

Statement to Shareholders

by

D K Sarraf

Chairman & Managing Director

22nd Annual General Meeting

Oil and Natural Gas Corporation Limited

New Delhi-15th September 2015

Dear Shareholders,

On behalf of the Board of Directors of your Company, Oil and Natural Gas Corporation Limited, it is my privilege to welcome you all to the 22nd Annual General Meeting.

The Annual Report for the Financial Year ending 31st March 2015, along with the Board's Report, Audited Annual Accounts, Auditors' Report and Management Discussion & Analysis Report have been in the public domain for some time now and circulated to you. I assume them to be read.

I am happy to inform you that your Company, despite difficult business and global economic climate, recorded a strong operating and financial performance during the financial year 2014-15. I would like to share with you some of the major performance highlights during FY'15.

- 22 oil and gas discoveries were made by your Company.
- Reporting of hydrocarbon reserve accretion switched to globally more relevant 2P standard from 3P.

- On 2P basis, reserve accretion for FY'15 was 61.05 Million Metric Tonne of oil equivalent (MMToe).
- Reserve Replacement Ratio (RRR) of 1.38 was achieved, making FY'15 the ninth successive year with the RRR in excess of 1.
- Reversal of decline in domestic crude production from the nominated fields was achieved. The production during FY'15 was 22.26 MMT as compared to 22.25 in FY'14. Total domestic crude output inclusive of ONGC's share in JV projects was 25.94 MMT.
- An increase of 4.3 percent in crude oil production from Western Offshore – 16.18 MMT in FY'15 against 15.52 MMT in FY'14.
- Despite the slump in global crude prices, ONGC's revenue for FY'15 was ₹83,094 Crore as compared to 84,201 Crore in FY'14. Profit After Tax (PAT) in FY'15 was ₹17,733 Crore.
- Total dividend of 190% was maintained, with payout to shareholders of ₹8,128 Crore.
- 'Nil' comments from C&AG and Statutory Auditors for the year 2014-15 which is remarkable with respect to good governance practices in the Company. This is the ninth year in a row that your Company has received 'Nil' comments.
- Oil and gas production from overseas operations - ONGC Videsh stood at 8.87 MMToe against 8.36 MMToe in FY'14, registering an increase of 6 percent.
- Our downstream subsidiary - MRPL clocked its highest-ever throughput at 14.65 MMT. As on date, all units of the Phase-III expansion plan of the refinery have been commissioned. To further augment the synergy of its refinery operations, MRPL became the majority shareholder in our petrochemicals venture – OMPL, by increasing its ownership to 51 percent.

Our good record in a tough year reaffirms the company's strong fundamentals. The numbers reflect the resilience of the company and operating excellence that it achieves in every spectrum of its business.

Your Company, over the years, has also garnered widespread recognition for its sustained performance in its business. Some of the major recognitions that came ONGC's way during the last fiscal are:

- *'Platts Top 250 Global Energy Company Ranking 2014'*, the industry benchmark for excellence in the sector on a global level, has ranked ONGC 3rd in the category of 'Exploration & Production' and 21st in overall listing of Global Energy Companies.
- Ranked 183rd in the Forbes Global 2000 list of world's biggest companies for the year 2014.
- ONGC is the only PSU among the only two companies from India to feature in the Fortune World's Most Admired Companies 2014.
- ONGC won the Gold Trophy of SCOPE Meritorious Award for Corporate Social Responsibility & Responsiveness.
- Rashtriya Khel Protsahan Puruskar from Hon'ble President of India
- Petrofed Award for Exploration & Production Company of the Year
- 'Randstad Award' for Most Attractive employer in Energy Sector in India
- 'Master Brand' Award at the World Marketing Congress

The Economy

The global economic landscape in 2014 continued to portray a picture of cautious optimism, occasionally disturbed by uncertainty and conservatism. Growth did not pick up in a manner that was expected on the basis of the signs of progress evident in the advanced economies at the end of 2013 and beginning of 2014. Legacies of the 2008 financial crisis still remain and the situation in Eurozone continues to be a reason for concern.

However, the Indian economy provided a reason for optimism in the global map. Whereas the global average GDP growth for 2014 was a modest 3.4 percent, India's GDP grew impressively at

7.3 percent. The country's future growth outlook also remains strong with forecast GDP growth expected to be between 7 - 8 percent for FY'16 and FY'17. This amply reflects the resilience and enormous potential that reside in its people, its society and its economy. The country has not only consistently generated high rates of growth but has also remained incredibly stable while doing so. With improving economic conditions and arguably the world's largest and youngest workforce, India's prospects in the times to follow are only going to be brighter. And while India grows, energy invariably becomes the key enabler in fulfilment of the countless aspirations of the nation.

