



Chairman's Statement | 2021-2022

INDIA'S FIRST PRIVATE OIL AND GAS COMPANY



HINDUSTAN OIL EXPLORATION COMPANY LIMITED
TRANSFORMING THROUGH TALENT AND TECHNOLOGY

Growing Responsibly



Chairman's Statement

Ladies and Gentlemen,

Good morning. On behalf of the Board of Directors, I am pleased to welcome you all to this 38th Annual General Meeting of your Company. Yet again it's being held virtually as the pandemic is still with us. I hope that next year we will have the opportunity to meet all of you in person.

The Company's Annual Report has been dispatched to all shareholders. I trust you have received the Annual Report. I seek your permission to take it as read.

We are living through a very complex phase of global energy uncertainty, record prices, and volatility. The causes are numerous and multifaceted. They include the immediate impact of the Coronavirus pandemic and disruption of oil and gas supplies due to Russia's actions against Ukraine. The ongoing energy transition due to the imperatives of climate change provides the strategic backdrop regarding the uncertain future of fossil fuels globally.

Energy Transition

One of the lessons learnt from economic history is that dominant sectors and players can be swept away as new eras and new technologies emerge. The energy markets are witnessing a titanic shift towards a new low carbon era. This is giving rise to new challenges and opportunities for Oil & Gas industry and influencing the way we operate.

Despite the current focus on reducing the use of fossil fuels, the world's thirst for more energy will continue, especially in emerging economies like India. As per numerous projections, India's energy demand is expected to double by 2045, increasing at about 3% per annum, compared to a global average growth of less than 1% per annum. India's per capita energy consumption is about 4.7 barrels of oil equivalent (boe) per annum at present, compared to the global average of 13.2 boe per annum. India's consumption is expected to nearly double by 2045. Demand for crude oil in India is expected to increase from about 5 million barrels per day (mbd) in 2022 to about 10-11 mbd by 2045, with a major portion being driven by civil aviation and road transport. The share of fossil fuels in the energy mix is likely to remain at about 75% in 2045, with increasing import dependency for oil and gas. While these projections could go wrong, given the complexity of the energy transition, the short point is that oil and gas will continue to fuel the growth of the Indian economy over the next few decades.

India's Energy Challenge

India's crude oil production peaked at 38.1 mmt in 2011-12 and fell below 30 mmt in 2021-22. Similarly, domestic gas production peaked at 52.2 bcm in 2010-11 and fell to 28.7 bcm in 2020. This has resulted in increased import dependency, reaching 85% for crude oil and 50% for natural gas. Revival of domestic production therefore remains a major challenge and concern for the country.

Out of India's 26 sedimentary basins, spread over 3 million sq km, only about one third have been found to have hydrocarbon-in-place through limited exploration. About 50% of sedimentary basins remain unappraised. The Government, therefore, continues to focus on introducing new policy initiatives to increase domestic exploration and production of crude oil and natural gas. The prognosticated resources include about 100 TCF of gas reserves and about 92 TCF of CBM.

The establishment of the National Data Repository and launch of Open Acreage Licensing Program (OALP), under Hydrocarbon Exploration Licensing Policy (HELP), has rekindled the hopes of reviving investment in upstream oil and gas sector, including in the Discovered Small Field segment. A small company like HOEC has participated successfully in DSF rounds. This momentum needs to be built on to attract both domestic and global investments.

Energy demands of India are such that it requires oil, gas, and coal from both domestic and overseas resources. It needs gas both via LNG tankers and pipeline. It needs to access them all both as a buyer and as an equity investor. It needs to generate power from all fuel sources, from fossil to renewables.

Therefore, as elaborated earlier, oil and gas will continue to play a critical role in the Indian Energy System for several decades to come. Given India's focus on net-zero carbon emissions, natural gas has been tipped as the transition fuel for industries and residents. The government has set ambitious targets to enhance the share of natural gas in the primary energy mix. Though the current share of natural gas in the energy basket of India is about 6-7%, it is set to increase to about 10-15% by 2045.

HOEC is a tiny player in India and contributes less than 0.5% of domestic oil production. However, given the promising prospects, your Company remains focused on increasing oil and gas production, both from onshore and offshore assets, through a fast track and low-cost model of development. Your Company will continue to grow by leveraging the Government's policy initiatives to increase domestic oil and gas production. The Company foresees plenty of opportunities from India's transition towards gas as the fuel of choice, while persisting with tapping the potential for oil.

