



Statement to Shareholders

by
Sudhir Vasudeva
Chairman & Managing Director

at the 20th Annual General Meeting of
Oil and Natural Gas Corporation Ltd.
New Delhi, 25th September 2013



Dear Members,

On behalf of the Board of Directors of your Company, it is my privilege to greet you all and extend a very warm welcome at the 20th Annual General Meeting of the Company. Your significant presence, in this important meeting, is the testimony of your strong support and faith in us and this inspires us to achieve newer milestones of success.



The Annual Report for the Financial Year ending 31st March 2013, along with the Directors' Report, Audited Annual Accounts and Auditors Report of your Company are with you for some time. With your permission, let me share with you the performance highlights of your Company over the last financial year.

Highlights

Let me again congratulate you for the excellent performance of your Company during the fiscal 2012-13.

The significant achievements during the year have been:

- i. Reserve accretion of 84.84 MMtce in the domestic fields (ONGC operated); the highest in the last twenty two years.
- ii. Reserve replacement ratio of 1.84; 8th consecutive year with RRR more than one.
- iii. Created a world record by drilling the well NA7-1 in KG-DWN-2004/1 block in the East Coast at a water depth of 3,165 meters (10,385 feet); the deepest in the world (later surpassed on June 18th 2013 when well # 1-D-1 in Exploratory Block KG-DWN-2005/1 was drilled to a new world-record water depth of 3,174 meters - 10,411 feet).
- iv. New pool discovery (D-1-D-1) in N.B. Prasad (D-1) field which has increased in-place volume significantly to 147 MMtce.
- v. The highest-ever Gross Revenue of ₹82,522 Crore. The turnover of the ONGC Group at ₹1,65,849 Crore has also been the highest-ever.
- vi. Profit After Tax of ₹20,926 Crore.
- vii. Highest ever contribution to under-recovery of ₹49,421 Crore (an increase of ₹4,956 Crore over the previous year).
- viii. Received 'Excellent' MoU Performance rating for the year 2011-12 with a score of 1.222, the highest since adoption of the MoU system in 1988.
- ix. ONGC Videsh Limited (OVL), our wholly owned subsidiary, recorded highest-ever Net Profit of ₹3,929 Crore.
- x. Highest-ever throughput of 14.40 MMT recorded by another subsidiary, MRPL.

You will appreciate that these results reflect your Company's multi-pronged growth strategy and its long-term vision which enable us to perform consistently and add to our robust fundamentals despite growing complexities in the industry and the continued uncertainty surrounding global economies.

ONGC has also been widely feted and acknowledged at both global and national platforms of repute - bearing proof of its industry-leading performance over the years and its longstanding reputation of being the energy engine of the country's social as well as economic aspirations.

I wish to congratulate you on the fact that your Company has made an impressive jump of 16 places to be ranked 155th in this year's 'Forbes Global 2000 Rankings'. In the industry ranking of the same list, ONGC stands at 23, globally, under the Oil and Gas Operations industry. Further, ONGC has also been ranked 22nd overall and 3rd in the category of 'Exploration & Production' in 'Platts Top 250 Global Energy Company Ranking 2012'.

Reserve accretion of 84.84 MMtce in the domestic fields (ONGC operated); the highest in the last twenty two years.

Nationally, ONGC has picked up the Gold Trophy of SCOPE Mentor Award for Corporate Social Responsibility and Responsiveness as well as the Award for Excellence & Outstanding Contribution to Public Sector Management. We also clinched 3 prestigious awards in the Petrofied Oil & Gas Industry awards for the year 2012, most notably the 'Exploration & Production Company of the Year' award.

The Economy

Overall the global economy remained on a weak and uncertain footing throughout the year. The improved outlook of the US economy on the back of

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the Federal Bank stimulus through quantitative easing and recovery in the manufacturing sector was negated by the continuing malaise that constrains the Eurozone economies. In effect, the much anticipated turnaround has been markedly subdued and slow to take root in a substantial manner.

Global economy, which grew by 3.2% in 2012, mainly driven by the emerging markets and developing economies, is forecasted to grow at a rate of 3.3% in 2013. However, maintaining this growth rate may be a challenge in face of increased geopolitical impediments and deeper-than-expected complexities in a globally integrated economic environment.

