



SELAN EXPLORATION TECHNOLOGY LIMITED

ANNUAL REPORT 2004 – 2005

Late Mr. R. N. Kapur
Founder and Former Chairman

BOARD OF DIRECTORS

Mr. R. Kapur *Chairman*

Mr. A. Mahajan • Dr. B. K. Barman • Mr. R. Mathrani
 Mr. S. K. Singh • Mr. T. Currimbhoy • Mr. V. B. Mahajan

CORPORATE ADVISORS

Dr. D. J. Corbishley
 Mr. C. Ratnam

COMPANY SECRETARY

Ms. Deepa Bhalla

AUDITORS

V. Sankar Aiyar & Company, Chartered Accountants, New Delhi

BANKERS

Corporation Bank • Hongkong & Shanghai Banking Corporation

REGISTERED OFFICE

3, The Green, Rajokri, New Delhi – 110 038

REGISTRARS AND SHARE TRANSFER AGENTS

MCS Ltd., Sri Venkatesh Bhawan, W – 40, Okhla Industrial Area Phase – II, New Delhi – 110 020

SELAN EXPLORATION TECHNOLOGY LTD.

Regd. Office : 3, The Green, Rajokri, New Delhi - 110 038

NOTICE

NOTICE is hereby given that the Twentieth Annual General Meeting of Selan Exploration Technology Limited will be held at Ashok Country Resort, Rajokri Road, Kapashera, New Delhi – 110 037 on Thursday, 22 September 2005 at 10 : 00 A.M. to transact the following business :

ORDINARY BUSINESS

1. To receive, consider and adopt the Audited Balance Sheet as at 31 March 2005 and Profit and Loss Account for the year ended on that date alongwith the Reports of the Directors' and Auditors' thereon.
2. To appoint a Director in place of Mr. Aroon Mahajan, who retires by rotation and being eligible for re-appointment, offers himself for re-appointment.
3. To appoint a Director in place of Mr. Tarik Currimbhoy, who retires by rotation and being eligible for re-appointment, offers himself for re-appointment.
4. To appoint M/s V. Sankar Aiyar & Co., Chartered Accountants, as Auditors, who shall hold office from the conclusion of this Annual General Meeting until the conclusion of the next Annual General Meeting, on such remuneration as may be fixed by the Board of Directors of the Company.

By Order of the Board
for SELAN EXPLORATION TECHNOLOGY LTD.

17 June 2005
New Delhi

DEEPA BHALLA
Company Secretary

NOTES :

- 1) A member entitled to attend and vote is entitled to appoint a proxy and such proxy need not be a member of the Company. The instrument appointing proxy may be sent in the form enclosed and in order to be effective must reach the Registered Office of the Company at least 48 hours before the Meeting.
- 2) Members are requested to notify change in their address, if any, quoting their folio number to the Registrar and Share Transfer Agents, MCS Ltd., Unit : Selan Exploration Technology Ltd., Sri Venkatesh Bhawan, W – 40, Okhla Industrial Area Phase – II, New Delhi - 110 020.
- 3) Register of members and Share transfer books of the Company will remain closed from 16 September 2005 to 22 September 2005 (both days inclusive).
- 4) Memorandum & Articles of Association of the Company and documents related to the Resolutions will be available for inspection at the Registered Office of the Company between 11: 00 a.m. and 1: 00 p.m. on all working days except Saturdays and will also be available at the meeting.
- 5) At the ensuing Annual General Meeting, Mr. Aroon Mahajan and Mr. Tarik Currimbhoy retire by rotation and being eligible offer themselves for re-appointment. The information or details to be provided in respect of aforesaid Directors under code of Corporate Governance is as under :
 - (a) **Mr. Aroon Mahajan** is a distinguished businessman and Non-Resident Indian having extensive business and investment interests in the U.S.A. and the U.A.E.
 - (b) **Mr. Tarik Currimbhoy** is a leading architect and non-resident Indian, living and practicing in New York. Mr. Currimbhoy did his post graduate studies from Cornell University. He is well known to the Indian community in the US and the Middle East.
- 6) The members are requested to send their queries, if any, on accounts or proposed resolutions at least 48 hours in advance of the meeting to the Company, so that the same may be answered satisfactorily at the meeting.
- 7) Members/ Proxies should bring the Attendance slip duly filled-in for attending the meeting.

DIRECTORS' REPORT**SELAN**

Your Directors have pleasure in presenting the Annual Report for the year ended 31 March 2005.

During the year, the Government of India has adopted the policy to encourage public sector Companies to forge relationships with foreign oil Companies as well as private Indian Players. The Government of India is intensifying exploration within the country and wooing foreign firms to bid for oil and gas exploration blocks. The on-going fifth round of its New Exploration Licencing Policy (NELP) has received encouraging response.

