



“ONGC – 1QFY10 Result Conference Call

Hosted by Batlivala & Karani Securities India Pvt. Ltd.”

29 July 2009

MODERATORS:

FROM B&K SECURITIES: Mr Aishwarya Deepak – Asst. Vice President - Research

FROM ONGC:

Mr B. L. Ghasolia – Advisor - Finance

Mr Nelson – Chief Manager – Finance

Mr Sanjeev Kumar – Chief Manager - Finance

- Moderator:** Ladies and gentlemen, good afternoon, and welcome to the **ONGC** Post Results Conference Call hosted by **Batlivala & Karani Securities India Pvt. Ltd.** As a reminder, for the duration of this conference, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during the conference call, please signal an operator by pressing "*" and then "0" on your touch-tone phone. Please note that this conference is being recorded. At this time, I would like to hand the conference over to Mr. **Aishwarya Deepak** of B&K Securities. Thank you, and over to you, sir.
- Aishwarya Deepak:** Thank you, Melissa. Good morning, ladies and gentlemen. On behalf of Batlivala & Karani, I would like to welcome you all on this Post Results Conference Call with the management of ONGC. We have with us **Mr. B. L. Ghasolia**, and his team member, **Mr. Sanjeev Kumar** and **Mr. Nelson**. We will start the call with a brief opening remark with Mr. Ghasolia, and after that we will go with the question and answer round. Ghasolia, sir.
- B. L. Ghasolia:** Thank you, Aishwarya. Good morning once again, ladies and gentlemen. I'm B. L. Ghasolia. I'm joined by my colleagues Mr. Nelson and Mr. Sanjeev Kumar to help me in taking your questions. But before you start your questions, let me give you a brief about our first quarterly results which were taken on record by the Board of Directors of ONGC on 23rd of July and we have issued a press release on that very day. I hope most of you would have gone through the press release but for those who have not been able to go through the first quarterly results, briefly for your information I'll give you the numbers. The highlight of first quarterly results Q1 fiscal 09-10 is that our turnover was INR 14,922 crores, compared to INR 20,123 crores in the first quarter of 2008-09, is down by about 25%. Last year's first quarterly turnover included sale of MRPL product of INR 2,500 crores which was not there in the turnover of this quarter. The net profit for the quarter was INR 4,848 crores as opposed to INR 6,636 crores, so the profit was down by about 27% as opposed to the first quarter of last year. The subsidy discounts given to OMCs in the first quarter of this year was INR 429 crores as against INR 9,811 crores in the first quarter of 2008-09. So the subsidy is down by about 95.6%. The gross realization in terms of crude price, gross billing, I would say, \$60.58 per barrel in the first quarter of this year as against \$125.83 in the first quarter of last year. So the gross billing was down by about 51.8%. The net realization in USD term in the first quarter was \$58.25 per barrel as against \$69.13 in the first quarter of last year. So the net realization is down by about 15.75% in dollar terms. These are about the numbers. As far as the other

highlights, let me give you something about the physical performance in the first quarter. The crude oil production (ONGC standalone) was 6.12 million metric tons as against 6.41 million metric ton in the first quarter of last year. So the production of oil is down by about 4.5%. The natural gas production in the first quarter was 5.75 BCM as against 5.63 BCM. So the gas production is up by about 2%. The gas sale is up by about 0.5%. It was 4.51 BCM in this quarter as against 4.45 BCM in the first quarter of last year. The value-added production in kilotons was 864 kilotons in the first quarter of this year as against 798 kilotons in first quarter of last year which is up by about 10%. In the first quarter of this year, we have made about 10 new discoveries which comprised of both new prospect as well as new pools. Out of these 10, five are the onshore discoveries, three offshore discoveries, and two CBM discoveries, which make a total of 10 new discoveries in the first quarter. Another highlight is that the decrease in profit after tax is mainly attributable to reduction in crude oil prices as you would have seen from the number particularly for the joint venture as well as for our own crude. The price of value-added product which is directly linked with the gas price or crude price has also gone down. The crude price realization after discount from the nomination block has slightly gone down. The sales quantity of crude has also slightly gone down both in JV as well as our own. And another feature is that cost of dry well which is included in DD&A cost, it has gone up in the first quarter of this year as opposed to the first quarter of last year and just to give you the number in the first quarter of last year, the cost of dry well was INR 551 crores as against the first quarter of this year which has gone up to INR 1,068 crores. So the DD&A cost overall has gone up by about INR 517 crores. The performance on the part of OVL is that we have started production from BC-10 field of Brazil on 13th of July 2009, the block is located about 120 km off Brazil southeast coast in the Campos Basin where heavy oil resource lies below nearly 2 km of water. And the field is currently producing small volumes of roughly around 15,000 barrels per day, but the output is likely to be ramped up to about 100,000 barrels per day or 5 million tons a year shortly. OVL has 15% participative interest in this block through ONGC Campos Limited which is a fully-owned subsidiary of OVL. I think with this brief synopsis, we can now proceed with the specific Q&A. Over.

Moderator:

Thank you. Ladies and gentlemen, we will now begin with the question and answer session. Anyone who wishes to ask a question may press "*" and "1" on their touch-tone telephone. If you wish to remove yourself from the question in queue, you press "*" and "2." Participants are requested to use handsets while asking a question. Anyone who has a question may press "*" and "1" at this time.

The first question is from the line of Prayesh Jain from India Infoline. Please go ahead.

Prayesh Jain: Good afternoon, sir. Sir, just wanted to understand what are reasons that the productions have been on a continuous decline. And secondly on subsidy discounts, this quarter we had shed only on LPG and kerosene, is that right?

