AUDITORS' REPORT

TO THE MEMBERS OF OIL AND NATURAL GAS CORPORATION LIMITED

1. We have audited the attached Balance Sheet of OIL AND NATURAL GAS CORPORATION LIMITED (the Company) as at 31st March, 2005, the Profit and Loss Account and also the Cash Flow Statement for the year ended on that date, annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

2. We have conducted our audit in accordance with auditing standards generally accepted in India. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amount and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

3. As required by the Statement on the Companies (Auditor's Report) Order, 2003 issued by the Central Government of India in terms of Section 227(4A) of the Companies Act, 1956, we enclose in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.

4. In our opinion, the Profit and Loss Account, the Balance Sheet and the Cash Flow Statement comply with the accounting standards referred to in sub-section (3C) of Section 211 of the Companies Act, 1956.

5. Based on the written representation made by all the Directors of the Company which was taken on record by the Board of Directors of the Company and the information and explanations as made available, none of the Directors of the Company is disqualified as on 31st March, 2005 from being appointed as a director in terms of Clause (g) of sub section (1) of Section 274 of the Companies Act, 1956.

6. We have placed reliance on technical/ commercial evaluation by the management in respect of categorisation of wells as exploratory and producing, allocation of cost incurred on them, depletion of producing properties on the basis of the proved developed hydrocarbon reserves, liability for abandonment costs and allocation of depreciation on process platforms to transportation and facilities.

7. Attention is invited to Note No.10 regarding accounts pending reconciliations. We are unable to comment on the adjustments/provisions, if any, required to be made in this respect.

8. Further to our comments referred to in paragraph 3 above and subject to our comments in Paragraph 7 above, with consequential aggregate effects on the profit for the year, reserves and surplus and net assets, the quantification of which could not be determined, we report as follows:

   8.1 we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;

   8.2 in our opinion, proper books of account as required by law have been kept by the Company so far as it appears from our examination of those books;

   8.3 the Balance Sheet, Profit and Loss Account and the Cash Flow Statement dealt with by this report are in agreement with the books of account;

8.4 in our opinion and to the best of our information and according to the explanations given to us, the said accounts read with notes to account in Schedule 28 and in particular Note 6 regarding change in the Accounting Policies give the information required by the Companies Act, 1956 in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:

a) in the case of the Balance Sheet, of the state of affairs of the Company as at 31st March, 2005;

b) in the case of the Profit and Loss Account, of the profit of the Company for the year ended on that date: and

c) in the case of the Cash Flow Statement, of the Cash Flow of the Company for the year ended on that date.

For K. K. Soni & Co.
Chartered Accountants

K.K. Soni
Partner (Mem. No. 7737)

For S. Bhandari & Co.
Chartered Accountants

S.S. Bhandari
Partner (Mem. No. 11332)

For RSM & Co.
Chartered Accountants

Vijay N. Bhatt
Partner (Mem.No. 36647)

For Brahmayya & Co.
Chartered Accountants

V.Seetaramaiah
Partner (Mem. No. 3848)

For Lodha & Co.
Chartered Accountants

H.K. Verma
Partner (Mem. No. 55104)

New Delhi
June 20, 2005

ANNEXURE TO THE AUDITORS' REPORT

(Referred to in paragraph 3 of our report of even date)

1. a) The Company has generally maintained proper records showing full particulars including quantitative details and situation of fixed assets.

   b) We are informed that the fixed assets other than those which are underground / submerged/under joint venture, having substantial value have been physically verified by the management in phased manner. The reconciliation of physically verified assets with the book records is in progress at some of the units. Pending completion of reconciliation, we are unable to comment on the materiality of the discrepancies, if any, and the consequent adjustments to be made in the books of account.

   c) The Company has not disposed off substantial parts of fixed assets during the year.

2. a) The inventory has been physically verified (excluding inventory lying with third parties at some of the site-locations, inventory with joint ventures and material in transit) during the year by the management. In our opinion, the frequency of verification is reasonable.

   b) The procedure of physical verification of inventory followed by the management to the extent verified were generally reasonable and adequate in relation to the size of the Company and nature of its business.

   c) The Company has generally maintained proper records of inventory except for recording of consumption at some of its site- locations. The discrepancies noticed on verification between the physical stock and book records were not material having regard to the size of the operations of the Company. In case where discrepancies noticed on physical verification have been identified with inventory records, necessary adjustments have been carried out in the books. In respect of those cases where the reconciliation is not complete, the management has stated that the same would be adjusted in due course.

3. a) There are two companies covered in the register maintained under section 301 of the Companies Act 1956 to which the Company has granted unsecured loans aggregating to Rs 139,468.95 million. The aggregate amount outstanding as at the year end is Rs. 130,468.95 Million.

   b) In our opinion, the terms and conditions of the loans granted are prima facie not prejudicial to the interest of the Company.

   c) The Company is regular in recovery of principal and interest.

   d) There is no overdue amount receivable.

   e) The Company has not taken any loans, secured or unsecured from companies, firms or other parties covered in the register maintained under section 301 of the Companies Act, 1956. Accordingly clauses (iii) (e) and (f) of the Companies (Auditor's Report) Order, 2003 are not applicable to the Company.

4. In our opinion, and according to the information and explanations given to us, the internal control procedures are generally adequate and commensurate with the size of the Company and the nature of its business with regard to purchases of inventory, fixed assets and sale of goods. During the course of our audit we have not observed any continuing failure to correct major weakness in internal controls.

5. a) According to the information and explanations given to us there is no contract or arrangement referred to in Section 301 of the Act, which are required to be entered in the register maintained under the Section.

b) Accordingly, the provision of the clauses v(b) of the Companies (Auditor's Report) Order, 2003 is not applicable to the Company.

6. The Company has not accepted any deposits from the public.

7. In our opinion, the Company has an internal audit system commensurate with the size and nature of its business.

8. We have broadly reviewed the books of account relating to materials, labour and other items of cost maintained by the Company pursuant to the Rule made by the Central Government for the maintenance of cost records under section 209 (1) (d) of the Companies Act, 1956 and we are of the opinion that prima facie the prescribed accounts and records have been made and maintained.

9. a) The Company is regular in depositing with appropriate authorities undisputed statutory dues including Provident Fund, Investor Education and Protection Fund, Employees' State Insurance, Income Tax, Sales Tax, Service Tax, Wealth Tax, Custom Duty, Excise Duty, Cess and other material statutory dues applicable to it. There are no outstanding dues as of the last date of the financial year concerned for a period of more than six months from the date they became payable.

b) According to the information and explanations given to us, the disputed statutory dues are as under:

Name of the statute	Nature of the dues	Amount (Rs. In Million)	Period to which the amount relates (financial year)	Forum where dispute is pending
Income tax Act, 1961	Income tax	12326.23	1985-2005	ITAT/ CCIT/ CIT(A), Uttaranchal High Court
Central Excise Act 1944	Central excise duty/Interest/penalty	1636.58	1981-2005	CEGAT/Director of Central Excise/ Commisioner/ Asst. Comm. of central excise
The Customs Act, 1962	Customs duty/Penalty/Interest	5131.50	2000-2005	Supreme Court/High Court/CBEC/Comm. Customs
Oilfields (Regulation & Development Act, 1948)/AP Mines and Geology Act	Royalty/Surface rent/Interest/Penalty	527.76	1996-2003	Director, Mines & Geology/Dept. of Geology and Mining
Oil Industries (Development) Act,1974	Cess/Interest	8.64	1993-2005	CEGAT/Supdt./Comm(A)
Central Sales Tax Act 1956 and respective States' Sales Tax Act	Sales tax/Turnover Tax/Penalty/Interest	2531.95	1987-2005	Supreme Court/High court/tribunal/Asst. Comm/ Dy. Comm./Suptd. Of Taxes/Commercial tax officer
Municipal Corporation of Greater Mumbai Act (Octroi Rules,1965)	Octroi Duty	84.50	1978-1993	Supreme Court

10. The Company has no accumulated losses at the end of the current financial year and has not incurred cash losses either during the year or during the immediately preceding financial year.

11. The Company has not issued any debentures and not defaulted in repayment of dues to financial institutions or banks.

12. In our opinion, the Company has not granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities other than to its employees. In our opinion, the Company has maintained adequate records in respect of such loans.

13. In our opinion, the Company is not a chit fund or a nidhi mutual benefit fund/ society. Accordingly, the provision of clause 4(xiii) of the Companies (Auditor's Report) Order, 2003 are not applicable to the Company.

14. In our opinion, the Company is not dealing in or trading in shares, securities, debentures and other investments.

15. In our opinion, the terms and conditions on which the Company has given guarantees for loans taken by others from banks or financial institutions are not prejudicial to the interest of the Company, since these guarantees are given for the subsidiary/ company promoted by the Company.

16. In our opinion, the term loans have been applied for the purpose for which they were raised.

17. On an overall examination of the balance sheet of the Company, we report that no funds raised on short terms basis have been used for long term investment.

18. The Company has not issued any preferential allotment of shares during the year.

19. The Company has not issued any debentures during the year.

20. The Company has not raised any money by way of public issue during the year.

21. According to the information and explanations given to us, no fraud on or by the company which is material in amount and nature has been noticed or reported during the course of our audit.

For K K Soni & Co.
Chartered Accountants

K.K. Soni
Partner (Mem. No. 7737)

For S. Bhandari & Co.
Chartered Accountants

S.S. Bhandari
Partner (Mem. No. 11332)

For RSM & Co.
Chartered Accountants

Vijay N. Bhatt
Partner (Mem.No. 36647)

For Brahmayya & Co.
Chartered Accountants

V.Seetaramaiah
Partner (Mem. No. 3848)

For Lodha & Co.
Chartered Accountants

H.K. Verma
Partner (Mem. No. 55104)

New Delhi
June 20, 2005

BALANCE SHEET AS AT 31ST MARCH, 2005

(Rupees in million)

	Schedule		As at 31st March, 2005	As at 31st March, 2004
SOURCES OF FUNDS				
SHAREHOLDERS' FUNDS				
Share Capital	1	14,259.28		14,259.27
Reserves and Surplus	2	454,194.87		391,171.66
			468,454.15	405,430.93
LOAN FUNDS				
Unsecured Loans	3		18,221.55	33,785.91
DEFERRED TAX LIABILITY (NET)			54,438.46	58,420.17
LIABILITY FOR ABANDONMENT COST			80,940.64	80,292.03
TOTAL			622,054.80	577,929.04
APPLICATION OF FUNDS				
FIXED ASSETS	4			
Gross Block		429,838.49		410,076.23
Less: Depreciation and Impairment		371,473.18		353,391.61
NET BLOCK			58,365.31	56,684.62
PRODUCING PROPERTIES	5			
Gross Cost		486,169.73		457,046.17
Less: Depletion and Impairment		256,563.10		226,242.35
NET PRODUCING PROPERTIES			229,606.63	230,803.82
CAPITAL WORKS-IN-PROGRESS (NET)	6		41,418.97	9,825.63
EXPLORATORY/DEVELOPMENT WELLS-IN-PROGRESS (NET)	7		17,357.87	11,220.44
INVESTMENTS	8		40,366.66	44,216.66
CURRENT ASSETS, LOANS AND ADVANCES				
Interest Accrued	9	4,357.27		4,732.89
Inventories	10	25,691.90		24,056.89
Sundry Debtors	11	37,293.07		23,177.99
Cash and Bank Balances	12A	58,488.06		55,734.48
Deposit with Bank Under Site Restoration Fund Scheme	12B	36,180.55		31,681.97
Loans and Advances	13	159,637.38		141,029.79
Other Current Assets	14	10.11		99.82
		321,658.34		280,513.83
LESS: CURRENT LIABILITIES AND PROVISIONS				
Current Liabilities	15	51,904.17		35,639.95
Provisions	16	40,126.44		25,102.80
		92,030.61		60,742.75
NET CURRENT ASSETS			229,627.73	219,771.08
MISCELLANEOUS EXPENDITURE	17		5,311.63	5,406.79
(To the extent not written off or adjusted)				
TOTAL			622,054.80	577,929.04
SIGNIFICANT ACCOUNTING POLICIES	27			
NOTES TO ACCOUNTS	28			

Schedules referred to above form an integral part of the Accounts

H. C Shah
Company Secretary

R.S.Sharma
Director(Finance)

Subir Raha
Chairman & Managing Director

In terms of our report of even date attached

For K.K.Soni & Co.
Chartered Accountants

K.K.Soni
Partner (Mem. No. 7737)

For S. Bhandari & Co.
Chartered Accountants

S.S.Bhandari
Partner (Mem. No. 11332)

For RSM & Co
Chartered Accountants

Vijay N Bhatt
Partner (Mem. No. 36647)

For Brahmayya & Co.
Chartered Accountants

V.Seetaramaiah
Partner (Mem. No. 3848)

For Lodha & Co.
Chartered Accountants

H.K.Verma
Partner (Mem. No. 55104)

New Delhi
June 20, 2005

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31ST MARCH 2005

(Rupees in million)

	Schedule	2004-05	2003-04
INCOME			
Gross Sales	18	467,112.48	325,240.08
Less Excise Duty		3,492.03	4,479.92
Net Sales		463,620.45	320,760.16
Other Income	19	17,251.47	15,324.52
		480,871.92	336,084.68
Increase/ (Decrease) in stocks	20	298.62	(111.46)
		481,170.54	335,973.22
EXPENDITURE			
Purchases		51,013.16	0.00
Production, Transportation, Selling and Distribution Expenditure	21	168,428.25	142,159.15
Recouped costs	22	62,014.23	55,608.64
Financing Costs	23	409.63	479.64
Provisions and Write-offs (Net)	24	2,828.25	1,341.73
		284,693.52	199,589.16
Profit before Tax and Prior Period Adjustments		196,477.02	136,384.06
Adjustments relating to Prior Period (Net)	25	(178.43)	293.60
Provision for Taxation			
- Current Tax (including Wealth Tax Rs. 17.00 million, Previous Year Rs. 16.00 million)		69,817.00	43,516.00
- For Earlier years		(26.22)	(141.55)
- Deferred Tax		(2,965.79)	6,071.72
Profit after Taxation		129,830.46	86,644.29
Surplus at the beginning		0.31	0.19
BALANCE AVAILABLE FOR APPROPRIATION		129,830.77	86,644.48
APPROPRIATIONS			
Proposed Dividend		28,518.68	14,259.34
Tax on Proposed Dividend (including Rs. 36.54 million for Previous Year)		4,036.28	1,826.98
Interim Dividend		28,518.68	19,963.08
Tax on Interim Dividend		3,727.03	2,557.77
Transfer to General Reserve		65,030.00	48,037.00
Balance carried to Balance Sheet		0.10	0.31
		129,830.77	86,644.48
EARNINGS PER EQUITY SHARE	26		
(Face Value Rs. 10/-Per Share)			
Basic & Diluted (Amount in Rs.)		91.05	60.76
SIGNIFICANT ACCOUNTING POLICIES	27		
NOTES TO ACCOUNTS	28		

