

23rd Annual Report
2006-2007



Hindustan Oil Exploration Company Limited

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23rd Annual General Meeting

Date : September 28, 2007

Day : Friday

Time : 10:30 A.M.

Place : “Chandarva”

WelcomHotel Vadodara

R. C. Dutt Road, Alkapuri

Vadodara-390007



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Disclaimer Note:

Certain sections of this Annual Report, in particular the Management Discussion and Analysis, may contain forward-looking statements concerning the financial condition and results of operations of HOEC. Forward-looking statements are statements of future expectations that are based on management's current expectations and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in these statements. No assurances can be given as to future results, levels of activity and achievements and actual results, levels of activity and achievements may differ materially from those expressed or implied by any forward-looking statements contained in this report. HOEC does not undertake any obligation to publicly update or revise any forward-looking statement as a result of new information, future events or other information.

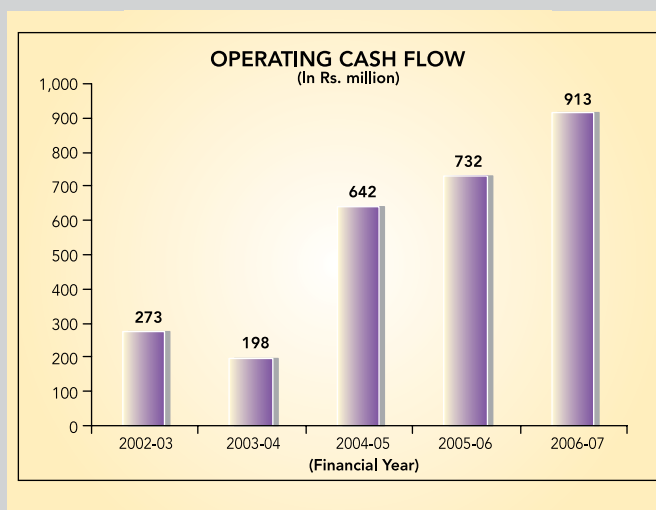
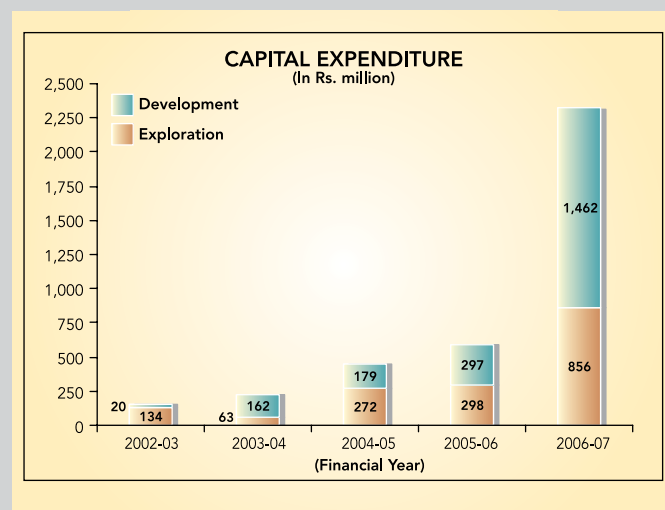
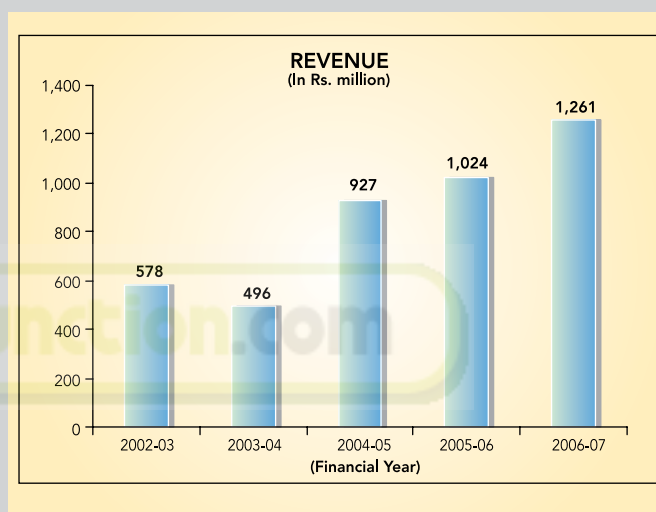
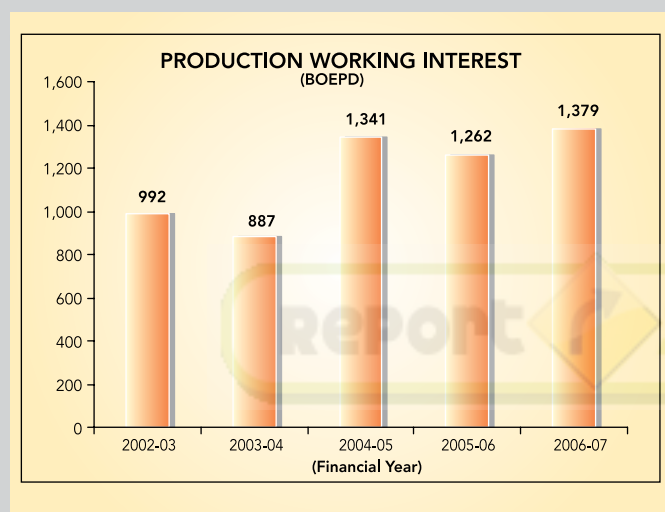
Highlights of 2006-07