B. L. Ghasolia: The second question first. As far as the subsidy is concerned, our share of subsidy in the first quarter is INR 429 crores, and this is only on diesel and petrol. There is no subsidy on the kitchen fuel. Remember, the Secretary of Petroleum made a statement a few weeks back that the upstream oil companies will not be burdened with the subsidy on kitchen fuel and that has been demonstrated in the subsidy for the first quarter, which is only on petrol and diesel and not on kitchen fuel. As far as your first question which is regarding decline in production is concerned, if you have attended our analyst meet in Mumbai immediately after the annual results were taken on record by the Board, the Director (Offshore) has clarified that the decline in production was mainly because the three platforms which were to come up in the last year, fiscal 2008-09, were delayed. Topside of one of the platform got toppled down on high sea during transit from overseas. The platform had to be sent back to South Korea for reconstruction. And there was a delay on account of one of the contractors who could not complete the turnkey contract for Well platform. And there was some delay in yet another project of offshore. So these three projects having been delayed, they have contributed mainly to decline in the production, and that delay has continued in the first quarter also. But there is a silver lining that we are going to start production from one of these projects, particularly the C-series from first week or second week of next month.

Prayesh Jain: Okay. Thanks a lot, sir.

Moderator: Thank you, Mr. Jain. The next question is from the line of Mr. S. Ramesh of Deutsche Bank. Please go ahead.

S. Ramesh: Good morning, gentlemen. Thank you for this opportunity to discuss the results. I had totally three questions. One is, if you have to look at the outlook for ONGC's volume growth, excluding OVL, what would be the volume growth you are looking at for oil and gas for this year and next year, excluding the impact of the ongoing redevelopment projects? And what will be the net volume growth you will get over the next two years if you were to take the benefits of the redevelopment projects?

- B. L. Ghasolia:** Ramesh, as per the five-year plan which we have submitted to the Government of India, we have planned a production of oil at 26.95 million metric ton during FY'10. But this number is presently under review and there could be some decline when we finalize the revised number but that is likely to take about two months' time because the exercise is presently going on. Right now the number is at 26.95 as per our planned document for oil and 22.25 BCM of gas. Going forward, in the year 2010-11 as per the planned documents submitted to Government of India, we have estimated crude production of 28.53 million metric ton in the year 2010-11 and the gas production of 22.99. In 2011-12 we have estimated a production of 27.37 crude oil and 22.00 gas but these numbers were worked out about three years back at the time of submission of the annual plan document to Government of India to synchronize it with the five year plan period. Now since we are almost in the middle of the five year plan, we are reviewing all these numbers. The whole exercise is likely to take about two more months and hopefully by the end of September or early October we should be ready with the revised number and at that point of time we will again share these numbers with you.
- S. Ramesh:** Sir, the subsequent question is, these numbers are including the impact of the redevelopment projects or will you get the benefit of redevelopment projects at some point in time and when would that be?
- B. L. Ghasolia:** These numbers are inclusive of redevelopment projects' effect but these do not include the production from overseas. These numbers include production from our nominated fields and our share of production from JV is separate. In the current fiscal, our share from JV, crude oil is 2.56 million metric ton, gas 3.04 BCM. Next year that is 2011-11, our share from JV, 3.17 MMT of crude oil and 2.88 BCM gas. In the year 2011-12, our share from JV, crude oil is 3.01 MMT and gas 2.74 BCM. Over.
- S. Ramesh:** Sir, subsequent question, if you were to look at your prospects for OVL, there are two issues. One is, what is the kind of volume growth we can expect this year and next year? And secondly, in terms of the profits, is there any downsize which you would expect in terms of the change in fiscal terms in your significant contributors like Russia and Sudan?
- B. L. Ghasolia:** As far as OVL share of production from overseas is concerned, in the current fiscal, our target as submitted to government of India is 8.48 million metric tons of oil and gas (O+OEG), 8.92 million metric tons of O+OEG in 2010-11 and 9.53 million metric tons of O+OEG in 2011-12. And mind you, these numbers are from the existing producing fields only. It doesn't include production from fields like

BC-10 of Brazil which has just gone into production as well as the fields which are going to come into production. This production number is basically from the eight producing fields as of today. As we put more fields into production, the numbers are likely to change. As far as your second question about profit numbers of OVL is concerned, since this is directly linked with the prevailing crude oil prices in the international market, I do not have the OVL's profit projection number right now with me, but then we'll try to collect the same and then share with you Ramesh. I am sorry for that.

S. Ramesh: Okay. Finally, in terms of your exploration priorities, if you can give us some indication on, which are the areas where you are going to focus on at present exploration this year and next year? What would be the specific CapEx for exploration and how you have tied up the resources like rigs, it will be useful?

B. L. Ghasolia: Okay. I will take the second part of your question as far as the CapEx for exploration is concerned. As far as the CapEx for exploration is concerned, in the current fiscal we have targeted about INR 6,000 crores towards exploration CapEx in the year 2009-10 which comprises almost 31% of the total CapEx of INR 20,868 crores in the current fiscal. Now on the other exploration leads, my colleague Mr. Sanjeev Kumar will give you the update.

Sanjeev Kumar: As far as exploration thrust is concerned, actually we are progressing well to develop the discovered assets so far. Actually, from 2003 to 2009, we made about 111 discoveries. Out of which, we have already put 45 discoveries on production and the rest of the discoveries are on appraisal stage, which will be put in production say around two to three years' timeframe and the significant one particularly the KG and Mahanadi the timeline maybe around four to five years.

S. Ramesh: And how about the resources like rigs?

B. L. Ghasolia: Rigs actually, there are two options what we are pursuing. First one is hiring one and the second procurement of the rigs also. One deepwater rig has already been hired and another two are in the process of mobilizing.

S. Ramesh: Okay, sir. Thank you very much.

Moderator: Thank you, Mr. Ramesh. The next question is from the line of Amit Shah from BNP Paribas. Please go ahead.

Amit Shah: Hello, sir. Good afternoon. Just a couple of questions. One, this quarter subsidy number, if we take for petrol and diesel, is it possible to share what percentage of that was paid by the upstream or ONGC? And secondly, over the years we have

seen the reserve replacement improved significantly but it hasn't really translated into production. Now what are your thoughts on that?

