



Chairman's Statement 2020-2021

INDIA'S FIRST PRIVATE OIL AND GAS COMPANY

Growing Responsibly



HINDUSTAN OIL EXPLORATION COMPANY LIMITED

Transforming Through Talent And Technology



Ladies and Gentlemen,

Good morning. On behalf of the Board of Directors, I am delighted to welcome all of you to this 37th Annual General Meeting of your Company. It is being held again in virtual mode. We miss the pleasure of meeting you in person. Hope all of you are safe and fine.

The Company's Annual Report has been dispatched to all shareholders. I trust you received the Annual Report on time.

I seek your permission and take it as read.

Unprecedented Times

The second wave of COVID-19 in 2021, coming after the first wave in 2020, has further disrupted businesses and personal lives. Your Company lost one of its longest serving employee Late Shri. Radhakrishnan, who was the Executive Assistant to the Managing Director. I would like to acknowledge his dedicated service to the Company of over 30 years and convey our deepest condolences to his family.

Oil Market

The pandemic had a significant impact on oil markets, with Brent prices falling to a low of \$13/bbl in April 2020 and recovering to \$65/bbl in March 2021. Global oil supply-demand balance is yet to stabilise. (Brent prices touched \$73/bbl on September 10, 2021).

Prices are reflecting the twin impacts of:

- a) Global economic recovery from the effects of COVID-19 on the demand side; and
- b) Market expectation about the growing impact from energy transition measures on the supply side.

Next Normal

During my last year's AGM speech, I had shared with you what the experts believe as the three major trends to define the Next Normal for Global Oil and Gas Industry.

I repeat them as they have become more relevant after a year:

- a) Increasing natural disasters will fast track the Global Energy Transition;
- b) Global Gas and LNG will have a favourable role in this Energy Transition, especially in emerging markets; and
- c) Discipline in capital allocation, risk management and environmental governance is critical for oil and gas companies to successfully navigate this Energy Transition.

Global oil majors have signalled that this transition journey has begun, even while the pace is uncertain.

India's Focus on Gas

Energy Industry is at crossroads. Climate change, electric vehicles, renewable power and advances in technology, all of them promise to change the existing patterns of energy usage.

India has recognized the vital role of gas in this energy transition and set a goal to increase the share of gas in the primary energy basket from the current level of about 6% to 15% by 2030.

The International Energy Agency (IEA) has recently projected Indian net import dependency on oil (import of crude oil-export of oil products) to increase from about 75% at present to about 90% by 2040.

Import dependence on natural gas, which was 20% in 2010, has increased to 50% in 2019 and is projected at 60% by 2040.

India will account for about one fourth of global energy demand growth by 2040. Indian oil demand is projected to more than double and gas demand triple by 2040. Fossil fuels will therefore continue to play a crucial role in meeting India's energy demand in the foreseeable future. This augurs well for the growth prospects of your Company.

Despite projected gas resources of 100 TCF (IHS/BP study), India has faced serious challenges on the supply side, with domestic gas production declining from a peak of 52.2 bcm in FY 2010-11 to 28.7 bcm in FY 2020-21. Government has come out with major policy initiatives to increase domestic oil and gas production in the last few years, including HELP and DSF rounds. However, domestic gas pricing policy continues to keep domestic gas prices artificially suppressed for about 85% of current domestic gas production. This pricing regime needs to be liberalised, especially for legacy production, to reflect the opportunity cost for the economy. This single measure can energise E & P activities in the country for natural gas by generating more investible resources for E & P Companies like HOEC.

In the India Energy Outlook 2021, IEA has observed that "The relatively low level of gas prices over the past few years has however acted as a disincentive for significant investments in domestic production".

While domestic production has been constrained, there has been a lot of focus on creating gas infrastructure. India's LNG capacity is set to reach 60 MMTA by next year. As part of the National Gas Grid, 15,000 km of trunk gas pipeline is proposed to be laid to add to the existing 17,000 km. City Gas Distribution networks are also being expanded rapidly.

Of particular importance to HOEC is the North-East Region (NER) Gas Grid being implemented by Indradhanush Gas Grid Limited. This opens up good opportunities for your Company's five oil and gas fields located in North-East Region.

Turning to your Company's performance during FY 2020-21, I would like to highlight five aspects.

Firstly, we continued to focus on ensuring safe operations and achieved 0.98 million Lost Time Injury (LTI) free man hours of operations across all our assets. It is a matter of great satisfaction that your Company took timely action to evacuate all of its people and assets to safe locations during the disastrous cyclone Tauktae. Our HSE Policy is laid on the strong foundational principle that 'All Lives Have Equal Value' and nothing that we do is more important than ensuring safety of our people and assets.

Secondly, Dirok Field completed four years of commercial production in the last month. The Dirok Field Development Plan approved in 2017 envisaged a production level of 20 million standard cubic feet per day. However, during FY 2020-21 the field delivered an average 35 million standard cubic feet per day, maintaining uninterrupted operations even during the lockdown. It is heartening to note that Dirok expansion project received full support of the local community during the public hearing held for securing the Environmental Clearance.

Thirdly, over 95% of the B-80 development project has now been completed - two wells have been drilled and tested, Mobile Offshore Process Unit has been installed on location (you can see its actual picture on the cover of this year's Annual Report), all pipelines have been laid and the gas line is connected to the existing ONGC pipeline that will deliver B-80 gas to the Gujarat market. The remaining project will be undertaken post-monsoon to deliver First Oil during next quarter.

Fourthly, the Management Team has drawn up plans to drill wells in PY-1 and Cambay Assets post First Oil from B-80.

And finally, you would have noticed significant increase in the reported Hydrocarbon Resource Base of your Company in the Annual Report. This has been primarily driven by the re-assessment of reserves in B-80, duly verified by an independent third party.

Growing Responsibly

While the portfolio of discovered resources of your Company provides the base for continuing our growth journey, we are always conscious of the hazardous nature of oil and gas operations and risks involved.

We are committed to strengthen our Risk Management Systems and bring a sharper focus on Environment, Social and Governance (ESG) aspects of our business, which is receiving increasing attention of the global investor community.

I am glad to share that in addition to the mandated Business Responsibility Report section in the Annual Report, we have also published the Sustainability Report for FY 2020-21 as we did last year. These Reports highlight actions taken by the Company to enhance sustainability and outline the CSR projects implemented in its area of operations. The Reports are available on the Company's website and I would urge all of you to read them.

Last year, less than hundred employees of your Company contributed over 8,000 barrels of oil equivalent daily to the oil and gas production of our country. Once B-80 comes on stream this contribution should double.

Your Company, therefore, is at the cusp of transformational growth. The challenge will be to harness state of art technology, mobilise risk capital, deepen human resource skills and revamp the organisation structure to manage this growth in high risk E & P ventures, especially in offshore waters. Your Company is fully committed to this task of growing responsibly.

We recognize that the Board is the guardian of Corporate Governance and good governance becomes even more important in challenging times. I would like to re-assure all of you that your Board will continue to discharge its responsibilities in the interest of all the stakeholders.

Before I conclude, I would like to sincerely thank the entire HOEC team for their hard work during this difficult period.

I want to thank our key industry partners and stakeholders for their constructive help during this highly challenging year, particularly the Directorate General of Hydrocarbons, ONGC, OIL, and Ministry of Petroleum and Natural Gas.

Finally, I thank you, our shareholders for your continuing support.

Vivek Rae

Chairman

September 28, 2021