

25th Annual Report 2008-2009



Hindustan Oil Exploration Company Limited

25th Annual General Meeting

Date : September 29, 2009

Day : Tuesday

Time : 10:30 A.M.

Place : “Tropicana Hall”

The Gateway Hotel Vadodara

Akota Gardens, Akota

Vadodara-390 020

Report  junction.com

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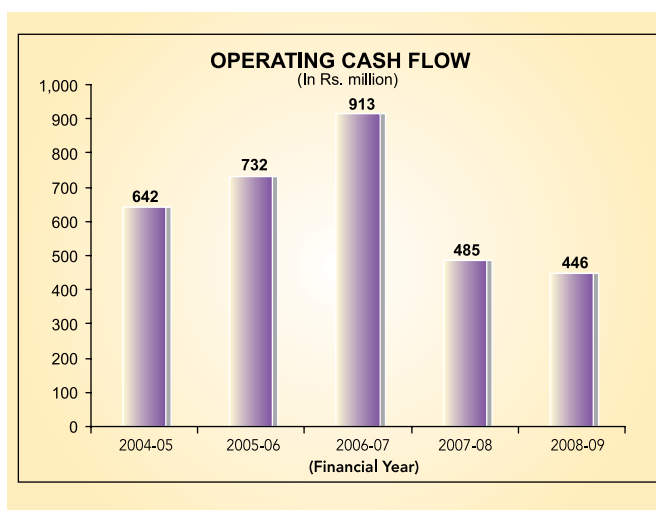
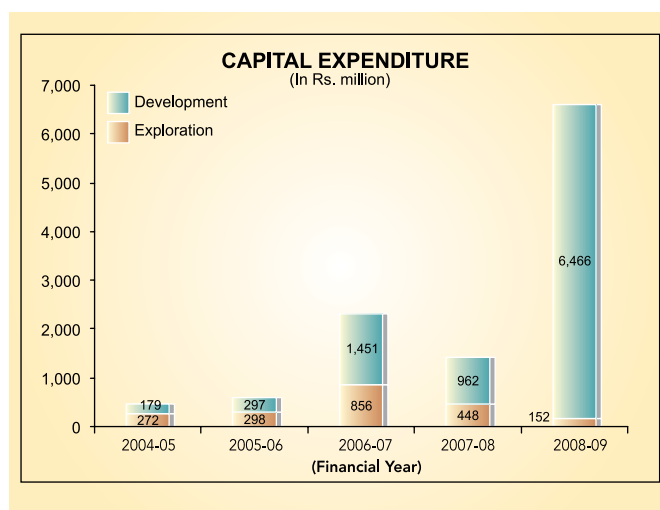
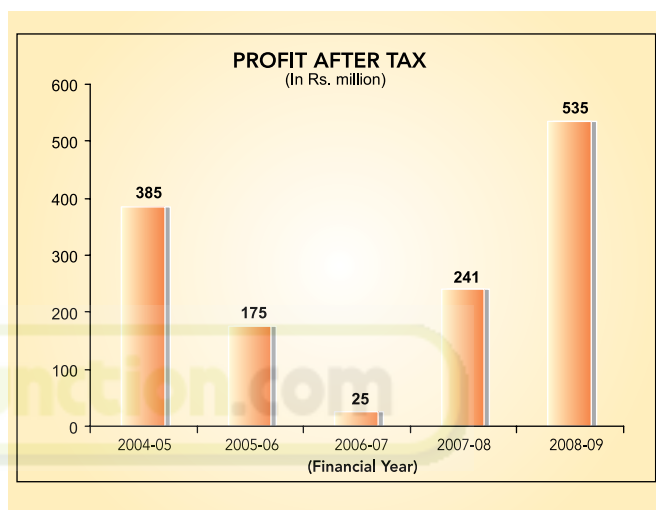
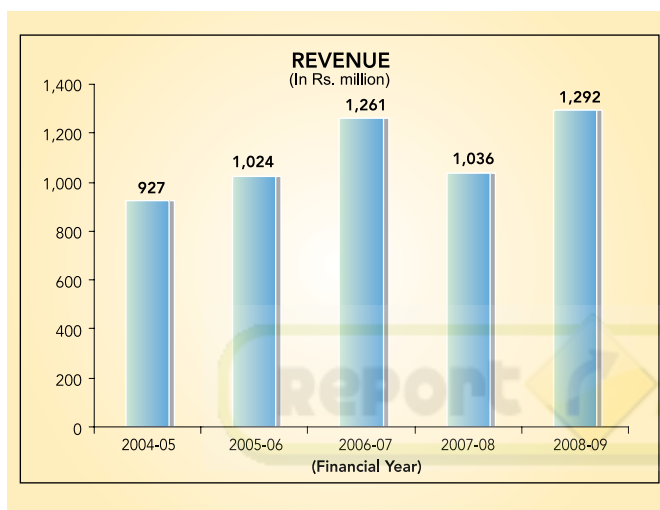
Disclaimer Note:

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 FY 2008-09

FINANCIAL HIGHLIGHTS

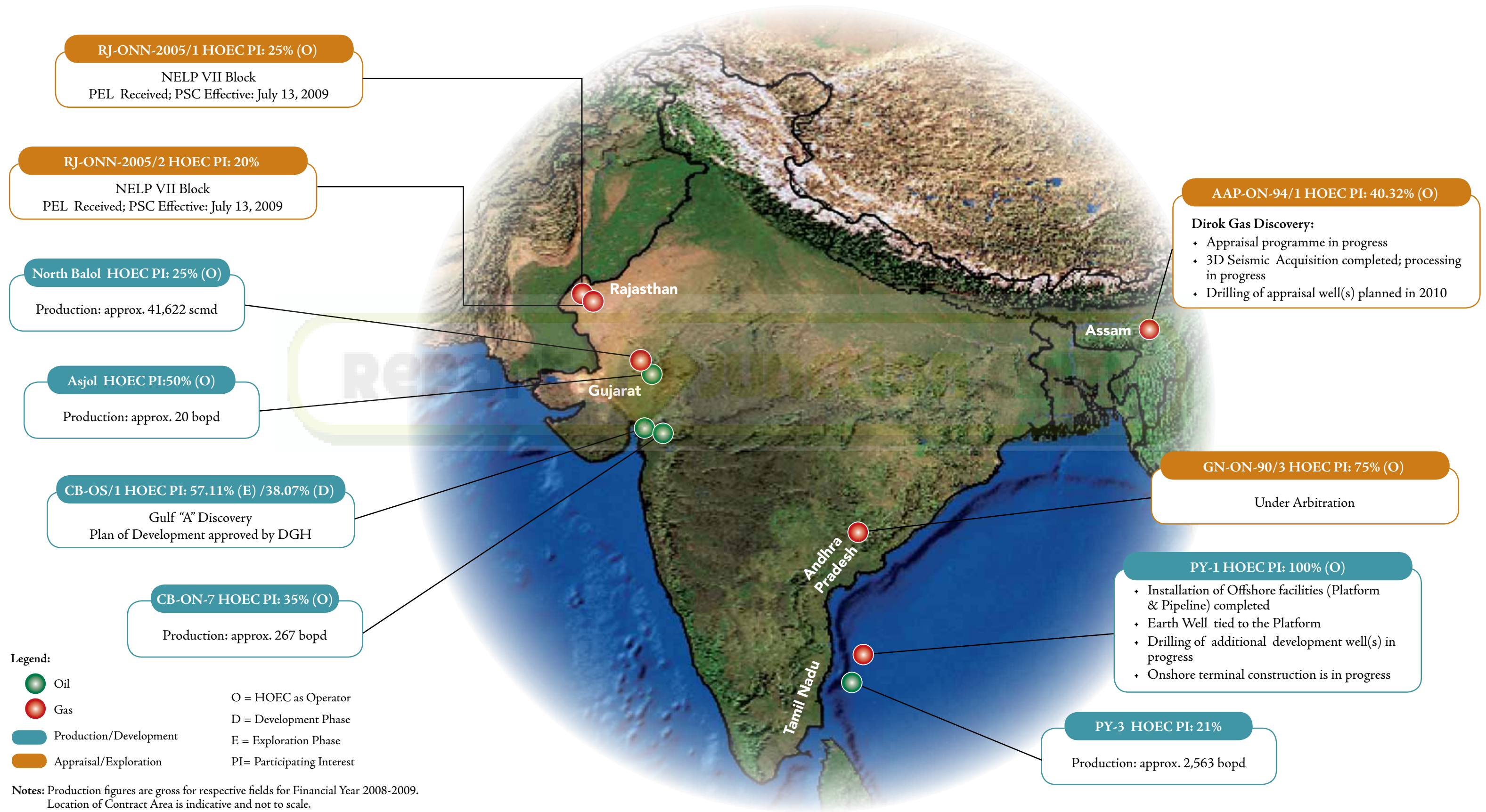
- ✦ **Profit After Tax** of Rs. 535 million (FY 2007-08: Rs. 241 million)
- ✦ **Revenue** of Rs. 1,292 million (FY 2007-08: Rs. 1,036 million)
- ✦ **Operating Cash Flow*** of Rs. 446 million (FY 2007-08: Rs. 485 million)



