

Conference Call Transcript

ONGC

Q2FY10 Results

October 30, 2009 | 02 p.m. IST

Corporate Participants

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Mr. B L Ghasolia
Advisor (Finance)

Mr. S. K. Jain
GM (Geology and Head of Planning and Projects)

Nelson Livingston
Chief Manager (Finance)

Questions and Answers

Moderator: : Ladies and gentlemen, good afternoon and welcome to the ONGC Q2FY10 earnings conference call hosted by Edelweiss Securities. As a reminder, 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 opening remarks. Should you need any assistance during the conference please signal an operator by pressing '**' and then '0' on your touchtone phone. Please note that this conference is being recorded.

At this time I hand the conference over to Mr. Niraj Mansingka of Edelweiss Securities. Thankyou and over to you Mr. Mansingka.

Niraj Mansingka: Thank you, Rochelle and good afternoon to you all. On behalf of Edelweiss let me welcome to you all to the Q2FY10 earnings call of ONGC. Today, we have with us in the ONGC team headed by Mr. D. K. Sarraf – Director (Finance); Mr. B. L. Ghasolia – Advisor (Finance); Mr. S. K. Jain – GM, Geology and Head of Planning and Projects; and Mr.Nelson Livingson – Chief Manager (Finance). Without further ado let me hand over the floor to Mr. Sarraf for introduction to his team and his opening remarks, over to you, sir.

D. K. Sarraf: Thank you so much, Niraj. Friends, Good Afternoon. This is D. K. Sarraf, Director (Finance) from ONGC. Yesterday we had our board meeting and the audit committee meeting to consider financials of ONGC for Q2 and first half yearly for fiscal year 2009-10.

The main highlights are in Q2FY10, ONGC's profit after tax was INR 5,090 crores as against INR 4,308 crores in Q2FY09, which is a Q-to-Q increase of 5.9%. So for as the turnover is concerned, gross turnover had decreased to INR 15,134 crores from INR 17,493 crores which is less by 13.48%. However, the gross turnover of last year included the trading of MRPL - our subsidiary products, If you exclude that since this item does not appear this year, there is an increase of 2.1% in the gross turnover. It is INR 15,134 crores as against INR 14,820 crores.

Under-recoveries - subsidy which ONGC has paid during this quarter was INR 2,630 crores as against INR 12,996 crores. However, it was because in the Q2 of last year the gross realization was almost \$119 per barrel whereas prices which we realized this time were much lower on gross basis by about \$70.50 to be precise. The net price after the subsidy discount was \$56.42 per barrel as against \$46.72 per barrel during Q2 of last year.

Crude production marginally declined to 6.63 mmt as against 6.85 mmt during the corresponding quarter last year which includes ONGC share of crude oil production from joint venture. As far as natural gas is concerned it was marginally up to 6.65 billion cubic meters against 6.43 billion cubic meters last year, again this includes joint venture's production.

We have made five good discoveries during Q2 and going forward in October till date we have already made four discoveries on the production front. The board

also reviewed and approved the capex programme for the next fiscal which is 2010-11 as well as it approved the revised estimates for capex for the current fiscal which is 2009-10. For 2009-10 the revised estimates for capex are INR 24,720 crores as against original budget estimate of INR 20,868 crores. So far as next year is concerned the capex amount is INR 26,523 crores.

These are the main highlights of what we have to say. And now I would leave the floor open for any questions. Myself, D. K. Sarraf and my colleagues, Mr. B. L. Ghasolia, Advisor, Finance; Mr. S. K. Jain, GM; and Mr. L. Nelson, who heads our Investor Relations cell, we will be trying our best to reply to the questions.

One more request I would make to all of you. From you I would like to know that how from your perspective the results are and also I would like to ask you that in terms of your expectations on information from ONGC, what information you would like us to provide to investors, analysts, on an ongoing basis. Because, it helps in our continuous endeavor to maintain a good flow of information, but I would like to further improve. Over to Niraj as you can moderate.

Moderator: Thank you very much, sir. Ladies and gentlemen we will now begin the question-and-answer session. At this time participants who would like to ask question may press '*' then '1' on their touchtone telephone. If your questions have been answered and you wish to withdraw your question from the question queue please press '*' followed by '2'. You are requested to use your handset while asking a question. Our next question is Raj Gandhi of Principal Mutual Fund, please go ahead.

Raj Gandhi: Good afternoon, sir. My question relates to operations in Sakhalin. From what we are seeing, other Russian entities have been reporting very good numbers, because with the current crude oil price rise export duty has not been raised much. So are you saying good profitability in your Sakhalin project?

D. K. Sarraf: So far as Sakhalin is concerned the results which we have declared are on a standalone basis. It does not include ONGC Videsh.

