22nd Annual Report 2005-2006

HOEC

Hindustan Oil Exploration Company Limited

22nd Annual General Meeting

Date : September 28, 2006

Day : Thursday

Time : 10.30 A.M.

Place : 'Tropicana Hall', Taj Residency Vadodara, Akota Gardens, Akota, Vadodara–390 020

Front Cover:
Aban VII Rig at Vinayaka-1 Location in CY-OSN-97/1 Block

Contents

HIGHLIGHTS OF 2005-06

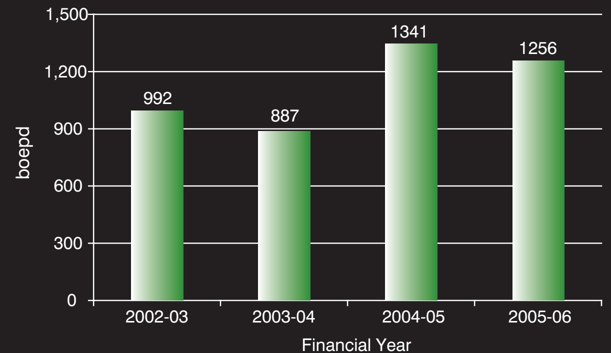
FINANCIAL HIGHLIGHTS

- **Total Income** of Rs 1,024 million (FY 2004-05: Rs 927 million), **up 10%**
- **Turnover** of Rs 970 million (FY 2004-05: Rs 858 million), **up 13%**
- **Profit before tax** of Rs 261 million (FY 2004-05: Rs 610 million), **down 57%**
- **Profit after tax** of Rs 175 million (FY 2004-05: Rs 385 million), **down 55%**
- **Operating Cash Flow** [1] of Rs 728 million (FY 2004-05: Rs 642 million), **up 13%**

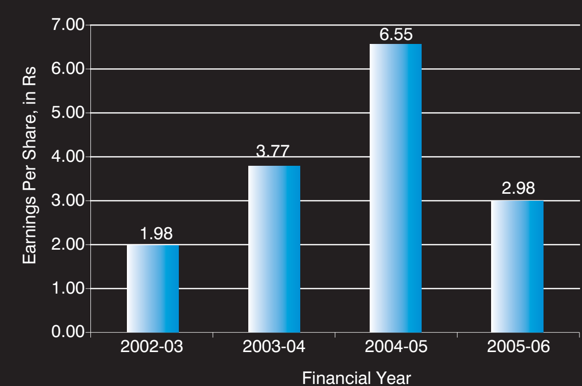
OPERATIONAL HIGHLIGHTS

- **Average production** [2] 1,256 boepd (FY 2004-05: 1,341 bopd), **down 6%**
- Production commenced from Pramoda oil field and North Balol gas field

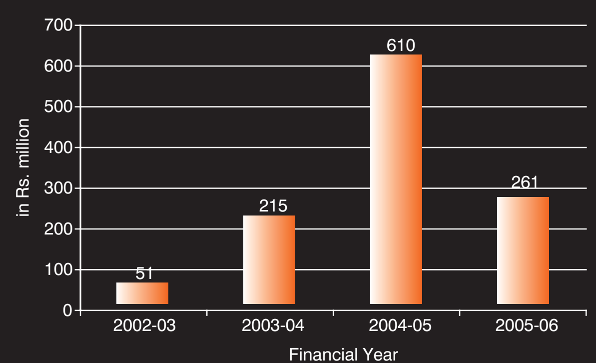
Production (Working Interest)



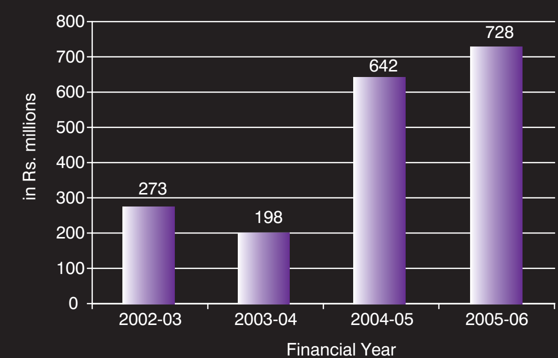
Earnings Per Share (EPS)



Profit Before Tax



Operating Cash Flow



[1] *Operating Cash Flow is before Working Capital Changes and Taxes*
[2] *Average production is on working interest basis*

Areas of operation

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

Cambay Basin

CB-ON-7 (E)(D)(P)

Area : 123 Sq.Km.
HOEC Working Interest
Exploration 50%
Development & Production 35%
Operator : HOEC
Production Commenced September 2005
Average Production : 42 bopd (Working Interest)

CB-OS-1 (E)

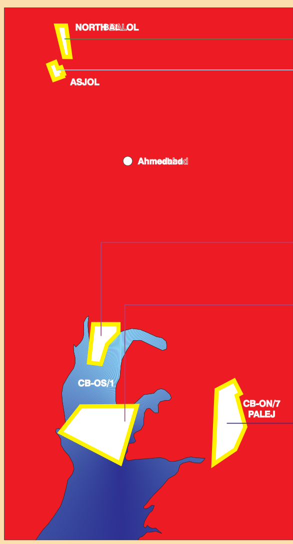
Area : 123 Sq.Km.
HOEC Working Interest
Exploration 57.11%
Operator : ONGC

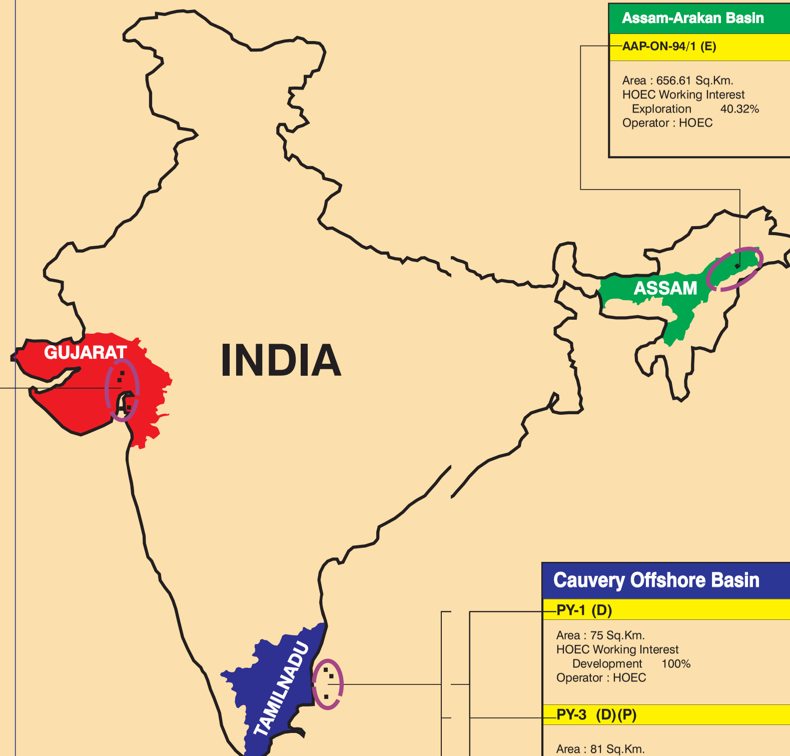
Asjol (P)

Area : 15 Sq.Km.
HOEC Working Interest
Production 50%
Operator : HOEC
Average Production : 23 bopd (Working Interest)

North Balol (P)

Area : 27.3 Sq.Km.
HOEC Working Interest
Production 25%
Operator : HOEC
Production Commenced November 2005
Average Production: 789 scmd (Working Interest)

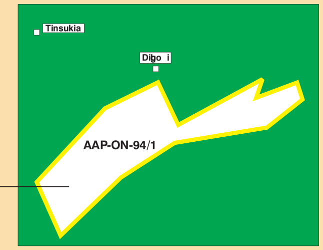




Assam-Arakan Basin

AAP-ON-94/1 (E)

Area : 656.61 Sq.Km.
HOEC Working Interest
Exploration 40.32%
Operator : HOEC



Cauvery Offshore Basin

PY-1 (D)

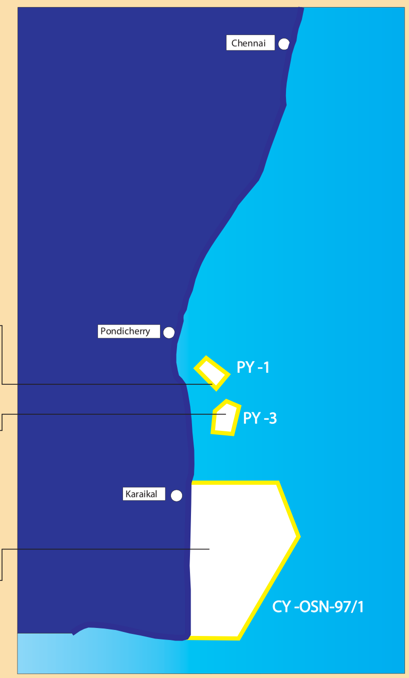
Area : 75 Sq.Km.
HOEC Working Interest
Development 100%
Operator : HOEC

PY-3 (D)(P)

Area : 81 Sq.Km.
HOEC Working Interest
Development 21%
Production 21%
Operator : HEPI
Average Production : 1,191 bopd (Working Interest)

CY-OSN-97/1 (E)

Area : 3,705 Sq.Km.
HOEC Working Interest
Exploration 80%
Operator : HOEC



Board of Directors

Mr. R. Vasudevan
Non-Executive Chairman

Mr. R. Vasudevan holds a B.A. (Hons) (Economics) degree from the University of Madras, an M.A. (Economic Statistics) degree from the University of Delhi and has also completed M.P.A. (Development Economics) from Harvard University, Boston, U.S.A. He has held various senior level positions in the ministries of the GoI including in the Prime Minister's Office, Ministry of Steel and Ministry of Petroleum and Natural Gas. He retired as Secretary to the GoI, Ministry of Power. He was also a founder director of Small Industries Development Bank of India.

Mr. Deepak S. Parekh
Non-Executive Director

Mr. Deepak S. Parekh is a Fellow of the Institute of Chartered Accountants (England and Wales). He has been a member of various committees set up by the Government of India, especially in the field of Finance and Capital Market. Mr. Parekh is the Executive Chairman of Housing Development Finance Corporation Ltd. and Non-executive Chairman of Infrastructure Development Finance Company Ltd., Siemens Ltd, & Glaxo Burroughs Wellcome (India) Ltd. He is recipient of Padma Bhushan award from the Government.

Mr. Finian O'Sullivan
Non-Executive Director

Mr. Finian O'Sullivan holds a degree in geology and geophysics from the University College Galway and pursued an international career spanning 17 years in geophysics and seismic acquisition with organizations such as Chevron, Geophysical Systems and Olympic Oil and Gas. He is currently the Chief Executive Officer of Burren Energy Plc. and is a director of Burren Energy India Ltd. and Burren Shakti Ltd.

Mr. Rahul Bhasin
Non-Executive Director

Mr. Rahul Bhasin holds a Post-Graduate Diploma in Management from the Indian Institute of Management, Ahmedabad. He is the Managing Partner of Baring Private Equity Partners (India) Private Ltd., a Senior Partner of Baring Private Equity Partners International and is also a member of the Investment Committee of the Baring Vostok Private Equity Fund. He is a member of the "CEO Forum" at the Economist Corporate Network.

Mr. Atul Gupta
Managing Director

Mr. Atul Gupta holds degrees in Chemical Engineering from Cambridge University and Petroleum Engineering from Heriot-Watt University. Besides Managing Director of Hindustan Oil Exploration Company Ltd., he is currently the Chief Operating Officer of Burren Energy Plc. and is a director of Burren Energy India Ltd. and Burren Shakti Ltd.

Mr. Manish Maheshwari
Joint Managing Director

Mr. Manish Maheshwari holds B.E. (Hons.) in Chemical Engineering, and Masters in Business Administration from SGBS, U.K. He has been with the Company for about three years. Prior to Hindustan Oil Exploration Company Ltd. he has worked with a Danish Development Financial Institution and Tata Group including upstream oil and gas venture.

DIRECTORS' REPORT

TO THE MEMBERS OF
HINDUSTAN OIL EXPLORATION COMPANY LIMITED

Your Directors have pleasure in placing before you the 22nd Annual Report and Audited Statement of Accounts for the year ended March 31, 2006.

FINANCIAL HIGHLIGHTS

(Rs. in million)

	2005-2006	2004-2005
Sales	969.53	858.23
Other Income	54.69	69.19
Gross Profit before Depreciation/ Depletion/Amortisation/Write Offs/ Taxation	757.26	682.26
Less: Depreciation/Depletion/ Amortisation	77.95	88.06
Less: Provisions & Write Offs	418.64	(15.91)
Profit Before Tax	260.67	610.11
Less: Provision for Current Tax	168.00	195.00
Less: Provision for Deferred Tax	(85.00)	30.20
Less: Provision for Wealth Tax	0.16	0.08
Less: Fringe Benefit Tax	2.60	0
Profit After Tax	174.91	384.83
Profit/(Loss) brought forward	710.50	392.65
Profit available for Appropriation	885.41	777.48
Less: Proposed Dividend on Equity Shares	58.74	58.74
Less: Dividend Tax	8.24	8.24
Balance carried to the Balance Sheet	818.43	710.50

Profit after tax is lower at Rs. 174.92 million as compared to Rs. 384.83 million for the previous year. After considering brought forward profit of Rs. 710.50 million, the profit available for appropriation is Rs. 885.42 million.

DIVIDEND

Considering the performance during the year under review, your Directors recommend dividend @ 10% (Rs. 1.00 per equity share of Rs. 10/- each) on the equity shares of the Company for the year ended March 31, 2006. The proposed dividend will amount to an aggregate of Rs. 66.98 million (including corporate dividend tax of Rs. 8.24 million).

OPERATIONAL HIGHLIGHTS

Operational Highlights are provided in Management Discussion and Analysis Report.

MANAGEMENT DISCUSSION AND ANALYSIS REPORT

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

CORPORATE GOVERNANCE

A separate report on Corporate Governance, along with a Certificate of Compliance from a Company Secretary in Practice, forms part of this report.

COST ACCOUNTING RECORDS

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

LOAN AGAINST CHARGE ON PY-3 AND CB-ON-7 PARTICIPATING INTEREST AND RECEIVABLES

The Board of Directors have decided to refinance the loan of Rs. 350 million against PY-3 participating interest and receivables from ING Vysya Bank by substituting it with a loan of Rs.1,700 million from UTI Bank and HDFC Bank by way of charge on participating interest and receivables of PY-3 and CB-ON-7. In this respect, the Company has repaid the entire loan amount to ING Vysya Bank in April 2006.

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

Sales and Profit Before Tax of HBIL have registered a growth of 49% and 77% respectively to reach a level of Rs. 62.69 million and Rs. 19.14 million. This year growth has come as a result of concrete efforts in the automotive segment with the two wheelers giving a major thrust to the growth. HBIL has repaid the entire loan due to the Company.

The audited accounts of HBIL together with the report of the directors and auditors thereof, as required under Section 212 of the Companies Act, 1956 forms part of this Annual Report.

CONSOLIDATED FINANCIAL STATEMENTS

Pursuant to Accounting Standard AS-21 issued by the Institute of Chartered Accountants of India and the Listing agreement entered into with the Stock Exchanges, Consolidated Financial Statements are part of this annual report.

AUDITORS' REPORT

With reference to the observation made in Auditors' Report regarding unaudited joint ventures' accounts, we have to state that as per Production Sharing Contracts signed with the Government of India, the operators have been allowed time up to September 30 of the immediately succeeding year to submit audited accounts. Considering this, some of the operators have not submitted audited accounts till the Company's accounts are audited. In lieu of same, the statements of expenditure/unaudited accounts submitted by those operators have been incorporated.

Regarding non disclosure of outstanding payment to Small Scale Industries with respect to joint ventures, we have to state that the requirements of the said disclosure is not applicable to joint ventures and hence the required information has not been made available to the Company by the JV operator.

FIXED DEPOSITS

Your Company has not accepted any fixed deposits and, as such, no amount of principal or interest was outstanding as at the balance sheet date.

DIRECTORS

In accordance with the provisions of the Companies Act, 1956 and Articles of Association of the Company, Mr. Deepak S. Parekh will retire by rotation at the ensuing Annual General Meeting and he being eligible offers himself for re-appointment.

During the year under review Mr. Vimal Bhandari ceased to be Director. The Board places on record its sincere appreciation of the excellent and outstanding contributions made by him to the growth of the Company. The Board has appointed Mr. Rahul Bhasin as a Director in the casual vacancy caused by the resignation of Mr. Vimal Bhandari. Mr. Rahul Bhasin retires at the ensuing annual general meeting. The Company has received a proposal along with a deposit of Rs. 500/- from a member signifying the candidature of Mr. Rahul Bhasin for the office of the Director. The Board recommends his appointment.

MANAGING DIRECTOR

The term of the current Managing Director, Mr. Rakesh Jain expires on July 31, 2006. Mr. Rakesh Jain has conveyed his unwillingness to the Board that he is not seeking renewal of his term as Managing Director beyond July 31, 2006.

On behalf of the Board, Mr. R. Vasudevan, Chairman, expressed deep appreciation of services rendered by Mr. Rakesh Jain and in steering the Company with true professional grit, indefatigable energy and managerial skills. The Board wishes him well in all his future endeavors.

Mr. Atul Gupta, Director of the Company, has been appointed as the Managing Director of the Company subject to the necessary approvals.

The Board has also appointed Mr. Manish Maheshwari, the erstwhile Chief Financial Officer of the Company, as the Joint Managing Director w.e.f. August 1, 2006, subject to the shareholders approval. The Company has received a proposal along with a deposit of Rs. 500/- from a member signifying the candidature of Mr. Manish Maheshwari for the office of the Director.

The Board recommends their appointment.

COMPANY SECRETARY

The Company has appointed Mr. Vikash Jain, a member of the Institute of Company Secretaries of India, as the Company Secretary of the Company w.e.f. October 24, 2005.

PROMOTERS

During the year, Burren Shakti Limited (then Unocal Bharat Limited) have declared that they, along with Burren Energy (India) Limited have assumed the status of the promoters of the Company.

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

A. Conservation of energy:

   (a) energy conservation measures taken : Nil
   (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 : Cost saving
   (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 : Not applicable

B. Technology absorption:

   (a) efforts made in technology absorption as per Form B of the annexure :

Research and development (R & D)

1.	Specific areas in which R & D carried out by the company	Nil
2.	Benefits derived as a result of the above R & D	N.A.
3.	Future plan of action	Nil
4.	Expenditure on R & D	
i.	Capital	Nil
ii	Recurring	Nil
iii	Total	Nil
iv	Total R & D expenditure as a percentage of total turn-over	N.A.

Technology absorption, adaptation and innovation

1. Efforts, in brief, made towards technology absorption, adaptation and innovation: Nil
2. Benefits derived as a result of the above efforts, e.g., product improvement, cost reduction, product development, import substitution, etc. : Not Applicable

3. In case of imported technology (imported during the last 5 years reckoned from the beginning of the financial year), following information may be furnished

   a. Technology imported : Not Applicable
   b. Year of import : Not Applicable
   c. Has technology been fully absorbed : Not Applicable.
   d. If not fully absorbed, areas where this has not taken place, reasons therefore and future plans of action : Not Applicable

C. Foreign exchange earnings and outgo:
   (a) activities relating to exports; initiatives taken to increase exports; development of new export markets for products and services; and export plans: Nil
   (b) total foreign exchange used and earned

Particulars	Rs. Million
A. Foreign Exchange Earnings	Nil
B. Foreign Exchange Used	
➢ Cash Call Payment to Joint Ventures	149.80
➢ Expenditure in Foreign Currency	15.91
➢ Dividend	20.65
Total Foreign Exchange used	186.36

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 attached hereto and form part of this Report.

RIGHTS ISSUE

The Company is in the process of coming out with a Rights Issue. The Draft Letter of Offer has been filed with SEBI and the Company has received in-principal approval for listing from the Stock Exchanges. The observation letter from SEBI is awaited.

AUDITORS

The Auditors, M/s. S. B. Billimoria & Co., Chartered Accountants, will retire at the forthcoming Annual General Meeting and they have not sought reappointment. As recommended by the Audit Committee, the Board at its meeting held on May 23, 2006 has recommended the appointment of M/s Deloitte Haskins & Sells as the auditors in place of retiring statutory auditors M/s. S. B. Billimoria & Co., to hold office from the conclusion of the ensuing annual general meeting to the conclusion of the next annual general meeting. You are requested to consider their appointment.

