase in your share?

B.L. Ghasolia:

Avadhoot, we have no idea why the share of subsidy has gone up but from the letter it appears that there is a reduction in allocation of subsidy to GAIL as opposed to the earlier part of communication received from the Government of India, we find that allocation to GAIL on account of subsidy is slightly less and that might have resulted in a little higher allocation to ONGC.

Avadhoot Sabnis:

Is there anyway you can alleviate concerns of investors that you will generally end up being the last resort holding the most bulk of the subsidy sharing for all the upstream companies especially given the risk now that the upstream sharing could go up very substantially?

B.L. Ghasolia:

Well, it is difficult. You know very well that it is impossible for us to make any kind of presumptions or predictions on account of subsidy. The government of India itself takes the decision about allocation of subsidy only after the end of the quarter and that too



after collecting different types of inputs from the relevant companies. So, it really is not possible for us to say anything what is going to be the situation in the last quarter.

Avadhoot Sabnis: Sir, on production I think at the last call your own crude oil production was at 25.7 million tons for the year. Is there any change in the forecast given that first quarter has not really gone up?

B.L. Ghasolia: I request Mr. Jain to reply to this question, Avadhoot.

S.K. Jain: In the current year 2009-10, likely production will be 26.43 million tons which includes 24.69 million tons from ONGC's field and 1.74 million tons from our share from domestic JV.

Avadhoot Sabnis: And sir if you can give us status for next year?

S.K. Jain: Next year ONGC Board has approved the production target of 25.43 million tons of ONGC and 2.05 million tons from JVs' share. Total will be 27.48 million tons.

Avadhoot Sabnis: Thank you, sir, and if I may, this is the last question on the dry well write off. If you look at I think past two years, nearly 60% on an average of the write off on dry wells have taken place in the fourth quarter. Now obviously it is not possible that all the drilling takes place in the fourth quarter, so there must have been some sort of final process which must be taking place in the fourth quarter because of which the bulk of it comes in the fourth quarter. This year there is a degrade in the third quarter itself. Is there any change in the process in which the dry well sort of figure is determined or are we likely to see the same kind of degrade in the fourth quarter as well?

B.L. Ghasolia: Let me first talk about clarifying this part of your question, Avadhoot, that we have a regular system of reviewing the status of wells, particularly the exploratory wells, and as and when the status of a well is decided, we take the result of that well into our books of account in the relevant quarter. For example, if a well status has been decided say on 30th of December and for the end of quarter we give a period of another 15 days to take the well status into account. So, any well for which the status has been decided even by 15th of January, that will be accounted for in the quarter ending December 31st. That is the process we have been consistently following from quarter to quarter basis. When it comes to year end, we keep the 'D' date as 30th of April because we prepare generally these accounts somewhere in the month of May and therefore in order to give the latest status in our books of account, the reflection of the activities in our books of account, we



take the status of well up to 30th of April of the relevant year. That could be one of the reasons why you have observed that in last quarter we find a bigger charge on account of dry well in our books of account but there is no change either in the practice or in the policy of charging of wells depending on the status of those wells. Beyond this, if Mr. Jain, would like to add anything. Is that clear, Avadhoot?

Avadhoot Sabnis: Yes, yes, absolutely. I just wanted to know whether there is anything special this year.

B.L. Ghasolia: Okay, the only thing could be is the Kerala-Konkan well, which was taken up in the last quarter for drilling, the status of that well had come to be known before the quarter ended or maybe even after the quarter ended and therefore we thought it appropriate to give the accounting treatment to that well in the quarter ending December 2009. That could be one of the reasons that the figure appears to be little higher than what you have been seeing in the earlier quarters.

Avadhoot Sabnis: Yes, that's it from my end. Thank you.

Moderator: Thank you, Mr. Sabnis. A request to all the participants in the question in queue, please limit your questions to one per participant during the initial round. The next question is from the line of Raj Gandhi from Principal Mutual Fund. Please go ahead.

Raj Gandhi: I just wanted to know, since you have again started the KG block where you have earlier written off the investment there. Can you write back the amount that you have already written off?

B.L. Ghasolia: You see, we have only provided for few wells, which were taken over from Cairn Energy in KG block. Why we have provided and not written off, is because it was on acquisition and not the effort of our own drilling, and therefore after consulting our own auditors as well as the government auditors we gave a different type of treatment only to those wells which were taken over from Cairn Energy and which have discoveries. Other than that whatever wells we drill on our own and if the well is a dry well or if it is an expendable well, we charge off straight away in the account.

Raj Gandhi: Okay. Sir, is there any update on your C2-C3 project?

L. Nelson: C2-C3 project is almost close to completion and it is expected to be commissioned in the Q1 of 2010-11.

Raj Gandhi: You will start off with initial capacity of the C2-C3 plant?



