

Chairman's Message



Dear Shareholders,

As you read this, the world, more specifically humanity, is in the midst of the most severe humanitarian crisis in over a century. Since it first broke out in late 2019, COVID-19 pandemic today has drastically disrupted our life. It has invariably become the de-facto context in which all discussions of the present and most near-term planning are based. However, we in the energy industry know that every such crisis also brings an opportunity for growth and a trigger for human ingenuity and collaboration. Interestingly, the situation has accelerated the adoption of digital technologies across all facets of our operations and we, at ONGC, see that as a 'big positive'. We believe that soon the world will come out of this challenging situation

stronger and wiser with sustainability and human equity as key elements of the new growth narrative.

At this hour of crisis, your Company salutes the tireless dedication and incredible courage of all the frontline workers fighting this crisis – the medical community, sanitation workers, essential service providers and law enforcement agencies.

This highly uncertain stretch offers an opportunity for individuals and organizations that excel at crafting solutions. Over the years, energy has been central to our pursuit of devising, driving and deploying those solutions at scale. As one of the country's leading energy entities and its foremost energy explorer, ONGC has been at the forefront of enabling and delivering solutions and growth to the industry. You,



our valued shareholder and votary of our progress, have always been a major stakeholder in this journey. We thank you for your unstinted support through the many phases of our evolution – from solely focused on upstream oil and gas business to a diversified energy conglomerate.

The energy industry remains vital to the recovery of global economic activity. However, there is wide-ranging uncertainty on the shape of things to come within the industry as multiple forces are at play – be it global consensus on climate change and sustainability, energy efficiency improvements, growing consumer awareness, volatility in international trade relations and technological disruptions. The ongoing global pandemic has added further layers of complexity to the already dynamic environment.

As a significant player in the country's energy arena, ONGC is engaged in numerous developments that may potentially impact the sector. The focus is on building the business along pathways that will align with its core expertise areas as well as help ONGC build a portfolio that will be adaptive to the future energy ecosystem.

Prices have always been a key determinant of the economic health of the sector. Considering the prevailing lower crude oil and gas prices, it becomes imperative that we continue to grow while balancing the need to ensure all investments are value-accretive and sustainable over the long-term. **Energy Strategy 2040**, our long-term strategic blueprint, which we adopted last year clearly spells out this vision of looking at the future not merely from the standpoint of energy security but value-creation point of view as well.

On behalf of the Board of Directors of your Company, I now present to you the Company's Annual Report for the financial year 2019-20 [FY'20].

ONGC registered another robust year of performance in FY'20, notwithstanding the unpredictability in global energy markets and a turbulent final quarter marked

by the onset of COVID-19. Operational performance was comparable to that in FY'19, while financials were a reflection of the low oil and gas prices in global markets.

It was another positive year in terms of reserve accretion – with more reserves being entered in the books than our annual hydrocarbon production. In all, your Company made 12 discoveries – 7 onshore and 5 offshore. 2P Reserve accretion stood at 53.21 Million tonne oil equivalent (MMTOE) with a Reserve Replacement Ratio (RRR) of 1.19. We are now equally focused on timeline of monetization as we are on the count or volume of the discoveries. We are aggressively scouting for un-appraised areas or layers within our mature Basins and focusing on near-field appraisal which will allow us to leverage nearby/ existing infrastructure for co-developing such finds.

Further as an NOC, we are also expanding our exploratory footprint in virgin or under-explored areas and data gathered from such pursuits will boost the nation's hydrocarbon prospects. To sustain the path-breaking momentum we achieved in the Vindhya and Bengal Basins, ONGC is determinedly pursuing acquisition of areas around those areas. We were awarded 15 blocks in different OALP bidding rounds throughout FY'20 – 7 in the latest OALP-IV round. You will be happy to know that ONGC monetized 22 fresh discoveries during FY'20, out of which 4 were discovered in the fiscal year itself.

Production of oil and gas of your Company stand-alone was at 44.57 MMTOE, while the same including our share in Joint Venture projects stood at 48.25 MMTOE. Production of Value-added products stood at 3.55 MMT.

The trend of increasing onshore oil output in the past 4 years is a big positive vis-à-vis the mature fields that are driving the volumes. First gas from our deepwater gas project – Cluster 2 of KG DWN 98/2 field started in March 2020. In FY'20, your Company produced over three-quarters of the country's oil and gas output. As

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a Maharatna National Oil Company, your Company remains committed to augmenting production of oil and gas to boost the country's energy security.

During FY'20, three major projects (MHNRD Phase-IV, HRP-III, PRP-VI) with an investment of ₹ 64,874 Million and envisaged oil and gas gain of 13.62 MMTOE were approved. As on 01.04.2020, 17 major projects were under implementation with envisaged gain of about 121 MMTOE. We also realize the need to maximize recovery from our existing legacy fields. We envisage a cumulative gain of over 200 MMT of oil from the 31 approved Increased Oil Recovery (IOR)/Enhanced Oil Recovery (EOR) schemes. The Government's policy incentive in this regard provides a timely fillip for moving ahead with more Enhanced Recovery projects. Under this policy, ONGC has planned commercialization of 5 EOR schemes and implementation of 3 EOR pilots. Further, it has initiated process for fast-track pilot design of the Chemical EOR in 12 onshore reservoirs of 7 fields.