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 ended March 31, 2006, the applicable accounting standards had been followed along with proper explanation relating to material departures;

ii. that the directors had selected such accounting policies and applied them consistently unless otherwise stated and made judgements and estimates that were reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit or loss of the Company for the year under review;

iii. that the directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956, for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;

iv. that the directors had prepared the accounts for the financial year ended March 31, 2006 on a 'going concern' basis.

CONCLUSION AND ACKNOWLEDGEMENT

Your Directors place on record their gratitude for the support and co-operation received from Government of India's agencies namely, Ministry of Petroleum & Natural Gas, Directorate General of Hydrocarbons, Government of Gujarat, Government of Tamil Nadu, Tamil Nadu Electricity Board, Consortium Partners and Bankers. We express our sincere appreciation to our dedicated and committed team of employees who have contributed to the growth of the organization.

For and on behalf of the Board

Place : New Delhi
Date : July 29, 2006

R. Vasudevan
Chairman

ANNEXURE TO THE DIRECTORS' REPORT

Statement of particulars of employees pursuant to the provisions of Section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975 and forming part of the Directors' Report for the year ended March 31, 2006.

Name	Designation	Remu--neration received	Nature of employment	Nature of duties of the employee	Qualifications of the employee	Experience of the employee (in years)	Date of commence-ment of employment	Age	The last employment held by such employee before joining the Company	The number of equity shares held by the employee	The percentage of equity shares held by the employee	Period of Employment during the Financial Year	
												From	To
Mr. Rakesh Jain	Managing Director	7,624,943	Contractual	Overall management of the Company	B.Tech (Mechanical Engineering); PGDM from IIM, Calcutta	23	16-Jun-03	47	Principal Consultant, Tata Consultancy Services	1,000	Negligible	1-Apr-05	31-Mar-06
Mr. Manish Maheshwari	Chief Financial Officer	2,498,364	Permanent	Head of Finance, Accounts, Commercial & Legal	BE (Hons.), MBA (Strathclyde University U.K.) Danida Fellowship	16	1-Oct-03	39	Danish International Investment Fund	—	—	1-Apr-05	31-Mar-06
Dr. Udayan Dasgupta	Chief - Exploration Ventures	2,569,966	Permanent	Head of Exploration & Subsurface activities	Phd - Geology (University of Toronto)	32	10-Jan-94	58	Oil India Limited	—	—	1-Apr-05	31-Mar-06
Mr. J. Muthukumar	Chief - Well Construction Services	4,099,644	Permanent	Head of Drilling	B.E. (Chemical), M.Tech (Petroleum Engg.)	20	19-Oct-04	44	Cairn Energy India (Pty.) Limited	—	—	1-Apr-05	31-Jan-06

Notes:

1. Gross remuneration as above includes salary, taxable allowances, Company's Contribution to Provident Fund and Superannuation Fund, Gratuity paid (but excludes Company's contribution to Gratuity Fund), reimbursement of medical expenses, personal accident & mediclaim insurance premium, leave travel assistance and monetary value of perquisites calculated in accordance with the provisions of the Income Tax Act, 1961 and the Rules thereunder.
2. All the above named persons are eligible for all employee benefits eligible to the same class of employee.
3. The term of the current Managing Director, Mr. Rakesh Jain, expires on July 31, 2006. Mr. Rakesh Jain has informed the Board that he is not seeking renewal of his term as Managing Director beyond July 31, 2006.
4. Mr. J. Muthukumar was employed only for a part of the year.
5. Mr. Manish Maheshwari has been appointed as an Additional Director & Joint Managing Director w.e.f. August 1, 2006. Before this appointment he held the position of the Chief Financial Officer of the Company.
6. None of the above named person is a relative of any Director of the Company.

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATIONAL REVIEW

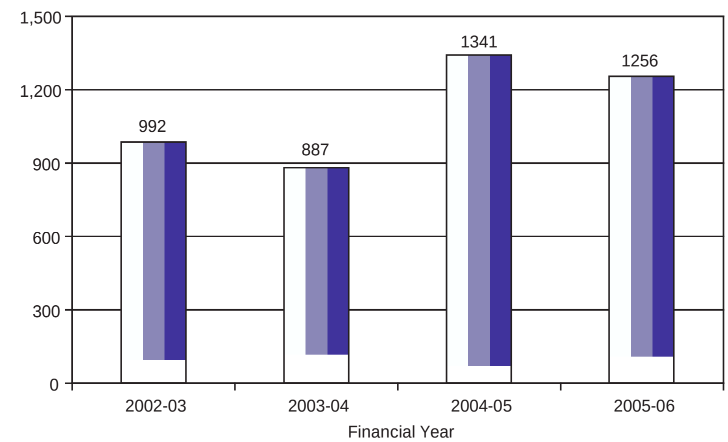
Reserves and Production

As of March 31, 2006, internal estimate of Company's Proved and Probable (2P) reserves on working interest basis is 39.59 mmboe.

Production during FY 2005-06 is 458,583 bbls of Crude Oil and 0.3 Mmscm of Gas respectively. The Company has inventory of prospects in its license areas namely CY-OSN-97/1, AAP-ON-94/1, CB-OS-1 and CB-ON-7.

Production (Working Interest Basis)
(BOEPD)

The average production (working interest) during the FY 2005-06 is 1256 BOEPD lower than last fiscal on account of natural decline in production in PY-3.



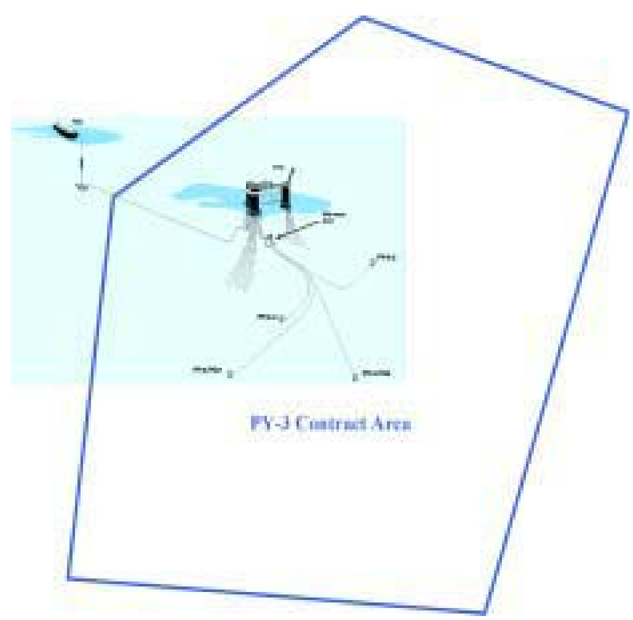
Cauvery Basin

Block CY-OS-90/1 (PY-3 Field)

Operations during the year

During 2005-06, the PY-3 Consortium acquired new 3D Seismic data and interpretation of the same is underway.

PY-3 field average gross total production decreased to 5,671 bopd in 2005-06 from 6,269 bopd in the previous year, on account of natural decline in the production. Production on net entitlement basis to HOEC averaged 977 bopd in FY 2005-06 compared to 1,202 bopd in 2004-05. The decrease in the entitlement is due to increase in the profit oil sharing with the Government of India from 10% to 25% as per the provisions of the Production Sharing Contract.



Due to decline in production, the average operating expenditure was $ 8.4/bbl vis-à-vis $ 7.6/bbl in the previous year.

Future Plans

Based on interpretation of new 3D data and revised Geological and Reservoir Modeling, the JV Consortium shall consider drilling additional wells to enhance production.

Block PY-1

Operations during the year

Reinterpretation of the reprocessed 3D seismic has been carried with an objective to optimize the locations of extended reach development wells.

HOEC has contracted Aban VII rig for drilling the first extended reach development well, Earth-1 in Q3 2006-07.

On the facilities side, detailed engineering for offshore pipeline and platform has been completed by Worely Parsons (Singapore) and Nippon Steel (Thailand) respectively.

Company is in the advance stage of concluding gas sales agreement with an existing independent power plant in the state of Tamil Nadu.

Future plans

Subject to successful results of Earth-1 well, the Company would proceed to full field development of PY-1 with target first gas production in 2008.

Block CY-OSN-97/1

Operations during the year

Post 3D interpretation, HOEC is ready to drill two exploration wells in CY-OSN-97/1 block in Q3 2006-07. Rig Aban VII has arrived at the location in August 2006.

Future Plans

Results of exploration wells would determine further appraisal and development of the block.

Aban VII Rig at Vinayaka-1 Location in CY-OSN-97/1 Block

Cambay Basin

Block CB-ON-7 (Palej)

Operations during the year

The company has put Pramoda Oil field on production in September 2005 and the current field production is 450 bopd. Pramoda oil field produced 44,019 bbls during the FY 2005-06 with an average production rate of 121 bopd.

Future plans

Company is preparing to drill two exploration wells in the Block in Q4 2006-07 towards fulfillment of Phase III commitment.

Block Asjol

Operations during the year

Asjol field produced 17,027 bbls during the year at an average of 47 bopd. Government profit petroleum share has been 10% as per the terms of the Production Sharing Contract.

North Balol Field

Operations during the year

HOEC has put North Balol gas field on production in November 2005 and the current field production is 17,000 scmd. North Balol field produced 1.15 mmscm during the FY 2005-06 with an average production rate of 3,155 scmd.

Workover operations were carried out on two wells NB-1 and NB-4.

Future plans

The Company is planning to drill one development well as part of Cambay drilling campaign to enhance production.

Block CB-OS-1

Operations during the year

ONGC as Operator has carried out workover operations on SH-1 discovery well. The Joint Venture shall evaluate commerciality for the area depending on results of NH well, to be drilled in end 2006.

Future plans

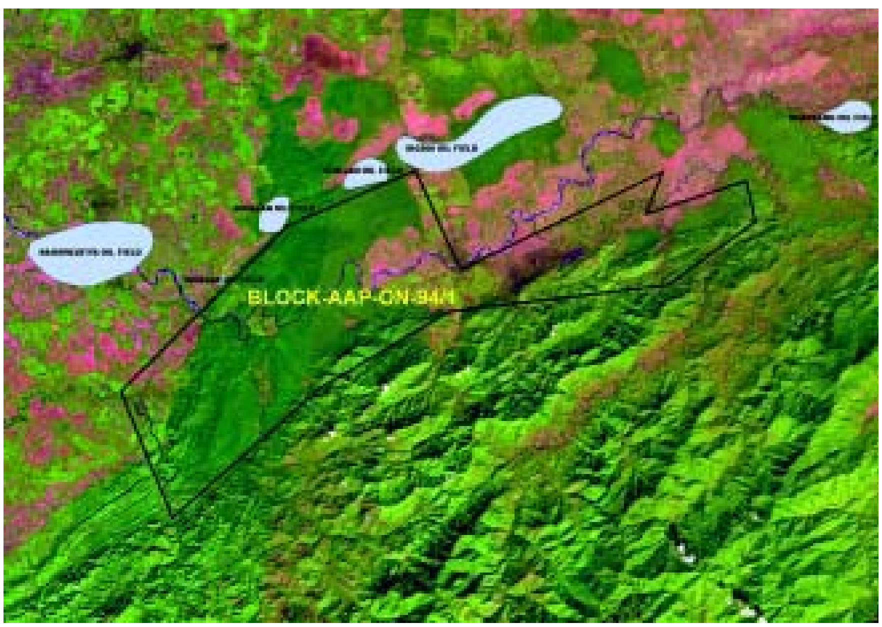
ONGC is also carrying out feasibility studies in Gulf-A-ridge and Gulf-D-ridge discoveries for its commerciality. Drilling of NH well is expected to commence towards end of 2006, tangibles for which have been procured by the Operator.

Assam-Arakan Basin

Block AAP-ON-94/1

Operations during the year

Initial testing operations at the Lakhi-1 exploration well in Assam were carried out in September 2005. Two separate intervals of the Barail Formation were tested and flowed gas and condensate/light oil at low rates. Lakhi-1 well has been suspended.



With effect from January 2006, subject to the necessary Government Approvals, HOEC has enhanced its participating interest from the existing 25% to 40.323% and assumed operatorship of the block, following the withdrawal of Premier Oil North East India BV. Indian Oil Corporation and Oil India Limited continue as the consortium partners in the Block.

During the first half of 2006, HOEC, as Operator, has acquired 68 lkm of 2D Seismic and processing of the same is underway.

Future Plans

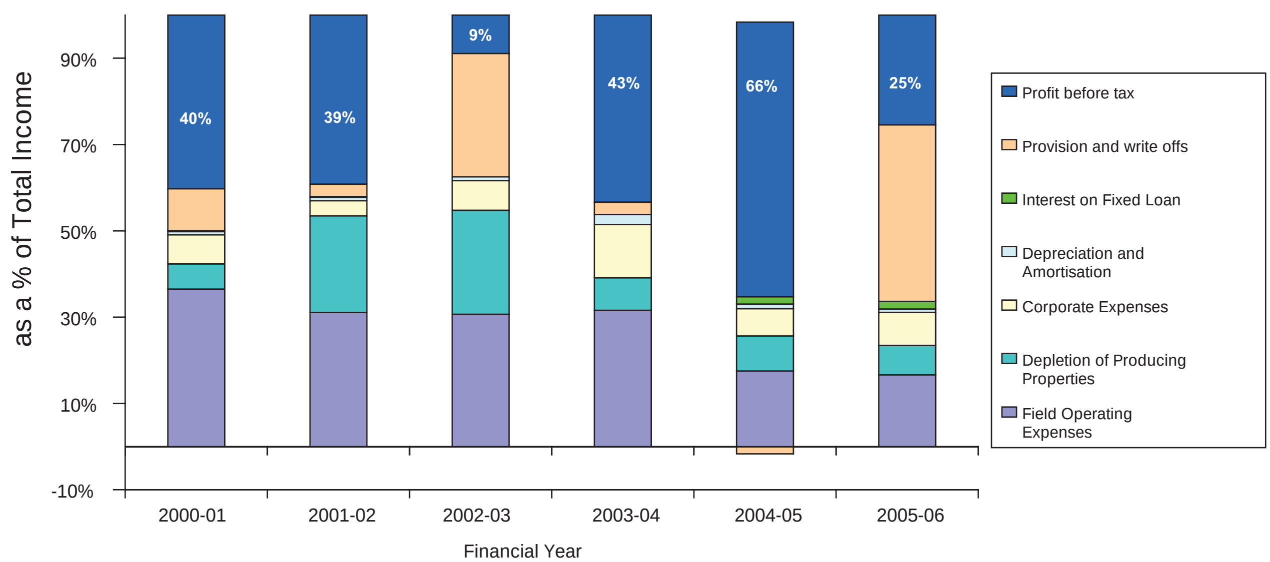
Based on the interpretation of the new and reprocessed 2D seismic data, the Company will be taking an informed decision with respect to entering the Exploration Phase III. If the Company elects to proceed to Phase III, the Company will drill two exploration wells.

FINANCIAL REVIEW

Overview

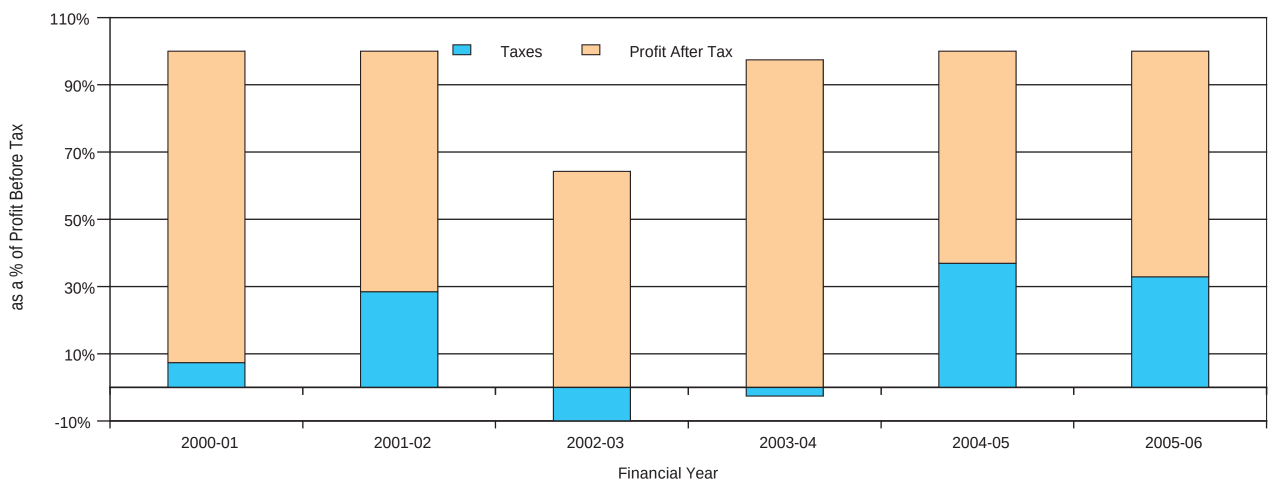
The Company reported Profit before Tax (PBT) in FY 2005-06 of Rs. 261 million, compared to Rs. 610 million in FY 2004-05. The decrease in PBT in FY 2005-06 compared to FY 2004-05 is due to write-offs of unsuccessful exploration costs pertaining to Lakhi-1 well in block AAP-ON-94/1, PRS-4 well in block CB-ON-7 and past exploration cost in CB-OS-1. In the absence of these write-offs, the PBT would have been Rs. 679.02 million.

Total Income and Profit Before Tax (PBT)



The Company reported Profit after Tax (PAT) in FY 2005-06 of Rs. 175 million, compared to Rs. 385 million in FY 2004-05. The tax of Rs. 85.76 million is lower than Rs. 225.27 million in year 2004-05 due to the deferred tax asset created on account of exploration expenses written off. Excluding the provisions and write offs and associated deferred tax, as enumerated above, the ratio of PAT as a percentage of total income would have shown continuous improvement over the past two years due to high oil price realisation.

Profit Before Tax and Profit After Tax



1. Income

Company has added two more income generating assets to its portfolio by successfully developing Pramoda Oil Field and North Balol Gas Field in the year. During FY 2005-06, sale of crude oil from PY-3 field continued to be the primary source of income. In addition, the Company has also generated income by investing the surplus funds available.

Rs. million

Year ended 31st March	2006	2005
Gross Sale of Crude Oil and Gas	1,148	935
Less: Profit Petroleum to Government of India	(206)	(80)
Net Sales	942	855
Increase/(Decrease) in stock of Crude Oil	27	3
Other Income	55	69
Total Income	1,024	927

Current year's oil production on working interest basis has decreased to 458,583 barrels from previous year's production of 489,503 barrels. This decrease in the volume of around 6% has been on account of natural decline in the production from PY-3 field. Total volume of crude oil sold was 456,279 barrels, a decrease of 9% over the previous year attributable to lower production and increase in stock. In terms of value, net sales increased by 10% as the average sales price realisation per barrel increased from $ 41.81 to $ 57.00 an increase of 36%, which resulted in offsetting the decrease in production and increase in the Profit Petroleum payout to the Government of India in PY-3 Contract Area.

Current year's gas sales on working interest basis amounted to 287,930 scm.

Other income, mainly comprising of interest and dividend earned on surplus funds, was lower on account of decline in the investible funds.

2. Expenditure and Charges

Rs. Million

Year ended 31st March	2006	%	2005	%	Increase/ (Decrease) %
Total Income	1,024	100	927	100	10
Expenditure and Charges					
Field Operating Expenses	170	17	168	18	1
Depletion of Producing Properties	70	7	78	8	(10)
Corporate Expenses	78	8	61	7	28
Depreciation and Amortisation	8	1	10	1	(20)
Interest and Finance Charges	18	2	16	2	13
Provision and write offs	419	40	(16)	(2)	(2,719)
Total Expenditure and Charges	763	75	317	34	141
Profit before tax and prior period adjustment	261	25	610	66	57
Prior period adjustment	0	0	0	0	0
Profit before tax	261	25	610	66	57
(Add)/Less Provision for:					
Current Income Tax	168	16	195	21	(14)
Deferred Tax	(85)	(8)	30	3	(383)
Wealth Tax	0	0	0	0	105
Fringe Benefit Tax	3	0	0	0	NA
Profit After Tax	175	17	385	41	(55)

2.1. Field Operating Expenses

These consist of expenditure incurred towards the production of crude oil and natural gas from the four producing fields namely PY-3, Pramoda, Asjol, and North Balol. There has been a marginal increase in field operating expenses on account of new fields being put on production in the later part of the year.

