

Shraddhanjali



The passing away of Dr. I. G. Patel, former Chairman of our Company, on 17th July 2005 marks the end of an era.

Known as I.G. to friends and business associates, Dr. Patel's integrity as an economist and as a person was of the highest order. The most scintillating public side of Dr. Patel has come out during his Governorship of Reserve Bank of India (RBI), during which tenure he excelled not only as an economist but as a political economist and the policy maker. In recognition of his services both at RBI as well as at Ministry of Finance representing Indian viewpoint

with World Bank and IMF, the Indian Government honoured Dr. Patel with Padma Vibhushan in 1991.

Upon retirement he chose to be the Director of Indian Institute of Management, Ahmedabad and thereafter was associated with the London School of Economics and Political Science as Director in the 1980's. He was conferred with the honorary Knighthood by Her Majesty Queen Elizabeth in 1990.

Dr. Patel then agreed to join HOEC Board of Directors in 1991 as a response to his long association with our late Founder Chairman Shri H. T. Parekh, despite his averseness to join company boards. He continued to be on the Board for about 14 years of which last five years were in the capacity of being the Chairman of the Company. During his tenure with HOEC, we all had opportunity to experience the sharpness of his intellect, clarity of his views and the gentle but firm manner with which he dealt with both people and business issues. He would seem to be a risk averse person but demonstrated a high degree of risk tolerance supporting decisions which entailed risks and uncertainty — the twin characteristic of the E&P sector.

The biggest contribution was to treat HOEC as a family where there was no class distinction and he treated all staff with a great degree of humility and respect with willingness to open doors for anybody who required any help. In this endeavour he was fully supported by Shrimati Alaknanda, his wife, who will continue to be very much part of HOEC family even though we will not have Dr. Patel in our midst.

We assure that the HOEC family will reciprocate by dedicating their future endeavours to the lofty mission and challenges set by Dr. Patel for HOEC.

AUDITORS

M/s. S. B. Billimoria & Company
Chartered Accountants, Mumbai

PRINCIPAL BANKERS

ABN AMRO Bank
Corporation Bank
HDFC Bank Limited
ING Vysya Bank Limited

REGISTERED OFFICE

'HOEC House', Tandalja Road
Vadodara-390 020 (India)
www.hoec.com
E-mail: contact@hoec.com

CHENNAI OFFICE

'Lakshmi Chambers'
192, St. Mary's Road
R.A. Puram
Chennai-600 028 (India)

MUMBAI OFFICE

Anand House, Khatwari Darbar Road
Off Linking Road, Khar (West)
Mumbai-400 052 (India)