B. L. Ghasolia:

Okay. As far as subsidy numbers are concerned, as per the communication received from the Petroleum Ministry, the total under recoveries which has been distributed amongst the upstream companies is INR 561 crores. Of the INR 561 crores, our share is INR 429 crores. And as I said in the beginning, this is only on petrol and diesel and nothing on kerosene and LPG. What we understand is that INR 561 is total under recoveries of the OMCs, which has been distributed amongst the upstream companies and perhaps nothing has been retained either by OMCs or by the government. In other words, the total under recovery of OMCs on these two products, petrol and diesel, has been shared by the three upstream companies ONGC, Oil India, and GAIL. This is one part of the question. The second part my colleague Mr. Sanjeev will answer.

Sanjeev Kumar:

Mr. Amit, you are right actually in the last four or five years, you might have seen we maintained a positive reserve replacement ratio. And just before that I mentioned during 2003 to 2009, we made around 111 discoveries out of which 45 have already gone on stream. But slowly they will be catching up with the production line. The rest of the discoveries are in appraisal stage and except the deepwater and ultra deepwater discoveries, other discoveries maybe on stream within two to three years. And in case of deepwater and ultra deepwater, the time range maybe around four to five years or in one case up to six years also.

Amit Shah:

Just one more question. Going forward, if oil prices do move up and the subsidy number for petrol and diesel goes up, would you expect the government to kind of chip in to share the losses or do you think this will be an ongoing thing that we'll see that upstream as 100% of auto fuels and the government takes the cooking fuels?

B. L. Ghasolia:

Well, if you have heard the Finance Minister presenting the budget proposal, he has mentioned that the government will constitute a committee to look into the subsidy formula or the subsidy mechanism of pricing of the petroleum products which also includes the sharing of under recoveries or subsidies by upstream as well as various other segments of the government. Now at this point of time, it is difficult for us to say whether going forward if the subsidy number will go up, whether the government will maintain the same kind of mechanism or there will be a change, much depends on the recommendation which the committee is going to submit to the government. So, on our part it is difficult to say what the government has followed in the first quarter is going to be followed in the

subsequent quarters even if the subsidy number or the under recovery number were to go up. So, a difficult call for us to take at this point of time.

Amit Shah: No problem. Thank you very much for your time, sir. I really appreciate it.

Moderator: Thank you, Mr. Shah. The next question is from the line of Raj Gandhi from Principal Mutual Fund. Please go ahead.

Raj Gandhi: Sir, I just wanted some details that you said that recently you were on to hiring two more rigs. Are they from Reliance or from some other oil field service company?

B. L. Ghasolia: Well, we have already placed order for hiring of two ultra deepwater rigs. And those are not from Reliance. One is from Sevan Marine of Norway and the other one is from Vantage Drilling of Singapore. And the third rig which we have tied up is from Reliance. And we understand that rig is to be mobilized anytime in the month of August. So we will be having one rig very shortly for the ultra deepwater drilling which will be from Reliance maybe from the month of August itself. But the other two rigs are likely to be mobilized - One by the end of 2010 and the second one early 2011. But all the three rigs are meant for working in deep and ultra deep waters.

Raj Gandhi: Sir, are these rigs supposed to work in field where you have already established where there are some reserves and all? You have to further substantiate. In that sense there is no risk of dry wells or something? Is it something like that or there are new fields or frontier fields where you are trying?

B. L. Ghasolia: The priority will be that the Reliance rig is expected to drill one well first in Kerala-Konkan basin because that's the area where we have to finish our minimum work programme because that is an NELP area. So we have to drill one well in Kerala-Konkan basin which is offshore and after doing that well, the rig is likely to go to the discovered field which is KG-98/2 where we have already made a discovery and that rig is likely to drill two or three appraisal well. After drilling two or three appraisal wells, we might move the rig to Mahanadi where also we have already made a discovery. Basically we will like to utilize this rig more in the discovered areas to appraise the area further and to delineate as to which is the area which bears oil and gas so that we can start early production.

Raj Gandhi: And so this Kerala-Konkan basin which quarter the drilling will happen approximately?

B. L. Ghasolia: We are expected to start drilling from next month itself.

- Raj Gandhi:** Okay. And sir, are you floating tenders for construction of new jack-ups, you were supposed to buy a few jack-ups?
- B. L. Ghasolia:** Right now we have not floated any tender as such for buying jack-up rigs, but the Management is still considering that aspect whether we should add some more rigs to our fleet. So the matter is still under consideration but no final decision has yet been taken, whether we should buy a jack-up for shallow water or we should buy a deepwater drilling rig. The Management is still considering on this aspect.
- Raj Gandhi:** And any plan to float tenders for hiring of jack-ups in the next six months or one year?
- B. L. Ghasolia:** That's an ongoing process. Whenever the existing contract comes to an end, the tender process starts almost eight months before expiry of the contract. So it's an ongoing process. If you keep looking at our website, you will get to know whether we have floated any tender or we are going to float any tender for either jack-ups or floaters or deepwater rigs, etc. So it's an ongoing process. There is no time bound programme. The programme is only linked with the expiry of existing contracts.
- Raj Gandhi:** Okay. Thanks a lot, sir.
- Moderator:** Thank you. Mr. Gandhi. The next question is from the line of Sanjay Parekh from ICICI Prudential. Please go ahead.
- Sanjay Parekh:** I just wanted one clarification. While you explained the part that there is a committee being set up on the subsidy part, I'm just trying to understand as it stands now, one is the old mechanism where you were bearing one third of the total subsidy on all the four products and now just in case where you have to make the first quarter then you were actually bearing the entire subsidy. So in case of say the crude is \$10 above the current price or maybe once there is an under recovery, then are you better placed now versus earlier mechanism? Because the diesel being very, very large part in terms of volume of 6,000 crores liters, if you were to bear the entire under recovery, then the quantum can be very large there also. So that mathematics if you can help me.
- B. L. Ghasolia:** Let me clarify that, we have not been loaded with entire under recovery on petrol and diesel in the first quarter. As I said, the total under recovery in the first quarter is INR 561 crores of which our share is INR 429 crores. That means the other two upstream companies Oil India and GAIL have shared the remaining part of the under recovery. The second part is that going forward if the crude prices were to go up whether the same existing formula of sharing subsidy will continue, it is difficult for us to take a call. It is only for the government and let's

