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27

TWENTY-SEVENTH REPORT

COMMITTEE ON PUBLIC UNDERTAKINGS

(2013 - 2014)

(FIFTEENTH LOK SABHA)

JOINT VENTURE OPERATIONS OF ONGC VIDESH LIMITED

MINISTRY OF PETROLEUM AND NATURAL GAS

[BASED ON C&AG REPORT NO. 28 OF 2010-11 (PERFORMANCE AUDIT)]

Presented to Lok Sabha on 5.2.2014

Laid on the Table of Rajya Sabha on 5.2.2014

LOK SABHA SECRETARIAT

NEW DELHI

FEBRUARY 2014 / MAGHA, 1935 (S)

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COMPOSITION OF THE COMMITTEE ON PUBLIC UNDERTAKINGS (2013-2014)

Chairman

Shri Jagdambika Pal

Members, Lok Sabha

2. Shri Hansraj Gangaram Ahir
3. Shri Praveen Singh Aron
4. Shri Sanjay Bhoi
5. Smt. Shruti Choudhary
6. Shri Bansa Gopal Chowdhury
7. Shri Raja Ram Pal
8. Shri Adhalrao Shivaji Patil
9. Shri Rajendrasinh Rana
10. Shri Nama Nageswara Rao
11. Shri Magunta Sreenivasulu Reddy
12. Prof. Saugata Roy
13. Smt. Sushila Saroj
14. Shri Uday Singh
15. Shri Bhisma Shankar alias Kushal Tiwari

Members, Rajya Sabha

16. Shri Naresh Agrawal
17. Shri Anil Desai
18. Shri Janardan Dwivedi
19. Shri Naresh Gujral
20. Shri Mukhtar Abbas Naqvi
21. Shri Tapan Kumar Sen
22. Dr. Janardhan Waghmare

Secretariat

1.	Shri A. Louis Martin	Joint Secretary
2.	Shri P.C. Koul	Director
3.	Shri M.K. Madhusudhan	Additional Director
4.	Shri Haokip Kakai	Executive Assistant

INTRODUCTION

1. I, the Chairman, Committee on Public Undertakings (2013-14) having been authorized by the Committee to submit the Report on their behalf, present this Twenty-seventh Report on Joint Venture Operations of ONGC Videsh Limited based on Audit Report No. 28 of 2010-11 (Performance Audit).

2. The Committee on Public Undertakings (2011-12) had selected the above said subject for detailed examination. However, the examination of the Subject could not be completed during the term of the Committee on Public Undertakings (2011-12).The Committee on Public Undertakings (2012-13) reselected the subject and further continued the examination. Since the examination remained inconclusive during the term of the Committee on Public Undertakings (2012-13), the present Committee again selected the Subject to complete the unfinished task.

3. The Committee (2012-13) took evidence of the representatives of Ministry of Petroleum and Natural Gas and ONGC Videsh Limited on the subject at their Sitting held on 22 August 2012.

4. The Committee considered and adopted the Report at their Sitting held on 7 January 2014.

5. The Committee wish to express their thanks to the representatives of the Ministry of Petroleum and Natural Gas and ONGC Videsh Limited for tendering evidence before them and furnishing the requisite information to them in connection with the examination of the subject.

6. The Committee would like to place on record their appreciation for the assistance rendered to them in the matter by the Office of Comptroller & Auditor General of India.

7. The Committee also wish to express their sincere thanks to the predecessor Committees for their valuable contribution in the examination of the subject.

8. For facility of reference and convenience, the Observations and Recommendations of the Committee have been printed in bold letters in Part-II of the Report.

New Delhi;
7 January 2014
17 Pausha, 1935(S)

JAGDAMBIKA PAL
Chairman
Committee on Public Undertakings

COMPOSITION OF THE COMMITTEE ON PUBLIC UNDERTAKINGS (2011-2012)

Chairman

Shri Jagdambika Pal

Members, Lok Sabha

2. Shri Hansraj G. Ahir
3. Shri Vijay Bahuguna
4. Shri Ramesh Bais
5. Shri Ambica Banerjee
6. Shri Shailendra Kumar
7. Smt. Ingrid Mcleod
8. Shri Vilas Baburao Muttemwar
9. Shri Baijayant Panda 'Jay'
10. Shri Adhalrao Shivajirao Patil
11. Shri Ponnam Prabhakar
12. Shri Nama Nageswara Rao
13. Shri Uday Singh
14. Dr. Prabha Kishor Taviad
15. Shri Bhisma Shankar alias Kushal Tiwari

Members, Rajya Sabha

16. Vacant *
17. Shri Pyarimohan Mohapatra
18. Shri Mukhtar Abbas Naqvi
19. Dr. Bharatkumar Raut
20. Vacant #
21. Vacant #
22. Shri N.K. Singh

***** **Vice Shri Janardan Dwivedi ceased to be a member of the Committee consequent upon his retirement from Rajya Sabha on 27.1.2012.**

**Vice Ms. Mabel Rebello and Shri Tapan Kumar Sen ceased to be members of the Committee consequent upon their retirement from Rajya Sabha on 2.4.2012.**

COMPOSITION OF THE COMMITTEE ON PUBLIC UNDERTAKINGS (2012-2013)

Chairman

Shri Jagdambika Pal

Members, Lok Sabha

2. Shri Hansaraj Gangaram Ahir
3. Vacant *
4. Shri Bansa Gopal Chowdhury
5. Dr. Mahesh Joshi
6. Shri Shailendra Kumar
7. Dr. (Smt) Botcha Jhansi Lakshmi
8. Shri Vilasrao Baburaoji Muttemwar
9. Shri Adhalrao Shivaji Patil
10. Shri Ponnam Prabhakar
11. Shri Rajendrasinh Rana
12. Shri Nama Nageswara Rao
13. Shri Uday Singh
14. Dr. Prabha Kishor Taviad
15. Shri Bhisma Shankar alias Kushal Tiwari

Members, Rajya Sabha

16. Shri Anil Desai
17. Shri Janardan Dwivedi
18. Shri Naresh Gujral
19. Dr. V. Maitreyan
20. Shri Mukhtar Abbas Naqvi
21. Shri T.M. Selvaganapathi
22. Dr. Janardhan Waghmare

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* **Vice Shri Ambica Banerjee, M.P. passed away on 25 April, 2013.**

PART I

Background Analysis

Introductory

ONGC Videsh Limited (OVL) is a wholly owned overseas arm of Oil and Natural Gas Corporation Limited. The Company though incorporated on 5 March 1965 got its present name on 15 June, 1989. Previously it was known as Hydrocarbons India Private Limited. The Company is engaged in prospecting, acquisition, exploration, development and production of oil and gas acreages abroad with its operations spanning in Commonwealth of Independent States (CIS), Far East, Middle East, Africa and Latin America. The Company has incorporated/acquired four overseas wholly owned subsidiaries (ONGC Nile Ganga B.V., ONGC Narmada Limited, ONGC Amazon Alakananda Limited and Jarpeno Limited) and one JV Company (ONGC Mittal Energy Limited) for acquiring stake in various blocks at producing, exploration and development stages. The affairs of the Company as of March 2010 were being managed by a board of Directors consisting of 13 Directors including four functional Directors, two Government nominee Director and seven part time Directors who are whole time Directors on the board on ONGC. The Chairman and Managing Director (CMD) of ONGC is also the Chairman of the Company.

The Company had acquired 45 exploration and production (E&P) assets up to March 2010. Out of 45 assets, 14 were producing, developing/discovered assets, 23 assets were under exploration and remaining eight had been abandoned by the Company up to March 2010 due to non-discovery of hydrocarbons. Producing and developed assets of the Company had proven hydrocarbon reserves of 185.995 Million Metric Tonne Oil Equivalent (MMTOE).The Company acquired 36 assets having an investment of Rs.6,206.83 crore at exploration stage and achieved success in only five projects (only one project is producing and the remaining four are still under development) where it was the non-operator. Eight projects with a cost of Rs.1,066.17 crore had to be abandoned and remaining 23 projects were still in the process of exploration. Thus, as a sole operator, the Company has not achieved any success so far and needs to improve its core competence in the evaluation of investment opportunities.

The performance audit of joint venture operations of the Company was reportedly taken up for the first time because since incorporation in 1965 to March 2004, the Company had acquired only eight Exploration and Producing (E&P) assets and its turnover was just Rs. 3,245 crore in 2003-04. However, during the period 2004-10, a total of 37 new E&P assets were acquired by the Company. Also, out of eight assets abandoned by the Company since incorporation, seven assets were abandoned during this period due to non discovery of hydrocarbons and after incurring an expenditure of Rs. 997.66 crore. Audit reviewed the Company's transactions, on the basis of records available in India, relating to acquisition, exploration, development and production of oil and gas fields abroad through Joint Ventures (JVs) and through its subsidiary or JV Companies for the period from 2004-05 to 2009-10 and examined the adequacy of the systems for due diligence, formation of joint ventures and internal controls in respect of these overseas Exploration and Producing (E&P) assets.

The Performance audit was conducted to assess:

- The adequacy of due diligence process for identification, appraisal and evaluation of investment opportunities in the E&P assets;
- The rationale behind formation of JVs and adequacy and reasonableness of terms and conditions of Joint Operating Agreement (JOA) and Exploration and Production Sharing Agreement (EPSA)/Production Sharing Contract (PSC) governing JV operations to safeguard financial interests of the Company; and
- The adequacy of internal control and internal audit arrangement to provide a reasonable assurance to the stakeholders on the investment.

A sample of 20 out of 45 E&P assets were taken up in Audit on Judgmental sample basis, classifying E&P assets into Producing, Developing, Exploration and Abandoned categories up to March 2010 as detailed below:

E&P	No. of Assets	Total Investment as of March 2010 (Rs. In Crore)	No. of assets selected for audit	Total investment in assets selected for audit (Rs. In crore)	Percentage of Investment in selected E&P assets to total Investment
Producing, Developing/ Discovered	14	49,195.79	7	44,196.06	89.84
Exploration	23	2,229.94	7	1,242.81	55.73
Abandoned	8	1,066.17	6	978.88	91.81
Total	45	52,491.90	20	46,417.75	88.43

According to Audit, a performance review covering 20 of the Company's 45 E&P assets for the period April 2004 to March 2010 identified two areas that require strengthening, viz, the Company's systems for evaluation of investment opportunities for acquiring and exploiting E&P assets and for formation of Joint Ventures as also its internal control systems.

The Audit findings and other issues related with the subject matter are dealt with in the succeeding chapters of this Report.

CHAPTER – I

EVALUATION OF INVESTMENT OPPORTUNITIES

A. Evaluation Process

According to Audit, OVL got investment opportunities through international bidding rounds invited by the host countries for exploration and production (E&P) activities, offers for farm out of participation interest from the existing consortium partners of a Block, information from empanelled Merchant Bankers/Consultants of the Company and diplomatic and other channels.

When asked about the systems/processes that have been put in place by the Company for the purpose of acquisition, exploration, development and production of oil and gas acreages abroad by way of direct/joint, indirect operations through subsidiaries and joint ventures companies, OVL in a written reply stated that acquisition of any international E&P opportunity involves fierce competition amongst many prospective buyers. The information on the offered opportunity is made available for a limited time window necessitating quick response in order to remain in the competition. OVL carries out necessary diligence within the same limited time window making use of data/information available from the data room and also in the public domain. The company follows a due diligence process involving technical, financial, legal and accounting teams before putting up to the Board/Government (as the case may be) for approval. Usually for producing/discovered assets, the company engages independent international technical, legal, financial, tax and accounting consultants in addition to in-house teams for the due diligence. In case of exploration ventures, the inherent risk assessed by the in-house technical team continues to remain even if multiple expert opinions are obtained. The processes followed by OVL in accessing an international E&P opportunity are stated to be as under:

(a) Scouting of Opportunity: OVL comes to know about an available opportunity in the market through subscribed websites and publications, International Investment bankers, OVL's partners in different projects or directly from the seller etc.

(b) Preliminary Evaluation: When an opportunity comes to the notice, OVL makes a preliminary evaluation based on public domain information and industry specific subscription of E&P information services.

(c) Confidentiality Agreement: If the preliminary evaluation is encouraging then OVL enters into Confidentiality Agreement (CA) or Non–Disclosure Agreement (NDA) with seller. The signing of CA or NDA enables the seller to share data and Information Memorandum with prospective buyers.

(d) Detailed due diligence: Internal Multi-Disciplinary team is constituted to evaluate the opportunity. Simultaneously Legal, Technical and Financial consultants are engaged based on size, complexity or requirement of the opportunity. Sellers Data is accessed through virtual data rooms wherever available and/or physical data rooms.

(e) Legal, Financial Technical consultants submit their due diligence reports on the opportunity. The multi-disciplinary team also presents their findings

to the management of OVL. Based on this, a decision is made wherein an opportunity is dropped or is perused further.

(f) The Board is informed about the findings of the teams and approval is taken for the bidding, bid amount and conditions if any.

(g) The Bid is submitted to the bidder after Board approval in cases where the bid value is within the power of the Board.

(h) GOI Approval for bids over Board approval limit:

- If the bid value is in excess of USD 75 million (Rs.300 crore), then a non-binding or conditional bid is submitted and the seller is informed that the bid is subject to the Government of India approval.
- Cases requiring government approval are routed through Empowered Committee of Secretaries (ECS) before seeking Cabinet Committee of Economic Affairs (CCEA) approval. The case is presented to ECS for its recommendation to the CCEA for requisite approval.
- In case of such bids where OVL succeeds, CCEA is approached for approval.

(i) The definitive agreements are signed only after obtaining approval from the Board or CCEA as the case maybe.

(j) Political Clearance: Permission is obtained from Ministry of External Affairs to enter a new country.

(k) RBI Approval: After Government approval and definite agreement, RBI is approached for approval of foreign currency remittances, wherever required.

When asked to give detailed reasons for acquisition of only 8 E&P assets between 1965 and March, 2004 and the subsequent spurt in such acquisition when 37 assets were acquired between 2004 and 2010, the Company stated that ONGC Videsh was promoted by ONGC as its wholly owned subsidiary in March 1965 as 'Hydrocarbons India Private Limited' to conduct exploration and development of Rostam and Raksh oil fields in Iran and undertaking a service contract in Iraq as overseas arms of ONGC. Its name was changed to ONGC Videsh Limited in June, 1989 with the prime objective of marketing the expertise of ONGC abroad. Throughout the nineties, the Company was engaged in providing its expertise in evaluating exploration contracts. It also made exploration efforts in Egypt, Yemen and Tunisia, which were not successful.

ONGC Videsh re-oriented its focus on acquiring oil and gas assets in the mid-nineties. However, it could not compete in the international market due to lack of empowerment which prohibited its ability to make quick decisions. The Company was granted special empowerment by the Government of India in January 2000 whereby power to take investment decisions up to Rs. 200 Crore (equal to NAVRATNA powers) was delegated to the Board of Directors of ONGC Videsh. In addition, a fast track approval system was put in place for investments beyond the power of the Board for approval by the Cabinet Committee on Economic Affairs (CCEA) through Empowered Committee of Secretaries (ECS). The delegated authority of the Board was enhanced to Rs. 300 Crore in February 2005. The special empowerment facilitated ONGC Videsh to

successfully acquire oil and gas assets in foreign countries. ONGC Videsh, which had one asset in year 2000, gradually learnt to compete in the international arena, and could successfully conclude many large transactions around the world in subsequent years.

B. Absence of a documented Policy

Audit scrutiny has revealed that OVL, for acquisition of E&P assets, does not have a defined/documented policy. However, it constituted an Internal Multi Disciplinary team to evaluate the opportunities available to it and simultaneously engaged Legal, Technical and Financial consultants. The Multi Disciplinary team's advice along with the findings of the consultants is presented to the Management of the Company for decision making and approval by the Board for bidding in respect of those E&P assets which prima facie appeared viable to the Company. In case, the investment amount exceeded the financial competence of the Company i.e. USD 75 Million or Rs. 300 crore whichever is less, the proposal is forwarded for approval of Empowered Committee of Secretaries (ECS) and Cabinet Committee on Economic Affairs (CCEA).

The Ministry stated (October 2010) that there was neither a need nor was it considered desirable to have a defined procedure/policy for acquisition of oil and gas opportunities as each opportunity was a unique case.

According to Audit, Ministry's reply is not tenable as a documented policy will define the basic parameters around which the due diligence process could be carried out to appropriately mitigate the risk , as E&P business is capital intensive with uncertain returns.

When asked as to how the Company ensured consistency, uniformity and transparency in evaluation of the investment opportunities, formation of JVs and extent of acquisition of participation interest in the E&P assets, in the absence of a defined policy, the Ministry of Petroleum and Natural Gas, in a written reply submitted that a task force was constituted to document the process followed by OVL for acquisition of assets as a documented policy and the same is in place now. Farm in & Farm out into JVs depends on the provisions of contracts, risk reward perception & market conditions and there can be no specific prescription of risk/reward sharing under all circumstances. Each opportunity being unique in itself, it is neither possible nor desirable to prescribe a specific format or percentage of acquisition in a particular asset. The provisions in the JOA/PSC etc. are normally as per the Standard International Practices for Joint Ventures. The standard format for participation in overseas Joint Ventures is followed by oil majors including Exxon Mobil, Shell, BP etc. and also in joint ventures where OVL is operator.

Contesting the reply of the OVL, Audit in their vetted comments stated that OVL's reply is not tenable as the Company is still not having any approved documented policy for evaluation of E&P opportunities and is only having a set procedure approved by MD not by the Board. Further, in the absence of a documented policy for formation of JV or farming-in or farming-out of PI in view of high risk and capital intensive business, the Company deprived itself from mitigating the impact of known risks, leveraging the combined financial strength and sharing the experience of JV partners.

In response to the aforesaid audit para, OVL stated that the Company entered into expansion and growth stage only from the year 2000. In the formative stage of the Company, a system to deal with the opportunities on a case-to-case basis based on their uniqueness was considered as a better approach rather than resorting to an iron clad policy framework. During the course of time, consistent though unwritten, practices on various aspects of acquisition of oil and gas assets evolved, which the Company followed. OVL consistently followed the practice of due diligence engaging consultants for assessment of Producing & Discovered assets but selectively availed third party opinion in case of complex exploration opportunities. However, the Board of Directors of the Company has since approved the documented Policy.

The representatives of the Ministry and OVL appeared before the Committee on 22 August, 2012 to tender evidence on the subject matter. The Committee came to know that just five days before their appearance before them the OVL Board held a meeting on 17 August, 2012 and approved a documented policy for acquisition of E&P assets.