Raj Gandhi: Right. Just to get a sense of what is happening in OVL, just if you could comment on this thing.

D. K. Sarraf: As far as Sakhalin is concerned we are doing great as per the expectations which we had from the deal. And the deal was expected the production to decline after a short while and the production has accordingly declined. So there is no worry so far as we are concerned on that. And the decline which is there currently would be made good. As further field development takes place, new stream of production would come so as to compensate the decline in the production.

Raj Gandhi: But, sir, any comment on export duties there? How they have been of late, because with the crude prices I guess the duties have not been raised, so your profitability there would have increased tremendously which we would get to know subsequently when you declare the consolidated numbers.

D. K. Sarraf: Yes, by implication I mean you are right because when crude

prices go up profitability also goes up and most of the costs have already been recovered so there is profit sharing with the government and the royalty is fixed in nature.

Raj Gandhi: Okay and sir, do you expect the profit multiple of something to move up there, because that is I think the initial feeling was that in 2012 or something profit multiple in Sakhalin will increase and your net profit will go down from the project, but with the higher oil prices, I guess I was reading somewhere the profit multiple will be hit somewhere in FY011 itself, wherein your government take will increase.

D. K. Sarraf: As per my understanding it depends on profit petroleum sharing with the state in Sakhalin. And we also expect that we will be paying the profit petroleum to the state as well as royalty as per the terms of the PSC.

Raj Gandhi: Okay, sir, thanks a lot.

Moderator: Thank you Mr. Gandhi. Our next question comes from the line of Vardhrajn Shivashankar of Reliance Equity, please go ahead.

Vardhrajn Shivashankar: Hi, I just wanted to get clarity on why DD&A charges were significantly lower this quarter. Basically, I see that your reservoir as well as like dry well write-offs are much lower. But is there a reason behind that?

Nelson Livingston: Dry well cost in the first quarter was due to write off of two wells in KG offshore, hence there was a high cost at that time. Around 800 crores was charged on account of couple of wells in Rajamundhry offshore area. But this time it was not there, it was the normal operations only with very few wells and no high cost well have been declared dry.

Vardhrajn Shivashankar: How about the survey expenditure, it seems to be significantly lower compared to last quarter.

Nelson Livingston: Survey expenses inherently during second quarter used to be less. There was less activities because of monsoon and other activities during the second quarter, the survey expenses are always little less in second quarter and as and when the survey activity picks up expenses will go up.

Vardhrajn Shivashankar: Fair enough. About the other expenditure that also keeps swinging from quarter-to-quarter, is there something which drives that?

Nelson Livingston: See basically, the main factor is on account of increase in work over expenses. And particularly in Mumbai we have done more sidetrack wells which are hi-tech wells that is one particular point which is like 38 wells we have done against 29 wells in the quarter-on-quarter comparison to the previous year. And then deployment of hired rigs for work-over job and more number of rig-days in the first half of the year resulting in more expenses.

Vardhrajn Shivashankar: Fair enough. Thank you.

D. K. Sarraf: Let me supplement what Mr. Nelson has said. Now the work over and sidetrack expense include a substantial portion of sidetrack expenditure. Sidetrack is technically to carry-out the drilling in a particular well and a new

arm of the well to reach nearby places in the reservoir. So, technically it tantamount to drilling, but as far as accounting is concerned, the cost is written-off or charged-off in the quarter in which this expenditure is incurred. So it is an example of conservative accounting policy which is also as per the guidance note of the Institute of Chartered Accountants. But to reiterate, it is tantamount to drilling a new well, and since it adds to the production capacity of our company.

Vardhrajn Shivashankar: Thanks, Mr. Sarraf and Nelson.

Moderator: Thank you, Mr. Shivasankar. Our next question comes from the line of S. Ramesh of Deutsche Bank, please go ahead.

S. Ramesh: Good afternoon, Mr. Sarraf, Ghasolia, Nelson, how are you sir?

Nelson Livingston: We are fine.

D. K. Sarraf: Good afternoon.

S. Ramesh: Yeah. I just had three broad thought. One is why is the production declined this quarter and when do you see the production numbers actually showing flat or some positive growth based on all the redevelopment efforts you have undertaken so far?

S. K. Jain.: Hello I am S. K. Jain speaking. Good afternoon. Yeah, production has declined by just around 1.5%, normally because of the normal decline in the reservoir. And next two years, especially for 2010-2011, the production number that has been approved by the Board will be almost in the current level.

S. Ramesh: You are saying over the next two years you do not expect to see any decline. You will be able to maintain this production?

S.K. Jain: Yeah almost we will maintain the number.

D. K. Sarraf: We will maintain production in the next year also, but there would be an increase in production when the East coast development takes place and that would be in 2011-2012.