- L. Nelson:** Initial capacity of the plant for processing gas is approximately 5 million metric ton p.a.
- Raj Gandhi:** C2-C3 fractions, will you require LNG from Petronet...?
- L. Nelson:** Yes.
- Raj Gandhi:** First year, even if you assume a 50% utilization, you will be procuring 2.5 million ton of gas from Petronet in FY11?
- L. Nelson:** Yes, that is a possibility.
- Raj Gandhi:** Okay, sir. Thanks a lot.
- Moderator:** Thank you, Mr. Gandhi. The next question is from the line of Amit Shah from Sundaram BNP Paribas. Please go ahead.
- Amit Shah:** Hello, sir. Good afternoon. Just one question on the other income line, as you had mentioned, some bit of it was accounted for OVL being reversed but the change seems to be significantly large. So, going forward is this the kind of run rate that we should assume?
- B.L. Ghasolia:** See, other income basically comprises of dividend and interest. What you have noticed in this quarter figure vis-à-vis the last year's third quarter figure is mainly on account of non-charging of interest from OVL and the reduction in interest on our deposits. That's the main reason. There are no other infirmities in other interest elements of our income.
- Amit Shah:** So, going forward, the Q3 is a good indicator.
- B.L. Ghasolia:** We will not be accruing any interest from OVL and interest from other deposits, we will have a yield of around 5.5%.
- Amit Shah:** Okay, that is all, sir. Thank you very much.
- Moderator:** Thank you, Mr. Shah. The next question is from the line of Prabal Sen from IDFC SSKI Securities. Please go ahead.
- Prabal Sen:** Good afternoon, sir. Just wanted to get an idea of the kind of Capex going forward for the last quarter. How much you have incurred till date and how much you are planning to do for the rest of the year and if you can give some guidance on next year plus how much cash is there on the books at the moment?
- B.L. Ghasolia:** I will take the second part first. As far as cash is concerned, we have cash surplus of about Rs. 16,000 odd crore at the end of the



- December 2009. On the first part of your question, Mr. Jain will reply.
- S.K. Jain:** Up to December 2009, total Capex utilization is around Rs. 13,500 crore.
- Prabal Sen:** Okay. And how much did you do for the last quarter if at all?
- S.K. Jain:** Presently the figures are not readily available.
- B.L. Ghasolia:** No, total Capex.
- S.K. Jain:** Total Capex for the year 2009-10 will be Rs. 24,720 crore.
- Prabal Sen:** Sir, Rs. 24,720 crore?
- B.L. Ghasolia:** Total Rs. 24,720 crore is the Capex plan for the year 2009-10.
- Prabal Sen:** Okay, and Rs. 13,500 is what has been done already.
- B.L. Ghasolia:** Yes and next year's Capex is Rs. 26,500 crore.
- Prabal Sen:** All right. And sir, in terms of the dry well still on the Konkan basin, does that sort of reduce the prospectivity in your eyes of the basin because it is one of the high impacts sort of drilling that you have basically planned this year?
- S.K. Jain:** Kerala-Konkan, we have four blocks in NELP and we have already drilled three wells and unfortunately all three wells are dry. Still lots of G&G work has to be done and we are reassessing the total area with new geological model once the geological model is firmed up, we will re-evaluate the blocks for its prospectively.
- Prabal Sen:** But none of these areas, the dry wells from what I understand some in Konkan, some in KG basin, was there any reserve booked from these in the current fiscal?
- B.L. Ghasolia:** No reserves have been booked as yet from these areas.
- Prabal Sen:** All right. That is all from my end, sir. Thank you very much.
- Moderator:** Thank you, Mr. Sen. The next question is from the line of S Ramesh from Duetsche Bank. Please go ahead.
- S Ramesh:** Good afternoon, gentlemen. I have two questions. One, when do you think you will be able to arrest the decline and show growth in your oil and gas volume in reference to say a particular quarter or a period in say in the next one or two years?



S.K Jain

We have already got IOR/EOR activities in 15 of our major fields and these re-development activities are carried out to arrest the decline of production and examine upside potential. However, all these fields are very old and declining at the rate of around 7% to 8% every year. However, major boost in the oil production mainly will come from the development of the marginal fields which will give the production from the year 2011-12 and 2012-13 when our B and C series and other fields will come on stream.

S Ramesh:

Okay. Now, there was mention about development planning approved for the D1 marginal field, peak production of the 3,000 barrels a day from this, would it be included in your target of taking oil production to 29 million tons by 2013 or would that add to this target?

S. K Jain :

Currently D1 is producing at the rate of around 650,000 tons per year. Around 20,000 tons production will be added during the next year and additional production of around 150,000 tons will be added in the 2012-13. Afterwards the D1 will have its peak for more than two to three years and then it will decline as per the current production profile.

S Ramesh:

And finally in terms of the performance of ONGC Videsh, it will be useful if we can save ourselves some indication of the topline and bottomline or operating details compared to last year because if you see the impact of other income that is not really relevant for the consolidated numbers and we don't have consolidated results to take a look at the activities for the future. So, can we have some indications of ONGC Videsh performance?

B.L. Ghasolia:

Ramesh, in what way you want to know the Videsh performance? We have representative of ONGC Videsh sitting with us. If you can be precise in your question, please.

S Ramesh:

Well, if you can give us the production from ONGC Videsh for the nine months and some indication of the revenue and net profit for nine months ending December 2009?