Initially during the course of oral evidence on 22 August, 2012 a representative of the Company gave the following justification for not having a well defined documented policy for the purpose:

"With your permission, I would like to explain to you and to this Committee. The ONGC Videsh is a very old Company, which was incorporated in 1965 but till 2000 we had only one asset, which is the asset in Vietnam, block 6.1, which is now a producing block. All other blocks have been acquired by 2000 and till the review period, the ONGC Videsh had 45 blocks in 17 countries. So, that means the rest of the 44 blocks were acquired during the 10 year period from 2000. The Company was in the stage of growth and the Company was evolving."

When queried as to how so many acquisitions took place without a policy being in place, the witness changed track and stated:

"Policy was there but it was not documented."

The Secretary of Petroleum and Natural Gas endorsing the views of the representative of the Company added:

"There was a policy all through but it was not documented."

Clarifying further on his statement, a representative of the Company stated:

"It was the policy, which was known to all operating persons. It evolved over a period of time because there was less experience. As we got the experience, we refined the policy."

The Secretary, P&NG added further:

> "…the policy which they have come out with, also defines very broad contours. It is because if they exactly define their policy as to which set are they going to take, it will be known to everybody. We are in competition in the international market. There are other countries and other companies vying for the same asset. If they know that as to what the minimum value that has to be given to an asset, naturally they will place to little higher value and we will be out. So is the case with selection of asset. If we say that we have to select an asset particularly with these parameters, then other would know whether we are going to come in or not. If there was a well defined parameters, that will be to the detriment of the acquisition of assets."

In a written reply furnished to the Committee, OVL informed that the existing policy in practice has been reviewed, updated and documented as 'Business Development Policies for Acquisition of Oil and Gas Assets' and approved by the Board of Directors of the Company in its 371st Board meeting held on 17th August 2012.

When asked to furnish a detailed note on circumstances necessitating the review, updation and documentation of Business Development Policies for acquisition of Oil and Gas Assets and its approval in the 371st meeting of the Company's Board held on 17 August, 2012. More so, when the constant refrain of the Ministry/Company before the Committee was that there was neither a need nor was it considered desirable to have a defined policy for acquisition of Oil and Gas opportunity as each opportunity was a unique case, the Company in a written reply stated that as shared during the interaction with Govt. Audit Teams and deposing before the Committee on Public Undertakings (COPU), business development policies though not documented at that time, but the same were being internally practiced regularly. However, with the advice of audit, a broad Business Development Policy has been documented now.Oil and gas resources are treated as strategic commodities and therefore, the competition to gain ownership over these assets is very intense. ONGC Videsh, which has taken the initiative to secure oil and gas assets overseas, has gained expertise over a period of time, largely on-the-job, i.e. during the course of going through the processes of responding to the milestones as set by seller. The systems, policies and procedures for conducting commercial transactions for assets abroad have evolved over a period of time, largely post 2000, after special empowerment was accorded to its Board by the Government of India. It is a fact that defining a rigid policy framework for acquisition of Oil and Gas assets abroad can be a practical challenge in the conduct of business in an environment where targets and deadlines are set unilaterally by seller, and also changed unilaterally by seller as per its convenience. International E&P transactions are not necessarily open auction process available to all interested. It's highly discretionary where owners decide whom to involve in the process & whom to sell, when and how. To be successful, a buyer has to build inherent capabilities to respond effectively and timely. It has to assess, evaluate, analyze risks, negotiate milestones and conclude deals within the time given by seller. Accordingly, it needs to have flexibility to make quick decisions. Also, the competitive parameters vary in each case. It is for these circumstances that making a policy framework at the learning phase of Company was considered challenging.

The Ministry has further stated that over the period of last 10-12 years, ONGC Videsh has grown manifold. The experience gained through the decade has provided the confidence to aim even higher targets, in the pursuits of meeting energy security of the Country. ONGC has adopted Perspective Plan 2030 for ONGC Group Companies in May 2012. It has set an annual production target for ONGC Videsh at 20 MMtoe of oil and gas by FY'18 and at 60 MMtoe by FY'30. The targets set would require a CAGR (Compounded Annual Growth Rate) in production @ 22.5% from FY'13 to FY'18; and 9.6% from FY'19 to FY'30. The targets are undoubtedly very challenging; but are achievable. To achieve the targets, the scope and magnitude of ONGC Videsh's pursuits to acquire E&P assets abroad, would need to be increased manifold from the current level. As such the Company requires reviewing existing systems and procedures, and putting in place sound policies, systems and procedures to act as broad guidelines covering all facets of ONGC Videsh functions and businesses, including the core functions of acquisition of overseas oil and gas assets. Accordingly, the Business Development Policy (BD Policy) has been formulated in 2012 to serve as broad guidelines while retaining the requisite flexibility. The Board, while approving the BD Policy, has deliberated the practical challenges that might arise on account of dynamic nature of international energy business, and accordingly, advised retaining flexibility and review of the policies periodically. The BD Policy shall require periodic review, mid-course corrections and alignment in line with the enhanced business targets and fast changing geo-political situation."

When asked whether the absence of a documented policy for E&P acquisitions brought to the notice of the nodal Ministry and, if so, when and what action was taken, thereafter by the Ministry, the management replied in the negative but also submitted that after the BD Policy was documented in 2012 and approved by its Board, the Ministry has been intimated of the same.

A copy of the 'Business Development Policies for Acquisition of Oil and Gas Assets' was furnished by the Company on 20 November, 2013. It is observed that several aspects crucial to exploration and production acquisitions have been codified in the said Policies. The policies provide for requisite flexibility to enable the executives to respond to competition in the dynamic global E&P market. The policies cover areas like due diligence of opportunities, appointment of consultants, types of opportunities to be pursued, minimum thresholds for exploration assets, production and discovered assets, non-associated natural gas assets, country-wise exposure limits, product portfolio, operatorship, contracts/acquisitions, participation through joint ventures, analysis and valuation of proposals, relinquishment and divestment of blocks, etc.

C. <u>Inadequate technical study and non-revalidation of data</u>

Block 5B, Sudan

According to Audit the Company acquired (May 2004) Block-5 B, Sudan with 23.5 per cent participation interest at USD 24.06 million (Rs. 109.44 crore) with "carry over finance" of 3.72 per cent participation interest of Sudapet (National oil Company of Sudan), as per sale/purchase condition, from OMV Aktiengesellschaft, Austria. Audit noticed that pre-acquisition technical study by the consultants - Gaffney, Cline &

Associates (GCA), brought out that the assessed reserve in the block was based on limited data made available by the seller, without permission to copy data from the data room, limited available time (only two days) for review of data; and also pointed out the prevalent security problems in the designated Block area. Despite these reservations expressed by the consultant, the Company acquired this risky asset without revalidating the data.

Audit observed that the consortium upto the year 2006, could not implement the scheduled seismic and drilling plan for want of accessibility to the area and restrictions by the local authorities. Non-implementation of Minimum Work Commitment (MWC) led to additional security charges, idle hiring charges for drilling rig, other incidental and operational charges after acquisition of the block.

Audit examination further revealed that GCA had also prioritized three prospects for drilling namely; Wan Machar, Barada-I and Kasafa-I with "un-risked speculative recovery" potential of 1267.2 Metric Million Stock Tank Barrel (MMstb), 317.1 MMstb and 26.4 MMstb respectively. The operator drilled only one prioritized swamp "Wan Machar" in addition to two wells (Munny Deng and Nyal) in non- prioritized swamp during 2008. The drilling of two prioritized swamp wells was dropped due to less prospectivity of reserves in Kasafa-I and allotment of Barada-I to third party by the local authorities. The three wells drilled brought no hydrocarbon discovery, and thus forced the Company to relinquish the block (19 February 2009) after incurring an expenditure of USD 89.5 Million equivalent to Rs. 423.84 crore.

The Management (OVL) stated (January 2010) that due diligence has to be carried out with limitation of time and on the basis of available data and seeking different opinions is neither feasible nor desirable as there is no specific technology which can predict availability of hydrocarbons at particular locations except by drilling. Further, the security risks of the Block were known at the time of acquisition and this was factored in while negotiating the acquisition price.

The Ministry endorsed (October 2010) the reply of the Management.

Audit stated that they do not agree with the Ministry/Management's viewpoint as reasons for overlooking significant reservations expressed by the consultant were not available on record. Considering the limitation of time and non availability of technical data, as the Company was not in a position to conduct due diligence, it should not have gone ahead in acquiring this asset which caused high risk.

It was further stated by Audit that their technical expert opined that the Company's reply stating security risk in the stock was known at the time of acquisition and was duly factored in was not corroborated in view of increase in cost from USD 34 million to USD 89.5 million which showed lack of understanding of ground realities and project planning. The prospects are prioritized not by only un-risked resources but with due consideration of chance of success, i.e., risked resources. If Barada area had been allotted to third party by local authorities in violation of PSC and it had un-risked resources higher than Munny Deng and Nyal; then the Company should have asked for reduction in work commitment. This would have substantially reduced the Company's risk and money outgo.

On being asked to state the reasons for overlooking the significant reservations expressed by the Consultant, OVL in a written reply submitted that for the benefit of proper understanding on the referred case, the reservations of consultant as observed by audit are extracted from the report and the same is reproduced below:

> "METHODOLOGY: 'This evaluation has been based on data reviewed and notes taken in the two day data room visit to OMV's Vienna offices between the 29th and 30th April, 2003. Due to the imposition of a no copying rule in the data room and the limited time available for the review GCA has not been able to perform a full audit of the undeveloped fields. Spot checks have been made to ascertain the overall reasonableness of the data and the interpretations.
>
> The consultant had given single evaluation report for two Blocks, namely Block 5A, a discovered block and Block 5B a rank exploratory block. No exploratory drilling data was available in respect of the Block 5B whereas the Block 5A had considerable exploration inputs in the form of seismic API and exploratory drilling at the time of evaluation for acquisition by OVL. Hence, the reservations expressed by the consultant regarding data availability are in reference to Block 5A. Thus, there was no overlooking of reservations as indicated by consultant relating to Block 5B. For a virgin area like Block 5B, the regional geological information was considered during technical evaluation of the block. This block, covering an area of 20,119 Km^2 is located in the southern part of prolific producer Muglad Basin. At the time of acquisition of this Block, a number of discoveries were made in Block-6, 1, 2, 4 and 5A (Muglad Basin) adjacent to the north of Block 5B. Based on Interpretation of available 2D seismic data, structural closures at Bentiu and Abu Gabra levels were identified with more than 3.0 billion stock tank barrel (stb) of hydrocarbon resource potential. This block was acquired along with acquisition of Block 5A where TharJath and Mala discoveries were already made in the same structural trend and geological set-up. Limitations on time and data at pre-sale stages are generally mentioned by all external consultants and decisions need to be based on given data and time constraints."

Audit contended that the OVL's reply stating that the reservations expressed by the consultants was related to Block 5A not for Block 5 B is not tenable as the consultant in its report dated May 2003 has specifically expressed that the constraints / limitations regarding adverse security situation was relating to Block 5B because the operator was not able to enter the contract area even after a lapse of 2 years. Further, the E&P business being highly risky and capital intensive, the Company should have given due consideration to the limitations expressed by the consultant/in-house team.

In response to Audit observation, OVL stated that it is a standard practice followed by the sellers of E&P assets that they give access to their data room to the prospective buyers for a limited period, say for 2 to 3 days, in view of time constraints with the seller and there being multiple prospective buyers to view the data. Also, the sellers do not allow copying of the data in view of their concern for confidentiality. As regards the reservations of the consultants, they include such statements invariably as disclaimer in their reports to restrict their legal liabilities, which therefore need not be overemphasized. It may be mentioned that security is an important but not the sole

consideration in arriving at the oil and gas investment decisions. It is known that at the time of acquisition of Blocks 5A and 5B the Company was already operating in its GNOP, Sudan asset successfully. Security concerns were raised at the time of acquisition of GNOP asset by the Company as well. Incidentally, security concerns are prevalent in most of the oil endowed countries. If, OVL were to take same perspective on security risk in case of GNOP, then it would have lost the opportunity to benefit from the GNOP project. To conclude security situation in Sudan then and now remains very challenging exposing to many risks even to the extent of disrupting physical operations. However, none of these factors alone have been strong enough reasons for OVL or for that matter any other oil company to discontinue its operations in Sudan. The decision to acquire the Block 5B was taken not only on the basis of the report of consultant but also considering the overall regional oil prospectivity trend, knowing the fact that adjoining blocks such as Blocks 6,1,2, 4 and 5A were having oil discoveries in similar geological set up. To summarise, a holistic approach, even considering the risks/concerns expressed by the consultants, was taken while taking an investment decision for Block 5B and there was no overlooking of consultant's reservations.

The Committee enquired as to why did the Company not ask for reduction in the work commitment to reduce its risk and money outgo, when the Barada area was allotted to third party by the local authorities in violation of the production sharing contract and the other area (Munnydeng and Nyal) allotted in lieu of Barada had lesser unrisked resources. In response, OVL stated that considering the Arial extent of the block, the minimum exploratory work requirement to evaluate the hydrocarbon potential of the block was more than the Minimum Work Commitment (MWC) as defined in the EPSA. Hence, there was no need felt by the consortium for downward revision of MWC.

In their vetted comments, Audit stated that Management's reply is not tenable as Barada area had been allotted to third party by local authorities in violation of PSC and it had unrisked resources higher than Munny Deng and Nyal; therefore, the Company should have sought for reduction in MWC which would have substantially reduced the Company's risk and money outgo.

In response to the aforesaid Audit observation, OVL stated that while acquiring acreage under an Exploration Production Sharing Agreement (EPSA), physical exploration programme is planned not only to honour the contractual obligation of Minimum Work Commitment (MWC) but also for full appraisal of the acreage to explore possibility to find oil and gas. Many a times, exploratory work is increased beyond MWC depending on mid-course review etc., but contractually, cannot be less than MWC. In the instant case, as the Block-5B is located to the south of prolific Muglad basin with a number of discoveries, the Consortium did not feel the necessity to contest the MWC with the authorities based on the prospectivity perception.

- **Congo Block**

As per Audit the Company acquired (February 2007) 20 per cent Participating Interest (PI) from ENI (Operator), who was holding 60 per cent PI in Block "Mer Tres Profonde Node" (MTPN) in Congo by swapping with ONGC's 34 per cent PI in Block MN-DWN – 2002/1 in India based on equitable technical worth and not governed by financial worth.At the time of swapping, the Block was in 3rd phase of exploration with

commitment of one well. Till the end of phase-II the consortium drilled two wells i.e. HTNM-I, and ZULU MARINE-I but both were plugged and abandoned due to non-discovery of hydrocarbons.

Audit pointed out that in-house team while evaluating the investment opportunity mentioned in their report that Operator had provided 2D & 3D seismic data only for view purpose, and the parameters considered by them for volumetrics and estimated volumes calculated were based on earlier (2002) interpretation. With this limitation the team had estimated the total reserve of 634.75 MMb for the block as estimated by the operator in respect of five prioritized prospects i.e. Hiti East, Hiti Central, Nkasu, Ntangu and Tehitebi. Despite these reservations expressed by the in-house team as well as disappointing results of earlier drilled two wells, the Company acquired this risky asset without revalidating the data, deviated from its prescribed procedure for evaluation of investment opportunity through technical, legal and financial consultants.

Further, it was observed by the Audit that after revalidation of 3D data, operator had replaced the earlier prioritized five prospects as mentioned above with another prospect i.e. HVAM-1 and estimated total reserve of 322.8 MBOE in 5 layers in view of the discouraging results of already prioritized prospects. However, on drilling of HVAM-I prospect operator discovered only a reserve of 20.22 MBOE in one layer. The operator also could not achieve the targeted depth of 5024 meters due to operational problem as drilling was stopped at a target depth of 4,516 meters. Therefore, the potential of the Oligocene section of the Paloukou Formation which was a secondary exploration target was not explored.

Audit scrutiny revealed that as a result of commercially unviable discovery of oil, the block was relinquished (December 2009), thereby rendering the entire expenditure of USD 11.59 million equivalent to Rs. 67.78 crore by the Company and USD 8.65 Million equivalent to Rs. 36.11 crore by ONGC (USD 8.65 million @ Rs. 45/USD) infructuous, which could have been avoided, had the Company preferred revalidation of the data from an independent technical consultant rather than solely relying on the estimated reserve as provided by the operator.

Management stated (Dec. 2010) that the operator is the custodian of all data generated in a block and in any consortium both partners and host government rely on data/information generated by operator. Further, being a swap deal, the company decided to carry out internal technical evaluations without appointing a third party consultant and the company engages technical, financial and legal consultants for due diligence of only producing/discovered assets of significant value. As the investment in this exploration acreage is comparatively lower in comparison to discovered or producing assets, it was considered adequate to rely on in house assessment.

Audit stated that they do not agree with the Management's viewpoint as reserve estimation by the Company was solely based on data provided by the operator, which was only for viewing purposes while the latest data was also not provided for evaluation. Further, despite knowing the discouraging results of two drilled wells in the block, the Company relied on the old data provided by the operator without revalidation from outside consultants. The fact that technical, legal and financial consultants are engaged by the company for due diligence of only producing/discovered assets of

significant value and not for exploration blocks, is not correct as the Company had engaged outside consultants for evaluation of many of its previous exploration blocks.

It was further stated by Audit that their technical expert while confirming their observation opined that swap deal done by the Company was on the basis of visual assessment of seismic data and the calculations were based on old 2002 data, while the deal took place only in 2007. The Company's in-house assessment was based primarily on the operators approach instead of going through third party consultation. Further, the Company ought to have a differential approach for a totally unexplored area vis-à-vis areas already having unfruitful results.

When asked as to why the Company made reserve estimation solely based on data provided by the operator, which was only for viewing purpose and was old data of 2002 when the deal took place after five years in 2007, the OVL in a written reply stated that when a prospect is generated as a result of survey and G&G work, the potential of the prospect is reported as resource potential. The outcome of drilling a well on such prospect could result in a discovery or it may turn out to be dry (unsuccessful). When there is a discovery, it could be oil or gas and the resources is normally reported in a probabilistic range due to the fact that their actual parameters that contribute to assessment of reserves are unknown and are therefore also expressed in a range with different kinds of distribution. It is to be mentioned that the data sources for evaluation of a block either for OVL team or third party consultant would be the same as provided by the operator (sole provider) in their data room. In this case, the data of 2002 was the latest available data as provided by the operator for evaluation. After OVL's entry the 3D data was reprocessed and re-interpreted and it was seen that the biggest prospect in the block was Hivoua -1 (HVAM-1) which was estimated to hold 322.8 MMBOE of unrisked reserves. It is a common practice with exploration companies to re-prioritize and re-rank prospects based on new information and hence Hivoua was prioritized over the other prospects. Technical problems prevented the well HVAM-1 from reaching the Oligocene reservoir (which had an estimated pre-drill potential of around 56MMbbls). The remaining potential of the Oligocene section of Paloukou Formation was insufficient to justify any further investment in a deepwater scenario and hence consortium decided to abandon the well to save on time and costs. These types of operational decisions are purely on technical, economical and operational merits and common during exploration phase.

