

26th Annual Report
2009-2010



Hindustan Oil Exploration Company Limited

26th Annual General Meeting

Date : September 30, 2010

Day : Thursday

Time : 10:30 A.M.

Place : “Tropicana Hall”

The Gateway Hotel Vadodara

Akota Gardens, Akota

Vadodara-390 020

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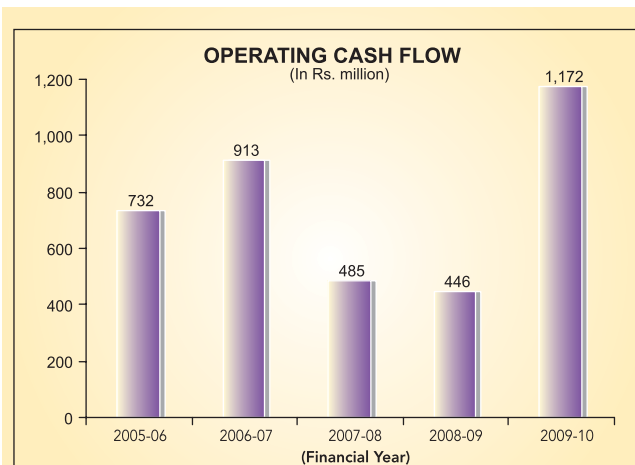
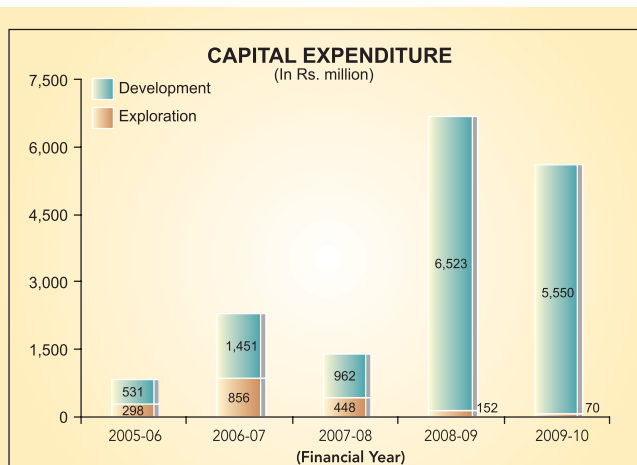
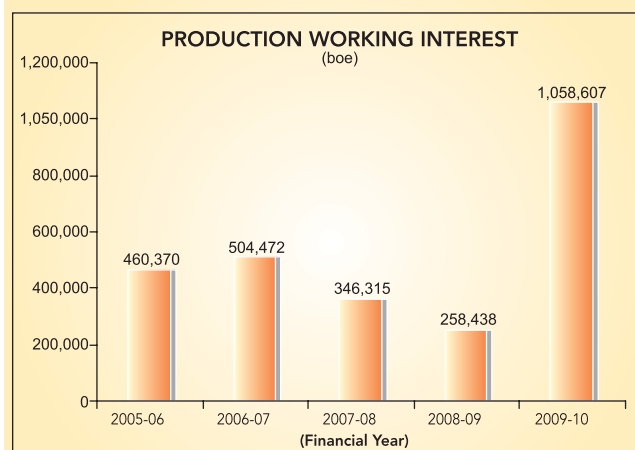
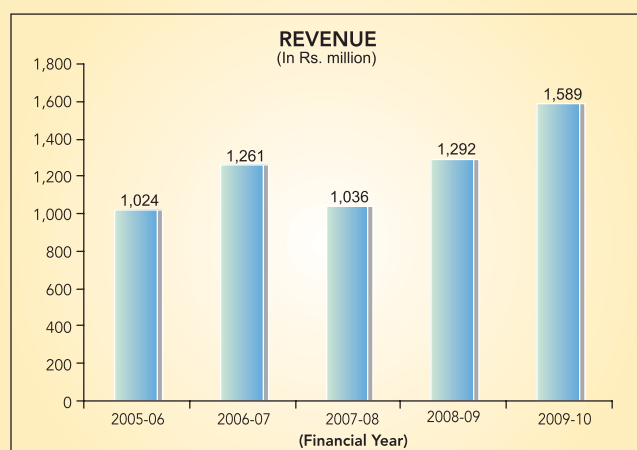
Disclaimer Note:

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 2009-10

FINANCIAL HIGHLIGHTS

- Revenue of Rs. 1,589 million (FY 2008-09: Rs. 1,292 million)
- Average Production* 1,058,607 boe (FY 2008-09: 258,438 boe)
- Operating Cash Flow** of Rs. 1,172 million (FY 2008-09: Rs. 446 million)



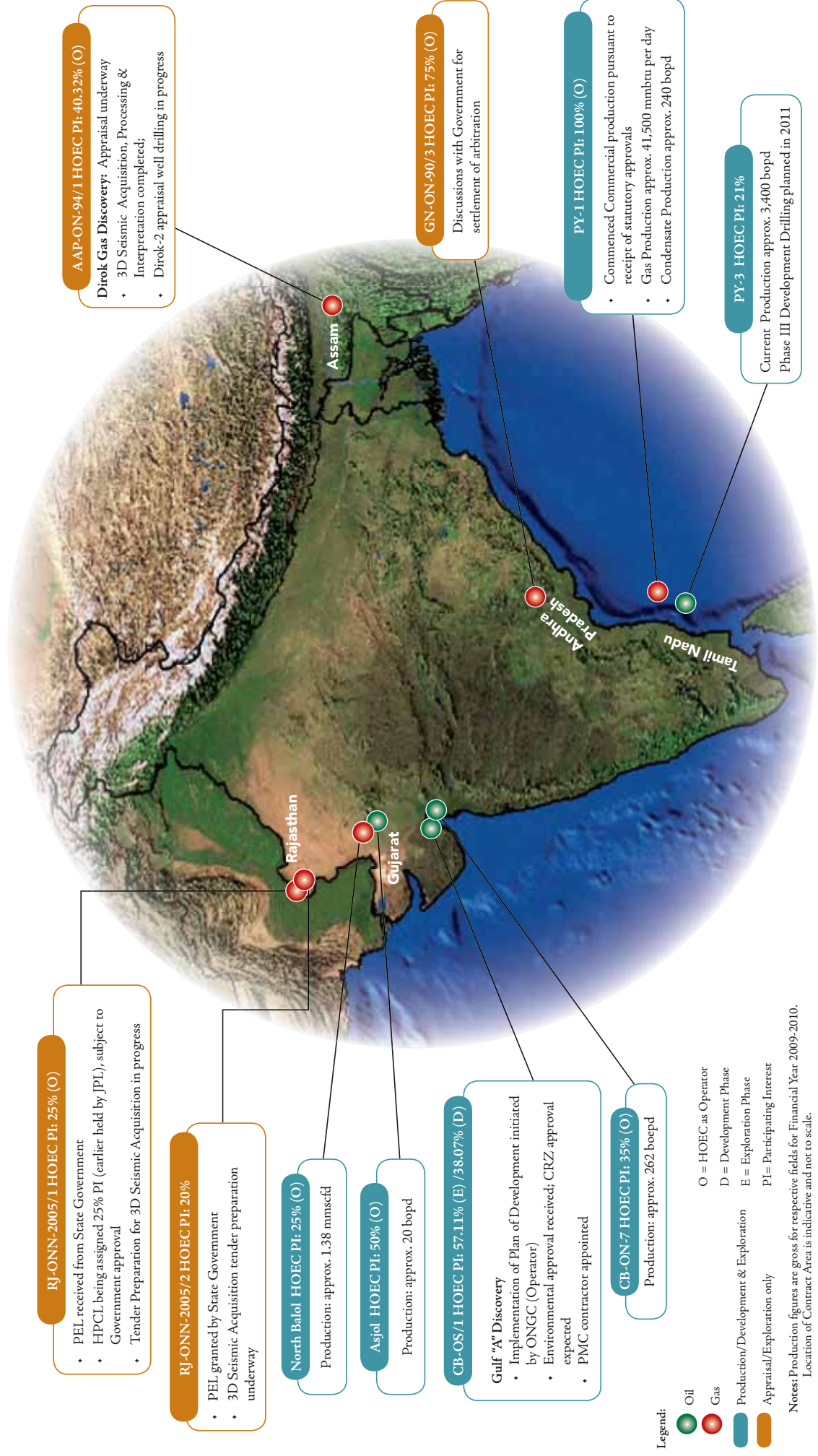
* Average Production is on working interest basis.