**REGISTRARS AND SHARE
TRANSFER AGENT**

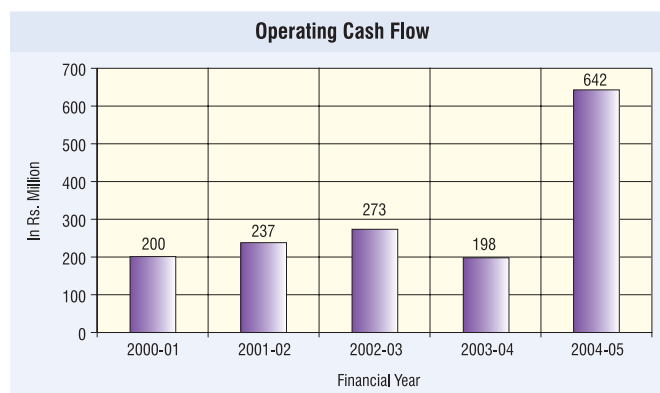
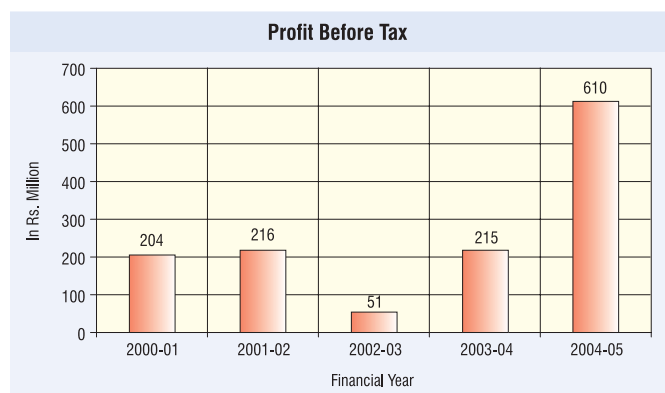
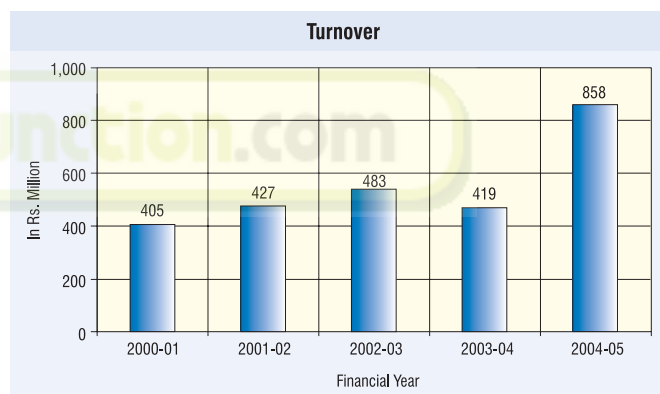
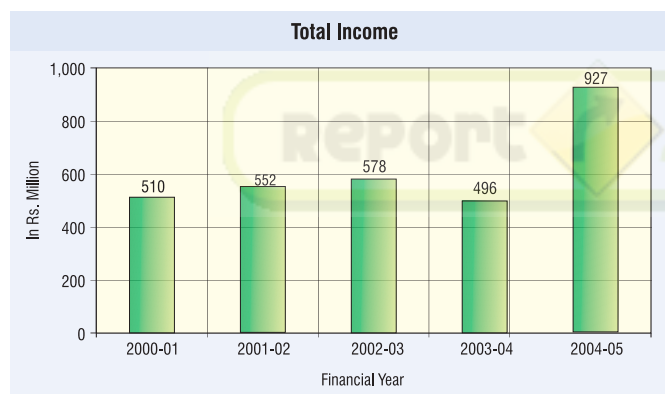
Intime Spectrum Registry Limited
201, Sidcup Towers, Race Course
Vadodara-390 007 (India)
Tel. : 91-265-231 2489
Tele-Fax : 0265-233 2474
E-mail : vadodara@intimespectrum.com

HIGHLIGHTS

Reaching new heights in a year of great success, there were notable financial and operational highlights:

FINANCIAL HIGHLIGHTS

- * **Total Income** of Rs. 927 million (FY 2003-04: Rs. 496 million), **up 87%**
- * **Turnover** of Rs. 858 million (FY 2003-04: Rs. 419 million), **up 105%**
- * **Profit Before Tax** of Rs. 610 million (FY 2003-04: Rs. 215 million), **up 184%**
- * **Profit After Tax** of Rs. 385 million (FY 2003-04: Rs. 221 million), **up 74%**
- * **Operating Cash Flow¹** of Rs. 642 million (FY 2003-04: Rs. 198 million), **up 224%**
- * **Average Production²** 1,225 bopd (FY 2003-04: 855 bopd), **up 43%**
- * **Average Price Received** per bbl US \$ 41.81 (FY 2003-04: US \$ 28.17), **up 48%**



¹ Operating Cash Flow is before Working Capital Changes and Taxes

² Average production is on entitlement basis

OPERATIONAL HIGHLIGHTS

Cauvery Business Unit

- * Directorate General of Hydrocarbons (DGH) approved Revised Plan of Development (RPoD) for PY-1 Basement gas on a fast track basis.
- * Implementation of RPoD commenced. Geophysical and Geo-technical survey for the platform and pipeline locations completed.
- * Phase-I commitment covering 3D Seismic acquisition successfully completed in Block CY-OSN-97/1.

