

24<sup>th</sup> Annual Report  
2007-2008



**Hindustan Oil Exploration Company Limited**

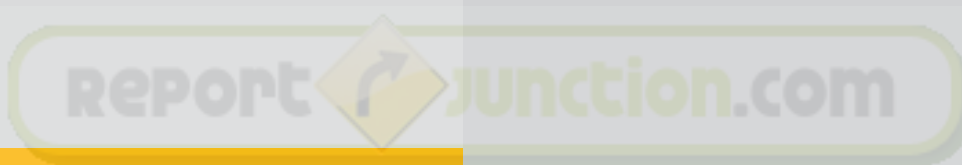
# 24<sup>th</sup> Annual General Meeting

**Date :** September 30, 2008

**Day :** Tuesday

**Time :** 10:30 A.M.

**Place :** “Tropicana Hall”  
Taj Residency Vadodara  
Akota Gardens, Akota  
Vadodara-390 020



## Contents

|  |    |
|--|----|
| Highlights of 2007-08  | 1  |
| Operational Highlights At A Glance                                   | 2  |
| Board of Directors   | 4  |
| Directors' Report  | 5  |
| Management Discussion and Analysis Report                            | 9  |
| Report on Corporate Governance                                       | 14 |
| Accounts with Auditors' Report                                       | 24 |
| Information pertaining to<br>HOEC Bardahl India Limited (Subsidiary) | 56 |
| Consolidated Accounts with Auditors' Report                          | 73 |
| Glossary   | 95 |

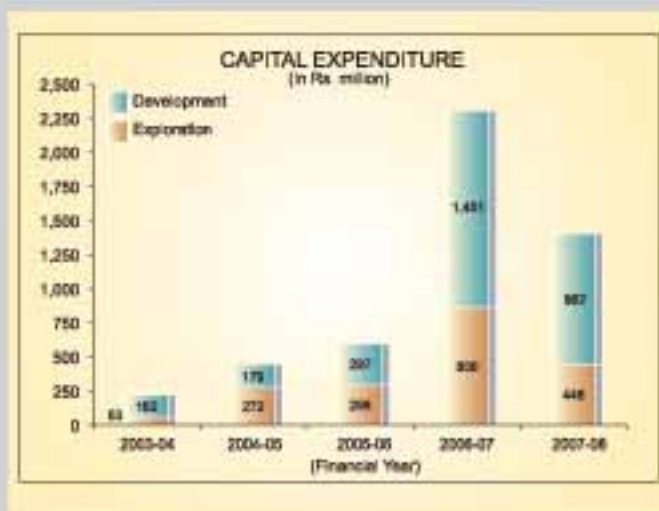
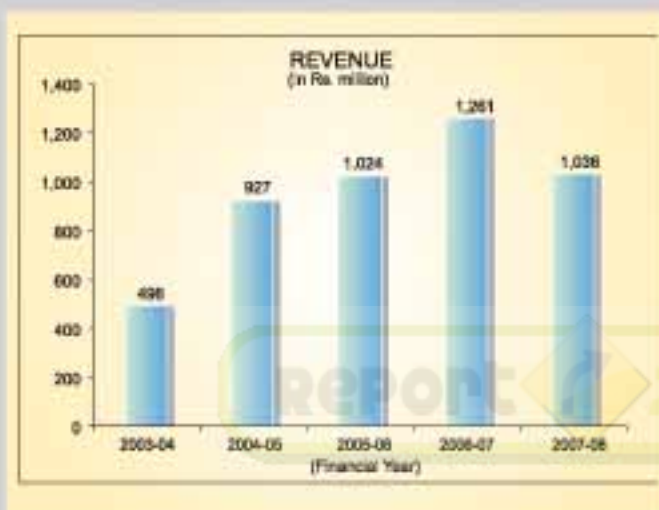
### Disclaimer Note:

Certain sections of this Annual Report, in particular the Management Discussion and Analysis, and Operational Highlights 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 2007-08