* Operating Cash Flow is before Working Capital Changes and Taxes.
Figures have been rounded off.

Operational Highlights At A Glance

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



Notes: Production figures are gross for respective fields for Financial Year 2008-2009.
Location of Contract Area is indicative and not to scale.

Board of Directors

Mr. R. Vasudevan

Non-Executive Independent Director/Chairman



Mr. R. Vasudevan, 72 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, 65 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 of India.

Mr. Sunil Behari Mathur

Non-Executive Independent Director



Mr. Sunil Behari Mathur, 65 years, is a Chartered Accountant. He has more than 40 years of experience in the fields of insurance and housing finance. He was the Chairman of Life Insurance Corporation of India.

He is on the board of directors of various companies and is also Chairman of the National Stock Exchange of India Limited. He has been sponsored by United States Agency for International Development ("USAID") for a training program on housing finance at the Wharton Business School of the University of Pennsylvania.

Mr. Paolo Carmosino

Non-Executive Director



Mr. Paolo Carmosino, 55 years, holds a degree in law from the University "La Sapienza" of Rome and pursued a career within the Eni Group spanning 30 years in finance and planning control areas. He is Eni's Senior Vice

President for Finance, Chairman of Eni Coordination Center and Banque Eni SA and he is also a Director of Sofid SpA.

Mr. Santo Laganà

Non-Executive Director



Mr. Santo Laganà, 55 years, holds a degree in Mining Engineering and a Post graduate degree in Petroleum Engineering from the Politecnico of Turin. He had for Eni, various assignments in Italy and abroad, including the

positions as District Manager of Agip Oil Libia and as General Manager and Managing Director of the Egyptian Operating Company Agiba. He subsequently returned to Italy and held the position of Regional Manager for the Angola and Congo areas, and is now Regional Manager for India and Pakistan. He is a Director of Eni India Limited and Burren Energy plc.

Mr. Sergio Adriano Laura

Non-Executive Director



Mr. Sergio A. Laura, 51 years, has a degree in Geological Sciences from the University of Genoa. He joined Eni in 1984 and after gaining experience in various disciplines of geology for hydrocarbon exploration,

he has held various senior managerial positions while working with Eni Exploration & Production in several countries: Italy, UK, China, Egypt, Indonesia and India. Currently, he is the General Manager of Eni India Limited, responsible for Eni E&P activities in India. He is currently a Director of Burren Shakti Limited, Burren Energy India Limited and Eni India Limited.

Mr. Luigi Ciarrocchi

Managing Director



Mr. Luigi Ciarrocchi, 48 years, holds a degree in Petroleum Engineering from the Politecnico of Turin and has pursued an international career, spanning almost 20 years in hydrocarbon E&P sector, in Europe, Africa

and Middle East countries. He has held different managerial positions in ENI organization, like District Manager in Italy, Managing Director of INAgip in Croatia and Managing Director of Eni Pakistan.

He is Chairman of Eni China B.V., Eni Iran B.V., Burren Resources Petroleum Limited and Burren Shakti Limited. He is Eni E&P Vice President for Turkmenistan, Far East and Pacific region.

Mr. Mukesh Butani

Non-Executive Independent Director



Mr. Mukesh Butani, 45 years, is a Chartered Accountant. He is a member of ICC, Paris Taxation Commission and served as Chairman of the Tax & Tariff Committee of the American Chamber of Commerce. He is a member of OECD's Business restructuring advisory group.

Mr. Mukesh Butani leads the Tax practice of BMR Advisors and specializes in International Tax and Transfer Pricing matters. He was leader of the Oil and gas Industry practice at Andersen, a member of the core industry team at Ernst & Young and has deep experience in working with companies across the industry value chain from upstream companies to organizations engaged in mid-stream and downstream activities.

