

MEMORANDUM OF UNDERSTANDING

2016-17



ONGC VIDESH LTD.
(A WHOLLY OWNED SUBSIDIARY OF ONGC)

AND



OIL AND NATURAL GAS CORPORATION LTD.

July, 2016

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SECTION – I

1.1 MOU Assessment Format (FORM-1)

FORM-I (Applicable for ALL CPSEs except CPSEs UNDER Closure / under construction)

ONGC Videsh Ltd.

PERFORMANCE EVALUATION PARAMETERS AND TARGETS

The Company undertakes to achieve performance level for the year 2016-17 as indicated below:

PART - A

Sl. No.	Evaluation Criteria	Unit	Wt.	MOU Targets				
				Ex.	V. Good	Good	Fair	Poor
i	Capacity Utilisation: Production							
	a) Crude Oil Production	MMT	8	7.939	7.660	7.395	7.143	6.903
	b) Natural Gas Production	BCM	2	4.056	3.510	3.367	3.231	3.102
ii	Efficiency Parameters (Physical Operations) :							
	A. Production Efficiency - Sector specific result oriented measurable efficiency parameters against benchmarks (upto 3 parameters)							
	1P reserves net addition during FY 16-17	MMToE	5	19.000	18.050	17.148	16.291	15.476
	Reduction in production decline rate over previous year	%	5	0.8	0.6	0.4	0.2	0.0
	B. Technology up-gradation: Sector specific steps to upgrade technology/operational environment (against benchmarks for the sector)							
iii	Sakhalin-1: New Drilling Rig with state of art Technology							
	Completion of fabrication of New drilling rig for Odoptu stage 2 development & sail away from Houston	Date	5	31.12.2016	31.01.2017	28.02.2017	15.03.2017	31.03.2017
	Leveraging Net Worth: CAPEX (including acquisitions in foreign countries)	₹ Cr.	15	14,843	13,000	12,500	12,000	11,500

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Approved by IMC
Signed
22/03/17

iv	Monitoring Parameter:									
	% of value of CAPEX /contract/projects running /completed during the year without time/cost overrun to total value of CAPEX/contracts running completed during the year	%	5	100	90	80	70	60		
v	Turnover for Operations:									
	Revenue from Operations (Net of excise duty)	₹ Cr.	15	15,375	14,250	13,725	13,231	12,760		
vi	Profit Before Tax:									
	PBT (excluding other income, extraordinary and exceptional items) as percentage of revenue from operations (net of excise duty)	%	15	4.25	4.00	3.75	3.50	3.25		
vii	Early signs of weakness:									
	Reduction in Claims against the Company not acknowledged as debt, over the previous year, raised by others	%	5	5.00	3.00	1.00	0.50	0.25		
viii	Marketing efficiency ratios									
	A. Reduction in Direct Lifting cost (\$/boe) over previous year	%	5	2.5	2.0	1.5	1.0	0.0		
ix	Return on Investment:									
	Reduction in Total expenses per MMTOE (as per audited consolidated Balance Sheet) over previous year	%	10	5	4	3	2	1		
	TOTAL		100							

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Signed
Date: 22/07/16

Notes:

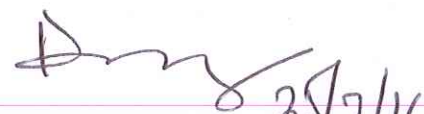
1. It was agreed that the targets finalized by the Inter Ministerial Committee (IMC) are based on actual/ provisional submitted by the company for FY 2015-16. In case of better performance of the CPSE during the year 2015-16 as compared to actual /provisional given to the committee, the difference shall be added to the targets of 2016-17.
2. As per MOU guidelines, targets set in MOU are unconditional and no off set will be allowed in any condition except adjustment as mentioned in para 9 (v) of minutes of IMC meeting. Further evaluation would be subject to compliance of additional eligibility criteria as contained in para 14.2 and 14.3 of MOU guidelines 2016-17.
3. It was decided that at the time of MOU evaluation, wherever the figures are not verifiable from the annual report, verification of the same would be done on the basis of certification/resolution by Board of Directors.