** 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



Board of Directors

Mr. R. Vasudevan

Non-Executive Independent Director/Chairman



Mr. R. Vasudevan, 73 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, 66 years, is a Fellow of the Institute of Chartered Accountants (England and Wales). Besides HDFC Group Companies, Mr. Parekh is the Non-Executive Chairman of the board of several leading companies across diverse sectors.

At the financial helm of India Inc., Mr. Parekh is an active member of various high-powered Economic Groups, Government appointed Advisory Committees and Task Forces which includes housing, financial services, capital markets and infrastructure sector reforms.

He is a recipient of Padma Bhushan award from the Government of India. He is also the first international recipient of the Institute of Chartered Accountants in England and Wales' Outstanding Achievement Award - 2010.

Mr. Sunil Behari Mathur

Non-Executive Independent Director



Mr. Sunil Behari Mathur, 66 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 various companies. 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. He also holds Trusteeships, Advisory/Administrative Roles on Government Bodies, Authorities and Corporations. He is the Ex-officio Secretary General of Life Insurance Council.

Mr. Paolo Carmosino

Non-Executive Director



Mr. Paolo Carmosino, 56 years, holds a degree in law from the University "La Sapienza" of Rome and pursued a career within the Eni Group spanning 32 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 EniADFin (formerly Sofid SpA).

Mr. Santo Laganà

Non-Executive Director



Mr. Santo Laganà, 56 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 initially held the position of Regional Manager for the Angola and Congo areas, and subsequently as the 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, 52 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. He is currently Director of Burren Shakti Limited, Burren Energy India Limited and Eni India Limited.

Mr. Luigi Ciarrocchi

Managing Director



Mr. Luigi Ciarrocchi, 49 years, holds a degree in Petroleum Engineering from the Politecnico of Turin and has pursued an international career, spanning almost 22 years in hydrocarbon E&P sector, in Europe, Africa and Middle East countries.

He has held different managerial positions in ENI, including District Manager in Italy, Managing Director of INAgip in Croatia and Managing Director of Eni Pakistan. He is currently Chairman of Burren Shakti Limited, Burren Energy plc, Eni China B.V., Eni South China Sea Limited, Sarl, Eni Australia B.V., Eni Australia Limited, Eni Bulungan B.V., Eni Muara Bakau and others.

Mr. Mukesh Butani

Non-Executive Independent Director



Mr. Mukesh Butani, 46 years, is a lawyer and 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 is the founder partner of BMR Legal, Advocates & Solicitors. He leads the tax practice with specialization 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, 42 years, holds Bachelor (Hons.) 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 20 years. Prior to his appointment as the Joint Managing Director of the Company, 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 26th Annual Report including the Audited Statement of Accounts for the year ended March 31, 2010.

1. FINANCIAL HIGHLIGHTS

Rs. million

Particulars	Standalone		Consolidated	
	2009-2010	2008-2009	2009-2010	2008-2009
Turnover	1,450	830	1,607	964
Other Income	139	462	144	465
Profit before Depreciation/ Depletion/Amortisation/Write Offs/ Taxation	1,123	752	1,160	766
Less : Depreciation/Depletion/ Amortisation	472	118	473	119
Less : Provisions & Write Offs	0	0	0	0
Profit Before Tax	651	634	687	647
Less : Provision for Tax	235	99	247	102
Profit After Tax	416	535	440	545
Profit/(Loss) brought forward	1,454	919	1,490	945
Profit available for Appropriation	1,870	1,454	1,930	1,490
Balance carried to the Balance Sheet	1,870	1,454	1,930	1,490

The higher turnover of the Company during the year was mainly on account of commencement of commercial production from PY-1 Field with effect from November 27, 2009. The increase in turnover was registered despite PY-3 Field being under shutdown for almost seven months from July 2009 to January 2010 on account of unscheduled repairs and maintenance of offshore mooring facility.

Depreciation/depletion/amortization charge was higher due to charge of PY-1 depletion to the P&L upon commencement of production of natural gas from this Field.

The profit-before-tax was marginally better though the same has not increased in tandem with growth in turnover primarily due to other income (by way of dividend and interest earned on investment of surplus funds) being significantly lower as the Company has deployed such funds towards planned capital expenditure programme.

