



Chairman's Statement | FY2022-23

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 39th Annual General Meeting of your Company. 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.

I meet you today as the Chairman of your company, that has the distinction of being the first independent oil and gas company in the Indian private sector. Your company is completing forty years of its existence in September 2023, witnessing both ups and downs in its long corporate journey. However, since 2015, with the change in management, the company has witnessed consistent growth. The Board is fully seized of the opportunities in India, and our endeavour will be to grow the Company in a responsible and sustainable manner in the years to come. Given the small size of our operations, the opportunities for growth are significant even during the energy transition, considering that oil and gas will continue to form a significant part of the Indian energy basket over the next 3-4 decades.

This year has been both challenging and rewarding for your company. We have witnessed fluctuations in the global energy markets, technological advancements reshaping our industry, and a renewed focus on sustainability. In the face of these changes, your company has not only persevered but thrived with the commencement of commercial production from both the wells in the flagship B-80 field in western offshore.

One of the cornerstones of our success is our relentless focus on safety and the environment. We understand the responsibilities that come with harnessing the Earth's resources. We remain focused to ensure that our operations are conducted with the utmost care for the environment and the safety of our employees and facilities.

Global Oil Market

Recent years have witnessed significant volatility in global oil prices, driven by a confluence of factors that impacted the energy markets. From the demand shocks caused by the COVID-19 pandemic to geopolitical tensions and supply disruptions, these price swings have underscored the intricate balance between global supply and demand dynamics. The pandemic-induced lockdowns led to a historic drop in oil demand, resulting in a dramatic price collapse in early 2020. Subsequent supply cuts by major oil-producing nations aimed at stabilizing prices, coupled with gradual economic recovery, contributed to a partial rebound. However, ongoing uncertainties surrounding the pace of economic revival, the trajectory of oil demand recovery, and the potential for geopolitical disruptions continue to fuel price volatility. Navigating these fluctuations requires a keen understanding of both short-term market dynamics and the long-term trends shaping the energy landscape.

I now turn to the operational highlights of your company during FY 23.

1. Commencing Production from B-80

During FY 23, we crossed major milestones in B-80 development and Q4 became the first quarter, when both D-1 and D-2 wells were on continuous production simultaneously. This helped the company to exit the year with the record gross operated production level of over 10,000 barrels of oil equivalent per day (boepd). Significance of this milestone will be understood, when we recollect that in FY2015, gross operated production was 500 boepd.

2. By opting for "Outsource at field level and in source at corporate level" strategy in developing B-80, HOEC group companies funded and owned the MOPU and FSO & SPM assets to provide services to Joint Venture of B-80. Due to this, both the 100% owned subsidiary companies earned revenue and turned profitable for the first time during FY23.



3. E-Auctions provide a transparent way to discover market determined prices. As a result of two successful e-auctions conducted, today both GSPC and IOC have become consumers of B80 - Gas. In addition, HOEC has successfully placed marginal surplus gas volumes on the Indian Gas Exchange (IGX) to meet spot demand for gas by consumers in Gujarat. Gas is delivered to all consumers through Gas Transportation Networks that involved sharing the facilities of ONGC and GAIL through tariff agreements by HOEC and gas consumers respectively. HOEC pioneered in establishing this complex offshore to onshore delivery system involving multiple stakeholders efficiently, as the first Indian private sector player in western offshore.
4. At Dirok, during FY 23, we achieved an average daily gas sales volume of 30 mmscfd. We continue to face the challenge of seasonal variation in gas off take. Maintenance activity of any major consumer also impacts off take adversely. However, once the North-East market is connected to the rest of India via the North-East Gas Grid Indradhanush over the next year or two demand is expected to stabilise and also increase.
5. Production Sharing Contracts of both PY-1 and Kharsang have now been extended by ten years by Government of India. To increase production, your company plans to drill additional wells across PY-1, Kharsang, Cambay and when demand for gas picks up, in Dirok too.