Cambay Business Unit

- * Execution of Pramoda Oil Development Plan in Block CB-ON-7 (Palej) is approaching completion with 1st oil targeted to be produced in August this year.
- * North Balol Gas Sales Agreement executed with Gujarat State Petroleum Corporation Limited.
- * Development well, PRD-2 drilled in Block CB-ON-7 (Palej) in June 2005, flowed oil from the previously untested S4 sand.
- * Exploratory well, PRS-4 drilled in Block CB-ON-7 (Palej) in April 2005, encountered tight oil bearing sands and it was decided to plug and abandon the Well. However, the Company may take a decision to re-enter the said well based on results of studies currently underway.

Assam Business Unit

- * Exploratory well, Lakkhi-1 is currently being drilled in Block AAP-ON-94/1 and has reached a measured depth of 4,347 mtrs. Final evaluation will be done after the drilling is completed.

STRATEGIC HIGHLIGHTS

Cauvery Business Unit

- * Ministry of Petroleum and Natural Gas, Government of India approved the transfer of 53.85% participating interest of Mosbacher India LLC and Operatorship in Block PY-1 with customary conditions, to make HOEC the Operator of Block PY-1 with a participating interest of 100%.
- * Ministry of Petroleum and Natural Gas, Government of India has approved the transfer of 50% participating interest of Mosbacher India LLC and Operatorship in Block CY-OSN-97/1 to HOEC, to make HOEC the Operator of Block CY-OSN-97/1 with a participating interest of 80%.