The Government has adopted a five point programme to enhance oil security in the Country, including setting up of strategic petroleum reserves. New areas would be explored, especially deep water and difficult frontier areas as also deeper layers of producing fields. The Government has also asked oil Companies to acquire more acreage abroad and has decided to enhance supply security by increasing production of oil and gas at home as well as abroad.

The recent year saw a hike in the petroleum prices, which was necessitated due to spurt in international crude oil prices.

FINANCIAL REVIEW

Your Company continued its efforts for getting the crude oil prices finalised by way of negotiations with the Nominee of the Government of India, viz. Indian Oil Corporation Ltd. In absence of the finalised price for crude oil, the Company continues to receive payment on an interim basis, and at provisional international prices of crude, the Company achieved the following results :

(Rs. Millions)	2004 - 05	% to Total Sales	2003 - 04	% to Total Sales
a) Sale of Crude Oil	104	90	72	91
b) Geophysical Services	7	6	1	1
c) Other Income	5	4	6	8
TOTAL	116	100	79	100
PROFIT BEFORE TAX	19	NA	14	NA

During the year, Profit before Tax of the Company stood at Rs. 18.75 million as against Rs. 14.04 million during the year 2003 - 04.

In accordance with Accounting Standard 22 Taxes on Income which is applicable from 1 April 2001, deferred tax liability is required to be reflected in the accounts. As a result, net cumulative deferred tax liability of Rs. 47.74 million upto 31 March 2005 has been reduced from brought forward surplus and shown separately in the Balance Sheet. Total Reserves and Surplus have increased from Rs 92.55 million to Rs. 101.95 million upto 31 March 2005.

OPERATIONS REVIEW

During the financial year 2004 - 05 the Company produced 70,206 barrels of crude oil cumulatively from its three fields (viz. Bakrol, Indrora and Lohar) in comparison to last years production of 62,699 barrels of crude oil. The Company has been taking steps to develop its fields in a phased manner (especially the Bakrol oilfield), so that production from the fields can further be enhanced and has taken some specific steps towards augmenting crude production from the existing wells. Prospective drilling locations for further developing the oilfields and for enhancing the crude oil production are in process of finalization.

Your Company is pleased to inform that with continuing efforts and negotiations it has been able to sign the Production Sharing Contracts (PSCs) for two more fields viz. Ognaj, an oilfield and Karjisan, a Gas field. Mining Leases for the above two fields are awaited from the Government of Gujarat and it is expected that these two fields will further add to the recoverable reserves and crude oil and gas production of your Company.

BUYBACK OF SHARES

The Company did not make any fresh buyback of its shares during the year. Consequently, the paid up capital of the Company is Rs. 134.22 million as on 31 March 2005.

SETTLEMENT WITH AIFI's

The Company has settled its dispute with IDBI Ltd. with respect to the ERAS Loan taken by the Company, and has made a full and final payment of Rs. 3.20 million, as a one time full and final settlement of the dispute. During the previous fiscal year, the Company had also settled its dispute with ICICI Bank Ltd. in a similar manner for Rs. 3.84 million in connection with the same ERAS Loan.

DIRECTORS' REPORT

SELAN**BOARD OF DIRECTORS**

Mr. Aroon Mahajan and Mr. T. Currimbhoy retire by rotation at the ensuing Annual General Meeting and being eligible, offer themselves for re-appointment.

DIRECTORS RESPONSIBILITY STATEMENT

Pursuant to the provisions of Section 217(2AA) of the Companies Act, 1956, the Board of Directors do hereby state that in preparation of the Annual Accounts, the applicable Accounting Standards have been duly followed, that the Directors have selected such accounting policies and applied them consistently and made judgments and estimates that are 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 that period, that the Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of Companies Act, 1956, for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities, and that the Directors have prepared the annual accounts on a going concern basis.

AUDITORS AND THEIR REPORT

The Auditors, M/s V. Sankar Aiyar & Co., Chartered Accountants, retire at the ensuing Annual General Meeting and being eligible, offer themselves for re-appointment.

CORPORATE GOVERNANCE

Pursuant to Clause 49 of the Listing Agreement, Management Discussion and Analysis and a Report on Corporate Governance alongwith certificate from Auditors regarding compliance of conditions of Corporate Governance is annexed to Directors' Report.

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

The activities undertaken by your Company do not fall under the purview of disclosure of particulars under Section 217(1)(e) of the Companies Act, 1956, in so far as it relates to the conservation of energy and technology absorption. Particulars with regard to foreign exchange outgo appear as point nos. 17 & 18 of the Notes forming Part of the Accounts.

PERSONNEL

The Company does not have any employee whose name and particulars are required to be included in the report of Directors as per the provisions of Section 217 (2A) of the Companies Act, 1956, read with Companies (Particulars of Employees) Rules, 1975, as amended.