Schedules referred to above form an integral part of the Accounts

H. C Shah
Company Secretary

R.S.Sharma
Director(Finance)

Subir Raha
Chairman & Managing Director

In terms of our report of even date attached

For K.K.Soni & Co.
Chartered Accountants

K.K.Soni
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For Lodha & Co.
Chartered Accountants

H.K.Verma
Partner (Mem. No. 55104)

New Delhi
June 20, 2005

(Rupees in million)

		As at 31st March, 2005	As at 31st March, 2004
SCHEDULE-1			
SHARE CAPITAL			
Authorised:			
15000,000,000 Equity Shares of Rs. 10 each		150,000.00	150,000.00
Issued and Subscribed:			
1425,933,992 Equity Shares of Rs. 10 each		14,259.34	14,259.34
Paid up :			
1425,933,992 Equity Shares of Rs. 10 each	14,259.34		14,259.34
Less : Calls in Arrears (Other than Directors)	0.06		0.07
		14,259.28	14,259.27
TOTAL		14,259.28	14,259.27

Note :
The above includes:

(i) 342,853,716 Equity Shares issued as fully paid up to the President of India without payment being received in cash in terms of Oil and Natural Gas Commission (Transfer of Undertaking and Repeal) Act,1993.

(ii) 1,076,440,366 Equity Shares issued as fully paid up by way of bonus shares by capitalisation of General Reserve.

(Rupees in million)

			As at 31st March, 2005	As at 31st March, 2004
SCHEDULE-2				
RESERVES AND SURPLUS				
Capital Reserve*			159.44	159.44
(As per last year Balance Sheet)				
Deferred Government Grant				
a)	Opening Balance	41.97		37.82
b)	Addition during the year	5.82		13.62
c)	Deduction during the year**	10.46		9.47
			37.33	41.97
Share Premium Account ***				
a)	Opening Balance	1,724.57		1,724.50
b)	Addition during the year	0.34		0.07
			1,724.91	1,724.57
Premium on Foreign Currency Bonds			168.12	168.12
(As per last year Balance Sheet)				
Insurance Reserve			2,500.00	2,500.00
(As per last year Balance Sheet)				
General Reserve				
a)	Opening Balance	386,577.25		338,540.25
b)	Less Adjustment for Impairment Loss as on 01.04.2004 (Refer Note 6.1)	2,002.28		—
c)	Add: Transferred from Profit and Loss Account	65,030.00		48,037.00
			449,604.97	386,577.25
Profit and Loss Account			0.10	0.31
TOTAL			454,194.87	391,171.66

* Represents assessed value of assets received as gift.

** Represents the amount equivalent to Depreciation transferred to Profit and Loss Account.

*** Share premium account is credited only on receipt basis.

(Rupees in million)

	As at 31st March, 2005	As at 31st March, 2004

SCHEDULE-3

UNSECURED LOANS

(a) **Long Term**		
From Oil Industry Development Board	**606.53**	808.70
Foreign Currency Loans:		
- From Banks	**882.90**	1,308.94
(b) **Short Term**		
- Term Loans From Banks	**0.00**	24,650.00
(c) **Line of Credit**		
- From a Bank	**8,550.00**	0.00
(d) **Cash Credit**		
- From a Bank	**8,182.12**	7,018.27
TOTAL	**18,221.55**	33,785.91
Long term includes Repayable within one year	**370.34**	601.42

SCHEDULE-4

FIXED ASSETS

(Rupees in million)

	GROSS BLOCK				DEPRECIATION				IMPAIRMENT				NET BLOCK	
	As at 1st April, 2004	Additions during the year	Deletions/ adjustments during the year	As at 31st March, 2005	Up to 31st March, 2004	For the Year	Deletions/ Adjustments during the year	Upto 31st March, 2005	As at 1st April, 2004	For the Year	Deletions/ Adjustments during the year	Upto 31st March, 2005	As at 31st March, 2005	As at 31st March, 2004
Land														
i) Freehold	1,138.59	58.49	0.00	**1,197.08**	0.00	0.00	0.00	**0.00**	26.08	0.00	0.12	**25.96**	**1,171.12**	1,138.59
ii) Leasehold	868.62	1,925.81	0.00	**2,794.43**	166.62	16.87	0.00	**183.49**	0.00	0.00	0.00	**0.00**	**2,610.94**	702.00
Buildings and Bunk Houses	9,315.31	757.04	9.33	**10,063.02**	4,880.50	269.68	(4.95)	**5,155.13**	228.32	23.12	10.40	**241.04**	**4,666.85**	4,434.81
Railway Sidings	89.95	0.00	0.00	**89.95**	73.26	2.32	0.00	**75.58**	0.00	0.00	0.00	**0.00**	**14.37**	16.69
Plant and Machinery	390,400.02	16,406.14	1,028.68	**405,777.48**	341,577.84	17,440.92	999.39	**358,019.37**	456.07	130.24	23.48	**562.83**	**47,195.28**	48,822.18
Furniture and Fittings	3,343.63	248.22	52.32	**3,539.53**	2,320.47	203.51	51.54	**2,472.44**	35.19	5.64	0.00	**40.83**	**1,026.26**	1,023.16
Vehicles,Survey Ships, Crew Boats,Aircrafts and Helicopters	4,293.03	103.14	36.39	**4,359.78**	3,939.74	87.97	37.83	**3,989.88**	15.23	1.02	0.01	**16.24**	**353.66**	353.29
	409,449.15	**19,498.84**	**1,126.72**	**427,821.27**	**352,958.43**	**18,021.27**	**1,083.81**	**369,895.89**	**760.89**	**160.02**	**34.01**	**886.90**	**57,038.48**	**56,490.72**
Intangibles - Software	627.08	1,371.11	(19.03)	**2,017.22**	433.18	220.96	(8.48)	**662.62**	0.14	27.63	0.00	**27.77**	**1,326.83**	193.90
TOTAL	**410,076.23**	**20,869.95**	**1,107.69**	**429,838.49**	**353,391.61**	**18,242.23**	**1,075.33**	**370,558.51**	**761.03**	**187.65**	**34.01**	**914.67**	**58,365.31**	**56,684.62**
Previous year	390,336.63	20,528.65	789.05	410,076.23	336,408.36	17,680.17	696.92	353,391.61	0.00	0.00	0.00	0.00	56,684.62	
The above includes the Corporation's share in Joint Venture Assets	15,420.64	1,526.19	8.84	**16,937.99**	12,294.27	964.12	6.59	13,251.80	23.48	49.96	23.48	**49.96**	**3,636.23**	
Previous year	15,550.65	13.70	143.71	**15,420.64**	11,531.10	862.13	98.96	12,294.27	0.00	0.00	0.00	**0.00**	**3,126.37**	

Notes:

1. Additions to Plant and Machinery are net of Rs. 160.32 million on account of net exchange gain during the year (Previous Year Rs. 13.89 million)
2. Land includes lands in respect of certain projects for which execution of lease/conveyance deeds are in process.
3. Registration of title deeds in respect of certain Buildings is pending execution.

(Rupees in million)

	As at 31st March, 2005	As at 31st March, 2004

SCHEDULE-5

PRODUCING PROPERTIES

Gross Cost		
Opening Balance	457,046.17	351,662.76
Acquisition Cost	2,183.07	0.00
Expenditure during the year	8,536.78	7,525.36
Transfer from Exploratory Wells-in-Progress	2,316.73	1,547.90
Transfer from Development Wells-in-Progress	15,591.20	16,990.76
Estimated Abandonment costs	648.61	80,292.03
Transfer to Development Wells-in-Progress	0.00	(944.62)
Other Adjustments	(152.83)	(28.02)
Total	486,169.73	457,046.17
Less: Depletion		
Opening Balance	226,242.35	177,282.50
Depletion for the year	24,850.57	23,323.31
Provision for Abandonment	0.00	25,664.72
Other Adjustments	(65.96)	(28.18)
Total	251,026.96	226,242.35
Less: Impairment		
Provision for Impairment (Transfer from Schedule-16)	3,432.11	0.00
Impairment Loss as on 01.04.2004 (Refer Note 6.1)	2,153.02	0.00
Impairment for the year	223.31	0.00
Write back during the year	(272.30)	0.00
Total	5,536.14	0.00
NET PRODUCING PROPERTIES	229,606.63	230,803.82

SCHEDULE-6

CAPITAL WORKS-IN-PROGRESS

Buildings	731.61	680.41
Plant and Machinery	39,937.47	6,810.06
Advances for Capital Works and Progress Payments	752.87	2,335.16
TOTAL	41,421.95	9,825.63
Less: Impairment		
Impairment Loss as on 01.04.2004 (Refer Note 6.1)	6.67	0.00
Impairment for the year	0.13	0.00
Write back during the year	(3.82)	0.00
Total	2.98	0.00
NET CAPITAL WORKS-IN-PROGRESS	41,418.97	9,825.63

(Rupees in million)

SCHEDULE-7

		As at 31st March, 2005		As at 31st March, 2004
A) EXPLORATORY WELLS-IN-PROGRESS				
Gross Cost				
Opening Balance		9,556.78		10,730.94
Acquisition Cost		3,711.22		0.00
Expenditure during the year	24,185.96		17,243.60	
Less : Sale proceeds of Oil and Gas (Refer Schedule-18)	19.30	24,166.66	1.42	17,242.18
Dry wells written back		0.00		22.00
		37,434.66		27,995.12
Less :				
Transfer to Producing Properties		2,316.73		1,547.90
Wells written off during the year		21,564.10		16,880.55
Other adjustments		21.97		9.89
EXPLORATORY WELLS-IN-PROGRESS		13,531.86		9,556.78
B) DEVELOPMENT WELLS-IN-PROGRESS				
Opening Balance		1,663.66		944.62
Expenditure during the year		17,890.53		17,709.80
Transfer to producing properties		(15,591.20)		(16,990.76)
Total		3,962.99		1,663.66
Less: Impairment				
Impairment Loss as on 01.04.2004 (Refer Note 6.1)		97.48		0.00
Impairment for the year		136.98		0.00
Write back during the year		(97.48)		0.00
Total		136.98		0.00
NET DEVELOPMENT WELLS-IN-PROGRESS		3,826.01		1,663.66
EXPLORATORY/DEVELOPMENT WELLS-IN-PROGRESS (A+B)		17,357.87		11,220.44

(Rupees in million)

	No. of Shares/ Bonds/Units	Face Value per Share/ Bond/Unit (in Rupees)	As at 31st March, 2005	As at 31st March, 2004
SCHEDULE-8				
INVESTMENTS				
LONG-TERM INVESTMENTS (FULLY PAID UP)				
A. TRADE INVESTMENTS				
1. Equity Shares (Quoted)				
i) Indian Oil Corporation Limited	106,453,095	10	**13,720.49**	13,720.49
ii) GAIL (India) Limited	40,839,549	10	**2,451.06**	2,451.06
iii) Mangalore Refinery and Petrochemicals Ltd.(Subsidiary)	1,255,354,097	10	**10,405.73**	10,405.73
iv) Petronet LNG Limited	93,750,000	10	**987.50**	987.50
2. Equity Shares (Unquoted)				
i) Pawan Hans Helicopter Limited	24,500	10,000	**245.00**	245.00
ii) ONGIO International Private Ltd.	1,505,000	10	**15.05**	15.05
iii) Oil Spill Response Ltd.	100	*	**0.01**	0.01
iv) In wholly owned subsidiary ONGC-Videsh Ltd.	30,000,000	100	**3,000.00**	3,000.00
3. Oil Companies Govt. of India Special Bonds (Unquoted)				
i) 10.5% Government of India Special Bonds 2005	0 (1)	3,850,000,000	**0.00**	3,850.00
ii) 6.96% Government of India transferable Special Bonds 2009	698,037	10,000	**6,980.37**	6,980.37
iii) 5% Oil companies' Government of India Special Bonds 2009	257,600	10,000	**2,576.00**	2,576.00
			40,381.21	44,231.21
Less: Provision for Diminution			**15.05**	15.05
TOTAL TRADE INVESTMENTS			**40,366.16**	44,216.16
B. NON-TRADE INVESTMENTS (Unquoted)				
12% UP State Development Loan-2011	1	500,000	**0.50**	0.50
TOTAL NON TRADE INVESTMENTS			**0.50**	0.50
TOTAL			**40,366.66**	**44,216.66**
Total Quoted Investments			**27,564.78**	27,564.78
Total Unquoted Investments			**12,801.88**	16,651.88
			40,366.66	**44,216.66**
Total Market value of Quoted Investments			**118,762.02**	131,376.06

* Pound one each, total value Rs. 6,885/-

Figures in the ( ) relate to previous year.

