

27<sup>th</sup> Annual Report  
2010-2011



**Hindustan Oil Exploration Company Limited**

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

**Date** : September 28, 2011

**Day** : Wednesday

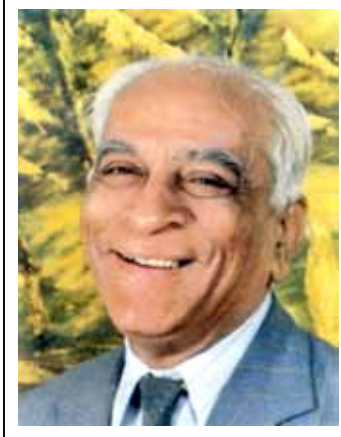
**Time** : 10:30 A.M.

**Place** : “Tropicana Hall”

The Gateway Hotel Vadodara

Akota Gardens, Akota

Vadodara-390 020



## ‘Birth Centenary Year’

(1911-2011)

*“The task of Oil Exploration is complex and the journey tortuous. Glorious is the vision of development, but those who are charged with its realisation need to be imbued with that vision as they steer along their path in spite of many impediments. There are no signposts on the road. Those who do the steering will be able to traverse the difficult terrain if they maintain faith in their mission.”*

**Late Shri H.T. Parekh**

Founder Chairman

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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.

# Company Information

<b>Registered Office</b>	'HOEC House', Tandalja Road Vadodara – 390 020, Gujarat (India) E-mail: <a href="mailto:contact@hoec.com">contact@hoec.com</a> Website: <a href="http://www.hoec.com">www.hoec.com</a>
<b>Chennai Office</b>	'Lakshmi Chambers' 192, St. Mary's Road, Alwarpet Chennai – 600 018, Tamil Nadu (India)
<b>Company Secretary &amp; Chief Legal Counsel</b>	Mr. Sanjay Tiwari Hindustan Oil Exploration Company Limited 'Lakshmi Chambers' 192, St. Mary's Road, Alwarpet Chennai – 600 018, Tamil Nadu (India) Tel: +91-(044) 66229000, Extn.: 104 Fax: +91-(044) 66229011/12 E-mail: <a href="mailto:hoecshare@hoec.com">hoecshare@hoec.com</a>

<b>Auditors</b>	S.R. Batliboi & Associates Chartered Accountants
<b>Audit Partner</b>	Mr. Subramanian Suresh
<b>Internal Auditors</b>	Protiviti India
<b>Bankers</b>	<ul style="list-style-type: none"> <li>✦ Axis Bank</li> <li>✦ HDFC Bank</li> <li>✦ IDBI Bank</li> <li>✦ State Bank of India</li> </ul>
<b>Lenders</b>	<ul style="list-style-type: none"> <li>✦ Axis Bank</li> <li>✦ ENI Coordination Center S.A., Belgium</li> <li>✦ HDFC Bank</li> <li>✦ IDBI Bank</li> <li>✦ State Bank of India</li> </ul>
<b>Advocates &amp; Solicitors</b>	Amarchand & Mangaldas & Suresh A. Shroff & Co.
<b>Registrars &amp; Share Transfer Agent</b>	Link Intime India Pvt. Limited B-102 & 103, Shangrila Complex, First Floor Opp. HDFC Bank, Near Radhakrishna Char Rasta Akota, Vadodara – 390 020, Gujarat (India) E-Mail: <a href="mailto:vadodara@linkintime.co.in">vadodara@linkintime.co.in</a>
<b>Credit Rating Agency</b>	ICRA

# Board of Directors

## Mr. R. Vasudevan

Non-Executive Independent Director/Chairman



**Mr. R. Vasudevan**, 74 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**, 67 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**, 67 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**, 57 years, holds a degree in law from the University "La Sapienza" of Rome and pursued a career within the Eni Group spanning 33 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. Marcello Simoncelli

Non-Executive Director



**Mr. Marcello Simoncelli**, 56 years, has a Liceo Scientifico Statale Cavour & Graduate degree in Geology cum Laude from Roma, Italy. He has more than 30 years of technical, operational and managerial experience in E&P industry. Presently he is the

Regional Liaison Manager for India and Pakistan at Eni. In past, he has held several assignments within Eni like Chief Geophysicist and later Exploration Manager for Agip China BV-Beijing, Exploration Manager-Domestic Exploration for Eni E&P Milan and most recently as Director of Exploration with Eni Oil do Brasil.