S. Ramesh: So you are saying the first flow of gas on the East coast will start in year end FY11?

S. K. Jain: What we are talking about is that the crude oil production from the East coast and will be available only in 2012-2013.

S. Ramesh: So, if we were to just go through the different assets, now, Cairn has already started off in Rajasthan, in terms of volumes when do you actually see all the material volumes being showing in your numbers in the second half? And secondly, in terms of the royalty issue, in terms of the reported numbers how would you be treating the royalty on Rajasthan in the next two quarters?

D. K. Sarraf: Let me address the question on royalty on Rajasthan and then I will pass on to Mr. Jain on the production number. As far as royalty is concerned, it is a contractual liability of ONGC to pay royalty on 100% of the crude produced from the Rajasthan block. At the same time, we have already taken up with the government that the royalty which we pay in respect of 70% production relating to Cairn should be reimbursed to us. This was the

commitment which the government had given us a long time back. But, the approval from the government could not be obtained. Now since the matter is being followed up very vigorously with the government, we expect the approval to come. But until the approval comes we would be paying and the charging-off the royalty on 100% of the crude oil.

S. K. Jain: Okay. Now as far as Rajasthan is concerned in 2009-10, Rajasthan crude oil production will be around 563 mn tons and in the 2010-11, Rajasthan production will be 565 mn tons.

S. Ramesh: These are ONGC shares.

S. K. Jain: ONGC has 30% share.

S. Ramesh: So now in terms of the longer term guidance as told in the year by the Chairman in the AGM, there were some numbers he had given for oil and gas, so if you were to look at the reported numbers including JV how much of the incremental volumes are going to come from ONGC and how much of the incremental volumes are going to come from the JV fields?

B. L. Ghasolia: Mr. Ramesh, the 29 mn metric tons of production in 2012-13, as mentioned by the CMD, in the AGM presentation, is after including the East coast development and also includes crude oil production from the shallower area.

S. Ramesh: And this also includes the JV production from Rajasthan?

B. L. Ghasolia: Yes.

S. Ramesh: And what about the gas?

B. L. Ghasolia: Gas – KG – 98/2 production will come only 2015-16. Projection also was made in the presentation to reach 100 mn standard cubic meter per day by that time.

S. Ramesh: Okay. So that means basically if you are looking at volume growth you will see some growth in oil production over the next four years. But for gas, we will have to wait till 2015-16 for any material volume growth.

B.L. Ghasolia: In between there will be some volume growth, but that 100 mmscmd was the target which we envisage by that time.

S. Ramesh: Okay. In terms of your revised capital expenditure, can you indicate how much of that is for exploration and how much of that for non-exploration expenditure?

Nelson Livingston:** See, non-exploration is in the form of integration projects only with a small amount of Rs.772 crores, out of 24,720 crores. The balance 23,948 crores will be on E&P activities.

S. Ramesh: Including development?

Nelson Livingston: Yes. That includes our expenditure in the joint venture.

S. Ramesh: Okay and what is the amount incurred as on date in the first half?

Nelson Livingston: Around INR 8,900 crores we have incurred.

S. Ramesh: This including JV?

D. K. Sarraf: Up to September, the Capex is INR 9,268 crores.

S. Ramesh: INR 9,268 crores including your JV share?

D. K. Sarraf: Including JV share and including integration of Rs.52 Crore.

S. Ramesh: Okay so that also include all the commitments that is only for Rajasthan, right?

D. K. Sarraf: Not the commitment but the actual expenditure.

S. Ramesh: The actual expenditure, sorry. Okay. One suggestion I have is lot of us have lot of questions on ONGC Videsh. Obviously there are some confidentiality issues which you have maintained in the past, but if you can have somebody from OVL, in this call, it will help both you and us in terms of addressing some of the material issue, although you do not publish numbers, because OVL is about 10-15% of your earnings and as the first gentleman asked there are some material issue, so, for the future if you can keep that in mind it will be great. Thank you very much.

D. K. Sarraf: Yeah, Ramesh, you are very correct there on the OVL issue. Now first to correct you that the OVL numbers are not 10%, the OVL production is about 14% or 15% of ONGC group production. And as far as reserve are concerned OVL accounts for, including imperial reserve, about 24% of ONGC reserve. This is one. And keeping in view the importance which OVL has us vis-à-vis the proportion to total ONGC group financials, we would be giving to the analyst community some of the numbers which we have obtained from OVL and which can be distributed. Your suggestion on participation of OVL in the conference call is noted.

S. Ramesh: Thank you very much, sir.

Moderator: Thank you, Mr. Ramesh. Our next question is from the line of Ballabh Modani of Enam Securities Please go ahead.