Turning to your Company's performance/achievements during FY 2021-22, I would like to highlight,

1. HOEC continued to maintain a sound health and safety record in FY 2021-22. Considering its foray into western offshore, special skills training on Job Safety Awareness (JSA) and Risk Assessment (RA) have been conducted in all operating sites and best practices have been felicitated by HSE Awards Program.

2. The Hollong Modular Gas Processing Plant (HMGPP) at Dirok has clocked 1480 Lost Time and Injury (LTI) free days as on 31 March 2022. The Company has achieved a major milestone of producing more than 50 BCF of natural gas and 1 million barrels of condensate since Dirok's inception. First ever e-auction for gas sales in North-East was conducted successfully and six premium gas sales agreement were signed. The rising demand for gas in the North-East has prompted the Company to plan for enhanced production, and the preparatory work on Dirok Phase-II development has commenced by obtaining Stage-I Forest Clearance.

3. In the B-80 block, all the offshore facilities have been installed and fully integrated and the process commissioning activities have been completed with the introduction of oil and gas into the system. However, the Company is currently facing certain operational challenges, including certain defects in equipment, and long and rough monsoon at the site area. Despite best efforts, stable and sustained operation from the two wells is yet to be achieved.

4. Considering that the offshore wells have performed to the Company's expectations, though flow is yet to stabilize, the Company is hopeful of overcoming the current challenges post monsoon. Overall, developing B-80 during the pandemic-hit environment and the subsequent extremely harsh weather in the Arabian Sea, including the severe cyclone in 2021, has been an incredibly challenging journey.

5. Taking advantage of the prevailing brent crude prices, the Company has established a way to link the natural gas price and the brent crude price. As a result, a successful e-auction was conducted for B80 – Gas and gas sales commenced to Gujarat State Petroleum Corporation (winner of gas e-auction) from D2 well in June 2022. However, gas flow was disrupted subsequently due to defects in equipment, and efforts are ongoing to rectify the defects.

6. Post achieving sustained production from B-80, the Company intends to focus on developing the discovered resources in its portfolio of both onshore and offshore assets. The Company's priority will be to increase production from PY-1 block by drilling new wells, developing resources that are in discovered category in the marginal fields of our Cambay asset and implementing phase 2 development of Dirok Field.

7. On the CSR front, during the pandemic phase, projects were kept on hold and funds were transferred to the mandated escrow account. The Company has recently commenced execution of approved CSR projects focusing on improving road access within Margherita subdivision in Assam to fulfill the demands of the local community, developing, and improving educational infrastructure and installing solar streetlamps to ensure safety and security for the local community. As an initiative to support local sports persons, Boxing Centre in Margherita was renovated, and new boxing ring was installed. An open gym has also been provided in Margherita for public use.

HOEC's Commitment towards Lowering the Carbon Footprint

Even as the Company deals with the consequences of delay in establishing stable and sustained oil and gas production from B-80, it is necessary to prepare for our next stage of growth. The Company would like to reiterate its goal to emerge as a role model for Responsible Business Operations among the Independent Oil and Gas companies that are operating in India. Going forward, the Company will sharpen its focus on Environmental, Social and Governance (ESG) aspects.

HOEC remains committed to implementing new and innovative ideas to reduce its operating footprint. For instance, in Dirok, the Company has launched a Net-Zero emission initiative on a pilot scale to focus on ESG aspects. In the Cambay asset, a limited volume of Associated Natural Gas that was once flared, is being sold now, thereby achieving zero flare. The Company also uses Low Sulphur Diesel Oil (0.25% Sulphur content) in all diesel-driven engines at operational sites, for cleaner emission. Apart from this, HOEC has started to plant trees to offset the carbon footprint.

To Conclude,

The Board's immediate priority remains to support the management in its efforts to achieve stable and sustained production from B-80. This will require deployment of additional resources both financial and technical. Resolutions seeking approval of the AGM for mobilizing more financial resources are accordingly being placed before this meeting.

Based on the lessons learnt through B-80 development, the Company will take a hard look at its performance and competitive position and will take steps to strengthen the organization with additional technical and financial resources to manage its operating assets more efficiently and safely.

The Company had to face multiple challenges since venturing into developing the B-80 field in western offshore, being the first small Indian oil and gas company from the private sector to do so. Once the Company achieves the immediate goal of bringing B-80 into a stable and sustained production mode, the Company will have additional resources to focus on other development projects. The Company is confident that, with your support, it will continue to grow production and contribute to import substitution in our country's strategically critical oil and gas sector.

Your Board assures you it will continue to discharge its responsibilities in the interest of all stakeholders and will spare no efforts to grow the Company as a Responsible Corporate Player.

Thank you very much.

Vivek Rae
Chairman

September 28, 2022