

Chairman's Speech at the
17th Annual General Meeting of
Oil and Natural Gas Corporation Ltd
By Shri R.S. Sharma, Chairman & Managing Director
New Delhi, September 23, 2010



Dear Members,

On behalf of the Board of Directors of your Company, it is my pleasure to extend a very warm welcome to each one of you, at the **17th Annual General Meeting** of the Company. I would like to convey sincere gratitude to all of you for sparing your valuable time to be with us on this extremely important occasion for the company.

The Annual Report for the Financial Year ended 31st March 2010, along with the Directors' Report, Audited Annual Accounts and Auditors' Report of your Company are with you for some time now, and I assume them to be taken as read.

To begin this address, let me congratulate all of you as the Government of India has decided to bestow '**Maharatna**' status to your Company. This recognition signifies the continued excellence by your Company in all spheres of its activities. In fact, on the Maharatna evaluation parameters, your Company occupied the **Top Slot** amongst all the PSEs in the country.

Your Company has performed extremely well in the year 2009-10 also.

The significant achievements during the year have been:

- i. Highest accretion of Ultimate reserves in last two decades from domestic acreages;**
- ii. Highest-ever production of oil and gas from overseas assets;**
- iii. Highest Reserve Replacement Ratio (RRR) in last two decades;**
- iv. Highest-ever Net Profit of ` 16,768 Crore; despite sharing under-recoveries of ` 11,554 Crore.**

These achievements are the results of aggressive growth strategies which your Company has been pursuing consistently in the recent years.

The Economy

Sluggish recovery in major economies very much remains a concern. Initial euphoria over green shoots is waning fast with the recent indications of decelerating recovery in USA. Fears of a double-dip recession are having ripple effect on major economies in Europe also, which are struggling hard to resolve their debt problems.

However, the Indian economy has kept up its momentum, and during 2009-10, its GDP at constant prices registered a growth of 7.4%, against 6.7% during 2008-09.

Oil & Gas Industry

Fact remains that the fundamentals of the industry have not changed. Recession propelled demand destruction in developed world seems just temporary. Non-OECD countries' appetite for all forms of energy is increasing,

whereas oil and gas production in most of the countries have entered into a decline phase.

The demand-supply equation, presently though balanced, may again get skewed once world is out of recession. Oil prices in US\$ 70-80 per barrel may be comfortable, but remain volatile. Continued volatility will have consequential impact on industry's endeavours to sustain future supplies.

For most of the new discoveries, particularly in deepwater and ultra-deepwater, technology and investment remains a challenge. Likely regulatory corrections post-Macondo blowout in Gulf of Mexico (GOM), will increase operational complexities. Hence new pragmatic solutions now become imperative for the industry.

Solutions in the form of Shale gas, CBM, bio-fuel or oil-sands are interesting, and may bring permanent changes in the industry. However, environmental issues related with these new sources, or their adverse effect on food security, needs to be addressed cautiously.

Indian E&P Industry

Commencement of natural gas production from D-6 field of Reliance Industries Limited in the East Coast, and oil from RJ-ON-90/1 block in Rajasthan, in which your Company has 30% participating interest, have been the significant developments in Indian E&P industry.

Price revision of APM gas with effect from 1st June 2010, produced by ONGC and OIL from nominated blocks, is yet another welcome decision by the government. This will help us not only wiping out under-recoveries in our gas business, but will also provide reasonable incentive to ONGC and OIL to invest more in development and production of natural gas.

Government of India decontrolled the price of Motor Spirit (MS) on 25th June 2010. Diesel, LPG and SKO prices were also hiked. This may help in reducing under-recoveries; which your Company is sharing with Oil Marketing Companies (OMCs) as per the Government directives. We are also expecting a futuristic mechanism for sharing of these under-recoveries to be in place soon.

Performance

During FY'10, your Company accreted, from its domestic acreages, ultimate reserves of 82.98 million tonnes of oil and oil equivalent gas (MTOE); **the highest in last two decades.**

Organic Reserve Replacement Ratio (RRR) at 1.74 has also been the highest in last two decades. **This is the fifth consecutive year when your Company registered RRR of more than one.**

Your Company has been able to sustain oil and gas production levels in recent years, despite natural decline having set in all major fields. During FY'10, combined Oil and Gas production of your Company, including OVL and share in PSC-JVs, was 60.93 MTOE against 61.23 MTOE in FY'09. Production from overseas fields at **8.87 MTOE has been the highest-ever.**

NELP-VIII

Your Company has been awarded 17 NELP blocks (including 3 as non-operator and 1 as joint-operator) in NELP-VIII round of bidding for which the contracts were signed on 30th June 2010. You will be pleased to know that your Company maintains its position as the largest acreage holder in the country.