hope that the government constitutes that committee, which were to study the pricing of petroleum product including the sharing of subsidies by both upstream and downstream companies, etc. that the committee submits the report and government takes a decision. The committee is yet to be constituted for your information. But it is difficult for me to say at this point of time whether the same kind of distribution pattern will continue for the subsequent quarter even if the crude prices were to go by say \$10 or \$20 or whatever. Whatever is the fact we can share with you but what is going to happen in the subsequent quarters it is difficult for us to tell anything upfront on that? What we understand is that as far as the upstream companies are concerned, as per the Secretary Petroleum, they are supposed to share under recoveries only on petrol and diesel and not on kitchen fuel like LPG and kerosene.

Sanjay Parekh:

Sir, only related part, as I see the results, even the GAIL results or even the actual, if I were to interpret, at no place it is written that these are under recoveries towards petrol and diesel. It is just stating that this is under recovery. So what I am trying to say is that, maybe we've seen one announcement from the Petroleum Secretary. But the result clearly nowhere says that it is only under recovery towards petrol, diesel. Should we interpret it that way or how should we look at it? In that case the GAIL's quarterly results should have stated that this INR 75 crores under recovery is towards the under recovery of petrol and diesel. I have not seen the fine print of your results frankly. So if you can comment on that, please?

B. L. Ghasolia:

Well, you may be right Sanjay. If you have gone through the footnote, which we normally give alongwith financial results, it only states that as per the instruction of Government of India the company has shared the under recoveries on account of petroleum products. What I am saying is on the basis of a communication from Ministry of Petroleum, which is right before me. Let me read just one or two lines for your benefit. The letter says that sharing of public sector oil marketing companies, under recoveries on sale of petrol and diesel by the upstream oil PSUs for the first quarter of 2009-10 has been decided as under. And then it says, ONGC Rs.429 Crore, Oil India Rs.57.61 Crore, GAIL Rs.74.71 Crore making a total of Rs. 561 Crore and out of Rs.561 Crore, IOC gets Rs.229 Crore, BPC gets Rs.158 Crore and HPC gets Rs.174 Crore. Total of Rs.561 Crore. That's it. And then it says, PPAC may work out the necessary discounts on crude/products and advise the oil companies accordingly. Thanking you. That's it. So, it is just a two-line, which very specifically says that the subsidy is only on petrol and diesel and not on any other products.

- Sanjay Parekh:** Thank you very much.
- Operator:** Thank you, Mr. Parekh. The next question is from the line of Mandar Pawar of Kotak Mutual Funds. Please go ahead.
- Mandar Pawar:** Good afternoon, sir. Three questions from my side. Sir, firstly, on the survey cost where we have seen some increase in the recent quarters. If you can give a guidance as to, in the coming quarters or on an annual basis what is the survey cost likely to be? You have mentioned INR 6,000 crores as the exploration cost, but out of that how much would be towards the survey? Second, in dry wells also we have seen increase in recent quarters. Sir, what are the reasons that are attributed to that? Is it the number of dry wells that have increased or in a recognition of a dry well policy has changed towards that? And thirdly, if you can give some kind of idea as to what is likely to be the production from the new IOR/EOR projects that are likely to start production in August? Thanks.
- B. L. Ghasolia:** Okay. First of all, when I mentioned about the figure of INR 6,000 crores, that was the CapEx number. It was not the actual expenditure either on survey or on exploration. What I said is that INR 6,000 crores is the budget out of INR 20,868 crores targeted towards exploration. And out of INR 6,000, the amount which is earmarked for survey mainly for seismic survey is INR 2,400 crores for this current fiscal 2009. This is one part. The second part is that in the first quarter of 2009-10 the actual expenditure on survey is INR 843 crores which is comprised in our DD&A cost, which is a total of INR 3,179 Crore. Let me give you the total breakdown of INR 3,179 Crore, if you want to note down?
- Mandar Pawar:** Sir, I have those breakups. Basically what I wanted to understand, how much would be the survey cost in for FY10 and FY11?
- B. L. Ghasolia:** Well, FY10, I have already given you the number that our budget for survey is INR 2,400 crores out of which INR 840 crores has already been spent in the first quarter. And most likely, we'll be spending the balance INR 1,600 crores in the remaining three quarters. The second part is that, in the year 2010-11 and 2011-12, right now the provision in the budget which was submitted to the Government of India as a part of our five year plan, we have targeted a spend of about INR 883 crores in the year 2010-11 and INR 664 crores in the year 2011-12 towards seismic surveys. This might appear to be a low figure as compared to what we have planned for the current fiscal. But as I said, all these numbers are presently under review including the production number as well as the CapEx number. So once we are ready with the revised number, which is likely to be somewhere in the month of September or October, we'll share those revised numbers also with

you. It's about survey and the exploration parts. Your third question was about IOR/EOR scheme, is that?

Mandar Pawar: Yes and on dry wells.

B. L. Ghasolia: Dry well, the total charge to P&L in the current fiscal is INR 1,068 crores as against INR 551 crores and this is mainly because we have got two wells declared dry in the Rajahmundry KG offshore which is about INR 600 crores. That has resulted into such a high cost towards dry wells in the first quarter. But as far as policy is concerned, there is no change in policy. We're guided by the guidance note issued by the Institute of Chartered Accountants of India on oil and gas activities, which says that a well can be carried for a period of upto two years from the date of its completion, which includes testing etc., etc. unless there is a sign of oil and gas. We cannot carry that well for a period of more than two years from the date of its completion. We continue to follow the same policy. There is absolutely no change in the policy and the policy cannot be different than what the Institute guideline says. We continue to follow this same policy, but the number is more because we have written off two wells in the KG offshore which has resulted into a high cost of dry wells. As far as your IOR/EOR question is concerned, I will hand it over to my colleague Mr. Sanjeev.