FINANCIAL HIGHLIGHTS

- **Revenue** of Rs. 1,261 million (FY 2005-06: Rs. 1,024 million), up 23%
- **Turnover** of Rs. 1,112 million (FY 2005-06: Rs. 970 million), up 15%
- **Operating Cash Flow**¹ of Rs. 913 Million (FY 2005-06: Rs. 732 million), up 25%

OPERATIONAL HIGHLIGHTS

- **Average Production**² 1,379 boepd (FY 2005-06: 1,262 boepd), up 9%
- **Sales Agreement** for supply of first tranche of Gas from PY-1 Field executed

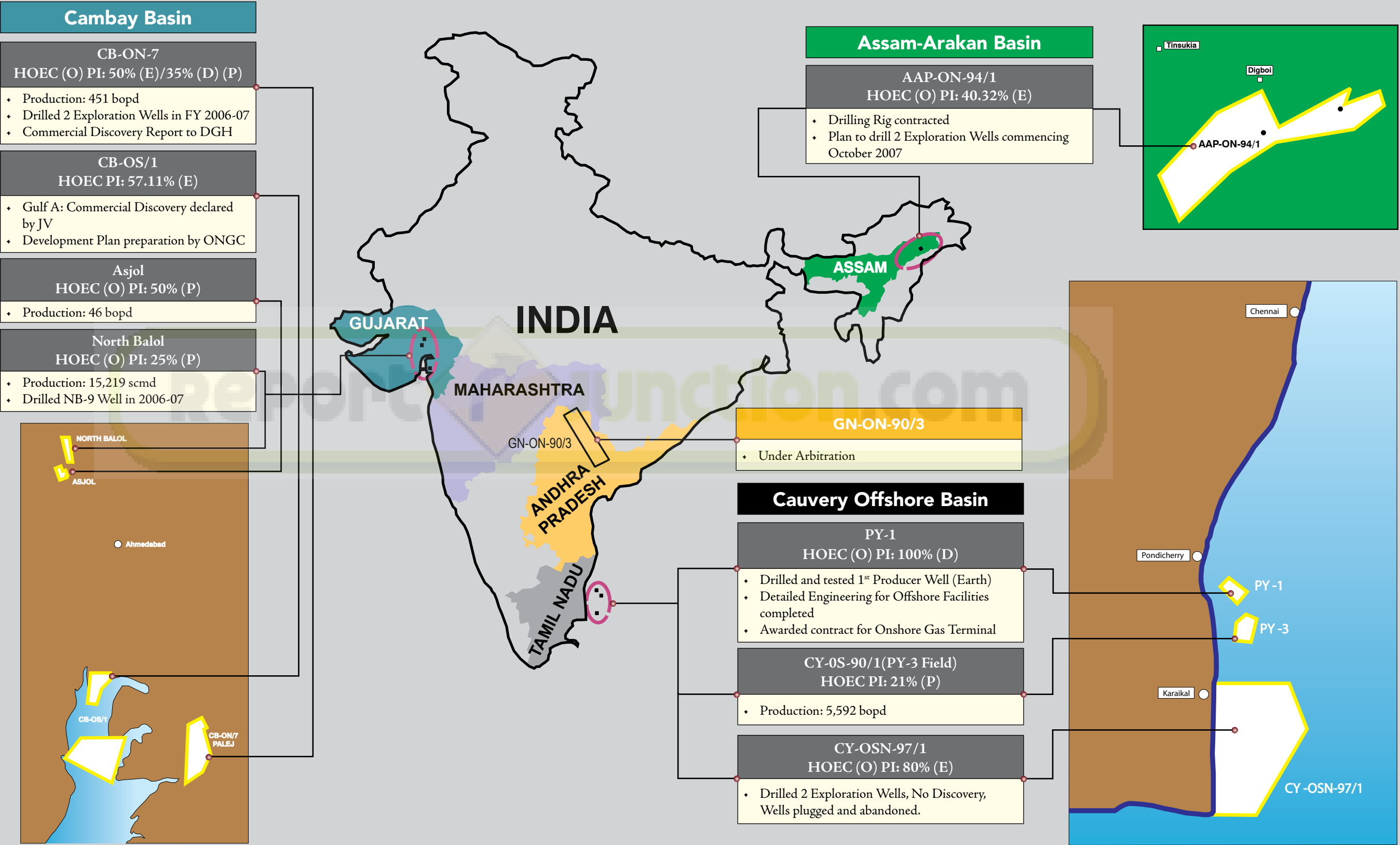


¹ Operating Cash Flow is before Working Capital Changes and Taxes.

² Average Production is on working interest basis.

Operational Highlights At A Glance

HOEC's oil and gas assets consist of operated & non-operated acreages in Cauvery, Cambay and Assam-Arakan basins in India



Board of Directors

Mr. R. Vasudevan
Non-Executive Chairman



Mr. R. Vasudevan holds a B.A. (Hons.) (Economics) degree from the University of Madras, an M.A. (Economic Statistics) degree from the University of Delhi and has also completed M.P.A. (Development Economics) from Harvard University, Boston, U.S.A.

He has held various senior level positions in the ministries of the GoI including in the Prime Minister's Office, Ministry of Steel and Ministry of Petroleum and Natural Gas. He retired as Secretary to the GoI, Ministry of Power. He was also a founder director of Small Industries Development Bank of India.

Mr. Deepak S. Parekh
Non-Executive Director



Mr. Deepak S. Parekh is a Fellow of the Institute of Chartered Accountants (England and Wales). He has been a member of various committees set up by the Government of India, especially in the field of Finance and Capital Markets.

He is the Executive Chairman of Housing Development Finance Corporation Limited and Non-executive Chairman of Infrastructure Development Finance Company Limited, Siemens Limited, & Glaxo SmithKline Pharmaceuticals Limited. He is recipient of Padma Bhushan award from the Government.

