



SELAN EXPLORATION TECHNOLOGY LIMITED

ANNUAL REPORT 2003 – 2004



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

First Floor, 11 Hauz Khas Village, New Delhi – 110 016

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 : First Floor, 11 Hauz Khas Village, New Delhi - 110 016

NOTICE

NOTICE is hereby given that the Nineteenth Annual General Meeting of Selan Exploration Technology Limited will be held at Ashok Country Resort, Rajokri Road, Kapashera, New Delhi – 110 037 on Thursday, 23 September 2004 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 2004 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. Rajesh Mathrani, who retires by rotation and being eligible for re-appointment, offers himself for re-appointment.
3. To appoint a Director in place of Dr. B. K. Barman, who retires by rotation and being eligible for re-appointment, offers himself for re-appointment.
4. To appoint a Director in place of Mr. V. B. Mahajan, who retires by rotation and being eligible for re-appointment, offers himself for re-appointment.
5. 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.

20 July 2004
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 Shares transfer books of the Company will remain closed from 16 September 2004 to 23 September 2004 (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. Rajesh Mathrani, Dr. B. K. Barman and Mr. V. B. Mahajan 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. Rajesh Mathrani, an NRI and a Banker has held senior management positions including that as a Director with a Private Bank prior to joining Citibank in London.
 - (b) Dr. B. K. Barman, a PHD. in Fuel Technology from England is having a vast experience in the petroleum industry in India and U.K. He was Chief Executive for India of Castrol Ltd. for several years.
 - (c) Mr. V. B. Mahajan has held senior management positions in both the public and private sector. Having started his career at Asea Brown Boveri, he has worked at Richardson Hindustan Ltd. (now Procter and Gamble India Ltd.) and was Managing Director of NAFED.
- 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 2004.

The international prices of crude oil were volatile for most part of the year with the continuance of crisis in the Gulf and cutting down of the production quotas by the Gulf Countries. As a result of which the crude oil prices witnessed uncertainty but had an upward swing towards the end of the financial year.

During the last financial year, Government of India continued the process of planned liberalisation of Oil Sector by offering more Small and Medium sized Oil & Gas fields by way of New Exploration Licensing Policy (NELP) and Coal Bed Methane (CBM) projects with the increasing participation of private sector oil firms. The crude production scenario in the country has also begun to improve with private players continuing to strike more and more oil and gas reservoirs in the Country. With the enhancement of crude oil production from various sedimentary basins of the Country, the Country's crude oil imports have started witnessing significant reductions. However there needs to be a greater exploratory effort for the Country to reduce its reliance on crude oil imports to meet increasing domestic energy needs.

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. However, there continues to be a significant difference of opinion on the methodology adopted by IOC for crude valuation which, in the opinion of the Company is not in line with the provisions of the PSC. In absence of the finalised price for crude oil the Company continues to receive payment on an interim basis and at the provisional international prices of crude, the Company achieved the following results :

(Rs. Millions)	2003-04	% to Total Sales	2002-03	% to Total Sales
a) Sale of Crude Oil	72	92	85	94
b) Other Income	6	8	5	6
TOTAL	78	100	90	100
PROFIT BEFORE TAX	14	NA	17	NA

During the year, the Profit before Income Tax of the Company stood at Rs. 14.03 million as against Rs. 17.09 million during the year 2002-03.

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. 42.73 million upto 31 March 2004 has been reduced from brought forward surplus and shown separately in the Balance Sheet. Total Reserves and Surplus have increased from Rs. 86.53 million to Rs. 92.55 million upto 31 March 2004.

OPERATIONS REVIEW

During the financial year 2003 – 04 the Company produced 62,720 barrels of crude oil cumulatively from its three fields (viz. Bakrol, Indrora and Lohar) in comparison to last years production of 68,990 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 as well as to identify further prospective drilling locations for further developing the oilfields and for enhancing the crude oil production.

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, during the year.