SIGNATURES

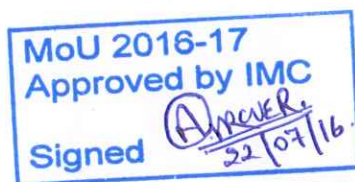
ONGC VIDESH LTD. and OIL AND NATURAL GAS CORPORATION LTD. agree to the Memorandum of Understanding for 2016-17 and sign this document on the 25th day of July of the year Two Thousand and Sixteen.


(N. K. Verma)

Managing Director
ONGC Videsh Limited


(D. K. Sarraf) 25/7/16

Chairman and Managing Director
Oil and Natural Gas Corporation Limited



SECTION – II: Efficiency Parameters

2.1 Production Efficiency

Sector specific result oriented measurable efficiency parameters against benchmarks

A. 1P reserves net addition during the financial year FY 16-17

1P reserves i.e. proved reserves are determined through extensive geologic and engineering studies. This refers to the amount of resources that can be recovered from the deposit with a high level of certainty. The net addition of proven resources i.e. 1P (total) during any year is an important parameter for the company.

B. Reduction in Production Decline Rate over previous Year

Production Decline analysis is a reservoir engineering empirical technique that compiles trends in the production data from oil and gas wells. The purpose of a Decline analysis is to generate a forecast of future production rates and to determine the expected ultimate recoverable (EUR) reserves.

2.2 Technology up-gradation

Sector specific steps to upgrade technology/ operational environment

a) Sakhalin-1: New Drilling Rig with State of the Art Technology

Activities Time Line	Planned Schedule
Award of Rig Fabrication Contract	Jan 2015
Completion of procurement of critical items	Sep 2015
Mechanical completion	August 2016
Completion of critical commissioning	October 2016
Completion of sea lift	Dec 2016

SECTION – III: Monitoring Parameters

3.1 Project to be considered for Monitoring Parameters at S. No-iv:

S. No.	Projects	Project approved cost	ONGC Videsh Share of Expenditure	ONGC Videsh share 16-17	Scheduled date of Completion
		(USD million)	(USD million)	(USD million)	
1	Sakhalin-1, Russia: Development of Arkutun Dagi Field	2908	581.600	40.800	10.03.2017
2	Sakhalin 1, Russia: 2nd Gas injection Module	149	29.800	12.600	31.10.2016
3	ACG, Azerbaijan: Water Injection Pipeline	76	2.068	2.068	31.12.2016
4	Block 06.1, Vietnam: 3D Seismic	9.714	4.371	4.371	31.03.2017
5	Block CPO-5, Colombia: Exploratory well	15	10.500	9.409	15.03.2017
6	BLOCK SS-04 & SS-09, Bangladesh: 2D OBC Seismic Survey	10.847	5.424	5.424	15.03.2017
7	Block B-2 and EP-3, Myanmar: 2D Seismic Survey	15.388	15.388	15.388	15.03.2017
8	Imperial, Russia: Development of South Maiskoye Pad 4 extension	9.409	9.409	9.409	31.01.2017
9	Imperial, Russia: Associate Petroleum Gas (APG)	35.04	35.040	20.000	28% achievement till 31.03.2017
10	BC-10, Brazil: Revamping and improvement of MOBO system	55	14.850	14.850	30.09.2016
	Total	3283.398	708.45	134.319	

**SECTION – IV: Major Assumptions, Explanatory
Notes & Definitions**

4.1 FINANCIAL PARAMETERS

- Crude oil and condensate price has been considered at US\$ 45/bbl for Dated Brent Crude and appropriate premium and discount based on past trend has been applied to arrive at the price of crude for the different projects.
- 1 US Dollar has been assumed at ₹ 66/- for FY 2016-17.
- Natural gas price of USD \$3.82/MMBTU will be considered for excellent level.
- However, the following Natural gas prices will be considered for all other levels except excellent level in respect of Block 06.1, Vietnam, Sakhalin-1, Russia, Vankorneft, Russia and Block A-1 & A-3, Myanmar, have been considered at the level of long term contract price and applicable index based formula as under:
 - a) Block 06.1, Vietnam = US \$ 3.82/MMBTU
 - b) Sakhalin-1, Russia = US \$ 1.65/MMBTU
 - c) Vankorneft, Russia = US \$ 0.83/MMBTU
 - d) Block A-1 & A3, Myanmar = US \$ 5.80/MMBTU @ well head price
- As per past practice, ONGC Videsh MoU targets and performance is computed at consolidated level (consolidation of participation interest of all its overseas assets held directly or indirectly through subsidiaries and joint ventures companies).