Mr. Finian O'Sullivan
Non-Executive Director



Mr. Finian O'Sullivan holds a degree in geology and geophysics from the University College Galway and pursued an international career spanning 17 years in geophysics and seismic acquisition with organizations such as Chevron, Geophysical Systems and Olympic Oil and Gas.

He is currently the President of Burren Energy Plc. and is a director of Burren Energy India Limited and Burren Shakti Limited.

Mr. Rahul Bhasin
Non-Executive Director



Mr. Rahul Bhasin holds a Post-Graduate Diploma in Management from the Indian Institute of Management, Ahmedabad. He is the Managing Partner of Baring Private Equity Partners (India) Private Limited, a Senior Partner of Baring Private Equity Partners International and is also a member of the Investment Committee of the Baring

Vostok Private Equity Fund. He is a member of the "CEO Forum" at the Economist Corporate Network.

Mr. Atul Gupta
Managing Director



Mr. Atul Gupta holds degrees in Chemical Engineering from Cambridge University and Petroleum Engineering from Heriot-Watt University. Besides Managing Director of Hindustan Oil Exploration Company Limited, he is currently the Chief Executive Officer of Burren Energy

Plc. and is a director of Burren Energy India Limited and Burren Shakti Limited.

Mr. Manish Maheshwari
Joint Managing Director



Mr. Manish Maheshwari holds B.E. (Hons.) in Chemical Engineering, and Masters in Business Administration from SGBS, U.K.

He has been with the Company for about four years. Prior to Hindustan Oil Exploration Company Limited, he has worked with a Danish Development Financial Institution and Tata Group including upstream oil and gas ventures.

DIRECTORS' REPORT

TO THE MEMBERS OF HINDUSTAN OIL EXPLORATION COMPANY LIMITED

Your Directors have pleasure in placing before you the 23rd Annual Report and Audited Statement of Accounts for the year ended March 31, 2007.