Financial Appraisal

a) ONGC

Your Company recorded the **highest-ever Net Profit of ` 16,768 Crore** during FY'10, despite sharing huge under-recoveries.

b) ONGC Videsh Limited (OVL)

On account of lower crude oil prices in the international markets, the Gross Revenue, as well as the Profits After Tax (PAT) were under pressure. OVL's consolidated gross revenue during FY'10 has been ` 15,383 Crore; lower by 16.5%. OVL's consolidated Net Profit was ` 2,090 Crore; down by 25.5%. The first quarterly results for the current year have however shown a remarkable improvement.

c) Mangalore Refinery & Petrochemicals Limited (MRPL)

MRPL registered gross revenue of ` 36,081 Crore; lower by 15.5%. Net Profit was ` 1,112 Crore; lower by 6.8%. Lower gross revenue has been mainly on account of lower product prices.

d) ONGC Consolidated

Consolidated Turnover of ONGC Group of Companies, in FY'10, has been ` 108,579 Crore; marginally lower by 1.8% against last year figure of ` 110,562 Crore. Consolidated Net Profit of the Group was 2% lower at ` 19,404 Crore, against ` 19,795 Crore in FY'09.

Dividend

Your Company had paid an interim dividend of ` 18 per share (180%) in December, 2009. After your approval, in this AGM today, the final dividend of `15 per share (150%) shall be paid in the next few days, making an **aggregate dividend payout of ` 33 per share (330%)**, which is the highest-ever payout. Total dividend payout will be **`7,058 Crore**; besides ` 1,162 Crore payable as tax on dividend.

Sound Accounting Practices

You may be pleased to know that this year also your Company received '**nil**' comments from CAG as well as Statutory Auditors; the fourth time in a row and six times in last seven years.

Strategic Pursuits

Your Company has well defined its strategies for sustaining growth. Basic premise for the strategy evolves around intensifying exploratory and development efforts for creating energy and value assets on continuous basis.

a) Exploration

Your Company is pursuing three-pronged exploration strategy – intensive exploration in proven areas, exploration for unconventional resources and knowledge building in alliance with global majors for frontier areas. Due to technology driven exploratory efforts, we were able to accrete in aggregate more than one billion tonnes of in-place hydrocarbon reserves in domestic basins in the last five years.

b) Production

Maintaining reservoir health in old and matured fields is yet another focus area for your Company. Continuous and systematic interventions through

IOR/ EOR schemes helped your Company to maintain production levels and noticeable increase in the recovery factor in the major fields.

c) New Streams

Your Company has set an accelerated programme for monetizing marginal and new fields. 58 out of 134 discoveries made since 2002 have already been put on production. Few others are on fast track of appraisal and development; especially the Cluster-7, WO series, B-193, D-1 additional, B-22, North Tapti, etc. In addition, development programme for KG-DWN 98/2 is set to begin after DGH approval for the Declaration of Commerciality (DoC) submitted by us.

We have also taken up expeditious development of Daman-Tapti block. These are expected to propel our crude oil and gas production in next few years.

d) Overseas Assets

The growth vehicle of your Company, ONGC Videsh Limited (OVL), is aggressively pursuing oil and gas opportunities globally. I am pleased to share that recently OVL led consortium acquired 40% participating interest in mega Carabobo project in Venezuela which is expected to commence production from 2013.

e) Refining

Name-plate capacity of Mangalore Refinery & Petrochemicals Ltd. (MRPL) has been increased from 9.69 MMTPA to 11.82 MMTPA during FY'10. MRPL's refining capacity would be enhanced to 15 MMTPA by March, 2012 on completion of its Phase-III expansion project, which is progressing well on schedule.

f) New Sources of Energy

Beyond core E&P activities, your Company's efforts towards new gas sources are also laudable. CBM production from the pilot Parbatpur, Jharia project has started in January 2010. Environmental clearance for UCG pilot project at Vastan, Gujarat has been obtained. Your Company has also taken lead in exploration of Shale Gas in the country by launching an integrated pilot Shale gas project in Damodar Valley. The first well has been spudded just two days back, on 21st September, 2010.

g) Alternate Sources of Energy

Your Company has approved setting up a 102 MW Wind Farm in Rajasthan, in addition to a 51 MW Unit already working successfully in Bhuj, Gujarat. We are also planning to establish a Photo-voltaic Solar Plant. Three Solar Thermal Engines, for the first time in India, have been commissioned by your Company at the Solar Energy Centre (SEC), Ministry of New and Renewable Energy (MNRE) campus at Gurgaon. ONGC Energy Centre which is pursuing a number of alternate energy source projects generates lot of hope in this regard.

h) Value-multiplier Projects

Two **petrochemical plants** being implemented by ONGC promoted SPVs, ONGC Petro-additions Limited (OPaL) at Dahej in Gujarat at the estimated investment of ` 19,500 crore and ONGC Mangalore Petrochemicals Limited (OMPL) at Mangalore at the estimated investment of ` 5,750 crore, are progressing well and are expected to become operational in 2013. Both of these plants are unique in terms of their size and investment. These plants have been located in Dahej SEZ and Mangalore SEZ respectively, which are also being co-promoted by your Company.