Sanjeev Kumar: We started our IOR/EOR schemes mainly from 2001 onwards. And actually so far the total gain through IOR/EOR scheme, we have accounted for is around 48 million metric tons of O+OEG. These IOR/EOR schemes actually helped us increase our recovery factor from 15 major fields. It was around 27.5% in 2000 and now the recovery factor is around 32.5% in 2009. So these are basically the remarkable achievements which we got through the IOR/EOR scheme.

Mandar Pawar: Okay, sir. I believe some three fields are going to start production in August, where certain IOR/EOR work was done. I believe Bassein field and C-Series fields were amongst those. Can you give guidance to how much would be the production from these fields?

B. L. Ghasolia: Let me tell you that we are going to start production first from C-Series. And from C-Series we are expecting initially about 0.8 mmscmd of gas. But going forward, it's going to be around 3 million metric cubic metres a day, which is the peak rate of production from C-Series. From Vasai East, we are expecting a production of about 1 million cubic metres per day at the peak rate. This is basically an associated gas. Vasai East is an oilfield. But along with oil, we are going to get associated gas which is going to be about 1 mmscmd per day.

Mandar Pawar: Okay. And sir, this gas will also be sold at the APM price?

- B. L. Ghasolia:** Well, we're going to enter into an agreement with GAIL and GAIL has agreed to buy the C-Series gas at a price of about \$5.50 mmbtu.
- Mandar Pawar:** Okay. Sir. Thanks a lot, sir.
- Moderator:** Thank you, Mr. Pawar. The next question is from the line of Kirtan Mehta from HSBC. Please go ahead.
- Kirtan Mehta:** Good afternoon, sir. You have just mentioned about the two projects which are starting in August. Could you also remind us which are the key projects, which are going to underpin your production growth for balance of FY10 and FY11?
- Sanjeev Kumar:** Actually after these two fields, we will be taking up appraisal of other fields. And 2009-10, I think one or two fields maybe there, which may come to the stream. Balance will be in another two to three years' timeframe.
- Kirtan Mehta:** So, is it that there are no major projects being planned for coming into production after this?
- B. L. Ghasolia:** No, actually it is a continuous process and say once we have made the discovery we go for appraisal and then we try to bring those fields to the stream. So, systemically from 111 discoveries, we have already put 45 discoveries on this stream. Rest of the discoveries will be coming in three years' timeframe.
- Kirtan Mehta:** All right. Do you want to highlight some of the projects where you will be taking final investment decision over the next two, three years? Which are the major projects out of them?
- B. L. Ghasolia:** Of course, the bigger discoveries in the East coast and in Mahanadi and some of the discoveries in the west coast as well. But the major thrust will be towards the project Manik that is the hub development in the east coast.
- Kirtan Mehta:** Right, sir. Thank you.
- Moderator:** Thank you, Mr. Mehta. The next question is from the line of Gundeep Singh from Kotak. Please go ahead.
- Gundeep Singh:** Good afternoon, sir. Just wanted to check on the crude production numbers that you gave for the JV. Now they show quite a decline over the next few years which seems a little surprising given that there will be sharp ramp up on production from Cairn's Rajasthan field.. So are you seeing a big decline on the PMT fields or what?
- B. L. Ghasolia:** Let me tell you that the JV production during last year 2008-09 was 1.651 million metric ton of oil and 2.819 BCM of gas. That was the actual production of our share from JV. In 2009-10, this budget estimate is 2.56 MMT of oil which

includes our share of production from Rajasthan. So, as against 1.65 mmt of actual production in 2008-09, 2.56 mmt of oil is the planned production in the year 2009-10, which goes up to 3.17 mmt in the year 2010-11 and slightly comes down in the year 2011-12 to 3.01mmt. That's mainly because of the decline in production from Rawa. And as far as the gas production numbers are concerned, in 2008-09 it was 2.82 BCM and in 09-10 our present estimate is 3.04 bcm, in 2010-11 gas production will be 2.88 bcm and during 2011-12, the gas production is going to be 2.74 bcm. That's mainly because the Panna Mukta, the Tapti field which produces gas will also start declining from the year 2010-11.

Gundeep Singh: Thank you very much sir.

Moderator: Thank you, Mr. Singh. The next question is from the line of Sanjay Mookim from Credit Suisse. Please go ahead.

Sanjay Mookim: Good afternoon, sir. A quick question on the royalty rate. For the last two quarters, the royalty rate seems to have gone up from the previous quarters. They had come down when the calculation methodology was changed. Has there been a change again?

Nelson: There is no change in methodology of royalty calculation. As you are aware that royalty is calculated at a well hedge value and post discount price. And our discount to OMC varies from refinery to refinery. So for onshore crude, it is mainly in western region, we are selling our crude to IOC. And basically comparing to the previous years, the discount to IOC has come down quite drastically. So that's why the sales price of crude is more and consequently the royalty is also more. Otherwise there is no change in methodology. Discount is not uniform across all refineries.

B. L. Ghasolia: And no change in the royalty rate also, Sanjay.

Sanjay Mookim: Okay. That I understood. So the second question was if could update on this status of OPAL, what is the current infusion by ONGC and what's the plan?

B. L. Ghasolia: My friend Sanjeev will answer your question, Sanjay.

Sanjeev Kumar: OPAL - contract for USD 1.4 billion was awarded for the dual feed cracker unit. And actually the kick-off meeting of those projects has already started and OPAL is in the process of implementing that project. And financial closure also is expected very soon.

Sanjay Mookim: Schedule for completion if you have?

Sanjeev Kumar: Completion will be in October 2012.