B.L. Ghasolia:

Well, one thing you must understand, Ramesh, ONGC Videsh is not a listed company and it is difficult for them to consolidate their numbers on a quarter to quarter basis because we have got plenty of subsidiaries located outside India and they have different systems of accounting. So, it is really difficult for them to collect the information on a quarterly basis and consolidate at least the financial number. Nevertheless, I will request my friend Rakesh



Sharma to share with you their projection about the production for this year.

Rakesh Sharma:

Good afternoon. I am Rakesh here. I will just give you a brief overview of what OVL is today. We have 39 projects spread over 15 countries, nine of them are producing oil and gas, six of them are potential discoveries which are either being appraised or they are being developed and remaining 23 projects are in various stages of exploration. Thirty ninth project being the pipeline project which we have put in Sudan and it is a revenue-driver project at this moment. Now, out of the nine oil and gas producing projects, what we have estimated production of close to 8 million tons of oil and gas both put together in this financial year where about 5.8 MMT may be oil and 2.1 BCM may be gas. During the current fiscal, by the close of December month, we almost logged 4.86 million tons of oil and 1.6 billion cubic meters of gas. Now, this gives us a fair idea that whatever we revised as our production targets for the financial year which is up above the budget estimates that we had and which stands to about 8.14 million tons of oil and gas both put together. We are likely to achieve it. However, it is going to be less than what we produced last year which was about 8.76 million tons of oil and gas both put together and this is on account of the natural declines that we have in our fields, one in Sudan and the other being in Sakhalin. The gas that we produced in Vietnam has been going on a steady stream. There we did not have any problem as of now. It is producing at the levels that we expected. Whatever is the production that I have told you now and the behavior of our production streams that we see, it has all been anticipated by the company. We were very sure that this is what is going to happen on account of declines and various other factors and we are not off the mark on any of our estimates as of now. Would you like to ask some questions here or you would like to go on to the financial straight?

S Ramesh:

Can you give us the financials?

Rakesh Sharma:

Okay, you are aware that last year we booked a profit after tax of Rs. 2,806 crore. This year as per the revised budget estimates that we have, we are going to clock a profit of about Rs. 412 crore and more, and the next year the profit is going to remain more or less in the same range. As for the expenditure part, what we had planned for this year was about Rs. 7,000 crore as in the budget estimate and the RE estimates happen to be a little higher. We will be spending about Rs. 7,657 crore in this financial year which is less than what we spent last year.

S Ramesh:

Sir, if I could just reconfirm the numbers. You said the target for FY10 net profit for ONGC Videsh is 412 crore.



- Rakesh Sharma:** The revised estimate for PAT for 2009-10 is Rs. 412 crore.
- S Ramesh:** Why is there such a sharp fall in the profit?
- Rakesh Sharma:** This is on account of various reasons, you know. There are some exploration wells which could not succeed and these charges have to be booked into the profit and loss account this year itself. The profit is going to sink a little. I would like to emphasize here that these are estimates, still we have a quarter to go. The realisation totally depends on how the market moves. There are little upsides that we have on the production also. So, while we close our results, there may be upside variation. Finally when we run up the numbers and come to the actuals, the profits may be quite substantial and may be more than what I am telling you at this moment.
- S Ramesh:** If I may ask just one last question on OVL, in terms of the future profile over the next two, three years, do we see any potential for A) maintaining the current production or B) showing some growth on the current production?
- Rakesh Sharma:** See, the current portfolio is what we have and what we estimate are the future producers joining us in the production stream. We don't see in the next financial year any substantial pileup in terms of oil and gas production unless we acquire a producing asset within the time in this financial year. So, that is the case. More or less our production is going to be same. There is one asset in Russia where we see a lot of potential of ramping up the production. There are efforts going on in the direction to capture as much as higher levels that we can.
- S Ramesh:** Okay Rakesh. Thank you very much.
- Moderator:** Thank you, Mr. Ramesh. The next question is from the line of Neeraj Mansinghka from Edelweiss. Please go ahead.
- Neeraj Mansinghka:** Good afternoon, sir. This is Neeraj. I have some questions. I wanted to know on the updates on the IG block that you have in KG basin as well as CBM block?
- S. K Jain :** Yes, in IG blocks in KG basin, we are doing exploration in which we have already discovered eight fields and many more prospects. Out of these prospects, three are in the PEL block IB, IG, and G1 East and four prospects in the NELP block. These are Padmavati, Kanakadurga, Annapurna high, and KT1. All these prospects, we have envisaged to develop together and these will be developed in three phases and in the first phase, the production from the



Padmavati, Kanakadurga, G46 and GS29 would be taken up. In the second phase, G45 and KT will be taken up. These prospects are part of NELP Block and in third phase we will have the production from G46 discovery in Annapurna high, GS29 and east of G1. These are the different prospects we have identified and they are earlier discoveries. So, we will have the total production in three phases and most likely the production will start at the end of 2012.

Neeraj Mansinghka: Is it the end of 2012, is it December 2012 or will it be March 2012?

S. K Jain : March 2012.

Neeraj Mansinghka: And what is the production you are looking at from the start and how do you see the scale up happening?

S. K Jain : Actually at the end of the phase one, the total production will be around 12,000 barrel per day and the peak production will be around 35,000 barrel per day.