The Industry

In the realm of domestic energy business, your Company, ONGC, has played a fundamental role in steering the sector's growth as well as the country's economic progress since its inception. As the flagship oil and gas explorer, ONGC has remained steadfastly committed to the quest of energy security, a national priority endorsed by none other than our Prime Minister.

The country's crude oil production in FY'15 stood at 37.81 million metric tonnes (MMT) which was more than the FY'14's output at 37.78 MMT. Natural Gas output in FY'15 was 33.58 billion cubic metres (BCM), a 5% percent decrease from FY'14 output of 35.39 BCM.

Overall, ONGC remained the largest producer of oil and natural gas within the country, contributing over 70 percent of country's hydrocarbon output. The total output of ONGC group (including ONGC Videsh and ONGC's share in PSC-JVs) stood at 58.34 MMtoe (59.2 MMtoe in FY'14).

At a global level, the energy industry, particularly the oil and gas sector, is facing challenging times due to the collapse of crude prices in the recent past. The crude prices collapsed from a level of USD110 to sub-50 dollars per barrel due to lower growth in demand than expected in China, sub-optimal recovery in some of the developed economies, steady build-up of new supplies backed by strong North American output, OPEC's resolve to continue with their existing levels of production, developments in Iran promising further additions to global oil supply, etc. While many of the global E&P companies have responded to this situation by cutting down their investments, ONGC takes this as an opportunity to build its assets in this environment of lower costs as well.

ONGC Operational Performance

ONGC's philosophy of business is based on inclusive development, one that underscores the transformative impact that access to reliable, affordable and sufficient supplies of energy has in people's lives. Towards that end, year after year, ONGC has delivered impressive performance in its last 60 years of service to the country's energy needs.

Every drop counts and ONGC's production track record from its predominantly mature portfolio and commercially prudent and holistic management of producing assets is really remarkable. In this regard, our technology-intensive IOR/EOR projects to maximize production have yielded positive outcomes – in FY'15 over 34 percent of ONGC's crude production was a result of our efforts invested in these projects. In fact, effective and judicious deployment of technological interventions have enabled your Company to reverse the decline in domestic crude oil production in the last financial year. Overall decline rate of ONGC's mature portfolio is 2 to 3 percent compared to 6 to 7 percent encountered globally in similar fields.

Cumulatively, with a sum-total investment of ₹36,187 Crore, your Company has realized an incremental oil gain of close to 95 MMT till FY'15. The magnitude of capital outlay for these projects and gains for these projects reflect their inherent value and also the Company's continuous commitment to augment production. The dollar value of the incremental production from these projects in FY'15 alone stood at USD4.5 billion – around 4 percent of country's forex outgo on imports.

In addition, our domestic exploratory efforts have yielded positive results, which will boost the hydrocarbon supplies in the future. It is even more significant, our economy being hydrocarbon importreliant one.

ONGC contributes 70 percent of domestic oil output, yet it accounts for just around 14 percent of our country's crude consumption. The scale of this impending energy challenge is quite imposing. Hon'ble Prime Minister has accorded this issue high priority and has called upon the sector to take all necessary steps to help bring the country's crude imports down by 10 percent with a deadline of 2022.

In this context, your Company continues to align its vision of business growth with the larger imperative of contributing towards national priorities. Increasing country's energy self-sufficiency, evident in the Prime Minister's call, is one of them. With a view to achieving this, ONGC, in the last financial year, has stepped up ongoing development efforts to bring new hydrocarbon volumes into the country's energy basket. Important projects have been given the go-ahead for development and more proposals to monetize our reserves are under various stages of finally being approved.

The Board of Directors of your Company has since April, 2014 approved the implementation of five major development projects, three in offshore and two in onshore, with an investment of around ₹20,000 Crore. These projects are Integrated Development of Daman, Enhanced Recovery from Bassein Field through Integrated Development of Mukta, Bassein and Panna, and Additional Development of Vasai East in Offshore and Gamij Field Development and Nagyalanka Field Development in Onshore. With a capital outlay of over Rs. 14,500 Crore, ONGC has also moved into the next phase of its re-development programs for some of the prolific Western offshore fields – Mumbai High North & Mumbai High South and Neelam.

Also, during FY'15, your Company completed eight projects worth close to ₹27,000 Crore. Nine projects with an investment of around ₹22,000 Crore have already been completed till now in FY'16 and another twelve projects worth ₹13,000 Crore are planned for completion by May'16.

All these projects are central to ONGC's growth agenda for the future and their execution will positively impact your Company's hydrocarbon output as well as its financials. The Company, in view of this substantial potential, has deployed the best of technologies and resources towards this end.