FINANCIAL HIGHLIGHTS

(Rs. million)

	2006-2007	2005-2006
Sales	1111.69	969.53
Other Income	148.99	54.69
Gross Profit before Depreciation/ Depletion/Amortisation/Write Offs/ Taxation	1008.80	757.27
Less : Depreciation/Depletion/ Amortisation	76.49	77.95
Less : Provisions & Write Offs	930.37	418.64
Profit Before Tax	1.94	260.68
Less : Provision for Current Income Tax	286.00	168.00
Less/(Add) : Provision for Deferred Tax	(311.00)	(85.00)
Less : Provision for Wealth Tax	0.20	0.16
Less : Fringe Benefit Tax	2.00	2.60
Profit After Tax	24.74	174.92
Profit/(Loss) brought forward	818.43	710.50
Profit available for Appropriation	843.17	885.42
Less : Proposed Dividend on Equity Shares	0.00	58.74
Less : Dividend Tax	0.00	8.24
Balance carried to the Balance Sheet	843.17	818.43

During the year the Gross Profit of the Company before Depreciation / Depletion / Amortisation / Write Offs / Taxation increased from INR 757.27 million to INR 1,008.80 million representing an increase of 33%. However, the Profit After Tax is lower at INR 24.74 million as compared to INR 174.92 million for the previous year. This is mainly on account of the write offs of unsuccessful exploration expenditure of Vinayaka-1 and Subhan-1 wells drilled in Block CY-OSN-97/1 aggregating to INR 943.49 million.

DIVIDEND

Considering the financial results of the Company, your Directors do not recommend dividend for the Financial Year 2006-07.

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 a Company Secretary in Practice, forms part of this report.

COST ACCOUNTING RECORDS

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

NATURAL GAS SALES AND PURCHASE AGREEMENT

The Company has executed an agreement with PPN Power Generating Company Pvt. Limited, an independent power plant in the State of Tamil Nadu, operating a 330.5 MW Power Plant, for the supply of upto 51,000 mmbtu per day of natural gas from the Company's PY-1 Gas Field. The Gas price is USD 3.75/mmbtu for year 1 and 2, increasing to USD 3.85/mmbtu in year 3 and 4, USD 3.95/mmbtu for year 5 and 6 and to be negotiated thereafter. The Company has commenced the full field development of the PY-1 field which inter alia includes the construction and installation of offshore platform, offshore sub sea pipeline and an onshore gas terminal. The commercial production from the said gas field shall commence from Q1 2009.

LOAN AGAINST CHARGE OF PY-1 ASSETS

The Company has executed a project recourse loan agreement with a consortium of domestic Banks for borrowing an amount of US Dollar 100 million. The said amount is intended to be utilized for the PY-1 Gas Field development expenditure. The loan would bear a charge on participating interest, receivables and all present and future assets of PY-1.

PREVIOUS RIGHTS ISSUE

The Company had completed the Rights Issue process and made an allotment of 19,567,733 shares. The shares are traded on the National Stock Exchange of India and the Bombay Stock Exchange Limited. Accordingly, the present subscribed and paid up share capital comprises of 78,312,668 equity shares of INR 10 each.

PROPOSED RIGHTS ISSUE

The Company is in the process of coming out with a Rights Issue for an amount not exceeding INR 6,150 million for financing projects and related expenditures.

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

Turnover and Profit Before Tax (PBT) of HBIL have registered a growth of 76% and 63% respectively to reach a level of INR 112.27 million and INR 31.18 million. The revenue and earning growth has been primarily on account of HBIL products endorsement by OEMs including Tata Motors. The audited accounts of HBIL, together with the report of the directors and auditors thereof, forms part of this Annual Report.

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 up to September 30 of the immediately succeeding year 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.

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.

DIRECTORS

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

The Board recommends their appointment.

PROMOTERS

Burren Shakti Limited and Burren Energy India Limited, the promoters of the Company continued to provide valuable management and technical support as the Company develops its PY-1 Gas Field and explore its other acreages.

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

A. Conservation of energy:

- (a) energy conservation measures taken : Nil.
- (b) additional investments and proposals, if any, being implemented for reduction of consumption of energy : Nil.
- (c) impact of the measures at (a) and (b) above for reduction of energy consumption and consequent impact on the cost of production of goods : Not applicable.
- (d) total energy consumption and energy consumption per unit of production as per Form A of the annexure in respect of industries specified in the schedule thereto : Not applicable.