2.2. Depletion of producing properties

After the infill drilling campaign in PY-3 field during the FY 2004-05 and the subsequent Geological and Geophysical studies undertaken, the proved developed reserves have increased by about 36% i.e. from 21.20 mmbbls to 28.80 mmbbls as certified by NSAI, an independent reserve certification agency. The resulting decrease in the depletion of producing properties of PY-3 to a major extent has been offset by the increase in the Site Restoration Cost of PY-3 as a result of the increase in the estimated site restoration and abandonment costs.

2.3. Corporate Expenses

Rs. million

Year ended 31st March	2006	2005
Staff Expenses	67	45
Establishment Expenses	17	10
Other Expenses	67	46
Gross Corporate Expenses	151	101
Less: Recovery of Expenses	(73)	(40)
Net Corporate Expenses	78	61

Staff expenses consist of salaries, allowances and bonus paid to the employees, contribution to provident and other fund and staff welfare expenses. Staff Expenses have increased on account of VRS during the year, introduction of Long Term Incentive Plan (LTIP) and the increase in the salary expenses arising on account of market correction.

Establishment expenses include the expenses related office and guest house rent, software annual maintenance charges, electricity, repairs, rates and taxes. Establishment expenses have gone up mainly on account of the office setup in Chennai using rented premises.

Other expenses include primarily auditors’ remuneration, legal & professional expenses, inland & overseas travel, and communication expenses.

Recovery of expenses represents the recovery of staff expenses, establishment expenses, and other expenses towards manpower deployed to the various joint ventures, where Company is the Operator.

2.4. Depreciation and Amortisation

Depreciation and Amortisation for the current financial year is lower as the additions to the depreciable and amortizable fixed assets were lower in the current year when compared with the previous year.

2.5. Interest and Finance Charges

Interest and Finance Charges is towards the full year interest on the term loan from ING Vysya Bank.

2.6. Provisions and Write Offs

These consist of exploration expenses written off as follows in accordance with Company’s accounting policies:

(a) Exploration expenses in relation to Lakhi-1 exploration well drilled by erstwhile operator, Premier Oil North East India B.V., in block AAP-ON-94/1 amounting to Rs. 314 million has been written off.

(b) Exploration expenses in relation to PRS-4 exploration well in block CB-ON-7 amounting to Rs. 39.6 million have been written off.

(c) Exploration expenditure in block CB-OS-1 amounting to Rs. 64.7 million which have been carried for more than 2 years have been written off.

3. Provision for Tax

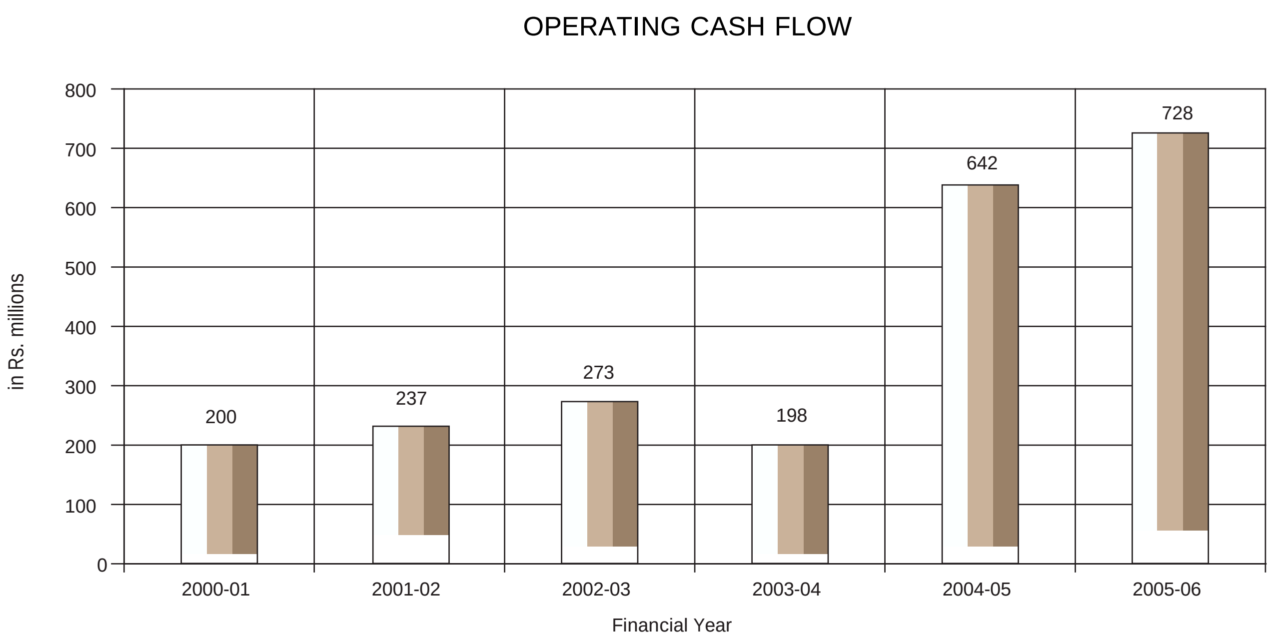
The Company has provided its current income tax liability as per the Income Tax Act 1961. The total provision for tax in the FY 2005-06 has come down on account of the deferred tax asset created for the exploration expenses written off and creation of site restoration fund.

4. Overview of Sources and uses of Funds

4.1. Sources of Funds

Our primary sources of funds are the cash provided by operating activities, debt financing and access to the capital markets. Our Company has refinanced the existing loan from ING Vysya Bank by substituting it with a loan of higher amount from HDFC Bank and UTI Bank. Company has firm sanctions of term loan for PY-1 development project.

During the FY 2005-06, our operations have earned us Rs. 728 million cash before working capital changes and profit of Rs. 818.4 million has been retained in profit and loss account after the proposed dividend.



The increase in the Operating Cash Flow before working capital changes is due to the higher price realisation, partially offset by a decrease in production.

4.2. Investment Activities

Investment expenditure aggregated Rs. 619 million (2005: Rs. 454.18 million), comprising of Rs. 297.67 million exploration expenditure, Rs. 498.52 million development expenditure and balance Rs. 23.60 million towards other expenditure (2005: Rs. 271.72 million exploration and Rs. 406.69 million development).

In addition, there was an inflow of Rs. 200.88 million with reference to investment of surplus fund (2005: Rs. 224.26 million) The above elements resulted in a net decrease in cash balance of Rs. 326 million.

4.3. Secured Loans

During the FY 2005-06, long-term debt decreased by Rs. 112 million due to scheduled principal payment of the loan to ING Vysya Bank.

5. Overview of Liquidity and Capital Resources

Fixed Assets

As on 31st March 2006, our Balance Sheet has Rs. 1,784 million of net block assets to be depleted and Rs. 70 million of net block assets to be depreciated. The market value of the pool of assets to be depleted depends on the recoverable reserves in the respective licenses and the leases hold, as well as commodity prices. Our company generates income by depleting these reserves and the book value of these assets is reduced accordingly. The current level of fixed assets does not fully reflect the Company's value as the carrying values of these assets are shown at historical values.

Given below are the Gross Block of Fixed Assets and their classification.

Rs. million

As of 31st March	2006	2005	Growth %
Exploration Expenditure	303	460	(34)
Development Expenditure	1,065	677	57
Producing Properties	1,347	1,023	32
Other Fixed Assets	214	180	19
Total	2,929	2,340	25

(i) *Exploration Expenditure:*

Rs. million

As of 31st March	2006	2005
Assam Business Unit	12	139
Cambay Business Unit	39	128
Cauvery Business Unit	252	193
Total	303	460

In 2005-06 the Company invested in exploration activities in each of its assets with a view to add new reserves.

(a) Assam Asset: Our Company has spent Rs 187 million on account of Lakhi-1 exploration well drilling and testing, acquisition of new 2D Seismic in block AAP-ON-94/1. Expenditure pertaining to Lakhi-1 well including the past expenditure totalling to Rs. 314 million has been written off in the current year, as a result the total exploration expenditure carried in the books at the end of FY 2005-06 has come down to Rs. 12 million.

(b) Cambay Assets: Following write-offs, the carried exploration cost is Rs. 39 million.

(c) Cauvery Assets: Our Company has spent Rs. 59 million on account of engineering and material costs for drilling, and geological and geophysical studies primarily in Block CY-OSN-97/1, which has resulted in increase in carrying cost to Rs. 252 million.

(ii) *Development Expenditure*

Rs. million

As of 31st March	2006	2005
Cambay Business Unit	0	32
Cauvery Business Unit	1,065	645
Total	1,065	677

In 2005-06 the Company invested in development activities with a view to bring on production existing commercial reserves.

(a) Cambay Assets: Our Company has spent Rs. 37 million on account of: (1) setting up of production facilities for the Pramoda Oil Field development in block CB-ON-7, and drilling and completion of development well PRD-2; (2) gas sales and G&A in North Balol Field. Both Pramoda and North Balol fields have been put on production in the FY 2005-06 and the entire development expenditure has been transferred to Producing Properties.

(b) Cauvery Assets: Our Company has spent Rs. 461 million on account of: (1) planning and tangible costs for drilling in block PY-1; (2) detailed engineering for the platform and pipeline in block PY-1; (3) milestone payment to Mosbacher India LLC towards acquisition of 53.85% participating interest along with transfer of Operatorship in block PY-1; and (4) acquisition of 3D seismic in block PY-3. As the PY-3 is a producing field, the expenditure incurred during the FY 2005-06 amounting to Rs. 41 million has been transferred to Producing Properties from the development expenditure category, thereby resulting in a net increase of Rs. 421 million in the development expenditure to Rs. 1065 million as of March 31, 2006.

(iii) *Producing Properties*

Rs. million

As of 31st March	2006	2005
Producing Properties	1,347	1,023

The increase in the Producing Properties is primarily due to the transfer of development costs of Pramoda and North Balol fields and transfer of 3D seismic acquisition cost of PY-3 field to the Producing Properties.

(iv) *Other Fixed Assets*

During the year, the Company invested Rs. 36.71 million in office equipments, computer hardware and software required for the new office setup in Chennai.

Investments and Working Capital

Investments and Working Capital items have decreased by Rs. 58 million due to the capital expenditure on various ongoing exploration and development activities, and acquisition of participating interest of Mosbacher India LLC in the PY-1 Production Sharing Contract, repayment of the ING Vysya loan.

As on 31st March 2006, the value of our Investments and Working Capital stands at Rs. 544 million.

The cash and bank balances also include Company's share in those balances in various joint ventures merged on line-to-line basis as per the Company's accounting policy. The Company's treasury policy calls for investing Company's surplus funds with highly rated banks and financial institutions for preferably short-term maturities with a limit on investments in individual entities to ensure safety and liquidity.

As on 31st March 2006, the value of our Cash, Cash Equivalents stands at Rs. 731 million.

RISK MANAGEMENT REPORT

The report sets out the risk management activities taken up by the management of your Company in respect of certain key risks facing the corporation. The management cautions the readers that the risks outlined below are not exhaustive and are for information purposes only. The report contains statements, which are forward-looking in nature. Such statements are subject to uncertainties that could cause actual results to differ materially from those reflected in the forward-looking statements. Readers are requested to exercise their own judgement in assessing various risks associated with the Company.

Introduction

Exploration and Production (E&P) business has several inherent risks, including commodity price movements. During the year, the Company has initiated a Risk Management Audit by an independent agency, findings of which will drive the basis of the risk management structure.

Risks Related to Our Business

Oil and natural gas prices are volatile

Oil and natural gas prices are volatile and any major decline in prices would hurt our profitability and financial condition. Oil and natural gas prices have fluctuated widely during recent years and are subject to fluctuations. PY-1 gas sales are going to be based on a fixed contract price thereby ensuring stability both for buyer and seller of gas.

Need to Replace Reserves

Our future success depends on our ability to find, develop and acquire oil and gas reserves that are economically recoverable. Without reserve additions through acquisition or exploration and development activities, the reserves and production will decline over time as reserves are depleted. In this regard the company continues to focus on exploration potential in its existing assets.

Our industry is highly competitive

The oil and natural gas industry is highly competitive, particularly as it pertains to the acquisition and development of new sources of oil and gas reserves. The domestic E&P industry is experiencing rapid changes including intense competition for new acreages entailing significant upfront risk capital commitment. Tight availability for equipment & services coupled with high demand has the risk of resulting in increasing program costs as well as impacting program schedules.

Concentration of Revenues & Reserves

High dependence on any single E&P asset exposes your Company to the risk inherent to that asset.

To manage this, your Company has been systematically diversifying its oil & gas reserves across different basins. Today the Company has interest in three basins namely Assam onshore, Cauvery offshore & Cambay. Your Company will continue to seek new ventures in these existing basins and apply similar principles when addressing new basins.

Operating Hazards and Other Uncertainties

Acquiring and developing oil and natural gas involves many risks, which even a combination of experience, knowledge and careful evaluation may not be able to overcome. These risks include, but not limited to, encountering unexpected geologic formations or pressures, premature declines of reservoirs, equipment failures and other accidents, uncontrollable flows of oil, natural gas or well fluids, adverse weather conditions, environmental risks. Company has insured its share of assets in its various assets.

Governmental Regulation

The oil and natural gas business is subject to regulation and intervention by governments in such matters as the imposition of taxes, specific work program obligations, and environmental protection controls, control over the development and abandonment of fields (including restrictions on production).

The increase in the Service Tax from 10.2% to 12.24% in the FY 2006-07 have an adverse impact on the profitability of the Company.

Financing and interest rate exposure risks

Our business and operating results can be impacted by factors such as the availability and our increased cost base and cost of capital, increases in interest rates or a reduction in credit rating.

ORGANISATIONAL MANAGEMENT AND INTERNAL CONTROL SYSTEMS

Your Company is positioned as an Operator in six of the eight assets in its existing portfolio. This section of the report details the risks associated with organization management and our response to the same.

Finance

(i) *Exchange Rate*

100% of our crude sale revenues in the financial year 2005-06 were dollar denominated, representing the petroleum off-take agreements entered into with Government nominees and/or other buyers.

At the same time a significant portion of your Company's expenses are in dollars thereby having a natural hedge against all dollar-denominated accounts.

(ii) *Liquidity*

An essential part of the financial strategy of your Company is to have a liquid balance sheet so as to allow the Company to quickly respond to rapid changes in the environment.

(iii) *Leverage*

Your Company is adopting a capital policy structure including leveraging for funding several growth initiatives currently underway, notably PY-1 gas field development.

(iv) *Internal Control Systems*

Your Company has strengthened the internal control systems by implementing Board approved Delegation of Authority and Material Service Requisition Procedure with defined roles, responsibilities and authorities at various levels.

Regulatory and Legal Compliance

(i) *Contractual Commitments*

Your Company has a Contracts/procurement manual in place for all the commitments. Wherever required, the management has actively sought support of specialist legal counsel and tax experts so as to derisk Company's position in all such contracts.

(ii) *Statutory Compliance*

The Company believes that as a part of effective corporate governance practices, compliance with the applicable laws and rules is of prime importance. As part of the delegation of responsibility and accountability, the respective Asset Managers furnish certificates as to the status of the compliance of various regulations applicable to their assets. Likewise the support services head submit compliance and exceptional reporting, if any to the Managing Director. The Managing Director issues a certificate to the Board of Directors at every Board meeting a statutory compliance certificate based on the certificates received from the concerned officials.

Systems and Processes

(i) *Human Resource Management*

People are your Company's key resource. Our ability to continuously enhance value of our core E&P assets depends largely on our ability to attract, train, motivate and retain the best and brightest professionals. The Company's philosophy is to reward Shareholders and employees alike.

The Company has implemented a long-term incentive plan (LTIP), which will provide the necessary incentive to employees by way of sharing the upside, by way of cash and employee stock options, the later has been approved by the shareholders in the last AGM.

(ii) *Health, Safety and the Environment*

As an upstream oil and gas company, the Company recognizes its business and social responsibilities. The company has put in place an effective health and safety program throughout the organization. The program defines and specifies policies, procedures and practices that are to be followed in the prevention of potential adverse health and safety issues affecting employees and the public.

CRITICAL ACCOUNTING POLICIES

The discussion and analysis of our financial condition and business performance are based upon the financial statements, which have been prepared in accordance with Generally Accepted Accounting Principles (GAAP) in India, and in compliance with the Companies Act, 1956.

Revenue Recognition

Revenue from the sale of crude oil and gas net of Government's share of Profit Petroleum, is recognized on transfer of custody to refineries / buyers. Sale is recorded at the invoiced price as per terms of crude oil sales agreement(s) or gas sales agreement(s), as the case may be.

Exploration and Development Costs

Your Company generally follows the *"Successful Efforts Method"* of accounting for exploration and production activities as explained below:

(i) Cost of exploratory wells, including survey costs, is expensed in the year when determined to be dry/ abandoned or is transferred to the producing properties on attainment of commercial production.

(ii) Cost of temporary occupation of land, successful exploratory wells, development wells and all related development costs, including depreciation on support equipment and facilities, are considered as development expenditure. These expenses are capitalised as producing properties on attainment of commercial production.

(iii) Producing properties, including the cost incurred on dry wells in development areas, are depleted using "Unit of Production" method based on estimated proved developed reserves. Any changes in reserves and/or cost are dealt with prospectively. Hydrocarbon reserves are estimated and/or approved by the management committees of the JVs, which follow the International Reservoir Engineering Principles.

All exploration costs including acquisition of geological and geophysical seismic information, license and acquisition costs are initially capitalized as "Capital Work in Progress — Exploration Expenditure", until such time as either exploration well(s) in the first drilling campaign is determined to be successful, at which point the costs are transferred to "Producing Properties", or it is unsuccessful in which case such costs are written off as explained herein below.

Exploration costs associated with drilling, testing and equipping exploratory well and appraisal well are initially capitalized as “Capital Work in Progress - Exploration Expenditure”, until such time as such costs are transferred to “Producing Properties” on attainment of commercial production or charged to the Profit and Loss Account unless: (a) such well has found potential commercial reserves; or (b) such well test result is inconclusive and is subject to further exploration or appraisal activity like acquisition of seismic, or re-entry of such well, or drilling of additional exploratory/step out well in the area of interest, such activity to be carried out no later than two years from the date of completion of such well testing.

The management makes quarterly assessment of the amounts included in “Capital Work in Progress – Exploration Expenditure” to determine whether capitalization is appropriate and can continue. Exploration well(s) capitalized beyond two years are subject to additional judgement as to whether facts and circumstances have changed and therefore the conditions described in (a) and (b) above no longer apply.

Site Restoration

Estimated future liability relating to dismantling and abandoning producing well sites and facilities whose estimated producing life is expected to end during next ten years is expensed in proportion to the production for the year and remaining estimated proved reserves of hydrocarbons based on latest technical assessment available with us.

Joint Ventures

The financial statements of the Company reflect its share of assets, liabilities, income and expenditure of the Joint Venture operations, which are accounted on the basis of available information on line-by-line basis with similar items in the Company’s accounts to the extent of the participating interest of the Company as per the various PSCs/JOA.

REPORT ON CORPORATE GOVERNANCE

COMPANY'S PHILOSOPHY ON CODE OF CORPORATE GOVERNANCE

The Company has always been committed to the principles of good Corporate Governance to promote the effective functioning of the Board and its committees and to assist it in the exercise of its responsibilities. The Board of Directors, the Company's highest policy making body, is committed in its responsibility for all constituents including investors, employees and regulatory authorities. The Company believes that the essence of Corporate Governance is transparency, accountability, investor protection, better compliance with statutory laws and regulations, value creation for shareholders / stakeholders.

The Company further believes that all its operations and actions must serve the underline goal of enhancing overall shareholders value over a sustained period of time and at the same time protect the interest of stakeholders.

The Company is complying with the provisions of Clause 49 of the Listing Agreement as amended from time to time.

The requirements of Corporate Governance adhered to during the year has been given under the relevant parameters as set out below.

BOARD OF DIRECTORS

At present the Board of Directors consisting of 6 members. The Board has an optimum combination of executive and non executive directors. The Company has a Non-Executive Chairman and the number of Independent Directors is not less than one-third of the total number of Directors. The number of Non-Executive Directors (NEDs) is at least half of the total number of Directors.