Financial Performance

On financial front, FY'15 was an encouraging year for ONGC. The oil price slump did dent our earnings but we still managed to register annual revenue of ₹83,094 Crore, more or less the same level as in FY'14. Profit After Tax (PAT) in FY'15 was ₹17,733 Crore against ₹22,095 Crore during FY'14 – decline mainly due to higher exploratory wells written off and reduction in quantity sold as well as lower price realization of Value Added Products (VAP).

ONGC realized a greater value for each barrel of crude at USD44.87 in FY'15 compared to USD40.97 in FY'14 from its nominated fields. This was largely on account of our lower contribution towards sharing of under-recoveries of Oil Marketing Companies. However, this was offset by about 20% reduction in the sale price of our share of crude from JV projects and that of Value Added Products which are sold at market prices.

Despite the slump in prices which affected earnings across the board, ONGC remained country's one of the top dividend payers during FY'15. In fact, ONGC's overall dividend payout ratio was higher at 55 percent during FY'15 against 46 percent during FY'14. Total dividend payout to shareholders was ₹8,128 Crore. This highlights ONGC's enduring conviction in the strength of its highly valued long-term relationship with its shareholders despite shortterm challenges in the markets.

Your Company had discovered significant hydrocarbon reserves in the deep waters of Eastern Offshore in the Krishna Godavari Basin. In the prevailing scenario of low Crude and Gas prices, it is challenging to develop the same. Currently Company's management is engaged in firming up a scheme for monetising these resources.

Overseas Operations

Our overseas business arm and 100 percent subsidiary, ONGC Videsh, too had an impressive FY'15. Investments made internationally through ONGC Videsh extend our reach and expand our horizons in the global energy landscape. A more diversified portfolio also becomes a necessary hedge against the characteristic uncertainty of the markets. Your Company's global footprint is spread across 36 projects in 17 countries. FY'15 marked ONGC's maiden foray into the Oceania region with the acquisition of an exploration block in the New Zealand. Our overseas production, in spite of interrupted operations in South Sudan and Syria, increased to 8.87 MMtoe in FY'15 against 8.36 MMtoe in FY'14. This marks the second consecutive year of production growth from our overseas business. The growth of ONGC's international operations is pivoted on deepening the engagement with key players and regions in the energy ecosystem. The Russian acquisition plan recently announced by ONGC Videsh is an indicator of its strategy in this time of low oil prices.

Unconventional, Alternate and Non-E&P Forays

Beyond conventional oil & gas, your Company has also prioritized suitable actions for exploration and exploitation of unconventional and alternate sources of energy as well. The US Shale revolution has completely redefined the oil and gas sector in the recent past, spurring the worldwide push for 'unconventional' energy. In India, your Company leads the thrust for exploitation of these unconventional resources. Structured initiatives towards tapping shale gas reserves have been taken; though positive results of significance are yet to come. ONGC completed the drilling of the

first shale well in Cambay. As on date, the Company has drilled 14 wells for assessment of domestic shale gas.

ONGC is also equally focused on the promotion of green energy initiatives. In this direction, your Company has completed its second wind power project of 102 MW in Rajasthan, while the first one of 51 MW has been in operation in Gujarat since 2009.

Gas Hydrates, reckoned globally as the potential 'next game changer' in the energy business, is another new focus area of ONGC. In collaboration with multiple partners across the industry, ONGC has led Government's National Gas Hydrate Policy (NGHP) mission. As part of the NGHP's second R&D program, 42 gas hydrate wells have recently been completed with encouraging results.

ONGC's exposure in the down-stream segment, in keeping with its business motive of value-chain integration, has been well rewarded. In the last financial year, Mangalore Refinery Petrochemicals Limited (MRPL), our refining subsidiary, achieved the highest-ever throughput of 14.65 MMT. The 15 MMTPA refinery unit also completed the commissioning of all the units under its Phase-III expansion program. Plans are being put in place to further expand the refinery's capacity to 18 MMTPA.

ONGC Tripura Power Company Limited (OTPC), our venture in the Power sector, is a fine example of ONGC's successful diversification into non-E&P business as well as its promotion of energy within the framework of sustainability. The 726.6 MW combined cycle power plant is not only the biggest energy project in the country's North-eastern region in terms of investment, it is also one of largest UNFCCC (United Nation's Framework Convention for Climate Change) registered CDM projects in the world earning an estimated 1.6 million carbon credits annually. OTPC's both the units are now commercially operational with the second unit dedicated to the Nation by the Hon'ble Prime Minister on 1st December, 2014.

At ONGC Mangalore Petrochemicals Limited (OMPL), production of Benzene and Para-Xylene has started in October 2014. OMPL is now being merged with MRPL to realise synergy in operations and to optimise operational efficiency and costs. This integration will ultimately result in higher returns to all stake-holders. Another significant petrochemical project – ONGC Petro-additions Limited (OpaL) at Dahej, has made significant progress during the year and thereafter and is now expected to be commissioned soon.