Ballabh Modani: Good afternoon, sir.

D. K. Sarraf: Good afternoon.

Ballabh Modani: Sir, just a couple of questions on the exploration front. First is that how you see the monetization of your oil discoveries in the KG block? This includes also KG IG block. And the second thing is that you have taken a deepwater rig from Reliance and I think you are drilling a well in Konkan region. So what is an update on that and when you are planning to move the rig from Konkan to Krishna-Godavari?

S. K. Jain: We have been drilling in the Konkan region because it is our NELP commitment, and we have already crossed around 5,000 meters and when the well is completed the rig will be shifted to KG offshore for drilling of the three appraisal wells. On the monetization front we have already got the plan to drill, three appraisal wells, after the appraisal wells are drilled, we will prepare the development plan and submit it to DGH, and based upon the development plan, again, the rig will be deployed for drilling development wells. Similarly, in the IG

block, where we have discovered oil, we have already placed a team and we are mapping the complete area and after that we will prepare the development plan and submit it to our management for appraisal and approval.

Ballabh Modani: Okay, just to add on that, sir, if you could just throw light, because in your press release you have mentioned that there are other discoveries in the KG 98/2 blocks also.

D. K. Sarraf: Yeah, certainly. In KG block, we have already discovered around 7 to 8 fields and some of the fields contain crude oil also. Similarly, earlier we have discovered oil in the G1, G-4-6, GS-29-1 and G-4-5 fields in the different strata graphic columns. So we are completely mapping the area and after that we will prepare a comprehensive development plan.

Ballabh Modani: Okay. Fine, sir. Just on the financial side that Rava JV has won a case in Malaysia. They had some charge against the JV. Government has got some charge against the JV, so Cairn has reversed that amount. So what is your stand on that issue you have also provided for that last quarter?

D. K. Sarraf: Yes, we have not provided in the last quarter, but we have provided in the last fiscal itself. And we are aware that some development has happened which is favorable to Cairn and to us also. But we have not taken a final view whether the development is so significant, whether we can reverse this provision or not. So once this is done, we would take appropriate action.

Ballabh Modani: Okay, sir, just last thing and how you see that Imperial Energy production ramp-up?

D. K. Sarraf: In Imperial Energy, we are making an integrated plan for development of total fields in an integrated manner. And initially some time was lost because of the weather conditions, but now as soon as the plan is completed it will be implemented, and production is already at 12,500 barrels a day.

Ballabh Modani: So by the year-end likely take the case by CY10 and what kind of production target is there for that?

D. K. Sarraf: It is too early to say. It would depend on the integrated development plan which we will be making.

Ballabh Modani: Okay, thank you very much, sir.

Moderator: Thank you, Mr. Modani. Our next question is from the line of Amit Rustagi of Antique Stock Broking, please go ahead.

Amit Rustagi: Yeah, good afternoon, sir. Sir, could you provide us the rigs going to come to ONGC in next two to three years, particularly deepwater? Because you have won so many blocks in the NELP-VII and VIII in deepwater. So how are you going to complete the minimum work program in those fields?

B. L. Ghasolia: Amit right now we have three rigs operating in deep water. I am Ghasolia speaking. One is our own Sagar Vijay. The other one is from Transocean. And third rig which is the recent addition and that is from Reliance. In addition to these three rigs, we have already contracted two more rigs. One

is from Vantage Drilling and the other one is from Sevan Marine of Norway. Now, this Sevan Marine rig is scheduled to arrive by end of 2010 calendar. There could be some delays and by virtue of that we might have this rig in our hold maybe in early 2011. Drilling rig of Vantage is also expected more or less around that time. So you can expect that in 2011 we should be operating five rigs both for deep as well as ultra-deep water.

Amit Rustagi: Sir, how you are going to complete the minimum work programme in many of your deep water fields, because I think the number of rigs you are having is not sufficient to go ahead for both exploration as well as development drilling.

D. K. Sarraf: As far as our programme is concerned this year we wanted to drill around nine deep water wells and in the next year, our programme is for 15 deep water wells. And the blocks which we have taken in the earlier NELP blocks, these blocks will be for the first phase and in first phase there is no block for drilling exploratory wells. So there will be only seismic survey and interpretation. So everything will come only after 2012. The phasing up the work has already been done and these are coming as per our schedule.

Amit Rustagi: Again, sir do you expect any rig moratorium from the government?

D. K. Sarraf: Yeah, certainly. The request is already on.

Amit Rustagi: Okay, thanks a lot, sir.

Moderator: Thank you, Mr. Rustagi. Our next question comes from the line of Probal Sen of IDFC SSKI. Please go ahead.

Probal Sen: Yeah, hi. Hello, sirs. Most of my questions have already been answered. Just wanted to know how many more wells will be drilled in the second half of the year including on KG or Mahanadi?