Name of Director	Category	No. of attendance at the Board Meetings	Whether last AGM attended	Memberships on Board of other Co's	Committee Chairmanship/ Membership of other Co's@	No. of Shares & % held in the Co.
Mr. R. Vasudevan	Independent Director (Chairman)	5	Yes	6	3-Membership	Nil
Mr. Rakesh Jain	Managing Director	5	Yes	1	Nil	1000 (0.001%)
Mr. Deepak S. Parekh	Non Executive & Non-Independent Director	2	No	16 #	3-Membership 5-Chairmanship	Nil
Mr. Vimal Bhandari (up to 25/01/06)	Independent Director	4	Yes	5	3- Membership	Nil
Mr. Atul Gupta*	Non-Executive & Promoter Director	4	Yes	Nil	Nil	Nil
Mr. Finian O'Sullivan*	Non-Executive & Promoter Director	2	Yes	Nil	Nil	Nil
Mr. Rahul Bhasin+ (w.e.f. 20/04/06)	Independent Director	Nil	N.A.	2	Nil	Nil

* Nominee Director of Unocal Bharat Limited (Promoter).

Including alternate directorship in four companies.

@ Represents Memberships/Chairmanships of Audit Committee and Shareholders/Investors Grievance Committee across all public limited companies, whether listed on the stock exchange(s) or not.

\+ Appointed as director in casual vacancy caused due to the resignation of Mr. Vimal Bhandari.

The term of the current Managing Director, Mr. Rakesh Jain expires on July 31, 2006. Mr. Rakesh Jain has conveyed his unwillingness to the Board that he is not seeking renewal of his term as Managing Director beyond July 31, 2006.

At the Board Meeting held on July 29, 2006, w.e.f. August 1, 2006 Mr. Atul Gupta, Director of the Company, has been appointed as the Managing Director, subject to the necessary approvals.

With effect from August 1, 2006, the Board has also appointed Mr. Manish Maheshwari, the erstwhile Chief Financial Officer of the Company as an Additional Director to hold office as such w.e.f. August 1, 2006. The Board subequently has also appointed him as the Joint Managing Director from the same date, subject to the approval of the members. He shall also replace Mr. Rakesh Jain on all the Board Committees constituted by the Board.

BOARD MEETINGS

The Board shall have four regularly scheduled meetings per year. During the year under review, five Board meetings were held and the gap between any two meetings did not exceed four months.

The dates on which the Board Meetings were held are as follows:

May 20, 2005, June 28, 2005, July 26, 2005, October 24, 2005 and January 24, 2006.

Mr. Vimal Bhandari, Director of the Company has resigned from the Board of the Company and consequently from various committees of the Board w.e.f. January 25, 2006.

Mr. Rahul Bhasin w.e.f. April 20, 2006 has been appointed as Director in casual vacancy caused due to the resignation of Mr. Vimal Bhandari. Mr. Rahul Bhasin has also been appointed as a member of the various Committees of the Board.

The Company did not have any pecuniary relationship with any of the Non Executive Directors during the year under review, except for the Directors sitting fees.

DIRECTORS SEEKING APPOINTMENT AND RE-APPOINTMENT

Mr. Deepak S. Parekh will retire by rotation at the ensuing Annual General Meeting and he being eligible offers himself for re-appointment.

During the year under review, Mr. Vimal Bhandari ceased to be Director. The Board has appointed Mr. Rahul Bhasin as a Director in the casual vacancy caused by the resignation of Mr. Vimal Bhandari. Mr. Rahul Bhasin retires at the ensuing annual general meeting. The Company has received a proposal along with a deposit of Rs. 500/- from a member signifying the candidature of Mr. Rahul Bhasin for the office of the Director.

Their brief resume and nature of expertise in specific areas, their directorships and memberships of committees are given in the Notes to the Notice of the Annual General Meeting.

MANAGING DIRECTOR

The term of the current Managing Director, Mr. Rakesh Jain expires on July 31, 2006. Mr. Rakesh Jain has conveyed his unwillingness to the Board that he is not seeking renewal of his term as Managing Director beyond July 31, 2006.

Mr. Atul Gupta, Director of the Company, has been appointed as the Managing Director, subject to the necessary approvals.

The Board has also appointed Mr. Manish Maheshwari, the erstwhile Chief Financial Officer of the Company, as the Joint Managing Director w.e.f. August 1, 2006, subject to the shareholders approval. The Company has received a proposal along with a deposit of Rs. 500/- from a member signifying the candidature of Mr. Manish Maheshwari for the office of the Director.

AUDIT COMMITTEE

Terms of Reference

The terms of reference of the Audit Committee are to review financial reporting process, reports of the Internal Auditors and to hold discussion with them periodically, to meet Statutory Auditors to discuss their findings, suggestions and other matters, internal control systems and quarterly / annual financial statements. The scope of the activities of the Audit Committee is as prescribed under Section 292A of the Companies Act, 1956 and also under Clause 49II (C) & (D) of the Listing Agreement entered into with the Stock Exchanges.

Composition of Audit Committee

The composition of the Audit Committee and the details of meetings attended by the members are given below. All the members of the Committee are non-executive directors and majority of them being independent directors.

Sr. No.	Name of Member and their Position	No. of Committee Meetings attended
1.	Mr. R. Vasudevan, Chairman	5
2.	Mr. Vimal Bhandari, Member (up to January 25, 2006)	5
3.	Mr. Atul Gupta, Member	5
4.	Mr. Rahul Bhasin, Member (w.e.f. April 20, 2006)	N.A.

All the members possess good knowledge of finance, accounts and basic elements of Company Law.

Date of Audit Committee Meetings

During the year under review, five Committee Meetings were held. The dates on which the Committee Meetings were held are as follows:

April 7, 2005, June 27, 2005, July 25, 2005, October 24, 2005 and January 24, 2006.

COMPENSATION & REMUNERATION COMMITTEE

Brief Description of Terms

The terms of reference of the Compensation & Remuneration Committee are to decide the term of services and compensation payable to Whole-time/ Managing Director(s) and to discharge such other functions as may be referred by the Board.

Composition of Committee

The Committee comprises of three directors. During the year under review, Mr. Vimal Bhandari had been appointed as Member of the Committee. Mr. R. Vasudevan, an independent director, is the Chairman of the Committee. The composition of the Compensation & Remuneration Committee and the details of meetings attended by the Directors are given below.

During the year under review, 3 (three) Compensation & Remuneration Committee meetings were held on June 27, 2005, July 25, 2005 and January 24, 2006.

Sr. No.	Name of Member and their position	No. of Committee Meetings attended
1.	Mr. R. Vasudevan, Chairman	3
2.	Mr. Vimal Bhandari, Member (up to January 25, 2006)	3
3.	Mr. Atul Gupta, Member	3
4.	Mr. Rahul Bhasin, Member (w.e.f. April 20, 2006)	N.A.

REMUNERATION POLICY

The Company while deciding the remuneration package takes into consideration, the following:-

(A) Employment scenario.

(B) Remuneration package of the industry/other industries for the requisite managerial talent.

(C) The qualification and experience being held by the appointee.

The Managing Director of the Company is to be appointed on a contractual basis subject to the approval of the shareholders as per the terms and conditions as decided by the Board of Directors of the Company.

The remuneration package of the Managing Director comprises of salary, allowances, perquisites and bonuses as approved by the shareholders at the Annual General Meeting held on September 23, 2003. The ceiling on perquisites and allowances as a percentage of salary is as stipulated by the approval of the shareholders.

During the year, the remuneration paid to the Managing Directors has amounted to Rs. 76,24,943/-.

During the year, the Company has not paid any commission to its Directors.

REMUNERATION PAID TO THE MANAGING DIRECTOR DURING THE YEAR 2005-06

Name	Salaries (Rs.)	Contribution to Provident Fund & Superannuation Fund (Rs.)	Other Perquisites (Rs.)	Total (Rs.)
Mr. Rakesh Jain	65,80,080	6,48,000	3,96,863	76,24,943

Period of Contract with Managing Director

- 3 years from August 1, 2003 (to expire on July 31, 2006).
- The Contract may be terminated by either party giving the other party three months' notice.

Directors of the Company are paid remuneration by way of sitting fees only for attending the meetings of the Board of Directors and its Committees. The details of sitting fees paid during the financial year 2005-06 to Directors is given below:

Sr. No.	Name of Director	Amount (Rs.)
1	Mr. R. Vasudevan	115,000
2	Mr. Deepak S. Parekh	10,000
3	Mr. Vimal Bhandari	95,000
4	Mr. Finian O'Sullivan	15,000
5	Mr. Atul Gupta	45,000
6	Mr. Rahul Bhasin	Nil

The Employee Stock Option Scheme shall not be applicable to the Promoter Director(s) or Director(s) who either by himself / themselves or through his / their relative or through any body corporate, directly or indirectly hold(s) more than 10% of the outstanding equity shares of the Company.

SHAREHOLDERS / INVESTORS GRIEVANCE COMMITTEE (SIGC)

The SIGC was constituted to specifically look into the shareholders / investors complaints pertaining to transfer and transmission of shares, issue of duplicate shares, non-receipt of balance sheet, dividends etc.

During the year under review, two SIGC meetings were held on June 27, 2005 and January 24, 2006.

Sr. No.	Name of Member and their position	No. of Committee Meetings attended
1	Mr. R. Vasudevan, Chairman	2
2	Mr. Rakesh Jain, Member	2
3	Mr. Atul Gupta, Member	2

The SIGC meetings are attended by the Company Secretary & Compliance Officer.

NAME, DESIGNATION AND ADDRESS OF COMPANY SECRETARY COMPLIANCE OFFICER :

Mr. Vikash Jain
Company Secretary, Tax & Legal Coordinator
Hindustan Oil Exploration Company Limited
'HOEC House', Tandalja Road
Vadodara - 390 020
Gujarat (India)
Email : hoecshare@hoec.com
Phone : 91 (265) 2330 766
Fax : 91 (265) 2333 567

Details of number of grievances received and resolved is as under:

Particulars	Total Grievances/ Complaints received	Total Grievances/ Complaints resolved	Pending Grievances/ Complaints as on 31-03-2006
Received from Investors	17	17	Nil
Referred by SEBI	47	47*	Nil
Referred by Stock Exchanges/ Depositories	09	09	Nil
RBI/Govt. Authorities	Nil	Nil	Nil

* 38 complaints have been fully resolved and the balance 9 complaints have been replied back seeking additional information necessary for the purpose. The same have been since resolved.

There are no grievance / complaints from shareholders remaining unresolved except disputed court cases etc. as every effort is maintained to immediately redress investors' grievances / complaints without loss of time. There were 22 (twenty two) pending share transfer requests for transfer of 2,550 shares as on March 31, 2006, which were effected in April 2006.

SHARE ALLOTMENT AND TRANSFER COMMITTEE

During the year, at the Board Meeting held on January 24, 2006, the Board of Directors has dissolved the Share Allotment and Transfer Committee with immediate effect. The powers of the said committee i.e. transfer of shares, splitting, consolidation, replacement, issue of duplicate certificate, dematerialisation, rematerialisation etc., has been delegated to Mr. Vikash Jain – Company Secretary, Tax & Legal Coordinator and Mr. Minesh Bhatt – Assistant Company Secretary.

OTHER COMMITTEES

In addition to the above Committees, there is also an Executive Committee with a view to consider and approve the terms and conditions of all the Production Sharing Contracts with the Government, proposal for change of Participating interest in the blocks, to issue / revise guidelines for the investment of the surplus funds of the Company and other directions / powers / authorities / mandates etc., of the Board as may be given from time to time.

The Committee consists of Mr. R Vasudevan, Mr. Rakesh Jain, Mr. Atul Gupta, Mr. Finian O'Sullivan and Mr. Rahul Bhasin. Mr. R Vasudevan is the Chairman of the Committee.

DETAILS OF GENERAL BODY MEETINGS

Location and Time where last three Annual General Meetings were held

Year	Location	Date	Time
2002-2003	"Tropicana Hall" Taj Residency Vadodara Akota Gardens Vadodara-20	September 23, 2003	3.00 p.m.
2003-2004	"Tropicana Hall" Taj Residency Vadodara Akota Gardens Vadodara-20	September 17, 2004	11.30 a.m.
2004-2005	"Chandarva" WelcomHotel Vadodara R.C.Dutt Road Alkapuri Vadodara-07	September 22, 2005	11.30 a.m.

NOTES

1. The details of the Special Resolutions passed at the AGM for the last 3 years are as under:

   (a) Substitution of Article 3 of the Articles of Association of the Company on account of increasing the Authorised Share Capital of the Company from Rs. 100 crore to Rs. 200 crore (19th AGM held on September 23, 2003).

   (b) Delisting of equity shares from all or any of stock exchanges namely; The Stock Exchange Ahmedabad, Bangalore Stock Exchange Limited, The Calcutta Stock Exchange Association Limited, The Delhi Stock Exchange

Association Limited and Madras Stock Exchange Limited (20th AGM held on September 17, 2004).

(c) Approval of Company's Employees Stock Option Scheme – 2005. (21st AGM held on September 22, 2005).

2. No special Resolution was passed through the postal ballot during the last three years. The Company is not anticipating any Special Resolution to be passed through Postal Ballot.

DISCLOSURES

1. Related Party Transactions are disclosed in the Notes to Accounts forming part of the Annual Report. None of the transactions with any of the related parties were in conflict with the interest of the Company.
2. There are no penalties, strictures imposed on the Company by Stock Exchange or SEBI or any statutory authority for non-compliance by the Company on any matter related to capital markets, during the last three years.
3. Whistle Blower policy being non mandatory, the Company has not adopted the same. No personnel have been denied access to the Audit Committee during the year.
4. All the mandatory requirements under Clause 49 of Listing Agreement in respect of Corporate Governance have been complied with. The Company is compliant with the non-mandatory requirements relating the Remuneration Committee and audit qualifications. In respect of adoption of other non-mandatory requirements, the Company will implement the same as and when required.

MEANS OF COMMUNICATION

The quarterly, half yearly / annual financial results are normally published in the Economic Times, Ahmedabad edition and Vadodara Samachar, Vadodara edition. The results along with official news release are promptly displayed on the Company's web site at www.hoec.com. Half-yearly reports are not sent to the shareholders. As the Company publishes the audited annual results within the stipulated period of three months as required by the listing agreement with the Stock Exchanges and hence the unaudited results for the last quarter of the financial year are not published. The Company has also posted information relating to its financial results, shareholding patterns, corporate governance report etc., on Electronic Data Information Filing and Retrieval System (EDIFAR) at www.sebiedifar.nic.in. No presentations were made to institutional investors or to the analysts during the year under review.

Management Discussion & Analysis forms part of the Annual Report.

GENERAL SHAREHOLDERS INFORMATION

1.	Day, Date, Time and Venue of 22nd Annual General Meeting	Thursday, September 28, 2006 at 10.30 a.m. at 'Tropicana Hall', Taj Residency Vadodara Akota Gardens Vadodara-390 020
2.	Financial Year Calendar	Results for the quarter ending on : June 30, 2006 : July 2006 September 30, 2006 : October 2006 December 31, 2006 : January 2007 March 31, 2007 : June 2007
3.	Book Closure Dates	Friday, August 25, 2006 to Monday, August 28, 2006 (both days inclusive)
4.	Dividend Payment Date	Dividend, if declared by the members shall be paid from Tuesday the October 03, 2006 onwards

EQUITY SHARES OF THE COMPANY ARE LISTED AT FOLLOWING STOCK EXCHANGES

1. Bombay Stock Exchange Limited (BSE)
2. National Stock Exchange of India Limited. (NSE)

The Company has paid annual listing fees for the Financial Year 2006-07 to the said Stock Exchanges and annual maintenance / custodial charges/fees paid to the National Securities and Depositories Limited (NSDL) and Central Depository Services (India) Limited (CDSL).

Stock Code:

Bombay Stock Exchange	(BSE) : 500186
National Stock Exchange of India Limited	(NSE) : HINDOILEXP Series : Eq.

The International Security Identification Number (ISIN) of the Company's equity shares with NSDL and CDSL is INE345A01011.

STOCK MARKET DATA: BSE – B1 GROUP

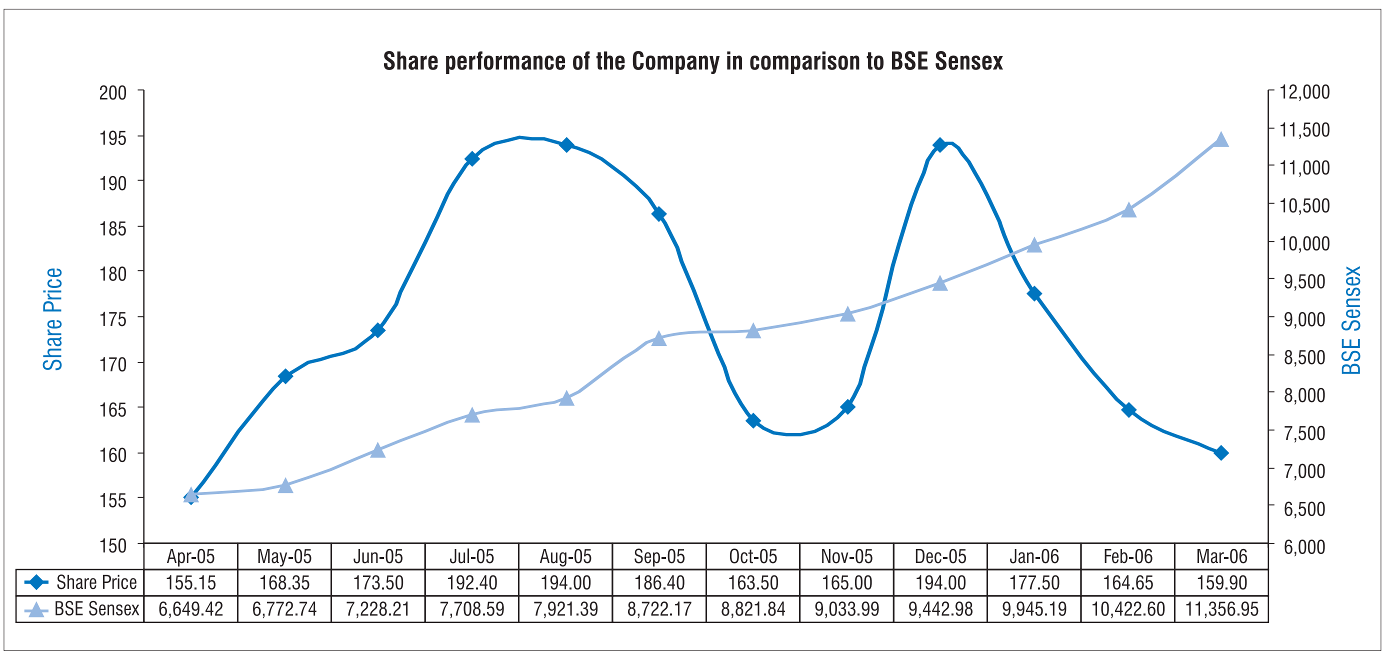
Period	High Rs.	Low Rs.	BSE Sensex (High)
April-2005	155.15	102.50	6,649.42
May-2005	168.35	133.65	6,772.74
June-2005	173.50	150.85	7,228.21
July-2005	192.40	155.35	7,708.59
August-2005	194.00	165.00	7,921.39
September-2005	186.40	153.55	8,722.17
October-2005	163.50	118.20	8,821.84
November-2005	165.00	123.55	9,033.99
December-2005	194.00	153.00	9,442.98
January-2006	177.50	151.00	9,945.19
February-2006	164.65	143.20	10,422.65
March-2006	159.90	137.50	11,356.95

REGISTRARS AND SHARE TRANSFER AGENT

Intime Spectrum Registry Limited
Unit : Hindustan Oil Exploration Company Limited
1st Floor, 308, Jaldhara Complex
Opp. Manisha Society, Vasna Road
Off Old Padra Road
Vadodara – 390 015 (Gujarat) India
Tel : 91-0265-2250241, 3249857
Telefax : 91-0265-2250246
Email : vadodara@intimespectrum.com

SHARE TRANSFER & DEMAT SYSTEM

- Share Transfer in physical form requests are presently registered and returned within a period of 21 days from the date of receipt and request for dematerialisation, rematerialisation generally confirmed within a period of 21 days from the date of its receipt, if documents are complete in all respect.
- As on March 31, 2006 Company has dematerialized 40,414,601 equity shares which is 68.80 % of the total equity shares.