The Company is in the process of taking over the physical possession of these fields from the ONGC 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 successfully completed the planned Buyback of Equity Shares on 21 April 2004. The Company in this buyback purchased 828,030 shares for a total cumulative consideration of Rs. 13.23 million. Consequently, the paid – up share capital of the Company is reduced to Rs. 13.42 million as on 31 March 2004. In terms of Section 77AA of the Companies Act, 1956, the Company has transferred a sum of Rs. 5.36 million to Capital Redemption Reserve Account.

DIRECTORS' REPORT (CONTD...)**SELAN****BOARD OF DIRECTORS**

During the year Mr. S. K. Singh joined as a Director on the Board of Directors of your Company. Mr. Singh has over 30 years of experience in the various facets of oil industry and it is expected that Mr. Singh will use his vast reservoir of industry knowledge and acumen to aid in production enhancement and growth efforts of your Company.

Mr. Rajesh Mathrani, Dr. B. K. Barman and Mr. V. B. Mahajan 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 judgements 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. The Auditors' observation on the repayment of the ERAS loan to the All India Financial Institutions is self explanatory in Note 2 of Notes on Accounts.

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

20 July 2004
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/JV'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 production is continuously getting 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).

2. Outlook

SELAN signed three Production Sharing Contracts in 1995 with Government of India for Bakrol, Indrora and Lohar oilfields. The Company has an in principle Mining Lease from Government of Gujarat, pursuant to which the Company started production of crude oil in 1995. The Company has recently signed new Contracts for the Ognaj Oilfield and the Karjisan Gas field with the Ministry of Petroleum and Natural Gas (MoPNG).

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 in each of its oil fields.

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.

The developmental efforts of the Company, however, are being delayed / hampered due to non-resolution of some key issues such as non - payment of full international price for crude supplies, refund of arrears on account of delayed payments by the Government nominee, etc.

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

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.

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.

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 has always recognised its people as its key resource and considered them a driving force behind the performance, success and continued efforts to progress.

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 and has taken several initiatives for motivation of employees.

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

CORPORATE GOVERNANCE

SELAN

1. SELAN's philosophy on code of Governance

SELAN aims to achieve the best practices in the field of Corporate Governance through its mandatory observance of Clause 49 of the Listing Agreement and follows the protocol of full and fair disclosures and representations in all its transactions, interactions and communications with all its stakeholders including the shareholders, employees, creditors and the Government authorities.

SELAN makes a concerted and conscious effort to maximise efficiency in the utilisation of funds and thus maximize long – term value to the Shareholders over a sustained period of time. Selan also prescribes a code of Corporate conduct and framework of effective accountability to all its Shareholders.

2 (i) Board of Directors

Composition of Board

The Board of Directors of Company comprises of :

- One Non – Executive Director.
- Six Non – Executive Independent Directors.

Name of Director	Executive/ Non-Executive/ Independent	Number of Other Directorships	No. of other Committee Memberships		Attendance in Board Meetings	Attendance in Last AGM
			Chairman	Member		
R. Kapur *	Chairman and Non – Executive Director	-	1	3	4	Yes
A. Mahajan *	Non – Executive and Independent Director	-	-	-	-	No
Mr. S. K. Singh	Non – Executive and Independent Director	-	1	4	3	Yes
B. K. Barman	Non – Executive and Independent Director	-	-	2	4	Yes
R. Mathrani *	Non – Executive and Independent Director	-	-	1	-	No
T. Currimbhoy *	Non – Executive and Independent Director	-	-	-	-	No
V. B. Mahajan	Non – Executive and Independent Director	-	2	4	4	Yes

* Foreign Directors

Note : Directorships in Foreign Body Corporates, Private Limited Companies and Associations are excluded.

2 (ii) Number of Board Meetings held, and the dates on which held

Four Board Meetings, as per the provisions of clause 49 of the Listing Agreement were held during the financial year 2003 – 04. The dates on which the meetings were held are : 22 April 2003, 24 July 2003, 28 October 2003 and 29 January 2004.