Contending the Ministry's reply, in their vetted comments, Audit pointed out that the in-house team of OVL had estimated the prospectivity of the block based on the data (upto December 2001) as made available by the seller that too for viewing purpose only. Even though its prescribed procedure provided for evaluation of investment opportunity through outside consultants, the company acquired the stake in a risky asset and did not get the data revalidated from independent consultants despite knowing the limitations expressed by its in-house team.

In reply to aforesaid Audit observation, OVL stated that it is worth mentioning that OVL's entry into MTPN (Congo) was under a broader strategic swap deal between ONGC and ENI. At the time of assessing the worth of the offer, the evaluation team considered all the available data including the 2D seismic data of 2002, which was the latest available data as provided by the Operator in line with the industry practice. After

OVL's entry, the 3D data was reprocessed and re-interpreted which validated the earlier findings leading to prioritization of prospects for drilling and upon drilling, hydrocarbon was discovered but volume was not commercially viable. Presence of multiple plays warrants probing of available prospects individually by separate wells. Existence of dry wells in the block on different prospects does not impact the prospectivity of unprobed prospects. In the instant case, two dry wells were located on different prospects which were taken into account in evaluating the prospectivity of the remaining structures. The identified prospect was taken up for drilling on account of higher probability and expected volume of accumulation.

In a post evidence reply, the Ministry of Petroleum and Natural Gas has further stated that there were two dry wells drilled previously in a block should not be the only consideration for rejecting a block in a highly petroliferous basin like the Congo basin. In fact, the well drilled in the block, after OVL's entry, was proved to be successful with oil find, even though sub-commercial because of being located in ultra-deep water. It was further stated that OVL has derived better monetary benefits in the swap deal. As per the deal, the past cost of the two blocks was not to be considered for payment by either party. As at the time of the swap deal, the past costs in Block MTPN, Congo was approximately US$ 117.67 Million (for 20% participating interest of OVL this translates to US$ 23.534 Million). The corresponding past cost of Block MN-DWN-2002/I was approximately US$ 25.44 Million (for 34% PI of ENI Congo this translates to US$ 8.65 Million). As a promotional measure, in addition to its own proposed 34% share, ENI also agreed to carry ONGC's 36% of the cost of drilling 3 wells of Phase-I MWP in Block MN-DWN-2002/I (up to US$ 11.349 Million in each well, translating to US$ 34.047 Million for the three wells).

Ministry has contended that the deal was a sound business decision based on strategic consideration. However, both the blocks in Congo as well as in India did not prove successful.

D. Incorrect Analysis and Interpretation of Data

As per Audit Daewoo International Corporation (DIC) offered 20:10:10 farm-out participation interest (July 2008) out of its 100 per cent stake in Block AD7, Myanmar to its JV partners, i.e., the Company, KOGAS (Korean Gas Corporation) and GAIL respectively. Company's technical team of geoscientists assessed (11 August 2008) potential reserves of 6.5 Trillion Cubic Feet (TCF) but on the other hand its Geologist & Geophysicists (G&G) Group opined (18 August 2008) that sands, considered for reserve estimates, had shaled out in major part of A1/A3 block as a result of which established pools were not expected to be present and reserves evaluated by the technical team were based on untested and un-established sand and on thin study.

However, the Company approved (September 2008) acquisition of 20 per cent participation interest by ignoring the opinion of G&G Group, with investment up to USD 20.8 million (Rs. 93.6 crore) including "past cost" under Minimum Work Commitment (MWC) with an exploration period of six years.

The operator drilled two exploratory wells under MWC and had given low

priority to the third prospect based on the discouraging results of the drilled wells and the low reserve estimates of the third prospect. However, the Company before relinquishing the block, got seismic data and drilling results of two wells re-examined from its G&G Group, who reconfirmed its earlier recommendation that block did not seem attractive from the point of view of hydrocarbon discovery. The Company decided (January 2009) not to enter into the next exploration phase and relinquished the block after incurring an expenditure of US$ 15.26 million (equivalent to Rs. 74.99 crore).

The Management stated (January 2010) that G&G team opined that G3, G5 and G6 sands which were gas bearing in the Blocks A1 and A3 were not seen in Block AD7. The G7 Sand which was the target in Block AD7 was not established and not tested in that area. According to G&G team, the technical evaluation team had taken 233 square km area and 20 metre thickness of reservoir for computation of reserves, which prima-facie appeared to be a maximum reserve case. Thus, there was no contradiction in views of G&G Group and Technical team.

The Ministry added (October 2010) that the block was taken with the knowledge that the gas bearing pools in A1 and A3 sands were not extending to AD7 and primarily required for establishing a potential new pool in AD7.

Audit contended that they do not agree with the Ministry/Management's viewpoint as G&G Group had clearly informed in August 2008 that established pools of gas were not expected to be present. Further, our technical expert also opined that G3, G5 and G6 sands which were gas bearing in Blocks A1 and A3 were not extending to AD7 Block; hence the risk in hydrocarbon prospectivity of the Block in view of only single stratigraphic G7 play was very high. Further, he opined that the observations of G&G group contradicted the Technical Group and were not considered in the subsequent approval process.

Enquired as to what precise factors weighed with the Company in ignoring the opinion of its G&G group which clearly informed that established pools of gas were not expected to be present, OVL in a written reply has submitted that the company has not ignored the opinion of the G&G group. There was no contradiction in opinion between G&G Group and Technical Team regarding the Hydrocarbon prospectivity of the G-7 sand in Block AD-7. Both the groups had the same opinion regarding the presence/absence of sands and the hydrocarbon prospectivity of the block, particularly in a well-established 'channel–levy' depositional environment in the area. The G&G group only expressed the limitations in estimating the resource potential. It is well established fact and followed worldwide that new reserves can be established only when exploration areas were expanded based on new prospects and new ideas which are often untested. The decision to farm-in to Block AD-7 was based on sound understanding of the risk-reward perception followed in the industry.

Disagreeing with the Ministry's reply, Audit stated that G&G Group had clearly mentioned in August 2008 that established pools of gas were not expected to be present in AD-7 block and G-7 sand is un-tested & un-established sand; however, these reservations were not considered in the subsequent approval process. Further

G&G Group, after re-examining of seismic data and drilling results of two wells, reconfirmed its earlier recommendation that the block did not seem attractive from the point of view of hydrocarbon discovery.

In their reply to the aforesaid Audit observation, OVL contended that it is factually not correct to state that Block was acquired against the recommendations of G&G group and there was no disagreement between the technical team and the G&G Group on either the presence or the prospectivity of G-7 sand in the Block AD-7. The G&G group is part of the overall technical team framework which carries out the due diligence. The G&G Group only expressed the limitations in estimating the resource potential and risk of G-7 sand in the Block AD-7 because of being an untested objective in the area. In exploratory areas, in general, target sands / reservoirs are not established at the time of Farm-in decisions and these only provide the value multipliers in case proven on drilling. In the instant case, additional sands were expected besides G-7 and therefore, it would not have been appropriate to downgrade the prospectivity of the Block as a whole. Moreover, the seismic expression as observed by the G&G team depends on the thickness and the continuity of the sand over a reasonable area and is always not diagnostic.

E. <u>Inadequate technical evaluation of Block in Libya</u>

According to Audit the technical team of the Company after visiting data room of the Operator Turkish Petroleum Overseas Company (TPOC) found both blocks, NC-188 and NC-189 in Libya, attractive with higher discovery and larger potential reserves in NC-188 as compared to NC-189 with presence of a good number of leads and recommended further detailing thereof.

Audit pointed out that the Company without further detailing or revalidation of team's report from an independent consultant approved (January 2002) acquisition of 49 per cent participation interest in the above assets and entered into farm-in agreement with TPOC (22 August 2002) on payment (April 2003) of USD 0.15 million for study expenses and USD 3.5 million towards 49 per cent of past cost. The operator after drilling two wells during November 2003 to June 2004 in Block NC-188 found it bearing high exploration risks with only small limited reserve structures and therefore, decided to relinquish it. The in-house technical team of the Company re-evaluated the data and opined (March 2008) that the Block did not have any significant left over potential and recommended no further activity. The Company decided (May 2008) to relinquish its 49 per cent participation interest in NC- 188 after incurring total expenditure of Rs. 68.51 crore on survey, drilling and other miscellaneous activities, which could have been avoided had the recommendation of the technical team been revalidated before acquiring the block.

The Ministry stated (October 2010) that the team that visited Ankara in October 2001 had made preliminary evaluations and recommended further detailing for each block. However, another team that visited Ankara in January 2002 found that several leads identified earlier had been confirmed as prospects and did not recommend further detailing.

Audit contended that they do not agree with the Ministry's viewpoint as the Company did not engage any technical consultant to validate the prospects of the project assessed by the in-house team. Our technical expert also agreed with Audit and opined that the decision of the Management to go for Block NC- 188 without further detailing, in view of no activity since 1993, was not a prudent decision.

When asked as to why the Company did not re-evaluate the prospects of the project before further drilling, OVL stated that in case of Libya blocks NC-188 and NC-189, the leads identified by the technical team in the year 2001 were confirmed in 2002 by the constituted OVL/ONGC team based on evaluation of re-processed data at Ankara. It is well established that the outcome of exploration efforts is probabilistic in nature and always contains an element of risk, particularly in areas where data control points are limited. It is to be mentioned that the first well in NC-188 was drilled only after a detailed study by India's most prestigious Exploration Institute - Keshav Dev Malaviya Institute of Petroleum Exploration of ONGC in Dehradun and its recommendation in 2003.

In their vetted comments, the Audit contended that OVL's in-house expert had recommended to go for a final techno-economic analysis and then engage suitable consultants for technical, financial and legal aspects of the project.

In response to Audit observation, OVL stated that a team led by Group General Manager (Exploration) visited Ankara in October 2001 and made preliminary evaluations and found both blocks, NC-188 and NC-189 in Libya, attractive with higher discovery and larger potential reserves in NC-188 as compared to NC-189 with presence of a good number of leads and recommended further detailed analysis of data of both the blocks. Accordingly, an OVL team led by General Manager (Exploration) visited Ankara in January 2002 and found out that several leads identified earlier were confirmed as prospective based on evaluation using reprocessed seismic data. The team consisting of experts from KDMIPE, the premier E&P institute of ONGC, studied the data including techno-economic analysis and submitted their recommendations for acquiring the Block. As such two rounds of studies were already undertaken and it was considered adequate for farm-in decision.

The Committee enquired as to in how many cases OVL has gone against the experts advice and invested in an asset and also how many time OVL had ignored better advice available and put money in those explorations whereby it ended up with either no produce or less produce or abandoned the asset. In response, one of the representatives of OVL during evidence deposed as under:-

"Let me submit that there are three specific cases where the experts, three consultants, advised on three projects and when we invested, we failed. In one of the cases, the expert advice was to investment, but we overruled it and we did not invest. The other company invested and found out that the area was dry. In normal cases, if we have the consultants, we take into cognizance their advice and corroborate with our own in-house analysis and then take the decision."

The representative of OVL further added:-

"What I had specifically mentioned sir, that there were three cases where we had gone with the advice of consultants and we failed. So, just to support our reply in many of the points that hiring a consultant is not a certainty for success."

In this regard in a post evidence reply MoPNG stated that ONGC Videsh generally has two sets of 'experts at its disposal- one is the in-house or a ONGC-nominated team and the another is hired consultant's team for certain projects. The in-house or ONGC-nominated team members are experts in their own discipline with vast industry experience, as in the case of hired consultants also. Normally the opinions of the two experts team match because both get a chance to carry out due diligence using the same data set. There may however be difference of opinion on some aspects because of the fact that geology is a science with dependence on visualization capacity, rather than being mathematical science. Based upon the recommendations of the two experts, the Management finally takes a diligent view weighing all the pros and cons of the proposal using its collective wisdom, belief, conviction matched with its risk-taking capacity at that point of time and also the strategic interest of the company. The proposals are subjected to a stringent approval process where at each stage a critical scrutiny is made by the experienced and the knowledgeable seniors at the Board and Government levels. At no stage of the stringent screening and approval process, a better advice available was ignored.

In nutshell, OVL did not go ''against the expert's advice'' in any of the cases. If there was a difference of opinion, the advice understood to be better was followed.

Contending the aforesaid reply of the Ministry Audit stated that in a number of cases it was pointed out that there was either a difference of opinion in its two groups or reservations/limitations were expressed by its consultants, but the Company had proceeded further and the reasons for ignoring or accepting an advice were not available on record. The Committee expressed concern that in certain cases *viz* Block 5-B, Sudan, where despite reservation expressed by consultant, OVL acquired the risky asset without revalidating the data. The Committee further noted that in Block AD7, Myanmar despite reservation expressed by its G&G (Geologists & Geophysicists) group for acquisition of the asset, OVL approved the acquisition of 20% PI. The Committee asked as to whether any parameters have been fixed as to in which case to engage a consultant and in which case not to engage a consultant. In response, the MoPNG in its reply stated that, as submitted earlier, OVL has option for using two sets of experts (i) In-house experts drawn from ONGC-OVL and (ii) outside consultants followed by OVL in specific projects. As practice followed in OVL, for all producing assets, decision have been made on the basis of both, in-house as well as outside consultants. In-high value/complex exploration blocks with or without discovered components also, outside consultants were hired to supplement the in-house expertise. However, for smaller/routing exploratory block (with sparse data sets), in-house expertise of ONGC and OVL was used for technical assessment & decisions were made on the basis of their advice. Because, in the current audit process, mostly the surrendered exploration assets have been selected, it appears as if in most of the cases independent consultants were not used, which is factually not correct.

In this regard two primary issues needs to be understood; (a) The basis data available for both in-house study or outside consultant is same at a given point of time which leads to similar opinion in most of the cases and (b) The outside consultant's study provide a second opinion on the subject for decision making and does not necessarily guarantee the success. This was even demonstrated in few cases, wherein we hired the outside consultants, took decisions to acquire the asset in line with their recommendations but even then failed to achieve the desired result.

Contending the Ministry's reply, Audit in their vetted remark stated, '' Ministry's reply that OVL engages outside consultants only in respect of high value/complex exploration blocks is not acceptable as it has also engaged outside consultants in many of its various exploration blocks which involve significantly less cost than producing blocks (e.g. Blocks JDZ- Nigeria, 285- Nigeria, BMS-73 Brazil, 127 Vietnam etc.)

Further, OVL's reply that audit has considered mostly the surrendered assets is not correct as producing assets involving 90 per cent of total investment in producing assets, and exploration assets covering 56 per cent of investment in exploration assets were also reviewed and suitably commented in the said report.

When asked the reason behind engagement of independent international technical legal, financial, tax and accounting consultants in addition to in-house teams for due diligence in estimation of reserves in producing/discovered assets and not in exploration ventures, the management in a written reply stated that hiring of outside experts on technical , financial, legal and tax & accounting is primarily to augment the in –house capability in respective domain areas as well as to provide second opinion on very large value decisions, where in large and complex data sets are available for analysis in a very short period of time for facilitating decision making. It is ONGC Videsh's experience that geological and geophysical (G&G) data available at the time of farm out/farm-in of exploration asset is generally limited because of initial stage of exploration activity for which engaging external consultants may not be necessary in all the cases. The geoscience division of ONGC Videsh evaluates the nature and scope of geo-scientific data available and as per requirement, domain experts are involved from ONGC. Having a policy to compulsorily engage technical consultant is not considered prudent in view of the above statement. Accordingly, it has been provided in the BD Policy that for exploration ventures, Company would take decision to engage external consultants on a case to case basis depending upon data availability and geological complexity of the property. Producing and discovered assets contain larger amount of data which might comprise the subsurface G&G, reservoir, production, surface engineering, and commercial, legal, financial, taxation, accounting, project management and operational data. Accordingly, the relevant external consultants are generally engaged for due diligence.

Whether the Company invariably stuck to this criterion or there have been some instances of non-adherence and to furnish details of all such cases where this criterion has not been adhered to along with justification for the same, case-wise, MoPNG stated that ONGC Videsh has adhered to the aforesaid practice invariably excepting some cases where specific inputs /information were available otherwise.

On being asked to explain as to what extent evaluation / revalidation of the data

by its technical team has helped the Company in succeeding in the prediction/estimation of reserves, the Company in a written reply stated that to make an insight in to the efficacy of evaluation/revalidation carried out by OVL technical teams, it is submitted that OVL has taken up 45 ventures, out of which in 31ventures exploration has been concluded as per PSC provisions leading to discovery of hydrocarbons in 13 ventures. Of these, six are commercial and are currently under various stages of development/production. Seven of remaining blocks with sub-commercial discoveries, after integrating the exploration results, OVL / Consortium decided not to enter into development/subsequent activity phase. The seven blocks with sub-commercial discoveries along with 18 remaining ventures which were found either devoid of hydrocarbon or without a viable prospect, were relinquished. However, data obtained from exploration activities in all the unsuccessful ventures have provided significant exploration insight in to the respective basinal areas for making use of in OVL's future endeavors.

When asked to furnish a detailed note on the steps taken by OVL to strengthen capability of its in-house technical team for evaluation and revalidation of data, OVL in a written reply stated that to strengthen the capability of in-house technical team, OVL resorts to four pronged action as detailed below:

- **Induction of State-of–the-art software and hard ware system:** Globally, invention of new geo-scientific tools has always kept pace with the exploration needs or in other words, the tools available have always been a deciding factor while choosing an exploration target. It has been the endeavor of OVL to identify, deploy and absorb new technology as and when they are available. Technology induction of OVL has been in conformity with the policy & approach of the parent company i.e. ONGC. Besides, facilities and resources of ONGC are readily available and used by OVL as and when required. OVL has also inducted a wide array of G&G interpretation software like Petrel, Landmark, Kingdom suite and Geo-frame etc. with appropriate hardware configuration on stand-alone basis. 3D Basin Modelling technology, the PetroMod software system available in ONGC, is also used for improved confidence in evaluation of opportunities.

- **Skill development of technical team:** Entire technical manpower of OVL is drawn from ONGC's experienced pool of technical work force with adequate skills and experience. Further to this, skill development is a continually addressed by exposing the executives to different training courses organized by ONGC Academy/others and also through work association with technology service providers as well as through participation in Joint Ventures.

- **Subscribing global database:** To update and improve the professional insight of its technical as well as business development teams, OVL has subscribed to various global databases like Tellus, IHS and Wood Mackenzie etc. comprising comprehensive global information on E&P and Business development.

- **Knowledge management specially intrinsic knowledge:** Knowledge management specially the intrinsic knowledge (experience) is captured by

encouraging professionals/teams to share their experience after interaction with domain experts. All the interpretation works are preserved in database and IT-enabled system such that the captured knowledge can be revisited and used by other individuals and teams.