DISTRIBUTION OF SHAREHOLDING AS ON MARCH 31, 2006

CATEGORY	PHYSICAL		NSDL		CDSL		TOTAL	
	No. of Share-holders	No. of Shares	No. of Share-holders	No. of Shares	No. of Share-holders	No. of Shares	No. of Share-holders	No. of Shares
1 to 5,000	15,732	2,947,006	27,122	8,997,206	5,386	1,513,559	48,240	13,457,771
5,001 to 10,000	2	10,995	152	1,132,371	29	210,844	183	1,354,210
10,001 to 20,000	0	0	75	1,119,411	5	69,834	80	1,189,245
20,001 to 30,000	1	20,700	34	860,409	3	75,182	38	956,291
30,001 to 40,000	0	0	10	357,356	2	67,050	12	424,406
40,001 to 50,000	0	0	11	514,994	1	40,400	12	555,394
50,001 to 1,00,000	1	70,000	18	1,457,886	1	58,241	20	1,586,127
Above 1,00,000	1	15,281,633	29	23,779,858	1	160,000	31	39,221,491
TOTAL	15,737	18,330,334	27,451	38,219,491	5,428	2,195,110	48,616	58,744,935

Outstanding ADR/GDR etc.: - Not Applicable

Plant Location:

The Company is not in the business of manufacturing activity and hence does not have any plant. The Company is in the business of Oil and Gas exploration, development & production and at present operating at various fields as mentioned elsewhere in the Annual Report.

ADDRESS FOR CORRESPONDENCE

SECRETARIAL DEPARTMENT
HINDUSTAN OIL EXPLORATION COMPANY LIMITED
'Lakshmi Chambers', 192, St. Mary's Road, Alwarpet,
Chennai - 600 018. Tamil Nadu (INDIA)
Phone : +91-(044) 66229000
Fax : +91-(044) 66229011/12, 24993222
E-mail : hoecshare@hoec.com

For and on behalf of the Board

Place : New Delhi
Date : July 29, 2006

R. Vasudevan
Chairman

DECLARATION ABOUT CODE OF CONDUCT

I hereby declare that all the members of the Board and the senior management personnel of the Company have affirmed compliance with the HOEC Code of Conduct.

For and on behalf of the Board

Place : New Delhi
Date : July 29, 2006

R. Vasudevan
Chairman

CORPORATE GOVERNANCE CERTIFICATE

TO THE MEMBERS OF
HINDUSTAN OIL EXPLORATION COMPANY LIMITED

I have examined the compliance of conditions of Corporate Governance by M/s. Hindustan Oil Exploration Company Limited, a Company having Registered Office at "HOEC House", Tandalja Road, Vadodara 390 020, for the Financial Year ended March 31, 2006, as stipulated under revised Clause 49 of the Listing Agreement(s) which came into effect from January 1, 2006 of the said Company with the Stock Exchange(s) in India.

The compliance of the conditions of Corporate Governance is the responsibility of the Company's Management. My examination was limited to the procedures and implementation thereof, adopted by the Company for ensuring the compliance of the conditions of Corporate Governance. In my opinion and to the best of my information and according to the explanations given to me, the Company has complied with the conditions of Corporate Governance as stipulated in the above mentioned Listing Agreement.

I further state such compliance is neither an assurance as to the future viability of the Company nor efficiency or effectiveness with which the management has conducted the affirms of the Company.

Place : Vadodara
Date : July 29, 2006

NIRAJ TRIVEDI
Company Secretary
CP No. 3123

AUDITORS' REPORT

TO THE MEMBERS OF
HINDUSTAN OIL EXPLORATION COMPANY LIMITED

1. We have audited the attached Balance Sheet of HINDUSTAN OIL EXPLORATION COMPANY LIMITED as at March 31, 2006, the Profit and Loss Account and the Cash Flow Statement of the Company for the year ended on that date, both annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

2. We conducted our audit in accordance with the auditing standards generally accepted in India. These Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

3. As required by the Companies (Auditor's Report) Order, 2003, (CARO) issued by the Government in terms of Section 227(4A) of the Companies Act, 1956, we give in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order. Our comments in the Annexure exclude matters relating to the Company's joint ventures, which are not subject to audit under the Companies Act, 1956.

4. (a) The Accounts have been drawn up in accordance with the statement of Significant Accounting Policies (Schedule 13). Accounting Policy 2 relating to "Successful Efforts Method" and the treatment of exploration and development costs are significant to the oil and gas exploration and production industry.

   (b) Categorisation of the wells as exploratory and producing and the depletion of producing wells on the basis of proved developed hydro carbon reserves and accrual of estimated site restoration liability on the basis of proved hydrocarbon reserves are made according to technical evaluation by the management, on which we have placed reliance.

5. (a) The accounts include assets aggregating Rs.2,912,402,900, liabilities aggregating Rs.122,963,004, income aggregating Rs.142,641 and expenditure aggregating Rs.161,428,822 relating to the Company's share in six joint ventures, which have been incorporated on the basis of accounts audited by other auditors.

   (b) *In respect of three non-producing joint ventures, exploration expenditure aggregating Rs.422,335,001, other assets aggregating Rs.17,134,781 and liabilities aggregating Rs.12,356,143 have been incorporated on the basis of the information available, in the absence of audited accounts. Accounts of two of the three joint ventures have been audited upto March 31, 2005.*

6. Further to our comments in the Annexure referred to in paragraph 3 above, we report that:

   a. we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit, *except for audited financial information relating to the three joint ventures for the year ended March 31, 2006 referred to in paragraph 5(b) above.*

   b. in our opinion, proper books of account as required by law have been kept by the Company so far as it appears from our examination of those books;

   c. the Balance Sheet, the Profit and Loss Account and the Cash Flow Statement dealt with by this report are in agreement with the books of account;

   d. In our opinion, the Balance Sheet, the Profit and Loss Account and the Cash Flow Statement dealt with by this report are in compliance with the Accounting Standards referred to in Section 211(3C) of the Companies Act, 1956;

   e. in our opinion and to the best of our information and according to the explanations given to us, the said accounts, subject to the non-disclosure of the amounts payable to Small Scale Industrial undertakings and particulars of stores consumption as stated in Notes 5 and 13(b) respectively of Schedule 14, give the information required by the Companies Act, 1956, in the manner so required and *subject to our comments in paragraph 5(b) to the extent of the unaudited amounts stated therein*, give a true and fair view in conformity with the accounting principles generally accepted in India:

(i) in the case of the Balance Sheet, of the state of affairs of the Company as at March 31, 2006;

(ii) in the case of the Profit and Loss Account, of the profit of the Company for the year ended on that date and

(iii) in the case of Cash Flow Statement, of the cash flows of the Company for the year ended on that date.

7. According to the information and explanations given to us and on the basis of the written representations from the Directors as at March 31, 2006 and taken on record by the Board of Directors, none of the directors is disqualified as at March 31, 2006 from being appointed as a director under Section 274(1)(g) of the Companies Act, 1956.

For S. B. BILLIMORIA & CO.
Chartered Accountants

Nalin M. Shah
Partner
(Membership No. 15860)

Place : London, England
Date : May 23, 2006

ANNEXURE TO THE AUDITORS' REPORT

(Referred to in paragraph 3 of our report of even date)

(i) Considering the nature of the Company's business/ activities during the year and read together with our comment in para 3 of our report relating to joint ventures, clauses 4(ii), 4(viii), 4(x), 4(xii), 4(xiii), 4(xiv), 4(xviii), 4(xix) and 4(xx) of CARO are not applicable.

(ii) In respect of its fixed assets:

(a) The Company has maintained records showing full particulars, including quantitative details and situation of fixed assets upto March 31, 2005. In respect of additions during the year, the Company is in the process of updating its fixed assets register.

(b) The Management has a programme of physical verification of assets, which in our opinion, provides for verification of the fixed assets at reasonable intervals. According to the information and explanations given to us, no physical verification was carried out in the current year.

(c) The fixed assets disposed off during the year, in our opinion, do not constitute a substantial part of the fixed assets of the Company and such disposal has, in our opinion, not affected the going concern status of the Company.

(iii) According to the information and explanations given to us, the Company has not taken any loans from Companies, firms or other parties covered in the Register maintained under Section 301 of the Companies Act, 1956. In respect of unsecured loans granted by the Company to Companies, firms or other parties covered in the Register maintained under Section 301 of the Companies Act, 1956.

(a) The Company has granted loans to one such party. At the year end, the outstanding balance of such loan granted aggregated Rs. Nil and the maximum amount involved during the year was Rs. 195,000,000.

(b) The rate of interest and other terms and conditions of such loans are, in our opinion, *prima facie* not prejudicial to the interests of the Company.

(c) The receipt of principal amounts and interest has, during the year, been regular as per stipulations.

(d) There were no overdue amounts of over Rs. 1 lakh remaining outstanding at the year end.

(iv) In our opinion and according to the information and explanations given to us, there is an adequate internal control system commensurate with the size of the Company and the nature of its business for the purchase of fixed assets and for the sale of goods and services. We have not observed any significant continuing failure to correct major weaknesses in such internal controls.

(v) To the best of our knowledge and belief and according to the information and explanations given to us, there were no contracts or arrangements (other than loans reported in clause (iii) above) that needed to be entered in the register maintained in pursuance of Section 301 of the Companies Act 1956.

(vi) The Company has not accepted any deposit from the public.

(vii) In our opinion, the internal audit functions carried out during the year by a firm of Chartered Accountants appointed by the Management have been commensurate with the size of the Company and the nature of its business.

(viii) According to the information and explanations given to us in respect of Statutory dues:

(a) The Company has generally been regular in depositing undisputed statutory dues, including Provident Fund, Investor Education and Protection Fund, Income-Tax, Sales-Tax, Wealth-Tax, Service-Tax, Customs Duty, Cess and other material statutory dues with the appropriate authorities during the year.

(b) There were no undisputed amounts payable in respect of the above dues outstanding as at March 31, 2006 for a period of more than 6 months from the date they became payable.

(c) According to the information and explanations given to us, details of disputed dues which have not been deposited as on March 31, 2006 are as follows:

Name of statute	Nature of the dues	Assessment Year	Amount (Rs.)	Forum where Dispute is Pending
Income-Tax Act, 1961	Tax and Interest	1994-1995	213,412	Income-Tax Appellate Tribunal
		2003-2004	115,599,390	Commissioner of Income-Tax (Appeals)

(ix) In our opinion and according to the information and explanations given to us, the Company has not defaulted in the repayment of dues to a bank.

(x) In our opinion and according to the information and explanations given to us, the terms and conditions of the guarantees given by the Company for loans taken by others from a financial institution, are *prima-facie* not prejudicial to the interest of the Company.

(xi) To the best of our knowledge and belief and according to the information and explanations given to us, no term loans were availed by the Company during the year.

(xii) According to the information and explanations given to us, the Company has not raised funds on short-term basis.

(xiii) To the best of our knowledge and belief and according to the information and explanations given to us, no fraud on or by the Company was noticed or reported during the year.

For S. B. BILLIMORIA & CO.
Chartered Accountants

Nalin M. Shah
Partner
(Membership No. 15860)

Place : London, England
Date : May 23, 2006

Balance Sheet as at March 31,

in Rupees

	Schedule		2006	2005
SOURCES OF FUNDS				
SHAREHOLDERS' FUNDS				
Share Capital	1		587,609,465	587,609,465
Reserves and Surplus	2		1,824,068,359	1,716,132,829
Secured Loans	3		163,000,000	275,000,000
			2,574,677,824	2,578,742,294
APPLICATION OF FUNDS				
FIXED ASSETS	4			
Gross Block		2,928,949,772		2,340,230,352
Less : Depreciation, Amortisation and Depletion		1,075,174,411		982,036,799
NET BLOCK			1,853,775,361	1,358,193,553
INVESTMENTS	5		5,050,154	54,304,214
DEFERRED TAX ASSET (NET)			176,231,000	91,231,000
CURRENT ASSETS, LOANS AND ADVANCES	6	1,560,220,605		1,814,656,816
Less : CURRENT LIABILITIES AND PROVISIONS	7	1,020,886,796		740,218,289
NET CURRENT ASSETS			539,333,809	1,074,438,527
MISCELLANEOUS EXPENDITURE				
(to the extent not written off or adjusted)				
Share Issue Expenses		287,500		575,000
			287,500	575,000
			2,574,677,824	2,578,742,294
Accounting Policies	13			
Notes forming part of the Accounts	14			
Schedules 1 to 14 annexed hereto form part of the Accounts.				

In terms of our report of even date attached.

For S.B. BILLIMORIA & CO.
Chartered Accountants

Nalin M. Shah
Partner

Place: London, England
Date : May 23, 2006

R. Vasudevan
Chairman

Manish Maheshwari
Chief Financial Officer

Rakesh Jain
Managing Director

Vikash Jain
Company Secretary,
Tax & Legal Co-ordinator

Atul Gupta
Finian O'Sullivan
Rahul Bhasin
Directors

Place: London, England
Date : May 23, 2006

Profit and Loss Account for the year ended March 31,

in Rupees

	Schedule	2006	2005
INCOME			
Sales	8	942,442,081	855,347,729
Increase in stock of Crude Oil (Refer Note 13a(ii))		27,086,408	2,877,864
Other Income	9	54,686,616	69,191,106
		1,024,215,105	927,416,699
EXPENDITURE AND CHARGES			
Field Operating Expenses	10	170,623,662	168,103,536
Depletion of Producing Properties		69,832,624	77,816,188
Corporate Expenses	11	78,139,157	60,754,703
Depreciation and Amortisation		8,118,180	10,240,832
Interest and Finance Charges		18,186,919	16,297,374
Provisions and write offs / (Write Back)	12	418,635,120	(15,910,608)
		763,535,662	317,302,025
PROFIT BEFORE TAX		260,679,443	610,114,674
Less : Provision for Current Income Tax		168,000,000	195,000,000
(Less) / (Add) : Provision for Deferred Tax		(85,000,000)	30,200,000
Less : Provision for Wealth Tax		160,000	78,000
Less : Fringe Benefit Tax		2,600,000	0
PROFIT AFTER TAX		174,919,443	384,836,674
Profit brought forward		710,497,791	392,645,030
PROFIT AVAILABLE FOR APPROPRIATION		885,417,234	777,481,704
APPROPRIATIONS :			
Proposed Dividend		58,744,935	58,744,935
Tax thereon		8,238,978	8,238,978
Balance carried to Balance Sheet		818,433,321	710,497,791
		885,417,234	777,481,704
Earning per share of Rs.10 face value (basic and diluted)		Rs. 2.98	Rs. 6.55
Schedules 1 to 14 annexed here to form part of the Accounts.			

In terms of our report of even date attached.

For S.B. BILLIMORIA & CO.
Chartered Accountants

Nalin M. Shah
Partner

Place : London, England
Date : May 23, 2006

R. Vasudevan
Chairman

Manish Maheshwari
Chief Financial Officer

Place : London, England
Date : May 23, 2006

Rakesh Jain
Managing Director

Vikash Jain
Company Secretary,
Tax & Legal Co-ordinator

Atul Gupta
Finian O'Sullivan
Rahul Bhasin
Directors

Cash Flow Statement for the year ended March 31,

in Rupees

		2006	2005
A.	CASH FLOW FROM OPERATING ACTIVITIES		
	Net Profit Before Tax	260,679,443	610,114,674
	Adjustments for :		
	Provision for :		
	Loss / (Gain) on revaluation of current investments	0	(8,282,864)
	Leave Encashment	(106,000)	(509,000)
	Provision for Contingencies	0	(396,574)
	Provision for Doubtful Claims	0	(2,726,805)
	Provision for Diminution of value of Investment	0	(5,000,199)
	Depreciation / Depletion	77,950,804	88,057,021
	Exploration Expenses written off	418,347,620	0
	Other Miscellaneous Expenses written off	287,500	495,834
	Dividend / Interest Income	(48,614,998)	(59,398,083)
	(Profit) / Loss on sale of Assets	268,615	(74,546)
	(Profit) / Loss on sale of Investment	(375,863)	2,809,279
	Unrealized Exchange (Gain) / Loss	1,347,192	0
	Interest and Finance Charges	18,186,919	16,297,374
	OPERATING PROFIT BEFORE WORKING CAPITAL CHANGES	727,971,232	641,386,111
	Adjustments for :		
	Trade and Other Receivables	78,496,942	(178,981,324)
	Inventories	(101,281,710)	(19,807,960)
	Payables	(66,286,940)	71,410,118
	CASH FROM OPERATIONS	638,899,524	514,006,945
	Taxes paid	(149,773,398)	(194,038,106)
	NET CASH FROM OPERATING ACTIVITIES	489,126,126	319,968,839
B.	CASH FLOW FROM INVESTING ACTIVITIES		
	Purchase of Fixed Assets	(522,123,107)	(406,687,096)
	Insurance Claim on replacement well	0	64,144,438
	Proceeds from sale of Fixed Assets	1,675,742	3,005,553
	Exploration Expenses Incurred	(297,762,657)	(271,718,704)
	Purchase of Current Investments	(491,845,280)	(727,022,255)
	Proceed from Sale of Current Investments	541,475,203	867,492,759
	Loan Repaid by Subsidiary	5,012,500	0
	Dividend / Interest received	49,559,696	61,605,550
	(Increase) / Decrease in Inter Corporate Deposits	95,000,000	(45,000,000)
	NET CASH USED IN INVESTING ACTIVITIES	(619,007,903)	(454,179,755)
C.	CASH FLOW FROM FINANCING ACTIVITIES		
	Secured Loan Taken	0	350,000,000
	Secured Loan Repaid	(112,000,000)	(75,000,000)
	Interest and Finance Charges Paid	(18,186,919)	(16,297,374)
	Dividend Paid (including tax thereon)	(65,968,484)	(65,099,403)
	NET CASH (USED IN) / FROM FINANCING ACTIVITIES	(196,155,403)	193,603,223
	NET INCREASE / (DECREASE) IN CASH OR CASH EQUIVALENTS	(326,037,180)	59,392,307
	Cash, Cash Equivalents :		
	Opening Balance	1,057,119,584	997,727,277
	Closing Balance	731,082,404	1,057,119,584
		(326,037,180)	59,392,307
	Cash and Bank balance as per Schedule 6	731,082,404	927,119,584
	Inter Corporate Deposits as per Schedule 6	0	225,000,000
	Less : Inter Corporate Deposits placed for more than 90 days	0	95,000,000
		0	130,000,000
	Total Cash or Cash equivalents as at March 31, 2006	731,082,404	1,057,119,584

In terms of our report of even date attached.

For S.B. BILLIMORIA & CO.
Chartered Accountants

Nalin M. Shah
Partner

Place : London, England
Date : May 23, 2006

R. Vasudevan
Chairman

Manish Maheshwari
Chief Financial Officer

Place : London, England
Date : May 23, 2006

Rakesh Jain
Managing Director

Vikash Jain
Company Secretary,
Tax & Legal Co-ordinator

Atul Gupta
Finian O'Sullivan
Rahul Bhasin
Directors

AUDITORS' CERTIFICATE

We have verified the Cash Flow Statement of HINDUSTAN OIL EXPLORATION COMPANY LIMITED for the year ended March 31, 2006, which has been derived from the audited accounts of the Company for the years ended March 31, 2006 and March 31, 2005 and have found the same to have been drawn up in accordance therewith and with the requirements of Clause 32 of the listing agreement with the stock exchanges.