## FINANCIAL HIGHLIGHTS

- Profit After Tax of Rs. 241 million (FY 2006-07: Rs. 25 million)
- Revenue of Rs. 1,036 million (FY 2006-07: Rs. 1,261 million)
- Operating Cash Flow\* of Rs. 485 million (FY 2006-07: Rs. 913 million)

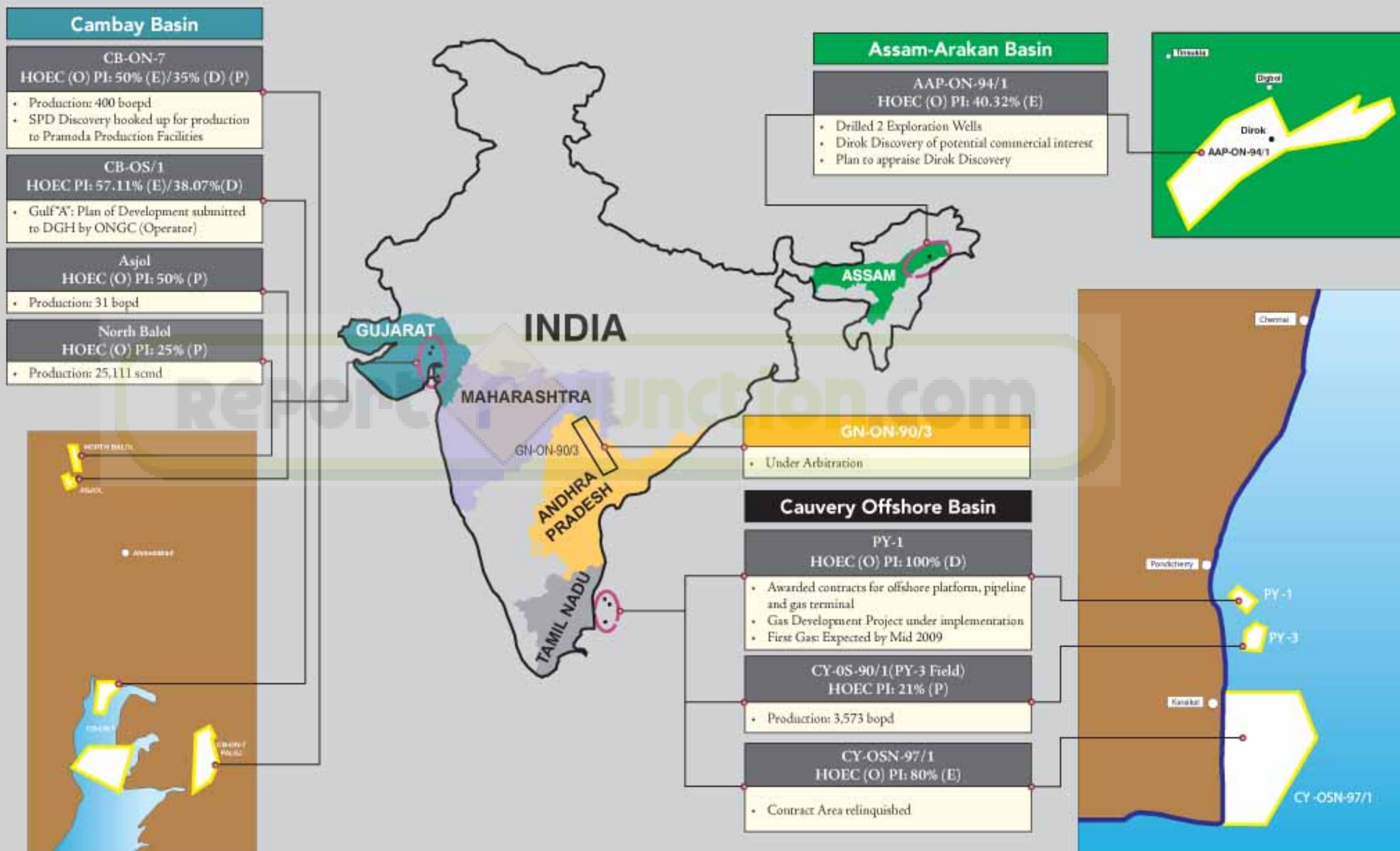


\* Operating Cash Flow is before Working Capital Changes and Taxes.