F. Unfruitful expenditure due to improper evaluation of reserve estimates

Audit scrutiny revealed that the Company received (July 2006) farm in offer for 30 per cent participation interest in Blocks 11 and 12, Offshore, Turkmenistan from Tristone Capital, advisor to Maersk Oil (MO). At the time of offer the consortium (Maersk Oil & Wintershall) provided seismic data acquired by it from Western Geco in 2003 and drilling report of the first well (Garadashlyk-I) which was abandoned without testing in 2006 due to mechanical problems. The in-house team of the Company analyzed (August 2006) the seismic data & the information of the region as provided by the operator and felt sufficient hydrocarbon had migrated to the Garadashlyk prospect and also identified two large scale prospects with recoverable reserves of 186 Million barrel (MMb) of oil and recommended that the proposal was worth pursuing.

Audit noticed that the Company instead of following its prescribed procedure for evaluation of this investment opportunity through technical, legal and financial consultants, got the same evaluated by its in-house team which studied only old data and drilling report of first well which was abandoned without testing in respect of which no test report was available.

The Management stated (January 2010) that detailed independent techno-economic analysis of the identified prospects based on the understanding of the prospectivity of Blocks 11 and 12 by the Company's technical team was carried out, and the latest technical data acquired by the seller was subsequently studied during due diligence by the Company's technical team.

The Ministry added (October 2010) that the technical team had discussed the hydrocarbon potential based on the parameters like reservoir quality, trap integrity, source and migration of hydrocarbon into the trap and prolific hydrocarbon presence towards south of the Block 11 and 12 was a valid indication that the block was within known possible hydrocarbon province. Since the OVL team was technically sound, the necessity to hire consultants was not felt.

Audit contended that they do not agree with the Management/Ministry's viewpoint as possible prospects available in Garadashlyk structure could not be tested in the abandoned well. The above facts revealed that the decision to acquire 30 per cent stake in 2006 based on estimated 186 MMb of oil recoverable reserves of the seller, was done without associating technical, legal and financial consultants for evaluation of an investment opportunity. Further, this was also based on old seismic data of 2003 and by relying only on drilling report of the first well which was abandoned without testing; thereby rendering the entire expenditure of USD 14.96 million (Rs. 67.32 crore) unfruitful. It was also stated by Audit that their technical expert, while agreeing with the audit observation felt that basic elements like presence of charge, seal and reservoir were required to be necessarily present in any block but in this case, none of the three elements were present and hence, due diligence itself was defective.

When asked about the reasons for considering old seismic data of 2003 and relying only on drilling report of the first well which was abandoned without testing, OVL submitted that the Evaluation of the Prospectivity of the Blocks 11&12 was carried out on the latest seismic data provided by the M/s Maersk Oil, the seller. The conclusions drawn were very much based on the latest geo-scientific data available at the time of the acquisition of acreage. As it was an exploration block, the risk perception was understood based on the probability of success. Most of the traps for hydrocarbons in South Caspian Basin, where the Blocks 11 & 12 is situated, are structural in nature. Numerous anticlines and shale diapir related structures are present in Turkmenistan part of the basin. Stratigraphic traps in the form of pinch-outs are envisaged in the NE part of the basin, where the well Darta Deniz-1 was drilled, subsequent to acquisition. Considering the fact that the two identified prospects, Garadashylk and Darta Deniz are two different plays, it is hereby impressed that the negative drilling results of well Garadashylk-1 (the First well) has no bearing on the prospectivity of the well Darta Deniz-1.Gradashylk prospect is a structural prospect and Darta Deniz is a stratigraphic prospects with an element of structural aspect. The hydrocarbon strike in Darta Deniz-1 would have opened a vast area for further exploration in the area.

Enquired about the reasons for not associating technical, legal and financial consultants for evaluation of the investment opportunity, OVL submitted that usually for producing / discovered assets, the company engages independent international technical, legal, financial and tax and accounting consultants in addition to in-house teams. Presence of prolific hydrocarbons is established to the south of the Block and its close vicinity was the guiding factor for the technical experts to envisage the presence of the hydrocarbon in the block. Since the opportunity involved a very straight-forward case of Exploration with clearly defined structural and stratigraphic plays, no need was felt to hire external consultant at that time.

Disagreeing with the Ministry's reply, Audit stated that possible prospects available in Garadashylk structure could not be tested in the abandoned well. This reveals that the decision to acquire stake in 2006 based on estimated 186 MMB of oil recoverable reserves of the seller, was done without associating independent consultants for evaluating the opportunity. Further, this was also based on drilling report of the first well which was abandoned without testing and by relying on old seismic data of 2003. Moreover, basic elements like presence of charge, seal and reservoir which was necessarily required to be present in any block were absent in this case and hence, due diligence itself was defective. Also, OVL did not follow its own set procedure for evaluation of E&P opportunities through independent technical consultants. The contention that this opportunity involved a very straight forward case and the need to hire external consultant was not felt, is also not acceptable because this fact was not discussed and recorded in any of the company's documents.

In response to the Audit observation, OVL stated that the technical team had made use of all available geo-scientific data, including re-processed seismic data of 2003 vintage (which was the latest data provided by the seller), to understand the prospectivity of oil and gas in the block. The well Garadashylk-1 was drilled before the acquisition on a structural feature which could not be tested due to drilling complications. However, the prioritized prospect Darta Deniz which was taken up for drilling after entry of OVL into the consortium, represented a stratigraphic feature falling

in the alignment of prolific south Caspian proven oil and gas corridor. Drilling and all available G&G data generated from the well Garadashylk-1 was used to understand the petroleum system elements like charge, seal and reservoir in the block by integrating the data with the regional geology. Attempt to understand and model the Petroleum System elements was undertaken and factored into techno-economic analysis in the form of associated probabilities. Any review in post-drilling stage is a common process adopted by E&P companies globally. However, it would not be appropriate to challenge the validity of the envisaged model on hind-sight. It is emphasized that the views of technical expert is a second opinion which is taken normally for high value producing assets wherein large volume of complex data is available for integration/analysis. For exploration assets like the instant case, the risk call is being taken by the company based on the then available data set. In the instant case, the due diligence report by the technical team was accepted after detailed deliberations / discussions with different experts in ONGC/OVL. OVL consistently followed the practice of due diligence engaging consultants for assessment of Producing & Discovered assets but selectively availed third party opinion in case of complex exploration opportunities.

When asked to comment on the Audit observation that due diligence was defective so as to ascertain the existence of basic elements like charge, seal and reservoir, OVL submitted that as per the procedures for the due diligence of an exploration venture, the technically competent G & G team of OVL was involved in evaluating the prospectivity of the Blocks 11 &12. The technical team had discussed in their report the possibility of hydrocarbon occurrence in the block based on the envisaged quantification of reservoir quality, trap integrity, source and migration of hydrocarbons in to the trap etc., as per the standard industry practice. After a detailed deliberations/discussions with different experts in ONGC/OVL, the due diligence report was accepted. The audit observation that presence or absence of basic elements charge, seal and reservoirs could have been ascertained well in advance and the company could find the absence of these elements only after drilling the second prospect, i.e., Darta Deniz-1 is untenable and thus the due diligence cannot be considered as defective. It is to be mentioned that the prolific hydrocarbon presence towards south of the Blocks 11 & 12 is a valid indication that the block is within the known possible hydrocarbon province. Two wells were drilled to test two different plays (one structural and the other strati-structural). Hence drilling of 2nd well i.e., Darta Deniz-1 was necessary for proper evaluation of hydrocarbon prospectivity of the block.

Contending the reply of the OVL, Audit stated that the acquisition of stake was solely based on seller's estimates of recoverable reserves and also based on old seismic data of 2003 and by relying only on drilling report of the first well which was abandoned without testing. Had the Company gone for validation of technical data through independent consultants, it would have known about the presence/ absence of basic elements.

In response to the aforesaid Audit observation, OVL submitted that the technical team of OVL had carried out due diligence of the opportunity including the reserves/potential resources. It may be mentioned that most of the risk perception at the time of assessment of exploration opportunity is taken care of by analysis of the efficacy of elements of Petroleum System and the Chance of Success, which are a part

of techno-commercial evaluation. On the necessity of engaging an independent consultant, OVL consistently followed the practice of due diligence engaging consultants for assessment of Producing & Discovered assets but selectively availed third party opinion in case of complex exploration opportunities. As regards the usage of old seismic data and drilling data of only one untested well is concerned:

i. Seismic data is not perishable and its utility is enhanced by re-processing and integration of new drilling information. In the present case also, reprocessing with the drilling information of Garadashlyk-1 was undertaken.

ii. E&P evaluation at any point of time can be done with the available data and dry/abandoned wells, even if untested, offer valuable information for improved perception on risk and reward.

G. Wasteful Expenditure

Audit examination revealed that the Company acquired 100 per cent participation interest through signing Appraisal, Development and Production Sharing Agreement (Agreement) (2005) with Qatar Government represented by Qatar Petroleum for Najwat Najem Block, (NN) Qatar which permitted only extraction of Crude Oil in case of discovery from the designated block and in case gas or any other mineral was discovered, access to that was contractually not allowed to the Company. Audit noticed that at the time of signing the agreement, the Company estimated volume of Original Oil in Place (OOIP) at 187.72 million metric barrel of oil equivalent (MMBO) (Proved Oil-98.159 MMBO + Possible Oil-89.561 MMBO). The estimation of Oil reserves was solely based on maps and data provided by Qatar Petroleum without revalidation of Company's estimated reserves from an independent technical consultant especially when the Company was aware that it does not have contractual right on gas, if any, discovered.

Audit examination further revealed that the Company on drilling discovered that two layers were bearing non-producible oil to the tune of 17.68 MMBO and 21.31 MMBO, one layer had only 14.6 MMBO oil as proved, out of that only 2.24 MMBO was recoverable, one was water bearing and another three layers were gas bearing on which contractually the Company did not have any right. Moreover, actual recoverable crude oil discovery of 2.24 MMBO as compared to its estimated OOIP of 187.72 MMBO was significantly low. As a result of commercially unviable discovery of oil and no contractual right on the gas, the block was relinquished (May 2008) rendering entire expenditure of Rs. 369.45 crore (USD 82.10 million @ Rs. 45/USD) infructuous, which could have been avoided had the Company preferred revalidation of the data for vetting of its estimated reserves from an independent technical consultant rather than solely relying on the maps and data provided by the Qatar Petroleum.

The Management stated (January 2010) that estimated 187.72 MMBO OIIP (Oil Initially in Place) (Proved Oil -98.159 MMBO + Possible Oil -89.561 MMBO) based on the data made available by Qatar Petroleum and the system used for estimation of reserves was as per industry standard and practice. One cannot specify beforehand as to how much deviation are permitted.

The Ministry endorsed (October 2010) the reply of the Management.

Audit contended that they do not agree with the Ministry/Management's viewpoint as reserves estimation by the Company were solely based on maps and data provided by Qatar Petroleum and despite knowing that the deviation can not be specified, the Management did not go for revalidation of data from independent technical consultant. Further, internationally accepted Petroleum Resources Management System also indicates that the resource evaluation process consists of identifying a project associated with petroleum accumulation(s), estimation of the quantities of Petroleum Initially-in-Place, estimating that portion of those in-place quantities that can be recovered by each project; while the Company estimated only reserves of oil and not gas and that too , exclusively based on maps and data provided by Qatar Petroleum.

Audit further stated that their technical expert opined that analysis estimated by the Company on 2D data indicated OIIP of the order of 188 MMBO out of which 98 MMBO was placed in proved category which got reduced to less than 15 MMBO on drilling of appraisal well. Such a situation is not expected in standard industry practice. Risk in final analysis could have been mitigated in the initial stage itself if standard definitions and guidelines of Petroleum Resource Management System had been practiced by the Company.

On being asked why the Company made estimation solely based on maps and data provided by Qatar Petroleum without revalidation of data from independent technical consultant, the MoPNG submitted that initially, OVL made estimation based on the data made available by Qatar Petroleum. The data available at the time of studies is the only source of information which is to be used by any bidder to evaluate the Block. OVL did seek experts' opinion and the 3D seismic data was reprocessed and reinterpreted by Geo-Data Processing and Interpretation Centre (GEOPIC), ONGC which is renowned for its professional standards. It is also pertinent here to mention that further to this, a Multi-Disciplinary Team of experts from ONGC and OVL checked and revalidated the interpretation based on the reprocessing (by GEOPIC). It would not be proper to use the term 'infructuous' for expenditure on dry wells.

Contending the Ministry's reply, Audit pointed out that reserves estimation by the company were solely based on maps and data provided by Qatar Petroleum and despite knowing that the deviation cannot be specified, management did not go for further validation from independent consultant. Moreover, the company also did not use internationally accepted Petroleum Resource Management System which indicates that the resource evaluation process consists of identifying a project associated with petroleum accumulation(s), estimation of the quantities of Petroleum Initially-in-Place, estimating that portion of those in-place quantities that can be recovered by each project; while the company estimated only reserves of oil not gas.

In reply to aforesaid Audit observation, OVL in a written reply stated that the data made available by Qatar Petroleum was the only source of information to estimate the reserves and evaluate the block, and even an independent consultant would have used the same data as no additional data would be available with him. It is also a fact that

estimation by any agency whether in-house or third party consultant is based on two primary inputs, i.e., the geometry of the trap and the reservoir thickness along with rock and fluid properties. Final variation in reserves by different evaluators using the same data-set usually does not vary beyond permissible limit. Hence, it may be construed that the variation between established OOIP and the Pre-drill expectations is essentially due to risk associated with exploration & appraisal drilling and in-line with the industry occurrences. The expected quantity of gas in the block was not estimated as the right to exploit gas was not available to the Contractor as per the contractual terms.

When asked why the Company did not practice the standard definition and guidelines of Petroleum Resource Management System to mitigate risk in final analysis as has been observed by Audit, the MoPNG in a written reply submitted that the reserve estimation at the pre-acquisition stage was carried out utilizing the services of ONGC premier R&D institutes/internal technical team which follow PRMS system. However, it is emphasized here that the studies are of dynamic nature and values are updated with fresh and additional information derived as a result of further exploration/appraisal activity.

Disagreeing with the OVL's reply, Audit pointed out that the estimate of Hydrocarbon (HC) available in the block was only regarding oil and the quantity of gas was not estimated. However, had the company/ONGC institute used PRMS, it would have worked out the quantity of oil as well as Gas-in-Place and the recoverable quantity thereof. As Gas-in-Place and recoverable quantity has not been mentioned in this case, it indicates that PRMS was not used. Further, the estimation of reserve was based on 2D data, which indicate OIIP of the order of 188 MMBO out of which 98 MMBO was placed in approved category, it further got reduced to less than 15 MMBO on drilling of appraisal well, as such situation is not expected in standard industry practice.

In further response to the Audit observation, OVL submitted that the expected quantity of gas in the block was not estimated as the right to exploit gas was not available to the Contractor as per the contractual terms, and not due to the usage or non-usage of the PRMS. It is not appropriate to say that standard practices of reserves definitions were not followed. On the issue of estimated oil volume in the block, it may please be noted that the Pre-drill estimated OOIP of 187.72 MMBO comprised two components viz., 98.159 MMBO (proved) and remaining 89.561 MMBO (possible). Drilling by OVL could establish 38.99 MMBO OOIP (17.68+21.31 MMBO). The lower established OOIP volume may be attributed to deviation in predicted geological model rather than due to non-adherence to PRMS. The sharp reduction in estimated reserves was due to:

i. Unexpected occurrence of gas in 3 out of 4 reservoirs which was not predictable at the time of acquisition.
ii. The gas was not available to the Contractor as per the contractual terms.

The OVL further stated that during appraisal drilling, such surprises and deviations are not uncommon.

H. Deferment of production due to overlooking of due diligence during evaluation

As per Audit review, Mansarovar Energy Columbia Limited (MECL), a 50:50 JVC with Sinopec (National Oil Company of China) was formed by the Company to acquire E&P assets of Omimex de Columbia in Columbia for USD 875 million, of which OVL's share was USD 437.5 million. Before acquisition, Denton Wilde and Sapte, the consultant appointed by the Company for due diligence pointed out that the loss of Ecopetrol (National Oil Company of Columbia) as a sole buyer of the produce of Omimex field might be detrimental to field production; the seller did not have any ownership right over a part of real estate as the complete title including rights and obligations attached with the assets transferred from the erstwhile owner had not been passed to them.

Audit pointed out that despite being aware of these points of caution expressed by the consultant, the Company went ahead with the acquisition but failed to insert an appropriate clause in agreement for safeguarding its interest in the event of non-lifting of crude oil by Ecopetrol in view of Ecopetrol being a single buyer of the entire production from the Omimex field. In the absence of appropriate clause in the agreement, MECL had to defer production of 2,10,000 barrels of crude oil (Company's share was 1,05,000 barrels being 50 per cent) during 2009 due to non-lifting of crude oil by Ecopetrol on account of non-functioning of its refinery. Ecopetrol also expressed its inability to lift the entire quantity of heavy crude oil from the Omimex field in 2010.

The Management stated (January 2010) that the observations of due diligence report as brought out, had never caused any operational problem in the field and the Company did not face any production restriction due to the same. The Ministry further stated (October 2010) that daily production of the field was affected due to an accident in the refinery, restrictions on the lifting of the product from the Ecopetrol refinery due to fall in the water level of the river.

Audit contended that they do not agree with the Ministry/Management's viewpoint as the Company did not safeguard its interests despite a caution from the consultant that any loss of Ecopetrol Refinery as a buyer of the field production would be a significant detriment to the Company. It was further stated by Audit that their technical expert felt that the Company had never faced any operational problem in the field nor faced any production restriction but the same does not rule out the possibility. Production due to non lifting of crude by Ecopetrol was a loss to the Company on account of non/delayed realisation of revenue.

In this regard, the Committee enquired as to why the Company ignored the caution expressed by its consultant appointed for due diligence in the instant case, the OVL stated that Mansarovar Energy Colombia Limited (MECL) had acquired Omimex de Colombia Ltd. ("Omimex") from Texas based Omimex Resources Inc for US$ 875 Million of which OVL's share was USD 437.5 Million. Denton Wilde and Sapte (DWS), the consultant, had subsequently reviewed the documents in response to the legal due diligence queries and confirmed vide revised schedule I, that they have seen the complete chain of titles w.r.t Cocorna association Contract. The public deed and certificate from property Register with respect to 018-0030613 were received and it was confirmed by DWS that Omimex has rights to the property under, easements section, page 34 of Legal due diligence report dated 14 July 2006.