Mr. Manish Maheshwari

Joint Managing Director



Mr. Manish Maheshwari, 41 years, holds Bachelor degree in Chemical Engineering and Masters in Business Administration from Strathclyde University, U.K. and received Danida Fellowship. He has

diversified business experience of more than 19 years. Prior to his appointment as the Joint Managing Director of the Company by the Board, he held the office of the Chief Financial Officer of the Company.

Mr. Manish Maheshwari is also the Chairman of HOEC Bardahl India Limited, the wholly owned subsidiary of the Company.

DIRECTORS' REPORT

To the Members of HINDUSTAN OIL EXPLORATION COMPANY LIMITED

Your Directors have the pleasure in placing before you the 25th Annual Report including the Audited Statement of Accounts for the year ended March 31, 2009.

FINANCIAL HIGHLIGHTS

(Rs. million)

Particulars	Standalone		Consolidated	
	2008-2009	2007-2008	2008-2009	2007-2008
Turnover	830	835	964	964
Other Income	462	202	465	205
Profit before Depreciation/ Depletion/Amortisation/Write Offs/ Taxation	752	610	766	636
Less : Depreciation/Depletion/ Amortisation	118	53	119	53
Less : Provisions & Write Offs	0	166	0	167
Profit Before Tax	634	391	647	416
Less : Provision for Tax	99	150	102	158
Profit After Tax	535	241	545	258
Profit/(Loss) brought forward *	919	843	945	853
Profit available for Appropriation	1,454	1,084	1,490	1,111
Balance carried to the Balance Sheet	1,454	932	1,490	958

Previous year figures have been regrouped to conform to the current year presentation.

Figures have been rounded off.

* Net of transitional adjustment of Rs. 13 million consequent to the exercise of the option available in the new paragraph 46 of the Accounting Standard 11 – The Effects of Changes in Foreign Exchange Rates notified by the Ministry of Corporate Affairs vide Notification dated March 31, 2009 on Companies (Accounting Standards) Amendment Rules, 2009 (G.S.R. 225 (E) dated March 31, 2009).

The Turnover of the Company during the year as compared with previous year was lower on account of (a) lower net entitlement from PY-3 field, and (b) decline of production from Pramoda field, partially offsetted by the commencement of production from SPD development area in block CB-ON-07. The Profit before Depreciation/Depletion/Amortisation/Write Offs/Taxation was higher due to higher interest and dividend on investment of surplus funds, pending utilization. During the year depletion was higher on account of capitalisation of the expenditure pertaining to SPD development area in block CB-ON-7 and side tracking of PY3-D4-RL well in PY-3 field. Provision for tax was lower as the Company has recognized “MAT credit entitlement” to the extent of Rs. 31 million taking into consideration the future profitability and the taxable position of the Company.

DIVIDEND

Your Company is positioned on a growth trajectory and is actively pursuing both exploration opportunities and appraisal/development of discoveries established in its existing portfolio. To finance this growth, the Company needs financial resources in the immediate term and hence your Directors do not recommend any dividend for the year.

RIGHTS ISSUE

The Company has, in terms of the Securities and Exchange Board of India (Disclosure and Investor Protection) Guidelines, 2000, appointed IDBI Bank Limited as the monitoring agency to monitor the utilization of the proceeds of the Rights Issue – 2008 amounting to Rs. 6,105 million. The Company has received the half-yearly reports from the monitoring agency confirming the utilization of funds as per the objects of the Rights Issue. During the year, the Company has temporarily invested unutilized funds in liquid debt funds and/or bank deposits (for details refer Notes to Accounts), pending utilization.

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 and forms part of this Report.

CORPORATE GOVERNANCE

A separate report on Corporate Governance, along with a Certificate on Corporate Governance from a Company Secretary in Practice is appended to and forms part of this Report.

COST ACCOUNTING RECORDS

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

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

During the year, Total Income of HBIL has increased to Rs. 166 million as compared to Rs. 156 million in the previous year. However, Gross Profit decreased by 2.5% to Rs. 102 million as a result of higher cost of inputs and higher exchange rates prevailing during the year.

CONSOLIDATED FINANCIAL STATEMENTS

Pursuant to Accounting Standard AS-21 and the Listing Agreement entered into with the Stock Exchanges, Consolidated Financial Statements for the financial year 2008-2009 are appended to and form part of this Annual Report.