(Rupees in million)

	As 31st March, 2005	As at 31st March, 2004

SCHEDULE-9

INTEREST ACCRUED

Unsecured, Considered Good unless otherwise stated		
Interest Accrued On		
- Investments	4.37	36.94
- Deposits with Banks/Financial Institutions	1,830.68	2,390.87
- Others		
- Considered Good	2,522.22	2,305.08
- Considered Doubtful	246.89	259.12
	4,604.16	4,992.01
Less: Provision	246.89	259.12
TOTAL	4,357.27	4,732.89

SCHEDULE-10

INVENTORIES

(As verified and valued by the Management)		
Finished Goods	1,717.03	1,418.41
Stores and spare parts		
- on hand	18,595.19	13,801.30
- in transit (including inter-project transfers)	3,444.51	7,142.76
Capital Stores		
- on hand	1,407.18	718.50
- in transit	360.53	821.41
Unservicable Items	167.46	154.51
TOTAL	25,691.90	24,056.89

(Rupees in million)

	As at 31st March, 2005	As at 31st March, 2004
SCHEDULE-11		
SUNDRY DEBTORS		
Debts - Outstanding for a period exceeding six months :		
- Considered Good	2,529.04	1,379.21
- Considered Doubtful	812.46	1,082.49
Other debts :		
- Considered Good	34,764.03	21,798.78
- Considered Doubtful	367.35	20.20
	38,472.88	24,280.68
Less: Provision for Doubtful Debts	1,179.81	1,102.69
TOTAL	37,293.07	23,177.99

SCHEDULE-12

A) CASH AND BANK BALANCES

	As at 31st March, 2005	As at 31st March, 2004
Cash balance on Hand	15.34	17.26
Balances with Scheduled Banks in:		
Current Accounts	184.82	133.40
Fixed Deposits	58,279.10	55,580.61
Margin Money Deposit Account	0.12	0.43
Balances with Non-Scheduled Banks in:		
Current Account with J.P Morgan Chase Bank- Texas (Maximum balance outstanding at any time during the year Rs. 0.02 million Previous year Rs. 86.60 million)	0.00	0.02
Current Account with Commerz Bank - Frankfurt (Maximum balance outstanding at any time during the year Rs.2.89 million Previous year Rs. 2.76 million)	2.89	2.76
Current Account with Citi Bank- London (Maximum balance outstanding at any time during the year Rs 5.79 million Previous year Nil)	5.79	0.00
Total	58,488.06	55,734.48
B) DEPOSIT WITH BANK UNDER SITE RESTORATION FUND SCHEME *	36,180.55	31,681.97

*Deposited u/s 33ABA of the Income Tax Act, 1961 and could be withdrawn only for the purposes specified in the scheme.

(Rupees in million)

SCHEDULE-13

LOANS AND ADVANCES

		As at 31st March, 2005		As at 31st March, 2004
Loans to Public Sector Undertakings		419.50		409.50
Loans and Advances to Subsidiaries		130,474.58		110,466.49
Advance for Petronet LNG Ltd.-Shares		0.00		12.50
Advance for Petronet MHB Limited-Shares		383.41		383.41
Loans and Advances to Employees		7,436.67		7,711.39
Advances Recoverable in Cash or in Kind or for Value to be received		8,209.99		5,421.57
Recoverable from Petroleum Planning & Analysis Cell (PPAC)		9,082.24		8,832.14
Insurance Claims		799.58		965.59
Deposits:				
a) With Customs/Port Trusts etc.		41.73		621.43
b) Others		4,129.12		2,514.20
		160,976.82		137,338.22
Less : Provision for Doubtful Claims/advances		3,599.90		2,792.15
		157,376.92		134,546.07
Income Tax :				
Advance payment of Income Tax (Including Advance payment of Wealth Tax Rs. 14.34 million Previous Year Rs.12.39 million)	207,854.98		142,323.71	
Less: Provision (Including provision for Wealth Tax Rs.33.00 million Previous Year Rs. 31.00 million)	205,594.52	2,260.46	135,839.99	6,483.72
TOTAL		159,637.38		141,029.79
Particulars of loans and advances:				
Secured		6,876.03		7,031.46
Unsecured - Considered Good		152,761.35		133,998.33
- Considered Doubtful		3,599.90		2,792.15
		163,237.28		143,821.94
Less : Considered Doubtful and provided for		3,599.90		2,792.15
TOTAL		159,637.38		141,029.79

1. Loans to employees include an amount of Rs. 0.95 million (Previous Year Rs. 0.50 million) outstanding from whole time Directors. Maximum amount outstanding during the year Rs. 1.05 million(Previous Year Rs. 0.57 million).

(Rupees in million)

		As at 31st March, 2005	As at 31st March, 2004

SCHEDULE-14

OTHER CURRENT ASSETS

(Unsecured, Considered Good unless otherwise stated)			
Repair Jobs-in-progress-at Cost		0.00	72.92
Other Accounts			
- Considered Good	10.11		26.90
- Considered Doubtful	1123.99		942.33
	1134.10		969.23
Less: Provision for Doubtful Accounts	1123.99		942.33
		10.11	26.90
TOTAL		10.11	99.82

SCHEDULE-15

CURRENT LIABILITIES

	As at 31st March, 2005	As at 31st March, 2004
Sundry Creditors for Supplies / Works		
- Small Scale Industries	5.32	9.11
-Other than Small Scale Industries	29,046.84	16,214.53
Liability for Royalty/Cess/Sales tax etc.	7,326.23	5,693.65
Deposits from Suppliers, Contractors	4,086.80	3,609.56
Other Liabilities	11,303.68	9,900.83
Unclaimed Dividend *	134.23	47.74
Interest Accrued but not due on loans	1.07	164.53
TOTAL	51,904.17	35,639.95

* No amount is due for payment to Investor Education and Protection Fund

(Rupees in million)

	As at 31st March, 2005	As at 31st March, 2004

SCHEDULE-16

PROVISIONS

Gratuity	1,267.48	508.76
Leave Encashment	3,540.41	2,841.74
Provision for Impairment	*	3,432.11
Provision against Non-Moving Inventories and Others	2,800.13	2,233.87
Proposed Dividend	28,518.68	14,259.34
Tax on Proposed Dividend	3,999.74	1,826.98
TOTAL	40,126.44	25,102.80

* Transferred to Producing Properties (Schedule-5)

SCHEDULE-17

MISCELLANEOUS EXPENDITURE

(to the extent not written off or adjusted)

Deferred Expenditure		
Dry Docking Charges	2,815.58	2,310.61
Other Expenditure	2,496.05	3,096.18
TOTAL	5,311.63	5,406.79

SCHEDULE-18

SALES

		2004-05		2003-04
Sales		479,095.04		326,179.97
Less :				
Transfer to Exploratory Wells in Progress (Refer Schedule-7)	19.30		1.42	
Government of India's share in Profit Petroleum	12,509.31	12,528.61	4,403.75	4,405.17
		466,566.43		321,774.80
Adventitious gain		(37.48)		4.63
Price Revision Arrears		583.53		3,460.65
TOTAL		467,112.48		325,240.08

(Rupees in million)

		2004-05		2003-04

SCHEDULE-19

OTHER INCOME

		2004-05		2003-04
Contractual Short Lifted Gas Receipts		158.90		42.90
Pipeline Transportation Receipts		23.21		23.61
Other Contractual Receipts		1,348.69		1,192.74
Income from Trade Investments :				
Dividend on Long Term Investments	2,546.69		2,572.03	
Interest on Long Term Investments	986.32		964.89	
Profit on sale of Long Term Investments	0.00		194.60	
		3,533.01		3,731.52
Income from Non Trade Investments :				
Interest on Long Term Investments		0.06		23.42
Interest Income on :				
Deposits with Banks/Financial Institutions	3,583.33		4,422.72	
(Tax deducted at source Rs. 684.47 million Previous year Rs.506.79 million)				
Loans and Advances to Subsidiaries	1,179.25		480.39	
(Tax deducted at source Rs. 246.58 million Previous year Rs. 98.53 million)				
Loans and Advances to Employees	338.30		461.55	
Income Tax Refund	328.95		772.03	
On Site Restoration Fund Deposit	1,998.58		1,301.00	
Delayed Payment from Customers and Others	1,302.34		14.59	
(Tax deducted at source Rs. 181.93 million Previous year Nil)				
		8,730.75		7,452.28
Excess Provisions written back		658.71		491.72
Liabilities no longer required written back		597.40		686.01
Miscellaneous Receipts		2,200.74		1,680.32
TOTAL		17,251.47		15,324.52

SCHEDULE-20

INCREASE/ (DECREASE) IN STOCKS (FINISHED GOODS)

	2004-05	2003-04
Closing Stock	1,717.03	1,418.41
Opening Stock	1,418.41	1,529.87
NET INCREASE/ (DECREASE) IN STOCK	298.62	(111.46)

(Rupees in million)

	2004-05	2003-04

SCHEDULE-21

PRODUCTION, TRANSPORTATION, SELLING AND DISTRIBUTION EXPENDITURE

	2004-05	2003-04
Royalty	38,149.63	28,460.59
Cess	43,052.86	41,938.08
Natural Calamity Contingent Duty	1,137.93	1,116.68
Excise Duty on stocks (Net)	(47.47)	(116.31)
Sales Tax	14,543.27	11,071.03
Octroi and Port Trust Charges	3,062.35	2,233.85
Staff Expenditure	10,030.55	9,550.42
Workover Operations	14,055.18	8,742.68
Water Injection, Desalting and Demulsification	2,551.05	2,073.28
Consumption of Stores and Spares	1,840.93	1,350.72
Pollution Control	3,335.66	3,703.32
Transport Expenses	2,144.26	2,071.33
Insurance	814.56	1,105.08
Power and Fuel	1,031.85	1,229.72
Repairs and Maintenance	4,267.07	3,691.40
Contractual payments including Hire charges etc	3,877.44	3,116.80
Other Production Expenditure	1,222.18	1,877.48
Transportation and Freight of Products	8,982.14	5,716.66
Research and Development	947.29	794.83
General Administrative Overheads	11,364.77	10,423.12
Other Expenditure	2,064.75	2,008.39
TOTAL	168,428.25	142,159.15

Note:

The above expenses classified in accordance with Part II of Schedule VI to the Companies Act, 1956 and exhibited in note 18 of Schedule 28.

SCHEDULE-22

RECOUPED COSTS

	2004-05		2003-04	
Survey		10,023.59		9,479.82
Dry Wells				
Written off during the year	21,564.10		16,880.55	
Less: Written Back	0.00	21,564.10	22.00	16,858.55
Depletion		24,850.57		23,213.68
Depreciation	18,242.23		17,680.17	
Less : Allocated to :				
Survey	575.31		759.94	
Exploratory Drilling	1,502.94		1,517.09	
Development	10,622.93		9,321.64	
Others	105.55		24.91	
	12806.73	5,435.50	11,623.58	6,056.59
Impairment Loss (Refer Note No.6.1)				
During the year	548.07		0.00	
Less: Reversal during the year	407.60	140.47	0.00	0.00
TOTAL		62,014.23		55,608.64

(Rupees in million)

SCHEDULE-23

FINANCING COSTS

		2004-05	2003-04
A.	**INTEREST**		
	i) On Fixed Loans		
	From Oil Industry Development Board	34.87	44.97
	Foreign Currency Loans	29.31	67.91
	ii) On Short Term Loans from Banks	56.95	252.53
	iii) On Cash Credit	48.58	13.65
	iv) Others	205.31	81.51
	Sub-Total	375.02	460.57
B.	**GUARANTEE AND COMMITMENT FEES**	0.00	0.05
C.	**EXCHANGE FLUCTUATION**		
	Exchange variation for the year (Net)	(125.71)	5.13
	Less : Capitalised	(160.32)	(13.89)
	Sub-Total	34.61	19.02
	TOTAL	409.63	479.64

SCHEDULE-24

PROVISIONS AND WRITE-OFFS

	2004-05	2003-04
PROVISIONS		
Provision for Doubtful Debts	583.96	474.90
Provision for Doubtful Claims/Advances	1,243.88	321.35
Provision for Impairment	*	161.71
Provision against Non-Moving Inventories and Others	669.89	145.09
Sub-Total	2,497.73	1,103.05
WRITE-OFFS		
Loss on Disposal/Condemnation of Fixed Assets (Net)	84.12	85.18
Claims / Advances Written Off	14.51	7.16
Inventories Written Off	101.08	128.29
Bad debts Written Off	123.63	0.33
Other Write Offs	7.18	17.72
Sub-Total	330.52	238.68
TOTAL	2,828.25	1,341.73

* Transferred to Recouped Cost (Schedule-22)

(Rupees in million)

	2004-05	2003-04
SCHEDULE-25		
ADJUSTMENTS RELATING TO PRIOR PERIOD (NET)		
Statutory levies *	(133.25)	(27.97)
Other production expenditure *	38.49	213.26
Interest -Others	2.10	6.86
Exchange Fluctuation	(32.27)	16.88
Depletion	0.00	109.62
Depreciation	1.86	0.38
Total Debit	(123.07)	319.03
Sales	(14.26)	(144.50)
Interest -Others	0.01	1.47
Other Income	69.61	168.46
Total Credit	55.36	25.43
Net Debit/(Credit)	(178.43)	293.60

* The above expenses classified in accordance with Part II of Schedule VI to the Companies Act, 1956 and exhibited in note 18 of Schedule 28.

(Amount in Rupees)

	2004-05	2003-04
SCHEDULE-26		
EARNINGS PER EQUITY SHARE		
Basic & Diluted earnings per equity share	91.05	60.76

Earnings per equity share has been computed by dividing the net profit after taxation of Rs. 129830.46 Million (Previous Year Rs. 86,644.29 Million) by number of equity shares of 1,425,933,992 (Previous Year 1,425,933,992).

SCHEDULE-27

SIGNIFICANT ACCOUNTING POLICIES

1. **Accounting Conventions**

The financial statements are prepared under the historical cost conventions in accordance with Generally Accepted Accounting Principles (GAAP), under the Successful Efforts Method as per the Guidance Note on Accounting for Oil and Gas Producing Activities issued by the Institute of Chartered Accountants of India and provisions of the Companies Act, 1956. Generally, revenues are recognized on accrual basis with provision made for known losses and expenses.

2. **Exploration, Development and Production Costs**

2.1 **Survey Costs**

Cost of Surveys and prospecting activities conducted in the search of oil and gas are expensed in the year in which these are incurred.