## Mr. Sergio Adriano Laura

Non-Executive Director



**Mr. Sergio A. Laura**, 53 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 Managing Director of Eni India Limited and Director of Burren Shakti Limited and Burren Energy India Limited.

## Mr. Luigi Ciarrocchi

Managing Director



**Mr. Luigi Ciarrocchi**, 50 years, holds a degree in Petroleum Engineering from the Politecnico di Turin and has pursued an international career, spanning 24 years in hydrocarbon E&P sector, in Europe, Africa and Middle East countries.

He has held important 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**, 47 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**, 43 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

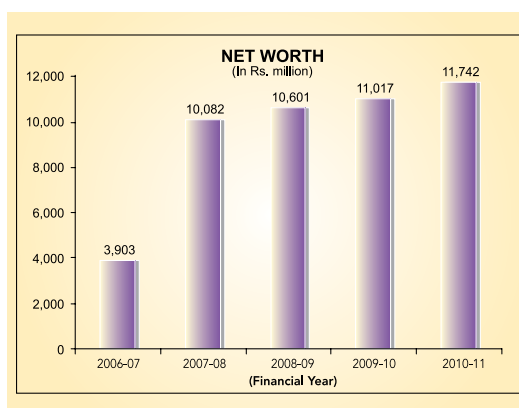
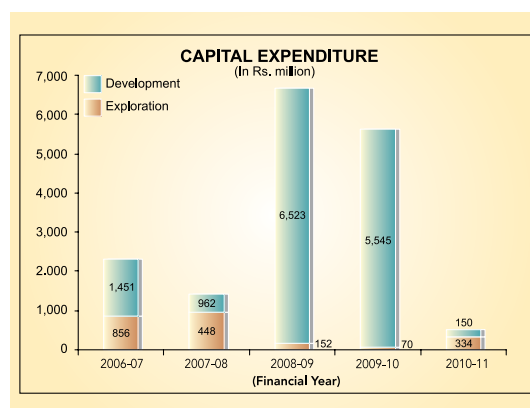
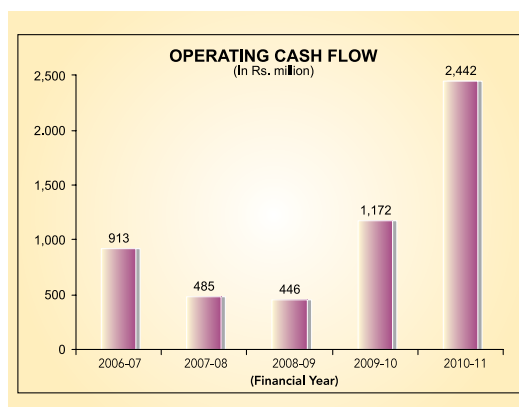
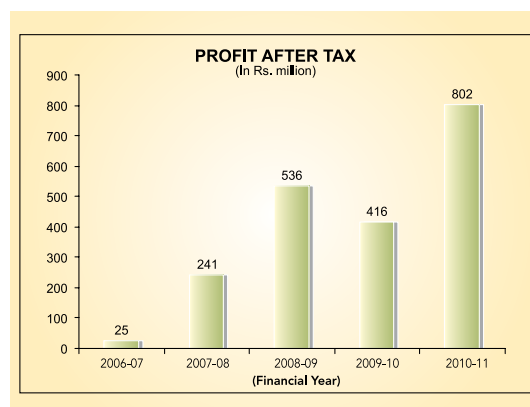
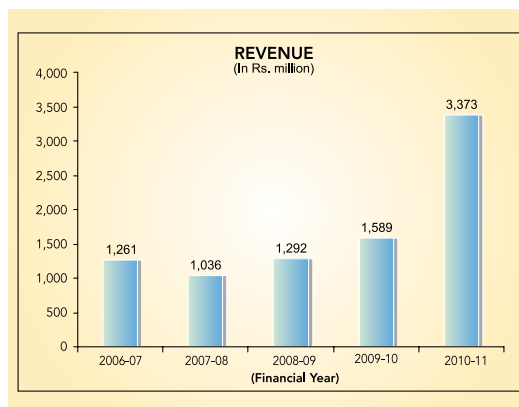
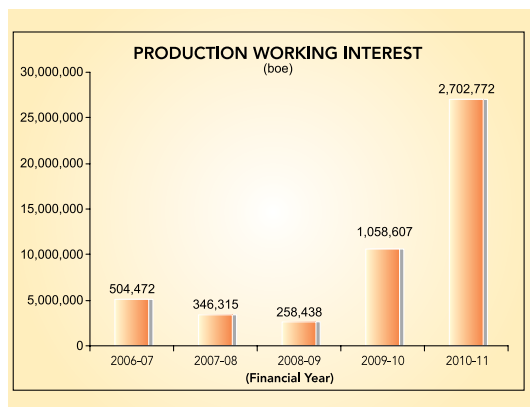
more than 23 years. Prior to his appointment as the Joint Managing Director of the Company, he held the office of the Chief Financial Officer of the Company.