# 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, 71 years, holds a B.A. (Hons.) (Economics) degree from the University of Madras, a M.A. (Economic Statistics) degree from the University of Delhi and a M.P.A. (Development Economics) from Harvard University, Boston, U.S.A.

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

## Mr. Deepak S. Parekh Non-Executive Director



Mr. Deepak S. Parekh, 64 years, 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 and GlaxoSmithKline Pharmaceuticals Limited. He is a recipient of Padma Bhushan award from the Government.

## Mr. Finian O'Sullivan\* Non-Executive Director



Mr. Finian O' Sullivan, 53 years, 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 was founder director of Burren Energy plc and had served as director of Burren Energy India Limited and Burren Shakti Limited.

## Mr. Rahul Bhasin Non-Executive Director



Mr. Rahul Bhasin, 43 years, 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, 49 years, holds degrees in Chemical Engineering from Cambridge University and Petroleum Engineering from Heriot-Watt University.

He was the Chief Executive Officer of Burren Energy plc and was a director of Burren Energy India Limited and Burren Shakti Limited.

## Mr. Manish Maheshwari Joint Managing Director



Mr. Manish Maheshwari, 41 years, holds B.E.(Hons.) in Chemical Engineering and Masters in Business Administration from SGBS, U.K.

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

\* Since resigned



## DIRECTORS' REPORT

### TO THE MEMBERS OF HINDUSTAN OIL EXPLORATION COMPANY LIMITED

Your Directors have pleasure in placing before you the 24th Annual Report and Audited Statement of Accounts for the year ended March 31, 2008.

### FINANCIAL HIGHLIGHTS

(Rs. million)

| Particulars   | Standalone |           | Consolidated |           |
|---|------------|-----------|--------------|-----------|
|   | 2007-2008  | 2006-2007 | 2007-2008    | 2006-2007 |
| Turnover  | 835        | 1,112     | 968          | 1,222     |
| Other Income  | 202        | 149       | 205          | 132       |
| Profit before Depreciation/<br>Depletion/Amortisation/<br>Write Offs/Taxation | 610        | 1,009     | 636          | 1,022     |
| Less : Depreciation/<br>Depletion/Amortisation                                | 53         | 77        | 53           | 77        |
| Less : Provisions & Write Offs  | 166        | 930       | 167          | 931       |
| Profit Before Tax   | 391        | 2         | 416          | 14        |
| Less : Provision for Tax  | 150        | (23)      | 158          | (12)      |
| Profit After Tax  | 241        | 25        | 258          | 26        |
| Profit/(Loss) brought forward   | 843        | 818       | 853          | 832       |
| Profit available for<br>Appropriation   | 1,084      | 843       | 1,111        | 858       |
| Less : Proposed Dividend on<br>Equity Shares                                  | 130        | 0         | 130          | 0         |
| Less : Dividend Tax   | 22         | 0         | 22           | 0         |
| Balance carried to the<br>Balance Sheet                                       | 932        | 843       | 959          | 858       |

The Turnover of the Company during the year as compared with previous year was lower on account of lower production in PY-3 Block since HEPI, the PY-3 Operator, has temporarily shut-in PY-3-3RL Well due to excessive water entering the Well and increase in the Government share of Profit Oil from 25% to 40% in PY-3 Block as per terms of the Production Sharing Contract (PSC). The Profit before Depreciation, Depletion, Amortisation and Write offs of the Company during the year has been affected due to higher Field Operating Expenses on account of increased charter hire charges of the offshore production facilities in PY-3 Block on renewal of charter hire contract by the Operator.