Neeraj Mansinghka: Sir, the phase one you expected to start at FY12 which is March 2012 and end up with a 35,000 barrel per day, is that? When do you expect this first phase to be scaled up to five? When do you expect it to reach 35,000 barrels per day?

S.K Jain : I think at the end of phase three. Phase three, will be starting in 2015-16.

Neeraj Mansinghka: Okay.

S. K Jain : And we are expecting a peak production of around 1 lakh 40 thousand barrel per day.

Neeraj Mansinghka: Okay sir. I am slightly lost. So, you are telling me the first phase will start at 12,000 barrels per day and by the end of the third phase complete, you will reach 1 lakh 40,000 barrels per day.

S. K Jain : Yes, certainly. It will be peaked. When we start the third phase, we will start with the 35,000 barrel per day and with all the three phases in the peak the total production will be 1 lakh 40,000 barrel per day.

Neeraj Mansinghka: And, sir, when do you expect that to happen?

S. K Jain : Around 2017.



- Neeraj Mansinghka:** Okay. Sir, any guidance on how much Capex that we will be spending on this project?
- S. K Jain :** More than Rs. 5,000 crore.
- Neeraj Mansinghka:** Okay. That is interesting. Is it a nominated block, am I right?
- S. K Jain :** These are nominated as well as some part is in the NELP.
- Neeraj Mansinghka:** Okay. Is there distribution of the crude realization you will be doing from these blocks
- S. K Jain :** It is too premature to estimate.
- Neeraj Mansinghka:** The reason I am asking is because in the earlier natural gas decline, I think there was also discussion that whatever was the incremental gas from even nominated field, whatever Capex you would be doing, you would be actually getting a market-linked gas like C series etc. So, I just wanted to know if this would be having a different way of calculation?
- S. K Jain :** Yes, certainly. As the policy stands today, for all nomination fields the government is giving APM price, and from the NELP it is the market-driven price but we have represented to the government that like in the case of C series fields, whenever the additional gas being discovered or incremental gas being produced, we should be given the market driven price.
- Neeraj Mansinghka:** Okay. This is about IG. Sir, I want to get an update on the C series? Has the pricing of the gas been finalized?
- B.L. Ghasolia:** Not yet. Neeraj, not yet.
- Neeraj Mansinghka:** Okay. Sir, when do you expect it to happen?
- B.L. Gosalia:** It is difficult to say when it is likely to happen. This matter is under consideration with the Petroleum Ministry.
- Neeraj Mansinghka:** Okay, sir, lastly I wanted to know about the Imperial Energy update. I just wanted to have, Mr. Rakesh, update us on the San Christobel project and what is the status of that and when do you expect it to scale up?
- Rakesh Sharma:** San Christobel at the moment is producing about 31,000 barrels a day and we hold 40% in that. It is a joint venture with the National Oil Company of Venezuela. Now, there are certain limitations that we have on that project. It so happens that whatever cuts are imposed onto the Venezuelan side out of the OPEC led streaming



of production, they fall into the laps of most of the joint venture operations. So, that is one limitation factor. The other factor is that we would like to ramp up the production and the efforts are there. There is a surplus capacity available in this project as and when the global demand picks up and there is increase between the OPEC quota and the restrictions that they impose on the company, probably we will see a better side. So, this project already is sitting on the surplus capacity where it can ramp up to another 5,000 to 6,000 barrels within no time and with the additional inputs it can even scale up to 40,000 to 45,000 barrels. Okay. There are work programmes which are already lined up in this project where we would be drilling some wells tying up them with the production facilities. Those are on and our team along with the PDVSA team is already working on those.

Coming onto Imperial which is our wholly owned producing asset, we have two major ideas that are being worked on this project. One, being that with whatever existing inheritance that we have in this project, we are putting in knowledge and technology so that the production can be ramped up. Two, is that we are restudying everything that has been inherited by us including the reservoir, including the schemes that can be developed into it, including the technology that can be applied. There are thoughts about the pilot which will be launched very shortly while where we would be hydrofracturing the formation and putting in spaces so that the fractures can be held up in place after they have been cracked up and the oil can be bled out of the reservoir. What had happened previously is that there was a very little knowledge input available as to how this reservoir can be exploited. So, for us, the challenge remains that we need to test our ideas, theories, and then ramp the production up. So, there are two-pronged approaches that we have at the moment in Imperial. One is with whatever we have inherited, ramp up as much as we can, and that we have already demonstrated, it almost touched 18,000 barrels and we expect that with some hiccups it is going to remain at this level with the inheritance that we have, and with the knowledge that we put in we are going to ramp it up to almost 30,000 barrels, 25,000 barrels within a year's period. That is what the plan is.

Neeraj Mansinghka:

Okay. Last question about the Russian pipeline, which is constructed right now, will you have lower taxes from the Russian pipeline production after you have used the pipeline for transportation of the crude?

Rakesh Sharma:

Which pipeline are you talking of?

Neeraj Mansinghka:

The pipeline connecting the specific markets in Eastern Russia.