- Sanjay Mookin:** That's for the complete project?
- Sanjeev Kumar:** Yes.
- Sanjay Mookin:** Okay, no problem. Thank you, sir.
- Operator:** Thank you, Mr. Mookin. The next question is from the line of Niraj Mansinka from Edelweiss. Please go ahead.
- Niraj Mansinka:** Sir, a very good afternoon. Sir, an update on the Myanmar fields, what we understand is the field development programme has been prepared. Wanted to know what is the status of that and whether you are going for the investment in the pipelines that has been constructed to take the gas to China?
- B. L. Ghasolia:** Nelson will take your question.
- Nelson:** Niraj, yes, basically OVL is contemplating of participating in the pipeline project. Of course, CNPC is laying the pipeline for evacuation of Myanmar gas. So probably the pipeline is going to be within the borders of Myanmar. So, the final negotiation is on with the government and once the finality is reached probably this will be disclosed.
- Niraj Mansinka:** Anything on the CapEx number that has been prepared under development program?
- Nelson:** It's very difficult to tell except what is available in the public domain what was there in the press that is the only figure available. Basically, OVL is working on it. Once OVL examines the proposal then they will be taking the cabinet committee's approval because it's massive investment. So once this approval is through, then probably we will be coming out with the figures and other things.
- Niraj Mansinka:** Okay. And one more question about the BC-10 Block in Brazil that you have, what is the current production and where do you see the big plateau right now with the current data point that has been there?
- Nelson:** The current product is around 15,000 barrels a day. Maybe by next year they should in the position to reach the 100,000 barrels per day.
- Niraj Mansinka:** Okay. That's all. Thank you.
- Moderator:** Thank you Mr. Mansinka. The next question is from the line of Vishwas Katala from Anand Rathi. Please go ahead.
- Vishwas Kotali:** Hello sir, good afternoon. This question on Rajasthan on development, any firmness on the timeline further from here and the pricing of the crude and VA fields.

- B. L. Ghasolia:** As far as the timeline for the start of production is concerned, we are aware as much as you are that the Cairn Energy has been giving different dates for the start of production. Let's hope that it starts early. As far as your question on pricing of crude is concerned, an MoU has been signed by Cairn with IOC, which says that the pricing of crude will be Bonny Light linked with GPW (Gross Product Worth) with about roughly 2% discount on that. As far as MRPL is concerned, the price is still under negotiation and that has not been finalized as yet. But the hint which comes from IOC's MoU with Cairn is that it is Bonny Light linked with GPW with about 2% discount.
- Vishwas Katale:** Okay, sir. Thank you.
- Moderator:** Thank you, Mr. Katale. The next question is from the line of Janesh Shah from Quantum Advisors. Please go ahead.
- Janesh Shah:** Good afternoon, sir. I just have two, three questions. One is of the total reserves which you would have declared by end of this year, how much you have recognized on the account of KG basin and Mahanadi? And second on the same line is of the total reserves, how much of the NELP reserves, that is the pre-price reserve constitution, has been of your total reserves now? The third one is on the international one, if you can give a little bit update on the Nigeria, the production fields which you're planning to acquire? And the second one, on the Iran, has there been any progress on that?
- B. L. Ghasolia:** Okay. The first question is about taking reserves from KG and other discoveries of NELP. Let me clarify that so far we have not accounted for any reserve from the NELP block and KG offshore, etc. Number one. So no accounting of reserves as yet from the discoveries in NELP. The second question that wherever we have made discoveries in the NELP areas, unless they are agreed and approved by DGH and then the further appraisal has been done, we will not be taking those reserves into our books of account. So for that matter, wherever we have made discovery in NELP areas, we have not taken any of those reserves in our books of account. So whatever reserve number you might have seen on the website of ONGC or in various publications by ONGC, those figures constitute the reserve number only from the nomination blocks and nothing from NELP block as yet. This is about your first two questions. As far as the overseas reserve numbers are concerned, I will ask my colleague Mr. Nelson to reply to the question.
- Nelson:** As regard to the Iran project, ONGC has submitted a development plan to the Iran government, but the Iran government is yet to take a call on how they

wanted to implement the project, how they wanted to develop the project, whether it is a cost plus basis or it is a production sharing. So there was a delay or maybe a long process. Iran government is yet to come back for us to arrive at the commerciality of the whole issue. So the decision is pending from the Iran government. Regarding acquiring new project in Nigeria or various other things are concerned, OVL is always in talk with for acquiring new assets, be it producing asset or an exploratory asset or assets which are under development. So, basically it is a continuous process, unless the deals are through finally and we get approval of the cabinet committee in acquiring a particular asset, till that time nothing concrete can be said about any particular projects.

Janesh Shah: Okay. Thank you, sir.

Moderator: Thank you, Mr. Shah. The next question is from the line of Puneet Gulati from RBS. Please go ahead.

Puneet Gulati: Good afternoon. I have a few questions. One is, when you said the reserves for NELP block, the results are not accounted for NELP block from KG basin. Does it mean it is not accounted in P1 or is it not accounted even P2, P3 results as well?

B. L. Ghasolia: Neither in P1 nor P2 nor P3.

Puneet Gulati: Okay. So it's not in the books at all?

B. L. Ghasolia: Not at all and that's why, Puneet, last year when we had made a provision of the wells which were drilled in the KG-98/2 block were provided in the accounts of FY'08 and additional amount was also provided in March'09. We have made a provision in line with our accounting policy, in line with the guidelines issued by the Institute of Chartered Accountants of India. So that is why neither we have recognized the results nor we are keeping that particular cost of those wells in our books as wells in progress.

Puneet Gulati: So it's not even ultimate reserves or anything?

B. L. Ghasolia: No. Once we do the appraisal wells in that area, when the deepwater rig will be available to us close to the end of this year and next year, then these reserves will be taken into account and similarly the wells will be written back.

Puneet Gulati: Okay. Secondly, there is an interesting trend in your numbers. Your lifting cost seems to go up as the quarters progress. So do you think this trend will continue this year onwards as well? Any guidance on that?