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

# Highlights of FY 2010-11

## FINANCIAL HIGHLIGHTS

- ✦ Average Production\* 7,405 boepd (FY 2009-10: 2,900 boepd)
- ✦ Revenue of Rs. 3,373 million (FY 2009-10: Rs. 1,589 million)
- ✦ Profit After Tax of Rs. 802 million (FY 2009-10: Rs. 416 million)
- ✦ Operating Cash Flow\*\* of Rs. 2,442 million (FY 2009-10: Rs. 1,172 million)



\* Average Production is on working interest basis.

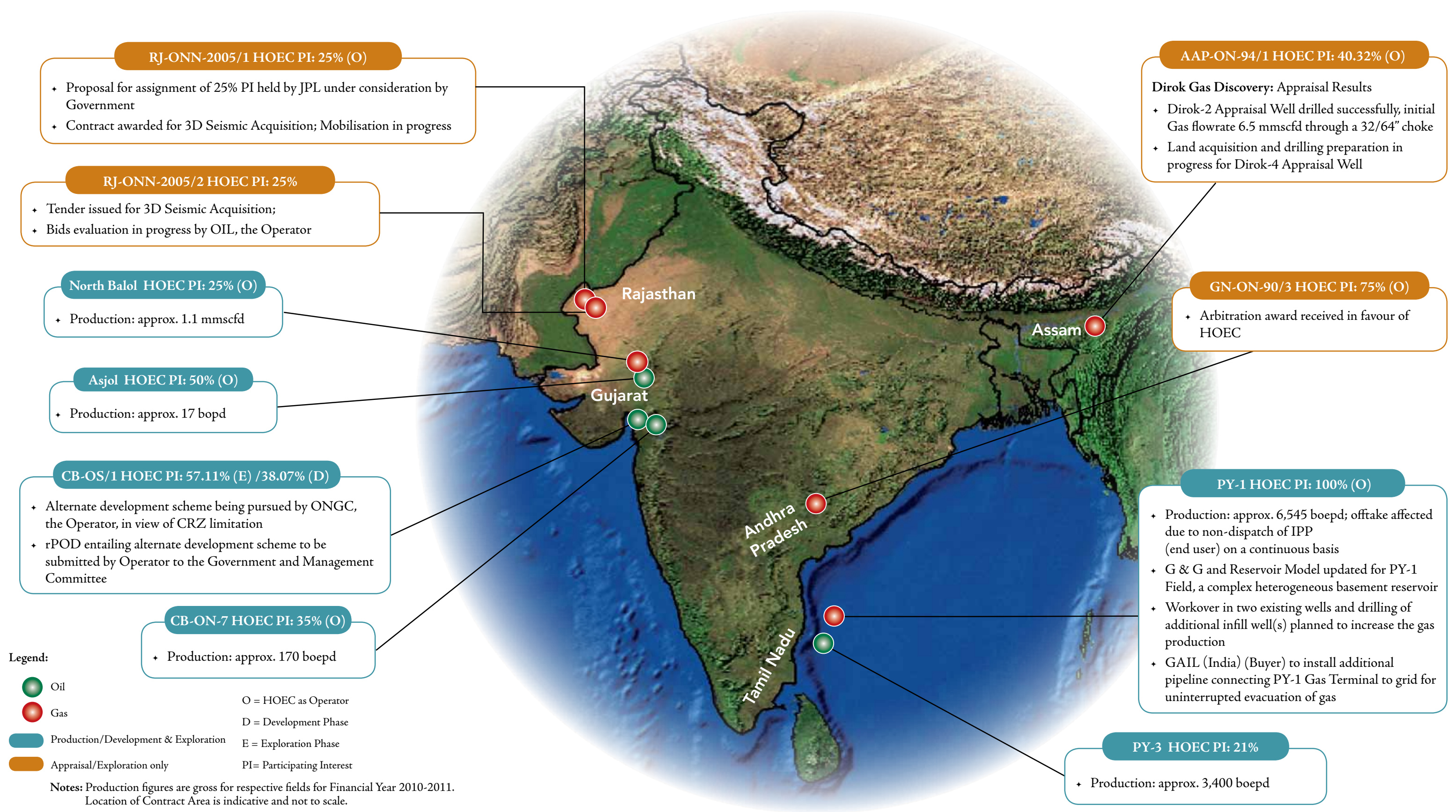
\*\* Operating Cash Flow is before Working Capital Changes and Taxes.