Rakesh Sharma:

See, as of now, the Sakhalin project contains a marketing scheme where there are ships, which are owned by the consortium. There is a marketing scheme, which is already placed with the consortium and being an oilman I appreciate the amount that is being realized on the crude that is being sold in the international market. Now, if it is at the stake of realizations that somebody would think of changing the direction of the crude flow, probably the consortium would have a second thought on it and you would understand it better.

Neeraj Mansinghka:

Okay. That is all. Thank you very much.

Moderator:

Thank you, Mr. Mansinghka. The next question is from the line of Vinay Nair from Khandwala Securities. Please go ahead.

Vinay Nair:

Good afternoon, sir. Actually, I just wanted to know whether you have a separate volume number for the marginal field, I mean, three years down the line what is the kind of production you are expecting separately from those?

B.L. Ghasolia:

Right now, I am sorry, we do not have separate number for marginal field but the total production numbers, Mr. Jain has already shared a short while ago, we will try to work out and maybe in course of time, if we are ready, we will try to share with you.

Vinay Nair:

Okay, fine, no problems. Thank you.

Moderator:

Thank you, Mr. Nair. The next question is from the line of Harshad Borawake from Motilal Oswal. Please go ahead.

Harshad Borawake:

I am Harshad here. Sir, now that you have done with your majority of the write-offs in the third quarter, what is the kind of the number we should look at in the fourth quarter for well write-off?

B.L. Ghasolia:

Well. It is difficult. We do not project write-off on a quarterly or monthly basis. This is on actual basis. As I said in the first question itself, when Avadhoot asked about the projection of write-off in forth quarter, what we said is that we have a policy of write-off and we consistently follow that policy. As I clarified earlier that when we prepare our quarterly results, we take this status of wells till 15 of the following month, that means we have considered the status of well as on 15th of January while preparing the quarterly financial of December. However, when we prepare the year-end financials, we will consider the well status as on 30th of April to give the latest results in preparing the annual report as well as annual accounts, but we have no projection and obviously



we do not drill well to be a dry well. We expect every well to be a successful well. Therefore, we do not factor in the dry well while preparing our financials.

Harshad Borawake:

Okay. But is there any reason for you to believe that the fourth quarter dry well expenditures could be lower than what was in the FY09 or FY08?

B.L. Ghasolia:

As I said it is difficult. We do not estimate what is going to be the write-off at the end of quarter or at the end of the year. It comes on actual basis depending on the result of the well. We have plenty of exploratory well under progress as of today, both onshore as well as offshore and also in the quarter, and only on the actual results of the well, we will take the financial in to consideration. So, it is difficult for us to say at this stage whether it is going to be higher than the third quarter or higher than last year, etc.

Harshad Borawake:

Okay. Fine. Thank you. Sir, I have two questions on OVL. First, expected profit number is 412 crore and if we exclude the write-off, what would be the profit number for OVL? And second question is on the Imperial Energy production ramp up. How much production do you envisage, like say by FY11 end?

B.L. Ghasolia:

Let me clarify before Rakesh takes this over. As I said, OVL does not get their actual financial number on a quarterly basis. They have got plenty of subsidiaries where are located outside the country. They have different systems of accounting. They prepare their accounts in different currencies. So, it takes pretty long time for them to consolidate on quarterly basis. What Rakesh said earlier was only on the basis of the initial budgetary estimate which they prepare in their own office, and only when we consolidate the number at the end of the year, we will get to know the actual numbers of OVL financial. Beyond this, Rakesh will share some more information with you.

Rakesh Sharma:

You know, there is one more thing that if all the listeners are there, I would clarify, that this was the profit number accounting for the interest charge-off that we had to pay to ONGC. Now, there has been a very recent decision where ONGC has consented to our request that they should not be charging interest on the borrowings that we have from ONGC and to the inter-corporate borrowing. It might go up the number that I said based on the market situation and upside on estimated production. Now, coming onto Imperial, see, as of now for the budget estimates, that is for the next year estimates, as I was telling you earlier, we have limited our case towards our inheritance as on ground today. So, we have not factored whatever efforts we are going to put in during the remaining quarter of this year and the succeeding quarters of the



next year. As of now, we have estimated that for next year it is going to be 20,000 barrels a day and what we might get in reality would be little higher depending on which pilot turns out to be really applicable. So, those are the questions, you know, which will be answered in time. There is a quick series of efforts that are being made and as and when the efforts start showing up, we will be implementing them. There are no hiccups to full-scale implementation of the schemes that we are trying on the pilots. So, the systems are there. There are facilities. All we have to do is drill a couple of wells and apply the schemes. So, there is sufficient amount of confidence within the company and the team which is on the project, but given the chance that their knowledge test goes through positive, the ramp up could be very fast .

Harshad Borawake:

Sir, thanks. Just a last question, sir. Initially, when you acquired Imperial, the initial estimates which you have given out by Imperial Energy was 80,000 barrels by 14-15.. So, when do we envisage that kind of productions, Rakesh?