ACKNOWLEDGEMENTS

Your Directors appreciate the exemplary service by the employees of the Company for its continued success and also express their heartfelt thanks to Ministry of Petroleum and Natural Gas, Government of India and the Bankers of the Company for their broad assistance and co-operation. Your Directors immensely value the continued support and encouragement received from the shareholders and expect that with your support the Company will achieve many a milestones in the years to come.

for and on Behalf of the Board

17 June 2005
New Delhi

R. KAPUR
Chairman

MANAGEMENT DISCUSSION AND ANALYSIS

SELAN

1. Industry Structure and Developments

The Government in its continuing efforts to liberalise the economy and specially the oil sector, has awarded and signed a number of Production Sharing Contracts with Private Sector Oil Companies for Exploration Blocks under New Exploration Licensing Policy (NELP) and Coal Bed Methane (CBM) Projects. Private Companies (Domestic/IV's) have contributed significantly in exploration and exploitation of existing oil reserves in the country with the Private Sector Companies striking huge reserves of oil and gas within the Country. As a result, the domestic crude oil production is continuously gaining a thrust with significant contributions of crude production from private operators, thereby reducing foreign exchange outflow on crude imports. Oil sector is poised to witness yet another round of liberalisation started by Government of India with New Exploration Licensing Policy - IV (NELP - IV). India currently produces about 33 million tonnes of crude oil annually against the annual requirement of 115 million tonnes. The balance is imported, making crude oil India's single largest item of import.

2. Outlook

SELAN signed three Production Sharing Contracts in 1995 with Government of India for Bakrol, Indrora and Lohar oilfields. Further, the Company has also signed Contracts for the Ognaj Oilfield and the Karjisan Gas-field with the Ministry of Petroleum and Natural Gas (MoPNG). Mining Leases in respect of these two fields are awaited from Government of Gujarat.

The Company has elaborate plans for the development of its oil and gas fields in a phased manner. The Company having made a significant investment in the three oilfields now has similar plans for investment in the two new fields to increase the crude oil / gas production.

Further efforts in terms of seismic data acquisition, workover of existing wells and drilling of new wells is being undertaken in a phased manner to give an accelerated thrust to the crude oil production.

3. Segment-wise performance

Presently, the Company is engaged in one Business Segment which is crude oil production. The operations are divided into two divisions viz. Oil Profit Center (OPC) and Seismic Profit Center (SPC) for better management control, though the latter is an integral part of oil production activity.

4. Operations and Financial Review

The review of Financial and Operations Performance is covered in the Director's Report and may be read as a part of this report.

5. Risks and Concerns

(i) Business Risks

Oil sector is a high risk and high return sector. Seismic data evaluation of oilfields & reservoir modeling involves interpretation of highly technical data acquired / interpreted by the highly capital intensive and technologically advanced equipment which are prone to obsolescence.

In spite of interpretation of data by highly sophisticated means the results are not always predictable.

The risk of fluctuation in international oil prices also adds to the uncertainty of profits in this industry, thus requiring conservative long-term financial planning.

(ii) Project Constraints

Further, the developmental efforts of the Company are being delayed / hampered due to a number of outstanding issues / project constraints with the Government of India (GOI), its nominees and Government of Gujarat. The major issues relate to lack of adequate tankage, imposition of unilateral charges, non-receipt of final international price in respect of crude sold to GOI's nominee and refund of arrears on account of delayed / part payments for crude supplies etc. Pending resolution of the aforesaid disputes, the development plans of the Company are adversely affected.

(iii) Financial, Legal and Contractual Risks

SELAN is a debt free Company, which means that the Company carries a minimum financial risk. Presently the Company has the policy of using debt financing only for short term funding requirements, should the need arise.

In the view of management, the Company has made sufficient provisions for Legal or Contractual risks arising out of disputes in repayment of ERAS Loan taken from Financial Institutions.

6. Internal Control System and their Adequacy

SELAN has proper and adequate system of Internal Control to ensure that all assets are safeguarded and protected against loss from unauthorised use or disposition and that transactions are authorised, recorded and reported in a prudent manner. The internal control systems of the Company and the reports of the Internal Auditors are also reviewed by the Audit Committee of the Board periodically and their suggestions for improvement are implemented.

The Internal Control System is designed to ensure that financial and other records are reliable for preparing financial statements and for maintaining accountability for assets. It is further intended to strengthen the internal control measures and procedures on an ongoing basis keeping the changing business scenario in view.

7. Human Resources Development / Industrial Relations

SELAN believes that employees represent an organisation's most valuable asset. SELAN has a flat and lean management structure which results in faster and efficient decision making on the various issues facing the Company. The number of people on the rolls of the Company are less than 20. SELAN also employs people on contract which, in view of Management is the right practice considering the nature of the Industry. The Company believes that the work force is the most valuable asset behind the performance and success of the Company.

Industrial relations have been cordial throughout the year and no material development which could affect its operations took place during the year.