D. K. Sarraf: In the exploratory front we have planned to drill around 150 wells this year, current year, next year the target is 154 wells. Out of 150 this year we have already drilled 45 wells.

Probal Sen: And any deepwater wells in these, sir?

D. K. Sarraf: Yeah, we have planned to drill nine wells this year and 15 wells next year.

Probal Sen: So out of those nine have we drilled any, as of now?

D. K. Sarraf: Yeah, four wells we have drilled.

Probal Sen: Four wells, so five wells left basically?

D. K. Sarraf: Yeah.

Probal Sen: Okay and in terms of production targets for the second half any specific number there is?

D. K. Sarraf: No, we already committed for the production target for the current year.

B.L. Ghasolia: 25.76 mn metric ton of volume.

Probal Sen: Sorry, can you come again, sir?

B.L. Ghasolia: 25.76 MMT, as reviewed by the board.

Probal Sen: 25.76?

D. K. Sarraf: Yeah.

Probal Sen: And how much of gas, sir?

D. K. Sarraf: Gas is 22.29 BCM. This is exclusive for ONGC.

Probal Sen: Okay, standalone basically.

D. K. Sarraf: standalone.

B.L. Ghasolia: After review.

D. K. Sarraf: After review.

Probal Sen: Okay, but does this include JV share?

D. K. Sarraf: No, JV share is separate, JV share is 2.369 MMT of oil, 2.632 BCM of gas.

Probal Sen: Okay, fair enough sir, thank you very much for your time.

D. K. Sarraf: Thank you.

Moderator: Thank you Mr Sen. Our next question is from the line of Kirtan Mehta of HSBC, please go ahead

Kirtan Mehta: Hello, good afternoon sir. In terms of after the revision in the projects what are the revision in the implementation of the projects or which are the specific projects which have been targeted for implementation in FY11 and FY10?

D. K. Sarraf: Kirtan, what kind of projects you are talking about, if you can be specific?

Kirtan Mehta: I was talking about in terms of the E&P expenditure which has been targeted for FY10 and FY11, out of the around 25,000 Crores, are there any rephasing of the project, E&P projects which has happened during this exercise when the revised estimate was prepared and which are the specific bigger projects which are on priority for this E&P implementation?

S. K. Jain: Yeah, I am S. K. Jain. Actually we are implementing many projects in the offshore and onshore area, specific project are construction of new MHN platform, Mumbai High South Redevelopment plan Phase II, Mumbai High North Redevelopment plan Phase II, then offshore interconnectivity, D-Series, C-Series, 193 development, C-Series gas development areas. Then there are different platform upgradations and redevelopment plans, then we have got the Vasai East and South East redevelopment plan. These are the plans in offshore and especially very ambitious plans, we are replacing our old assets and pipelines in GGS and CTF in our onshore assets. These will be mostly the redevelopment plan and replacing old assets.

Kirtan Mehta: Right sir, I just have specific question, were there any rephasing of any of the projects happened during this exercise, where some of the

projects were de-prioritized or brought into higher priority or the project implementation priority remains same even after carrying out this exercise?

S. K. Jain: No, mostly projects are under implementation during the last one and a half year. Most of the projects which the board has approved in the last year are under different phases of bidding processes and almost for all the projects now already tenders have been out and, we are in the implementation phase.

Kirtan Mehta: Okay, right sir.

B. L. Ghasolia: We have not de-prioritized any of the projects.

Kirtan Mehta: Thank you, sir.

Moderator: Thank you, Mr. Mehta. Our next question is from the line of Samudrajit Gohain of Eureka Stock Brokings, please go ahead.

Samudrajit Gohain: Good afternoon, sir. My question again pertains to OVL. Just wanted to know what are the current production from your Brazilian fields like and what will be the target for maybe next one or two years? Can you just update me on this?

B. L. Ghasolia: The current production from our Brazil DC-10 project is around 2500 barrels a day.

Samudrajit Gohain: How much?

B. L. Ghasolia: 2500 barrels a day.

Samudrajit Gohain: Okay, 2500 barrels.

B. L. Ghasolia: We are now having 15% participating interest.. During the current year they have plans to drill more development wells and as and when the new wells are added they will be tied up to the floating production unit and then the production will be ramped up.

Samudrajit Gohain: Okay, and secondly sir, what is the benchmark crude, because I just wanted to know what is the chemistry like API Gravity with sulphur contents so that it helps me in modeling. Can you just update me?