Responsible Operator

Since 2015, HOEC has been following a unique business strategy of focusing primarily on discovered oil and gas resources and developing them into production mode through a fast track - low cost model. Even as we prepare for further growth by investing to increase production across our portfolio, we remain committed to conduct business in a responsible manner, to promote safe operations, protect our operating environment, and improve the quality of lives of all stakeholders with a sharper focus on Environmental, Social and Governance (ESG) and CSR aspects. We have achieved zero flaring in our Cambay asset, by selling a small volume of associated natural gas, which was previously flared and also made a commitment to implement the steps to achieve Net-Zero emissions at Dirok. HOEC strives to contribute to a sustainable future for the communities where we live and work with time and resources.

Opportunities in Energy Transition

In the ever-evolving global oil and gas industry, recent developments have reshaped the landscape. The transition towards sustainable energy sources has gained momentum, with nations worldwide setting ambitious targets to reduce carbon emissions. As a result, there has been a surge in investments and research focused on renewable energy technologies, energy storage solutions, and carbon capture initiatives. This shift provides long-term opportunities for our company also. We are committed to build capabilities, in order to pivot and embrace change, at the appropriate time in future, to remain a relevant player in the Indian energy sector. The Memorandum of Association of the Company are being amended appropriately for this purpose.

Corporate governance

Corporate governance is the compass that guides our company's journey towards excellence. We firmly believe that transparent and effective governance practices are essential to build trust among our stakeholders. Our Board of Directors is committed to upholding the highest standards of accountability, integrity, and ethical conduct. Our commitment to corporate governance extends to fostering a culture of compliance, risk management, and open communication. By embracing these principles, we not only enhance our company's resilience but also reinforce our reputation as a responsible and reliable player in the industry. Being a listed Company, with multiple investors and no promotor, the responsibility cast on the Board is onerous. We look forward to the strong commitment and support of all shareholders as we continue our journey.



Challenges

As shareholders are aware, oil and gas exploration and production is a highly complex, challenging, capital intensive and risky business, especially in offshore areas. Our experience with execution of B 80 testifies to this. Without deep pockets, HOEC has had to contend with resource constraints over the last few years. While the Company has been able to navigate these resource challenges, the issue will remain challenging in the future.

Change in Leadership

As Elango retires on 30 Sep 2023 after completing more than eight years as the Managing Director of HOEC, the Board is pleased to recommend appointment of R. Jeevanandam, CFO as the new Managing Director effective 1 October 2023. Jeeva brings extensive oil and gas experience and financial expertise to the role, having been with the oil and gas sector for over 40 years and with HOEC Board as CFO for over 8 years. Jeeva knows the business really well and will provide the required continuity with change. He played a significant role in the transformation journey of HOEC with successful rebasing of HOEC's cost structure, significantly strengthening of its balance sheet and change to a more focused capital allocation and rigorous appraisal of investment decisions. The Board and I thank Elango for his outstanding contribution and look forward to working closely with Jeeva in his new role.

Corporate Social Responsibility

As we continue to explore new horizons, we remain firmly rooted in our responsibility towards the communities in which we operate. Our corporate social responsibility initiatives continue to make a meaningful impact in our operating regions, especially in Northeast. Since 2015, HOEC along with its JV partners, has executed 25 CSR projects costing ₹ 11 Crores in Margherita Sub- Division, in Tinsukia District of Assam, where the Dirok field is located, primarily to improve education and rural development infrastructure. As production from Dirok field transformed HOEC, these CSR projects have made a difference to lives of the local community.

Employees

Our accomplishments would not be possible without the unwavering commitment of our employees. Their hard work, dedication and expertise form the foundation upon which our success rests. It is their resilience that enables us to navigate the challenges and uncertainties that are inherent in our industry, especially in offshore. I would like to take this opportunity to express my heartfelt gratitude to each and every member of our team.

Conclusion

In conclusion, your company has embarked on this transformation journey that has been marked by challenges overcome, milestones achieved and a spirit of innovation that is an integral part of our work culture.

As we continue our journey in the ever-changing currents of the energy sector, I am confident that our company will remain a responsible player in the Indian oil and gas sector, contributing to India's quest for domestic energy resources, through innovation with integrity.

Thank you for your unwavering support, and wishing another year of growth, sustainability, and shared success.

Vivek Rae
Chairman