Contending the OVL's reply, Audit stated that the consultant has specifically pointed out in Notes on page 35 of its report dated 14-07-2006 that the seller did not have any ownership right over a part of real estate as the complete title including rights and obligations attached with the assets transferred from the erstwhile owner had not been passed on to them.

In response to the Audit observation, OVL stated that there are always some infirmities and inherent risks in any acquisition which are factored in during evaluation. In the instant case, title on a very small part of total assets i.e. land was not fully clear which was subsequently addressed by paying an amount of about USD 0.7 million (USD 0.35 million- OVL's share). This amounted to less than 0.1% of the acquisition value. We may further add that net profit (OVL share) from this project was US$ 150 million during 2011-12 alone on an investment of US$ 437.50 million.

When asked to state the reasons as to why the company failed to insert appropriate clause in the agreement for safeguarding its interests in the event of non-lifting of crude oil by the sole buyer, OVL stated that MECL, a 50:50 JV of OVL and Sinopec (National Oil Company of China) holds assets constituting of 100% interest in Velasquez field, 50% interest in the Nare association contracts where the Colombian national oil company, Ecopetrol S.A. ("Ecopetrol") holds the remaining 50% and Velasquez-Galan Pipeline running 189 Km from Velasquez property to Barrancabarmeja refinery of Ecopetrol. It is to be pointed out that MECL is producing heavy oil and Ecopetrol being the major national oil company of Colombia is having all the pipeline infrastructure which is used to evacuate the crude oil which otherwise would not have been possible to evacuate heavy oil. So Ecopetrol being the only buyer and hence it is committed as per the contract to buy/lift all the quantity of oil produced in the association. Ecopetrol, a National Oil Company of Colombia, is a major stakeholder of the association contract and the refinery in reference is wholly owned by Ecopetrol. It is important to mention that, whenever a National Oil Company refinery enters into an agreement to lift crude from producers, the contract provision of "Take or Pay" is not included generally. OVL acquired its share of Omimex de Colombia Asset through MECL. There was no new contract signed between MECL & Ecopetrol or Colombian Government after this takeover. The Nare and Cocorna contract were in force and the provision contained therein was binding on the purchaser and factored in while bidding for the Asset. MECL had to restrict production in 2009 due to operational constraint in the field and maintenance & accident in the refinery. The average production of MECL (Gross) in the financial year 2010-11 was 30275 BOPD and entire quantity has been purchased and lifted by Ecopetrol.

Contending the OVL's reply, Audit stated that generally "take or Pay" clause is not included in the agreement with NOC; which indicates that the scope to include this clause was available, but the company never tried to include such clause in the agreement which could protect its financial interest in the block in case of deferment of production and non-lifting of crude oil especially in the light of the fact that Ecopetrol was the only buyer.

In their further response to the Audit observation, OVL stated that the Nare and Cocorna contracts were in force and the provisions contained therein were binding on the purchaser and factored in while bidding for the Asset. OVL had only two options i.e. either to acquire the assets within the boundaries of existing contract with

Ecopetrol/Government or leave it. There was no possibility to amend the contract or enter into a new contract in this regard. The company took a considered decision to acquire the asset considering all technical and commercial aspects in view.

Chapter - II

JOINT VENTURES

According to Audit, globally Joint Ventures are formed with the core intention of risk and experience sharing with joint ventures (JV) partners and the mode of formation varies strategically from country to country depending on the law of the land. Internationally, Incorporated/ Unincorporated Joint Ventures/Subsidiaries are created based on host country's statutory requirements; their laws; Production Sharing Contracts. Additionally, the structure for holding a participation interest in a particular asset is also a function of tax laws wherein the companies strive to determine the best structure for avoidance of double taxation considering Bilateral Investment Protection Agreements, Double Taxation Avoidance Agreements. As exploration and production (E&P) business is high risk and capital intensive, so the Company also managed it either through incorporated or unincorporated JV to mitigate the risk, leverage the combined financial strength and share experience of the JV partner. JVs are also entered into for getting access to the resources of the JV partners which could be rigs, logistics, existing contracts, etc. Every joint venture operation is always governed through a joint operating agreement (JOA) and a unanimous decision by the JV partners, but in E&P business the operator has ultimate control on each activity of the operation and other partners act as only non-operators and participate only in the Technical, Operational, Administrative and Financial meetings for decision making. Operator also has the authority to take the decisions on day-to-day activities and take assistance from its affiliated companies. E&P JVs are a jointly controlled operation but the role of other partners being passive is fraught with the risk of unilateral decisions being made for operating activities without the unanimous consent of the JV partners. Also other risks are violation of mandatory regulations of the regulator by the JV partner entailing unreasonable financial burden on the JV partners, noncompliance of the terms and conditions of JOA, etc.

Audit scrutiny revealed that the OVL formed incorporated or unincorporated Joint Ventures in 29 E&P assets while the remaining assets remained wholly owned by the Company. Review also revealed that the Company had no specific policy detailing the considerations for extent of acquisition of participation interest in offered E&P assets. For farming-in and faming-out of participation interest, the Company was solely dependent on either participation interest offered to it or its own perception of risk and reward.

Out of 45 E&P assets, Audit reviewed 15 joint ventures and five owned E&P assets involving an investment of Rs.46,417 crore. The inadequacies noticed by Audit in three of the Joint Ventures scrutinised by them are discussed in the succeeding paragraphs.

a). Un-realistic estimation of reserves / production

As per Audit the Company acquired (January 2009) Imperial Energy Corporation Plc, (IEC) an Exploration and Production Company, which was operating in Tomskh region of Russian Federation through its subsidiary Jarpeno Limited, Cyprus, at a cost

of USD 2.12 billion (Rs 10,320 crore) with CCEA approval (August 2008) subject to stipulation that the IRR should be more than 10 per cent and an option to farm out a part of its stake to a Russian firm. Before acquisition, the technical consultant and the Company had estimated the 2P reserves of IEC crude price at USD 85/bbl, the Company assessed the project as viable with the average daily rate of production of 35,000 barrel oil per day (bopd) for 2009 and thereafter , to enhance the production upto 80,000 bopd by 2011.

Audit stated that during review, it was observed that at the time of reassessment of the viability of the project due to fall in crude price, the actual daily rate of production for 2008 as on 20th October 2008 was only about 5,634 bopd as against the projected production of 11,000 bopd (which was what the Board was informed in April 2008 at the time of appraisal). Further , the actual average production during 2009 and 2010 (till August) was 9067 bopd and 14,724 bopd respectively against the projected production of 35,000 bopd, due to tight reserve position and delay in drilling the wells as envisaged even after 18 months of its acquisition. The Company also did not exercise the option of farming out a part of its stake to a local partner to leverage their combined financial strength and shared experience of the JV partner. This resulted in financial loss to the Company as discussed below.

According to Audit consequent to low production, the Company could not achieve IRR of 10 per cent and incurred losses of USD 37.892 million (Rs.174.15 crore @ Rs 45.983/USD) & USD 212.464 million (Rs 1007.99 crore @ Rs 47.443/USD) for the years 2008-09 & 2009-10 respectively. Besides, due to non achievement of targeted production, the Company also suffered a production loss of about 10.8 million barrel. Moreover, the Company had to reduce the proven reserve size of the asset during 2009-10 by 1.527 Million Metric Tonne (MMT) indicating the inflated size of reserves as estimated by the Company at the time of its acquisition. The Company did not address the reservations expressed in 2007 by Russian Resources Ministry regarding inflated reserve position declared by IEC, at the time of evaluation of investment opportunity in 2008. Thus, un-realistic estimation of reserves/production rate resulted in a huge loss of Rs. 1182.14 crore during the period 2008-09 (January to March' 09) to 2009-10 which could have been mitigated if the Company had farmed out a part of its stake to a local firm.

Management replied (Dec. 2010) that due to discouraging and very different drilling results of 28 wells in three fields in 2008 & 2009; production could not be achieved as envisaged at the time of acquisition. As a result of poor production, project cash flows were impacted and losses were incurred. Therefore, the Company is carrying out various studies to identify the problem which resulted in poor performance of the 28 drilled wells and to find solution. Unless these studies give some conclusive results, a realistic production profile cannot be generated and hence an economic analysis cannot be carried out to comment on a likely IRR. Further, management replied that there was no reason to doubt the correctness of reserves data used by OVL and reported to the Government as the reserves were calculated by companies of international repute.

Audit contended that Management's reply is not tenable as the subsequent drilling results and reduction of proved reserve size by 1.527 MMT during 2009-10 raises doubt about the reserve size of the IEC and economic viability of the take over. The fact that the Company even now is not in a position to generate a realistic production profile and bring out an economic analysis confirms that all the problems associated with these fields were not properly assessed at the time of evaluation of opportunity which led to poor production performance and consequent losses. Investment risk in the final analysis could have been mitigated in the initial stage itself by farming out a part of its stake and in view of discouraging results now, it will be difficult for the Company to farm out a part of its stake to a local firm. Thus, not creating a joint venture by farming out a part of its stake has worked to the detriment of the Company's interests here and left it to bear a loss of Rs.1182.14 crore during 2008-09 to 2009-10 and; also the poor performance of the wells drilled during 2008-09 has left the Company in a position of unlikely generation of a realistic production profile and IRR. It was also stated that Audit's technical consultant while confirming their observation opined that it is a known fact that tight reservoir had poor productivity and also poorer recovery in comparison to a normal one. The prediction for production levels was highly optimistic rather than realistic. Therefore, the Company should have been more cautious when the seller had indicated a very rosy picture especially when Russian Ministry had expressed doubts about the reserves quoted by the seller.

On being asked to furnish the reasons as to why the Company did not mitigate the risk by exercise of the option of farming out a part of its stake to a local partner, the OVL in a written reply stated that it may be noted that farm out option depends, amongst other thing, on risk reward perception & market conditions. During the acquisition process of Imperial Energy, OVL had explored the possibilities of partnering with Rosneft. Though Rosneft had initially expressed its willingness to partner OVL in the project, the firm withdrew from the same in October 2008 due to its unfavourable internal financial condition and the Global Financial Crisis prevalent at the time. However, while acquiring the company; there was an apprehension that approval by the host government may put a condition of giving certain PI to Russian entity. In this context, Government approval was sought to farm out suitable participating interest to Russian entity (IEC) on mutually agreed terms at an appropriate time.

Contesting the reply of the OVL, Audit pointed out that the company did not give an open offer to farm-out part of its stake to Russian E&P firms to mitigate the risks in this project in line with CCEA approval. Further, the Company had taken up the matter only in a meeting with President, Roseneft, who declined on account of its internal financial crisis as it had a large exposure of bank borrowings of USD 18 billion. Moreover, when no interest was shown by Roseneft, the company did not explore other possibility to farm-out part of its stake to any other Russian E&P firm.

In reply to Audit contention, the OVL submitted that the enabling authorisation was obtained from CCEA for farming out a part of the asset in view of OVL's apprehension that Russian Government may ask to give certain PI to a Russian entity based on the background information as mentioned below:

(a) China Petrochemical Corporation (Sinopec) won the TNK-BP's Udmurtneft assets under a tender process in June - 2006 and shortly later sold 51% of the stake to the Russian major Rosneft leaving the Russian company as the operator of Udmurtneft, as per the mutual agreement encouraged by the Russian Government. It is widely understood that the Russian govt. approved the deal only when Sinopec agreed in a pre-sale agreement to give 51% stake and operatorship to Rosneft. This view is also supported by the very one sided deal in favour of Rosneft wherein Sinopec financed Rosneft for their share (51%) and which was to be repaid by Rosneft out of earnings of Udmurtneft.

(b) Further, Investments by foreign companies in strategic assets of Russia, like Oil and Gas, required government approvals in an undefined manner before the passing of the Foreign Strategic Investment law by the Russian Government in May 2008. As per the new law, the requirement of Government approvals for foreign investments in the Russian strategic assets was formally defined. However, as the process for acquisition of Imperial Energy by OVL coincided this period, the approval process was not entirely clear and hence had carried many uncertainties.

On being asked explain the reasons for partnering with only a single company, namely Rosneft, for farming out part of the stake and not other firms, the Ministry of Petroleum & Natural Gas in the reply stated in its reply stated that farm out option depends, amongst other thing; on risk reward perception &prevailing market conditions. In the acquisition strategy formulated as per the conditions prevalent at the time of making the offer for acquisition of the asset in August 2008, OVL had no plan to farm out any stake of the target asset and no participating interest (PI) has been farmed-out. However, approval of Government of India was sought for possible farming out suitable Participating Interest (PI) to Russian entity (IEC) on mutually agreed terms at an appropriate time as there was an apprehension that while according approval for the acquisition, the Russian Government may put a condition of giving certain PI to a Russian entity as was done in an early case involving SINOPEC (China) in case of Udmurtneft.

When asked as to why the Company failed to achieve the target level of 80,000 bopd as well as 10 % IRR and by when the targets are likely to be achieved the Ministry of Petroleum & Natural Gas in a written reply stated that the production levels of Imperial Energy has not been commensurate to the levels envisaged at the time of acquisition primarily due to unforeseen geological complexities resulting in low productivity from the tight reservoirs of the asset. It may be noted that such reservoirs elsewhere in the world have been successfully exploited due to availability of technology & favorable fiscal (tax) regime. In this context, Imperial Energy is in the process of identifying suitable technology to exploit the tight reservoirs. In this direction, Imperial Energy has already completed the process of invitation of EOI to identify / shortlist potential technology partners. The company has received encouraging response from few firms. Imperial Energy plans to complete the process of engagement of the technology partner shortly. It is planned that the team of experts from the technology partner along with the Imperial Energy team shall initially review the existing G&G data, identify the suitable technology and then initiate pilot studies based on the identified technology after feasibility studies. The full-fledged

development of the oilfields shall follow the pilot program based on its results. With the induction of suitable technology the company is hopeful of improving its production levels. With regard to the possibility of achieving IRR of 10%, it may be noted that the estimated IRR at the time of asset acquisition was on cash flow basis achieved on full project life which extends over more than 20 years under licenses granted to it valid till 2028-32 (and further extendable). The achieved IRR at the end of project life would vary based on the results of the ongoing efforts of Imperial to commercially exploit the tight oil reserves of the asset.

When asked as to why the Company did not address the reservations expressed in 2007 by Russian Resources Ministry regarding inflated reserve position declared by IEC before acquisition, the OVL in a written reply has stated that the issue of reservations by Russian Resources Ministry regarding inflated reserve position declared by IEC had been raised in July 2007, and there had been no negative reports on reserves till August 2008 (In fact there are no such reports till date, and there are no disagreements on reserve estimates with the Russian authorities). During due diligence by the legal consultant all violations of the licensing obligations and Russian regulatory requirements were identified. It was identified that fines were imposed on IEC in April 2007 for environmental issues citing violation of the Russian Land Code, the Russian environmental legislation and a breach of its licensing obligations. IEC appealed in court against the imposition of the fine and the application was approved and the fine was invalidated by court for breach of its licensing obligations and fine amount decreased for the breach of the Russian Land Code requirements. Hence it was presumed that there was some misunderstanding, which had been clarified subsequently. It may be further elaborated that an expert Committee of the Ministry of Natural Resources, Russian Federation had reviewed the activities of Imperial in April, 2007 for possible violation of RF legislation by Imperial Energy. The committee reviewed the entire license obligations including booking of reserve under GKZ system under RF legislation. No adverse remark/overestimation of reserves was expressed. It is pertinent to mention here such expert reviews are routinely carried out once in every three years. Such a review had also been carried out recently during January, 2010. No adverse comments on reserve estimation have been expressed by this committee also. The system followed in Russia for reserves categorization (A, B, C1, C2, C3 etc) is quite different from the SPE categorization (1P, 2P, 3P) and it is not uncommon to see differences in them. OVL follows the SPE categorization and had the reserves calculated by companies of international repute–DeGolyer & McNaughton and Pangea. Hence there was no reason to doubt the correctness of reserves data used by OVL and reported to the Government. It is also true that the reserves need to be revised from time to time based on additional data generated during the course of exploitation, or results obtained from production/testing of wells. The reserves often undergo upward or downward revisions, in any field– even very old producing fields based on fresh inputs.

Disagreeing with the OVL's reply, Audit contended that the company had reduced the proven reserve size of the asset during 2009-10 by 1.527 Million Metric Tonne (MMT) which indicates that reserves as estimated by the company were inflated. Further, the company did not take due precaution before participating in this huge capital intensive project and also did not resolve the reservations expressed by Russian Resources Ministry regarding inflated reserve position declared by IEC. Moreover, the company neither informed this issue to its board nor to CCEA at the time of seeking approval.

In response to the Audit observation, the OVL stated that the issue of reservations by Russian Resources Ministry regarding inflated reserve position declared by IEC had been raised in July 2007. However, the Company considered the reserves certified by its technical consultant based on SPE guidelines and endorsed by its in-house evaluation. Incidentally, the reserves considered for acquisition were lower than the certified reserves by international consultant hired by the seller. Further, the reserves were independently certified by an independent consultant as on 31.12.2008 and in subsequent years. The reserves certified by such consultant were within normal variation as per international norms. In addition, the reserves were also got certified from an international reserves certification agency for the purpose of ONGC's disinvestment by the Govt. as on 1st October 2010 and 1st April 2011 and again the certified reserves were within acceptable range as per international norms. More importantly, the discovered fields and reserves details were submitted to GKZ-Russian regulating authority on reserves for review and acceptance of the development scheme. No negative comments/ observations were expressed by the authority. As regards reduction in reserves by 1.527 MMT during 2009-10, it is stated that the reduction is insignificant and amounts to less than 2% of reserves.

When asked whether the company has reassessed the economic viability on the basis of actual production in the instant case, the OVL in a written reply submitted that with only 8 oil fields (including 2 new) on production and exploration efforts in other 9 fields being in early stage, there is an inherent limitation in building up a firm long term profile. It would be possible for the company to come out with a firm profile from all its fields and to be in a position to conclusively arrive at the right project evaluation parameters only upon availability of decisive inputs expected through various exploratory, delineation and developmental activities on the majority of the oilfields, which are in progress. However, considering the data generated from the exploratory/delineation campaign made till date, the company has initiated analysis of the production potentials of its oilfields under different inputs (investments) scenarios.

While contending the OVL's reply, Audit stated that the parameters considered by it for assessment of viability before acquisition of asset were not on realistic data and provided by the seller. However the investment risk could have been mitigated in the initial stage itself had the company used standard definitions and guidelines of PRMS for reserve estimation and prospect evaluation.

In response to the Audit observation, OVL stated that some surprises have been encountered in terms of sustained productivity of the wells which has made it difficult to maintain the production levels within optimum CAPEX and OPEX levels. This has eventually hampered the economic viability under tight fiscal regime in vogue in Russia. To overcome the problem, an alternate and innovative approach has to be adopted by applying state of the art technologies for imaging of the subsurface and implementing the production strategy. Accordingly, Imperial Energy is currently engaged in extensive efforts towards scouting for the right technology for exploitation of the tight sand reservoirs. It is planned that on identification of the suitable technologies, the same shall be implemented through pilot programs prior to its application for full scale development of the fields. Efforts are also on to establish a new play to replicate the recent development in producing from tight shale/sand in North America.

