

Statement to Shareholders

at the

18th Annual General Meeting

by Shri A K Hazarika Chairman & Managing Director
Oil and Natural Gas Corporation Ltd.



Dear Members,

On behalf of the Board of Directors of your Company, Oil and Natural Gas Corporation Ltd. (ONGC), it is my pleasure to extend a very warm welcome to each one of you, at the 18th Annual General Meeting of the Company. I would like to convey sincere gratitude to all of you for being with us on this important occasion.

The Annual Report for the Financial Year ended 31st March 2011, along with the Directors' Report, Audited Annual Accounts

and Auditors' Report of your Company is with you for some time now, and I assume them to be taken as read.

Number 1 E&P Company in the world

First of all I wish to share that your Company, a FortuneGlobal 500 Company, is also ranked as the Number One E&P Company in the world and 18th among leading global Energy majors as per 'Platts Top 250' global energy company ranking 2010, which was released on 2nd September 2010.

ONGC: a 'Maharatna' Company

At the outset, I would like to congratulate all of you for now being the valued shareholders of a 'Maharatna' company. Her Excellency the President of India Smt. Pratibha Devi Singh Patil formally conferred the 'Maharatna' status to your Company on 11th April 2011.

As you have already noticed, with the appointment of required number of Independent Directors, the composition of the Board of your Company now satisfies Clause-49 of the Listing Agreement of the Securities and Exchange Board of India (SEBI). This empowers the Board of your Company to exercise 'Maharatna' delegations.

Highlights

The year 2010-11 has been a year of achievements for your Company:

The significant achievements during the year have been:

- Highest ever total production of 62.05 million tonnes of oil and oil equivalent gas (mtoe) from domestic and overseas assets;**
- Highest-ever production of 9.45 mtoe from overseas assets;**
- Highest-ever refinery throughput of 12.64 million tonne (mmt) by MRPL;**
- Highest Ultimate reserves accretion of 83.56 mtoe in last two decades from domestic acreages;**
- Breakthrough in Shale gas exploration;**
- Highest-ever Net Profit of ₹ 18,924 Crore; and highest ever dividend payment of ₹ 7,486 Crore.**

These performance milestones are testimony to the focused strategic pursuits of your Company which believes in creating value for its stakeholders through sustained growth.



The Economy

It may be pre-mature to conclude that global economy is leading towards double dip recession. However, the global economic crisis appears now to be deep rooted. Eurozone is struggling hard to tackle sovereign debt crisis. Recent downgrading of US credit rating is yet another blow. It will have wide ranging effect on developed world and has all the potential to slow down the growth pace of the developing economies which till recently were showing the signs of resilience.

Today Indian economy is also passing through a challenging phase. High inflation, rising prices and higher interest rates have slightly dented the growth momentum.

The Industry

Acute sensitivity of the oil markets to geo-politics and global economy is an established fact. Post-recession crude oil demand started building up and 2010 proved to be the second strongest year for global oil demand growth in the past 30 years. However, on supply side there has always been enough comfort.

Despite straight demand-supply equations, oil prices remained volatile mainly due to political unrest in the Middle East and North Africa (MENA) region and economic turmoil in the developed world.

The period from mid-2009 to September 2010 witnessed a little stability in

crude oil price (Dated Brent) which averaged around US\$ 73 per barrel. Subsequently, it started gaining momentum and averaged around US\$ 85 per barrel.

Thereafter, looming supply disruption due to unrest in MENA region set the oil prices on both which averaged around US\$ 114 per barrel during the period from Feb'2011 to July'2011. Presently it is in the range of US\$ 105-110 per barrel. However, oil price volatility is expected to remain as a permanent feature in oil markets as economic concerns in the developed world raise possibilities of an unsteady state in economic growth, and hence oil demand.

Indian E&P Industry

During the year 2010-11, domestic crude oil production registered an increase of about 12% over 2009-10, mainly on account of higher production from RJ-ON-90/1 field in Rajasthan, in which your Company has a 30% stake. Natural gas production also registered a growth of about 10% over 2009-10 primarily on account of higher contribution from East Coast fields.

In India's domestic scenario, your Company accounts for 73% of oil and 48% of gas production. The average crude oil price for Indian basket during 2010-11 has been US\$ 85.09 per barrel, 22% higher than 2009-10 (US\$ 69.76 /bbl). To make the crucial petroleum products available at affordable prices, the Government had little option but to subsidize the fuel oil prices. The upstream companies had to share this subsidy burden by 38.8%, instead of past practices of 33.3%. Out of that ONGC had to share 82%. Our outgo of ₹ 24,892 Crore on account of the subsidy sharing, resulted in the net crude oil price realization at US\$ 53.77 per bbl in 2010-11, against US\$ 55.94 per bbl during the previous fiscal, FY'10.