B. Technology absorption:

Efforts made in technology absorption as per Form B of the annexure:

- (a) Research and development (R & D)
 1. Specific areas in which R & D carried out by the company : Nil
 2. Benefits derived as a result of the above R & D : N.A.
 3. Future plan of action : N.A.
 4. Expenditure on R & D
 - a. Capital : Nil
 - b. Recurring : Nil
 - c. Total : Nil
 - d. Total R & D expenditure as a percentage of total turnover : N.A.
- (b) Technology absorption, adaptation and innovation
 1. Efforts, in brief, made towards : Nil
technology absorption, adaptation and innovation
 2. Benefits derived as a result of : Not Applicable
the above efforts, e.g., product improvement, cost reduction, product development, import substitution, etc.
 3. In case of imported technology (imported during the last 5 years reckoned from the beginning of the financial year), following information may be furnished
 - a. Technology imported : Not Applicable
 - b. Year of import : Not Applicable
 - c. Has technology been fully : Not Applicable
absorbed

- d. If not fully absorbed, : Not Applicable
 areas where this has
 not taken place, reasons
 therefore and future
 plans of action

C. Foreign exchange earnings and outgo:

- (a) activities relating to exports; initiatives : Nil
 taken to increase exports; development
 of new export markets for products and
 services; and export plans
- (b) total foreign exchange used and earned

Particulars	Rs. Million
A. Foreign Exchange Earnings	Nil
B. Foreign Exchange Used	
• Cash Call Payment to Joint Ventures	127.33
• Expenditure in Foreign Currency	0.23
• Dividend	20.58
Total Foreign Exchange used	148.14

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. Deloitte Haskins & Sells, will retire at the forthcoming Annual General Meeting. As recommended by the Audit Committee, the Board has at its meeting held on May 14, 2007 recommended their appointment as Statutory Auditors to hold office from the conclusion of the ensuing annual general meeting to the conclusion of the next annual general meeting. The Board recommends their appointment.

MANAGERIAL REMUNERATION

The Company has paid managerial remuneration to Mr. Rakesh Jain, erstwhile Managing Director and Mr. Manish Maheshwari, Joint Managing Director of the Company. Due to inadequate profits during the year the same has been rendered in excess of the limits prescribed under the Companies Act, 1956. The said remuneration requires the approval of the Shareholders and has

been included in the agenda for the Annual General Meeting. The Board recommends the said approval.

The various disclosures as required by Schedule XIII of the Companies Act, 1956 in this regard is given in the Annexure to the Notice of the Annual General Meeting.

DIRECTORS' RESPONSIBILITY STATEMENT

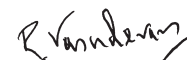
In accordance with the provisions of Section 217(2AA) of the Companies Act, 1956, with respect to Directors' Responsibility Statement, it is hereby confirmed:

- that in the preparation of the annual accounts for the financial year ended March 31, 2007, the applicable accounting standards had been followed along with proper explanation relating to material departures;
- that the directors have 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 have 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 have prepared the accounts for the financial year ended March 31, 2007 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 and 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



R. Vasudevan
 Chairman

Date : July 20, 2007

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 March 31, 2007

Name	Designation	Remu- neration received	Nature of employment	Nature of duties of the employee	Qualifications of the employee	Experience of the employee (in years)	Date of commence- ment of employment	Age	The last employment held by such employee before joining the Company	The number of equity shares held by the employee	The percentage of equity shares held by the employee	Period of employment during the financial year
												From To
Manish Maheshwari	Joint Managing Director	2,932,050	Permanent	Overall management of the Company	BE (Hons), MBA (UK)	17	1-Aug-06	40	Danish International Investment Fund	—	Nil	1-Aug-06 31-Mar-07
Manish Maheshwari	Chief Financial Officer	2,999,430	Permanent	Head of Finance, Accounts & Commercial	BE (Hons), MBA (UK)	17	1-Oct-03	40	Danish International Investment Fund	—	Nil	1-Apr-06 31-Jul-06
Rakesh Jain	Managing Director	5,669,118	Contractual	Overall management of the Company	B.Tech (Mechanical Engineering); PGDM from IIM, Calcutta	24	16-Jun-03	48	Principal Consultant, Tata Consultancy Services	1,000	Negligible	1-Apr-06 31-Jul-06
Sagar Mehta	Chief – Cambay Business Unit	3,276,762	Permanent	Head of Cambay Business Units activities	Masters in Geology and Business Administration	18	1-Jul-1989	43	Not Applicable	150	Negligible	1-Apr-06 31-Mar-07
Udayan Dasgupta (Dr.)	Chief – Exploration Ventures	5,018,176	Permanent	Head of exploration & subsurface activities	Phd - Geology (University of Toronto)	33	10-Jan-94	58	Oil India Limited	—	Nil	1-Apr-06 31-Jan-07
Ramesh Bhatia	Chief Geologist and Exploration Manager	3,469,765	Permanent	Head of Exploration Geological activities	Masters in Applied Petroleum Geology – M S University	15	1-Oct-92	41	Not Applicable	—	Nil	1-Apr-06 29-Jan-07
Rajiv Hura	Principal Operations Geologist	2,802,558	Permanent	Head of Operations Geological activities	Masters in Applied Geology – IIT Bombay	24	14-Mar-05	48	Oil India Limited	—	Nil	1-Apr-06 31-Mar-07