2.2 **Exploratory/ Development Wells in Progress**

2.2.1 All acquisition costs, exploration costs involved in drilling and equipping exploratory and appraisal wells, cost of drilling exploratory type stratagraphic test wells are initially capitalised as exploratory wells in progress till the time these are either transferred to producing properties on completion or expensed in the year when determined to be dry or of no further use, as the case may be.

2.2.2 All wells appearing as "exploratory wells in progress" which are more than two years old from the date of completion of drilling are charged to Profit and Loss Account except those wells which have proved reserves and the development of the fields in which the wells are located has been planned.

2.2.3 All costs relating to development wells are initially capitalized as development wells in progress and transferred to producing properties on completion.

2.3 **Producing Properties**

2.3.1 Producing properties are created in respect of an area/field having proved developed oil and gas reserves, when the well in the area/field is ready to commence commercial production.

2.3.2 Cost of temporary occupation of land, successful exploratory wells, all development wells and all related development costs including depreciation on support equipment and facilities and estimated future abandonment costs are capitalised and reflected as Producing Properties.

2.3.3 **Depletion of Producing Properties**

Producing properties are depleted using the "Unit of Production Method". The rate of depletion is computed with reference to the area covered by individual lease/licence/ amortization base by considering the proved developed reserves and related capital costs incurred including estimated future abandonment costs. In case of acquisition, cost of producing properties is depleted by considering the Proved Reserves. These reserves are estimated annually by the Reserve Estimates Committee of the Company, which follows the International Reservoir Engineering Procedures.

2.4 **General Administrative Overheads**

General Administrative Overheads at Assets, Basins, Services, Regions and Headquarters are charged to Profit and Loss Account.

2.5 **Production Costs**

Production costs include pre-well head and post well head expenses including depreciation and applicable operating costs of support equipment and facilities.

3. **Impairment**

Producing Properties and Fixed Assets of a "Cash Generating Unit" (CGU) are reviewed for impairment at each Balance Sheet date. In case events and circumstances indicate any impairment, recoverable amount of these assets is determined. An impairment loss is recognized, whenever the carrying amount of such assets exceeds the recoverable amount by writing down such assets to their recoverable amount. The recoverable amount is its 'value in use'. In assessing value in use, the estimated future cash flows from the use of assets are discounted to their present value at appropriate rate. An impairment loss is reversed if there is change in the recoverable amount and such loss either no longer exists or has decreased. Impairment loss / reversal thereof is adjusted to the carrying value of the respective assets, which in case of CGU, is allocated to its assets on a pro-rata basis.

4. **Abandonment Cost**

4.1 The full eventual liability towards costs relating to dismantling, abandoning and restoring offshore well sites and allied facilities is recognized at the initial stage as cost of producing property and liability for abandonment cost, based on the latest technical assessment available at current costs with the Company.

4.2 Cost relating to dismantling, abandoning and restoring onshore well sites and allied facilities are accounted for in the year in which such costs are incurred as the salvage value is expected to take care of the abandonment costs.

5. **Joint Ventures**

The Company has entered into Joint Ventures in the nature of Production Sharing Contracts (PSC) with the Government of India and various bodies corporate for exploration, development and production activities.

5.1 The financial statements reflect the share of the Company's assets and liabilities as well as income and expenditure of Joint Venture Operations which are accounted for according to the participating interest of the Company as per the various Joint Venture Agreements on a line by line basis along with similar items in the Company's financial statements, except in cases of abandonment, impairment, depletion and depreciation which are accounted based on accounting policies of the Company.

5.2 Past cost compensation and consideration for the right to commence operations received from other Joint Venture Partners are reduced from capitalised costs. The uncompensated cost continues in the Company's books as producing property/exploratory wells in progress.

5.3 The reserves of hydrocarbons in such areas are taken in proportion to the participating interest of the Company.

6. **Fixed Assets**

6.1 Fixed assets (including support equipment and facilities) are stated at historical cost. Fixed assets received as donations/gifts are capitalised at assessed values with corresponding credit taken to Capital Reserve.

6.2 All costs relating to acquisition of fixed assets till the time of commissioning of such assets are capitalised.

7. **Intangible Assets**

Costs incurred on intangible assets, resulting in future economic benefits are capitalized as intangible assets and amortized on written down value method beginning from the date of capitalization.

8. **Depreciation**

8.1 Depreciation on fixed assets is provided for under the written down value method in accordance with the rates specified in Schedule XIV to the Companies Act, 1956 except on fixed assets with 100% rate of depreciation which are fully depreciated in the year of addition.

8.2 Leasehold land is amortised over the lease period.

8.3 Depreciation on adjustments to fixed assets on account of exchange difference and price variation is provided for prospectively over the remaining useful life of such assets.

8.4 Depreciation on fixed assets (including support equipment and facilities) used for exploration and drilling activities and on facilities is initially capitalised as part of exploration or development costs and expensed/depleted as stated in policy 2 above.

9. **Taxes on Income**

Provision for current tax is made as per the provisions of the Income Tax Act, 1961. Deferred Tax Liability / Asset resulting from 'timing differences' between book and taxable profit is accounted for considering the tax rate and laws that have been enacted or substantively enacted as on the Balance Sheet date. Deferred Tax Asset is recognized and carried forward only to the extent that there is reasonable certainty that the asset will be realized in future.

10. **Inventories**

10.1 Finished goods (other than Sulphur) and stock in pipelines/tanks are valued at Weighted Average Cost or net realisable value whichever is lower. Sulphur is valued at net realisable value. The value of inventories includes excise duty wherever applicable.

10.2 Natural gas in pipelines and crude oil in flow lines and Group Gathering Stations are not valued.

10.3 Inventory of stores and spare parts is valued at Weighted Average Cost.

10.4 Capital items are valued at cost of their acquisition.

10.5 Unserviceable items, when determined are valued at estimated net realizable value.

11. **Investments**

11.1 Long-term investments (except PSU Bonds) are valued at cost. Provision is made for any diminution, other than temporary, in the value of such investments.

11.2 PSU Bonds are carried at lower of face value or cost. Diminution in their carrying value with reference to the market value is not recognized since these are intended to be held till maturity.

12. **Foreign Exchange Transactions**

Transactions in foreign currencies are accounted for at the exchange rate prevailing on the date of the transaction. Foreign currency monetary assets and liabilities at the year end are translated using mean exchange rate prevailing on the last day of the financial year. The loss or gain thereon and also the exchange differences on settlement of the foreign currency transactions during the year are recognized as income or expense and adjusted to the profit and loss account except in cases (a) where such liabilities and /or transactions relate to fixed assets/ projects and these were incurred/ entered into before 1.4.2004; (b) fixed assets acquired from a country outside India, in which case, these are adjusted to the cost of respective fixed assets.

13. **Revenue Recognition**

13.1 Revenue from sale of products is recognized on transfer of custody to customers.

13.2 Sale of crude oil and gas produced from exploratory wells in progress in exploratory areas is deducted from expenditure on such wells.

13.3 Sales are inclusive of all statutory levies. Any retrospective revision in prices is accounted for in the year of such revision.

13.4 Revenue in respect of the following is recognized when there is reasonable certainty regarding ultimate collection:

a. Short lifted quantity of gas.

b. Gas pipeline transportation charges and statutory duties thereon.

c. Reimbursable subsidies and grants.

d. Interest on delayed realization from customers.

14. **Retirement Benefits**

14.1 Contribution to Provident Fund is made as per the Rules of the Company. The same is paid to a fund administered through a separate Trust.

14.2 Provision for gratuity is made as per actuarial valuation at the end of the financial year. The same is paid to a fund administered through a separate Trust.

14.3 Provision towards leave encashment is made on the basis of actuarial valuation at the end of the financial year.

15. **Voluntary Retirement Scheme**

Expenditure on Voluntary Retirement Scheme (VRS) is charged to Profit and Loss Account.

16. **Insurance claims**

Insurance claims in respect of total loss of assets are accounted for on intimation to the Insurer. In respect of other claims, expenditure incurred to put an asset back to use, less policy deductibles, if any, is accounted for as recoverable from the Insurer. Such policy deductibles are expensed in the year, these are incurred.

17. **Research and Development**

Capital expenditure on Research and Development is capitalised under various fixed assets. Revenue expenses are charged to Profit and Loss Account, when incurred.

18. **Rig Days Costs**

Rig movement costs are normally booked to the next location planned for drilling. Abnormal idle rig days' costs are charged to Profit and Loss Account.

19. **Deferred Revenue Expenditure**

Dry docking charges of Rigs/ Multipurpose Supply Vessels (MSVs), rig/equipment mobilization expenses and other related expenditure are considered as deferred expenditure to be amortized over the period of use not exceeding five years.

20. **Borrowing Costs**

Borrowing Cost specifically identified to the acquisition or construction of qualifying assets is capitalized as part of such asset. A qualifying asset is one that necessarily takes substantial period of time to get ready for intended use. All other borrowing costs are charged to Profit and Loss Account.

21. **Provisions, Contingent Liabilities and Contingent Assets**

Provisions involving substantial degree of estimation in measurement are recognized when there is a present obligation as a result of past events and it is probable that there will be an outflow of resources. Contingent Assets are neither recognized nor disclosed in the financial statements. Contingent liabilities, if material, are disclosed by way of notes.

SCHEDULE-28

NOTES TO ACCOUNTS

1.1 Sales Revenue in respect of Crude Oil is based on the pricing formula agreed with the customers for the period from 1.4.2002 to 31.3.2004 and the same has been provisionally applied pending finalisation of the Memorandum of Understanding (MOU) with the refineries i.e. the customers for the year 2004-05 onwards.

1.2 Sales revenue in respect of Natural Gas is based on the gas prices fixed on provisional basis as per directives of the Government of India (GOI), Ministry of Petroleum and Natural Gas (MoP&NG) dated 9th November, 2000.

2.1 In terms of the decision of the GOI conveyed by MoP&NG on quarterly basis during the year 2004-05, ONGC has shared under recoveries of Oil Marketing Companies (OMCs) on PDS Kerosene and domestic LPG for the year 2004-05 by allowing discount in the prices of Crude Oil, PDS kerosene and domestic LPG based on the provisional rates of discount communicated by Petroleum Planning and Analysis Cell (PPAC). Accordingly, Sales Revenue in respect of Crude Oil, LPG and SKO during the year is net of Rs. 41,038.04 million (Previous Year Rs. 26903.92 million) on this account.

2.2 Sales (Schedule-18) include "Price Revision Arrears" amounting to Rs. 583.53 million consisting of Rs. 476.81 million on account of differential amount on fixation of final rate of Royalty on crude oil @ Rs. 603.95/MT from Rs. 595/MT for the period 1996-1998 by GOI vide Gazette notification dated 16.12.2004 and Rs. 106.72 million on account of Crude yield price revision in respect of Assam asset for the year 2003-04.

3. Sales Revenue and Purchases include Rs. 51040.29 million (Previous Year - Nil) and Rs. 51012.88 million (Previous Year - Nil) respectively on account of trading of products of a subsidiary i.e. Mangalore Refinery and Petrochemicals Limited (MRPL).

4. Production, Transportation, Selling and Distribution Expenditure (Schedule 21) includes Rs. 2585.52 million (including Rs. 2383.62 million for the period 1978 – March 2004) under the head Transportation and Freight of Products on account of the claim of Mumbai Port Trust towards way leave fees and compensation in respect of crude & gas pipelines.

5. The item-wise details of Net Deferred Tax Liability as on 31st March, 2005 accounted for in accordance with AS-22 on "Accounting for Taxes on Income" amounting to Rs. 54438.46 million (previous year Rs. 58420.17 million) are as under:

(Rs. in Million)

	As on 31.03.2005	As on 31.03.2004
(i) Liabilities		
Depletion of Producing Properties	76,906.13	81,167.15
Depreciation Allocated to Wells in Progress	294.31	458.21
Deferred Revenue Expenditure written off	1,787.74	1,938.56
Development Wells-in-Progress	1,287.83	596.84
Others	310.45	173.13
Total (i)	**80,586.46**	**84,333.89**
(ii) Assets		
Depreciation	167.97	125.72
Dry wells written off	6,572.40	4,658.95
Provision for Non Moving Inventories	942.52	801.40
Provision for Doubtful Claims/Advances	1,766.32	1,587.04
Provision for Abandonment	15,066.24	17,438.86
Provision for Leave Encashment	1,191.70	1,019.47
Others	440.85	282.28
Total (ii)	**26,148.00**	**25,913.72**
Deferred Tax Liability (Net) (i - ii)	**54,438.46**	**58,420.17**

6. **Impact of Changes in Accounting Policies:**

6.1 The Company has implemented the Accounting Standard (AS-28) on "Impairment of Assets" issued by the Institute of Chartered Accountants of India (ICAI). Accordingly, the earlier policy of impairing producing properties with reference to the short fall in the market value of the proved developed reserves at the year end average prices and attributable future estimated costs at current levels over its book value (without discounting) on individual lease/licence/amortization base is revised. The Company had recognized an amount of Rs. 3432.11 million as impairment up to 31st March, 2004. The impairment loss as worked out in accordance with AS-28 after considering the report of consultant works out to Rs. 6450.31 million as on 01.04.2004. The differential amount of Rs. 2002.28 million (net of deferred tax asset amounting to Rs. 1015.92 million) has been adjusted to General Reserve in accordance with the transitional provision of the said Standard.

The Impairment loss for the year as per the above policy works out to Rs. 140.47 million after adjustment of reversal of impairment loss amounting to Rs. 407.60 million, which has been charged to Profit and Loss Account. Had Company continued to provide impairment on producing property as per its earlier method, the impairment loss for the year would have been lower by Rs. 391.96 million with corresponding increase in profit by same amount.

6.2 The Company has discontinued its policy of writing back of exploratory wells in progress written off earlier as dry wells, on subsequent commencement of commercial production, based on the opinion of the Expert Advisory Committee of the ICAI. The said change has the effect of reducing both the profit for the year and producing property by Rs. 383.19 million.

6.3 From the current year, expenses incurred on repairs jobs in progress at central workshop of the company are being charged to revenue account as against past practice of carrying forward such expenses on incomplete jobs as current assets. The impact due to such change has not been ascertained as the same is not likely to be material.