D. K. Sarraf: Yes, crude is heavy and some more information on this crude we would be giving in the manuscript of the con call. (14-17 API gravity, with moderate viscosity ranging from 2-100 cp)

Samudrajit Gohain: Okay, and secondly sir, the Assam fields are old fields, like I have seen some media reports that there is some suggestion to hive the Assam asset. So can you update me whether there is some internal thinking process on this matter?

D. K. Sarraf: There is always a thinking process to improve certain thing. But no decision has been taken.

Samudrajit Gohain: Okay, okay sir, thank you.

Moderator: Thank you Mr Gohain. Our next question is from the line of Avadhoot Sabnis of RBS Equities, please go ahead.

Avadhoot Sabnis: Yeah, I had a question on the rig holiday, the whole industry has been taking for granted that the government will give this rig holiday and I have been hearing about this rig holiday now for maybe a year, the government has been dragging its feet on this for some reason or the other. What are the implications if this rig holiday doesn't really come through?

D. K. Sarraf: The implication could be serious and the implications are so serious, we believe that the holiday should come and the issue is already under consideration by the government at a very senior level and we sincerely believe that it will come. For implications, your main question, the implications could be serious.

Avadhoot Sabnis: You mean serious basically the companies have to give up the block completely?

D. K. Sarraf: Yeah, I mean technically it means that, but better we know intention of the government is not to put the E&P companies in India in difficulties, who get rigs with difficulties despite the fact that rigs are not available.

Avadhoot Sabnis: Okay, sir, and I think Mr. Jain gave the sort of forecast for oil at 25.76 for this year and 22.29 for gas for this year. Would it be possible to get similar numbers for FY11 and FY12?

D. K. Sarraf: FY11 Mr. Jain would give and FY12 I am not sure that are available. Jain?

S. K. Jain: FY11, we will have a production of 25.425 mn metric ton of oil and 21.483 BCM of gas from exclusive ONGC areas and our share in the joint venture will be 2.052 MMT of oil and 2.096 BCM of gas.

Avadhoot Sabnis: Thank you.

Moderator: Thank you Mr. Sabnis. Our next question is from the line of Mandar Pawar of Kotak Mutual Fund, please go ahead

Mandar Pawar: Good afternoon, sir. My question is with respect to the proposal which was there for increasing the APM gas price. Can you please share with us what is the current status of this?

D. K. Sarraf: The last status of this is status quo, because this has been under the consideration of the government for a long time. What we believe is that the government has made significant progress on that. It has made its own approach paper and is in the process of circulating the approach paper to various departments of the government so that their comments could be invited.

Mandar Pawar: Okay sir, thanks.

Moderator: Thank you, Mr Pawar. Our next question is from the line of Sanket Dhake of Span Capital, please go ahead.

Sanket Dhake: Hello Mr. Sarraf.

D. K. Sarraf: Hello.

Sanket Dhake: I am Sanket here from Span Capital. I just wanted to know about your three schemes, C-Series Heera and Vesai Redevelopment plan. How are they benefited to ONGC? I mean in what percentage in the production. You have seen the lower production. R&D is getting benefited?

D. K. Sarraf: Certainly, we will be benefited because these are just our marginal fields and marginal fields are getting the additional focus of the management and especially the D-Series and C-Series development which is basically gas production area and already four wells had been drilled and connected and in B-series, already we have floated for tender and it has been awarded and this certainly will give the production enhancement to ONGC.

Sanket Dhake: Okay, in C-Series last time you told that in C-Series at the end of July you would start the production and even the pipeline is already started. How much it is contributing to your main production?

D. K. Sarraf: C-Series, just now I told you four wells have been drilled and connected, and from these four wells, production at a marginal level has started.

Sanket Dhake: Okay, fine, fine. Just one small question, what is the lifting cost for this H1?

B. L. Ghasolia: Well, Sanket we do not work out the cost numbers on quarterly or half yearly basis. What we have is the cost number only for the year-end FY09, if you are interested in that we can give you.

Sanket Dhake: Yeah, yeah, please give this.

B. L. Ghasolia: FY09, the lifting cost is \$5.05 per barrel.

Sanket Dhake: \$5.05.

B. L. Ghasolia: Exclusive of JV.

Sanket Dhake: Okay, and any development on OPaL like you are thinking of fund raising and all these things?

D. K. Sarraf: OPaL fund raising activity has been completed and syndicated loan from various banks has already been tied up though perhaps OPaL has not formally announced it.

Sanket Dhake: Okay, and one small question on rigs. Is there any major change in the rigs hiring rates?

D. K. Sarraf: Yes, the rigs hiring rates, there has been a significant downwards trend as far as shallow water rigs are concerned and all other rigs are concerned. But significant reduction in hiring rate for deep water rig has not been seen as yet.

Sanket Dhake: Can you quantify about the 3DW Rigs currently you have, and hiring charges for this?