On being asked to furnish details of the steps being taken by the Company to increase the production and reduce further losses in this case, the OVL in a written reply submitted that since acquisition in January 2009, OVL adopted a strategy to ramp up the production from the existing fields, delineate the existing discovered fields for putting additional areas on development/ production with the existing facilities and drilling of new prospects while fulfilling the license requirements & also to concurrently introduce new technology in specific sectors for mitigation of risk. The focused approach has resulted in increase in production on sustainable basis from 6,260 bopd (year end 2008) to 13,616 bopd & 15,900 bopd at the year end of 2009 & 2010 respectively. At present the production of Imperial fields is hovering around 17,000 bopd. The delineation efforts have also resulted in additional areas from two of its producing fields in Maiskoye & Dvoinoye coming on production and discovery of new pools in S. Maiskoye & Dvoinoye which have also been put on production concurrently. Exploratory efforts have led to the discovery of three new fields like Middle Maiskoye, W. Maiskoye & East Festivalnoye, out of which two fields have been put on production. The company has also benefitted from induction of new technology in blanket coverage of 3D seismic for all the producing fields, drilling of horizontal development wells & induction /pilot testing of different frac technology. New technology like Surgi Frac for horizontal wells, multi stage fracs for vertical deviated wells and blind fracs in Horizontal wells have been attempted. The company is examining the possibility of using the latest radial drilling technology in hard Tyumen formation to increase the drainage area and thus improve productivity. Efforts have also been made to reduce costs by optimizing its lift equipments, bringing transparency and increasing competition in its tender processes, initiating the tender process early to best utilize the working weather window, expedite approval processes etc. Another major effort has been in achieving better netback price of the crude oil by transporting it to the new eastern route instead of the earlier western route to Murmansk. Thus all round efforts are being made by the company to improve returns on its investment.

Not accepting the aforesaid reply of OVL, Audit pointed out that the efforts taken by the company are inadequate as it has still not been able to increase production even near to the target level of 80000 bopd as estimated at the time of acquisition. Further, the project is still incurring huge losses which would make it difficult to achieve the target of 10% IRR.

In reply to Audit contention, the OVL stated that by carrying out exploratory and developmental activities during the last 3 years, Imperial Energy has developed a better understanding and insight on the asset through acquisition of a host of Geological, Geophysical, Reservoir and Production data by application of the advanced tools and techniques. Using the incremental data set, Imperial Energy is currently engaged in carrying out a comprehensive analysis through its in-house team of experts and external domain experts for identification of sweet spots as well as right technology for exploitation of the tight sandstone reservoirs. IEC has also identified certain US based firms with specialized proprietary technologies and having practical experience with similar reservoirs in Bakken Oilfield of USA, for carrying out pilot studies in its oilfields. All these measures are expected to bring improved production performance in future.

Enquired about the initiatives undertaken by the Company for induction / deployment of state-of-the-art technology for exploration and production of hydrocarbon assets, the OVL, in a written reply, stated that it has been the endeavor of OVL to identify, deploy and absorb new technology as and when the same are available. OVL has inducted a wide array of G&G interpretation software like Petrel, Landmark, Kingdom suite and Geo-frame etc. with appropriate hardware configuration. 3D Basin Modelling technology, the PetroMod software system available in ONGC, is also used for improved confidence in evaluation of opportunities. Executives of OVL are also undergoing hands-on training on PetroMod. Besides, many state-of-the-art technologies are proprietary and are available with Service providers. Requirement for such technologies are made use of by hiring the services.

b). <u>Formation of JV without prior approval</u>

According to Audit ONGC Mittal Energy Limited, Cyprus (OMEL) signed an MOU (November 2005) with Nigerian Government with an investment commitment of US$ 6.0 billion in the downstream project and other strategic sectors like railways, power, road, etc. in Nigeria for participating in the forthcoming exploration licensing in April 2006. In terms of MOU, OMEL was awarded (June 2006) two blocks viz. OPL 212 (now OPL 285) and OPL 209 (now OPL-279). Block-279 with 40 per cent participation interest was awarded to OMEL along with 60 per cent carry finance condition of participation interest held by Exploration and Production Limited (EMO) at overall financial commitment of US$ 140 Million from OMEL. The Board of the Company approved (June 2006) its share of investment of US$ 44.63 million as signature bonus and Minimum Work Commitment (MWC) in the First Exploration Phase with an understanding of likely distribution of 37.5 per cent stake in favour of Shell and TOTAL (a French Oil Company).

Audit further stated that OMEL signed an agreement with EMO for acquisition of additional 20 per cent participation interest (24 February 2007) for consideration of US$ 50 million within seven days from the date of PSC and the Board of the Company had to approve (26 February 2007) the same to avoid commitment failure on the part of OMEL. However, the additional stake increased the financial commitment of the Company to US$ 96.90 million, which was beyond the financial powers of the Company i.e Rs. 300 crore or US$ 75 million, whichever was less. OMEL transferred (23 May 2007) 14.5 per cent participation interest along with proportionate carry finance share to TOTAL for US$ 29.07 million worked out at weighted average cost of its earlier 40 per cent participation interest and additional 20 per cent participation interest including carry finance participation interest of EMO without approval of CCEA/GOI. Transfer of 14.5 per cent participation interest at weighted average cost instead of higher cost of additional 20 per cent participation interest resulted in loss of US$ 7.18 million (Rs. 32.31 crore). Audit noticed that transfer of stake to TOTAL by OMEL and formation of an unincorporated JV with TOTAL was done without mandatory prior approval of the Nigerian National Petroleum Company (Regulator).TOTAL was authorized to carry out Geological & Geographical (G&G) activities as it had Nigeria Deep water terrain expertise. TOTAL carried out G&G activities in France which resulted in violation of Nigerian Law and led to disallowance of an expenditure of US$ 9.87 million for cost recovery purposes. Similar disallowance of equivalent amount was noticed in another Block OPL 212 (now OPL 285) which led to overall disallowance of US$ 19.74 million of which the Company's share was US$ 10.07 million equivalent to Rs. 45.32 crore @ Rs.

45/US$. Ultimately OMEL had to establish its own G&G centre at Lagos, Nigeria.

The Management stated (January 2010) that the Board approved participation in OPL-279 considering that the amount involved is within the approved limit as the JVC was in discussion with TOTAL for farm-in of the block. The Management further stated that pro-rata share including carry finance was charged from TOTAL to utilize their over 40 years E&P experience in the Nigerian basins.

The Ministry endorsed (October 2010) the reply of the Management.

Audit contended that they do not agree with the Ministry/Management's viewpoint as the formation of JV with TOTAL by transfer of part stake at lower price by Rs. 32.31 crore with an aim to exploit TOTAL's 40 years of experience in Nigerian Basin also did not fructify because TOTAL carried out G&G activities outside Nigeria in contravention of Nigerian Law leading to cost rejection of Rs. 45.32 crore by the host Government. Also, ultimately to avoid further cost rejection; the Company had to set up a G&G centre in Nigeria. The Ministry/Management's reply that the Company approved the investment while probable transfer of participation interest to TOTAL was in the process of discussion indicates that investment beyond its financial powers was approved by the Management on the ground that total investment net of probable transfer of part participation interest would be within its financial competence.

It has also been stated by Audit that their technical consultant also opined that investment profile was known to the Company and approval of CCEA should have been obtained prior to signing of contract. Further, execution of G&G activities outside Nigeria in spite of TOTAL's long work experience in Nigeria brought out weak planning, project Management and lack of study/adherence to guidelines. Goodwill of TOTAL could not be equated with financial loss to the Company.

When asked to explain as to why the approval of CCEA was not obtained prior to signing of contract despite the fact that investment profile was known to the Company, the OVL in a written reply submitted that the Board of the Company approved participation in OPL-279 considering that the amount involved is within the approved limit including even the additional stake purchase from EMO, as the JVC was in discussion with TOTAL for farm-in in this block. The deed of assignment to TOTAL was under discussions from early stage, though consented to by the Nigerian National Petroleum Corporation (NNPC) on the 3rd of March 2008. Later after the Project team was set up at Lagos for execution of work program and detailed studies, it was found that additional work, over and above the committed minimum work need to be carried for fast-tracking the development work following discovery if any. This also involved additional expenditure over and above the approved limits of the Board. In this latter case as soon as the planning process was over and the same was got approved from the regulator, the Company approached the Government of India and obtained ECS and CCEA approval.

Audit stated that OVL’s reply re-establishes the fact that the company approved the investment beyond its financial powers. Moreover, no circumstances allow the company to approve the budget/ expenditure over and above its approval limit as the same has deprived ECS/CCEA to review the reasonableness or otherwise of such huge

expenditure before its approval. Moreover the investment profile was known to the company; therefore the company should have obtained prior approval of CCEA before signing the contract.

In reply to this Audit observation, the OVL stated that the Board of the Company approved participation in OPL-279 considering the fact that the amount involved including the additional stake purchase from EMO was within its empowerment, as the JVC was in discussion with TOTAL for farm-in in this block. The deed of assignment to TOTAL was under discussions from initial stage, much before February 2007, though consented to by the Nigerian National Petroleum Corporation (NNPC) in March 2008. At no stage, the investment in the project has exceeded OVL's empowerment.

On being asked why transfer of 14.5 % participation interest was made at weighted average Cost instead of higher cost of additional 20 per-cent participation interest as pointed out by Audit, the OVL in its written reply has stated that the company has charged past cost under Article 4.1.1 of the Farm-in agreement of OMEL with TOTAL E&P dated 23rd May 2007. However, discussions with TOTAL were going on much before Feb 2007 and at no stage the company has exceeded its financial powers. As mentioned above, discussions with TOTAL were going on much before February 2007. Accordingly, the pro-rated share including carry of EMO was charged from TOTAL i.e. 24.1667% of USD 115 Million (i.e. Signature Bonus of USD 65 Million plus USD 50 Million paid for acquiring additional P.I) for farming in 14.5% P.I to TOTAL. The intent was to utilize TOTAL's over 40 years E&P experience in the Nigerian basins. Further, the farminee had also agreed to help the consortium by sharing the rigs needed to drill the wells. (The company had also considered these tangibles while looking at the weighted cost average method for past cost). Stake sale was within the Board approved powers which was under discussion for long time. However, as the revised work program would have exceeded the board approved limits, the company has obtained the approval of CCEA of GOI after the recommendation of ECS. The fact that part of the stake was transferred to TOTAL to rope in its expertise has also been apprised to the Government. The company need not have obtained prior approval from regulator. The company has followed the standard industry practice adopted in farm outs and has approached regulator when the agreements were final and the regulator has duly approved the Farm-in.

In response to OVL's reply Audit observed that the company itself has accepted that at the time of allotment of bock, it was neither having firm agreement with TOTAL regarding farm-out of part stake to it nor prior approval from the regulator/Govt. of India was obtained. Further, the investment profile was known to the company beforehand and the commitment involved in this opportunity was beyond its financial limits. Moreover, the aim of the company behind involving TOTAL in this block by transfer of part stake at a price lower by Rs. 32.31 crore also did not fructify because TOTAL carried out G&G activities outside Nigeria in contravention of Nigerian Law leading to cost rejection of Rs. 45.32 crore by the host Government.

In reply to aforesaid Audit observation, the OVL stated that it reiterates its position that the weighted average cost realization from TOTAL for the part stake sale was based on Article 4.1.1 of the Farm-in agreement with due approvals. This divestment, additionally, helped the company in utilizing TOTAL's expertise in deep-water operations and resources in conducting the committed activities within the PSC time frame.

Enquired as to why did the company not stop 'TOTAL' (a French Company) from carrying out G&G activities outside Nigeria, without obtaining the approval of Nigerian Government, the OVL stated that disallowance of some G&G cost was due to the reason that part of the work was carried out outside Nigeria for which OMEL was not having facilities in Nigeria. The operator has however, written to the regulator to waive off this disallowance citing that the company was newly formed and took time in creating necessary facilities in Nigeria and has now started carrying out all interpretation work in Nigeria itself. The company is still pursuing this claim with NNPC.

Disagreeing with OVL's reply, Audit pointed out that at the time of carrying out G&G activities outside Nigeria, the company was well aware that this would lead cost rejection as per Nigerian laws, Further, the request of OMEL to waive off the disallowance has still not been acceded to by the host Government. Moreover, it also indicates lack of proper planning, project management and adherence to guidelines.

In reply to the aforesaid Audit contention, OVL in a written reply submitted that there is no financial loss incurred by the Company on this account since no costs of this project was ultimately recoverable. The work was carried out outside Nigeria for which OMEL was not having facilities in Nigeria. This was required to complete the MWC within the contractual time frame to avoid levy of penalties as creation of new facilities in Nigeria would have taken considerable time. The operator has, however, written to the regulator to waive off this requirement citing that the company was newly formed and took time in creating necessary facilities in Nigeria and subsequently carried out all interpretation work in Nigeria itself. The Company kept the issue alive by repeatedly submitting request for waiver, which as per precedence in Nigeria could have been considered favourably post commercial discovery. In the absence of commercial discovery, cost recovery issue is no more relevant.

c). <u>Avoidable exposure to risk due to non-forming of JV</u>

Audit examination revealed that the Company acquired 100 per cent participation interest in Najwat Najem Block, (NN) Qatar and estimated volume of Original Oil in Place (OOIP) at 187.72 million metric barrel of oil equivalent(MMBO) (Proved Oil-98.159 MMBO + Possible Oil-89.561 MMBO) and also noticed a risk of pre existing poor event continuity attached with its reserves estimations. Further, it was also noticed that the Company decided to appraise the block by itself despite knowing the fact that about 12-16 leading E&P international oil companies were interested in the Block as they had purchased bid documents in view of the potential of the field with huge reserves. Thus, the Company had a fair chance to mitigate the possible risk of poor event continuity attached with its own estimation of oil reserves through formation of a JV by transferring its part participation interest at a good price along with carry finance of its own share which was a prevalent practice in the international exploration business. Hence, decision of the Company to appraise the block by itself despite knowing the risk and interest shown by other E&P international oil companies, was not prudent. This not only deprived the Company of mitigating the impact of risk known to it, leveraging the combined financial strength and sharing experience of the JV partners but also resulted in financial loss.

The Management stated (January 2010) that the decision to share the risk or reward in respect of any project is always based on Geo-scientific studies and was project specific. Najwat Najem, Qatar Project was a discovered field, the Company decided to appraise the project itself and if found commercial to develop the same. The Ministry endorsed (October 2010) the reply of the Management.

Audit stated that they do not agree with the Ministry/Management's viewpoint as risk sharing and experience sharing was more a matter of prudent financial management, particularly in projects involving high exploration risk and huge capital investment. The Company being aware of pre-existing poor event continuity should have sold out a part of its risk at a good price along with carry finance as it was a discovered field and could have minimized its losses. Our technical expert opined that the estimate of 187.72 MMBO of OIIP with proved OIIP component of 98.159 MMBO does not conform to standards of petroleum resources management system. The investment risk in final analysis, could have been mitigated in the initial stage itself if standard definitions and guidelines of Petroleum Resource Management System had been practiced by the Company for reserve estimation and prospect evaluation.

When asked as to why the OVL did not follow the standard definitions and guidelines of Petroleum Resource management System for reserve estimation and prospect evaluation, the Company in a written reply stated that the reserve estimation at the pre-acquisition stage was carried out utilizing the services of ONGC premier R&D institutes/internal technical team which follow PRMS system. However, it is emphasized here that the studies are of dynamic nature and values are updated with fresh and additional information derived as a result of further exploration/appraisal activity.

Not agreeing with OVL's reply, Audit pointed out that the OOIP was estimated at 187.72 MMBO giving proved reserve of 98.159 MMBO which does not conform to the standard definitions and guidelines of PRMS.

Responding to the aforesaid Audit observation OVL submitted that on the issue of oil volume in the block, it may please be noted that the Pre-drill estimate of OOIP of 187.72 MMBO comprised two components viz., 98.159 MMBO (proved) and remaining 89.561 MMBO (possible). Drilling by OVL could establish 38.99 MMBO OOIP (17.68+21.31 MMBO). The lower established OOIP volume may be attributed to deviation in predicted geological model rather than due to non-adherence to PRMS. The sharp reduction in estimated reserves was due to:

i. Unexpected occurrence of gas in 3 out of 4 reservoirs which was not predictable at the time of acquisition.
ii. The gas was not available to the Contractor as per the contractual terms.

It was also stated by OVL that during appraisal drilling, such surprises and deviations are not uncommon.

On being asked as to why the company decided to appraise the block by itself despite awareness of pre-existing poor event continuity, the OVL in a written reply submitted that the decision to share the risk or reward in respect of any project is always based on techno-commercial and strategic considerations. Qatar Petroleum

(QP) had awarded Najwat Najem project to OVL as it was a discovered field and OVL decided that the field appraisal could be done by itself. OVL did not receive any expression of interest to farm-in in the block from 12-16 leading E&P companies as mentioned. Even if OVL had decided to take Partner (s), there could have been criticism for the farm-out decision if the project would have been successful.

Disagreeing with OVL's reply, Audit contended that the company should have explored the possibility of farming-out part of its stake, to the E&P companies who bought the bid documents and shown the interest in this block as it was a discovered block, at a good price along with the option to carry finance of its stake. Further, it would have also mitigated the risk present in the block by virtue of poor event continuity.

In reply to this point, the OVL submitted that there is no disagreement to the fact that divestment is a definite process of risk sharing in E&P business, doing so for a discovered property with lesser risk would have amounted to sharing the reward also with the prospective farmee. In this case, OVL decided to appraise the discovery by itself in expectation of associated reward, which did not materialise. It may also be noted that E&P is a high risk, high-reward business. Higher stake is associated with higher risk and higher reward and there is no benchmark to establish the appropriate level of participation in a project. In hind-sight, a particular decision can always be questioned but decision has to be taken at the time of participation in the domain of uncertainty.

In their post evidence reply, OVL has stated that even if it had decided to take Partner(s), there could have been criticism for the farm-out decision if the project would have been successful.

CHAPTER – IV

SUCCESS RATE OF OVL

According to Audit, out of 45 oil assets that were acquired by the ONGC, 14 were producing, developing/discovered assets, 23 assets were under exploration and remaining eight had been abandoned by the Company up to March 2010 due to non-discovery of hydrocarbons. Producing and developed assets of the Company had proven hydrocarbon reserves of 185.995 Million Metric Tonne Oil Equivalent (MMTOE).