7. The Company is mainly in the oil exploration and production activities where each cost centre used for depreciation (depletion) purposes has been identified as independent Cash Generating Unit (CGU) for assessing the impairment in Producing Properties and fixed assets etc. on the basis of 'value in use'. The Company has tested all its assets for impairment by applying discount rates of 10.22% and 11.74% for Rupee transactions and 8.92% and 9.74% for crude oil and value added products revenue measured in USD as on 01.04.2004 and 31.03.2005 respectively.

8. Loans and Advances (Schedule-13) include:

(Rs. in Million)

	Loans &Advances in the Nature of Loans	
	Outstanding as on 31.03.2005	**Maximum Amount Outstanding during the year**
a) **Subsidiaries**		
ONGC Videsh Limited (OVL) Wholly owned subsidiary	115468.95 (86348.29)	115468.95 (86348.29)
Mangalore Refinery & Petrochemicals Ltd.(MRPL)	15000.00 (24000.00)	24000.00 (24000.00)
b) Loans to employees having repayment schedule of more than seven years	6876.03 (7031.46)	7031.46 (7208.81)

Notes:

1. Loans to OVL – fully owned subsidiary are interest free and repayable with a notice period of minimum one year.
2. Loan to MRPL carries interest at the Bank Rate payable at quarterly intervals which is presently 6% p.a. The loan is repayable over a period of 8 years in quarterly installments, commencing from 30.06.2006. However, ONGC can call this loan on a notice of 90 days and MRPL can also prepay whole or part of the loan, as per their convenience. MRPL has prepaid Rs. 9000 Million during the year.
3. The Company has not advanced any money to its employees for the purposes of investment in the securities of the Company.

9. **Joint Venture Accounting:**

9.1 **Jointly Controlled Operations**

9.1.1 The Company has entered into Production Sharing Contracts (PSCs) and Joint Ventures (JVs) in respect of certain properties with the Government of India and some bodies corporate. Details of these PSCs/ JVs are as under:

Sl. No.	Joint Ventures / PSCs	Company's PI	Operatorship/ Others Partners' PI
A	**Non-Operated JVs**		
1	Mid & South Tapti	40%	British Gas Exploration & Production India Ltd. (BGEPIL) (Operator) – 30% Reliance Industries Ltd.(RIL) – 30%
2	Panna & Mukta	40%	BGEPIL (Operator) – 30% RIL – 30%
3	Ravva	40%	Cairn Energy India Pty. Ltd (CEIL) (Operator) – 22.5% Petrocon India Ltd. – 25% Ravva Oil (Singapore) Pte. Ltd. – 12.5%
4	CY-OS-90/1 (PY3)	40%	Hardy Exploration & Production (India) Inc. (Operator) – 18% HOEC – 21% TPL – 21%
5	RJ-ON-90/1	30%	Cairn Energy India Pty. Ltd. (CEIL) (Operator) – 35% Cairn Energy Hydrocarbons Ltd. – 35%
6	CB-OS/2	50%	Cairn Energy Group (Operator) – 40% Tata Petrodyne Ltd. (TPL) – 10%
7	CB-ON/7	30%	Hindustan Oil Exploration Co. Ltd. (HOEC) (Operator) – 35% Gujarat State Petroleum Corporation Ltd. (GSPC) – 35%
8	GK-OSJ-1 (PSC terminated w.e.f. 19.12.2003)	25%	RIL (Operator) – 50% Tullow India Operations Ltd. – 25%
9	GK-OSJ-3	25%	RIL (Operator) – 60% Oil India Ltd. (OIL) – 15%
10	MN-ONN-2000/1	20%	OIL (Operator) – 40% Gail India Ltd. (GAIL) – 20% Indian Oil Corporation Ltd. (IOC) – 20%
11	RJ-ONN-2001/1	30%	OIL (Operator) – 70%
12	RJ-ONN-2002/1	40%	OIL (Operator) – 60%
13	AA-ONN-2002/3	70%	OIL (Operator) – 30%
B	**ONGC Operated**		
14	Jharia	90%	Coal India Ltd. (CIL) – 10%
15	Raniganj	74%	CIL – 26%
16	CB-OS/1	32.89%	TPL – 10% HOEC – 57.11%

17	GV-ONN-97/1	40%	IOC – 30% CEIL – 30%
18	KG-DWN-98/4	85%	OIL – 15%
19	MN-OSN-97/3	85%	GAIL – 15%
20	KG-DWN-98/2	90%	CEIL – 10%
21	MB-OSN-97/4	70%	IOC – 30%
22	GV-ONN-2000/1 (relinquished on 5.11.2003)	85%	IOC – 15%
23	MB-OSN-2000/1	75%	IOC – 15% GSPC – 10%
24	MN-OSN-2000/2	40%	GAIL – 20% IOC – 20% OIL – 20%
25	WB-OSN-2000/1	85%	IOC – 15%
26	WB-ONN-2000/1 (relinquished on 28.9.2003)	85%	IOC – 15%
27	KK-DWN-2000/2 (relinquished on 30.7.2004)	85%	GAIL – 15%
28	MB-DWN-2000/1	85%	IOC – 15%
29	MB-DWN-2000/2	50%	IOC – 15% GAIL – 15% OIL – 10% GSPC – 10%
30	GS-DWN-2000/2	85%	GAIL – 15%
31	AA-ONN-2001/2	80%	IOC – 20%
32	AA-ONN-2001/3	85%	IOC – 15%
33	CY-DWN-2001/1	80%	OIL – 20%
34	CB-ONN-2001/1	70%	CEIL – 30%
35	NK-CBM-2001/1	80%	IOC – 20%
36	BK-CBM-2001/1	80%	IOC – 20%
37	MN-DWN-2002/1	70%	OIL – 20% Bharat Petroleum Corporation Ltd. (BPCL) – 10%
38	CB-ONN-2002/1	70%	CEIL – 30%
39	KK-DWN-2002/2	80%	Hindustan Petroleum Corporation Ltd. (HPCL) – 20%
40	KK-DWN-2002/3	80%	HPCL – 20%
41	KG-DWN-2002/1	70%	OIL – 20% BPCL – 10%
42	CY-ONN-2002/2	60%	BPCL – 40%
43	BS(3) -CBM-2003/II	70%	GSPC – 30%
44	AA-ONN-2003/4	90%	OIL – 10%

9.1.2 During the year, the Company has acquired additional 15% Participating Interest (PI) of Exploration (increased from 10% to 25%) and additional 10% of Development (increased from 40% to 50%) in Block CB-OS-02 with retrospective effect from 1.1.2003, for a lump-sum consideration of Rs. 2183.07 million (USD 50 Million.) Accordingly, the Sales Revenue and Expenditure in respect of this Joint Venture includes Rs. 979.10 million and Rs. 406.90 million respectively pertaining to the period up to 31.03.2004. The Company has also acquired from Cairn Energy India Ltd. (CEIL) 90% PI in exploration block KG-DWN-98/2 with retrospective effect from 30th September, 2003, for a lump sum consideration of Rs. 3711.22 million (USD 85 million).

9.1.3 The Company has transferred 30% PI in NELP Blocks CB-ONN-2001/1 and GV-ONN-97/1 to CEIL with retrospective effect from 30th September 2003 and as a result PI of ONGC in these blocks has reduced from 100% to 70% and 70% to 40% respectively. For this, an amount of Rs. 76.00 million is recoverable from CEIL.

9.1.4 On relinquishment of its PI by British Gas Exploration and Production India Pvt. Ltd. (the then operator), PI of ONGC in PreNELP Block CB-OS-01 has increased from 10% to 32.89%. This change has been approved by Govt. of India vide letter dated 20th December 2004 and the operatorship of block transferred to ONGC. Further, PEL of NELP Block GV-ONN-2000/1 has been surrendered by the Company.

9.1.5 In the year 2003-04, where unaudited figures were incorporated, necessary adjustments have been carried out with reference to the audited figures of 2003-04, in the current period.

9.1.6 The company has entered into 44 joint ventures for exploration and production. As at the end of the year, the total value of assets, liabilities, income, expenditure and net profit before tax of these joint ventures amounts to Rs. 35,121.97 million, Rs. 10,056.38 million, Rs. 25,760.79 million, Rs. 15,190.31 million and Rs. 10,570.48 million respectively. These figures have been incorporated based on the audited accounts.

9.2 In respect of Ravva JV, Government of India (GOI) had periodically been raising demands towards additional profit petroleum for the period upto 2004-05. The said demand was disputed by the operator. At the instance of the other JV partners, the matter was referred to arbitration. ONGC requested GOI to keep the collection of the demand in abeyance till issue of final award by the Arbitral Tribunal, committing itself to abide by the terms of the award. In its partial award dated 12th October, 2004, the Arbitral Tribunal has issued certain directions. The liability in respect of the amount payable by ONGC towards its share pursuant to the directions in the partial award as per provisional calculation furnished by the operator amounting to Rs. 3098.4 million has been provided for in the accounts for the year. GOI has preferred an appeal against one of the directions in the partial award and in this regard ONGC's share of additional profit petroleum (as per the calculations given by the operator) comes to Rs. 4985.60 million, which has been shown as contingent liability, pending issue of final Award by the Arbitral Tribunal.

9.3 **Jointly Controlled Entity:**

a)

Name	Country of Incorporation	Ownership Interest (%)	
		31.03.2005	31.03.2004
Petronet LNG Ltd.	India	12.5	12.5

b) The Company's share in assets, liabilities, income, expenses, contingent liabilities and capital commitments of Jointly Controlled Entity is as under:

(Rs. in million)

Description	31.03.2005	31.03.2004
i) **Assets**		
- Long Term assets	2362.82	2195.28
- Investments	22.36	-
- Current assets	716.54	720.51
- Deferred Tax Assets	17.50	-
ii) **Liabilities**		
- Current liabilities & provisions	448.08	204.10
- Other liabilities	1574.87	1573.61
iii) Income	2448.17	-
iv) Expenses	2501.22	-
v) Contingent liabilities	728.67	180.41
vi) Capital commitments	247.80	440.01

10. The Company has physical verification system of Inventory, Fixed Assets and Capital Stores in a phased manner at regular intervals with general ledger balances. Adjustment of differences, if any, is carried out in books of account after examination of these differences, a few of which are in progress.

11. Some of the Balances of Debtors, Creditors and Loans & Advances are subject to confirmation / reconciliation. Adjustments, if any, will be accounted on receipt / confirmation of the same.

12. Based on the information available, the names of the Small Scale Industrial Undertakings having outstandings for more than 30 days from the Company are M/s Tarak Chemicals Ltd, Vadodara and M/s Neelam Aqua & Speciality Chem (P) Ltd., Jaipur.

13. Since the Company has prepared the Consolidated Financial Statements as per Accounting Standard (AS-21), segment information has been presented in the Consolidated Financial Statements.

14. Information as per Accounting Standard (AS-18) on Related Party Disclosures is given below:

a) Name of Related parties and description of relationship (excluding with State Controlled Entities) : -

Joint Ventures	Ravva	GK-OSJ-3
	PY-3	GK-OSJ-1
	Panna, Mukta & Tapti	KG-DWN-98/2
	Petronet LNG Ltd.	CB-ONN-2001/1
	CB-OS-1	CB-ONN-2002/1
	CB-OS-2	RJ-ON-90/1
	GV-ONN-97/1	

b) Key Management Personnel: -

Functional Directors:
i) Shri Subir Raha, C&MD
ii) Shri Y.B. Sinha
iii) Shri V.K. Sharma (up to 31.05.2004)
iv) Shri Nathu Lal
v) Shri R.S. Sharma
vi) Dr. A. K. Balyan
vii) Shri A.K. Hazarika (w.e.f. 9.9.2004)
viii) Shri N.K. Mitra (w.e.f. 9.9.2004)

Details of Transactions **(Rs. in Million)**

Particulars	Joint Ventures	Key Management Personnel	Total
Payment towards Helicopter charges (PY-3)	0.00 (0.52)		0.00 (0.52)
Amount paid /payable for Oil Transfer Services (Ravva)	33.39 (41.86)		33.39 (41.86)
Amount received for use of Drill Site Accommodation (Ravva)	8.50 (11.51)		8.50 (11.51)
Receipt towards transportation and Processing Charges (Panna Mukta)	724.02 (668.69)		724.02 (668.69)
Remuneration to Directors (As per **b** above)		7.48 (7.30)	7.48 (7.30)
Amount Outstanding (Ravva)	2.74 (3.78)	0.00 (0.62)	2.74 (4.40)

15. Capital commitments (net of advances) not provided for
a) in respect of Joint Ventures Rs. Nil (Previous year Rs. Nil)
b) in respect of others - Rs. 38628.87 million (Previous year Rs. 52411.86 million)

16. Contingent Liabilities:

16.1 Claims against the Company not acknowledged as debts which in the opinion of the Management are not tenable/under appeal at various stages: -

(Rs. in Million)

			As at 31st March, 2005	As at 31st March, 2004
i)	**in respect of Joint Ventures**			
	i.	Income tax matters	8.91	-
	ii.	Custom Duty matters	3693.28	1458.86
	iii.	Royalty	167.12	167.12
	iv.	Cess	7.76	0.60
	v.	Sales Tax	1926.80	1926.80
	vi.	Claim of GOI for additional Profit Petroleum	4985.60	7944.37
	vii.	Claims of contractors in Arbitration/Court	89.80	88.68
	viii.	in respect of other matters	2607.22	2122.26
	Sub Total		**13486.49**	**13708.69**
ii)	**in respect of others**:			
	i.	Income tax matters	12317.32	5893.76
	ii.	Excise Duty matters	1636.58	2846.92
	iii.	Custom Duty matters	1438.22	1934.27
	iv.	Royalty	360.64	253.64
	v.	Cess	0.89	749.54
	vi.	Sales Tax	605.69	562.78
	vii.	Municipal Corporation	84.50	336.68
	viii.	Claims of contractors in Arbitration/Court.	18134.82	15714.35
	ix.	in respect of other matters	4651.40	2803.64
	Sub Total		**39230.06**	**31095.58**
	Total		**52716.55**	**44804.27**