B. L. Ghasolia: The 3 deep water which we have contracted are in the range of \$550,000 to \$575,000 a day.

Sanket Dhake: \$550 to?

B. L. Ghasolia: \$575,000. Reliance Rig is \$510,000/day and the other two hired rigs which is Vantage and Sevan Marine, they are in the range of \$550,000 to \$575,000/day.

Sanket Dhake: Okay, thank you, thanks a lot sir.

Moderator: Thank you, Mr. Dhake. Our next question is from the line of Gundeep Singh of Kotak, please go ahead

Gundeep Singh: Just wanted to get an update on the C-Series production. I believe the government has sought some kind of details regarding the prices. Has that issue been resolved and is the production started, where do we stand there?

D. K. Sarraf: The pricing issue has been resolved, though for commercial reasons we would not be able to tell you what price has been resolved. But definitely we can tell you that it is non APM price of gas and production is about to start.

Gundeep Singh: Okay, and peak productions from this field will be around 3mmscmd per day?

D. K. Sarraf: Can you be louder?

Gundeep Singh: The peak production from this field would be around 3mmscmd per day?

D. K. Sarraf: Yeah, certainly, your number is correct.

Gundeep Singh: Okay, and secondly what is the status on the Vasai projects that is also scheduled to come online by this fiscal year end, is it online?

D. K. Sarraf: It is on the line, this will be put in production in December.

Gundeep Singh: Month of December. Okay, thank you so much.

Moderator: Thank you Mr. Singh. Our next question is from the line of S. Ramesh from Deutsche Bank. This is a follow up. Please go ahead

S. Ramesh: Yeah, I just had two thoughts. One is on the panel appointed by the government for review of the pricing and subsidy policy what is the current status and when do we expect to see some recommendations on that?

D. K. Sarraf: What we believe is that, panel has met already a couple of times and we also believe that panel would call various oil companies and other stakeholders including ONGC and at that time ONGC would present its case before the panel as well as we would give them our representation in writing also.

S. Ramesh: But there is no timeline for the final submission of the report?

D. K. Sarraf: Yes, some timeline was mentioned when the panel was constituted. I think it is public information, I do not remember this. It could be three months or so. And I am also not aware whether they are going as per the timeline or not.

S. Ramesh: Okay, the second thought I had was when you look at the bidding strategy for all the new exploration acreage do you see companies like you

looking at reducing the sacrifice you make on behalf of the government profit shares given the fact that your capital expenditures going up and the predominance of gas reserve you have some concerns on pricing, so what are thoughts on that?

D. K. Sarraf: The initial portion of your question I missed it, in the bidding, can you repeat that?

S. Ramesh: Basically, in your bid for the NELP block if you see the earlier blocks, the contracted share was coming down drastically after a period of time and now because of the changing investment profile and the demanding economy, do you see the base being revised more in favor of higher proportion of profits being retained by the operator?

D. K. Sarraf: Ramesh, it is an imperative thing. For each bidding we make a model and there are 'N' number of variables in the model including the price, the prospectivity of the field, the cost, exploration cost, development cost and there are certain non-financial numbers like the competition so whatever bidding number comes is a combination of all these factors.

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

Moderator: Thank you, our next question is from the line of Mayank Maheshwari of Morgan Stanley, please go ahead.

Mayank Maheshwari: Sir, my question is answered on subsidy, thanks a lot.

Moderator: Thank you Mr. Maheshwari. Our next question is a follow-up from the line of Samudrajit Gohain of Eureka Stock Broking, please go ahead

Samudrajit Gohain: Yeah, just a small follow up question. Now that we are seeing the crude price firming up and like you are not paying subsidy for cooking fuels. Suppose crude prices come up from here onwards what is the thought process on your subsidy? Will you have to pay subsidy for coking fuels as well?

D. K. Sarraf: The government has already announced and I believe after the budget, official statement issued by the Ministry of Petroleum that the subsidy or under recoveries on cooking fuel would be met by the government directly and the subsidy on transportation fuel mainly MS and HSD would be met by the industry. So at that time it was not mentioned that these particular formulation is pertinent to what price range of crude oil. So we believe that whatever decision has been made by the Ministry of Petroleum that will continue.

Samudrajit Gohain: Okay, thank you.

Moderator: Thank you Mr. Gohain. We have a follow up question from the line of Sanket Dhake of Span Capital, please go ahead

Sanket Dhake: Sir, just wanted to know at what price you're looking H2 as net crude oil, I mean Q2 it was 56.42 after subsidy discount?

D. K. Sarraf: Yeah.

Sanket Dhake: Yeah, in H2, what price are you looking on average?

D. K. Sarraf: No, it is not possible to put a number to the H2 price because the gross price as well as the under recovery discounts which we are supposed to give to OMCs are variable which is totally not in our hand.