Audit examination revealed that the no. of assets acquired at exploration stage was 36 having an investment of Rs. 6,206.83 crore and achieved success in only five projects (only one project is producing and remaining four are still under development) where it was the non-operator. Eight projects with a cost of Rs. 1,066.17 crore had to be abandoned and remaining 23 projects were still in the process of exploration. Thus, as a sole operator, the Company has not achieved any success so far and needs to improve its core competence in the evaluation of investment opportunities.

During evidence held on 22.8.2013 the Committee enquired about the return on investment i.e. Internal Rate of Return (IRR) generated by OVL on its investments in the E&P assets. In response, one of the representatives of OVL deposed as under:-

"Coming to the specific question of IRR, we have invested in Greater Nile Oil Project in Sudan in 2003. We have invested about $ 700 billion. Till now, we have earned 46 per cent return on an annualised and compounded method basis, even ignoring that this asset still exists."

The Secretary, MoPNG added:-

"…………In the case of exploration and production assets, the success rate is never 100 per cent. It is good that Audit has chosen incidentally majority of such assets where our exploration has not yielded results. In fact, it is good. So, some of the things have come out for us to take precaution in future, but the global success rate is somewhere around 30 per cent while in the case of OVL it has been around 42 cent. In our country, the success rate of exploration is only 20-25 per cent.

When asked to explain the parameters based on which calculation of 42 per cent success rate of OVL was arrived at, the representative of OVL during evidence deposed as under:-

"The finding cost is the precise parameter by which one can know whether the exploration is very efficient or otherwise. Till now our exploration cost is $ 1.11 per barrel of oil or oil equivalent of gas, which is quite good. This is on 3P- proved plus probable plus possible- reserves basis. In case we take only proved and probable, then this would increase to $ 1.26 per barrel. If we take only proved reserves, even then it comes to $ 1.65 per barrel of oil or oil equivalent of gas."

The representative further added:-

"……….In cost of finding oil, even if we take only proven reserves, then the cost comes to $ 1.65 per barrel. If we compare it internationally, more than 90 per cent of international companies will have the cost per barrel, which is more than this."

On being asked as to how the success rate of 42 per cent was worked out, the MoPNG in their post evidence reply stated that 42 % success rate for OVL was arrived at by considering 133 oil & gas bearing wells drilled out of a total exploratory wells of 316 drilled during the period 2001-2009 in various exploratory, discovered and producing projects of OVL.

In response to the Ministry's aforesaid reply, Audit in their vetted comments contended that Company has worked out its success rate on the basis of data for the years 2001-2009 only whereas the Company was in operation since 1965.Moreover, it was observed that out of 133 wells, 109 wells were drilled in two producing blocks (GNPOC and 5A, Sudan) where the discovery had already been established. Further, it was observed that the Company, while working out its success ratio, has also included those discovered wells which have later on been abandoned due to unviable discovery and the respective E&P blocks had also been relinquished.

When asked to state whether they agree with the aforesaid comments of the Audit, MoPNG in their further written reply stated that finding Oil and Gas in exploratory wells reflects technical success; hence OVL has considered the same for calculating the Success Ratio. However, a project, despite having successful Oil and Gas wells, may be sub-commercial as commercial viability depends on many other aspects such as location, infrastructure requirement, oil price, gas price and gas utilisation etc. In the instant case, even of Oil and Gas wells of the blocks relinquished due to sub-commercial discoveries are not considered, the Success Ratio remains 40.19% as against 42%, which compares well with the global trend of success rate during the same period.

Not agreeing with the Ministry's reply, Audit in their vetted comments stated that the Company has also included those wells which were drilled in such E&P blocks, which were acquired by it at either producing or discovered stage. Therefore, it does not depict the actual success ratio of exploratory efforts of the Company. Further, during verification it was observed that the Company has acquired 45 exploratory blocks till date of which it explored 31 blocks and succeeded in commercial viable discovery in only six blocks; remaining 25 blocks have been relinquished due to no/unviable discovery. Thus, actual success ratio of exploratory efforts of the Company, on the basis of only exploratory blocks instead of drilled wells, works out to 19.35 per cent (6/31*100) as against 40.19 per cent. This is the appropriate measure to assess the effectiveness of discoveries in exploratory blocks as compared to discovered/or functional blocks.

Enquired about the inter-firm comparison of success rate in respect of exploration and production of hydrocarbon assets at domestic level as well as at international level, the MoPNG stated that in case of exploration ventures, the success rate with respect to exploration wells is calculated by dividing the number of Oil & Gas

bearing wells drilled vis-à-vis the total exploratory wells drilled in a particular period and expressed in percentage. For an inter-firm comparison, the average success rate of a number of international companies (Independent, Integrated and NOCs), as furnished by the Ministry of P&NG, ranges from 24%-60% for the year 2010. The details of these companies are given in Annexure-I.

The Ministry further stated that OVL does not possess the data for making an inter-firm comparison at domestic level.

Finding cost

According to the MoPNG, the finding cost of oil in respect of OVL since its inception which is based on 1P, 2P and 3P reserves is USD 1.65/boe, USD 1.26/boe and USD 1.11/boe respectively. ONGC's domestic finding cost is USD 4.31/boe and USD 3.37/boe based on 1P and 3P reserves respectively (11 year moving average).

However, Audit contended that their verification had revealed that OVL, while working out its finding cost, has also included the reserves of Farsi Block, Iran wherein it is having only a service contract and not ownership on the hydrocarbon reserve. After excluding Farsi block's reserves, its actual finding cost is USD 5.14/boe, USD 2.60/boe, & USD 2.02/boe on the basis of 1P,2P &3P reserves respectively.

In the light of aforesaid Audit observation, the Ministry of PNG was asked the explain the factual position in the matter. In response, Ministry in a written reply stated that the finding cost, with or without Farsi block, Iran for 1P, 2P and 3P as reported in the para above are confirmed. It is correct that the Company do not have ownership on the hydrocarbon reserve under service contract but it is undeniable fact that these reserves have been established due to exploratory efforts of the Company. As such it would be appropriate to consider exploration cost and reserves established in Farsi block for working out the finding cost. It may kindly be noted that the finding cost of OVL, even without considering Farsi block, is comparable to the range of finding cost of many international companies.

Further, when asked how OVL fare in comparison with domestic oil exploration and production firms both public and private companies as well as international oil producing companies with regards to finding cost of oil, the MoPNG in a written reply stated that finding cost of OVL compares well with the International oil companies. A comparative statement showing finding cost of international companies as furnished by Ministry of P&NG is given in Annexure-II. Finding cost of international companies varies between USD 1.60/boe to USD 15.80/boe (11 year moving average till 2011), except for BP which is very high at USD 77.88/boe for 1P reserves, with median at USD 5.24/boe. OVL's finding cost since inception is USD 1.65/boe and ONGC's finding cost for 11 year average is USD 4.31/boe.

Investment in any project is based, among other thing, on the Internal Rate of Return (IRR). On being asked about the projected IRR vis-à-vis actual IRR in respect of each of the projects of OVL abroad the MoPNG in a written reply stated that the

expected/ projected/targeted IRR varies from project to project and is calculated based on the associated risks, expected oil/gas production profile, expected oil/gas prices, estimated Capex & Opex throughout the project life, the prevalent market conditions etc. Actual IRR of a project is known after completion of the project life cycle, as IRR for project accounts for all cash flows over the life of the project. Since all the producing and development projects are under various stages of development/production, it may not be possible to calculate the actual IRR of the projects. Out of the 10 producing projects (considering GNPOC, Sudan and GPOC, South Sudan project as one project as these were acquired as single project at the time of acquisition), 4 (four) projects have already paid back the investment made therein. Out of these four projects, the actual IRR of 3 projects worked out based on cash flows till 2012 is well above the projected IRR (actual IRR in some cases being more than 2 times of projected IRR) and in one project, actual IRR is moving towards projected IRR. However, as brought out above, actual IRR may go under change on completion of project life cycle due to future development expenditure, other factors etc. In case of other projects which are yet to achieve cash breakeven (i.e. payback of the investment made is yet to occur), it may not be possible to calculate the actual IRR.

When asked about the IRR on similar projects within the country, the MoPNG in a written reply stated that information on IRR of projects is a business secret which companies keep confidential by all means to maintain their competitive position. As such, IRR of similar projects in country or abroad is not available in public domain.

However, it was learnt that a commercial evaluation of an ONGC-Cairn deal is already in public domain on the internet (http:/www.infraline.com/org/images/ONGC-Cairn Deal.htm) and it specifically mentions about IRR. The Ministry, were, therefore, requested to furnish their comments on the stated position of the Government about IRR in the light of the document referred to above. In a written reply submitted by the Company in the matter on 27 November, 2013, it was reiterated that 'information on key various commercial parameters including IRR, etc. is a business secret and its disclosure would hurt the commercial interests of the organisation, notwithstanding such unauthorized disclosures. It was further stated that efforts are, however, taken at the Company's end to plug various loose points wherein from such unauthorised disclosure happen, such that the Company's interests are not adversely affected'.

PART- II

OBSERVATIONS / RECOMMENDATIONS

ABSENCE OF AN E&P POLICY

1. The Committee are surprised to note that ONGC Videsh Limited (OVL), which started focusing on acquiring oil and gas assets from the year 2000, did not have a well defined policy for acquisition of Exploration and Production (E&P) assets all these years. The Ministry of Petroleum and Natural Gas also seems to have been oblivious to this serious lacuna in the policy framework of OVL throughout this period. When this shortcoming was brought to their notice, the MoP&NG initially took the stand that there was no need for such a policy. Subsequently, it was conveyed that such a policy if put in black and white would be detrimental to the functioning of the Company as its competitors would be able to predict its acquisition strategies easily. Later on, both the Ministry and the Company veered to another argument that a policy, though not documented, was always in vogue. However, surprisingly, on 17 August, 2012 i.e. just five days before the representatives of the Ministry and OVL had to testify in the matter before the Committee on 22 August, 2012, the Board of OVL met and the 'existing policy' in practice was reviewed, updated and documented as 'Business Development Policies for Acquisition of Oil and Gas' and approved. The Committee while strongly deprecating the vacillation of the OVL and the Ministry in the matter, take satisfaction in the fact that a much needed corrective has been put in the System, albeit, very belatedly. Now that a documented Policy for acquisition of E&P Assets has been put in place by OVL, the Committee hope that due diligence process could be carried out to mitigate risks involved in the high risk and capital intensive Exploration and Production business.

BLOCK 5B, SUDAN

2. OVL acquired Block–5B, Sudan (May, 2004) with 23.5 percent participation interest at USD 24.06 million with "carry over finance" of 3.72 per cent participation interest of Sudapet (National Oil Company of Sudan). The Committee note from the Audit Report that the consultants in their pre-

acquisition technical study of the Block 5B, Sudan had expressed several reservations. These included the assessed reserve in the Block being based on limited data made available by the Seller; denial of permission to copy data from the data room; only two days being given for review of data; and the security problems in the Block area. The OVL, however, overlooked the reservations of the consultants. The Consortium could not implement the scheduled seismic and drilling plan till 2006 for want of accessibility to the area and restrictions by the local authorities. Coupled with this, the non-implementation of Minimum Work Commitment (MWC) led to OVL incurring additional security charges, idle hiring charges for drilling rig and other incidental and operational charges after acquisition of the Block. To further compound the problems out of the three prospects prioritized by the consultant for drilling, the Operator drilled only one prioritized well in addition to two wells in the non-prioritized swamp during 2008. The drilling of the remaining prioritized swamp wells was dropped due to the less prospectivity of reserves in one of them and allotment of the other to a third party by the local authorities in complete violation of the agreement. The three wells drilled brought no hydrocarbon discovery, and thus forced the Company to relinquish the Block on 19 February, 2009 after incurring an expenditure of USD 89.5 million equivalent to Rs. 423.84 crore. The Audit pointed out that while going for this acquisition, OVL took cognizance of the adjoining Block 5A which it was also prospecting and completely ignored the security scenario in Sudan.

3. OVL in its defence has submitted before the Committee that the advice of the consultants regarding Block 5B, Sudan was not overlooked and that such reservations are invariably included by consultants in their reports as a disclaimer to restrict their legal liabilities. As regards only two days being given for review of data, OVL contended that it is a standard practice followed by the Sellers of E&P assets in view of time constraints and also the Sellers do not allow copying of data in view of their concern for confidentiality. About the security concerns raised by the consultants, OVL informed that security situation in Sudan was and remains a challenge but the Company was already prospecting in Block 5A which is adjacent to Block 5B, hence, there was no reason for any undue alarm. OVL has also submitted that none of these factors are strong

enough reasons for OVL or for that any other oil company to discontinue its operations in Sudan. The decision to acquire Block 5B was taken not only on the basis of the report of consultants but also considering the overall regional oil prospectivity trend, knowing the fact that adjoining blocks were having oil discoveries in similar geological set up. A holistic approach, even considering the risks/concerns expressed by the consultant was taken while making an investment decision for Block.

4. The Committee are of the considered view that since the operator was not able to enter the contract area even after a lapse of considerable period and further E&P business being highly risky and capital intensive, OVL should have given due consideration to the limitations expressed by the consultants instead of brushing aside the reservations expressed by them as a mere disclaimer. Going by this strange logic and if the consultant's genuine concerns were to be so non-chalantly ignored, there was then no need for even hiring a consultant. The Company would have better safeguarded its financial interests, had it gone for revalidation of the data before proceeding further in the matter. The Committee feel that the decision of OVL not to contest Minimum Work Contract (MWC) with the authority based on the prospectivity perception of block 5B is totally imprudent as operating a producing property in a country does not provide guarantee to the success in another E&P opportunity. Moreso, when the Seller had already violated the production sharing contract by allotting part of the area to a third party.

MTPN BLOCK, CONGO

5. OVL acquired (Feb 2007) 20 per cent Participating Interest in the MTPN Block, Congo, from ENI (Operator) by swapping with ONGC's 34 per cent PI in Block MN-DWN in India. According to the Audit, the reservations of the in house team of OVL about the operator providing 2D and 3D seismic data only for viewing purpose and the parameters considered by them for volumetrics and estimated volumes calculated being based on a 2002 interpretation were overlooked by the Company and it went ahead with the acquisition. Moreover, the decision to acquire the Block with total reserves of 634.75 MMB estimated by

the operator in respect of five prioritized prospects *viz.* Hiti East, Hiti Central, Nkasu, Ntangu and Tehitebi was taken ignoring the disappointing results of earlier drilled two wells *viz.* HTNM-1 and ZULU Marine-1 which had to be abandoned due to non-discovery of hydrocarbons. Further, the Committee note that after revalidation of 3D data, the operator had replaced the earlier prioritized five prospects with another prospect i.e. HVAM-1 and estimated total reserve of 322.8 MBOE in 5 layers in view of the discouraging results of already prioritized prospects. However, on drilling of HVAM-I, OVL discovered only a reserve of 20.22 MBOE in one layer. The operator also could not achieve the targeted depth of 5024 meters due to operational problem as drilling was stopped at a target depth of 4,516 meters.

6. The Committee are not at all convinced by the logic extended by OVL that being a swap deal, the Company decided to carry out internal technical evaluations without appointing a third party consultant and the Company engages technical, financial and legal consultants for due diligence of only producing/discovered assets of significant value. The other contention that as the investment in this exploration acreage was comparatively lower in comparison to discovered or producing assets, it was considered adequate to rely on in-house assessment and that the outcome of drilling a well on such prospect could result in a discovery or it may turn out to be dry (unsuccessful) are also untenable. The explanation of OVL that the data sources for evaluation of a block either for OVL team or third party consultant would be the same as provided by the operator is also unsound. By this strange logic of the Company, there is no need for having third party consultant in any of such projects. It is common knowledge that same set of data is open to different interpretations by different experts. The Company's alibis for selective reliance on in-house teams and third party consultant in these projects are not convincing and raise doubts about the Company's approach. The Committee recommend that henceforth the Company should invariably follow due diligence in all projects before acquisition. Furthermore, the mechanism of in-house evaluation and circumstances where evaluation by independent consultant would be necessary should be codified in

the documented policy brought out by the Company so that in future no scope is left for subjective decisions.

AD7 BLOCK, MYANMAR

7. The Committee note from the findings of the Audit that the Company approved acquisition of 20% participation interest in AD7 Block, Myanmar based on the assessment of its technical team of geoscientists on 11 August, 2008. While doing so, it conveniently ignored the assessment of its Geologist and Geophysicists (G&G) Group on 18 August, 2008 which had warned that the assessment of the technical team was based on untested and un-established sand and on thin study. The G&G Group reconfirmed its earlier recommendation when it was later on asked to re-examine seismic data and drilling results of two of the wells drilled in the Block. The Company relinquished the Block in January, 2009 after incurring an expenditure of Rs. 74.99 crore.

8. OVL's plea that both the groups had same opinion and the G&G Group had merely expressed limitations in estimating the resource potential does not carry convictions with the Committee. Furthermore, the Committee are also not convinced by the reasoning of OVL that the decision to farm-in Block AD-7 was based on sound understanding of the risk-reward perception followed in the industry. The Committee feel that when there was a difference of opinion between two of its own in-house entities, OVL was bound to adopt further due diligence and extreme caution in the matter. Instead, OVL threw caution to winds and went for the acquisition in a cavalier manner. The result was obvious, as it had to relinquish the acquisition within a few months after losing substantial public funds. The Committee while deprecating the action of the Company in the instant case desire that a well laid out procedure should be evolved and put in place to decide on such difference of opinion amongst the in-house evaluations and/or between in-house and independent evaluation so as to ensure that the decisions are invariably taken in the interest of public exchequer and OVL.

NG-188 AND NC-189, LIBYA

9. The Committee note that OVL acquired 49% participation interest in NC-188 and NC-189 Blocks in Libya and entered into farm-in agreement with Turkish

Petroleum Overseas Company without further detailing or revalidation of its technical team's report from an independent consultant. It is only after drilling two wells in NC-188 Block, the Company realised that there were high exploration risks with only small limited reserve structures in the blocks. The in-house technical team in its re-evaluation of data also opined that the Block did not have any significant left over potential. The project was accordingly relinquished after incurring an expenditure of Rs. 68.51 crore.

10. OVL's argument that the decision to acquire the two blocks was taken based on the positive feedback from two rounds of studies - two visits to Ankara of its team led by GM (Exploration) and study by expert from KDMIPE, the premier institute of ONGC – reflects inadequacies in the in-house evaluation. OVL has informed that the capability of in-house technical team has been strengthened by induction of state-of-the-art software / hardware, skill development of technical team, subscription to professional global database and knowledge management. The Committee desire that OVL should take such further steps as may be necessary to ensure that in-house capability is not found wanting in any respect.