The emerging markets felt the pain of a weak and reduced demand from the global markets. After demonstrating great resilience in the face of the global meltdown in the initial years, the Indian growth story has lurched in the last couple of years - and last year India's Real GDP growth slowed considerably, down to 5%. We need to find a way to get back to the healthy growth outlook of 8-9% as early as possible. Strengthening of exports and private investment therefore becomes an imperative. At the same time structural policy and fiscal reforms are must as Rupee depreciation may have a cascading effect on current account deficit in view of increasing oil import bills. Weakening of the manufacturing sector, stubbornly high inflationary pressures and structural bottlenecks have all the potential to adversely impact investment and growth.

However, as has been evidenced by welcome measures taken by the Government of India such as expediting high-value and critical projects through the Cabinet Committee on Investment, gas pricing revision and phased deregulation of diesel prices, the government intent and action to stem the ebb in growth is reassuring and this gives us reason to look ahead with sufficient optimism.



The Industry

During 2012 and right up until the first half of 2013, the market has remained well supplied with liquid hydrocarbons (crude oil including natural gas liquid). However, with escalating concerns surrounding the stability of critical countries like Libya, Iran and Syria, it will not be surprising if the latter half of 2013 experiences limited supply constraints to a certain extent and an accompanying jump in crude prices. Barring these, however, there are no wide gaps between demand and supply in evidence for the current year and 2014 - which should translate to a largely stable price regime. Also, it is expected that the non-OPEC production, led by USA and Canada, will meet the global oil demand growth, in turn exerting pressure on OPEC crude.

Average crude oil prices in 2012 were at high levels for the second year in a row. Brent crude oil averaged US\$111.67 per barrel, slightly above the 2011 average of US\$111.26. Despite spiking to US\$120/bbl sometime in April 2012, the prices slumped to as low as US\$90/bbl in June 2012 in expectation of a subdued economic climate and an oversupplied market. However, in July 2012, enthusiasm and positive market sentiment around possible policy interventions to stimulate economic growth in United States, Europe and China and the resultant increased oil demand stemmed this declining trend and buoyed the prices. Besides, disruptions in oil production in Sudan, South Sudan, Yemen, Syria, and the North Sea reduced available global supplies, thereby exerting further upward pressure on oil prices.

A significant development in the oil market has been the strengthening of WTI crude which narrowed the spread between Brent and WTI crude mostly as a result of the start of flow from Cushing to the US Gulf through the reversed Seaway pipeline in May 2012 and increased rail transportation of crude.

During 2012, crude oil production stood at 86.15 million barrels per day (mbpd), registering a 2.2% increase over the corresponding figure of 84.21 mbpd in 2011 (Source: BP Statistical Review of World Energy 2013). OPEC

accounted for about 75% of global production increase. This has been made possible despite Iranian sanctions, by significant production levels in Libya, Saudi Arabia, UAE and Qatar. Non-OPEC countries also witnessed a net increase in crude oil production by 0.49 mbpd, in which the US was the biggest contributor.



Indian E&P Industry

During FY13, total crude oil production in the country has been 37.86 MMT, 0.6 per cent less than FY12 (38.09 MMT). Less production has been mainly due to natural decline in the matured fields of your Company as well as Oil India Limited (OIL); however, production from PSC Joint Ventures increased by about 10 per cent. Natural gas production during FY13 in the country has been 40.68 BCM, 14.5% less than FY12 (47.56 BCM). ONGC and OIL performed better than the previous year; however, sharp production decline was observed in the East Coast field, operated by a private consortium (Source: MoP&NG and ONGC data).

Your Company maintained its position as the largest producer of oil and oil equivalent gas (O+OEG) in the country with its share of 65% in O+OEG (Crude oil: 69% and Natural gas: 62%).

Indian crude basket average price registered a marginal drop to US\$108/bbl in FY13 against an average price of US\$ 112/bbl during FY12; a decrease of 3.57%. However, prices continue to remain strong in reaction to global oil market realities and geopolitical cues.