For S. B. BILLIMORIA & CO.
Chartered Accountants
Nalin M. Shah
Partner
(Membership No.15860)

Place : London, England
Date : May 23, 2006

Schedules to the Balance Sheet as at March 31,

in Rupees

	2006	2005
SCHEDULE 1		
SHARE CAPITAL		
AUTHORISED		
200,000,000 Equity Shares of Rs. 10 each	2,000,000,000	2,000,000,000
ISSUED		
58,777,910 Equity Shares of Rs. 10 each	587,779,100	587,779,100
SUBSCRIBED AND PAID-UP		
58,744,935 Equity Shares of Rs. 10 each fully paid	587,449,350	587,449,350
Add : Amount paid-up on shares forfeited	160,115	160,115
	587,609,465	587,609,465
SCHEDULE 2		
RESERVES AND SURPLUS		
Securities Premium	1,001,765,038	1,001,765,038
General Reserve	3,870,000	3,870,000
Balance in Profit and Loss Account	818,433,321	710,497,791
	1,824,068,359	1,716,132,829
SCHEDULE 3		
SECURED LOANS		
Loan From Bank	163,000,000	275,000,000
(Borrowings are secured by way of charge on Company's Participating Interest in PY-3 Field, first charge on Company's share of Crude Oil receivable from PY-3 field and charge on Debt Service Reserves Account)		
	163,000,000	275,000,000

Schedules to the Balance Sheet as at March 31,

SCHEDULE 4
FIXED ASSETS

in Rupees

Name of the Assets	GROSS BLOCK				DEPRECIATION, DEPLETION and AMORTISATION				NET BLOCK	
	As at April 1, 2005	Additions during the year	Deductions/ Adjustments during the year	As at March 31, 2006	As at April 1, 2005	For the Year	Deductions during the year	As at March 31, 2006	As at March 31, 2006	As at March 31, 2005
Producing Properties	1,023,611,001	324,187,606 #	854,629	1,346,943,978	860,963,937	69,832,624	0	930,796,561	416,147,417	162,647,064
OTHER FIXED ASSETS :										
Land – Freehold	3,444,512	0	0	3,444,512	0	0	0	0	3,444,512	3,444,512
Buildings	44,551,324	0	0	44,551,324	19,966,098	1,251,901	0	21,217,999	23,333,325	24,585,226
Office Equipments	13,285,463	6,705,034	0	19,990,497	8,708,286	1,654,628	0	10,362,914	9,627,583	4,577,177
Computers	10,737,346	5,566,034	0	16,303,380	7,298,637	3,807,060	0	11,105,697	5,197,683	3,438,709
Office Furniture	9,615,141	6,049,283	0	15,664,424	7,483,736	3,085,927	0	10,569,663	5,094,761	2,131,405
Improvements to Leasehold Premises	0	8,032,485	0	8,032,485	0	3,651,130	0	3,651,130	4,381,355	0
Plant & Machinery	72,114,915	2,301,642	1,675,742	72,740,815	61,394,103	3,660,402	854,629	64,199,876	8,540,939	10,720,812
Vehicles	7,211,063	2,367,866	659,932	8,918,997	3,840,936	1,416,022	391,317	4,865,641	4,053,356	3,370,127
Intangible Assets – Software	18,755,266	5,709,248	0	24,464,514	12,381,066	6,023,864	0	18,404,930	6,059,584	6,374,200
Total (A)	1,203,326,031	360,919,198	3,190,303	1,561,054,926	982,036,799	94,383,558 *	1,245,946	1,075,174,411	485,880,515 @	221,289,232 @
Previous year	1,045,423,009	163,904,919	6,001,897	1,203,326,031	848,134,646	136,605,627 *	2,703,474	982,036,799	221,289,232 @	197,288,362
Capital Work in Progress										
Development Expenditure	677,174,023	498,521,982	110,414,180	1,065,281,825	0	0	0	0	1,065,281,825	677,174,023
Exploration Expenditure	459,730,298	297,762,657	454,879,934	302,613,021	0	0	0	0	302,613,021	459,730,298
Total (B)	1,136,904,321	796,284,639	565,294,114	1,367,894,846	0	0	0	0	1,367,894,846	1,136,904,321
Previous year	605,407,766	668,738,790	137,242,235	1,136,904,321	0	0	0	0	1,136,904,321	605,407,766
GRAND TOTAL (A + B)	2,340,230,352	1,157,203,837	568,484,417	2,928,949,772	982,036,799	94,383,558	1,245,946	1,075,174,411	1,853,775,361	1,358,193,553
Previous year	1,650,830,774	832,643,709	143,244,132	2,340,230,352	848,134,646	136,605,627	2,703,474	982,036,799	1,358,193,553	802,696,128
Fixed Assets include the Company's share in Joint Venture Assets	2,238,544,107	1,153,545,898	567,824,485	2,824,265,520	926,371,998	86,265,378	854,629	1,011,782,747	1,812,482,773	1,312,172,109

* including Rs. 3,302,287 (previous year: Rs. 5,844,947) charged to Producing Properties and Rs. 13,130,467 (previous year: Rs. 54,205) to Development Expenditure, and Rs. Nil (previous year: Rs. 36,223) charged to Exploration Expenditure.

@ including Rs. 8,906,390 (previous year: Rs. 12,192,175) considered for depletion of Producing Properties.

includes Rs. 248,767,808 (previous year Rs. 42,613,229) increase in undiscounted estimated future Site Restoration cost of producing field capitalised.

Schedules to the Balance Sheet as at March 31,

in Rupees

	2006	2005
SCHEDULE 5		
INVESTMENTS (FULLY PAID)		
TRADE		
LONG TERM		
IN SUBSIDIARY COMPANY		
50,002 Equity Shares of Rs. 100 each of HOEC Bardahl India Ltd.	5,000,200	5,000,200
QUOTED		
318 Equity Shares of Rs. 10 each of Reliance Industries Ltd.	25,975	49,953
318 Equity Shares of Rs. 5 each of Reliance Communication Ventures Ltd.*	19,332	0
318 Equity Shares of Rs. 10 each of Reliance Energy Ventures Ltd.*	3,647	0
318 Equity Shares of Rs. 10 each of Reliance Capital Ventures Ltd.*	649	0
318 Equity Shares of Rs. 5 each of Reliance Natural Resources Ltd.*	350	0
UNQUOTED		
100,000 Equity Shares of Rs. 10 each of Gujarat Securities Ltd.	1,000,000	1,000,000
CURRENT		
UNQUOTED		
– (31.03.05 : 362,836.084) Units of Rs. 10 each of HDFC-Liquid Fund	0	3,668,489
– (31.03.05 : 1,036,604.025) Units of Rs. 10 each of HDFC-Liquid Fund Premium Plus Plan	0	12,541,757
– (31.03.05 : 2,788,178.124) Units of Rs. 10 each of Prudential ICICI Liquid Plan	0	33,043,814
	6,050,153	55,304,213
Less : Provision for Diminution in value of Investments	999,999	999,999
	5,050,154	54,304,214
Aggregate amount of quoted investments	49,953	49,953
Market value of quoted investments	383,412	172,674
Aggregate cost of unquoted investments	6,000,200	55,254,260
* Received on split during the year		

Schedules to the Balance Sheet as at March 31,

in Rupees

		2006	2005
SCHEDULE 6			
CURRENT ASSETS, LOANS AND ADVANCES			
OTHER CURRENT ASSETS			
Interest accrued on Deposits		3,701,211	4,645,908
INVENTORIES			
Crude Oil	83,697,888		56,611,480
Stores and Spares	98,452,080		24,256,778
		182,149,968	80,868,258
SUNDRY DEBTORS (Unsecured, considered good)			
Due for more than six months	9,598		0
Due for less than six months	86,583,155		107,520,470
		86,592,753	107,520,470
CASH AND BANK BALANCES			
Cash on hand	178,502		147,111
With Scheduled Banks			
Current Accounts	99,705,314		55,329,231
Deposit Accounts (See Note 1)	629,096,859		871,611,293
With Non-scheduled Banks			
Current Accounts (See Note 2)	2,101,729		31,949
		731,082,404	927,119,584
LOANS AND ADVANCES			
Considered good (See Note 3)			
Loans and Advances to the subsidiary	0		5,012,500
Advances recoverable in cash or in kind or			
for value to be received	50,442,865		43,867,652
Claims Recoverable	0		64,144,438
Inter-Corporate Deposits	0		225,000,000
Advance Taxes	506,251,404		356,478,006
		556,694,269	694,502,596
Considered doubtful (See Note 4)	15,556,856		15,556,856
Less : Provision for Doubtful Advances / Claims	15,556,856		15,556,856
		0	0
		1,560,220,605	1,814,656,816

Schedules to the Balance Sheet as at March 31,

in Rupees

	2006	2005
SCHEDULE 7		
CURRENT LIABILITIES AND PROVISIONS		
CURRENT LIABILITIES		
Sundry Creditors (See Note 5)	212,926,085	278,373,234
Investor Education and Protection Fund		
Unpaid Dividend #	5,405,052	4,389,623
Other Liabilities	1,046,114	1,885,905
	219,377,251	284,648,762
PROVISIONS		
Provision for Leave Encashment	1,857,000	1,963,000
Provision for Site Restoration	250,115,000	74,828,982
Provision for Taxation	482,553,632	311,793,632
Proposed Dividend (including tax thereon)	66,983,913	66,983,913
	801,509,545	455,569,527
	1,020,886,796	740,218,289

This does not include any amount due and outstanding, to be credited to the Investor Education and Protection Fund.

Schedules to the Profit and Loss Account for the year ended March 31,

in Rupees

	2006	2005
SCHEDULE 8		
SALES		
Sale of Crude Oil and Gas	1,148,529,893	934,812,646
Less : Profit Petroleum to Government of India	206,087,812	79,464,917
	942,442,081	855,347,729
SCHEDULE 9		
OTHER INCOME		
Interest Income (Gross) (See Note 6) (Tax deducted at source Rs. 10,290,499 (Previous Year : Rs. 11,188,102))	45,967,334	54,674,159
Dividend from Current Investments	2,645,280	4,722,254
Dividend from Long Term Investments	2,385	1,670
Net Profit on Sale of Assets	0	74,546
Profit on Sale of Current Investments	375,863	0
Gain on foreign exchange fluctuation	5,116,965	0
Miscellaneous Income	578,789	9,718,477
	54,686,616	69,191,106

Schedules to the Profit and Loss Account for the year ended March 31,

in Rupees

		2006	2005
SCHEDULE 10			
FIELD OPERATING EXPENSES			
Hire Charges		128,340,160	121,344,595
Insurance		9,194,840	10,759,137
Fuel, Water and Others		442,076	2,834,906
Production Expenses		20,131,254	19,981,299
Other Expenses		8,013,627	8,120,813
Royalty, Cess & Processing Charges		4,501,705	5,062,786
		170,623,662	168,103,536
SCHEDULE 11			
CORPORATE EXPENSES			
(A) STAFF EXPENSES			
Salaries, Allowances and Bonus		56,164,947	39,499,599
Voluntary Retirement Compensation		2,762,705	0
Contribution to Provident and Other Funds		4,948,811	3,832,220
Welfare Expenses		2,891,998	2,055,975
		66,768,461	45,387,794
(B) ESTABLISHMENT EXPENSES			
Rates and Taxes		175,516	422,014
Repairs and Maintenance - Others		8,074,717	6,217,459
General Office Expenses		691,921	910,620
Office and Guest House Rent		5,969,693	0
Electricity		2,665,279	1,929,856
		17,577,126	9,479,949
(C) OTHER EXPENSES			
Advertisement and Publicity		46,488	151,217
Auditors' Remuneration #			
Audit Fees	765,000		730,000
Tax Matters	1,060,000		115,000
Other Matters	9,000		50,864
Reimbursement of Expenses	214,575		76,150
Service Tax	104,040		85,090
		2,152,615	1,057,104

Schedules to the Profit and Loss Account for the year ended March 31,

in Rupees

	2006	2005
SCHEDULE 11 *(Contd.)*		
Bank Charges and Commission	3,218,731	1,068,617
Books and Periodicals	169,609	102,313
Computer Expenses	633,703	1,125,700
Directors' Fees	280,090	345,000
Stamp duty and Filing Fees	0	6,050
Insurance	193,891	146,231
Travelling and Conveyance	8,210,972	6,869,963
Communication Expenses	4,386,410	2,837,667
Legal and Professional Expenses	34,667,740	20,571,849
Membership and Subscription	717,580	735,462
Printing and Stationery	3,563,757	2,646,966
Loss on foreign exchange fluctuation (Net)	0	485,014
Loss on Sale / Discard of Assets	268,615	0
Loss on Sale of Current Investments	0	2,809,279
Miscellaneous Expenses	8,224,934	5,051,292
	66,735,135	46,009,724
(D) TOTAL CORPORATE EXPENSES (A+B+C)	151,080,722	100,877,467
(E) Less : RECOVERY OF EXPENSES	72,941,565	40,122,764
	78,139,157	60,754,703
# Auditors' Remuneration excludes Rs.150,000 paid to a firm in which some partners of the audit firm are partners.		
SCHEDULE 12		
PROVISIONS AND WRITE OFFS / (WRITE BACKS)		
Provision for loss on revaluation of current investments	0	(8,282,864)
Provision for Contingencies	0	(396,574)
Provision for Doubtful Claims	0	(2,726,805)
Exploration Expenses written off (See Note 2 of Schedule 13)	418,347,620	0
Share Issue Expenses written off	287,500	287,500
Deferred Revenue Expenditure written off (Signature Bonus)	0	208,334
Provision for Diminution in the value of Investment	0	(5,000,199)
	418,635,120	(15,910,608)

Schedules to the Financial Statements for the year ended March 31, 2006

SCHEDULE 13

SIGNIFICANT ACCOUNTING POLICIES

1. Accounting Convention

   The Accounts of the Company have been prepared using the accrual concept on a going concern basis consistently.

2. Exploration and Development Costs

   The Company generally follows the "Successful Efforts'' method of accounting for its exploration and production activities as explained below:

   (i) Cost of exploratory wells, including survey costs, is expensed in the year when determined to be dry/abandoned or is transferred to the producing properties on attainment of commercial production.

   (ii) Cost of temporary occupation of land, successful exploratory wells, development wells and all related development costs, including depreciation on support equipment and facilities, are considered as development expenditure. These expenses are capitalized as producing properties on attainment of commercial production.

   (iii) Producing properties, including the cost incurred on dry wells in development areas, are depleted using "Unit of Production'' method based on estimated proved developed reserves. Any changes in Reserves and/or Cost are dealt with prospectively. Hydrocarbon reserves are estimated and/or approved by the Management Committees of the Joint Ventures, which follow the International Reservoir Engineering Principles.

   Explanatory Note

   1. All exploration costs including acquisition of geological and geophysical seismic information, license and acquisition costs are initially capitalized as "Capital Work in Progress - Exploration Expenditure", until such time as either exploration well(s) in the first drilling campaign is determined to be successful, at which point the costs are transferred to "Producing Properties", or it is unsuccessful in which case such costs are written off consistent with para 2 below.

   2. Exploration costs associated with drilling, testing and equipping exploratory well and appraisal well are initially capitalized as "Capital Work in Progress - Exploration Expenditure", until such time as such costs are transferred to "Producing Properties" on attainment of commercial production or charged to the Profit and Loss Account unless:

      (a) such well has found potential commercial reserves; or

      (b) such well test result is inconclusive and is subject to further exploration or appraisal activity like acquisition of seismic, or re-entry of such well, or drilling of additional exploratory/step out well in the area of interest, such activity to be carried out no later than 2 years from the date of completion of such well testing;

      Management makes quarterly assessment of the amounts included in "Capital Work in Progress - Exploration Expenditure" to determine whether capitalization is appropriate and can continue. Exploration well(s) capitalized beyond 2 years are subject to additional judgment as to whether facts and circumstances have changed and therefore the conditions described in (a) and (b) no longer apply.

3. Site Restoration

   Estimated future liability relating to dismantling and abandoning producing well sites and facilities whose estimated producing life is expected to end during next ten years is expensed in proportion to the production for the year and remaining estimated proved reserves of hydrocarbons based on latest technical assessment available with the Company.

4. Impairment

   At each Balance Sheet date, the Company reviews the carrying amount of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of impairment loss.

   Where the impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior accounting periods.

5. Joint Ventures

The financial statements of the Company reflect its share of assets, liabilities, income and expenditure of the Joint Venture operations which are accounted on the basis of available information on line-by-line basis with similar items in the Company's accounts to the extent of the participating interest of the Company as per the various joint venture agreements.

6. Fixed Assets

Fixed Assets are stated at cost inclusive of all incidental expenses.

7. Depreciation

(i) Depreciation is provided on the "Written Down Value'' method at the rates specified in Schedule XIV of the Companies Act, 1956.

(ii) In case of additions during the year, depreciation is provided for the full year irrespective of the date of installation and no depreciation is provided in the year of sale/disposal.

(iii) Improvements to Leasehold premises are amortised over the remaining primary lease period.

8. Intangible Assets (Software)

Software are stated at cost of acquisition less accumulated amortisation and are included in fixed assets. Computer software is amortised on the "Written Down Value" method at 40% per annum.

9. Investments

Investments are capitalised at cost plus brokerage and stamp charges. Long term investments are valued at cost. Provision is made for other than temporary diminution in the value of long-term investments. Current investments are valued at the lower of cost and fair value on individual scrip basis.

10. Inventories

(i) Closing stock of crude oil in saleable condition is valued at Net Realisable Value.

(ii) Stores and spares are valued at cost on FIFO basis or market price, whichever is lower.

11. Miscellaneous Expenditure

(i) Share issue expenses are written off over a period of ten years commencing from the year of issue.

(ii) "Signature Bonus" paid upon signing of Production Sharing Contract is considered as deferred revenue expense to be written off over three to five years commencing from the year of payment, depending on the size of the field.

12. Revenue Recognition

(i) Revenue from the sale of crude oil and gas net of Government's share of Profit oil, is recognised on transfer of custody to refineries/others.

(ii) Sale is recorded at the invoiced price, which is subject to the approval of the Government of India, Ministry of Petroleum & Natural Gas (MoP&NG). The difference between the invoiced price and the final approved price, if any, is adjusted in the year in which the aforesaid approval is received.

13. Retirement Benefits

(i) The Company has defined contribution plan for Provident Fund and benefit-defined Superannuation Fund and the Company's contributions thereto are charged to the Profit and Loss Account.

(ii) The Company has participated in Group Gratuity cum Life Assurance Scheme of Life Insurance Corporation of India for gratuity payable to the employees and cost of the scheme is charged to the Profit and Loss Account based on an actuarial valuation.

(iii) Provision for leave encashment is made as per actuarial valuation basis as at the end of the financial year.

14. Borrowing Cost

Borrowing Cost specifically identified to the acquisition or construction of qualifying assets is capitalized as part of such asset. A qualifying asset is one that necessarily takes substantial period of time to get ready for intended use. All other borrowing costs are charged to Profit and Loss Account.

15. Foreign Currency Transactions

(i) Transactions denominated in foreign currencies are recorded at the exchange rate prevailing at the time of the transaction.

(ii) Monetary items denominated in foreign currencies at the year end and not covered by forward exchange contracts are translated at the year end rates and those covered by forward exchange contracts are translated at the rate ruling at the date of transaction as increased or decreased by the proportionate difference between the forward rate and exchange rate on the date of transaction, such difference having been recognised over the life of the contract.

(iii) Any gain or loss arising on account of exchange difference on settlement or translation is recognised in the Profit and Loss Account except in cases where they relate to the acquisition of fixed assets outside India in which case they are adjusted to the carrying costs of such assets.

16. Taxation

The Company adopts full provision basis for deferred tax, in accordance with the Accounting Standard 22 "Accounting for Taxes on Income". Provision for deferred tax asset/liability is made for timing differences which have arisen but not reversed at the balance sheet date and are expected to reverse in the foreseeable future. Deferred Tax asset is recognised when there is a reasonable certainty of future taxable income except for deferred tax assets in respect of unabsorbed loss or depreciation where it is recognised only if there is a virtual certainty with convincing evidence.

SCHEDULE 14

NOTES FORMING PART OF THE ACCOUNTS

1. Deposit with scheduled banks includes deposit of Rs. 166,559,032 (As at 31.03.05: Rs. 22,011,484) placed as "Site Restoration Fund" under Section 33 ABA of the Income Tax Act, 1961.

2. The balances with non-scheduled banks represent the balances with Barclays Bank, London. The maximum amount outstanding at any time during the year in respect of this account is Rs. 19,148,478 (Previous year Rs. 21,074,037).

3. Out of the total Loans and Advances, amounts aggregating Rs. 104,036 (As at 31.03.05: Rs. 189,676) are secured.

4. Advances receivable in cash or kind or for value to be received includes Rs.1,354,621 (As at 31.03.2005: Rs. 1,354,621) paid towards capital commitment.

5. Sundry Creditors include Rs. Nil (As at 31.03.05: Rs. Nil) due to small-scale industrial undertakings to the extent such parties have been identified by the Management from available information. This does not include information of Joint Ventures, as the same is not applicable to the Joint Ventures.

6. Interest Income includes interest on: in Rupees

	Year ended March 31,	
	2006	2005
Deposits	45,790,307	54,090,154
Loan to Subsidiary	165,452	561,221
Staff Loans	11,575	22,784
Total	45,967,334	54,674,159

7. Remuneration to the Managing Director:

	Year ended March 31,	
	2006	2005
Salary	6,580,080	6,044,521
Contribution to Provident and Superannuation Funds	648,000	614,700
Perquisites	396,863	434,563
Total	7,624,943	7,093,784

The above figures do not include contribution to Gratuity Fund and liability for leave encashable, as separate figures are not available. Provision for annual variable pay is included as remuneration on cash basis.