Sanket Dhake: Sir, just a range, brief range for FY10?

D. K. Sarraf: Okay, if you are asking, I will not still be giving a range, but I can say that we believe that as per the fundamentals crude prices from here are to go up.

Sanket Dhake: Last time, Mr. R. S. Sharma said around \$100. Are you seeing the same or any major changes I mean any major or minor changes in the same?

D. K. Sarraf: What I am saying is that fundamentals of global crude oil supply and demand situation suggest that crude oil prices from now will go up, but it is difficult to say to what extent and when.

Sanket Dhake: Okay, thanks a lot.

Moderator: Thank you, Mr. Dhake. Our next question is from the line of Prayesh Jain of India Infoline. Please go ahead

Prayesh Jain: Hello, good afternoon sir, Just a couple of questions. One, I am just hoping to get a breakup between gas fields and oil fields in terms of lifting costs?

B. L. Ghasolia: No we do not have separate lifting costs for gas fields and oil fields, this is worked out on combined basis.

Prayesh Jain: Okay, and secondly about the rigs that you have, what are the periods these are contracted for the Transocean and the Reliance front?

S. K. Jain: Transocean rig was contracted for a period of three years. That contract has an extension clause for another year on six monthly basis. The Reliance rig which has been recently hired is for a period of four years.

Prayesh Jain: Basically just the Transocean rig would be available only for one year?

S. K. Jain: Yeah, one more year

Prayesh Jain: So that's from FY11, we now only have four rigs?

S. K. Jain: FY11, yes, of course the Transocean rig will be completing its contract and near the completion we will see whether we can renew the contract with Transocean or we go for re-tendering, okay. And the other two rigs which we have already contracted are likely to come in early 2011, so with that we will definitely have four plus Transocean rigs subject to extension.

Prayesh Jain: Okay, thanks a lot.

Moderator: Thank you, Mr. Jain. Our next question is from the line of Aishwarya Deepak of B&K Securities. Please go ahead

Aishwarya Deepak: Good afternoon, sir.

D. K. Sarraf: Good afternoon.

Aishwarya Deepak: Sir just first question when I look at FY08 and FY09 what I see that the post subsidy realization of crude oil was \$52.9 and \$47.7 when the exchange rate was \$40.3 and \$46.5 whereas in the current year what we have seen is the crude realization net of subsidy till date is around \$57 and the exchange rate is hovering around \$48. So taking this into consideration I want your view that how you look at this thing, because this time the companies are making good profits in the first half but what have changed in the last two years, I mean why the government will be considering more, I mean government will allow the oil upstream companies to earn more over the last two years?

D. K. Sarraf: Your question I think it is a statement I understood. But what is your question?

Aishwarya Deepak: I mean I just want to have your view sir, how you look at it?

D. K. Sarraf: No, the government has already constituted the committee, which you are all aware of and the announcement the Finance Minister had made during his budget speech. How this thing would further shape would perhaps depend on the recommendation of the committee and acceptance of the same by the government.

Aishwarya Deepak: Okay, sir, right sir, thank you very much

Moderator: Thank you Mr. Deepak. Mr. Niraj Mansingka, would you like to add any follow up questions or comments?

Niraj Mansingka: Yeah, I have one question on the discoveries that was announced. You had announced in the release that you have five discoveries in Q2 and another four in October 2009. Could you give some color on that and how much the Phase I for some of the discoveries which are some notable?

D. K. Sarraf: Mr. Niraj, very preliminary work has been done, well has been drilled and oil and gas has been discovered and under further study. So until and unless the complete study is being done, it is very difficult to give any numbers and assess the extension of the field.

Niraj Mansingka: Okay, sir. That's all from my side question.

Moderator: Thank you Mr. Mansingka. There are no further questions in the queue now. Would you like to add any closing comments?

Niraj Mansingka: Yeah, thank you everybody for attending the call and especially the ONGC management for taking out time to attend this conference call. We sincerely thank the management for the effort it has put in, releasing lot of information to investors, which has enabled us to understand ONGC much better and appreciate earnings in a much better way. That is from my side. Thank you. Have a nice day.

Moderator: Thank you Mr. Mansingka. Thank you gentlemen of the ONGC management.

D. K. Sarraf: Just one moment if you can hold, from most of the investors I

could not get that what further information they would like to receive from ONGC management, which they are missing. Since it has not been done I mean I would welcome even if they send an e-mail to our investor relation cell that will be most welcome.

Moderator: Thank you very much, sir. Ladies and gentlemen on behalf of Edelweiss Securities this concludes the conference call. Thank you for joining us on the Chorus Call Conferencing Facility and you may now disconnect your lines.

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