Rakesh Sharma:

See, what you have asked is the target of the corporate. The company is looking towards achieving those targets. Now, this can be achieved as I said earlier out of testing out our understanding of the field, understanding of the reservoir. What we inherited was the reservoir and the facilities. There was very less knowledge available on the reservoir because it had just started commencing productions. Imperial has a lot of unexplored area. There are lot of reservoirs which have not been opened up. So, once we unfold our total scheme of exploiting in terms of developing the known reservoirs and exploring or finding out the new oil, so, all these schemes have to be carefully crafted out with the support in terms of the financial resources that you would require. So, there are various equalities, which are being measured in the company's considered view. Probably, what you say as 80,000 bopd would be achieved in the time to come.

Harshad Borawake:

Thanks a lot.

Moderator:

Thank you, Mr. Borawake. The next question is a followup from the line of Raj Gandhi from Principal Mutual Fund. Please go ahead.

Raj Gandhi:

Sir, I just wanted to know the OVL profit head which is coming. I just want to know is it from such exploratory wells you are writing off or is it some goodwill that you are writing off on account of acquisition?

Rakesh Sharma:

The goodwill remains on our balance sheet and from time to time as the board sits down and takes the considered view that okay



- from the revenues that we have generated and from the gross that we get, how much of goodwill can be booked away. So, that is the amount which is taken off when we are closing the accounts. So, what I would rather suggest is though I had given you some indications about the number, we should be waiting very close to the closing of book and then we should be appreciating as to what should be write-off as goodwill and what is taken up as depletion and other dry well write-offs.
- Raj Gandhi:** Okay. Sir, I just wanted more light on your C2-C3 project. Have the buyers been identified? Because suppose the issue there was that till the time your own downstream units come up in Opal, they were finding difficulty to get buyers for C2-C3. So, has that been resolved?
- S. K Jain :** Initially, we are in talk with the Reliance Industries Limited to buy out the C2-C3 till our plant of Opal is put in test.
- Raj Gandhi:** Okay. How much quantity have they indicated to purchase?
- L. Nelson :** Talks are going on.
- Raj Gandhi:** Okay. If this is not able to serve all...
- L. Nelson :** That I don't know but principally they have agreed.
- Raj Gandhi:** Okay, sir. Thanks a lot.
- B.L. Ghasolia:** Any more questions?
- Moderator:** Yes sir. The next question is from the line of Ballabh Modani from Enam Securities. Please go ahead.
- Ballabh Modani:** Good afternoon, sir. Just one clarification. Sir, you are doing three appraisal wells near UD1 well in KG basin. So, I just want to understand that if there is some dry well in one of these appraisal wells, how do you account for it? Do you consider it as a dry well or you capitalize the whole thing?
- B.L. Ghasolia:** It will depend whether we drill it as expendable well or we drill it as a development well, the nature of well is going to be decided in the initial stage. We will determine the ultimate accounting treatment of the well also, and Mr. Jain will also add to what I said.
- S. K Jain:** Generally, in the developing field, some wells are dry or considered to be dry or considering it is not giving the production as per our potential, we can use these wells for our future activities



like water injection or gas injection. Therefore, these wells are used for the future work or future activities also.

Ballabh Modani:

So, in that case, you do not write it off?

S. K Jain :

Certainly.

Ballabh Modani:

And sir, the other thing is that the similar question of UD1 well in which you have provided for around 850 odd crore earlier and it is a discovered field. So, basically, you know, what is the timeframe for that? Once you will complete your appraisal plan, then you will be writing it back or how does it go?

B. L Ghasolia :

You see, there is no timeframe. As far as the institute's guidelines are concerned, once an exploratory well is drilled, you can keep it in your books for a period of two years and beyond that unless there is a definitive development plan or unless you have taken the steps to develop the area, you will have to write off the well. Now, UD1 and other wells which we took over from Cairn Energy for which we have created a provision, there is no definitive time plan for that. It will depend on development of that area. Once we take up the development, we will perhaps at that stage write back whatever provision has been made, if the reserves are found to be in economical proposition and DGH agrees that the reserves are there in economical quantity which can be exploited. So, along with the other developments we will take a final decision about writing back the cost of those 3-4 wells costing approx. Rs.860 Crore.

Ballabh Modani:

Okay. And sir, what is the status of the appraisal wells which we are drilling in KG 98/3 block?

S.K. Jain:

Now, well is still under testing and we are recovering some core and the total testing results will be coming to media in due course of time.

Ballabh Modani:

Okay. Mr. Rakesh, I have just got a couple of questions. One is on the BC-10. How you see that field to reach its peak production? How much time it will take?

Rakesh Sharma:

BC-10 started production in this financial year and at the moment it is producing about 50,000 barrels a day and we hold about 15% of this market. So, this is a deepwater project and you know in deep water projects, the plateau production is in a very short period that you will see. So, this is very close to the plateau that we expect and there will be some more increase in it and then we will strike the peak at the plateau.



Ballabh Modani:

And the second thing is on the Nile-Sudan field, the production was falling drastically. So, how would you see that? Will you be able to contain that decline or do you see the same kind of decline to take place?

Rakesh Sharma:

The Greater Nile Oil Project?

Ballabh Modani:

Yes. Greater Nile Oil Project.