Performance 2010-11
During 2010-11, ONGC Group has produced 62.05 mtoe which is highest in the history of this group of companies. Production from its overseas fields at 9.45 mtoe has also been the highest-ever.

During 2010-11, your Company accreted ultimate reserves of 83.56 mtoe from its domestic acreages; the highest in last two decades. Organic Reserve Replacement Ratio (RRR) at 1.76 has also been the highest in last two decades. This is the sixth consecutive year when your Company registered RRR of more than one, which is one of the most significant parameters to ensure the business sustainability of an E&P Company.

Financial Appraisal

a) ONGC

During FY'11, your Company recorded the highest-ever Gross Revenue of ₹ 69,532 Crore; 12% more than the previous year. Net Profit of ₹ 18,924 Crore

Formally conferred with Maharatna status on 11th April 2011

has also been the highest-ever and 13% more than the previous year despite sharing huge under-recoveries.

b) ONGC Videsh Limited (OVL)

OVL registered the highest-ever gross revenue of ₹ 18,683 Crore which is 21% higher than the previous year. Net Profit of OVL during FY'11 has been ₹ 2,691 Crore; 29% more than the previous year.

c) Mangalore Refinery and Petrochemicals Limited (MRPL)

MRPL also registered highest-ever gross revenue of ₹ 43,800 Crore; 21% higher than previous year. Net Profit has been ₹ 1,177 Crore; 6% higher than the previous year.

d) ONGC Consolidated

Consolidated Turnover of ONGC Group of Companies, in FY'11, has been ₹ 1,27,905 Crore; 18% more than the last year. Consolidated Net Profit of the Group has been 16% higher at ₹ 22,456 Crore against ₹ 19,404 Crore in FY'10.

Dividend

Your Company had paid an Interim dividend of ₹ 32 per share (320%) in December, 2010. After your approval, in this AGM today, the final dividend of ₹ 0.75 per share, that is additional 15% (after considering split and bonus issue during the year), shall be paid in the next few days. With this aggregate dividend payout will be equivalent to ₹ 35 per share or 350% on the basis of pre-split and pre-bonus share. Total dividend payout will be ₹ 7,486 Crore, besides ₹ 1,215 Crore payable as tax on dividend, which is historically the highest dividend payout by the Company.

Follow on Public Offer (FPO)

As you are aware, Government of India has decided to divest another 5% of

its share capital through an FPO. ONGC Board approved the RHP yesterday i.e., on 29th August 2011, which will be filed as per the instructions of the Government. Keeping the strong fundamentals of ONGC in view, we are confident that the response from the investors as well as from our present esteemed shareholders will be overwhelming, and the Government will successfully achieve its target.

Growth initiatives & strategies

Your Company dedicates itself to its core activity i.e., Exploration and Production of hydrocarbons. This requires intensive exploration to find out and establish future hydrocarbon assets for sustaining growth. At the same time, prudent reservoir management through extensive technology interventions in existing mature fields remains our top priority. Your Company is also focused on opening new growth avenues through



Highest-ever production of 9.45 mtoe from overseas assets

exploration of new sources of energy and meaningful integration in the hydrocarbon value chain.

a) Exploration

In recent years your Company intensified its exploratory efforts in various basins which yielded desired results. During the last five years we established 1,124 mtoe in-place volumes of hydrocarbons resulting in a Reserve Replacement Ratio (3P reserves) of 1.53, signifying continuing growth for your Company.

b) New hydrocarbon assets

Your Company made some significant discoveries in the pre-NELP blocks of East Coast like G-1 & GS-15, G-4 & GS-29, Vashistha and S-1. Some discoveries in NELP blocks like KG-DWN-98/2 in KG Basin and MN-DWN-98/3 and MN-OSN-2000/2 blocks in Mahanadi Basin are also significant. Most of these are gas discoveries and efforts are on to monetize them. As far as discoveries in pre-NELP blocks in East Coast are concerned, your Company is planning to develop them as clusters through common facilities to optimize cost. Declaration of Commerciality (DOC) for the KG-DWN-98/2 along with the adjoining discoveries in nomination blocks and MN-DWN-98/3 has already been submitted to DGH for permission to drill additional appraisal wells. This would help us firming up the reserves as well as our development plan.

c) New & marginal field development

Development of new and marginal fields has also been the focus area of your Company. We have taken up 10 major projects for development and one project for additional development of D-1 field with estimated investment of ₹ 24,890 Crore. The fields under development are: C-Series, B-22 cluster, B-193 cluster, B-46 cluster, North Tapti gas field, Cluster-7, BHE & BH-35, WO-16 cluster, G-1 & GS-15 and SB-14. These fields are expected to be on stream by 2013-14.