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





# Directors' Report

## To the Members of HINDUSTAN OIL EXPLORATION COMPANY LIMITED

Your Directors have the pleasure in placing before you the 27th Annual Report including the Audited Statement of Accounts for the year ended March 31, 2011.

### 1. FINANCIAL HIGHLIGHTS

INR million

Particulars	Standalone		Consolidated	
	2010-2011	2009-2010	2010-2011	2009-2010
Turnover	3,285	1,450	3,444	1,607
Other Income	88	139	92	144
Revenue	3,373	1,589	3,536	1,751
Profit before Depreciation/Depletion/Amortization/Write Offs/Taxation	2,402	1,123	2,430	1,160
Less : Depreciation/ Depletion/ Amortisation	1,223	472	1,223	473
Less : Provisions & Write Offs	0	0	0	0
Profit Before Tax	1,179	651	1,207	687
Less : Provision for Tax	377	235	391	247
Profit After Tax	802	416	816	440
Profit/(Loss) brought forward	1,870	1,454	1,930	1,490
Profit available for Appropriation	2,672	1,870	2,746	1,930
Balance carried to the Balance Sheet	2,596	1,870	2,670	1,930

Figures have been rounded off.

During the year, your Company produced 2.7 mmboe of crude oil and gas (previous year 1.0 mmboe), the increase being on account of full year production from PY-1 and PY-3 Fields. This has resulted in a turnover of INR 3,285 million, an increase of 2.26 times over the previous year.

The Profit-Before-Tax was INR 1,179 million, an increase of 81% over the previous year.

Provision for tax was higher because of higher taxable income in the current year.

During the year under review, your Company had a Profit-After-Tax of INR 802 million, an increase of 93% over the previous year.

### 2. DIVIDEND

During the year, the Directors declared an interim dividend of 5%. In view of foreseeable capital expenditure in existing producing fields and development of discoveries in Assam and Cambay, the

Directors recommend to the members that the interim dividend of 5% may be treated as the final dividend for the year 2010-2011.

### 3. CAPITAL EXPENDITURE

During the year under review, the Company invested capital expenditure of INR 150 million towards development activities, including PY-1 Field and INR 334 million towards exploration activities covering primarily appraisal programme in Block AAP-ON-94/1.

### 4. DIRECTORS' COMMISSION

While the Compensation and Remuneration Committee has recommended an aggregate commission of INR 3.0 million to be distributed amongst the Non Executive Independent Directors, however the Independent Directors have chosen not to accept this commission as a gesture to support the Company in its immediate endeavors.

### 5. OPERATIONAL HIGHLIGHTS

Operations review has been provided in the Management Discussion and Analysis Report, which forms part of this Annual Report.

### 6. COMPLETION OF DRILLING OF APPRAISAL WELL IN ASSAM

Your Company, as Operator of AAP-ON-94/1 consortium, has successfully drilled and tested first appraisal well in Block AAP-ON-94/1 during the year. The drill stem test has resulted in initial flow rate of approximately 6.50 million standard cubic feet per day (mmscfd) of natural gas and 140 barrels per day of condensate through a 32/64" choke. The Company has a 40.323% participating interest during exploration/appraisal period in the said Block.