16.2 **Guarantees executed by the company on behalf of its wholly owned subsidiary ONGC Videsh Limited in favour of:-**

(Rs. in Million)

S.No	Details	Guarantee Amount	Amount Outstanding
1	Oil Industry Development Board.	877.00 (877.00)	157.13 (253.00)
2	National Iranian Oil Company, USD 10.80 million.	473.15 (475.63)	473.15 (475.63)
3	National Oil Company of Tripoli, Libya, USD 15.974 million.	699.82 (703.49)	699.82 (703.49)
4	Certain Banks towards loan facility granted, aggregating USD 114.46 million to part finance development of gas fields at Len Do and Lan Tay, Vietnam (out of this ONGC Videsh Limited had drawn USD 60.40 million and balance outstanding as on 31.3.2005 is nil)	5014.49 (5040.82)	– (2479.45)
5	M/s Roseneft-S, R N Astra, SMNG-S and Exxon-N to the extent of USD 2770 million (previous year USD 1741 million) in terms of Assignment and Carry Finance Agreements in respect of Sakhalin-I Project (out of this ONGC Videsh Ltd has already made remittances aggregating USD 1639.20 million (previous year USD 1068.10 million) and balance outstanding is USD 1130.80 million (Previous year USD 672.956 million)	121353.70 (76673.64)	49540.35 (29636.98)

6	Talisman Energy Inc to the extent of USD 720.00 million (previous year USD 720.00 million) in terms of the Purchase and Sale Agreement in respect of acquisition of 25% participating interest in Greater Nile Oil Project, Sudan. Balance outstanding as on 31.3.2005 is USD 5.925 million. (Previous year USD 8.545 million).	31543.20 (31708.80)	259.57 (376.32)
	Total	**159961.36** **(115479.38)**	**51130.02** **(33924.87)**

16.3 Guarantees executed by the company on behalf of its subsidiary- MRPL in favour of: -

1	Bank of America for giving buyers' credit facility up to USD 90 million. Balance outstanding as on 31.03.2005 was nil. (Previous year USD 90 million).	3942.90 (3963.60)	- (3963.60)
2	BA Asia Ltd. for giving buyers' credit facility up to USD 39 million. Balance outstanding as on 31.03.2005 was USD 39 million.	1708.59 (-)	1708.59 (-)
3	State Bank of India, Bahrain for giving buyers' credit facility up to USD 25 million. Balance outstanding as on 31.03.2005 was USD 25 million.	1095.25 (-)	1095.25 (-)
4	Saudi Aramco for supply of crude oil up to USD 100 million. Balance outstanding as on 31.03.2005 was USD 100 million (previous year USD 55 million).	4381.00 (4404.00)	4381.00 (2422.20)
	Total	**11127.74** **(8367.60)**	**7184.84** **(6385.80)**

16.4 Guarantees executed by the company on behalf of Petronet LNG Limited in favour of:

1	Certain banks towards short term loans granted to Petronet LNG Limited (a company which is promoted by the Company together with three other co-promoters) to the extent of Rs. 14000 million out of which Company's share is Rs. 3500 million. Balance outstanding as on 31.03.2005 is Nil.	3500.00 (3500.00)	– (2560.10)

17. Details of Oil and Gas Reserves (as determined by Reserve Estimates Committee)

17.1 Company's share of Proved Reserves on the geographical basis is as under:-

DETAILS		CRUDE OIL(MMT)*		GAS(BILLION CUBIC METER)		TOTAL OIL EQUIVALENT (MMT)**	
		As on 31.3.2005	As on 31.03.2004	As on 31.03.2005	As on 31.03.2004	As on 31.03.2005	As on 31.03.2004
OFFSHORE	**OPENING**	237.920	251.640	192.724	218.204	**430.644**	469.844
	ADDITION	9.840	5.650	4.779	-5.543	**14.619**	0.107
	DEDUCTION						
	SALE/TRANSFER						
	PRODUCTION	19.830	19.370	19.866	19.936	**39.696**	39.306
	CLOSING	227.930	237.920	177.637	192.724	**405.567**	430.644
ONSHORE	**OPENING**	185.830	189.220	154.132	147.748	**339.962**	336.968
	ADDITION	16.980	5.020	6.601	12.146	**23.581**	17.166
	DEDUCTION						
	SALE/TRANSFER	0.450	0.050	0.392	0.042	**0.842**	0.092
	PRODUCTION	8.310	8.360	5.491	5.720	**13.801**	14.080
	CLOSING	194.050	185.830	154.850	154.132	**348.900**	339.962
TOTAL	**OPENING**	423.750	440.860	346.856	365.951	**770.606**	806.811
	ADDITION	26.820	10.670	11.379	6.603	**38.199**	17.273
	DEDUCTION						
	SALE/TRANSFER	0.450	0.050	0.392	0.042	**0.842**	0.092
	PRODUCTION	28.140	27.730	25.357	25.656	**53.497**	53.386
	CLOSING	421.980	423.750	332.487	346.856	**754.467**	770.606

17.2 Company's share of Proved and Developed Reserves on the geographical basis is as under:-

DETAILS		CRUDE OIL(MMT)*		GAS(BILLION CUBIC METER)		TOTAL OIL EQUIVALENT (MMT)**	
		As on 31.3.2005	As on 31.3.2004	As on 31.3.2005	As on 31.3.2004	As on 31.3.2005	As on 31.3.2004
OFFSHORE	**OPENING**	198.780	183.420	141.066	166.761	**339.846**	350.181
	ADDITION	14.630	34.730	5.338	–5.758	**19.968**	28.972
	DEDUCTION						
	SALE/TRANSFER						
	PRODUCTION	19.830	19.370	19.866	19.936	**39.696**	39.306
	CLOSING	193.580	198.780	126.539	141.066	**320.119**	339.846
ONSHORE	**OPENING**	138.920	145.150	120.476	114.661	**259.396**	259.811
	ADDITION	22.260	2.180	5.354	11.577	**27.614**	13.757
	DEDUCTION						
	SALE/TRANSFER		0.050	0.252	0.042	**0.252**	0.092
	PRODUCTION	8.310	8.360	5.491	5.720	**13.801**	14.080
	CLOSING	152.870	138.920	120.087	120.476	**272.957**	259.396
TOTAL	**OPENING**	337.700	328.570	261.543	281.422	**599.243**	609.992
	ADDITION	36.890	36.910	10.692	5.818	**47.582**	42.728
	DEDUCTION						
	SALE/TRANSFER		0.050	0.252	0.042	**0.252**	0.092
	PRODUCTION	28.140	27.730	25.357	25.656	**53.497**	53.386
	CLOSING	346.450	337.700	246.626	261.543	**593.076**	599.243

* Crude includes oil condensate
** For calculating OEG 1000M3 of Gas has been taken to be equal to 1 MT of Crude Oil.
Variation in totals, if any, are due to internal summation and rounding off.

18. DETAILS OF EXPENDITURE

(Details of expenditure incurred during the year on Production, Selling and Distribution, Operation and Maintenance of Pipelines, Exploration, Drilling and Development)

(Rupees in million)

		2004-05		2003-04
(a)	Salaries, Wages, Ex-gratia etc.	21,105.24		20,570.41
(b)	Contribution to Provident and other funds	1,365.56		1,337.70
(c)	Provision for gratuity	1,288.35		507.74
(d)	Provision for leave encashment	1,672.53		1,206.16
(e)	Staff welfare expenses	2,033.15	27,464.83	1,996.82
Stores and spares consumed			14,075.91	12,523.36
Cess			42,457.84	41,938.66
Natural Calamity Contingent Duty - Crude Oil			1,127.28	1,116.70
Excise Duty			3,398.34	4,363.61
Royalty			37,913.65	28,448.81
Sales Tax			14,580.73	11,065.13
Octroi/BPT			5,670.50	2,237.63
Service Tax			8.33	0.00
Education cess			655.03	0.00
Rent, rates and taxes			1,166.23	1,205.60
Hire charges of equipments and vehicles			35,108.87	27,069.67
Power, fuel and water charges			2,143.20	2,092.20
Contractual drilling, logging, workover etc.			22,442.29	18,104.02
Contractual security			1,266.54	1,101.01
Repairs to building			200.25	296.07
Repairs to plant and machinery			1,803.62	2,687.98
Other repairs			5,238.15	5,252.29
Insurance			1,605.82	2,163.32
Expenditure on Tour / Travel			1,824.83	1,525.39
Contribution *			238.64	158.95
Miscellaneous expenditure			7,086.69	3,992.68
			227,477.57	192,961.91
Less:				
Allocated to exploration, development drilling, capital jobs recoverables etc.			55,652.05	46,137.55
Excise duty			3,492.03	4,479.92
Prior Period Adjustment			(94.76)	185.29
Production, Transportation, Selling and Distribution Expenditure etc.			168,428.25	142,159.15

* Includes Contribution to Prime Minister's Relief Fund- Natural Calamity due to '**Tsunami**' Rs. 150 million (Previous Year Nil).

19. Information under Schedule VI to the Companies Act, 1956

i) **SALES TURNOVER**

		2004-05			2003-04		
	Unit	**Quantity**	**Value Rs. in Million**		**Quantity**	**Value Rs. in Million**	
Crude Oil	MT	24092759	322540.41		23942784	225362.50	
Less: From Exploratory Fields		1452	18.29		152	1.42	
Less: Government of India's							
Share in Profit Petroleum			10698.37	311823.75		3236.91	222124.17
Natural Gas	000M3	20644133	55016.11		21103000	53350.39	
Less; From Exploratory Fields		539	1.01			0.00	
Less: Government of India's							
Share in Profit Petroleum			1810.94	53204.16		1166.84	52183.55
Liquefied Petroleum Gas	MT	1085504		12081.93	1160987		16351.68
Natural Gasoline/Naphtha	MT	363141		6545.80	445384		5784.97
Ethane/Propane	MT	527634		5705.47	533623		4779.09
Aromatic Rich Naphtha	MT	1203967		22714.31	1211318		16752.70
Superior Kerosene Oil	MT	177406		1696.58	217753		2658.12
	KL	969543		15199.23			
Heavy Cut	MT	13859		320.57	37034		683.17
LSHS	MT	24272		298.88	28112		319.02
HSD	MT	12221		282.16	5100		84.52
	KL	1537520		28995.24			
Motor Spirit	KL	261888		6845.82			
Others				852.53			53.81
				466566.43			321774.80
Price Revision Arrears				583.53			3460.65
Add: Adventitious Gain				(37.48)			4.63
				467112.48			325240.08

ii) OPENING AND CLOSING STOCK OF GOODS PRODUCED:

	Unit	As at 31st March, 2005		As at 31st March, 2004	
		Quantity	Value Rs. in Million	Quantity	Value Rs. in Million
Opening stock					
Crude Oil*	MT	681134	1130.77	802015	1127.27
Liquefied Petroleum Gas	MT	22678	112.75	13842	48.76
Natural Gasoline/Naphtha	MT	25660	52.23	25685	113.82
Ethane/Propane	MT	532	2.30	850	3.02
Aromatic Rich Naphtha	MT	30450	94.88	58468	199.60
Superior Kerosene Oil	MT	5371	16.65	10165	25.71
Heavy-Cut	MT	510	1.63	565	1.81
Low Sulphur Heavy Stock(LSHS)	MT	172	1.18	468	3.43
High Speed Diesel(HSD)	MT	462	4.01	900	6.19
	KL**	–	–	–	–
Motor Spirit	KL	–	–	–	–
Others			2.01		0.26
			1418.41		1529.87
Closing stock					
Crude Oil*	MT	760735	1444.07	681134	1130.77
Liquefied Petroleum Gas	MT	13733	35.47	22678	112.75
Natural Gasoline/Naphtha	MT	36828	76.37	25660	52.23
Ethane/Propane	MT	729	3.66	532	2.30
Aromatic Rich Naphtha	MT	62138	133.15	30450	94.88
Superior Kerosene Oil	MT	4899	4.69	5371	16.65
Heavy-Cut	MT	224	0.99	510	1.63
Low Sulphur Heavy Stock(LSHS)	MT	569	4.38	172	1.18
High Speed Diesel(HSD)	MT	1323	9.42	462	4.01
	KL**	19	0.45	–	–
Motor Spirit	KL	14	0.42	–	–
Others			3.96		2.01
			1717.03		1418.41

* Includes Company's share in stock of Joint Ventures

** Material purchased for trading

iii) LICENSED CAPACITY, INSTALLED CAPACITY AND ACTUAL PRODUCTION
(CAPACITY AS CERTIFIED BY THE MANAGEMENT)

	Unit	2004-05		2003-04	
		Installed Capacity per Annum	Actual Production Quantity	Installed Capacity per annum	Actual Production Quantity
Crude Oil	MT	NA	28133355	NA	27716609
Natural Gas	000 M3	NA	25229916	NA	25700919
Liquefied Petroleum Gas	MT	1158000	1094881	1158000	1171764
Natural Gasoline/Naphtha	MT	2127000	376603	2127000	388365
Ethane/Propane	MT	570000	527831	570000	533305
Aromatic Rich Naphtha	MT	773495	1242799	773495	1248266
Superior Kerosene Oil	MT	297200	176906	297200	212959
Heavy Cut	MT	32965	13246	32965	37439
LSHS	MT	19800	24669	19800	27816
HSD	MT	12540	33447	12540	16459

1. Licensed Capacity is not applicable for the above products.
2. Production includes internal consumption and intermediary losses.
3. Crude Oil includes condensate 1.955 MMT (Previous year 2.064 MMT)
4. NGL Production of 1.425 MMT (Previous year 1.476 MMT) fractionated for producing SKO, ARN & Heavy Cut

iv) PURCHASES

	Unit	2004-05		2003-04	
		Quantity	Value Rs. in Million	Quantity	Value Rs. in Million
Superior Kerosene Oil	KL	969543	15189.53	-	-
HSD	KL	1013346	18637.74	-	-
ULS HSD	KL	524194	10342.21	-	-
Motor Spirit	KL	261902	6843.40	-	-
Others			0.28	-	-

v) RAW MATERIAL CONSUMED:
(Out of Own Production)