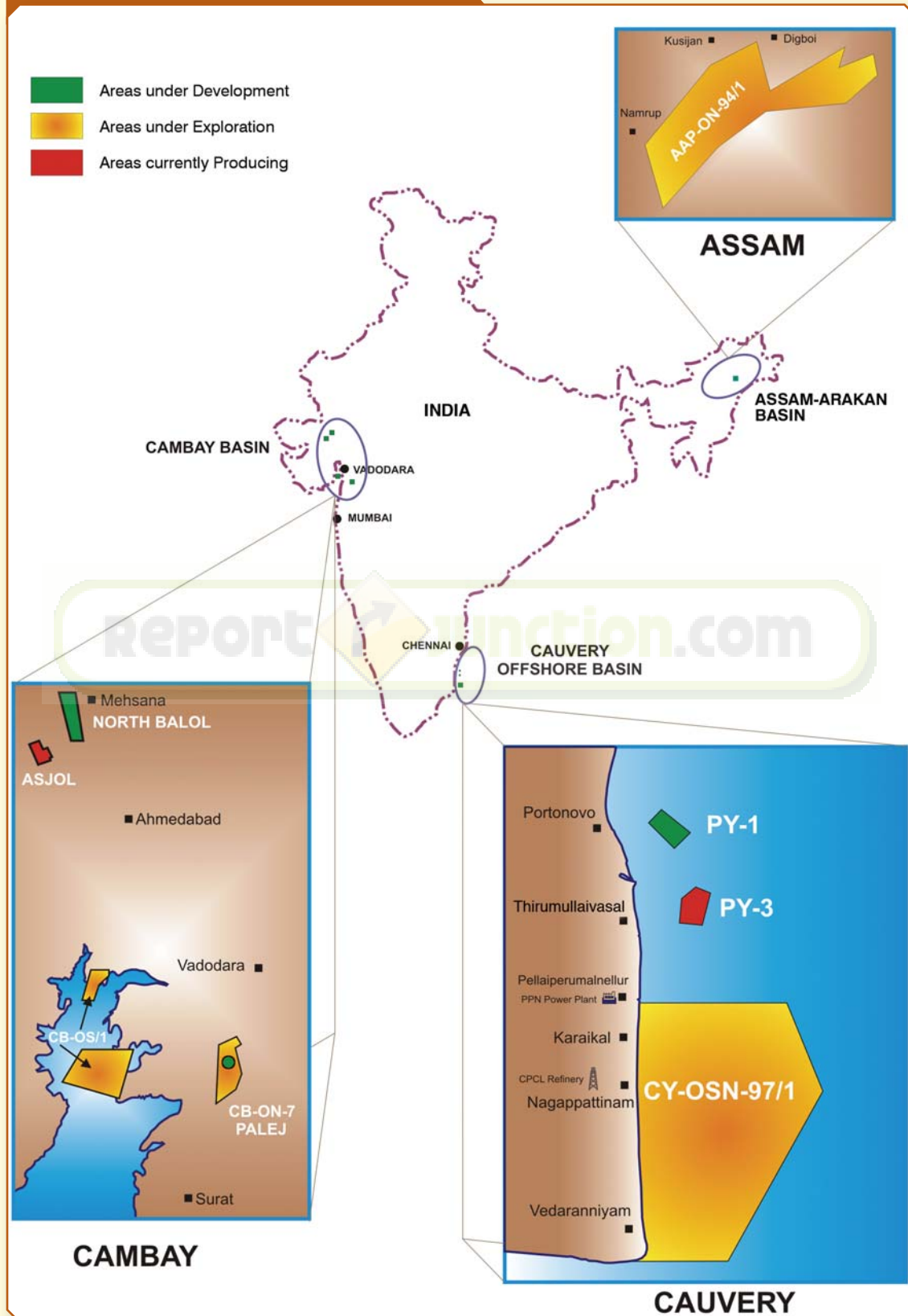
Cambay Business Unit

- * Ministry of Petroleum and Natural Gas, Government of India approved the change of participating interest and Operatorship to ONGC in Block CB-OS/1, to make HOEC the majority stakeholder with a non-operating participating interest of 57.11%.

RESERVES

Based on management assessment, the Company's Proved and Probable (2P) reserves on a working interest basis from existing assets is estimated to be around 40 million barrels of oil equivalent (mmboe). On net entitlement basis, the Company's share of 2P reserves from these assets is estimated to be around 34 mmboe.

Area of Operations



Board of Directors



Mr. R. Vasudevan

Non-Executive Chairman

Mr. R. Vasudevan holds M.A. in Economic Statistics from University of Delhi and M.P.A. in Development Economics from Harvard University, U.S.A. He has held various senior level positions in the different ministries of the Government of India, including Ministry of Petroleum, Ministry of Energy, and Prime Ministers' Office. He retired as Secretary to Government of India (Ministry of Power).



Mr. Deepak S. Parekh

Non-Executive Director

Mr. Deepak Parekh is a Fellow of the Institute of Chartered Accountants (England & Wales). He has been a member of various committees set up by the Government of India, especially in the field of Finance and Capital Market. Mr. Deepak Parekh is the Executive Chairman of Housing Development Finance Corporation Ltd.



Mr. Vimal Bhandari

Non-Executive Director

Mr. Vimal Bhandari is a Fellow of the Institute of Chartered Accountants of India. Mr. Vimal Bhandari has extensive experience in the Indian infrastructure and financial services sectors. Mr. Vimal Bhandari is Country Manager for AEGON India Business Services Pvt. Ltd.



Mr. Finian O'Sullivan

Non-Executive Director

Mr. Finian O'Sullivan holds a degree in geology and geophysics from University College Galway and was responsible for creating Burren in 1994. Before this Finian pursued an international career spanning 17 years in geophysics and seismic acquisition with Chevron, Geophysical Systems and Olympic Oil and Gas. Mr. Finian O'Sullivan is Chief Executive Officer of Burren Energy PLC.



Mr. Atul Gupta

Non-Executive Director

Mr. Atul Gupta holds degrees in Chemical Engineering from Cambridge University and Petroleum Engineering from Heriot-Watt University and has worked for 20 years in international oil and gas production operations with Charterhouse Petroleum, Petrofina and Monument. Mr. Atul Gupta is Chief Operating Officer of Burren Energy PLC.