B. L. Ghasolia: Basically, we don't calculate this lifting cost on a quarterly basis. It's on yearly basis only.

- Puneet Gulati:** But over the quarter the OpEx per ton basically increases every quarter?
- B. L. Ghasolia:** OpEx appearing in the declared result, basically the format is as per the SEBI. So what we do is whatever the residual expenses will go into the other expenses which includes the provisions which we have done last year on account of the dispute in the Rawa JV, whatever the provisions were there, that also goes into the other expenses. So when you are comparing the production expenses per se it is more or less almost stable and with a marginal increase of say 10 to 15% only. So you have to remove those extraordinary items and then see, but otherwise if you go with the published proforma, where you put all the expenses in three categories. So with that, the residual expenses including the production expenses and other one-off items provisions, everything goes into the other expenses. So I think you should not get carried away with that.
- Puneet Gulati:** Similar was the case for dry wells as well. The dry wells allocation increases as the quarter progresses. So the first quarter itself is heavy this time, INR 1,068 crores?
- B. L. Ghasolia:** We are declaring the result around 20th of the following month after the end of the quarter whereas in the fourth quarter we have two and a half months to declare the results. So before declaring the results, any well drilled in the previous quarter or in the previous year if it is tested and found to be dry or it could be abandoned technically and it cannot be used again, then it will be charged to the account of dry wells. That is mainly because we have to recognize significant events after balance sheet. Even if the well is not tested or the result of the well is not known by 31st of March, but the result is known by say even 30th of April, we give cognizance to such an event and we account for such dry well at the end of the year even if we close our accounts in the month of May or so whereas while making the quarterly results the date which we decide for taking these kind of events into consideration is the 15th of the next month. That means if 30th June was the quarter end, we will take the results of wells tested up to 15th of July and then we declare the results. So this is the result of mainly two wells in the KG offshore which had gone dry and which we have accounted for in the first quarter itself.
- Punit Gulati:** So basically it's an impact of just those 15 additional days, is it?
- B. L. Ghasolia:** Yes. In the sense that wells tested till that particular time.
- Punit Gulati:** Thank you very much.
- Moderator:** Thank you, Mr. Gulati. The next question is from the line of Harshad Borawake from Motilal Oswal. Please go ahead.

Harshad Borawake: Good afternoon. I have one question in terms of minimum work programme for NELP blocks. I just wanted to understand how are we placed in terms of commitments towards the minimum work programme and our rig availability? And what's the update on the three year drilling rig holiday which was being planned?

B. L. Ghasolia: Okay. As far as your first question is concerned, minimum work programme, we have had seven rounds of NELP so far and we have been awarded many blocks in each round. I do not know which particular round you are talking about. Each NELP round has bought different minimum work programme and just for your information, as of now we have got about 85 NELP blocks which were awarded right from first NELP round to seven NELP rounds. So if you are specific about any particular NELP and then again about any particular area, maybe we can answer your question but otherwise it is difficult for us to answer as to how we are placed in terms of MWP under NELP. But let me make a broad statement that whatever commitments we have given in each NELP, we tried to finish the minimum work programme before the end of the D day. And therefore we try to equip ourselves with whatever kind of facilities, whether it is rig or survey vessel or seismic vessel etc. required for conducting the seismic survey 2D, 3D and also for drilling the exploratory well, we try to equip ourselves with all those facilities and try to finish the minimum work programme before the date comes to an end. But there may be some slippage also at the same time. I don't deny that part. And in that case what we do is that if we find that the area is not very prospective, then without completing the minimum work programme, we surrender the area back to the DGH so that they can either include these areas in the next round of NELP or they may handle in whatever way they want to handle. This is the first part. What was your second part of the question?

Harshad Borawake: What is the status update on this three year drilling holiday which was being planned?

B. L. Ghasolia: For drilling holiday, we have requested and along with us other operators of NELP have also requested to the government for the same. Whereas we understand that government is favorably posed to consider this request from various operators, but there is no official word as yet from the government of India that this three-year rig holiday has been granted or not. What we understand is that they are still considering favorably this matter and they will send a formal communication but that communication is still awaited by us.

- Harshad Borawake:** And sir, how critical is it for ONGC that we should get this three- year rig holiday? If it doesn't come through, are there any risks of huge penalties or relinquishment of any block?
- B. L. Ghasolia:** Well, if the government decides otherwise, then not only ONGC, but all other operators will have to face the consequences as per the contract which definitely includes penalty etc. Penalty and also encashment of bank guarantee whosoever might have given towards the minimum work programme. But I don't think that eventuality will finally arise because government also after all is considerate of the world over situation that when there is scarcity of particularly the deepwater drilling rigs, how do they expect the operators to complete the minimum work programme? So we understand government has realized this problem very well and let's hope that shortly we will have a decision from the government on positive lines. Over.
- Harshad Borawake:** Okay. Thank you, sir.
- Moderator:** Thank you. The next question is a follow up from the line of Mr. S. Ramesh from Deutsche Bank. Please go ahead.
- S. Ramesh:** I had two questions. One is, what is the latest status of Imperial Energy? And when do you actually see this investment start reflecting in your consolidated production revenue and profit numbers?
- Nelson:** Ramesh, Imperial Energy has been taken into ONGC group fold in January'09. And in the year just passed by 08-09, production from Imperial is already included. The production level is close to 10,000 barrels per day only. And our team is working on the production profile and the CapEx required for additional drilling and other things. The Imperial is having all the infrastructure facilities including pipeline for evacuation of the production, and they have the rigs and other infrastructure. The only problem they are facing is the weather window. They can move the heavy equipments only in the winter because of the swampy area. So, in the coming winter season, they will be tying up a couple of wells, which have already been completed. And they are going to drill some more wells, and they are going to be tied up. And the plan is to increase the production to 20,000-25,000 barrels a day by year end which will be ramped up in the years to come.
- S. Ramesh:** The question here is, is there any risk of any losses until you see the contribution from the increased production?
- Nelson:** No. We are not seeing it. The only thing is that there is a financial challenge. Maybe early recovery of the full investment may not be there. It will take few

more years, unless and until the crude price goes up again back to their peak level \$140. At the time of closing of our accounts, they have done an impairment test and they are confident of recovering the investment.