In this scenario, to protect the interest of common man, the Government of India has been making available sensitive petroleum products like - High Speed Diesel (HSD), Superior Kerosene Oil (SKO) and Liquefied Petroleum Gas (LPG) - at affordable prices; resulting in huge under-recoveries for the Oil Marketing Companies (OMCs).

OMCs reported under-recoveries totaling ₹161,029 Crore during FY13; the highest-ever since the adoption of the subsidy mechanism. Your Company shared ₹49,421 Crore towards under-recovery (the highest-ever) as per the instruction of the Government of India. Against the gross realizable price of US\$ 110.74/bbl, the net realized price for crude oil in FY13 has been US\$ 47.85/bbl, a significant drop of 12% from the previous fiscal (FY12, US\$ 54.71/bbl). The discount given by your Company to the OMCs has been US\$62.89/bbl during FY13.

Created a world record by drilling # 1-D-1 in Exploratory Block KG-DWN-2005/1 to a new world-record water depth of 3,174 meters - 10,411 feet.

Performance 2012-13

Your Company maintained its production levels from domestic as well as overseas fields through innovative solutions. The total oil and gas production during FY13 has been 58.71 MMtoe (against 61.18 MMtoe during FY12). The major reason for this relative drop in production during FY13 is the geopolitical situation and unrest in Sudan, South Sudan and Syria which directly affected production from the assets in these countries.

Your Company, on standalone basis, made 22 discoveries in domestic acreages and accreted 84.84 MMtoe of ultimate reserves.

Financial Appraisal

a) ONGC

During FY13, your Company recorded the highest-ever Gross Revenue of ₹82,552 Crore; 8.4% more than the previous year. However, the net profit registered during the fiscal was ₹20,926 (a drop of 16.7% compared to the previous year). This was primarily due to ONGC being asked to share the highest-ever under-recoveries (₹49,421 Crore) of OMCs (increase of ₹4,955 Crore over the previous year).

b) ONGC Videsh Limited (OVL)

Your Company's 100% subsidiary OVL registered Gross revenue of

₹18,029 Crore during FY13; Net Profit of OVL was the highest-ever at ₹3,929 Crore; 44% more than the previous year.

c) Mangalore Refinery & Petrochemicals Limited (MRPL)

Another subsidiary of your Company, MRPL registered the highest-ever gross revenue of ₹68,834 Crore, 19% higher than previous year. After almost a decade of profitable operations, MRPL suffered Net Loss of ₹908 Crore; this was mainly due to sharp decline in crude prices and rupee depreciation against the dollar.

d) ONGC Consolidated

Total revenue from operations of ONGC Group of Companies, in FY13, has been ₹165,849 Crore; up 9.8% from the previous year. Consolidated Net Profit of the Group dipped by 13.9% from the previous year to ₹24,220 Crore.



e) Dividend

Your Company has already paid an interim dividend of ₹9 (180 per cent) in two phases (₹5 and ₹4). The Board of Directors have recommended a final dividend of ₹ 0.50 per share (10 per cent) making the aggregate dividend at ₹9.50 per share (180 per cent). The total dividend pay-out will be ₹8,127 Crore, besides ₹1,301 Crore payable as tax on dividend; this works out to 45.06 per cent of PAT against 38.49 per cent in 2011-12.

Strategy & Pursuits: mid-term

You will appreciate the fact that your Company's strategic pursuits focus on emerging priorities with renewed vigour. True to long-term strategy, your Company remains focused on strengthening its core activities i.e., Exploration and Production (E&P) of oil & gas. At the same time, it has prioritized opening up new growth avenues through exploration of new sources of energy and meaningful integration in the entire hydrocarbon value chain. Your Company has identified five priority areas for the mid-term.

a) Conversion of PELs into MLs

Presently exploratory efforts of your Company focus on expeditious conversion of Petroleum Exploration Licenses (PEL) to Mining Lease (ML). As on 31.03.2013 your Company's exploration activities are spread in 16 nomination blocks (43,056 Sq. km) and 74 NELP blocks (308,296 Sq. km). Besides that your Company holds participative interest in 10 blocks awarded in consortium during various NELP rounds. Keeping in view the timelines, we have prioritized blocks for intensifying exploratory efforts to convert them into MLs.

b) Expeditious development of discoveries

Your Company has taken up 12 major projects for development of 36 new fields and one project for additional development of D-1 field with an estimated investment of more than ₹33,000 Crore. Cumulatively, these projects will help monetize more than 280 MMtoe of reserves. Out of these development projects, GS-15, in the East Coast is already on stream since 31st August 2011 and production from G-1 is expected soon.