Most importantly, even in what has been a tough period for producers globally evidenced by the wide-ranging reductions in companies from expenditure plans to manpower, ONGC has not only fulfilled its cash commitments for FY'15 but also retained a healthy capex outlook for the future. Furthermore, ONGC, despite its comprehensive domestic energy portfolio and expansion of international business interests remains debt-free. That alone is a strong testament of your Company's financial as well as operational strength.

The Government too has played a significant role in enabling competitiveness and fostering an environment of greater stability in the sector. Moves such as decontrol of diesel prices and gas price revision carry a message of reform. It also helps in incentivizing greater participation in a sector which in order to bolster its attractiveness in the global arena needs strong infusion of fresh investments.

We strongly believe that a vibrant indigenous oil and gas sector will also provide a strong fillip to national initiatives like 'Make in India', 'Give-It-Up', 'Digital India' and 'Swachh Bharat Abhiyan' by way of proliferation of business opportunities for all allied industries such as manufacturing and greater engagement of energy companies with local communities.

Corporate Sustainability and CSR

Beyond the material impact of our hydrocarbon business, the Company, as a responsible corporate, is also committed for investment in the social and environmental realms. We do firmly believe that ONGC's relevance in an India that is growing, modernizing and dreaming although comes primarily from its oil and gas operations, it easily goes much beyond that. We believe in a business that is safe, sustainable and ethically conducted.

Your Company practices its business philosophy in a manner that promotes value across a wider spectrum of stakeholders. Today, ONGC not only is ranked highly among global E&P peers by Platts but is also well acknowledged for its holistic and ethical approach to business. ONGC is ranked 26th among 124 global companies in the latest 'Transparency International' list while Newsweek has ranked it 217th in a global list of 500 for its laudable efforts in the domain of sustainability. All of these along with our Corporate Social Responsibility (CSR) initiatives, designed to positively integrate our business with communities and the social environment around our operational areas, lend a healthy dimension to the ONGC model. ONGC's CSR investments for FY' 15 stood at ₹495 Crore. In the last 7 years, your Company has cumulatively contributed ₹1,880 Crore towards its well-structured and well-focussed CSR activities. Some of the notable initiatives of your Company in this domain are Varisthajana Swasthya Sewa Abhiyan, Swavalamban Abhiyan, the Akshay Patra Foundation and Swachh Vidyalaya.

Our business offers to you a value proposition that is enduring; one which multiplies in every imaginable facet of your life, be it in wealth creation, livelihood sustenance, lifestyle improvement, social upliftment or environmental guardianship.

This is the 60th year of ONGC as an entity in the Indian oil and gas universe. From a small unit of geo-scientists in a new India with an unerring focus on securing the country's energy needs, your

Company ONGC today has grown into a global oil and gas player with significant presence across the energy value chain, globally. It is a matter of pride and reason for celebration not just for people who work for ONGC but for each one of you who has invested and been a keen believer in the growth story of this organization all through its history. Your strong commitment to this Company and the trust that you have placed in the potential of our business through varied circumstances is something that we deeply value. Built with an initial equity infusion of ₹342 Crore by the Government of India during 1959 to 1981, ONGC's market capitalization stands at close to ₹200,000 Crore. Since its inception, ONGC has made contributions worth ₹400,000 Crore to the national exchequer in addition to the contribution of ₹300,000 Crore towards subsidizing the fuel to the citizens of our country. This is the scale of your Company's evolution.

The country is poised for a new era of growth and your Company has an integral role to play in realizing this much anticipated trajectory of national progress. I can assure you of this in this new era of hope and immense possibility: that our team of committed, determined and talented 'energy soldiers' will put in their energies and utmost efforts to secure and further consolidate ONGC's position as an energy company of global standard and size and a true champion of sustained value creation.

Acknowledgements

Before I close, I would like to acknowledge the unstinted support and valuable guidance from Ministry of Petroleum & Natural Gas, Government of India, without which our sustained quest for excellence would have been more than difficult. I acknowledge the support of the various other Ministries, Departments, Authorities and Agencies of the Union Government, the State Governments and all other stakeholders. I also place on record our appreciation to our joint venture partners and our vendors for their continued

cooperation. I also place on record our appreciation to all the authorities in various countries who provided us global opportunities and continue to do so.

I wish to sincerely thank you all, the valued shareholders, again for your continued confidence and unstinted support for your Company.

On behalf of the Board, I wish to place on record its appreciation for the commendable performance of the employees – the Energy Soldiers of India – who undaunted by the challenges are marching ahead and taking your Company to newer heights of excellence.

Thank you and Jai Hind.

D K Sarraf
Chairman and Managing Director