<u>11 AND 12 BLOCKS, TURKMENISTAN</u>

11. The Committee note that OVL acquired 30% participatory interest in 11 and 12 Blocks, Turkmenistan on the recommendation of its in-house team. According to audit, the acquisition was based on seller's estimates of recoverable reserves and also based on old seismic data of 2013. OVL has contended that seismic data is not perishable and its utility is enhanced by re-processing and integration of new drilling information and that E&P evaluation at any point of time can be done with the available data and dry / abandoned wells, even if untested, offer valuable information. The Committee feel that he question is not whether such information is valuable or not, but whether such information is sufficient to make a commercial decision involving huge funds. The Committee, therefore, as desired in a preceding para, recommend strengthening of in-house capability and processes.

NN BLOCK, QATAR

12. The Committee note that OVL signed an agreement with Qatar Petroleum for acquisition of 100 per cent participation interest in NN Block in Qatar with the express stipulation that it could only extract crude oil from the designated Block and had no right over gas or any other minerals discovered from the Block. Inspite of this stipulation, the Company without following any due diligence relied solely on the maps and data provided by Qatar Petroleum for estimation of oil reserves without getting it revalidated from an independent technical consultant. Consequently, against the estimated OOIP of 187.72 MMB, the Company on drilling discovered that the actual recoverable was a meagre 2.24 MMB. With such low reserves and no contractual right on the gas, the Company had to relinquish the Block in May, 2008, thereby, rendering the entire expenditure of Rs. 369.45 crore infructuous. The Company's argument that the 3D seismic data was reprocessed and re-interpreted by Geo-Data Processing and Interpretation Centre (GEOPIC), ONGC which is renowned for its professional standards and a Multi-disciplinary Team of experts from ONGC and OVL checked and revalidated the interpretation based on the reprocessing (by GEOPIC) does not justify the exclusion of independent consultant's advice while going for such an important strategic investment decision involving 100 per cent participation. The Company's second argument that since the data made available by Qatar Petroleum was the only source of information and to estimate the reserves and evaluate the block even the independent consultant would have to use the same data also appears tenuous as in the given circumstances when the Company's rights in the acquisition were restricted to crude oil only, it was all the more essential to be doubly sure about the estimation of reserves through an independent consultant.

ACQUISITION OF E&P ASSETS OF OMIMEX DE COLUMBIA BY MECL

13. The Committee find from the Audit Report that at the time of acquisition of E&P assets of Omimex de Columbia in Columbia by Mansarovar Energy Columbia Limited (MECL) - a 50:50 JVC of OVL and Sinopec (National Oil Company of China), the consultant appointed by the Company had cautioned that

Ecopetrol (National Oil Company of Columbia) being the sole buyer of the produce of Omimex field, their loss might be detrimental to field production. The Company, however, went ahead with the acquisition without even inserting an appropriate clause in agreement for safeguarding its interest in the event of non-lifting of crude oil by Ecopetrol. As a result, MECL had to defer production of 2,10,000 barrels of crude oil (Company's share was 1,05,000 barrels being 50 per cent) during 2009 due to non-lifting of crude oil by Ecopetrol on account of non-functioning of its refinery. Further, the Company also incurred loss on account of non/delayed realisation of revenue due to non lifting of crude production by Ecopetrol.

14. Justifying its decision OVL has stated that Ecopetrol being the major national oil company of Columbia is having all pipeline infrastructure which is used to evacuate the crude oil otherwise it would not have been possible to evacuate heavy oil. Furthermore, Ecopetrol is a major stakeholder of the Nare association contract in which MECL holds 50% interest. About non-inclusion of an appropriate clause about lifting of crude in the agreement OVL has informed the Committee that whenever a National Oil Company refinery enters into an agreement to lift crude from producers, the contract provision of "Take or Pay" is not included generally. The Committee while agreeing with the concerns of the Audit about the risks involved in the project due to only a single buyer being there to lift the crude produced also appreciate the factual position explained by OVL. The Committee understand that since OVL did not have much leverage in changing the contract and it had to either acquire or leave the asset it has taken a calculated risk to bid for the asset. Nevertheless, the Committee desire that OVL should endeavour to ensure that Ecopetrol continues to cooperate with MECL in all manner and lift the entire production regularly so as to avoid a repeat of 2009. Since, a Company of the Government is involved in the tie-up from the other side the Ministry of Petroleum and Natural Gas should also fully support the endeavours of the Company through the channels of Ministry of External Affairs.

ACQUISITION OF IMPERIAL ENERGY CORPORATION

15. The Committee note that Imperial Energy Corporation Plc (IEC) an E&P Company was acquired by OVL in January, 2009 for Rs. 10,320 crore. Cabinet

Committee on Economic Affairs (CCEA) had approved the acquisition with the stipulation that the Internal Rate of Return (IRR) would be in the excess of 10% and an option to farm-out part of its stake to a Russian firm. As OVL's assessment, the project was viable with average daily rate of production of 35,000 barrels for 2009 and up to 80,000 barrels per day by 2011. Due to unrealistic estimation of reserves/production, OVL has suffered a huge loss of Rs. 1182.14 crore during the period 2008-09 to 2009-10. Since OVL did not chose to farm-out part of its stake to a local partner, the entire loss has to borne out by it. Moreover, the Company has also suffered a production loss of 10.8 million barrels and has not been able to achieve the stipulated IRR of 10%.

16. OVL's contention that though M/s Rosneft (a local company) initially expressed it willingness to partner in the project but withdrew from the same in October, 2008 due to various compulsions is devoid of merit as the acquisition was done only in January, 2009 i.e. three months after the withdrawal of Rosneft. The Ministry's admission that the production levels of IEC have not been commensurate with the levels envisaged at the time of acquisition primarily due to unforeseen geological complexities from the tight reservoirs of the asset, in the opinion of the Committee, is a tacit admission of the shortcomings pointed out by the Audit in this acquisition. The Company's assertion that such reservoirs elsewhere in the world have been successfully exploited with appropriate technology and favourable fiscal (tax) regime also confirms the Committee's growing apprehensions that things are not well with this acquisition of the Company and there would be further financial implications before there is any possibility of IEC's balance sheet coming out of red. While expressing their disapproval of the Company's error of judgement in the instant case, the Committee also feel that the Ministry has also not acquitted itself well as this acquisition was beyond the powers of the Company and had been done with the approval of CCEA. The Committee, therefore desire a comprehensive review of this acquisition and its performance alongwith its future prospects so as to arrive at a well considered decision about its future. The Committee would like to be apprised the outcome of such a review at the earliest.

NN BLOCK, QATAR

17. The Committee note that OVL acquired 100% participation interest in Najwat Najem Block, (NN) Qatar and estimated the volume of Original Oil in Place (OOIP) at 187.72 million metric barrel of oil equivalent (MMBO) in spite of risk of pre-existing poor event continuity attached with its reserves estimations. Further, OVL decided to appraise the Block by itself despite knowing that about 12-16 leading E&P international oil companies were interested in the Block. This go alone decision not only deprived the Company of mitigating the impact of risk known to it, by leveraging the combined financial strength and sharing experience of the JV partners but also resulted in financial loss.

18. OVL has submitted to the Committee that being a discovered field it decided to do the field appraisal on its own. It has also submitted that it did not receive any expression of interest to farm-in in the Block from the 12 to 16 leading E&P companies which were interested in the project and decided to appraise the discovery by itself in expectation of associated reward which did not materialise. OVL has also contended that even if it had decided to take partners there could have been criticism if the project would have been successful. The Committee take exception to this convoluted set of logics extended by the Company to cover up the errors in its commercial judgement. Had the Company made any serious efforts to rope in partners, the risk factor involved in the project would have been mitigated to a considerable extent. The Committee recommend that given the high risk nature of exploration and production industry, the Company should exercise more prudence when faced with similar situations in future.

Success Rate in exploration

19. According to Petroleum Secretary, the global success rate in exploration and production assets hovers somewhere around 30% while in the case of OVL, it has been around 42%. It is observed from the information furnished by the Ministry of P&NG that the international companies' average success rate during 2010 ranged between 24% and 60%. In so far as the exploration success rate of OVL is concerned, varying figures have been furnished by the Government and

the Audit. The Government has indicated it to be 42% on a holistic basis and 40.19% if the oil and gas wells of the blocks relinquished due to sub-commercial discoveries are not considered. However, according to Audit the success of exploratory efforts of OVL on the basis of only exploration blocks instead of drilled wells, works out to a mere 19.35% (6/31x100) as against 40.19% indicated by the Government. Notwithstanding the claims and counter claims of the Government and the Audit in the matter, the Committee strongly feel that even the highest success rate of 42% indicated by the Government is nowhere near the global best of 60%. Apparently, the Company has a long way to go before it can even think of being amongst the global leaders in this business. In the opinion of the Committee, if OVL is to carve out a niche for itself in the intensely competitive business of oil exploration, it has to be fully geared up in its operations, evaluation, delivery and production. The Committee, therefore, desire Government and OVL to suitably re-orient the functioning of the Company with a view to enable it to be a global leader without any further loss of time.

Finding Cost

20. On the parameter of finding cost, the Committee have been informed that based on 1P reserves (proved reserves), the finding cost of international companies varies between USD 1.60/boe and USD 15.80/boe (11 year moving average upto 2011) with median at USD 5.24/boe. The finding cost (11 year average) of ONGC, the parent Company of OVL is stated to be USD 4.31/boe. OVL's finding cost according to the Company is USD 1.65/boe based on IP reserves. The Audit has, however, worked out the finding cost of OVL at USD 5.14/boe for 1P reserves as it had excluded the Farsi Block reserves in Iran because OVL only had a service contract for the project and no ownership on hydrocarbon reserve. The Committee tend to go by the justifications given by the Audit while assessing the finding cost of OVL at USD 5.14/boe. They, however, feel that even this figure compares well with the global average of USD 5.24/boe. The Company should, however, not rest on its laurels as there is still a lot of scope for improvement given the fact that there are companies with as low a finding cost as USD 1.60/boe. The Committee, therefore, desire OVL to strive to

bring down its finding cost so that it is comparable with the best in the field with prompt induction of appropriate technologies and business practices.

Internal Rate of Return

21. Comparison of anticipated and actual Internal Rate of Return (IRR) of a project indicates the success or otherwise of a venture. The Committee have, however, not been provided with this information in respect of OVL's projects abroad, citing reasons such as IRR varying from project to project; IRR being known only after the completion of project life cycle, IRR calculation not being possible for projects which are yet to achieve cash break even; IRR being a business secret which companies keep confidential by all means to maintain their competitive position . The Committee are not convinced of these reasons and would like the Ministry of P&NG to ascertain from the Ministry of Finance and the Department of Public Enterprises whether the information regarding IRR of a project is treated as commercial secret and whether there are any guidelines regarding IRR concerning public undertakings and the Committee be apprised of the position. Incidentally, the Committee find at least one instance of IRR of OVL being in public domain on the internet. This was, however, termed as an unauthorised disclosure by OVL when a clarification was sought from it. The Committee desire that the case of unauthorized disclosure of IRR on internet be inquired into and a report, fixing the responsibility and action taken be furnished to the Committee immediately.

New Delhi;	**JAGDAMBIKA PAL**
7 January 2014	**Chairman**
17 Pausha, 1935(S)	**Committee on Public Undertakings**

Annexure - I

Exploration Drilling Success Ratio, 2010, (%)

Sl. No.	Companies	Type	Success Ratio %
1.	Abraxas Petroleum Corporation	Independent	30
2.	Apache Corporation	Independent	56
3.	Beach Energy Limited	Independent	31
4.	BHP Billiton Limited	Independent	25
5.	Bill Barrett Corporation	Independent	34
6.	Chevron Corporation	Integrated	57
7.	China Petroleum Corporation	NOCs	45
8.	Compton Petroleum Corporation	Independent	50
9.	CREDP Petroleum Corporation	Independent	39
10.	Dee Three Exploration Ltd.	Independent	27
11.	dealEx Enerty International Inc.	Independent	50
12.	ECOPETROL S.A.	NOCs	26
13.	Energen Corporation	Independent	40
14.	Energy XXI (Bermuda) Limited	Independent	27
15.	Eni S.p.A.	Integrated	39
16.	Hess Corporation	Integrated	47
17.	Mart Resources, Inc.	Independent	24
18.	MDU Resources Group, Inc.	Independent	43
19.	Mitsul & Co. Ltd.	Integrated	50
20.	Niko Resources Ltd.	Independent	30
21.	Occidental Petroleum Corporation	Independent	49
22.	OMV Aktiengesellschaft	Integrated	27
23.	Peterobras Argentina, S.A.	Integrated	50
24.	Petroleos Mexicanos	NOCs	59
25.	Premier Oil plc	Independent	57
26.	Repsol YPF, S.A.	Integrated	44
27.	Sasol Limited	Integrated	33
28.	Statoil ASA	NOCs	60
29.	Sure Energy Inc.	Integrated	40
30.	Sure Energy Inc.	Independent	33
31.	Total S.A.	Integrated	53
32.	Trans Atlantic Petroleum Ltd.	Independent	26

Source: Data sourced from public domain.

Annexure - II

Finding Cost Comparison (USD / BOE)

INTERNATIONAL Companies*	For 1P
BP	77.88
Husky energy	15.80
Suncor	15.31
Anadarko	13.70
Nexen	9.78
Talisman	9.13
Hess	8.76
Murphy	8.73
Devon	6.38
Statoil	6.34
Eni	6.14
Chevron	5.54
Noble Energy	5.49
OMV	5.00
Petrobrass	4.97
Apache	4.95
Conoco Phillips	4.57
BG Group	4.42
Marathon Oil	4.06
Shell	3.69
EOG	3.60
BHP Billiton	3.35
TOTAL	2.81
Canadian Natural	2.69
Exxon	2.67
LUKOIL	1.60
*Average finding cost last 11 years (2001-2011) based on 3 years rolling average from HIS)	

OVL (average since inception)	1.65
ONGC (average of 2001-01 to 2011-12)	4.31

APPENDIX-I

COMMITTEE ON PUBLIC UNDERTAKINGS
(2012-13)

MINUTES OF THE SEVENTH SITTING OF THE COMMITTEE

The Committee sat on Wednesday, the 22nd August, 2012 from 1500 hrs to 1615 hrs in Committee Room 'D', Parliament House Annexe, New Delhi.

PRESENT

Shri Jagdambika Pal - Chairman

Members, Lok Sabha

2 Shri Hansraj G. Ahir
3 Shri Bansa Gopal Chowdhury
4 Shri Shailendra Kumar
5 Dr. (Smt.) Botcha Jhansi Lakshmi
6 Shri Vilas Muttemwar
7 Shri Ponnam Prabhakar
8 Shri Nama Nageswara Rao
9 Shri Uday Singh
10 Dr. Prabha Kishor Taviad

Members, Rajya Sabha

11 Shri Tariq Anwar
12 Shri Anil Desai
13 Shri Naresh Gujral
14 Shri T.M. Selvaganapathi

SECRETARIAT

1 Shri Rajeev Sharma - Director
2 Shri Ajay Kumar Garg - Additional Director

OFFICE Of C&AG

1 Shri A.K Patnaik Dy. C&AG (Commercial) and Chairman, Audit Board
2 Ms. Revathy Iyer Director General (Commercial)-II

WITNESSES

Ministry of Petroleum & Natural Gas (P&NG) and ONGC Videsh Limited (OVL)

1	Shri G.C. Chaturvedi	Secretary, Ministry of P&NG
2	Shri Sudhir Vasudeva	CMD, OVL
3	Shri D.K. Saraf	MD, OVL

2. The Committee met to take the oral evidence of the representatives of the Ministry of Petroleum & Natural Gas and the ONGC Videsh Limited (OVL) in connection with examination of Report No. 28 of C&AG of India, Union Government (Commercial) of 2010-11 (Performance Audit) on Joint Venture operations of ONGC Videsh Limited.

3. At the outset, the Chairman welcomed the representatives of the Ministry of Petroleum & Natural Gas (MoPNG) and ONGC Videsh Limited (OVL) and drew their attention to Direction 58 of the Directions by the Speaker regarding evidence before the Parliamentary Committees.

4. The Committee then initiated the discussion on the Audit Report. During the course of discussion, the Chairman and Members raised queries on various aspects pertaining to the subject and the explanations / clarifications on the same were sought from the Secretary, MoPNG and CMD, OVL. Since the information on a number of issues raised by the members was not readily available with the representatives of the Ministry/OVL, the Committee directed that the same may be furnished to the Lok Sabha Secretariat within a week's time. The Committee also decided that after perusal of the information so received, the MoPNG and OVL might again be called for further evidence, if required.

A verbatim record of the proceedings has been kept separately.

The Committee then adjourned.

APPENDIX-II

COMMITTEE ON PUBLIC UNDERTAKINGS
(2013-14)

MINUTES OF THE EIGHTEENTH SITTING OF THE COMMITTEE

The Committee sat on Tuesday, the 7th January 2014 from 1200 hrs to 1310 hrs in Room No. 53, First Floor, Parliament House, New Delhi.

PRESENT

Shri Jagdambika Pal - Chairman

MEMBERS

Lok Sabha

2. Shri Hansraj Gangaram Ahir
3. Shri Raja Ram Pal
4. Shri Nama Nageswara Rao
5. Shri Magunta Sreenivasulu Reddy
6. Prof. Saugata Roy
7. Shri Uday Singh

Rajya Sabha

8. Shri Naresh Agrawal
9. Shri Anil Desai
10. Shri Naresh Gujral
11. Shri Mukhtar Abbas Naqvi
12. Shri Tapan Kumar Sen

SECRETARIAT

1. Shri A. Louis Martin — Joint Secretary
2. Shri P.C. Koul — Director
3. Shri M.K. Madhusudhan — Additional Director

OFFICE OF C&AG

1. Shri P. Mukherjee — Deputy C&AG
2. Shri Gautam Guha — DG (Commercial)-I
3. Shri P. Sesh Kumar — DG (Commercial)-II

2. At the outset, the Chairman welcomed the Members and the Officers of C&AG to the Sitting of the Committee.

3. The Committee then took up for consideration the draft Reports on the following subjects and adopted the same without any modifications:

(i). Joint Venture Operations of ONGC Videsh Limited based on Audit Report No. 28 of 2010-11 (Performance Audit); and,

(ii). XXX XXX XXX XXX

4. Since the Lok Sabha stands adjourned *sine-die*, the Committee decided to present the two Reports to Speaker, Lok Sabha under Direction 71A (1) of 'The Directions by the Speaker, Lok Sabha' and authorized the Chairman to finalize the two Reports after suitably incorporating the audit vetting remarks and on the basis of factual verification and present them to Speaker, Lok Sabha and then to Parliament as and when Parliament sitting is reconvened.

A verbatim record of the proceedings has been kept separately.

The Committee then adjourned.

XXX Matter not related to this Report.