The highest-ever Gross Revenue of ₹82,522 Crore.

The turnover of the ONGC Group at ₹1,65,849 Crore has also been the highest-ever.

During the course of D-1 field development, in Western Offshore, a significant discovery has been made which will substantially improve the potential of the field.

As far as the discoveries made in the deep water blocks are concerned, Declaration of Commerciality (DOC) in respect of discoveries made in blocks KG-DWN-98/2, MN-OSN-2000/2 (MDW-2A) & MH-DWN-98/3 (MDW-4, 5) have been submitted. As per the request of your Company the Government of India has extended the timelines for appraisal of these discoveries to November, 2013 and December, 2013 respectively.

c) Prudent reservoir management

Enhancing the field life through prudent reservoir management has always been a constant endeavour of your Company. The Improved Oil Recovery (IOR) and Enhanced Oil Recovery (EOR) schemes implemented in 15 major fields have helped in sustaining production levels from the major brown fields. The major fields undergoing IOR/EOR programmes have witnessed continuous growth in in-place volumes and all efforts are being made to translate the same to reserves. Out of 24 IOR/EOR and redevelopment schemes, 16 schemes have already been completed and 8 are under implementation.

d) Intensifying exploration for new sources of energy

Your Company has prioritized suitable actions for exploration and exploitation of unconventional and alternate sources of energy.

I. Coal Bed Methane (CBM)

Your Company is presently operating in four CBM blocks viz., Jharia, Bokaro, North Karanpura and Raniganj. Field Development Plans (FDP) for all the blocks have been submitted. Your Company has established more than 75,000 MMm3 of CIIP and 124 MMm3 of Ultimate Reserves (ONGC share). Nearly 400 wells completion and 2,000 hydro-fracturing jobs have to be carried out in the coming 4-5 years as per timelines of the CBM Contract. In view of the mammoth and time bound task, ONGC has decided to farm-in experienced partners to execute the operations, the process for which is at an advanced stage.

II. Underground Coal Gasification (UCG)

All the ground work and inputs for construction have been finalized for implementation of UCG pilot at Vastan, Gujarat. On receiving approval for Mining Lease from the Ministry of Coal, the project shall be taken up. Your Company along with the Neyveli Lignite Corporation Limited (NLC) has also identified Tadkeshwar in Gujarat and Hodu-Sindhari and East Kurla in Rajasthan for UCG exploration. One more site Surkha in Gujarat has been identified in association with Gujarat Mineral Development Corporation Ltd (GMDC).

III. Shale Gas Exploration

Your Company had taken up a pilot project for Shale gas exploration in Raniganj, West Bengal and North Karanpura in Jharkhand. All the seven phases of the project have already been completed. In the Raniganj sub-basin the Gas in Place (GIP) is estimated to be 48 trillion cubic feet (TCF). Your Company is planning to explore Cambay, Krishna-Godavari, Cauvery and Vindhya sedimentary basins for shale gas in alliance with ConocoPhillips, US oil major and one of the industry leaders in the area of shale gas as well as deep-water exploration. As per the MoU, two pilot wells have been identified in the Broach block and they will begin in the current financial year 2013-14.