3. Audit Committee

SELAN constituted an Audit Committee on 9 May 2000. The Committee comprises of three non-executive directors, two of whom are non-executive and independent directors. The Chairman of the committee is non-executive and independent director. The Committee comprises of : Mr. V. B. Mahajan, Chairman, Mr. R. Kapur, Dr. B. K. Barman & Mr. S. K. Singh, Members.

Brief description of terms of reference :

- Review of Company's financial reporting process and its financial statements.
- Review of the adequacy of accounting records maintained in accordance with the provisions of Companies Act, 1956.
- Review the adequacy of internal control system.
- Such other powers and role as are stipulated under Clause 49 of the Listing Agreement and Section 292 A of the Companies Act, 1956.

The Committee has met four times during the current year (on 22 April 2003, 24 July 2003, 28 October 2003 and 29 January 2004). All the committee members were present during the meetings.

4. Remuneration Committee

Constitution of Remuneration Committee is a non – mandatory requirement under the Listing Agreement with the Stock Exchanges. However it has been made mandatory under Schedule XIII of the Companies Act, 1956 ; Therefore a Committee of independent Directors has been constituted to determine the remuneration package of its Directors as and when appointed.

Disclosure of Remuneration to Directors

The aggregate value of salary, perquisites and allowances paid to the Whole Time Director Mr. R. N. Kapur during the year ended 31 March 2004 was Rs.1.59 million including leave encashment and gratuity paid during the year.

Non-executive Directors are not paid any remuneration except sitting fees for attendance at each meeting of Board of Directors or Committee thereof. Four Non – Resident Directors were not paid any remuneration or sitting fees.

5. Shareholders Committee

The Board has established a Shareholders / Investors Grievances Committee comprising of Mr. V. B. Mahajan as Chairman and Mr. R. Kapur and Mr. S. K. Singh as Members to specifically look into the redressal of shareholders / investors grievances. The committee met four times during the year.

Compliance Officer :

Name : Deepa Bhalla

Designation : Company Secretary

There were no pending shareholders complaints/grievances and transfer of shares as on 31 March 2004.

6. Buyback of Shares Committee

The Board has established a Buyback of Shares Committee comprising of Mr. R. Kapur as Chairman and Mr. V. B. Mahajan and Mr. S. K. Singh as Members. The committee met four times during the year.

7. General Body Meetings

Location and time for last three Annual General Meetings were :

Year	AGM	Location	Date	Time
2000-01	AGM	The Executive Club, New Delhi	27/07/01	10 : 00 am
2001-02	AGM	The Executive Club, New Delhi	24/09/02	10 : 00 am
2002 – 03	AGM	Ashok Country Resort, New Delhi	25/09/03	10 : 00 a.m.

The Company passed a Special Resolution at it's Annual General Meeting held during the year 2002 – 2003 for the alteration of its Articles of Association. No Postal Ballot was required for passing of the same.

No Resolution is proposed to be passed by way of Postal Ballot at the ensuing Annual General Meeting of the Company.

8. Disclosures

8. (a) Disclosures on materially significant related party transactions i.e. transactions of the Company of material nature, with its promoters, the directors or the management, their subsidiaries or relatives, etc. that may have potential conflict with the interests of the company at large.

Winton Roavic Pvt. Ltd., in which two Directors are interested, is in receipt of Rs. 0.9 million as rent in respect of premises given on lease to the Company.

8. (b) Details of non-compliance by the Company, penalties, strictures imposed on the Company by stock exchanges or SEBI, or any statutory authority, on any matter related to capital markets, during the last three years.

None.

9. Means of Communication

The Half Yearly and Quarterly results are published in the last week of succeeding month in leading national newspapers and the same are intimated to Stock Exchanges where the shares of Company are listed. Presently, the Company does not have a web site.

A Management Discussion and Analysis Report has been attached and forms part of this report.