CREDIT RATING

ICRA has assigned a rating of LA+ to the USD 100 million term loan facility for PY-1 field development. LA+ is the adequate-credit quality rating assigned by ICRA and the rated instrument carries average credit risk.

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 2008-09, 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 year.

UNINCORPORATED JOINT VENTURES

The financial statements of the Company reflect its share of assets, liabilities, income and expenditure of the Joint Venture operations which are accounted on the basis of available information on line by line basis with similar items in the Company's accounts to the extent of the participating interest of the Company as per the various "Production Sharing Contracts". The financial statements of the Unincorporated Joint Ventures are prepared by the respective Operators in accordance with the requirements prescribed by the respective Production Sharing Contracts of the 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.

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 and the term of office of Mr. Sunil Behari Mathur, Mr. Mukesh Butani and Mr. Sergio Adriano Laura would expire at/on the date of the ensuing Annual General Meeting. All of them, being eligible have offered themselves for reappointment. The Company has received valid notice and requisite deposits from

a member of the Company under Section 257 of the Companies Act, 1956, signifying the intention to propose the names of Mr. Sunil Behari Mathur, Mr. Mukesh Butani and Mr. Sergio Adriano Laura for the office of Director. The Board recommends their appointments.

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 HOEC ESOS Trust having independent Trustees to monitor and administer the Scheme.

The applicable disclosures as stipulated under the SEBI Guidelines as at March 31, 2009 are given below:

	PARTICULARS	2008-2009	2006-2007
(a)	Option Granted	17,613	15,069
(b)	Pricing Formula	Nil	Nil
(c)	Options Vested	Nil	Nil
(d)	Options Exercised	Nil	Nil
(e)	The total number of shares arising upon/after exercise of Option	17,613	15,069
(f)	Options Lapsed	Nil	Nil
(g)	Variation in terms of Options	Nil	Nil
(h)	Money realized by exercise of Options	Nil	Nil
(i)	Total number of Options in force	17,613	15,069
(j)	Employee wise details of Options granted to:		
	Senior Management Personnel		
	Mr. R. Vasudevan	9,274	Nil

PARTICULARS	2008-2009	2006-2007
Mr. Manish Maheshwari	4,498	9,590
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. K. N. Prabhakar	927	Nil
Mr. Sagar Mehta	1,369	4,039
Mr. Rajiv Hura	*	1,096
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	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. 4.10	Rs. 0.31

* Less than 5% of the total options granted during the year, for details refer statement u/s. 217(2A) annexed herewith.

Figures for the financial year 2006-2007 have been recomputed in accordance with the long term incentive plan of the Company.

No options were granted during the financial year 2007-2008

Since the exercise price is Nil, the fair value approximates the intrinsic value of the option on the date of the grant.

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

Weighted-average exercise price : Nil

Weighted-average fair values of options, : Rs. 129.40
separately for options, whose exercise price either equal or exceed or is less than the market price of the stock on the grant date (FY 2008-2009)

As of July 23, 2009, HOEC ESOS Trust has purchased 32,682 shares at an aggregate cost of Rs. 4,086,091 from the market for distribution of stocks to the eligible employees and Directors as per the long term incentive plan of the Company.

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, the Company has taken following initiatives to reduce flaring of associated natural gas from our producing field in Cambay basin:

- Increasing internal utilization of associated natural gas as fuel; and
- Identifying potential end users and sale of associated natural gas to such end users on as-is-available basis.

Additionally, your Company has made provision in the sub-sea pipeline which has been installed as part of PY-1 Development Project to potentially receive associated natural gas from PY-3 Field (operated by HEPI), which is presently being flared for lack of evacuation infrastructure.

- additional investments and proposals, if any, being implemented for reduction of consumption of energy : Nil
- impact of the measures at (a) and (b) above for reduction of energy consumption and consequent impact on the cost of production of goods : Reduction in emission of Green House Gases (GHGs) due to reduction in flaring and additional revenue realisation on sale of associated natural gas.
- 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 taken to increase exports; development of new export markets for products and services; and export plans : Nil

(b) total foreign exchange used and earned

Particulars		Rs. million
A.	Foreign Exchange Earnings (See note 1)	1.88
B.	Foreign Exchange Used	
	• Cash Call Payment to Joint Ventures	1,815.96
	• Expenditure in Foreign Currency (See note 2)	31.96
Total Foreign Exchange used		1,847.92

Note: 1. The above represents Interest received in foreign currency netted off against Borrowing Cost in accordance with the Accounting Standard 16.