ONGC group has produced 62.05 million tonnes of oil equivalent, highest in its history

d) Reservoir Management

To arrest natural declining rate and improve recovery factors, your Company has proactively taken technology interventions in its mature major producing fields. Out of 21 IOR/EOR and redevelopment schemes in 15 major fields (onshore and offshore), 15 schemes have already been completed and six are under implementation.

e) Overseas Assets

Your Company is systematically pursuing global E&P opportunities for expanding international E&P portfolio. OVL added one asset in its portfolio of exploratory assets by signing agreements with KazMunGas (KMG), the national oil company of Kazakhstan for acquisition of 25% participating interest in Satpayev exploration block. The agreement was signed on 16th April, 2011 at Astana, Kazakhstan in the presence of Hon'ble Prime Minister of India and the President of Kazakhstan. OVL also signed a MoU with Uzbekneftegaz on 17th May, 2011 for cooperation in E&P sector in Uzbekistan and third countries.

f) Refining

The refining capacity of Mangalore Refinery and Petrochemicals, Ltd. (MRPL), a subsidiary of your Company, is being enhanced to 15 MMTPA, and it is expected that progressive commissioning may begin from January 2012, as per schedule.

g) Value-multiplier projects

Two petrochemical projects, one each by ONGC Petro-additions Limited (OPAL) and ONGC Mangalore Petrochemicals Limited (OMPL) are expected to be commissioned in 2012 and 2013 respectively.

726.6 MW (363.3 x 2) gas based Combined Cycle Power Plant (CCPP) is being set up at Palatana, Tripura by ONGC Tripura Power Company Ltd. (OTPC). The first unit is expected to be commissioned in February, 2012 and the second unit in August, 2012.

h) New Sources of Energy

Beyond conventional sources, your Company is aggressively pursuing technology intensive solutions to leverage potential of new sources of energy like - Coal Bed Methane (CBM), Underground Coal Gasification (UCG), Shale Gas, etc. The recent breakthrough in Shale gas exploration has provided a major fillip. Your Company is planning to take up shale gas exploration in other potential shale sequences in basins like - Cambay, Krishna Godavari, Cauvery and Assam-Arakan.

i) Alternate Sources of Energy

After successful commissioning of a 50 MW wind farm in Gujarat, your Company is setting up another 102 MW wind farm in Rajasthan, through ONGC Energy Centre. We are also pursuing energy sources through Solar Photo Voltaic, Solar Thermal, LED, Uranium, Hydrogen through thermo-chemical processes, Geo-bio reactors etc.

Corporate Governance

Good Corporate Governance has always been the focus area of your Company. We have started implementing the voluntary guidelines on Corporate Governance issued by Ministry of Corporate Affairs. At the same time, a comprehensive Enterprise-wide Risk Management (ERM) framework has also been put on place.

This is also my pleasure to share with you that this year also your Company received 'III' comments from CAG as well as Statutory Auditors; sixth time in a row and seven times in last eight years.

HSE & Sustainability

Your Company is recognized for its various HSE initiatives. All our work centers are certified with international standards for quality, health and safety. Our various initiatives in conserving and enhancing greenery are applauded from various quarters. Last year we brought out our first edition of 'Sustainability Report' which was conformed to the 'B' level of GRI application. This year, we are in the process of bringing out the second edition of this report. This document is a demonstrative record of our commitment towards sustainable growth.

Corporate Social Responsibility

The Corporate Social Responsibility (CSR) initiatives of your Company continue to primarily focus on education, health, entrepreneurship development, women's empowerment, girl child development and water management.

Not only that 2% of our PAT is committed for the CSR projects, we are also committed for some mega health and educational projects in and around our work centers which would primarily address the necessity of the under-privileged segment of the society.

Sports

You will be happy to learn that ONGCians, Gautam Gambhir, Munaf Patel and Virat Kohli played a stellar role in winning the coveted ICC World Cup Trophy for the country after a gap of 28 years. Further, ONGCians with their brilliant performance in Common Wealth Games 2010 won ten medals for the country; including two gold medals. ONGCians also displayed exceptional performance at 2010 Asian games held at China, grabbing 12 medals.

Our Koneru Humpy is ranked #2 in the world Chess; highest ranking by any



Indian female. She is preparing for the World title in November, 2011. Ronjan Sodhi is world #1 in the double trap shooting. He will represent India in 2012 Olympic. Pankaj Advani is five times world champion in Billiard & Snooker. ONGC takes pride in achievements of its all sports persons.

Lastly, on behalf of the Board of Directors, I must heartily compliment all the employees of ONGC whose dedication and commitment have earned us all the successes.

Thank you,
Jai Hind!
New Delhi
30th August 2011

A.K. Hazarika
Chairman & Managing Director



Oil and Natural Gas Corporation Ltd.

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