4.2 DEFINITION AND METHODOLOGY

Definition and methodology of parameters as used in preparation of MoU 2016-17

Direct Lifting cost	It is the cost of production for one barrel of oil and oil equivalent gas. ONGC Videsh is calculating Direct Lifting cost from Note-32 of Consolidated Annual Accounts under the head "Production, Transportation, Selling expenditure and distribution expenditure" by using only the Direct production costs and excluding Transportation cost, Royalties and other Statutory levies, idle rig cost, exceptional items unrelated to direct oil and gas production. It is to be noted that Direct Lifting cost is excluding Depreciation, Depletion, Amortisation, Provisions & write-offs. 1 BCM of gas has been considered as 1 MMT of oil equivalent.
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SECTION – V: Annexures

Annexure-IEstimation of MOU Very Good Financial Parameters

Particulars	Actual	Estimates for MoU 2016-17 Targets
	2015-16	V. Good
Crude price \$/bbl	47.46	45.00
Ex rate Rs./US\$	65.48	66.00
Crude Oil Production MMT	5.510	7.660
Gas Production BCM	3.406	3.510
Total O+OEG MMToe	8.916	11.170
Sales Turnover		
- Crude Oil	9,583.17	11,589
- Gas	2,034.72	2,382
- Other operating income (P/L & Tpt)	924.96	483
Less VAT	-157.42	-208
Sub Total - Sales Turnover	12,385.43	14,246
Interest Income	157.22	71
Other Income	229.34	153
GROSS REVENUE	12,771.99	14,470
Operating Expenditure	4,343.33	5,121
Fixed	3,691.83	4,398
Variable	651.50	723
Statutory Charges	1,483.59	2,859
Exchange loss/(gain)	-668.20	557
TOTAL EXPENDITURE	5,158.72	8,537
EBITDA	7,613.27	5,933
Depreciation	475.78	558
Depletion	4,246.88	4,573
Amortisation (Dry wells, survey, Goodwill)	893.85	908
Sub Total DD&A	5,616.52	6,040
Provisions & Write-offs	168.25	197
Exceptional item (impairment)	3,047.17	
Total DD&A & write offs	8,831.95	6,237
EBIT	-1,218.67	-304
Interest Expense	668.35	806
Total Financing Cost	668.35	806
Total Expenditure	11,612	15,580
PROFIT BEFORE TAX (PBT)	-1,887.02	-1,110
Prior period	-711.67	
Provision for Tax	929.80	523
Minority Interest	-11.60	-13
NET PROFIT (PAT)	-2,093.55	-1,620

Annexure-II

S. No.	Evaluation Criteria	Unit	Financial Year					MoU VG 2016-17
			2011-12	2012-13	2013-14	2014-15	2015-16	
i.	Capacity Utilisation (based on Part A)	MMToe	8.753	7.260	8.357	8.874	8.916	11.170
	a) Crude Oil Production	MMT	6.214	4.341	5.486	5.533	5.510	7.660
	b) Gas Production	BCM	2.539	2.919	2.871	3.341	3.406	3.510
ii.	Efficiency Parameters (Physical operations)-Based on Part A							
iii	Capex (Plan outlays/expenditure)	₹ Crore	8,000	10,891	35,357	7,172	6,783*	13,000
iv	Paid-Up Share Capital	₹ Crore	1,000	5,000	10,000	10,000	10,000	15,000
v	Accumulated Reserves	₹ Crore	18,941	24,167	31,549	33,327	29,982	29,433
vi	Net Worth (Equity + Reserves)	₹ Crore	19,941	29,167	41,549	43,327	39,982	44,433
vii	Borrowings (Shown in Non-current Liability)	₹ Crore	19,516	14,587	21,608	36,486	37,461	45,287
viii	Borrowings/Net Worth	%	98%	50%	52%	84%	94%	102%
ix	Percentages of value of CAPEX contracts/projects running/completed during the year without time/cost overrun to total value of capex contracts running/completed during the year (wherever applicable)	NA	NA	NA	NA	NA	NA	NA
x	Revenue from Operations (Gross including VAT)	₹ Crore	22,604	17,791	22,024	19,050	12,543	14,454
xi	Revenue from Operations (Net of VAT)	₹ Crore	22,347	17,558	21,823	18,882	12,385	14,246
xii	Profit before tax	₹ Crore	5,109	6,632	6,947	2,945	1,160	(1,110)
xiii	Other Income- Interest	₹ Crore	91	207	96	49	157	71
	Dividend	₹ Crore	-	-	-	-	-	-
	Others	₹ Crore	199	265	305	218	229	153
	Total	₹ Crore	290	471	402	267	387	224
xiv	Extraordinary Items	₹ Crore	-	-	-	-	-	-
xv	Exceptional Items	₹ Crore	-	-	-	-	3,047	-
xvi	Profit before Tax (excluding Other Incomes, Extraordinary and exceptional items)	₹ Crore	4,819	6,161	6,545	2,678	774	(1,334)