Mr. Rakesh Jain

Managing Director

Mr. Rakesh Jain holds degree in Mechanical Engineering from IIT Delhi and Post Graduate Diploma in Business Management from IIM Calcutta and has been with HOEC for last 2 years. Before this Rakesh worked with TATA group of companies for about 21 years in diversified businesses including upstream oil and gas, drilling, information technology, and exports.

DIRECTORS' REPORT

TO THE MEMBERS OF HINDUSTAN OIL EXPLORATION COMPANY LIMITED

Your Directors have pleasure in placing before you the 21st Annual Report and Audited Statement of Accounts for the year ended 31st March 2005.

FINANCIAL HIGHLIGHTS

	(Rs. in million)	
	2004-2005	2003-2004
Sales	858.23	418.66
Other Income	69.19	77.81
Gross Profit before Depreciation/ Depletion/Amortisation/Write Offs/ Taxation	682.26	278.42
Less: Depreciation/Depletion/ Amortisation	88.06	45.62
Less: Provisions & Write Offs	(15.91)	12.21
Profit Before Tax and Prior Period Adjustments	610.11	220.59
Less: Prior Period Adjustments	0	5.25
Less: Provision for Current Tax	195.00	16.00
Add: Provision for Deferred Tax	(30.20)	21.96
Less: Provision for Wealth Tax	0.08	0.08
Profit After Tax	384.83	221.22
Profit/(Loss) brought forward	392.65	237.70
Profit available for Appropriation	777.48	458.92
Less: Proposed Dividend on Equity Shares	58.74	58.74
Less: Dividend Tax	8.24	7.53
Balance carried to the Balance Sheet	710.50	392.65

Profit after tax is higher at Rs. 384.83 million as compared to Rs. 221.22 million for the previous year. After considering brought forward profit of Rs. 392.65 million, the profit available for appropriation is Rs. 777.48 million.

DIVIDEND

Considering the performance during the year under review, your Directors recommend dividend @ 10% (Rs.1.00 per equity share of Rs. 10/- each) on the equity shares of the Company for the year ended 31st March 2005. The proposed dividend will amount to an aggregate of Rs. 66.98 million (including corporate dividend tax of Rs. 8.24 million).

OPERATIONAL HIGHLIGHTS

Operational Highlights are provided in Management Discussion and Analysis Report.

MANAGEMENT DISCUSSION AND ANALYSIS REPORT

In terms of Clause 49 of the Listing Agreement with the Stock Exchanges, Management Discussion and Analysis Report is appended to this Report.

CORPORATE GOVERNANCE

A separate report on Corporate Governance along with a Certificate of Compliance from the Auditors, forms part of this report.

CORPORATE SOCIAL RESPONSIBILITY

The devastating Tsunami that struck the coastline of southern and eastern India caused immense loss of life and property, primarily in the States of Tamil Nadu, Andhra Pradesh, Kerala and the Union Territory of Andaman & Nicobar Islands. HOEC as a responsible corporate citizen responded by donating an amount of Rs. 0.51 million to the Prime Minister's National Relief Fund. Following the flood situation in Gujarat in end June 2005, HOEC has lent a helping hand to the villagers of Makan near Palej by providing medical assistance. Going forward, we expect the Company's involvement to be significant in such initiatives commensurate with its growing activities in the role of an Operator.

ACCOUNTING POLICY WITH RESPECT TO "IMPAIRMENT"

The Company has adopted accounting policy on Impairment as stated in Schedule 13 of the financial statements as per Accounting Standard AS-28 issued by The Institute of Chartered Accountants of India. None of the assets/cash generating units have been required to be impaired.

COST ACCOUNTING RECORDS

The Company has maintained cost records as required by Cost Accounting Records (Petroleum Industry) Rules, 2002 vide notification dated 8th October 2002.

HOEC BARDAHL INDIA LIMITED [HBIL] (WHOLLY OWNED SUBSIDIARY OF HOEC)

On account of focussed marketing strategy, HBIL achieved a status of "positive net worth". The Company could earn a profit of Rs. 6.7 million and has repaid over Rs. 5.7 million during the year to the Company towards the loans advanced earlier.