S. Ramesh: Okay. And the second question is on the Rajasthan Royalty. Is there any update on any indication from the government as to whether they'll reimburse the extra burden you have to bear on account of GAIL?

B. L. Ghasolia: Well, actually as we clarified on so many occasions and so many forums that we have made a request to the Government of India to consider refund of royalty paid by us on the other partner share as far as the Rajasthan field is concerned. The government is still considering this matter. We have no formal communication from the Government of India as yet on this, but what we understand is that government is favorably considering this aspect.

S. Ramesh: So until then we can expect that you will make the provision for the extra royalty in your JV results?

B. L. Ghasolia: Not only provision, but we'll have to pay the royalty.

S. Ramesh: Fair enough. Thank you very much.

Moderator: Thank you. The next question is from the line of Mr. Raj Gandhi from Principal Mutual Fund. Please go ahead.

Raj Gandhi: Sir, I just wanted to understand if you adjust Bonny Light for the GPW, how much discount does it translate to? Because you said earlier, it will be most probably into adjusted Bonny Light?

B. L. Ghasolia: Raj Gandhi, this will be seen like whenever there is a parcel of sale, that time they will be seeing the GPW of that and then that will be calculated with the GPW of Bonny Light. And then they will arrive at revised cost of Bonny Light and then there will be a discount.

Raj Gandhi: As of now, as the product prices and everything stand today, what will be the approximate discount, any idea that you can give?

Sanjeev Kumar: We don't have an idea but actually this again varies from month to month and it relatively varies.

Raj Gandhi: Okay. And sir, just because we track the oil field services company and all, so if you can give us any colour as to how much OSV we have chartered? What will be the requirement going ahead, anything that you can?

B. L. Ghasolia: We operate about 60 or 62 OSVs out of which 30 are owned by us and the remaining are chartered from various companies. Since our OSVs are quite old,

many of the OSVs are likely to be laid down. And recently we have placed order for purchase of new OSVs. About 12 new OSVs are going to be added and as we go along the remaining OSVs, depending upon their certification. If the certification is not getting renewed, then obviously we will have to replace those OSVs by the new OSV. In a nutshell, we operate about 60 to 62 OSVs at the given point of time.

Raj Gandhi: Okay. And how much do you plan to do in the future, next one or two years, will it go up to 100 or something with all these new rigs coming in and all that 3D water rigs and all?

Sanjeev Kumar: It is very difficult to quantify as of now. There will be replacement against the old OSVs maybe through chartered hire or through purchase also.

Raj Gandhi: Okay sir. Thanks a lot.

Moderator: Thank you, Mr. Gandhi. Ladies and gentlemen due to time constraints, we will be taking the last two questions. The next question is from the line of Mr. Mayank Maheshwari from Morgan Stanley. Please go ahead.

Mayank Maheshwari: Good afternoon, sir. I wanted to know your guidance for the recoup cost for 2010, considering the recoup cost has been moving quite a lot over the last three four quarters. What would be the recoup cost that you expect in 2010?

B. L. Ghasolia: Mayank, frankly speaking, It is difficult for us to give any estimate of recoup cost because recoup cost includes the cost dry well. It also includes the depletion. It includes survey cost as well as depreciation whereas we can have some estimate on depreciation and survey cost, as far as the other two numbers are concerned, which is drywell and depletion, it's difficult to arrive at an estimate because we do not drill a well to count as a dry well. Every well is drilled to find some success. So, we are not in a position to give you the estimate of recoup cost. What we have is the actual number of recoup cost for the first quarter, which is INR 3179 Crore as against INR 2797 Crore in the first quarter of last year. And for the whole of the year 2008-09, it was INR 12,085 Crore. So that's the actual information I have.

Mayank Maheshwari: Okay, sir. Thanks a lot for that.

Moderator: Thank you, Mr. Maheshwari. The last question is from the line of Mr. Rohit Ahuja of JM Financial. Please go ahead.

Rohit Ahuja: Good afternoon, sir. In terms of the reserves ad declared by you for OVL, can we have a clarification whether it includes the results of Imperial Energy or it will be added next year?

- Nelson:** Rohit, this is Nelson. Actually the reserves that was declared as on 31st March 2009 includes Imperial. That's why there is a huge jump of reserves of OVL as on 31st March 2009.
- Rohit Ahuja:** That's right, sir. Is it possible for you to give an overall breakup of the reserve in terms of from which particular area it's coming in from and overall basin wise breakup?
- Nelson:** Basically I will not be in a position to give project wise but I can tell you broadly. The reserves are on all eight producing assets plus small quantity of reserve has been taken in respect of Brazil BC-10 and Myanmar gas.
- Rohit Ahuja:** Will be it possible for you mail across whatever breakup?
- Nelson:** It's very difficult for us to share that information project wise. We can give you overall. Overall it is available in our website and it has been shared during the analysts meet when our Chairman has addressed in June in Bombay. And the presentations are available in our website www.ongcindia.com. There we have given 1P, 2P, 3P reserves of ONGC, our share in JV and OVL.
- Rohit Ahuja:** Okay. Thanks a lot.
- Moderator:** Thank you, Mr. Ahuja. I would now like to hand the floor back to Mr. Aishwarya Deepak for closing comments. Please go ahead sir.
- Aishwarya Deepak:** Thank you very much to the participants as well as thanks a lot to Mr. Ghasolia and his team for the time and answering all the queries of the investors. So here we conclude. Thank you very much, sir.
- B. L. Ghasolia:** Thank you, Aishwarya. Thank you very much and wish you all the best.
- Aishwarya Deepak:** Thank you, sir.
- Moderator:** Thank you, Mr. Ghasolia. Thank you, Mr. Deepak. Ladies and gentlemen, on behalf of Batlivala & Karani Securities, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.