Note: 2. The above includes Interest paid in foreign currency amounting to Rs. 31.48 million capitalized 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 are appended hereto and forms part of this Report.

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 July 23, 2009 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, the applicable accounting standards have been followed along with proper explanation relating to material departures, if any;
- (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 on a 'going concern' basis.

ACKNOWLEDGEMENT

Your Directors place on record their gratitude for the support and co-operation received from Government agencies namely, Ministry of Petroleum & Natural Gas, Directorate General of Hydrocarbons, Government of Gujarat, Government of Tamil Nadu, Government of Assam, Government of Andhra Pradesh and Government of Rajasthan and the authorities working under them. 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 23, 2009

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, 2009.

Name	Designation	Remuneration received (not including Stock options)	Stock options granted during the year (No. of shares)	Nature of employment	Nature of duties of the employee	Qualifications of the employee	Experience of the employee (in years)	Date of commencement 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
Mr. Manish Maheshwari	Joint Managing Director	14,816,557	4,498	Permanent	Overall management of the Company	B.E. (Hons), MBA (UK)	19	1-Oct-03	41	Danish International Investment Fund	Nil	Nil	1-Apr-08 31-Mar-09
Mr. K. N. Prabhakar	Head - Exploration Ventures	4,810,221	927	Permanent	Exploration activities	M.Sc. (Geology)	33	14-Jun-07	55	Oil and Natural Gas Corporation Limited	500	Negligible	1-Apr-08 31-Mar-09
Mr. Rajiv Hura	Chief Operations Geologist	4,685,596	850	Permanent	Operations Geological activities	Masters in Applied Geology - IIT Bombay	26	14-Mar-05	50	Oil India Limited	Nil	Nil	1-Apr-08 31-Mar-09
Mr. Sagar Mehta	Chief - Cambay Business Unit	4,391,979	1,369	Permanent	Cambay Assets activities	M.Sc. (Geology), MBA	20	1-Jul-89	45	Not Applicable	240	Negligible	1-Apr-08 31-Mar-09
Mr. R. Raghunath Rao	Principal Logistics & Materials Coordinator	3,241,434	-	Permanent	Logistics & Materials	B.Tech (Mechanical)	14	15-Sep-05	36	Reliance Industries Limited	Nil	Nil	1-Apr-08 31-Mar-09
Mr. Vikash Jain	Company Secretary, Chief Tax & Legal	3,023,749	-	Permanent	Company Secretarial, Legal and Taxation	B.Com, FCS, LLB, All India Bar, ICWA (Inter)	13	5-Oct-05	31	High Technology Transmission Systems Pvt. Limited	Nil	Nil	1-Apr-08 31-Mar-09
Mr. Sandeep Khamesra	Chief Accounts Controller	2,525,660	-	Permanent	Accounting & Finance	B.Com, CA	8	1-Oct-04	29	Executive Ship Management Pte Ltd.	Nil	Nil	1-Apr-08 31-Mar-09
Mr. Bhuwan Chandra Gariya	Chief Geophysicist	1,619,082	-	Permanent	Geophysical activities	M.Sc. (Physics)	25	5-Sep-08	48	Oil and Natural Gas Corporation Limited	Nil	Nil	5-Sep-08 31-Mar-09
Mr. Sudhanshu Chugh *	Principal Geophysicist	1,161,574	-	Permanent	Geophysical activities	M.Tech (Applied Geophysics)	15	3-Apr-00	38	Shiv Vani Universal Limited	Nil	Nil	1-Apr-08 30-Jun-08
Mr. K. Ravi Sankar *	Principal Facility Engineer	1,517,732	-	Permanent	Facilities Project Implementation	B.E. (Chem)	25	20-Sep-04	48	Niko Resources Limited	Nil	Nil	1-Apr-08 30-Aug-08

Notes:

Gross remuneration as above includes salary, allowances, Company's contribution to Provident Fund and Superannuation Fund, Gratuity paid (but excludes Company's contribution to Gratuity Fund), reimbursement of medical expenses, 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 including Stock Options have been included in the remuneration of the year in which they are awarded / granted. Stock Options (Exercise Price Nil) granted during the year have been shown separately.

All the above named persons are eligible for all employee benefits eligible to the same class of employee.

None of the above named person is a relative of any Director of the Company.

* resigned from the Company