A gas based Combined Cycle Power Plant (CCPP) of 726.6 MW, being set up by ONGC Tripura Power Company Limited (OTPC), an SPV promoted by your

Company, at Palatana, Tripura, at an estimated investment of ` 3,500 crore, aims to monetize ONGC's idle gas assets in the state of Tripura. This plant is scheduled to be operational in 2011-12.

Caring for Environment

Your Company's 6th Clean Development Mechanism (CDM) project was registered with United Nations Framework Convention on Climate Change (UNFCCC) on 1st March 2010.

Your Company has published its '**Assured**' Corporate Sustainability Report for the year 2009-10, which has been released on 15th September, 2010.

Corporate Governance

Your Company launched a **Whistle Blower Policy** on 1st December 2009, again among the firsts, to voluntarily adopt this unique policy for sound governance and transparency.

Corporate Social Responsibility

As a responsible Corporate Citizen your Company has decided to enhance its contribution to Corporate Social Responsibility (CSR) projects to 2% of its Net Profits.

Sports

Your Company won the Petroleum Minister's PSPB Trophy for overall best performance in 2009-10 for the seventh year in succession.

Accolades

Your Company has been consistently getting meritorious recognitions in various spheres of its activities. Details of such recognitions have been provided in Annexure-C to the Directors' Report, forming part of the Annual Report.

Few of such significant recognitions in recent past are:

- i. Four OISD Safety Awards in various categories – conferred by Hon'ble Minister for Petroleum & Natural Gas on 20th October, 2009.
- ii. Four National Safety Awards in Oil Mines Category – conferred by H.E. Vice President of India on 23rd October, 2009.
- iii. Best Overall Performance Award for Oil & Gas Conservation – conferred by Hon'ble Minister for Petroleum & Natural Gas on 19th January, 2010.
- iv. BML Munjal Award for Excellence in Learning & Development – conferred by Hon'ble Minister of HRD on 11th March, 2010.
- v. Two Dalal Street Investment Journal PSU Awards for Excellence in Overall Performance and Market Capitalization – conferred by Hon'ble Minister of Steel on 6th April, 2010.
- vi. SCOPE Meritorious Award for CSR - conferred by H.E. President of India on Public Sector Day i.e. 10th April, 2010.
- vii. India Pride Award on CSR (Gold) instituted by Dainik Bhaskar – conferred by Hon'ble Finance Minister on 13th September, 2010.
- viii. Amity HR Excellence Award for Best Intellectual Human Resource Utilization Practices, received on 18th September, 2010.

Culmination of all these achievements has been the recognition to the Company by the Investors in terms of **market capitalization of the Company, crossing ` 3 trillion mark on 15th September, 2010.**

The 18th September, 2010 edition of Business Standard has published an analysis of performance of various scrips traded on NSE, compiled by BS Research

Bureau, which inter-alia reads – **“The maximum rise in m-cap since the markets bottomed in March, 2009 has been in ONGC’s scrip. In absolute terms, the Company added close to ` 1.56 Lakh crore”**.

As you may be aware, Government has decided to divest another 5% of the share capital through an FPO during early 2011. I am sure, the FPO will invite similar enthusiasm and response from all investors as it was during the company’s IPO in 2004.

Acknowledgements

Dear Shareholders,

Before I conclude, on behalf of the Board of Directors of your Company, I wish to convey earnest thanks for your continued support and trust in us. This motivates us to excel in all our pursuits and constantly create value for you.

I appreciate the unstinted support and valuable guidance from Ministry of Petroleum & Natural Gas, Government of India. I acknowledge the support of the various other Ministries, Authorities and Agencies of the Union Government, the State Governments and all other stakeholders. I also acknowledge with appreciation the warm cooperation extended by all the authorities in various countries who recognized us as partners in progress.

Above all, I would like to place on record the commendable efforts and commitments shown by our most valued resource i.e. the Human Resource of the Company; as our employees have always contributed their best for the Company to set new benchmarks.

Thank you,

Jai Bharat!