	Unit	2004-05		2003-04	
		Quantity	Value At cost Rs. in million	Quantity	Value At cost Rs. in million
(For production of Liquefied Petroleum Gas, Natural Gasoline, Ethane/Propane, Naphtha, ARN,SKO, LSHS, HSD and Heavy Cut)					
Crude Oil	MT	182682	579.82	91193	38.61
Natural Gas	000M3	827515	1757.66	953227	1765.43
Gas Equivalent Condensate	000M3	663246	696.73	596147	493.39

vi) CONSUMPTION OF STORES AND SPARE PARTS

	2004-05		2003-04	
	Amount Rs. in million	%	Amount Rs. in million	%
Imported	3,392.14	24	1,661.42	13
Indigenous	10,683.77	76	10,861.94	87
	14,075.91	100	12,523.36	100

vii) VALUE OF IMPORTS ON CIF BASIS

	2004-05 Amount Rs. in million	2003-04 Amount Rs.in million
Capital items *	28,148.30	3,605.36
Stores and Spare Parts	3,301.91	3,171.38
	31,450.21	6,776.74

* Includes stage payments made against capital works.

viii) EXPENDITURE IN FOREIGN CURRENCY

	2004-05 Amount Rs. in million	2003-04 Amount Rs.in million
Interest	29.17	67.91
Services	33,548.97	27,771.39
Others	6,216.40	6,549.18
	39,794.54	34,388.48

ix) EARNINGS IN FOREIGN CURRENCY

	2004-05 Amount Rs. in million	2003-04 Amount Rs.in million
Services	1.12	3.38
FOB value of Sales	12,062.64	3,725.99
Others	41.12	14.77
	12,104.88	3,744.14

x) MANAGERIAL REMUNERATION (included in 18 above)

	2004-05 Amount Rs. in million	2003-04 Amount Rs.in million
REMUNERATION PAID OR PAYABLE TO DIRECTORS		
Salaries and Allowances	4.63	3.95
Contribution to Provident & Other Funds	0.50	0.45
Sitting Fees	1.14	0.86
Other Benefits and Perquisites (do not include cost of medical treatment availed from the Corporation's own medical facilities as the amount is not determinable)	1.35	1.96
Leave Encashment and Gratuity of retired directors	1.00	0.94
	8.62	8.16

Notes:

(1) The remuneration does not include provision for gratuity/leave encashment since the same is not available for individual employees except for directors retired during the year.

xi) AUDITORS' REMUNERATION (included in 18 above)

	2004-05 Amount Rs. in million	2003-04 Amount Rs.in million
Audit Fees	4.55	3.24
For Certification work etc.	3.09	3.08
Travelling and Out of Pocket Expenses	4.82	5.26
	12.46	11.58

20. Previous year's figures have been regrouped/reclassified wherever necessary to conform to current year's classification.

21. Figures in bracket as given in Notes to Accounts relate to previous year.

22. Figures in the accounts are stated in Rs. Million except those in paranthesis which would otherwise have become Nil on account of rounding off.

CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST MARCH, 2005

(Rupees in million)

	Year ended 31st March, 2005		Year Ended 31st March, 2004	
A. CASH FLOW FROM OPERATING ACTIVITIES:				
Net profit before tax and prior period items		196,477.02		136,384.06
Adjustments For:				
Recouped Costs				
(Represented by Depreciation, Depletion and Amortisation)				
Gross Amount	61,873.76		55,608.64	
Cash Outflows	(25,146.34)		(19,025.24)	
	36,727.42		36,583.40	
- Interest on Borrowings	375.02		460.57	
- Foreign Exchange Loss/(Gain)	(26.79)		0.00	
- Provision for Gratuity	1,267.48		508.76	
- Provision for Leave Encashment	698.67		360.28	
- Provision for Impairment	140.47		161.71	
- Provision for Investments	0.00		15.05	
- Other Provision and Write offs	2,169.54		673.25	
- Interest Income	(9,717.07)		(8,440.57)	
- Deffered Government Grant	(10.46)		(9.47)	
- Dividend Received	(2,546.69)		(2,572.03)	
- Profit on sale of investment	0.00	29,077.59	(194.60)	27,546.35
Operating Profit before Working Capital Changes		225,554.61		163,930.41
Adjustments for:-				
- Debtors	(14,315.83)		15,741.64	
- Loans and Advances	(3,657.52)		(4,321.66)	
- Other Current Assets	(91.95)		168.95	
- Defferred Revenue Expenditure	87.98		(4,116.84)	
- Inventories	(1,736.09)		(8,475.02)	
- Trade Payable and Other Liabilities	15,619.79	(4,093.62)	3,541.82	2,538.89
Cash generated from Operations		221,460.99		166,469.30
Direct Taxes Paid (Net of tax refund)		(65,531.27)		(46,510.50)
Cash Flow before prior period		155,929.72		119,958.80
Prior period items		180.29		(42.05)
Net Cash Flow from Operating Activities 'A'		**156,110.01**		**119,916.75**
B. CASH FLOW FROM INVESTING ACTIVITIES:				
Purchase of Fixed Assets (Net)		(52,412.48)		(20,992.95)
Exploratory and Development Drilling		(28,599.43)		(21,333.25)
Purchase of Investments		0.00		(3,563.50)
Investment in Subsidiary		0.00		(3,811.43)
Loans and advances to Subsidiary		(20,008.09)		(38,391.43)
Advance for Share Capital		0.00		(120.91)

(Rupees in million)

	Year ended 31st March, 2005	Year Ended 31st March, 2004
Refund of advance for shares	12.50	0.00
Sale of Investments	3,850.00	3,163.73
Dividend Received from Trade Investments	2,509.00	2,562.23
Dividend Received from Associates	37.69	9.80
Interest Received	10,104.92	6,840.63
Net Cash Flow from Investing Activities 'B'	(84,505.89)	(75,637.08)
C. CASH FLOW FROM FINANCING ACTIVITIES:		
Proceeds from issue of Share Capital	0.35	0.07
Proceeds from Government Grants	5.82	13.62
Proceeds from Line of Credit	8,550.00	0.00
Repayment of Short Term Borrowings	(24,650.00)	24,650.00
Repayment of Long Term Borrowings	(601.42)	(1,509.27)
Cash Credit Advance	1,163.85	2,642.89
Dividend Paid	(42,691.53)	(38,502.58)
Tax on Dividend	(5,590.55)	(4,932.84)
Interest Paid	(538.48)	(315.28)
Net Cash Flow from Financing Activities 'C'	(64,351.96)	(17,953.39)
Net increase/(decrease) in Cash and Cash Equivalents (A+B+C)	7,252.16	26,326.28
Cash and Cash Equivalents as at 1st April, 2004 (Opening Balance)	87,416.45	61,090.17
Cash and Cash Equivalents as at 31st March, 2005 (Closing Balance)	94,668.61	87,416.45

Notes:

1. The above Cash Flow Statement has been prepared under the 'Indirect Method' as set out in the Accounting Standard-3 on Cash Flow Statements issued by The Institute of Chartered Accountants of India.
2. Adjustments have not been made to "Purchase of Fixed Assets" (Investing Activities), on account of increase/decrease in Capital Creditors. The impact of the above is not readily ascertainable.
3. Cash and Cash equivalents represent:-

(Rupees in million)

	2004-05	2003-04
a) Cash and Bank Balances (Schedule 12A)	58,488.06	55,734.48
b) Deposits with Bank under Site Restoration Fund Scheme (Schedule 12B)	36,180.55	31,681.97
Total	94,668.61	87,416.45

4. Brackets indicate cash outflow/ deduction.

for and on behalf of the Board

H.C. Shah **Company Secretary**	R.S. Sharma **Director (Finance)**	Subir Raha **Chairman & Managing Director**

In terms of our report of even date attached

For K K Soni & Co. **Chartered Accountants**	**For S. Bhandari & Co.** **Chartered Accountants**	**For RSM & Co.** **Chartered Accountants**
K.K. Soni **Partner (Mem. No. 7737)**	S.S. Bhandari **Partner (Mem. No. 11332)**	Vijay N. Bhatt **Partner (Mem.No. 36647)**
For Brahmayya & Co. **Chartered Accountants**	**For Lodha & Co.** **Chartered Accountants**	
V.Seetaramaiah **Partner (Mem. No. 3848)**	H.K. Verma **Partner (Mem. No. 55104)**	

New Delhi
June 20, 2005

BALANCE SHEET ABSTRACT AND COMPANY'S GENERAL BUSINESS PROFILE

1. Registration Details

Registration No.	55-54155	State Code	55
Balance Sheet Date	31-03-2005		

II. Capital Raised during the year (Amount in Rs. Thousands)

Public Issue	Right Issue
-	-
Bonus Issue	Private Placement (Issued to employees only)
-	-

III. Position of Mobilisation and Deployment of funds (Amount in Rs. Thousands)

	Total Liabilities	Total Assets
	622054795	622054795
Source of Funds	Paid-up Capital	Reserves & Surplus
	14259284	454194869
	Secured Loans	Unsecured Loans
	-	18221539
	Deferred Tax Liability	Liability For Abandonment Cost
	54438464	80940639
Application of Funds	Net fixed Assets	Investments
	346748778	40366658
	Net Current Assets	Misc. Expenditure
	229627725	5311634
	Accumulated Losses	
	-	

ओएनजीसी
ONGC

IV. Performance of Company (Amount in Rs. Thousands)

Turnover (Gross Revenue)	Total Expenditure
481170538	284515083
Profit/(Loss) Before Tax	Profit/(Loss) After Tax
196655455	129830453
Earning per Share in Rs.	Dividend Rate %
91.05	400

V. Generic Name of Three Principal Products/Services of Company (as per monetary terms)

Item Code No.	27090000
Product Description	Crude Oil
Item Code No.	27112100
Product Description	Natural Gas
Item Code No.	27111900
Product Description	Liquified Petroleum Gas

H.C. Shah
Company Secretary

R.S. Sharma
Director (Finance)

Subir Raha
Chairman & Managing Director

New Delhi
June 20, 2005

STATEMENT PURSUANT TO SECTION 212 OF THE COMPANIES ACT, 1956, RELATING TO COMPANY'S INTEREST IN THE SUBSIDIARY COMPANIES

Name of the Subsidiary Company	ONGC Videsh Limited	ONGC Nile Ganga B.V. (Subsidiary of ONGC Videsh Limited)	Mangalore Refinery and Petrochemicals Limited
1. The Financial Year of the Subsidiary Company ended on	31st March, 2005	31st December, 2004	31st March, 2005
2. Date from which it became Subsidiary Companies	1st February, 1994	12th March, 2003	30th March, 2003
3. a) Number of shares held by Oil and Natural Gas Corporation Limited along with its nominees in the Subsidiary at the end of the financial year of the Subsidiary Companies	3,00,00,000 Equity Shares of Rs. 100/- each	40 Class"A" & 100 Class"B" Shares of Euro 453.78 each*	1,25,53,54,097 Equity Shares of Rs. 10/- each
b) Extent of interest of Holding Company at the end of the financial year of the Subsidiary Companies	100%	100%	71.62%
4. The net aggregate amount of the Subsidiary Company's Profit/(Loss) so far as it concerns the members of the Holding Company.			
a) Not dealt with in the Holding Company's accounts:			
i) For the financial year ended 31st March, 2005	Rs. 4029.80 Million	Rs. 3584.03 Million #	Rs. 6300.83 Million
ii) For the previous financial year(s) of the Subsidiary Companies since it became the Holding Company's Subsidiaries	Rs. 1204.33 Million	Rs.3456.93 Million #	Rs. 3087.36 Million
b) Dealt with in the Holding Company's accounts:			
i) For the financial year ended 31st March, 2005	-	Rs. 5707.00 Million $	-
ii) For the previous financial year(s) of the Subsidiary Companies since it became the Holding Company's Subsidiaries	-	Rs. 3279.68 Million $	-

* Shares held by ONGC Videsh Limited

\# At the closing rate of exchange, there is a Foreign Exchange Translation Reserve of Rs. 543.35 million, which has not been adjusted.

$ Dealt with in accounts of ONGC Videsh Limited.

H.C. Shah
Company Secretary

R.S. Sharma
Director (Finance)

Subir Raha
Chairman & Managing Director

Place : New Delhi
Dated : June 20, 2005.

MANAGEMENT DISCUSSION AND ANALYSIS REPORT

A. GLOBAL INDUSTRY

A.1 Global Oil & Gas prices are rising to unprecedented levels, and forecasts have reached US$ 100 per barrel. During the last winter, Gas price often crossed US$ 10 per MMbtu in trading.

A.2 There is practically no slack in the supply chain except on occasions when producers throttle back output to check any softening of prices. The threats of disruptions due to accidents or sabotage or wars are ever-present. There is effectively no buffer capacity, whether in production or shipping or refining that can be brought on line for prompt substitution of lost capacities.

A.3 Geo-political instabilities in some of the major producing areas continue, without any confidence in reaching sustained resolution in the near-term.

A.4 "Peak Oil" has come and gone. Several giant fields are on inexorable decline. Demand, on the other hand, is rising everywhere. The rate of growth in developed countries exceeds 1% compounded annually, whereas the same for the emerging economies of China and India range at 4%. The lower rate of 1% is no big comfort since the per capita consumption in the developed countries is nearly 4 times higher. The seasonal differential is also much higher in the 'north' countries.

A.5 To improve maritime safety, single-hulled tankers have been barred from most major ports. Ship-yards are booked for several years for new-building, including LNG tankers. Freight rates, therefore, are ruling firm, in tandem with Oil & Gas prices.

A.6 The prices are highly speculative, with large profits going to traders.

A.7 The compulsion to improve fuel quality to meet emission control norms, coupled with tight control on refinery emissions has caused sharp increase in the sweet-sour differential, and the trend will continue. Much of the established oil production, especially the supplies from AG/PG (Arabian Gulf/Persian Gulf), is high-sulphur. The incremental cost of de-sulphurisation is squeezing refining margins. Light crudes, in any case, attract a premium because of better yield of light distillates and resultant higher net-back value.