S. No.	Evaluation Criteria	Unit	Financial Year					MoU VG 2016-17
			2011-12	2012-13	2013-14	2014-15	2015-16	
xvii	Profit After Tax	₹ Crore	2,721	3,929	4,445	1,904	(2,094)	(1,620)
xviii	Revenue from Operations (Net)/ Total Expenses [excluding extra ordinary/ exceptional items, if shown separately and Tax (income tax) expenses]	%	127%	154%	143%	117%	107%	91%
xix	Closing inventory of Finished goods	₹ Crore	103	86	230	103	(26)	(26)
xx	Closing inventory of Work-in-progress	₹ Crore	N/A	N/A	N/A	N/A	N/A	N/A
xxi	Sale of Products (Net of excise duty)	₹ Crore	22,223	17,438	21,458	18,323	11,460	13,763
xxii	Number of days of inventory of finished goods and Work in progress to sale of products (whenever applicable)	No of Days	N/A	N/A	N/A	N/A	N/A	N/A
	Marketing Efficiency Ratios :							
	Direct Lifting Cost	\$/boe	10.0	11.3	11.5	10.1	9.2	9.4
xxiii	Trade Receivables (Exceeding Six Month)	₹ Crore	1,962	2,503	4,691	7,001	8,703	8,211
xxiv	Trade Receivables (Total)	₹ Crore	4,481	5,961	7,866	9,014	10,470	11,129
xxv	Trade Receivables as percentage of Revenue from Operations (Gross)	%	19.8%	33.5%	35.7%	47.3%	83.5%	77.0%
xxvi	Cash and Bank Balance total	₹ Crore	5,153	4,459	2,235	2,383	1,351	912
	With Subsidiaries	₹ Crore	4,607	4,049	1,615	1,649	1,218	822
	With JV	₹ Crore	201	169	192	124	93	63
	With OVL	₹ Crore	345	241	429	609	40	27
xxvii	Net Profit / Net Worth	%	13.6%	13.5%	10.7%	4.4%	-5.2%	-3.6%
xxviii	Dividend/ Net Profit	%	N/A	N/A	N/A	N/A	N/A	N/A
xxix	Dividend/Net worth	%	N/A	N/A	N/A	N/A	N/A	N/A
xxx	Claims against the company not acknowledged as debt (Total)	₹ Crore	483	907	970	1,536	726	697
xxxi	CPSE specific/sector specific (List all from Part A)							
xxxii	Resources Raised (Plan Outlay-IR) Net	₹ Crore	(931)	4,007	22,416	(2,855)	1,105	7,826
xxxiii	Surplus Redeployed (Int. Resources)	₹ Crore	8,931	6,885	12,942	10,027	5,365	5,174
xxxiv	Major Expenses (Plan Outlay)	₹ Crore	8,000	10,891	35,357	7,172	6,470	13,000

Annexure-III

Self - declaration / certification by CPSE

It is hereby certified that the targets and actual achievements in respect of financial parameters have been worked out as per MOU guidelines by adopting the norms and definitions laid down in MOU guidelines for the year 2016-17. In case, any deviation is found at any point of time. DPE is free to evaluate as per MOU Guidelines. CPSE has no right of claim in this regard.


Managing Director
ONGC Videsh Limited