Our drilling performance remained impressive. We drilled 500 wells making it the fourth consecutive year that 500 or more wells were drilled in a year.

Strong operational performance consistently over the years justifies our commitment to robust capital outlays for the business. In FY'20, our capex stood at ₹ 295,385 Million. Over the last 5 years, our cumulative E&P spend is close to ₹ 1,500 Billion – a period that witnessed significant cutbacks in investments by most players in the sector – global as well as domestic – due to the uncertain price regime and a secular slowdown in economic activity. This reaffirms our belief in the long-term prospects of the domestic upstream space while delivering on our mandate as the NOC to avert build-up of large-scale strain in the energy sector on account of investment freeze.

But the current slowdown is a matter of concern. While ONGC views any price of an oil barrel in the range of \$40-\$50 as 'acceptable', it still poses significant cash flow risks. What further heightens this risk is the concurrent slump in domestic gas prices. Moreover,

in view of the extant threat of COVID-19 and a slow economic revival, a sudden drop in prices remains a very real possibility in the near-term. Though low prices augur well for country's trade balance on the back of forex savings, it undermines the growth outlook for domestic upstream sector as commerciality of their projects comes under risk. The need to buffer our balance sheet under these circumstances is a key priority of the management. So, we are rationalizing our expenses for the current fiscal, i.e. FY'21 through various expenditure reduction measures. This ensures our core portfolio is not affected and capital is not a constraint for key ongoing projects, but commitments for projects higher on the cost curve and with longer timelines are being either deferred or optimized.

I would also like to highlight the operational preparedness of ONGC at this point. While there is no 'fail-safe' readymade template for the exceptional situation triggered by the pandemic, your Company's positive response in this testing period exemplifies its 'nation-building' character. Even as the country went under lockdown beginning last week of March, ONGC maintained critical supplies of oil and gas for the country notwithstanding the severe logistical and supply constraints while minimizing the risks faced by 'our' people (ONGCians as well as our contractual staff).

Operational revenues for FY'20 stood at ₹ 962,136 Million, while Profit-After-Tax (PAT) was ₹ 134,445 Million. The Company realized US\$58.61/bbl for domestic crude in FY'20 compared to US\$68.19/bbl in FY'19. While the decline in revenues is largely a factor of lower crude prices, the significant drop in net profit was on account of exceptional item towards impairment loss of about ₹ 49,000 Million in the final quarter to factor into estimated future crude oil and natural gas prices. It may be mentioned that the impairment is a temporary adjustment in the book value to reflect future price outlook and which may get reversed in future if the prices recover.

We also made a dividend pay-out of ₹ 62,901 Million



to all our shareholders with a pay-out ratio of 56% (including dividend distribution tax). Our healthy dividend record over the years is a testament of our commitment to value-creation along with business growth.

On international E&P frontier, markets have weathered a rough year on account of global trade tensions, lower demand on account of general economic slowdown, oversupplied gas markets and adverse fallout from the COVID-19 pandemic. However, our international arm and 100% subsidiary, ONGC Videsh, registered a good year in its overseas operations. ONGC Videsh produced its highest-ever 14.98 MMTOE of oil and gas in FY'20. Today, ONGC Videsh is invested in 37 projects across 17 countries.

The future looks promising for ONGC Videsh in view of the significant developments during FY'20 in some of its key investments. Notable among them are the decision to build the 6.2 MMTPA Far-East LNG project in Sakhalin-I in Russia, project commencement of Azeri-Central East project in Azerbaijan and the FID on the Rovuma Area-1 LNG project in Mozambique. Consolidated Turnover and PAT (attributable to owners) for ONGC Videsh during FY'20 stood at ₹ 155,383 Million and ₹ 4,540 Million.

Beyond E&P, performance of our business across the value-chain remained strong. HPCL, the country's second largest oil marketer and a Maharatna NOC, registered an impressive refining performance in FY'20. During FY'20, HPCL refineries achieved combined refining throughput of 17.18 Million Tonnes (MMT) with capacity utilization of 109%. Both the Refineries of HPCL were up-graded to produce BS-VI compliant transportation fuels. Lower Refinery throughput compared to FY'19 was mainly due to planned shutdowns required for upgradation of the refineries for BS-VI fuel. HPCL achieved the highest-ever sales volume of 39.6 MMT. It further consolidated its position in the domestic retail space by setting up a record 1,194 new retail outlets in the year. Gross Revenue during the financial year was ₹ 2,874,169 Million and PAT for the year stood at ₹ 26,373 Million.