Notes:

- Gross remuneration as above includes salary, taxable allowances, 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 & health 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 there-under. Long term incentive benefits are included as remuneration on cash basis.
- All the above named persons are eligible for all employee benefits eligible to the same class of employee.
- VRS Compensation has not been considered as part of remuneration for the determination of employee/(s) whose particulars need to be disclosed u/s 217(2A).
- None of the above named person is a relative of any Director of the Company.

Management Discussion and Analysis Report

INDUSTRY STRUCTURE, DEVELOPMENT AND OPPORTUNITIES

HOEC operates in the Oil & Gas Exploration and Production (E&P) Industry, with its current portfolio of assets located in India. The E&P industry in India operates under a Production Sharing regime, wherein the Company enters into a Production Sharing Contract with the Government of India for exploration and development of hydrocarbon resources. Typically, players form an unincorporated joint venture consortium to address specific opportunity with flexibility to farm-out or farm down its participating interest subject to customary government approvals. This structure allows the E&P players to, not only diversify risk, but also helps bringing in collaborative and varied expertise.

Over the years, the Government, in its endeavour to promote E&P activities to help in bridging the increasing supply-demand gap in oil and gas, has been offering exploration tracts – onshore and offshore – to companies on an international competitive bidding basis as per the New Exploration Licensing Policy (NELP). Besides participation in Indian basins, there are opportunities in several international provinces to participate in exploration and if successful production of hydrocarbons.

COMPANY'S BUSINESS AND STRATEGY

The Company's core business is to explore, develop and produce hydrocarbons. The key elements of our Company's strategy are as follows:

- To grow our production by development of discoveries in existing assets/licenses;
- To grow our reserve base by exploring for and establishing upside potential in these assets/licenses;
- To constrain our exposure to exploration risk within prudent limits;
- To seek new investment opportunities within India or outside wherein HOEC can leverage its position as a low cost operator; and
- To monetise assets with a view to value realization or risk sharing.

From implementation perspective, we have defined our objectives for 2007-08 as under:

- Drill 2 exploratory wells in Block AAP-ON-94/1;
- Continue with the development of PY-1 Gas Field by progressing design and construction of onshore gas processing terminal and awarding contracts for offshore facilities;
- Appraise and develop the discoveries in Block CB-ON-7 for production hook-up to existing infrastructure;
- Facilitate development initiative of discovery in Block CB-OS-1 operated by ONGC;
- Facilitate next phase of development drilling in PY-3 Field; and
- To seek new opportunities which provide strategic fit to our existing portfolio/competencies.

OPERATIONS REVIEW

Overview

The Company's activities relate to exploration and production (based on exploration success) of hydrocarbons - crude oil and gas, which are natural resources. The Company's aggregate production during the FY 2006-07 was 503,408 barrels of oil equivalent (boe) (crude oil: 494,622 bbls; gas: 1,548,788 scm) as against 460,172 boe during the previous year. Crude oil from PY-3 Field located in Cauvery Basin continues to be the predominant source of the Company's production.

Reserves

As of March 31, 2007, the internal estimates of Proved and Probable (P+P) reserves on working interest basis for the Company is 50.5 mmboe, previous year estimates being 39.59 mmboe. The Company has been able to replace the production during the year due to revision in reserve estimation of PY-1, PY-3 and Cambay Fields based on drilling results.

Cauvery Basin

PY-1 Gas Field

The first horizontal development well, namely 'Earth', drilled in the PY-1 Gas Field tested successfully confirming initial reservoir productivity sufficient to meet contractual commitments and merit drilling producer wells of similar profile. Company has executed a Natural Gas Sales and Purchase Agreement with PPN Power Generating Company Pvt. Limited, an existing Independent Power Plant located in Tamil Nadu, for sale and purchase of gas of up to 51,000 mmbtu per day on a take-or-pay basis.