Rakesh Sharma:

If you have been following it for quite some time, then there is a natural decline which the fields have. There are ways which have been tested here in our domestic fields and ONGC has been able to contain the decline or rather, you know, it has a positive onto the declines registering it down to about 1% to 2%. Those experiences we as a team are sharing with the other consortium partners over there. There are fair amount of water injections. There are fair amount of reservoir pressure maintenance of the fields that we have adopted. So, that will help us out. They will start giving us results as we go about, but offhand what I can say is that the decline which could have been very drastic, 10% or 11% stands to around 6% or 7% in the GNOP project which is again an achievement of the pressure maintenance techniques and the water injection that we have. If this confidence goes on for quite long, there will be a substantial period that we will be available to arrest the declines though there would be some natural declines. And then a couple of small explorations or a couple of small satellites may join in. For long-term purposes, I think there will be a continued decline in the project.

Ballabh Modani:

Okay. Fine. Just on the last thing on the Myanmar gas field, when do you expect it to get monetised?

Rakesh Sharma:

See, there is a development scheme which has been unified for A1 and A3. Now, that is to be put in implementation. Further, there is a marketing setup, which is also being planted over there in Myanmar. So, by 2012-13, we expect that there will be pre-productions from the fields and it will start giving us revenues.

Ballabh Modani:

Okay. Is there any kind of volumes you have built in like what is kind of production this field will give?

Rakesh Sharma:

See, the field is about 6 TCF, both put together. And if we were to calculate on a thumb rule basis, there could be about some 30 million standard cubic meters of gas per day.

Ballabh Modani:

Okay. Fine. Thank you very much.



Moderator:

Thank you, Mr. Modani. The next question is a followup from the line of S Ramesh from Duetsche Bank. Please go ahead.

S Ramesh:

Hello Rakeshji. If you were to look at the prospects for ONGC Videsh in the next two to three years, can you just highlight some of the development exploration efforts, which may see some progress in terms of either discovery or assessment of prospectivity and progress in terms of drilling?

Rakesh Sharma:

See, as I said in the very beginning that we have six potential surprises waiting for appraisal or development which can go on production stream in the later years. What we have in that portfolio is discovery in Egypt, potential discovery in Syria block 24 and discoveries in A1 and A3 and Iran. Now, if I were to rack them in order, that they would get into production, A1-A3 are the likely in 2 to 3 years. Syria 24 could be a very potential candidate because it is an onland project and the flow rates have been very encouraging. That could get onto stream very fast. What the company is waiting on to have a full-scale measure of what the reservoir is and then to assess its potential and then launch on to a development scheme. Unless we have measured out the reservoir completely, it would not be very wise for us to scheme out something and let off over here. Now, after that it will be Myanmar which will go on stream. Then the Egypt discoveries happen to be both offshore. So, they will take a little while. We will have to source out some kind of platform arrangement to produce whatever has been discovered over there. So, this will be the order of precedence. Meanwhile, what we have in our exploration portfolio is also kind of already rolling out. There are exploration schemes, which have been lined up for the next two to three years where we have actual exploratory wells being attempted onto the exploration blocks. So, if the results come out as we expect, the scenario could be a little different in years to come or after two or three years.

S Ramesh:

Thank you, Rakeshji. Followup with Mr. Jain, in terms of the recent discoveries on ONGC say in the last one or two years, where do we see these discoveries being taken up for development and when do we see these developments being monetised?

S.K. Jain:

From 2002 onwards, we have discovered around 111 prospects, out of which 70 are onshore and 41 in the offshore. And out of 70 onshore discoveries, 49 discoveries we have already monetized through putting them on production. And 21 discoveries are yet to be put in production because they are small and away from the known area of our activity. But our immediate plan for 21 discoveries - 4 discoveries we are putting in the current year, 7 discoveries we have put in 2010-11, 3 discoveries will give



production during 2011-12, 5 discoveries in 2012-13 and beyond and 2 discoveries are market dependent. If the gas prices are good and market driven, then we can start developing activity from these fields also.

S Ramesh: Okay, sir. Thank you.

Moderator: Thank you, Mr. Ramesh. The next question is from the line of Kumar Manish from HSBC. Please go ahead.

Kumar Manish: Hi. Good afternoon, sir. I have two questions related to each other. One is, how is your seismic and drilling program for next couple of quarters? And in terms of some of the wells that had been classified as dry wells resulting in higher amount of depreciation charges, do you think this is a trend that will continue for some quarters or do you think this is one off and partly driven by, maybe the commitment that you would have made and more number of wells that you may have had to drill to meet those commitment.

B.L. Ghasolia: Okay, I'll take the second part of your question first. As far as the dry wells are concerned, as I clarified earlier we have no plans to drill dry well but we have plans to drill certain number of the exploratory well as well as development well. Out of those exploratory wells, some will go dry and some will have successful discovery of oil or gas. So, whenever the status of a well is determined and decided, we give the accounting treatment in line with that status. If there is a discovery of oil and gas, we treat that as a producing property and we transfer the well to producing property. If the well comes out to be a dry and is abandoned, we charge it off in the books of account. Now, as I clarified earlier because in this quarter we have drilled deep-water wells in Kerala-Konkan, rather two wells which cost roughly about Rs. 660 odd crore, which had gone dry and we have given the accounting treatment in the quarter ending 31st December 2009. And that may be one of the reasons why you people are finding this dry well figure comparatively larger than what it was in the 3rd quarter of the last year. But again, let me clarify that we have figures with us as to what is going to be the number of exploratory wells to be drilled in the current quarter and do not have the figures on the amount we are going to charge dry well in the current quarter. We do not have any such projection, it depends on the reality. As and when the event takes place, we account for that in the books of accounts. On the first part of your question which is related to programme about seismic and drilling, I will request my friend, Mr. Jain, to reply to your question.