The audited accounts of HBIL together with the report of the directors and auditors, as required under Section 212 of the Companies Act, 1956 are attached.

CONSOLIDATED FINANCIAL STATEMENTS

Pursuant to Accounting Standard AS-21 issued by The Institute of Chartered Accountants of India and the

Listing Agreement entered into with the Stock Exchanges, Consolidated Financial Statements are part of this annual report.

AUDITORS' REPORT

With reference to the observation made in Auditors' Report regarding unaudited joint ventures' accounts, we have to state that as per Production Sharing Contracts signed with the Government of India, the operators have been allowed time upto 30th September to submit audited accounts. Considering this, some of the operators have not submitted audited accounts till the Company's accounts are audited. In lieu of same, the statements of expenditure/unaudited accounts submitted by those operators have been incorporated.

Regarding non-disclosure of outstanding payment to Small Scale Industries with respect to joint ventures, we have to state that the requirements of the said disclosure is not applicable to joint ventures and hence the required information has not been made available by JV operator.

FIXED DEPOSITS

Your Company has not accepted any fixed deposits and, as such, no amount of principal or interest was outstanding as at the balance sheet date.

OPEN OFFER BY BURREN ENERGY INDIA LIMITED

Based on the public announcement dated 15th February 2005 made by Ind Global Corporate Finance Pvt. Ltd., Burren Energy India Limited, a company incorporated and existing under the laws of England, has acquired from Unocal International Corporation, a company incorporated under the laws of the State of Nevada, USA, the entire shareholding of Unocal Bharat Limited, a company incorporated and existing under the laws of Bermuda, which in turn holds 26.01% of the total issued and outstanding share capital of Hindustan Oil Exploration Company Limited. Pursuant to the aforesaid transaction, it is understood that Burren Energy India Limited (along with Unocal Bharat Limited) is presently in the process of making an open offer for the acquisition of twenty (20) percent of the issued and outstanding share capital of the Company.

DIRECTORS

In accordance with the provisions of the Companies Act, 1956 and Articles of Association of the Company Mr. R. Vasudevan will retire by rotation at the ensuing Annual General Meeting and he being eligible offers himself for re-appointment.

During the year under review Dr. I. G. Patel, Mr. Hasmukh Shah, Mr. Manu Shroff, Mr. C. K. Mehta, Mr. Ronald Somers, Mr. Andrew Fawthrop and

Mr. M. N. Khan ceased to be Directors. The Board places on record its sincere appreciation of the excellent and outstanding contributions made by the said directors to the growth of the Company. The Board has appointed Mr. Finian O'Sullivan and Mr. Atul Gupta as Additional Directors in place of Mr. Andrew Fawthrop and Mr. M. N. Khan as Nominees of Unocal Bharat Limited at its meeting held on 14th February 2005. The Board welcomes Mr. Finian O'Sullivan and Mr. Atul Gupta and looks forward to their valuable contribution and guidance. Mr. Finian O'Sullivan and Mr. Atul Gupta shall hold office upto the date of ensuing Annual General Meeting. The Company has received valid notices and requisite deposits from members of the Company under Section 257 of the Companies Act, 1956, signifying the intention to propose the name of Mr. Finian O'Sullivan and Mr. Atul Gupta for the office of the Directors at the ensuing Annual General Meeting.

COMPANY SECRETARY

Upon resignation of Mr. Ketan Thaker, Asst. Company Secretary, the Company has promptly initiated the process of appointing the Company Secretary.

VOLUNTARY DELISTING OF THE COMPANY'S SHARES FROM CERTAIN STOCK EXCHANGES

The Company's equity shares have been voluntarily delisted from The Stock Exchange Ahmedabad, Bangalore Stock Exchange Limited, The Calcutta Stock Exchange Association Limited, The Delhi Stock Exchange Association Limited and Madras Stock Exchange Limited. However, the Company's equity shares are listed on the Stock Exchange, Mumbai (BSE) and National Stock Exchange of India Limited (NSE).

CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE EARNINGS AND OUTGO

The Company is engaged in the business of exploration and extraction of crude oil and natural gas and does not carry out any manufacturing activity. Hence, the particulars relating to conservation of energy and technology absorption stipulated in the Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules, 1988 are not applicable. Particulars regarding foreign exchange earnings and outgo are as under:

Particulars	Rs. million
A. Foreign Exchange Earnings	NIL
B. Foreign Exchange Used	
• Cash Call Payment to Joint Ventures	302
• Expenditure in Foreign Currency	2
• Dividend (Gross)	21
• CIF Value of Imports	NIL
Total Foreign Exchange used	325

PARTICULARS OF EMPLOYEES

The particulars of employees required to be furnished pursuant to Section 217 (2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975 are attached hereto and form part of this Report.

AUDITORS

The Auditors M/s. S.B. Billimoria & Co., Chartered Accountants, will retire at the forthcoming Annual General Meeting. As recommended by the Audit Committee, the Board has at its Meeting held on June 28, 2005 proposed their appointment as Statutory Auditors to audit the accounts of the Company for the financial year 2005-06. You are requested to consider their appointment.

DIRECTORS' RESPONSIBILITY STATEMENT

In accordance with the provisions of Section 217(2AA) of the Companies Act, 1956, with respect to Directors' Responsibility Statement, it is hereby confirmed:

- that in the preparation of the annual accounts for the financial year ended 31st March, 2005, the applicable accounting standards had been followed along with proper explanation relating to material departures;
- that the directors had selected such accounting policies and applied them consistently unless otherwise stated and made judgements and estimates that were reasonable and prudent so as to give a true and fair view of the state of affairs of

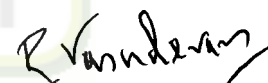
the Company at the end of the financial year and of the profit or loss of the Company for the year under review;

- that the directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956, for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- that the directors had prepared the accounts for the financial year ended 31st March 2005 on a 'going concern' basis.

CONCLUSION AND ACKNOWLEDGEMENT

Your Directors place on record their gratitude for the support and co-operation received from Government of India's agencies namely, Ministry of Petroleum & Natural Gas, Directorate General of Hydrocarbons, Government of Gujarat, Government of Tamil Nadu, Tamil Nadu Electricity Board, Consortium Partners and Bankers. We express our sincere appreciation to our dedicated and committed team of employees who have contributed to the growth of the organization.