During the year ended March 31, 2008, Exploratory Well North Ledo-1 drilled in Block AAP-ON-94/1 did not encounter hydrocarbons of commercial interest and accordingly North Ledo-1 well has been plugged and abandoned. Consistent with the Company's Accounting Policies, the Company has written off the exploration expenditure of Rs. 158.03 million associated with the drilling of the said well.

As per the terms of the PSC for CY-OSN-97/1 Block, if no Commercial Discovery is made in the Contract Area by end of the Exploration Period, the Contract Area shall be relinquished. In the absence of any discovery during the Exploration Period the Contract Area stands relinquished. Hence exploration expenditure pertaining to the CY-OSN-97/1 Block of Rs. 8.36 million has been written off during the year ended March 31, 2008.

### 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 March 31, 2008. The proposed dividend will amount to an aggregate of Rs. 152.67 million (including dividend tax of Rs. 22.18 million).

### OPERATIONAL HIGHLIGHTS

Operations review has been provided in the 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.

### RIGHTS ISSUE

The Company completed the Rights Issue and made an allotment of 52,180,621 equity shares. The equity shares are traded on the National Stock Exchange of India and the Bombay Stock Exchange Limited. Accordingly, the present paid up share capital comprises of 130,493,289 equity shares of Rs. 10 each.

The Company has, in terms of the SEBI (DIP) Guidelines, appointed IDBI Bank Limited as the monitoring agency to monitor the utilization of the proceeds of the aforesaid Rights Issue amounting to Rs. 6,105 million.

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

During the year Sales and other income has increased by 42% and 89% over previous year, to Rs. 156.47 million & Rs. 3.45 million respectively. The revenue and earning growth has been primarily on account of HBIL products endorsement by OEMs including Hyundai and Tata Motors and introduction of new auto care products. The audited accounts of HBIL, together with the report of the directors and auditors thereof, form 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 form part of this Annual Report.

## AUDITORS' REPORT

With reference to the observations made in the Auditor's Report regarding one non-producing unincorporated Joint Venture's accounts for the FY 2007-08, we have to state that the Company has not received the Audited Accounts of Block GN-ON-90/3 (Pranhita-Godavari) being under arbitration. As the above joint venture has not entered the production phase there is no effect on the profit for the quarter/year.

With reference to the observations made in the Auditor's Report for the FY 2007-08 regarding the accounting for foreign exchange differences in respect of the Company's share of the assets and liabilities in the Unincorporated Joint Ventures based on unaudited information relating to such foreign exchange differences, we have to state that since the audited financial statements of the Unincorporated Joint Ventures, which are prepared in accordance with the requirements of the Production Sharing Contract, do not separately reflect the details of the foreign exchange differences, the same have been obtained from the Operator of the respective Unincorporated Joint Ventures.

## 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.

## DIRECTOR

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

The Board recommends his appointment.

## OPEN OFFER BY ENI

During the year, ENI UK Holdings plc (Eni UK) has taken over Burren Energy plc, (the holding Company of our promoters viz. Burren Shakti Limited and Burren Energy India Limited). Following completion of the global acquisition of Burren Energy plc by Eni UK, 100% subsidiary of Eni S.p.A., both Burren Shakti Limited and Burren Energy India Limited are indirect subsidiaries of Eni UK and Eni S.p.A. and form part of the Eni group of Companies. This transaction has resulted in Eni UK acquiring indirect control over 35,453,679 equity shares of

the Company constituting 27.17% of the paid up capital of the Company. Eni UK has made the mandatory open offer to acquire upto 26,115,455 equity shares of the Company constituting 20% of the issued capital of the Company. The open offer closed on July 21, 2008 and post open offer formalities are in progress as on the date of this Report.

## EMPLOYEES STOCK OPTION SCHEME

Members' approval was obtained at the Annual General Meeting held on September 22, 2005 for introduction of Employees Stock Option Scheme (ESOS). ESOS was approved and implemented by the Company and options were granted to employees in accordance with the Securities and Exchange Board of India (Employee Stock Option Scheme and Employees Stock Purchase Scheme) Guidelines, 1999 ('the SEBI Guidelines'). The Compensation and Remuneration Committee of the Board had constituted ESOS Trust having independent Trustees to monitor and administer the Scheme.