Provision for tax was higher because of higher taxable income in the current year as also the fact that the income from dividend, which contributed a considerable income in previous year, was not taxable in the hands of the Company.

2. DIVIDEND

The Directors have not recommended any dividend for the year 2009-2010 as the Company's PAT was lower than the previous year. However the Directors are having a positive outlook for the next fiscal year in terms of revenue and profitability growth with PY-1 going on stream and resumption of production from PY-3 Field.

3. CAPITAL EXPENDITURE

During the year under review, the Company invested capital expenditure of Rs. 5,550 million towards development expenditures, predominantly PY-1 Field and Rs. 70 million towards exploration expenditure covering appraisal activities in Block AAP-ON-94/1.

4. RIGHTS ISSUE

The Company has completely utilized the proceeds of the Right Issue 2008. IDBI Bank Limited, the Monitoring Agency, appointed by the Company in terms of the Securities and Exchange Board of India (Disclosure and Investor Protection) Guidelines, 2000, to monitor the utilization of the proceeds of the Rights Issue 2008, has given report of utilization of Rs. 6,105 million consistent with the objects of the issue and authorisation by the Board.

5. OPERATIONAL HIGHLIGHTS

Operations review has been provided in the Management Discussion and Analysis Report.

6. START OF GAS PRODUCTION FROM PY-1 FIELD

During the year, your Company accomplished commercial production of natural gas from PY-1 Field on November 27, 2009. Upon receipt of various statutory approvals, the Company successfully commissioned the project in a safe and secured manner entailing in excess of 5 million manhour efforts. PY-1 Field is currently producing around 41,500 mmbtu of gas and 260 barrels of condensate per day.

7. COMMENCEMENT OF DRILLING OF APPRAISAL WELL IN ASSAM

Your Company, as Operator of AAP-ON-94/1 consortium, has commenced the drilling of first appraisal well in Block AAP-ON-94/1. The Company has a 40.323% participating interest during exploration/appraisal period in the said Block.

8. TECHNICAL SUPPORT FROM ENI (PROMOTERS OF THE COMPANY)

In order to augment the know-how and technical expertise available to the Company and to pursue state of the art exploration and petroleum operation practices, the Company has entered into a Petroleum Service Agreement (PSA) with ENI India Limited, United Kingdom (Eni), which is a part of ENI Group, the promoters of the Company. This Agreement allows your Company to seek technical support from Eni on terms compliant with various regulations including the Production Sharing Contracts, transfer pricing, and related party transactions. Such technical support from Eni is requisitioned by the Company with due authorization by the Board.

9. MANAGEMENT DISCUSSION AND ANALYSIS REPORT

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

10. CORPORATE GOVERNANCE

Pursuant to Clause 49 of the Listing Agreement, the report on Corporate Governance, along with a Certificate thereon, from a Company Secretary in Practice is appended to and forms part of this Annual Report.

The Board of Directors have taken cognisance of the 'Corporate Governance Voluntary Guidelines 2009', issued by the Ministry of Corporate Affairs in December 2009. Recognising the importance and need to constantly assess governance practices thereby ensuring a sustainable business environment, the Board has adopted certain provisions of the said guidelines.

11. COST ACCOUNTING RECORDS

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

12. HOEC BARDAHL INDIA LIMITED (HBIL), SUBSIDIARY OF HOEC

During the year, net income of HBIL, HOEC's wholly owned subsidiary, was Rs. 169 million, being marginally higher than the previous year. The net profit was Rs. 24 million during the year, registering a net profit margin of 14.9%.

13. 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 2009-2010 are appended to and form part of this Annual Report.

14. CREDIT RATING

ICRA had assigned a rating of LA+ to the term loan facilities availed by the Company. LA+ is the adequate-credit quality rating assigned by ICRA and the rated instrument carries average credit risk. ICRA has not revised this rating during the year.

15. AUDITORS' REPORT AND DIRECTOR'S EXPLANATION

Auditors have made an observation vide para 7 to the Auditors' Report about the accrual and provisioning of Rs. 160,438,827 on account of services rendered by ENI India Limited, as development expenditure to one of unincorporated joint ventures (PY-1), where the Company is the Operator.