### 7. GN-ON-90/3 BLOCK (PRANHITA GODAVARI) ARBITRATION AWARD

Arbitral Tribunal, in the matter of arbitration between Company, as one of the claimants, and ONGC and Government, as respondents, has given its award in favour of the

Company (claimant). The Award has upheld the Company's claims and ordered respondents to pay to the claimants the entire amount of encashed Bank Guarantee along with interest and cost of arbitration.

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

Pursuant to the Petroleum Service Agreement (PSA) with Eni India Limited (Eni), your Company has received during the year under review, support from Eni in activities like updation of PY-1 Geological & Reservoir Models, seismic and structural studies in Assam, and continuous improvement in HSE standards besides deputation of technical personnel at HOEC.

#### 9. 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 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 implemented certain provisions of the 'Corporate Governance Voluntary Guidelines 2009', issued by the Ministry of Corporate Affairs in December 2009 in order to pursue best Corporate Governance practices.

#### 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.

The Ministry of Corporate Affairs vide its Order dated May 02, 2011 has notified that a company engaged in petroleum operations shall get its cost accounting records in respect of each financial year commencing on or after April 01, 2011, audited by a cost auditor who shall be, either a cost accountant or a firm of cost accountants, holding valid certificate of practice under the provisions of Cost and Works Accountants Act, 1959. In compliance with the aforesaid requirement, the Company has appointed a qualified practicing cost accountant for auditing its cost accounting records for FY 2011-12.

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

During the year under review, net income of HBIL, HOEC's wholly owned subsidiary, was INR 170 million being marginally higher as against previous year of INR 169 million. The net profit was INR 13.4 million during the year as against INR 24 million in the previous year. The decrease in the net profit was mainly on account of higher inputs costs and competitive pricing policy to maintain the market share of HBIL products.

The Consolidated Financial Statements presented by the Company include financial information of HBIL prepared in compliance with applicable accounting standards. The Ministry of Corporate Affairs, Government of India vide its Circular No. 5/12/2007-CL-III dated February 8, 2011 has granted general exemption under Section 212(8) of the Companies Act, 1956, from attaching the balance sheet, profit and loss account and other documents of the subsidiary companies to the balance sheet of the company, provided certain conditions are fulfilled. Accordingly, annual accounts of HBIL and the related detailed information will be made available to the shareholders of the Company seeking such information at any time during the office hours. The annual accounts of HBIL are available for inspection by any shareholder at the Company's Registered Office and at the Registered Office of HBIL, at Vadodara. Details of the financial information required under the Circular is covered in Note No. 1 under Schedule 17- "Notes to the Consolidated Accounts".

#### 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 2010-2011 are appended to and form part of this Annual Report.

#### 14. CREDIT RATING

Company continues to have LA+ rating assigned by ICRA 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.

#### 15. AUDITORS' REPORT AND DIRECTORS' EXPLANATION

In the previous Annual Report for FY 2009-10, the Company had stated that it had issued certain job orders to Eni for specific services, subsequent to Board approval. As per the Board's directive,



the Company had accrued the charges of INR 160,438,827 as on March 31, 2010 for these services based on Eni's invoices. Pending receipt of detailed documentation supporting the charges for such services including independent certification by the auditors of Eni regarding the basis of such charges, the Auditors of the Company had then drawn a reference in their Audit Report of the amounts accounted for as development expenditure in the Financial Year ended March 31, 2010.

During the year under review, Company has received substantial documentation including the certification from the auditors of Eni to support basis of the charges towards services received in FY 2009-10 which satisfies the conditions as stipulated by the Audit Committee and Board and thus the Auditors' observation for FY 2009-10 has been complied with.

Further, during the year under review, Company has issued job orders to Eni for specific services subsequent to obtaining Board approval. As per the Board's directive, the Company has accrued the charges of INR 186,039,614 for these services as of March 31, 2011. Based on the principles established by PSA and expected to be consistently followed by Eni, a reference to such matter has not been made by the Auditors in their Audit Report for the Financial Year ended March 31, 2011.

## 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 a 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. Sunil Behari Mathur, Mr. Mukesh Butani, Mr. Luigi Ciarrocchi

and Mr. Manish Maheshwari will retire by rotation and being eligible, have offered themselves for re-appointment as Directors.