The applicable disclosures as stipulated under the SEBI Guidelines as at March 31, 2008 are given below:

|     |  |   |                |
|-----|--|---|----------------|
| (a) | Option Granted   | : | 15,069         |
| (b) | Pricing Formula  | : | Nil            |
| (c) | Options Vested   | : | Nil            |
| (d) | Options Exercised  | : | Nil            |
| (e) | The total number of shares arising upon/after exercise of Option   | : | 15,069         |
| (f) | Options Lapsed   | : | Nil            |
| (g) | Variation in terms of Options  | : | Not Applicable |
| (h) | Money realized by exercise of Options  | : | Nil            |
| (i) | Total number of Options in force   | : | 15,069         |
| (j) | Employee wise details of Options granted to:   |   |                |
|     | Senior Management Personnel  |   |                |
|     | Mr. Manish Maheshwari  | : | 6,197          |
|     | Any other employee who received a grant in any one year of Options amount to 5% or more of Options granted during that year  |   |                |
|     | Mr. Sagar Mehta  | : | 2,610          |
|     | Mr. Sudhanshu Chugh (Resigned after March 31, 2008)  | : | 1,457          |
|     | Identified employees who were granted Options, during any one year, equal to or exceeding 1% of the issued capital (excluding outstanding equity share) of the Company at the time of grant. | : | None           |
| (k) | Diluted Earnings Per Share (EPS) before exceptional items pursuant to issue of shares on exercise of Options calculated in accordance with Accounting Standard (AS) 20 'Earning Per Share'.  | : | Rs. 2.47       |

As the amount charged to the Profit and Loss Account (i.e. Rs. 170.89 per stock option) is higher than the fair value (i.e. Rs. 147.15 per stock option), had compensation cost for the stock options granted under the Scheme been determined based on fair value approach, the Company's net profit and earnings per share for the FY 2005-06, would have been higher than reported.

Other details as required by the SEBI Guidelines are as under:

Weighted-average exercise price: Nil.

Weighted-average fair values of options, separately for options, whose exercise price either equal or exceed or is less than the market price of the stock on the grant date: Nil.

A description of the significant assumptions used to estimate the fair values of options as on the date of grant, were as follows:

- risk-free interest rate : 6.25% p.a.
- expected life : 3 to 4 years
- expected volatility : 58%
- expected dividends : Nil
- the price of the underlying share in market at the time of option grant : Rs. 147.15

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

### A. Conservation of energy:

- (a) energy conservation measures taken : Our focus on the impact of our operations on climate change leads to our energy conservation strategy. To give effect to energy conservation efforts in our operations, we have taken initiatives beginning from the design phase for e.g. an efficient process flow has been designed in PY-1 Gas Field Development Project. Further, to reduce emission of Green House Gases (GHGs), high efficiency flares are proposed to be installed in PY-1 Field.
- (b) additional investments and proposals, if any, being implemented for reduction of consumption of energy : Not applicable
- (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 : Minimization of volume of gas flared during conditions of plant upsets and emergency trips.
- (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: Nil

### 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<br>(See note 1) |
| B. Foreign Exchange Used                       |                     |
| • Cash Call Payment to Joint Ventures          | 207.62              |
| • Expenditure in Foreign Currency (See note 2) | 0.34                |
| Total Foreign Exchange used                    | 207.96              |

Note: 1. The above excludes Interest received in foreign currency amounting to Rs. 6.08 million (Previous Year Rs. Nil) netted off against Borrowing Cost in accordance with the Accounting Standard 16.

Note: 2. The above excludes Interest paid in foreign currency amounting to Rs. 22.64 million (Previous Year Rs. Nil) capitalised as Borrowing Cost in accordance with the Accounting Standard 16.

## HUMAN RESOURCES

The Company's industrial relations continued to be harmonious during the period under review.