With reference to this observation we have to state that the Company has entered into a Petroleum Service Agreement (PSA) with ENI India Limited ("ENI"), one of the Promoter Group Companies. As per the terms of the PSA, ENI shall provide petroleum operation related services on "cost basis". The Audit Committee and Board at their meeting held on April 30, 2010, reviewed and confirmed that the charges for such services by ENI are for comparable technical services of equal quality being provided by the peers, of comparable qualification in the industry. Board further required that each job order to be issued under this PSA shall be approved by the Board. Pursuant to the PSA, the Company has issued certain job orders for specific services subsequent to Board approval. As per the Board's directive, the Company has accrued the charges of Rs. 160,438,827 as of March 31, 2010 for the services based on ENI's Invoices. However, payment to ENI shall be made only upon receiving: (a) ENI's statutory auditor's certificate for "at cost" charge out rates; and (b) Certified timesheets from ENI supporting the man-day efforts charged. The Company is in the process of receiving the aforesaid documentation from ENI to satisfy the above defined conditions. The Company expects that there should not be any material impact on the results for the year ended March 31, 2010 on account of the above.

16. 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 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.

17. FIXED DEPOSIT

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.

18. DIRECTORS

In accordance with the Articles of Association of the Company and provisions of the Companies Act, 1956, Mr. Deepak S. Parekh and Mr. Paolo Carmosino will retire by rotation and being eligible have offered themselves for re-appointment.

The term of appointment of Mr. Luigi Ciarrocchi as Managing Director will expire at the conclusion of the ensuing Annual General Meeting. He has offered himself for re-appointment and accordingly terms of his re-appointment forms part of the Notice of Annual General Meeting for your consideration and approval.

Further, the Company has received a notice with the requisite deposit as prescribed in the Section 257 of the Companies Act, 1956 from a member proposing the appointment of Mr. Marcello Simoncelli as a Director of the Company on a term liable to be retiring by rotation.

The Board of Directors recommends aforesaid re-appointments/ appointment at the ensuing Annual General Meeting.

Further, Mr. Santo Laganà, Director of the Company retires at the ensuing Annual General Meeting of the Company and has expressed his unwillingness to be re-appointed as Director due to other business commitments. Mr. Santo Laganà has contributed significantly to the deliberations of the Board. The Board of Directors herein places its appreciation for his

valuable services, guidance and support during his association with the Company.

19. EMPLOYEES STOCK OPTION SCHEME

The status of ESOS is as below:

	PARTICULARS	2009-2010	2008-2009
(a)	Option Granted ^{refer note*}	: 16,828	17,613
(b)	Pricing Formula	: Nil	Nil
(c)	Options Vested (corresponding to previous year grant ^{refer note **})	: 15,069	Nil
(d)	Options Exercised (corresponding to previous year grant ^{refer note **})	: 15,069	Nil
(e)	The total number of shares arising upon/after exercise of Option	: 16,828	17,613
(f)	Options Lapsed	: Nil	Nil
(g)	Variation in terms of Options	: Not Applicable	Not Applicable
(h)	Money realized by exercise of Options	: Nil	Nil
(i)	Total number of Options in force	: 16,828	17,613
(j)	Employee wise details of Options granted to:		
	Senior Management Personnel		
	Mr. R. Vasudevan	: —	9,274
	Mr. Mukesh Butani	: 2,775	—
	Mr. S. B. Mathur	: 2,775	—
	Mr. Manish Maheshwari	: 4,895	4,498
	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	: 972	927

	PARTICULARS	2009-2010	2008-2009
	Mr. Sagar Mehta :	1,401	1,369
	Mr. Rajiv Hura :	967	refer note***
	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' refer note****.	Rs. 3.19	Rs. 4.10

Notes:

- * The number of options granted during the year 2009-2010 is net of 12,215 options (Previous Year: Nil) originally granted to a grantee, who declined to accept the grant of options.
- ** Represent options which were granted for Financial Year 2006-2007.
- *** Less than 5% of the total option granted to the individual during the year in reference.
- **** Under the ESOS Scheme approved by the Shareholders, the exercise of options have no dilution impact on the EPS.

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

A. Conservation of energy:

(a) energy conservation measures taken :

During the year, Company has initiated several measures for energy conservation. Some of them are:

1. Facilities engineered for production in normal course with minimalistic gas flaring in PY-1 Field.
2. Reducing the flaring of associated natural gas from producing field in Cambay basin by:
 - (i) Internal utilization of associated natural gas as fuel; &
 - (ii) Sale of associated natural gas to end user(s).