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

The term of appointment of Mr. Luigi Ciarrocchi as Managing Director will expire at the conclusion of the ensuing Annual General Meeting. He has declined to be re-appointed as Managing Director due to his pre-occupation and other business commitments. Board herein places on record its appreciation for valuable services made by Mr. Luigi Ciarrocchi as the Managing Director.

The term of appointment of Mr. Manish Maheshwari will expire at the conclusion of the ensuing Annual General Meeting. He has given his consent to be re-appointed as Managing Director. Board, at its meeting held on May 09, 2011, has recommended the appointment of Mr. Manish Maheshwari as Managing Director of the Company.

Further, Board at its meeting held on August 05, 2011 has recommended Mr. Sergio A. Laura to be appointed as Managing Director of the Company at the ensuing Annual General Meeting. Mr. Laura has given his consent for such appointment.

## 19. EMPLOYEES STOCK OPTION SCHEME

During the year FY 2010-11, an aggregate of 17,680 stock options were granted to Non Executive Independent Directors. While performance bonus was awarded to Executive Director and employees, no stock options were granted to them during the FY 2010-11.

The ESOS disclosure as at March 31, 2011 is as below:

PARTICULARS	HOEC EMPLOYEE STOCK OPTION SCHEME-2005
(a) Stock Options outstanding as at April 01, 2010	34,441
(b) Option Granted during the year	17,680
(c) Pricing Formula	Nil
(d) Options Vested during the year	Nil
(e) Options Exercised during the year	Nil
(f) The total number of shares arising upon/after exercise of Option	17,680
(g) Options Lapsed during the year	3,011
(h) Variation in terms of Options	Not Applicable
(i) Money realized by exercise of Options	Nil
(j) Total number of Options in force as of March 31, 2011	49,110

PARTICULARS	HOEC EMPLOYEE STOCK OPTION SCHEME-2005
(k) Details of Options granted during the FY 2010-11:	
Non-Executive Directors:	
Mr. R. Vasudevan	: 6,800
Mr. Mukesh Butani	: 5,440
Mr. Sunil Behari Mathur	: 5,440
Managing Director/Joint Managing Director	: Nil
Senior Management Personnel	: Nil
Any other employee who received a grant in any one year of Options amounting to 5% or more of Options granted during that year	: Nil
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
(l) 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-1	: INR 6.15
(m) Weighted- average exercise price	: Nil
Weighted- average fair value 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	: INR 183.85

Note:

- Under the ESOS Scheme approved by the Shareholders, the exercise of options has no dilution impact on the EPS.

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

Particulars required under the Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules, 1988:

### A. Conservation of Energy:

#### (a) energy conservation measures taken:

During the year, Company continued to focus on minimizing the energy consumption and the measures taken are summarised below:

- Due consideration has been given to energy consumption while procuring services and equipments.

- As a responsible Corporate Citizen and in adherence to our climate change strategy, Company is continuously taking effective steps to conserve energy and to reduce methane and other Green Houses Gases (GHG) emissions, wherever feasible.
- Minimized environmental impact from its activities: Many measures have been implemented in PY-1 Project for prevention and control of pollution and improvement of environmental performance. Company continues with its initiatives on energy and resource conservation at its PY-1 facilities.
- The Company regularly monitored air emission sources and the ambient air quality and maintained emission levels within regulatory standards in 2010-11.
- Solar panels at offshore PY-1 Platform were installed to provide un-interrupted power supply.
- Except the emergency lights, all lights and electrical gadgets are turned off after working hours and on holidays at office premises of the Company to help in minimising the energy consumption.

(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:

Reduction in emission of Green House Gases (GHGs) as a result of minimal use of air conditioning system and reduced consumption of power and fuel.

(d) total energy consumption and energy consumption per unit of production as per Form A of the annexure to the Rules in respect of industries specified in the schedule thereto:

The Company is neither part of the industries nor engaged in any activity specified in the Schedule to the Rules.

A miniscule fraction of gas production is being utilized for internal consumption at PY-1 Site.

B. Research and Development (R&D): Nil

C. Technology absorption, adaptation and innovation:

Various technology absorption, adaptation and innovation initiatives were taken including *inter alia* Managed Pressure Drilling for gas wells in PY-1, multi-well-single-pad approach