For and on behalf of the Board



Place : Chennai
Date : 26th July 2005

R. Vasudevan
Chairman

ANNEXURE TO THE DIRECTORS' REPORT

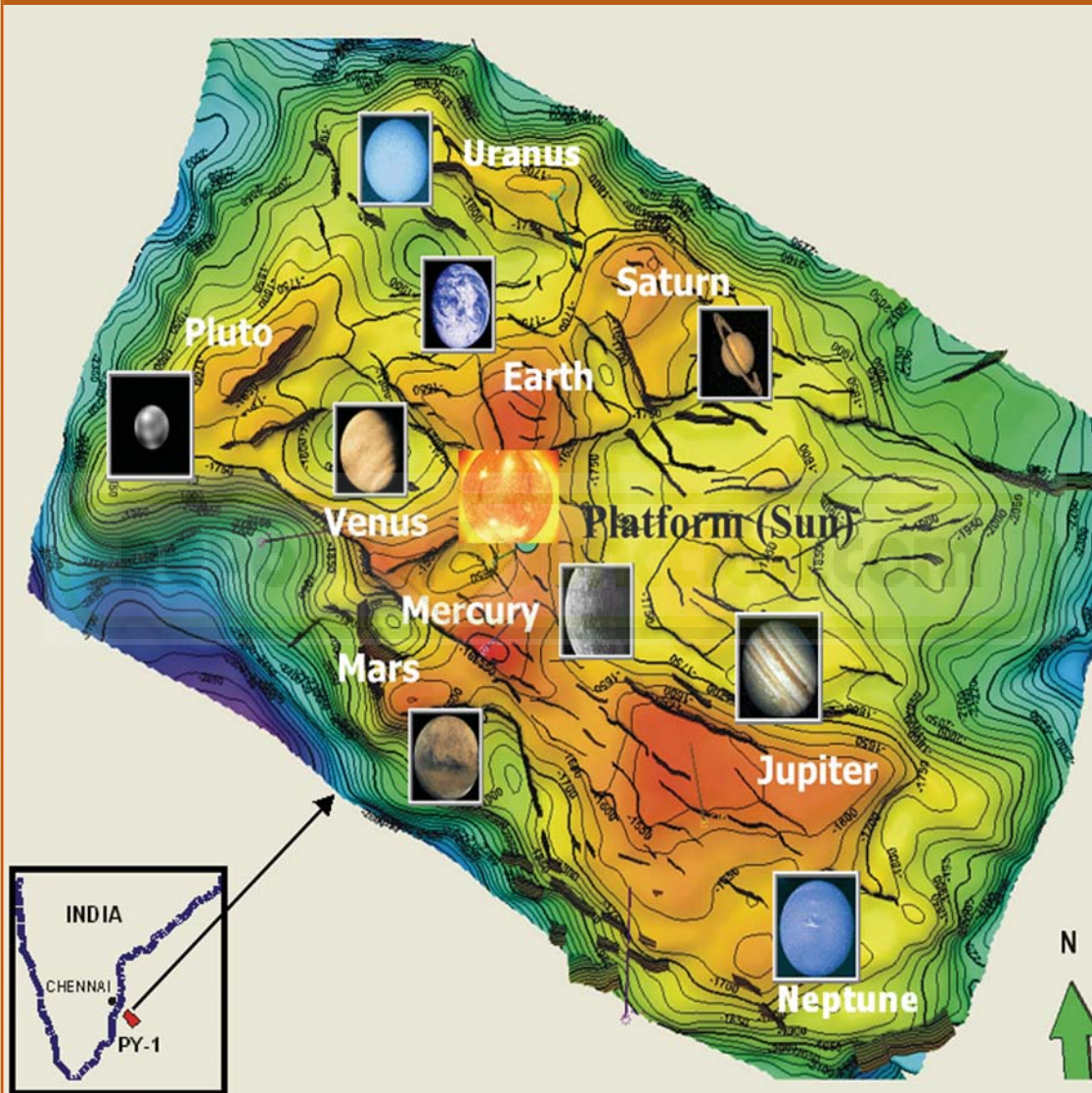
Statement of particulars of employees pursuant to the provisions of Section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975 and forming part of the Directors' Report for the year ended 31st March 2005.

Name & Qualification	Age	Designation	Remuneration received (Rs.)	Experience (No. of years)	Date of joining	Last Employment	
						Name of the Co.	Designation
Rakesh Jain B.Tech (Mechanical Engineering), Post Graduate Diploma in Business Management	46	Managing Director	70,93,784	22	16.06.2003	Tata Consultancy Services	Principal Consultant

Notes:

- Gross remuneration as above includes salary, taxable allowances, sign on bonus, Company's Contribution to Provident Fund and Superannuation Fund, Gratuity paid (but excludes Company's contribution to Gratuity Fund), reimbursement of medical expenses, personal accident and mediclaim insurance premium, leave travel assistance and monetary value of perquisites calculated in accordance with the provisions of the Income Tax Act, 1961 and the Rules thereunder.
- The above-mentioned employee is not a relative of any Director of the Company.
- The nature of employment is contractual.

PY-1 encompasses nine hills each of them filled with hydrocarbons - each hill is represented by a planet surrounding the Sun, the name of the platform from which the development wells will be drilled.



In the onland Cauvery, surrounding the Suryanar koil, the temple of Sun God, there are temples for each planet called Navagraha Circle–PY-1 is in offshore Cauvery with a similar concept.