MRPL, the other refinery of your Company, achieved a throughput of 14.14 MMT in FY'20. Less throughput was mainly due to unprecedented water scarcity during first quarter and minor landslide after an intense monsoon during second quarter of the year. It was also impacted by COVID-19 in the last quarter. However, MRPL also commenced production of BS-VI grade Motor Spirit and High-Speed Diesel. MRPL registered a turnover of ₹ 6,07,515 million and registered a Net Loss of ₹ 27,076 million.

In the petchem vertical, ONGC Petro additions Ltd (OPaL) operated at average 88% capacity in FY'20. It aggregated more than 1.6 Million Tonnes of polymer and chemical sales. Its total income stood at Rs 102,071 Million while incurred a Loss of ₹ 20,897 Million. Capacity utilisation at ONGC Mangalore Petrochemicals Limited (OMPL) for FY'20 stood at 80%. The petchem unit also added two products to its revenue stream - export of Paraffinic Raffinate and sale of Heavy Aromatics. However, financials were severely affected due to unprecedented fall in International prices of Para-Xylene and Benzene.

In the power segment, ONGC Tripura Power Company (OTPC) recorded total income of ₹ 12,765 Million while netting a Net Profit of ₹ 705 Million during FY'20. The largest Indian Clean Development Mechanism (CDM) project, OTPC meets 35% of all power requirements of the North-eastern states of our country.

Your Company is transforming itself to not only just reduce the exposure of our Group to sectoral pricing risks, but also position it well for the impending global Energy Transition. Our strategic blueprint for the future – Energy Strategy 2040 - clearly spells out that intent in its vision statement. Oil and gas will continue to remain mainstreamed in our plans but there is substantial scope for growth in areas beyond E&P. We are targeting scaling up our Renewables capacity to 5 GW and also plan to explore CGD/ regas through units within our Group. Energy Strategy 2040 has prioritized opportunities in core E&P business as well, such as (i) select difficult plays (HP-HT, Deep/

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Ultra-deepwater), (ii) in-house EOR solutions for production maximization, (iii) plays with volume in host countries that share positive G2G relations for long-term security of supplies.

Among the emerging opportunities, we should focus more on those with shorter business cycles and lower breakeven costs. To achieve the goals, we are also considering strategic restructuring of the organization to leverage internal synergies and to respond better to new opportunities. One such ambitious project with objective of creating a **“Future Ready Organization”** is the *“Integrated Shared Service Centre and Beyond”* which will not only change the way of working but the structure of organization too. The project envisages shared & integrated services across HR, Finance & Accounts, Materials Management and Infocom functions to begin with and will be subsequently extended to field services like drilling, well services, logging, workover etc. along with high performance computing in exploration.

Beyond operations, ONGC has also stayed true to its guiding business philosophy of growth with equity and justice through its comprehensive CSR program. In FY'20, our CSR spend was ₹ 6,070 Million, making it the fourth consecutive year that our CSR expenditure has surpassed ₹ 5,000 Million. During the exceptional times of COVID-19, where people on the margins are rendered more vulnerable, ONGC has stepped in with massive efforts to support them. In addition to contributing ₹ 3,000 Million to the PM Cares Fund, we executed CSR projects worth ₹ 200 Million benefitting more than 2.6 Million fellow countrymen through distribution of food/ masks/PPE kits/sanitizers and funding of ventilators in hospitals. Employees of your Company also voluntarily contributed about ₹ 300 Million from their salaries over four months. It reflects the heart and spirit of your Company and reaffirms our enduring commitment to the 'Nation First' motto.

Your Company is committed to conduct the business in a legal, ethical and transparent manner and

observes highest standards of corporate governance. Accordingly, your Company has been continuously rated “Excellent” grade for its compliances with the DPE Guidelines on corporate governance.

Here, I would like to acknowledge the continuing support and guidance of the Government of India, especially our administrative Ministry of Petroleum and Natural Gas, on matters pertaining to the country's energy security as well as the sovereign development agenda. As a National Energy Company, we remain committed to developing the business and facilitating our country's progress, ensuring that the benefits of growth reach more and more people of our country.

The Company appreciates your enduring support as it navigates its way to the future energy landscape. A journey that is in its seventh decade now would not have been possible without your steadfast belief in our vision of 'Energy'. I thank you for having chosen us and remaining as valued partners in the business throughout all these years.

My final words of appreciation go for the 30,000 strong ONGCians – the bedrock – the heart and soul of the grand superstructure that we all see. They are our country's energy soldiers. Especially now, at this difficult hour of crisis, when the country contends with a pandemic, many of them went beyond their call of duty in field sites, offshore and onshore, away from family battling many struggles, to ensure ONGC continues to do what it does best – produce energy that keeps the country moving.

It is the corporate values of courage, equity and passion that inspire our march towards a tomorrow rich in energy and possibilities. We are optimistic that very soon, the world will be a better place; COVID-19 will be behind us and we will continue toward building our future with greater zeal and enthusiasm.

Jai Hind!

Sd/-

Shashi Shanker
Chairman and Managing Director