8. Expenditure in Foreign Currency (on cash basis, excluding share in Joint Ventures):

	Year ended March 31,	
	2006	2005
Travelling	315,453	292,595
Membership & Subscription	34,816	5,991
Consultancy services	4,578,530	1,487,447
Insurance	9,194,840	10,759,137
Others	1,787,987	8,299

9. Contingent Liabilities:

	As at March 31,	
	2006	2005
In respect of Bank Guarantees	133,936,443	49,909,014
In respect of Guarantee for Housing Loan to employees	3,115,705	3,797,500
Estimated amount of contract remaining to be executed on capital account and not provided for (excluding Company's share of Joint Ventures' commitments and including Rs. 136,823,000 in respect of a farm-in consideration for acquisition of participating right, in one of the Joint Venture)	139,851,359	377,163,359

10. Claims against the Company not acknowledged as debt:

	As at March 31,	
	2006	2005
Dispute with Contractors where the matter is under arbitration	23,788,903	37,765,544
Income Tax demand where the matter is in appeal	126,889,428	88,439,817

11. The Government had encashed the Performance Bank Guarantee of Rs. 101.49 lac for PG Block abandoned by the consortium under the *force majeure* clause of the Production Sharing Contract (PSC). The Government has also raised an additional demand of Rs. 2,378.01 lac (including interest) (As at 31.03.05 : Rs. 2,154.93 lac). The Company has been legally advised that the said actions of the Government are not justified. The Company has initiated legal proceeding as per the provisions of the PSC in the matter. Pending the outcome of this, provision has been made in this regard to the extent of Rs. 101.49 lac (As at 31.03.05 : Rs.101.49 lac).

12. The Company has capitalised the borrowing cost of Rs. 12,452,600 as a part of Development Expenditure.

13. (a) The Company is not a manufacturing company but is a partner in various consortiums engaged in the prospecting, exploring and producing of oil and gas. The information given below as required under items 4-C and 4-D of part II of Schedule VI to the Companies Act, 1956 represents the Company's share in the joint ventures.

(i) SALES TURNOVER

Description	Unit	Quantity	Value (Rs.)
Crude Oil	Barrels	456,279	1,147,106,936
		(498,964)	(934,812,646)
Gas	M^3	287,930	1,422,957
Less: Profit petroleum to Government of India			206,087,812
			(79,464,917)
Net			942,442,081
			(855,347,729)

(ii) OPENING AND CLOSING STOCK OF GOODS PRODUCED

Description	Unit	Quantity	Value (Rs.)
Opening Stock			
Crude Oil	Barrels	26,898	56,611,480
		(36,402)	(53,733,616)
Closing Stock			
Crude Oil	Barrels	29,158 (26,898)	83,697,888 (56,611,480)
Increase in Stock of Crude Oil			27,086,408
			(2,877,864)

(iii) LICENSED CAPACITY, INSTALLED CAPACITY AND ACTUAL PRODUCTION

Description	Unit	Licensed Capacity Per Annum	Installed Capacity Per Annum	Actual Production for the year
Crude Oil	Barrels	N.A.	N.A.	458,539*
				(489,503)
Gas	M^3	N.A.	N.A	287,930

*Excludes loss/internal consumption of 43 Barrels.

Figures in the brackets relate to previous year.

(b) Particulars relating to consumption of stores and spares have not been given in the absence of information in the Joint Ventures' accounts.

14. The Company has entered into Production Sharing Contracts and Joint Ventures in respect of certain properties with the Government of India and some bodies corporate. Details of these PSCs/JVs and participating interest of respective consortium partners as on March 31, 2006 are as follows:

Joint Ventures#	Partners	Share (%)
Licensed Production Sharing Contracts:		
CY-OS-90/1 (PY–3)	Hardy Exploration & Production (India) Inc.	18.00
	Oil and Natural Gas Corporation Ltd.	40.00
	Hindustan Oil Exploration Company Ltd.	21.00
	Tata Petrodyne Ltd.	21.00
Asjol Block	Hindustan Oil Exploration Company Ltd.	50.00
	Gujarat State Petroleum Corporation Ltd.	50.00
PY–1	Hindustan Oil Exploration Company Ltd.	100.00
CB-OS/1 (Cambay)	Oil and Natural Gas Corporation Ltd.	32.89
	Hindustan Oil Exploration Company Ltd.	57.11
	Tata Petrodyne Ltd.	10.00
Pranhita Godavari **	Hindustan Oil Exploration Company Ltd.	75.00
	Mafatlal Industries Ltd.	25.00
AAP-ON-94/1@	Hindustan Oil Exploration Company Ltd.	40.323
	Indian Oil Corporation Ltd.	43.548
	Oil India Ltd.	16.129
CB-ON-7 (Palej)	Exploration	
	Hindustan Oil Exploration Company Ltd.	50.00
	Gujarat State Petroleum Corporation Ltd.	50.00
	Development	
	Hindustan Oil Exploration Company Ltd.	35.00
	Gujarat State Petroleum Corporation Ltd.	35.00
	Oil and Natural Gas Corporation Ltd.	30.00
CY-OSN-97/1	Hindustan Oil Exploration Company Ltd.	80.00
	Mosbacher (India) LLC	20.00
North Balol	Hindustan Oil Exploration Company Ltd.	25.00
	Gujarat State Petroleum Corporation Ltd.	45.00
	Heramec Ltd.	30.00

All the Joint Ventures are for the blocks awarded within the territorial limit of India.

** As discussed in Note 11 above, the arbitration award is awaited for closure of this Joint Venture.

@ The Company has become the Operator of the Block with effect from January 1, 2006 and has enhanced its Participating Interest (PI) from the existing 25% to 40.323% (without compensation), subject to Government approval.

15. As per the Accounting Standard on 'Related Party Disclosures' (AS 18) issued by The Institute of Chartered Accountants of India, the related parties of the Company are as follows:
    (A) Subsidiary Company : HOEC Bardahl India Ltd.
    (B) Entity with Substantial Interest : Unocal Bharat Limited
    (C) Joint Ventures : As per details given in Note 14.
    As stated in item 5 of Significant Accounting Policies (Schedule 13), the financial statements of the Joint Ventures are incorporated in the Company's accounts. Hence, particulars of transactions with the Joint Ventures have not been separately disclosed.
    (D) Key Management Personnel : Mr. Rakesh Jain
    The Nature and volume of transactions of the Company during the year with the above parties were as follows:

in Rupees

Particulars	Subsidiary Company	Joint Ventures' Partners	Key Management Personnel
INCOME			
– Interest	165,452		
EXPENDITURE			
– Remuneration			7,624,953
– Recovery of Expenses		16,897,088	
– Office premises usage charges	(76,558)		
– Salaries	(96,250)		
ASSETS			
– Unsecured Loan repaid	5,012,500		
– Unsecured Loan outstanding	Nil		
– Current Account	Nil		

16. As stated in item 16 of Significant Accounting Policies (Schedule 13), deferred tax asset and liability has been calculated as under:

in Rupees

	As at March 31,	
	2006	2005
Deferred tax asset		
Exploration Expenses	273,000,000	145,508,000
Provisions for Contingencies and Doubtful Loans	5,200,000	5,236,000
Site Restoration	0	10,159,000
VRS Expenditure	700,000	0
Leave Encashment	600,000	661,000
Gratuity Provision	160,000	0
Sub total (A)	279,660,000	161,564,000
Deferred tax liability		
Depreciation on Fixed Assets	3,900,000	1,602,000
Site Restoration	15,000,000	0
Producing Properties	84,529,000	68,731,000
Sub total (B)	103,429,000	70,333,000
Net deferred tax asset (A – B)	176,231,000	91,231,000

17. Particulars of Dividend paid to non-resident shareholders (including Foreign Institutional Investors) are as under:

Year to which the dividend relates	2004-05	2003-04
Number of non-resident shareholders	570	705
Number of equity shares held by them	20,645,454	20,743,879
Gross amount of dividend	Rs. 20,645,454	Rs. 20,743,879

18. In accordance with Accounting Standard 29, the movement in provision for Site Restoration is as follows.
As per the terms of Production Sharing Contract this liabilities will arise at the time of abandonment of the field:

	As at March 31,	
	2006	2005
Opening Provision	74,828,982	42,613,229
Add: Provision for the Year	173,938,826	32,583,169
Less: Effect of Change in exchange rate	(1,347,192)	367,416
Closing Provision	250,115,000	74,828,982

19. Earning Per Share (EPS):
The basic/diluted earning per equity share is calculated as stated below:

	Year ended March 31,	
	2006	2005
Net Profit after tax	Rs. 174,919,443	Rs. 384,836,674
Weighted average numbers of equity shares	58,744,935	58,744,935
Basic/Diluted Earnings Per Share (EPS)	Rs. 2.98	Rs. 6.55
Nominal Value per share	Rs. 10	Rs. 10

20. The Company Secretary did not attend the Board Meeting, which approved the Annual Accounts, due to sickness. Hence, he has signed the Annual Accounts as required under Section 215 of the Companies Act, 1956 at Chennai, India.

21. Previous year's figures have been regrouped wherever necessary.

Statement pursuant to Section 212 of the Companies Act, 1956, relating to Subsidiary

NAME OF THE SUBSIDIARY	HOEC BARDAHL INDIA LIMITED
1. The Financial Year of the subsidiary ended on	March 31, 2006
2. (a) Number of Shares held by Hindustan Oil Exploration Company Limited (holding company) as on March 31, 2006	50,002 Equity Shares of Rs. 100/- each fully paid
(b) Extent of interest of the holding company at the end of the financial year of the subsidiary	100%
3. Date from which it became a subsidiary	March 30, 1992
4. The net aggregate amount of Profit/(Loss) of the subsidiary so far as it concerns the members of the holding company:	
(a) not dealt with in the holding company's accounts:	
(i) for the financial year of the subsidiary	NIL
(ii) for the previous financial year of the subsidiary since it became the holding company's subsidiary	NIL
(b) dealt with in the holding company's accounts:	
(i) for the financial year of the subsidiary	Rs. 12,235,014
(ii) for the previous financial year of the subsidiary since it became the holding company's subsidiary	Rs. 6,846,511

R. Vasudevan
Chairman

Manish Maheshwari
Chief Financial Officer

Rakesh Jain
Managing Director

Vikash Jain
Company Secretary,
Tax & Legal Co-ordinator

Atul Gupta
Finian O'Sullivan
Rahul Bhasin
Directors

Place : London, England
Date : May 23, 2006

Disclosure as required under Clause 32 of Listing Agreement:

A. Loans and Advances in the nature of loans to Subsidiaries and Associates.

Name of the Subsidiary	Amount outstanding as at March 31, 2006 Rs.	Maximum Amount outstanding during the year Rs.	Investments in Company's Shares (Nos.)
HOEC Bardahl India Limited	0	5,000,000*	50,002

* Interest @ 6% p.a.

B. Inter Corporate Deposits with firms/companies in which directors are interested.

Name	Amount outstanding as at March 31, 2006 (Rs. lac)	Maximum Amount outstanding during the year (Rs. lac)
Housing Development Finance Corporation Ltd.	0	1,950

Balance Sheet Abstract and Company's General Business Profile

(I)	Registration Details	
	Registration No.	29880
	State Code	04
	Balance Sheet Date	31.03.2006
(II)	Capital raised during the year	(Rs. in Thousand)
	Public Issue	NIL
	Rights Issue	NIL
	Bonus Issue	NIL
	Private Placement	NIL
(III)	Position of Mobilisation and Deployment of Funds	(Rs. in Thousand)
	Total Liabilities	3,595,565
	Total Assets	3,595,565
	Sources of Funds	
	Paid-up Capital	587,609
	Reserves and Surplus	1,824,068
	Secured Loans	163,000
	Unsecured Loans	NIL
	Application of Funds	
	Net Fixed Assets	1,853,775
	Investments	5,050
	Deferred Tax Assets	176,231
	Net Current Assets	539,333
	Miscellaneous Expenditure	288
	Accumulated Losses	NIL
(IV)	Performance of the Company	(Rs. in Thousand)
	Turnover (including Other Income)	1,024,215
	Total Expenditure	763,536
	Profit Before Tax	260,679
	Profit After Tax	174,919
	Earning Per Share	Rs. 2.98
	Dividend Rate	10%
(V)	Generic Names of Principal Products/Services of the Company (as per monetary terms)	
	Item Code No. (ITC Code)	27090000
	Product Description	CRUDE OIL
	Item Code No. (ITC Code)	27112100
	Product Description	NATURAL GAS

BOARD OF DIRECTORS	Mr. Manish Maheshwari	*Chairman*
	Dr. Udayan Dasgupta	
	Mr. Sagar Mehta	
	Mr. Vikash Jain	
	Mr. Sandeep Khamesra	
SENIOR MANAGEMENT	Mr. Hashit Rawal	*Vice President*
AUDITORS	M/s. H. R. Lalka & Company *Chartered Accountants, Mumbai*	
BANKERS	HDFC Bank Limited	
REGISTERED OFFICE	'HOEC House' Tandalja Road Vadodara-390 020 (India)	
CORPORATE OFFICE	B-4, 1st Floor, Ratandeep S. V. Road, Next to Shoppers Stop Andheri (W), Mumbai 400 058 Tel. No. : 022-67024917/18 Fax No. : 022-67024919 E-mail : hoecbardahl@vsnl.net	

DIRECTORS' REPORT

TO THE MEMBERS OF HOEC BARDAHL INDIA LIMITED

Your Directors have pleasure in presenting the Annual Report and the Audited Accounts for the Financial Year ended on March 31, 2006.

FINANCIAL RESULTS

(Rs. in Lacs)

	2005-2006	2004-2005
Sales	626.86	420.73
Other Income	10.18	6.66
Gross Profit before Depreciation, Provisions & Write Offs and Taxation	200.06	113.12
Less : Depreciation	2.96	1.59
Less : Provisions & Write Offs	5.68	3.68
Gross Profit before Taxation and prior period Adjustments	191.42	107.85
Less : Prior Period Adjustments	0.67	0
Less : Provision for Current Taxation	64.00	24.32
Less : Provision for Deferred Taxation	0.47	15.07
Less : Provision for Fringe Benefit Tax	4.60	0
Less : Short Provision for Taxation	0.28	1.13
Profit After Tax	121.40	67.33
Profit/(Loss) brought forward	13.54	(53.79)
Profit carried to the Balance Sheet	134.94	13.54

OPERATIONS REVIEW

SALES & PROFITS

Your Company's Sales and Profit Before Tax (PBT) have registered a growth of 49% and 77% respectively to reach a level of Rs. 626.86 Lakhs and Rs.191.42 Lakhs.

LOAN REPAYMENT

Your Company has now reached a status where it has repaid the entire loan of Hindustan Oil Exploration Company Limited (Holding Company) during this year. With this your Company has now become debt free.

BUSINESS OVERVIEW

Year after year your Company has gone into a trend setting path with excellent growth in sales & profits. This year growth has come as a result of our concrete efforts in the automotive segment with the 2 wheelers giving a major thrust to the growth. Response from Original Equipment Manufacturers (OEM's) to the new products like Power Tune & Diesel Tune introduced in the 4 wheeler segment was also good. Your Company is in discussion with some of the OEM's for obtaining endorsements and recommendations for these products. Your Company is also in the process of introducing some more new products early in the new fiscal, which would enlarge the portfolio of our products and give an added leverage in the market.

DIRECTORS

Mr. Sagar Mehta and Mr. Vikash Jain were appointed on the Board of the Company during the year. During the year Dr. Vipul Desai and Mr. Mohammad N. Khan have ceased to be

Directors. The Board places on record its appreciation for the guidance and valued contribution received during their tenure. Mr. Manish Maheshwari and Mr. Sagar Mehta, will retire by rotation at the ensuing Annual General Meeting and being eligible offer themselves for reappointment.

Mr. Sagar Mehta retires by rotation at the ensuing annual general meeting and being eligible offer himself for reappointment. The Company has received a proposal along with a deposit of Rs. 500/- from a member signifying the candidature of Mr. Sagar Mehta for the office of the Director. The Board recommends his appointment.

EMPLOYEES

During the year, there was no employee in respect of whom information as per Section 217(2A) of the Companies Act 1956, is required to be given in the Director's Report.

DIRECTORS' RESPONSIBILITY STATEMENT

The Directors confirm:

(a) that in the preparation of the annual accounts for the financial year ended March 31, 2006 the applicable accounting standards have been followed and that no material departures have been made from the same;

(b) 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;

(c) that the directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;

(d) that the directors have prepared the annual accounts on a 'going concern' basis.

AGREEMENT WITH BARDAHL MANUFACTURING CORPORATION

The Company has renewed its Agreement with Bardahl Manufacturing Corporation, USA up to November 2007.

COMPLIANCE CERTIFICATE

As per the requirements of Section 383A of the Companies Act, 1956, the Company has obtained a certificate from a Secretary in the whole time practice confirming that the Company has complied with all the provisions of the Companies Act, 1956. The certificate is attached herewith.

CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE EARNINGS AND OUT GO.

Since the Company has no manufacturing facility, the requirements of Section 217(1)(e) of the Companies Act, 1956 read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 are not applicable. Particulars with respect to foreign exchange appear in Schedule 11 of the accounts.

AUDITORS

The Statutory Auditors of the Company, M/s. H. R. Lalka & Co., Chartered Accountants, will retire at the forthcoming Annual General Meeting and being eligible have offered themselves for re-appointment.

ACKNOWLEDGEMENT

Directors are pleased to place on record their appreciation for the hard work and dedication of all the employees. Directors would also like to thank Hindustan Oil Exploration Company Limited, the Customers, Bankers and Bardahl Manufacturing Corporation for the support given by them to the Company.

On behalf of the Board of Directors

Place : Chennai
Date : May 16, 2006

Rakesh Jain
Chairman

ANNEXURE TO DIRECTORS' REPORT

Registration No. of the Company 04-11536
Nominal Capital Rs. 1,00,00,000/-

To
The Members
HOEC Bardahl India Limited

I have examined the registers, records, books, forms and papers of HOEC Bardahl India Ltd. (the Company) as required to be maintained under the Companies Act, 1956, ("the Act") and the rules made thereunder and also the provisions contained in the Memorandum and Articles of Association of the Company for the financial year ended on 31st March 2006 ("financial year"). In my opinion and to the best of my information and according to the examinations carried out by me and explanations furnished to me by the Company, its officers and agents, I certify that in respect of the aforesaid financial year:

1. The Company has kept and maintained all registers as stated in Annexure 'A' to this certificate as per the provisions of the Companies Act, 1956 and the rules made thereunder and entries therein have been duly recorded.

2. The Company has duly filed the forms and returns as stated in Annexure 'B' to this certificate with the Registrar of Companies within the time prescribed under the Companies Act, 1956 and the rules made thereunder. However, no forms or returns were required to be filed with the Regional Director, Central Government, Company Law Board or other authorities.

3. The Company, being a public limited company, the restriction clauses as provided in Section 3(1)(iii) of the Companies Act, 1956 is not applicable.

4. The Board of Directors duly met four times on 15th June 2005, 20th September 2005, 27th December 2005 and 30th January 2006 in respect of which meetings, proper notices were given and the proceedings were properly recorded and signed in the Minutes Book maintained for the purpose.

5. The Company has not closed its Register of Members during the financial year under review.

6. The Annual General Meeting for the financial year ended on 31st March 2005 was held on 20th September 2005 after giving due notice to the members of the Company and the resolutions passed there at were duly recorded in Minutes Book maintained for the purpose.

7. No Extraordinary General Meeting was held during the financial year.

8. The Company had not advanced any loans to its directors or persons or firms or companies referred to under Section 295 of the Companies Act, 1956.

9. The Company had not entered into any contracts to which the provisions of Section 297 of the Companies Act, 1956 applies.

10. No entries have been required to be made in the register under Section 301 of the Companies Act, 1956.

11. The provisions of Section 314 of the Companies Act, 1956 have not been attracted and therefore no approval were required to be taken.

12. The Company has not issued any duplicate share certificates during the financial year under review.

13. The Company has:
    (i) Delivered all the certificates on lodgment thereof for transfer in accordance with the provisions of the Companies Act, 1956.

    (ii) Not declared any dividend/interim dividend during the financial year under review.

    (iii) Duly complied with the requirements of Section 217 of the Companies Act, 1956.

14. The Board of Directors of the Company is duly constituted and the appointment of directors has been duly made.

15. The Company's paid up capital being less than the prescribed Rs. 5 crores, it is not required to appoint a Managing Director/Whole-Time Director/Manager and accordingly the provisions of Section 269 of the Companies Act, 1956 to that extent are not applicable.

16. The Company has not appointed any sole-selling agents during the financial year under review.

17. During the said financial year, no approvals have been required from the specified authorities under the Companies Act, 1956.

18. The Directors have disclosed their interest in other firms/ companies to the Board of Directors pursuant to the provisions of the Companies Act, 1956 and the rules made thereunder.