IV. Alternate sources of energy

Your Company is also pursuing green energy options. Though your Company is already generating wind power of 51 MW, another 102 MW wind farm is likely to be commissioned in 2014. ONGC Energy Centre (OEC), a Trust set up by your Company, has partnered with Talboom, a Belgium engineering group, for a power project in the geothermal energy domain. Further, OEC has signed a collaborative agreement with M/s Natural Power Concepts (Hawaii, USA) for Kinetic Hydro Power generation from small rivers, rivulets and tail races of dams. OEC is also focusing on exploitation of rich database of ONGC drilled wells for locating commercial deposits of Uranium.

e) Commissioning of ongoing integration projects

I. Refining

Subsequent to the commissioning of its 3 MMTPA Crude Distillation & Vacuum Distillation Units (CDU/CPU) and required offsite facilities in March, 2012 which enhanced its nameplate capacity from 11.82 MMTPA to 15 MMTPA, MRPL is further considering upgrading capacity to 18 MMTPA and then to 21 MMTPA by 2018.

II. Petrochemicals

The two petrochemical plants ONGC Petro-additions Limited (OPaL) and ONGC Mangalore Petrochemicals Limited (OMPL) promoted by your Company are progressing well and are expected to become operational in FY14. These projects have basically been promoted for value-multiplication.

of In-house feedstock (Naphtha at Uran, Hazira, Mangalore and C2-C3 components of C2-C3 extraction plant at Dahel).

III. Gas based power plant

Honble President of India Pranab Mukherjee Inaugurated the first unit of the ONGC Tripura Power Company's (OTPC) 726.6 MW (363.3 x 2) gas based Combined Cycle Power Plant (CCPP) on June 21, 2013 at Palatana, Tripura. ONGC Tripura Power Company Ltd. (OTPC) is an SPV promoted by your Company. The Unit II of the 726.6 MW power plant is expected to be commercially operational later this year.

IV. Nuclear power plant

Your Company in association with Nuclear Power Corporation of India Limited (NPCIL) is studying the feasibility for setting up nuclear power plants.

V. CGD Project

Your Company is evaluating the feasibility to venture into City Gas Distribution (CGD) projects in collaboration with reputed companies.

Strategy & Pursuits: Long-term (Perspective Plan 2030)

"Perspective Plan 2030", the long-term strategic roadmap of the Company, was adopted in May 2012 to bolster growth in the emerging business scenario. During the intervening period, your Company has progressed well against the milestones set as per the Perspective Plan 2030 and focused on the five shaping moves.

1. Grow overseas E&P to source 60 MMtoe/year by 2030

OVL finalised an acquisition of 2.72 % stake in Azeri-Chirag-Guneshli (ACG) field (producing asset) and 2.38% stake in Baku-Tbilisi-Ceyhan BTC pipeline in Azerbaijan in March 2013, and also finalized definitive agreements for acquisition of 20% PI in Area-I in Mozambique (discovered asset with huge potential) OVL also acquired two exploration blocks each in Colombia and Bangladesh, and is actively pursuing exploration bid rounds in Myanmar, Sri Lanka and Lebanon.

2. Unlock more than 400 MMtoe from domestic YTF (yet-to-find) reserves

Six Priority plays have been identified for exploration - conventional, HP-HT/Tight Reservoirs, Basement, Deep-water, Shale gas and CBM. Accretion of 3.5 Billion Tonnes of oil and oil equivalent gas is envisaged by 2030 from these six high priority plays with production potential of more than 400 MMtoe. To bring together necessary expertise on these plays, your Company has launched four Centers of Delivery (COD) for Shale gas, CBM, deeper plays and HP/HT (High Pressure/High Temperature).

3. Accelerate (re)development of discovered domestic reserves

10 fields have been identified for accelerated (re)development that may contribute significantly to production volumes and involve major CAPEX spend. Rigorous Stage Gate Project Management Process (PMP) is being

implemented for project evaluation and monitoring. All future and current development projects are proposed to be executed with Stage-gate PMP.

4. Grow non-E&P business to 30 per cent of revenue by 2030

Your Company is considering a 120 KTPA Linear Alkyl Benzene (LAB) plant, Integrating Kerosene from MRPL refinery and Benzene from Petrochemical Complex OMPL. Your company is also planning to gear up for marketing of petroleum products from MRPL, as soon as HSD prices are totally deregulated.

ONGC along with Mitsui and BPCL is also considering setting up a 2.5 MMTPA LNG regasification terminal at Mangalore. It has also signed an MOU with BPCL for CGD (City Gas Distribution).