- S.K. Jain:** Yes, in the fourth quarter of this current year, we will have a plan to drill around 30-32 exploratory wells and around 30 development wells.
- Kumar Manish:** And out of these explorations, how many are deep-water?
- S.K. Jain:** We have plans to drill around three more deep-water wells.
- Kumar Manish:** That answers my question. I was just trying to figure out how many deep-water wells are going to be drilled. And sir, are these on the east coast or west coast?
- S.K. Jain:** Yes, all in east coast.
- Kumar Manish:** Okay, thank you for the answer.
- Moderator:** Thank you, Mr. Manish. Ladies and gentlemen, due to time constraints, we will be taking one last question from the line of Mr. Kanish Shah from Quantum Advisors. Please go ahead.
- Kanish Shah:** Sir, this is Kanish here. I just have one question to Mr. Rakesh. You have mentioned that many of the fields on OVL right now is on a matured status and they have been showing the declining trend. Could you also just give us a little bit of an idea as to what kind of measures you have been putting in and what kind of a cost which will be involved in arresting the production decline at, let's say, major producing fields like Sakhalin or maybe at Sudan and going forward. The second is on the Sakhalin, is the gas production, I mean. When you see the gas production increasing in Sakhalin and what kind of a Capex requirement will be there for next couple of years or so or maybe for the development of the field?
- Rakesh Sharma:** The first thing is about the decline rates. Now our endeavor was rather that we would improve upon the already known decline rates to us. Most of the fields that are producing with us have started production in this millennium. We started major production in 2003. And in 2003 the knowledge era that was prevailing in the petroleum industry, with that level we had already estimated the production profiles of most of the oil and gas fields that we have today and that are producing. Now, there has been no technological breakthrough as of 2010. There has been no major change in the technologies that are being used. So what I want to emphasize on is that there were known decline rates which were already available to the company in terms of the production profiles that were from the projects. Now, what we have done is we have just taken our experience of ONGC onto those projects where we have like ONGC did revamping of the projects,



maintaining pressures, adding out extra barrels of production. That's what we have done. And that has given a fairly positive outlook on to the natural declines which would have prevailed in the projects otherwise. So this is one area. Second was that there cannot be anything which can be done drastic in this. This ought to be there, this will remain with the company and the company can only endeavor to arrest it to a certain level. Now, coming onto Sakhalin. Sakhalin, as I said earlier, has been behaving in the fashion that we expected. It's also a project which is of the new millennium era. And the gas which is available in that project, it will be exploited in 13 or 14 when those gas reservoirs which are dry gas reservoirs, they would be opened up and gas would be put into the marketing scheme that they have, either it will go through a pipeline down south towards China or there could be other options there are still talks going on for a viable scheme to monetize the gas potential that's there in the project.

Kanish Shah: How much is the quantity which could be produced, maybe 2013-14?

Rakesh Sharma: In 13-14? I don't have those numbers at this moment but it will be a very insignificant production in terms of the production, that would be the rather startup year. In subsequent year, it will ramp up, gas normally ramps up very fast in terms of production. So I don't know the numbers but yes, the Investor Relations cell would get you the numbers if in case you want.

Kanish Shah: So, what I could gauge from this is that because last year we have seen a double-digit decline probably in these key fields, in Sakhalin and Sudan. So, do you mean to say that this rate of decline will continue to remain as it is?

Rakesh Sharma: No, no, what you say probably is not true. There is no double-digit decline that we have registered in any of our foreign producing business. The comparison of the production year-on-year, probably tells you that 2007-08 was 8.8 and 2008-09 was again 8.8, whereas we just started a small production from the ...

Kanish Shah: That is fine because we have added two more fields as well during last year, that is from Columbia.

Rakesh Sharma: Those were very insignificant productions. That was just early startups before added. Otherwise the normal decline rates should have been above 4 to 5% or 6% at the most.

Kanish Shah: Thank you, sir.



Moderator:

Thank you, Mr. Shah. I would now like to hand this floor back to Mr. Amit Rustagi, for closing comments. Please go ahead, sir.

Amit Rastogi:

On behalf of Antique and everyone, I would like to thank the management of ONGC for taking the time off and to be on the call and thank you all for logging in.

B. L. Ghasolia:

Thank you, Amit. On behalf of the entire investor's relation team of ONGC and OVL, I thank all the people those who are on line and I thank Antique for organizing this conference call. Thank you very much, all the very best.

Moderator:

Thank you, gentlemen of the management. Thank you, Mr. Rastogi. Ladies and gentlemen, on behalf of Antique Stock Broking Limited, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.