### 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 forms part of this Report. However as per the provisions of Section 219(1)(b)(iv) of the Companies Act, 1956 read with rules framed there under, the report and accounts are being sent to the shareholders of the Company excluding particulars of employees under Section 217(2A) of the Companies Act, 1956. Any shareholder interested in obtaining a copy of the said statement may write to the Company Secretary at the registered office of the Company.

### AUDITORS

The Auditors, M/s. Deloitte Haskins & Sells, will retire at the forthcoming Annual General Meeting. Based on the recommendation of the Audit Committee, the Board has at its meeting held on June 06, 2008 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.



**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:

- (i) that in the preparation of the annual accounts for the financial year ended March 31, 2008, the applicable accounting standards had been followed along with proper explanation relating to material departures;
- (ii) 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;
- (iii) 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;
- (iv) that the directors have prepared the accounts for the financial year ended March 31, 2008 on a 'going concern' basis.

**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 and Government of Assam. Your directors express their gratitude to the Company's stakeholders, shareholders, business partners, and bankers for their understanding and support. 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 28, 2008



## 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. India's demand for oil and natural gas far exceeds domestic supply. HOEC is dedicated to contribute in meeting the energy needs of India and in this endeavour, the Company works in close collaboration with the Government of India through Production Sharing Contracts (PSCs) to explore, develop and produce hydrocarbons to meet the energy demands.

### 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 continue as follows:

- To increase our production by development of discoveries in existing assets/licenses;
- To increase our reserve base by exploring and establishing upside potential in our existing 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.

The results achieved by the Company against the objectives set for the FY 2007-08 are summarized below:

- Drilled 2 exploratory wells in Block AAP-ON-94/1; one of the exploration wells Dirok-1 led to a discovery, which has been declared to be of potential commercial interest;
- Awarded major contracts for construction of PY-1 onshore gas processing terminal and fabrication & installation of offshore facilities including pipeline;
- Post appraisal, hooked up SPD Discovery in Block CB-ON-7 for production to existing infrastructure at Pramoda Field located at Palej;
- Oil and Natural Gas Corporation Limited ("ONGC"), the Operator, has prepared Plan of Development for Gulf "A" Discovery in Block CB-OS/1 which has been submitted to DGH for approval;
- PY-3 Phase III Development sanctioned by all JV Partners; Hardy Exploration and Production (India) Inc. ("HEPI"), the Operator, has tendered out for drilling rig and evaluating production facilities option for period beyond July 2009.

Building up on the outcome of the objectives set for last year, we have defined the following objectives for the FY 2008-09:

- Appraise the "Dirok" discovery in AAP-ON-94/1 Block;
- Build and install the PY-1 Offshore and Onshore Facilities so as to establish infrastructure for commencement of first gas production by mid 2009;
- Commence production from SPD and explore/appraise the potential of remaining CB-ON-07 area;
- Continue to facilitate development initiative of Gulf "A" discovery in Block CB-OS/1 operated by ONGC;
- Facilitate Phase III Development drilling in PY-3 Field operated by HEPI; and
- Continue 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 natural gas, which are natural resources. The Company's aggregate production during the FY 2007-08 was 344,475 barrels of oil equivalent (boe) (crude oil: 329,286 bbls; gas: 2,677,570 scm) as against 503,408 barrels of oil equivalent (boe) (crude oil: 494,622 bbls; gas: 1,548,788 scm) during the previous year. Production of 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, 2008, the internal estimates of Proved and Probable (P+P) reserves on working interest basis for the Company is 53.4 mmmboe, previous year estimates being 50.5 mmmboe, thereby the Company has been able to more than offset the production during the year.

#### Cauvery Basin

##### PY-1 Gas Field

The Company has awarded all major contracts including construction and installation of an offshore production cum wellhead platform, 56 kms sub sea pipeline and onshore gas processing terminal. The construction of gas terminal and fabrication of offshore platform activities are progressing at Pillai Perumal Nallur village in Tamil Nadu and Laem Chabang yard at Thailand respectively.