Your Company is also strategically pursuing its interests in the fertilizer sector. In this relation, ONGC has signed a Memorandum of Understanding (MOU) with M/s Chambal Fertilizers and Chemicals Ltd (CFCL) and the Government of Tripura for setting up a 1.3 MMTPA capacity urea fertilizer plant in Tripura which aims to monetize recent gas discovery in Tripura.

5. Secure alliances to develop new resource types

In line with this thrust, your Company has established meaningful alliances with a number of leading companies - ConocoPhillips (Shale Gas & Deepwater exploration); CNPC (hydrocarbon sector cooperation); Mitsui (LNG); Blade Energy (HP/HT) & Ecopetrol (studying the fan-belt traps of Gachar Region in India & for cooperation in developing EOR/IOR technologies).

Corporate Governance

Your Company has a robust corporate governance structure. Transparency International, in its report 'Promoting Revenue Transparency for Oil & Gas Companies' has ranked ONGC at 'Number-1' on parameters for organizational disclosure practices in 2011. You would also be pleased to know that your Company has received 'Nil' comments from C&A and Statutory Auditors for the year 2012-13. This is the seventh time in a row that the organization has received 'Nil' comments. Your Company has also

been bestowed with 'Certificate of Recognition' for adopting good corporate governance practices by the Institute of Company Secretaries of India.

Further, in line with our vision of upholding high standards of corporate ethics and openness and as mandated by the Securities & Exchange Board of India (SEBI), we are bringing out our first ever Business Responsibility Report (BRR) starting this year (for the year 2012-13). This should foster greater transparency and clarity in the way relevant information is made available to our many stakeholders.

Commitment towards sustainable development

It is matter of pride for us that OTPC's gas based power plant at Tripura has been successfully registered as a Clean Development Mechanism (CDM)

project with the United Nations Framework Convention on Climate Change (UNFCCC). One of the largest CDM projects globally, the project will generate an annual CER (Certified Emission Reduction) of 1,605,006. With this, ONGC now has 10 registered CDM Projects with UNFCCC, making it the highest in the country.

Sustainability Report

It is my privilege to share with you that ONGC has brought out three editions of its Corporate Sustainability Report. The latest edition, for the year 2011-12, is now available on our corporate website. Work for the 2012-13 Report is currently ongoing and is expected to be published soon. This report covers our organizational performance across the triple bottom-line of Economic, Environmental and Community dimensions.

Corporate Social Responsibility (CSR)

Your Company has always been committed towards inclusive growth of the society. ONGC earmarks two percent of its profit towards CSR activities. Your Company focuses on 12 identified areas for CSR activities- education, health care, entrepreneurship development, environment protection, ecological conservation, protection of heritage sites, promotion of artisans, craftsman, musicians, artists, etc. It should be a matter of immense pride for all of you that ONGC has taken up the responsibility of preserving the iconic 'Taj Mahal' and its surroundings as part of the nationwide 'Clean India' campaign launched by Ministry of Tourism. Besides the Taj Mahal, we also have assumed the responsibility of upkeep of five other national heritage sites and monuments.

Promoting Sports

Your Company has 171 international and national sports personnel who represent ONGC and the country in various sports events. Besides that your Company also supports more than 120 young and budding sports persons through scholarship. You will be pleased to know that ONGC was honoured with the Petroleum Ministers Sports Award for the tenth successive time, a reflection of the Company's continuous engagement in the field of sports through healthy support and promotion of the country's sporting fraternity.

People: our strength

Your organization has always valued its human resources as the most important resource. Your Company has prioritized induction of new talent and further competence building of its employees. This year ONGC has been bestowed with 'Most Attractive Employer' Award instituted by Ma Foi Randstad, a globally renowned HR service provider.

Acknowledgements

Before I conclude, on behalf of the Board of Directors of your Company, I wish to convey sincere regards and deep gratitude to you, our valued shareholders, for your continued support and trust. You have been and continue to be one of the most essential motive forces behind all our pursuits that are aimed at creating enduring value for you as well as for the nation for the times to come.

Thank you,
Jai Hind!

Sudhir Vasudeva

Sudhir Vasudeva
Chairman & Managing Director



India's
energy
anchor



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