(b) additional investments and proposals, if any, being implemented for reduction of consumption of energy: Company has installed gas based power generators utilising low pressure gas to operate PY-1 onshore facilities and solar panels for offshore facilities thereby ensuring clean and efficient source of power for internal use. This has also made PY-1 Project self reliant for its power requirements.

(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 :

Reduction in emission of Green House Gases (GHGs) due to minimalistic flaring; use of gas and solar cells for power generation for internal consumption.

(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: The Company is not part of the industries/nor engaged in activities specified in the Schedule. A small fraction of gas production is being utilized for internal consumption.

B. Technology absorption:

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

The following technology initiatives were taken during the year:

- (i) Company used control beam migration processing, a state-of-the-art technology, to precisely image the sub-surface in a highly complex and tectonically disturbed area of AAP-ON-94/1 Block.
- (ii) ERP software like IBM Maximo and Sun System are implemented for budgeting, material/service requirement procurement and accounting respectively which have resulted in putting these functions centralized and web based.
- (iii) Secured wireless link between PY-1 Onshore Gas Terminal and Offshore unmanned Platform has been implemented to monitor and control unmanned platform. CCTV Cameras are installed on unmanned platform and which are controlled and monitored from the Onshore Gas Terminal.

(iv) Geophysical and Geological work stations have been equipped with software suites like Hampson-Russell and Eclipse. The Hampson-Russell software suite is used for all aspects of seismic exploration and reservoir characterization from pre-and-post-seismic inversion. Eclipse black oil software is utilized for reservoir modeling and simulation with a view to define and optimize production.

(v) Seismic Data Interpretation software, GeoFrame, has been upgraded for comprehensive and advanced interpretation and modeling.

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 : Company is engaged in production of crude oil and natural gas; the existing Government policies and Production Sharing Contracts (PSCs) to which Company is one of the Party, do not allow Company to export its production till India achieves self sufficiency.

(b) total foreign exchange used and earned:

Rs. million

Particulars		2009-2010	2008-2009
A.	Foreign Exchange Earnings (See Note 1)	10.69	1.88
B.	Foreign Exchange Used		
	• Cash Call Payment to Joint Ventures	5,748.47	1,815.96
	• Farm in Consideration (See Note 2)	134.87	—
	• Expenditure in Foreign Currency (See Note 3)	192.21	31.96
	• Repayment of Foreign Currency Loan (See Note 4)	243.24	163.16
Total Foreign Exchange used		6,318.79	2,011.08

- Notes: 1. The above includes Interest received in foreign currency amounting to Rs. 7.82 million (Previous Year Rs. 1.88 million) netted off against Borrowing Cost in accordance with the Accounting Standard 16.
2. This refers to the final milestone payment to Mosbacher India LLC as per the terms of the agreement.
3. The above includes Interest paid in foreign currency amounting to Rs. 28.08 million (Previous Year Rs. 31.48 million) capitalized as Borrowing Cost in accordance with the Accounting Standard 16.
4. The above excludes drawdown of foreign currency loan amounting to Rs. 6,165 million (Previous Year Rs. Nil).

21. HUMAN CAPITAL & MANAGEMENT

The Company continues to pursue best practices to develop human capital to attract and retain talent. Company has implemented a web based Performance Appraisal System incorporating KRAs, deliverables, performance measurement matrix, assessment of potential and identification of training needs. During the year, Company has sponsored training of its operational and technical personnel at Eni's facilities in Italy.

22. 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.

23. AUDITORS

The Auditors, M/s. Deloitte Haskins & Sells, will retire at the forthcoming Annual General Meeting. M/s. Deloitte Haskins & Sells, have expressed their unwillingness to be re-appointed as Auditors at the ensuing Annual General Meeting. Your Directors place on record their appreciation for valuable professional services rendered by M/s. Deloitte Haskins & Sells, to the Company.

In view of the foregoing and based on the recommendation of the Audit Committee, the Board has at its meeting held on August 12, 2010 proposed and recommended the appointment of M/s. S. R. Batliboi & Co. as the Statutory Auditors of the Company to hold office from the conclusion of the ensuing Annual General Meeting until the conclusion of the next Annual General Meeting.

24. 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, the applicable accounting standards have been followed along with proper explanation relating to material departures, if any;