A.8 Similarly, 'rich' gas, with potential for value-added products, yields much higher value than lean gas. Increasingly, major producers are extracting these values before selling the stripped gas.

A.9 The 'easy oil'-giant onshore fields-has been discovered. The exporting countries are calibrating their production of this easy oil to realise maximum value to secure prosperity for future generations in their countries. New oil & gas sources are mostly in offshore deep waters. The costs and the risks are much higher. Due to these factors, the prices will not only remain firm but also increase over time.

A.10 One critical issue is not in the limelight. Limited availability and escalating costs of inputs for exploration, production, transportation, refining, fractionating and processing are matters of serious concern. Globally, availability of offshore drilling rigs, construction vessels, survey vessels and other special-purpose vessels is tight. Charter costs have more than doubled in less than two years. Steel prices have escalated, and supply of special steels required for deep waters development is limited. These constraints are impacting the time-line for commissioning new capacities.

B. THE INDIAN SCENE

B.1 All Indian crudes are sweet, and in case of ONGC, more than 85% of the production is of the 'Light' variety. All Indian refineries are configured to maximize middle distillate production since diesel (HSD) alone constitutes some 45% of the total sales volume. Crude export is not permitted and therefore, tremendous value is being continuously destroyed by processing sweet and light crudes to produce kerosene and diesel in the domestic refineries. The increasing cost of crude imports can be mitigated to a certain extent if offshore sweet and light crudes are exported and in return, equal tonnage of sour and light and/or sweet and heavy crudes are imported.

B.2 The complications of price controls are too well-known to be repeated here. Several important issues are drowned in the debate on subsidies. The very first issue is cost management. While the entire economy is threatened by rising Oil and Gas prices, the luxury of multiple State Enterprises operating parallely in the same business is being perpetuated. The triplication of Public Sector refining and marketing chains entails significant avoidable costs and overheads. Vertical integration of upstream and downstream businesses, an inescapable global economic imperative, is held back on the specious logic of "cultural" differences persisting over thirty years since the all the companies came in the Public Sector. Even in the status quo, there is no palpable drive to improve cost-efficiencies. It is interesting to see that 'controlled prices' are the same as 'cartel prices' whereas, thanks to competition, 'non-controlled' prices are being discounted. Gross Refining Margins (GRMs) running high not only for stand-alone refineries but also for the refineries integrated in the marketing companies, but this is not being transparently factored in the subsidy demands.

B.3 After withdrawal of price control on indigenous crude effective 01 April, 2002, it was decided that the crude will continue to be "allocated in proportion to the actual refinery-wise supplies in 2001-02, for two years so that the buyer-refineries may prepare for open market sourcing. Four years on, this system of allocation is continuing and therefore, the producers are denied negotiating leverage. The buyer-refineries secured an adventitious gain of the order of US$ 4 per barrel during 2004-05 due to this indirect control mechanism.

B.4 Orders are received from the Government from time to time, directing certain discounts to be allowed on prices of Crude, LPG and SKO to the integrating refining and marketing companies (IRMCs). The basis of calculation of these subsidies is neither transparent nor consistent. On top of this, the IRMCs "unilaterally" resort to freezing prices calculated as per mutually agreed formula, and the sellers are not permitted to resolve these violations of bilateral agreements on commercial terms. The net result is unpredictable distortion in top line and bottom line every quarter.

B.5 Given the 'super-profits' arising out of rising international prices, your Company has, over last two years, repeatedly represented to the Government for a transparent, logical and fair mechanism on profit-sharing on crude produced from pre-NELP ("nomination") blocks. It has been proposed that the cess be calibrated to crude price as realized, and/or dividends be increased; corporate taxes in any case increase with turnover, and therefore, the mechanism of discount on prices actually reduces the Government take. The IRMCs may be subsidised by the Government, to compensate for audited and justified under-recoveries, out of the higher inflows from the Cess and/or Dividend and/or Income Tax. Such a system will, among other things, protect minority share-holders' interest and promote corporate governance in Upstream as well as Downstream Companies.

B.6 Pricing of Natural Gas is an equally mixed-up case. The Government recently allowed a nominal increase in price from Rs.2850 to Rs.3200 per MMbtu for 'APM' gas. The buyers in Power and Fertilizer sector cry hoarse on the potential adverse impact on the economy if ONGC is allowed to charge market-related price for the gas. Therefore, these companies continue to enjoy buying gas from ONGC @ US$ 1.85 per MMbtu whereas they willingly pay US$ 3.86 or US$ 4.0 or even US$ 4.62 per MMbtu to other sellers, obviously because even at these prices, their profitability improves, as compared to the price of Naphtha. In fact, the major Power sector customer is willing to pay ONGC US$ 4.08 per MMbtu for non-APM gas. The customer should be concerned with the heat value of the fuel and not whether it comes from ONGC's own fields or joint-venture fields. Every producer is entitled to the profits arising out of rising market-related prices, as also to suffer losses when the price goes down. The insistence on freeze on 'APM' gas price is an obvious ploy by the Power and Fertilizer companies to make adventitious gains out of ONGC's balance-sheet. At the 'APM gas' price, capital investment in development of new or additional gas yields IRR lower than the Bank Rate.

B.7 All Oil & Gas companies except OIL and NRL are listed on the Stock Exchanges. The uncertainties on pricing are impacting value as well as investor confidence.

C. EXPLORATION & PRODUCTION

C.1 For nearly fifteen years since the mid-eighties, ordering of major capital equipment had practically stopped. Inevitably, technology gaps came up, impacting quality, efficiency and safety. These technology gaps created skill gaps, and competitiveness, in intellectual, physical and cost terms, went down.

C.2 Equipment and facilities are usually designed for safe operating life of the order of twenty years. This issue of design life is critically important to secure assurance of integrity of equipment and systems deployed in hydrocarbon operations, often at high temperatures, pressures and flow rates. The lead time for replacement, from concept to commissioning, is three to five years. Such replacements involve longer time because new units have to be integrated with existing systems, with maximum safety and minimum loss of production.

C.3 Therefore, with your Company having delivered First Oil in 1962, phased replacements were due from the early-eighties in case of on-shore assets. For off-shore, the campaign for renewal/replacement was due from the early-nineties, considering the relatively higher severity of operational parameters.

C.4 The first wave of planned renewals and replacements was initiated in 2001-02, and has been completed in reasonably quick-time, allowing for compulsory delays in Public Sector ordering procedures. In practically every aspect of the business, state-of-the-art tools, equipment and systems have been inducted, from seismic data acquisition to blow-out control capability.

C.5 Simultaneously, the long-continuing backlog of inspection and certification has been cleared, with the assurance of third party verification.

C.6 The second wave of renewal and replacement is now in progress. Proactive action plans have been drawn up. Subject to the uncertainty of the pricing/subsidy regime, the investments will be funded from internal resources. Over the next three years, your Company intends to transform itself to the Best-in-Class.

C.7 Some of the early wins from the first wave are improving trend in exploratory success, raising production level notwithstanding natural decline in reservoir energy (pre-monsoon 2005, Mumbai high crude output was 270,000 bopd, an eight year high; Mehsana Asset Oil production reached 6,500 tpd, an eleven-year high, and Ahmedabad Asset Oil production reached 5,000 tpd, an all-time high in 38 years), and higher productivity.

D. INFORMATION TECHNOLOGY

D.1 Project ICE (Information Consolidation for Efficiency), one of the globally largest total implementation of all modules of SAP R/3 ERP was completed across the entire organisation in 27 months ending 31st December, 2004. To cite but one example of the benefits, the materials code list has been reduced by nearly 80% from some 1.40 million items by eliminating redundancies and duplications. This has been a major achievement for your Company.

D.2 Project SCADA is the next major IT initiative, to optimise operations from well-head to custody-transfer. Like Project ICE, here also the motto is "One organisation-One Data-One Process". This also being implemented on turnkey basis, building total commitment in vendor relationship.

D.3 The tragic accident in Mumbai offshore on 27th July, 2005 happened when Mumbai city was deluged, and transport & communications had broken down due to power outage and flooding. Taking a lesson from this, comprehensive plans are being implemented to ensure fail-safe control and communications systems covering offshore operations in totality.

E. CONTRACT MANAGEMENT

E.1 Over the past four years, the annual capital investment (Capex) has been trebled. This has been a stupendous task, given the strict norms applicable to Public Sector Enterprises on tendering procedures. Sustained efforts to build relationships on the basis of transparency, rationality and responsiveness are bearing fruit. Pre-monsoon 2005, some 6000 personnel from more than 35 countries were engaged in various offshore construction projects using over 300 vessels. This has been the biggest such mobilisation, and everyone deserves sincere compliments in carrying out this massive exercise without a single lost-time accident.

E.2 Dispute resolution process has been streamlined with a quasi-arbitration procedure involving external referees. While the back-log of disputes is being cleared, it is encouraging to note that there has been hardly any request for arbitration in contracts in recent years.

E.3 Your Company has taken the lead in implementing 'The Integrity Pact', as advocated by Transparency International for all major purchase and construction contracts, effective 1st July, 2005. It has been decided to increasingly switch over to e-procurement including reverse auction.

F. HRD

F.1 "Unnati Prayas" (Endeavour to Progress) is one of the unique, pioneering HRD initiatives of your Company in India. In this scheme, serving employees are chosen for a full-time customized mid-career engineering degree programme, entirely at cost to the Company. The first batch of 114 executives recently graduated in different disciplines of engineering.

F.2 "Sangshaptak" (from the epic 'Mahabharata' - warriors who go to battle to win or die) is another unique HRD process to prepare senior executives for the Board. This is a multi-module interactive process for selected fast-track executives. The first batch of 30 participants is now back on the job.

F.3 Corporate Rejuvenation Campaign (CRC) was launched in 2001 for sweeping changes in organization structure, empowerment and performance orientation. The great risk in one-shot corporate roll-out has paid off, and your Company today is vibrant with the new dynamics. ARCUBE (Roster, Role, Responsibility) is the logical corollary. This process has already been initiated, and over the next two years, each position needed in the organization, and every employee assigned to such position, will have a clear definition of tasks, relationships and accountability.

Note : The pay-role of your Company as on 31st March, 2005 was 36,185.

G. CORPORATE STRATEGIES

G.1 The Corporate Strategic Goals of your Company, resolved in 2001 by your Board, calls for sustained effort over two decades of 2001-2020 to achieve:

(a) doubling of in-place reserves to 12 btoe,
(b) improving average recovery factor to 40% and
(c) sourcing 20 MMToe equity from overseas.

On each of these dimensions, proactive and substantive actions are in progress. 500 MToe in-place reserves have been accreted so far, and with rapid induction of state-of-the-art technology and resources, the pace will be accelerated. As already mentioned, production rates are improving even in ageing fields, and the recovery rate in the super-giant Mumbai High field has crossed 30%. In 2004-05, overseas equity sourcing crossed 5 MMToe, and by 2008-09, the 10 MMToe mark will be crossed.

G.2 Leveraging the core knowledge and skills of your company, the core business of Oil & Gas E&P is being transformed into vertically-integrated fossil-fuel business. This evolution is channeled into several vectors.

G.2.1 Given the abundant reserves of coal and lignite in the country, gassification is being taken up as a major new thrust. Your Company is engaged with the Scochinsky Institute, Moscow for under-ground gassification of unminable coal and lignite in collaboration with Coal India Ltd., Neyvelli Lignite Ltd., Gujarat Mineral Development Corporation Ltd. and Rajasthan Mines Development Board. Your Company has also reached in-principle understanding with Royal Dutch Shell to take up Surface gassification projects.

G.2.2 To exploit idle gas reserves in Tripura, your Company is engaged in promoting a power generation and transmission utility, building a mega project of the order of 1000 MW.

G.2.3 Crudes and Naphtha produced by the ONGC Group have excellent potential for petrochemicals. To chase the last cent from each hydrocarbon molecule, your Company proposes to build two world-class crackers, one each in Dahej and Mangalore SEZs. These will be dual-feed, with C2+ fractions of LNG as well as feed-grade Naphtha as inputs.

G.2.4 Your Company is debottlenecking MRPL to 15 MMTpa capacity, and doubling the capacity of the mini refinery at Tatipaka. A condensate stripper is being set up at Kuthalam. The feasibility to adding a new 15/18 MMTpa train at MRPL is being studied. Clearance has been received from the Government to set up a 5 MMTpa export-oriented refinery in Kakinada SEZ. The proposal to set up another 7.5 MMTpa refinery in Rajasthan, in collaboration with Cairn Energy, is awaiting Government approval. With all these projects, your Company is reaching a balance between upstream and downstream capacities.

G.2.5 H.E the President of India, while launching the Golden Jubilee Year of your Company on 14th August, 2005, set a new mission for ONGC: to meet 50% of India's energy needs through strategic integration, with special focus on renewables. Your Company is working on setting up two wind-power projects, one each in Tamilnadu and Gujarat. Major R&D campaigns in fossil fuels and renewables are proposed to be taken up at the ONGC Energy Centre, a trust created by your Company.

G.3 There are attractive opportunities in LNG, Shipping and Marketing. In all these areas, substantive initiatives have been launched.

H. INTERNAL CONTROL SYSTEMS

The Company has the required internal control systems and procedures. These ensure use of Company's resources. The Company's internal audit department conducts regular audits of various operational and financial matters. The audit observations are periodically reviewed by the audit committee of the Board of Directors.

I. RISKS & CONCERNS

1. The intensive exploration campaign involves high technology, high investment and high risks.

2. Crude as well as gas pricing continues to be controlled by the Government, formally or informally. Your Company is required, under the prevailing Government directives, to subsidize all Oil & Gas companies operating in India, directly or indirectly, with adverse impact on revenues and profits.

3. Security of personnel and property especially crude oil continues to be a cause of concern in certain areas.

4. There are inherent HSE risks in the Oil & Gas business.

5. Regulatory frame-work for Gas and Downstream business is yet to be instituted.

J. CAUTIONARY STATEMENT

These discussions are "forward looking" within the meaning of the applicable Laws and Regulations. Actual performance may deviate from the explicit or implicit expectations.