19. The Company has not issued any shares, debentures or other securities during the financial year.

20. The Company has not bought back any shares during the financial year.

21. The Company has not issued any redeemable preference shares/debentures.

22. During the year under review the Company has not declared any dividend, rights shares & bonus shares and hence the question of keeping in abeyance right to dividend, rights shares and bonus shares pending registration of transfer of shares does not arise.

23. The Company has not invited/accepted any deposits including any unsecured loans falling within the purview of Section 58A of the Companies Act, 1956, during the financial year.

24. The Company has not made any borrowing during the financial year ended 31st March 2006.

25. The Company has not made any loans or advances or given guarantees or provided securities to other bodies corporate and consequently no entries have been made in the register kept for the purpose.

26. The Company has not altered the provisions of the memorandum with respect to situation of the Company's registered office from one state to another during the year under scrutiny.

27. The Company has not altered the provisions of the memorandum with respect to the objects of the Company during the year under scrutiny.

28. The Company has not altered the provisions of the memorandum with respect to name of the Company during the year under scrutiny.

29. The Company has not altered the provisions of the memorandum with respect to share capital of the Company during the year under scrutiny.

30. The Company has not altered its articles of association during the financial year.

31. There was no prosecution initiated against or show cause notices received by the Company during the financial year, for offences under the Companies Act, 1956.

32. The provisions of Section 417 (1) of the Companies Act, 1956 is not applicable.

33. The Company has deposited both employees' and employer's contribution to Provident Fund with prescribed authorities pursuant to Section 418 of the Act.

Place : Vadodara
Date : 09.05.2006

KANU M. GANDHI
Practising Company Secretary
CP No. 3089

ANNEXURE - A

Registers as maintained by the Company

1. Register of Members u/s. 150 of the Companies Act, 1956
2. Register of transfers.
3. Register of directors u/s. 303
4. Register of Directors' shareholders u/s 307
5. Register of Contracts, Companies and Firms in which Directors of the Company are interested u/s 297, 299, 301 and 301(3).
6. Minutes of the Annual General Meeting/Extraordinary General Meeting & Board Meetings u/s 193 along with the Attendance Register.

ANNEXURE - B

Forms and Returns as filed by the Company during the financial year ended 31st March 2006.

1. Form 32 in respect of ;
   - Cessation of Dr. Vipul Desai and Mr. M. N. Khan (filed on 16.02.2006).
   - Appointment of Mr. Sagar Mehta and Mr. Vikash Jain as Directors in Casual Vacancy caused by resignations of Dr. Vipul Desai and Mr. M. N. Khan respectively (filed on 16.02.2006).
2. Form No. 29 – Consent to Act as Directors of a Company by Mr. Sagar Mehta and Mr. Vikash Jain respectively (filed on 16.02.2006).
3. Balance sheet as on 31st March 2005 and Profit/Loss Account for the year ending 31st March 2005 was filed on 13.10.2005.
4. Annual Return for the financial year was filed on 26.10.2005.

Place : Vadodara
Date : 09.05.2006

KANU M. GANDHI
Practising Company Secretary
CP No. 3089

AUDITORS' REPORT

To the members of HOEC BARDAHL INDIA LIMITED

We have audited the attached Balance Sheet of HOEC BARDAHL INDIA LTD, as at March 31, 2006 and also the Profit and Loss Account and the Cash Flow statement for the year on that date. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in India. Our audit includes an examination on a test basis, of evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates and judgements made by the management in the preparation of financial statements and evaluating the overall financial statement presentation.

We planned and performed our audit, so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatements and to provide a reasonable basis for our opinion.

We further report that:

1. We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of audit;
2. In our opinion, proper Books of Account as required by law have been kept by the Company so far as appears from our examination of those books;
3. The Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report are in agreement with the Books of Account;
4. In our opinion, the Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report comply with the requirements of the Accounting Standards referred to in sub-section (3c) of Section 211 of the Companies Act, 1956;
5. On the basis of the written representations received from the directors and taken on record by the Board of Directors, we report that none of the directors is disqualified as on March 31, 2006 from being appointed as a director in terms of clause (g) of sub-section (1) of Section 274 of the Companies Act, 1956 ;
6. In our opinion and to the best of our information and according to the explanations given to us, the said accounts and read together with the notes to accounts thereon, give the information required by the Companies Act, 1956 in the manner so required and also give a true and fair view, in conformity with the accounting principles generally accepted in India:
   (a) in the case of the Balance sheet, of the state of affairs of the Company as at March 31, 2006,
   (b) in the case of the Profit and Loss Account, of the Profit for the year ended on that date, and
   (c) in the case of the Cash Flow Statement, of the cash flows for the year ended on that date.
7. As required by the Companies (Auditor's Report) Order, 2003 and according to the information and explanations given to us during the course of the audit and on the basis of such checks as were considered appropriate, we report that;
   (i) (a) The Company has maintained proper records showing full particulars including quantitative details and situation of fixed assets;
   (b) As explained to us, the assets have been physically verified by the management, which in our opinion is reasonable, considering the size and the nature of its business. No material discrepancies have been noticed on such physical verification.
   (ii) (a) The inventories have been physically verified by the management during the year at reasonable intervals, except materials lying with third parties, where confirmations are obtained ;
   (b) The procedures of physical verification of the inventories followed by the management are reasonable and adequate in relation to the size of the Company and nature of its business;
   (c) The Company has maintained proper records of inventories and discrepancies noticed on physical verification of inventories as compared to book records were not material.
   (iii) (a) The Company has neither granted nor taken any loans to and from companies, firms or other parties covered in the register maintained under Section 301 of the Companies Act, 1956;
   (b) The rate of interest and other terms and conditions in respect of unsecured loans given by the Company to its employees and others, are in our opinion, prima facie not prejudicial to the interest of the Company;
   (c) In respect of such loans given by the Company, where stipulations have been made, they have repaid the principal amounts as stipulated and have been regular in payment of interest, where applicable;
   (d) In respect of such loans given by the Company, there are no overdue amounts more than Rs. 1,00,000;

(e) In respect of Loan taken from the Holding Company, the Company is regularly repaying the principal amount along with the interest as per repayment schedule.

(iv) There are adequate internal control procedures commensurate with the size of the Company and the nature of its business with regard to purchase of inventories, fixed assets and for the sale of goods.

(v) (a) According to the information and explanations given to us, there are no transactions made in pursuance of contracts or arrangements, that need to be entered into the register maintained under Section 301 of the Companies Act, 1956.

(b) There are no transactions of purchase and sale of goods, materials and services made in pursuance of contracts or arrangements entered in the register maintained under Section 301 of the Companies Act, 1956 aggregating during the year to Rs. 500,000/- or more in respect of each party.

(vi) The Company has not accepted any deposit from the public during the year.

(vii) The internal audit is done by a firm of Chartered Accountants appointed by the Management is commensurate with the size of the Company and nature of its business.

(viii) We are informed that the Central Government has not prescribed the maintenance of cost records under Section 209 (1)(d) of the Companies Act, 1956.

(ix) (a) According to the records of Company, the Company is regular in depositing undisputed statutory dues including Provident Fund, Employees' State Insurance, Income tax, Sales tax, Customs Duty, Cess and other statutory dues with appropriate authorities. According to the information and explanations given to us, there are no undisputed amounts payable in respect of such statutory dues, which have remained outstanding as at March 31, 2006 for a period more than six months from the date they became payable;

(b) According to information and explanation given to us the details of disputed dues which are not deposited as on March 31, 2006 are as follows:

Nature of Statue	Nature of Dues	Amount (Rs.)	Forum where dispute is pending
Income Tax Act, 1961	Disallowance of expenses/provision for the year 2001-2002	133,283/-	Commissioner of Income Tax (Appeal)
Customs Act, 1962	Classification of Chapter	540,464/-	Appellate Tribunal

(x) The Company has no accumulated losses in the current financial year and in the immediately preceding financial year.

(xi) The Company has not taken any loans from any financial institutions nor defaulted for repayments of Bank dues and has not issued any Debentures.

(xii) The Company has not granted any loans or advances on the basis of security by way of pledge of shares, debentures or other securities.

(xiii) The provisions of any Special Statute applicable to Chit Fund, Nidhi or Mutual Benefit Fund/ Societies are not applicable to the Company.

(xiv) The Company is not dealing or trading in shares, securities, debentures or other investments and hence the requirements of Para 4 (xiv) are not applicable to the Company.

(xv) According to the information and explanations given to us, the Company has not given any guarantee for loans taken by others from banks and financial institutions.

(xvi) The Company has not availed any term loan during the year.

(xvii) On the basis of our examination of the Cash Flow statement, the Company has not raised funds on short term basis hence use of such funds for long term investments, does not arise. The Company has not raised long-term funds during the year and hence the use of such funds for short-term investments does not arise.

(xviii) The Company has not made any preferential allotment of shares to parties and companies covered in the register maintained under Section 301 of the Companies Act, 1956 during the year.

(xix) The Company has not issued any debentures.

(xx) The Company has not raised any money by way of Public issues during the year.

(xxi) On the basis of our examination and according to the information and explanations given to us, no fraud, on or by the Company, has been noticed or reported during the year.

For H. R. LALKA & CO.
Chartered Accountants

Place : Mumbai
Date : May 16, 2006

Hiren Lalka
Proprietor
M No 40242

Balance Sheet as at March 31,

in Rupees

	Schedule		2006	2005
FUNDS EMPLOYED				
SHAREHOLDERS' FUNDS				
Share Capital	1		5,000,200	5,000,200
Reserves & Surplus	2		13,493,610	1,353,907
LOAN FUNDS				
Unsecured Loans	3		0	5,000,000
			18,493,810	11,354,107
APPLICATION OF FUNDS				
FIXED ASSETS	4			
Gross block		1,693,094		1,028,868
Less: Depreciation		830,543		590,569
NET BLOCK			862,551	438,299
DEFERRED TAX ASSETS			710,356	757,248
CURRENT ASSETS, LOANS & ADVANCES	5	37,479,677		18,894,209
Less: CURRENT LIABILITIES AND PROVISIONS	6	20,558,774		8,735,649
NET CURRENT ASSETS			16,920,903	10,158,560
			18,493,810	11,354,107
Accounting Policies	14			
Notes Forming Part of Accounts	15			

Schedules 1 to 15 annexed hereto form part of the Balance Sheet and Profit and Loss Account

In terms of our report of even date attached.

For H. R. LALKA & CO.
Chartered Accountants

Hiren Lalka
(Proprietor)

Place : Mumbai
Date : May 16, 2006

Rakesh Jain
Chairman

Manish Maheshwari
Vikash Jain
Directors

Place : Chennai
Date : May 16, 2006

Profit & Loss Account for the year ended March 31,

in Rupees

	Schedule	2006	2005
INCOME			
Sales		62,686,072	42,073,291
Other Income	7	1,017,859	654,589
		63,703,931	42,727,880
EXPENDITURE AND CHARGES			
Cost of goods for resale	8	20,482,044	13,681,717
Staff Expenses	9	5,421,665	4,336,166
Establishment Expenses	10	957,977	723,078
Other Expenses	11	1,313,271	1,203,997
Marketing & Distribution Cost	12	15,326,181	10,881,661
Provisions and Write offs	13	567,515	367,793
Interest Cost		197,113	588,464
Depreciation		296,259	159,490
		44,562,025	31,942,366
Profit for the year before tax		19,141,906	10,785,514
Less: Taxation for the year – Current Tax		(6,400,000)	(2,432,000)
Fringe Benefit Tax		(460,000)	0
Deferred Tax Assets		(46,892)	(1,507,003)
Profit for the year after tax		12,235,014	6,846,511
Add: Profit/(Loss) – Brought forward from previous year		1,353,907	(5,379,134)
Less: Short Provision for Taxation		(27,792)	(113,470)
Less: Prior Period Adjustments		(67,519)	0
Balance carried to Balance Sheet		13,493,610	1,353,907

Schedules 1 to 15 annexed hereto form part of the Balance Sheet and Profit and Loss Account

In terms of our report of even date attached.

For H. R. LALKA & CO.
Chartered Accountants

Hiren Lalka
(Proprietor)

Place : Mumbai
Date : May 16, 2006

Rakesh Jain
Chairman

Manish Maheshwari
Vikash Jain
Directors

Place : Chennai
Date : May 16, 2006

Cash Flow Statement for the year ended March 31,

in Rupees

		2006	2005
A.	CASH FLOW FROM OPERATING ACTIVITIES		
	Net Profit Before Tax	19,141,906	10,785,514
	Adjustments for :		
	Depreciation	296,259	159,490
	Interest Expense	197,113	588,464
	Provision for Doubtful Debtors	0	123,600
	Bad Debts Written off	(225,640)	(97,620)
	Loss on Sale/discard of assets	19,442	23,505
	Exchange (Gain)/Loss	3,947	17,795
	Provision for leave encashment	257,000	86,000
	Interest Income	(393,168)	(299,538)
	Excess Provisions written back	(469,145)	(276,691)
	Recovery of doubtful debts	(103,000)	(125,000)
	OPERATING PROFIT BEFORE WORKING CAPITAL CHANGES	18,724,714	10,985,519
	Adjustment for :		
	Trade Debtors	(523,161)	(1,171,987)
	Other Receivables	1,347,957	246,021
	Inventories	(3,908,158)	(3,003,136)
	Payables	7,150,625	1,487,948
	CASH FROM OPERATIONS	22,791,977	8,544,365
	Income Tax paid	(7,105,000)	(1,960,000)
	Excess Provisions written back	469,145	276,691
	Income Tax Adjustments	(2,459,792)	(818,470)
	Prior Period Item	(67,519)	0
	NET CASH FROM OPERATING ACTIVITIES	13,628,811	6,042,586
B.	CASH FLOW FROM INVESTING ACTIVITIES		
	Fixed Assets purchased	(743,053)	(336,208)
	Fixed Assets sold	3,100	3,248
	Purchase of investments	0	0
	Interest received	307,400	237,738
	NET CASH (USED)/RAISED FROM INVESTING ACTIVITIES	(432,553)	(95,222)
C.	CASH FLOW FROM FINANCING ACTIVITIES		
	Interest paid	(197,113)	(588,464)
	Unsecured Loan repaid	(5,012,500)	(5,700,000)
	Exchange Gain/(Loss)	(3,947)	(17,795)
	NET CASH (USED)/RAISED FROM FINANCING ACTIVITIES	(5,213,560)	(6,306,259)
	NET (DECREASE)/INCREASE IN CASH OR CASH EQUIVALENTS	7,982,698	(358,895)
	Cash Equivalents:		
	Opening Balance	5,710,148	6,069,043
	Closing Balance	13,692,846	5,710,148
		7,982,698	(358,895)
	Cash and Bank balance as per Schedule 5	13,692,846	5,710,148
		13,692,846	5,710,148

In terms of our report of even date attached.
For H. R. LALKA & CO.
Chartered Accountants

Hiren Lalka
(Proprietor)

Place : Mumbai
Date : May 16, 2006

Rakesh Jain
Chairman

Manish Maheshwari
Vikash Jain
Directors

Place : Chennai
Date : May 16, 2006

Schedules to the Balance Sheet as at March 31,

in Rupees

	2006	2005
SCHEDULE 1		
SHARE CAPITAL		
AUTHORISED		
1,00,000 Equity Shares of Rs. 100 each	10,000,000	10,000,000
ISSUED SUBSCRIBED AND PAID-UP		
50,002 Equity Shares of Rs. 100 each	5,000,200	5,000,200
(All the above Shares are held by Hindustan Oil Exploration Co. Ltd., Holding Co., & its nominees)		
	5,000,200	5,000,200
SCHEDULE 2		
RESERVES AND SURPLUS		
Balance in Profit and Loss Account	13,493,610	1,353,907
	13,493,610	1,353,907
SCHEDULE 3		
UNSECURED LOANS		
Hindustan Oil Exploration Company Limited (Holding Company)	0	5,000,000
	0	5,000,000

SCHEDULE 4

FIXED ASSETS

in Rupees

Name of the Assets	GROSS BLOCK				DEPRECIATION				NET BLOCK	
	As at March 31, 2005	Additions	Deductions	As at March 31, 2006	As at March 31, 2005	For the year	Deductions	As at March 31, 2006	As at March 31, 2006	As at March 31, 2005
Office Equipments	123,998	35,040	40,027	119,011	66,274	25,338	20,672	70,940	48,071	57,724
Computers	162,300	38,884	38,800	162,384	107,038	39,344	35,613	110,769	51,615	55,262
Office Furniture	80,818	62,388	0	143,206	51,814	18,014	0	69,828	73,378	29,004
Plant & Machinery	354,867	147,905	0	502,772	206,000	59,250	0	265,250	237,522	148,867
Dies & Moulds	306,885	31,000	0	337,885	159,443	53,532	0	212,975	124,910	147,442
Motor Car	0	389,266	0	389,266	0	100,781	0	100,781	288,485	0
Capital work in progress	0	38,570	0	38,570	0	0	0	0	38,570	0
TOTAL	1,028,868	743,053	78,827	1,693,094	590,569	296,259	56,285	830,543	862,551	438,299
Previous Year	779,176	336,208	86,516	1,028,868	490,842	159,490	59,763	590,569	438,299	288,334

in Rupees

		2006		2005
SCHEDULE 5				
CURRENT ASSETS, LOANS AND ADVANCES				
CURRENT ASSETS				
Interest accrued on Deposits		30,955		53,726
INVENTORIES				
Materials unpacked		2,891,605		3,296,265
Materials packed		4,201,852		3,038,515
Packing Material		434,508		295,983
GOODS IN TRANSIT		3,010,956		0
SUNDRY DEBTORS				
Due for more than six months				
Considered Good	319,642			43,975
Considered Doubtful	1,431,452			1,760,092
Others				
Considered Good	4,010,778			3,434,644
	5,761,872			5,238,711
Less: Provision for doubtful debts	1,431,452			1,760,092
		4,330,420		3,478,619

Schedules to the Balance Sheet as at March 31,

in Rupees

		2006	2005
SCHEDULE 5			
CURRENT ASSETS, LOANS AND ADVANCES (Contd.)			
CASH & BANK BALANCES			
Cash on hand	38, 429		27,249
With Scheduled Bank			
Current Account	4,854,417		482,899
Deposit Account	8,800,000		5,200,000
		13,692,846	5,710,148
LOANS AND ADVANCES (Unsecured, considered good)			
Advances recoverable in cash or in kind or for value to be received	1,565,438		965,411
Insurance Claims Receivable	3,772		8,642
Advance Taxes	7,317,325		2,046,900
		8,886,535	3,020,953
		37,479,677	18,894,209
SCHEDULE 6			
CURRENT LIABILITIES & PROVISIONS			
CURRENT LIABILITIES			
Sundry Creditors		11,759,900	4,833,694
Hindustan Oil Exploration Company Limited		0	12,500
Other Liabilities		1,354,874	1,130,455
PROVISIONS			
Provision for Leave Encashment		584,000	327,000
Provision for Taxation		6,400,000	2,432,000
Provision for Fringe Benefit Tax		460,000	0
		20,558,774	8,735,649

Schedules to the Profit & Loss Account for the year ended March 31,

in Rupees

		2006	2005
SCHEDULE 7			
OTHER INCOME			
Interest Income (Gross) Tax deducted at source Rs. 85,768 (Previous Year Rs. 61,800)		393,168	299,538
Excess Provision written back		469,145	276,691
Profit on sale of Current Investments		45,108	0
Miscellaneous Income		110,438	78,360
		1,017,859	654,589
SCHEDULE 8			
COST OF GOODS FOR RESALE			
MATERIALS PACKED & UNPACKED			
Opening Stock	6,334,780		3,431,822
Add: Purchases	13,424,161		11,431,787
Sub-Total	19,758,941		14,863,609
Less: Closing Stock	7,093,457		6,334,780
		12,665,484	8,528,829
PACKING MATERIALS			
Opening Stock	295,983		195,805
Add: Purchases	4,238,387		3,014,404
Sub-Total	4,534,370		3,210,209
Less: Closing Stock	434,508		295,983
		4,099,862	2,914,226
Excise Duty		2,987,085	1,887,724
Repacking Expenses		1,048,724	627,681
Cost of Samples & Replacements		(318,333)	(275,541)
Cost of Damaged Goods		(778)	(1,202)
		20,482,044	13,681,717

Schedules to the Profit & Loss Account for the year ended March 31,

in Rupees

		2006	2005
SCHEDULE 9			
STAFF EXPENSES			
Salaries & Bonus		4,614,599	3,799,193
Contribution to Provident and Other Funds		330,912	282,847
Welfare Expenses		476,154	254,126
		5,421,665	4,336,166
SCHEDULE 10			
ESTABLISHMENT EXPENSES			
Rent		611,500	416,500
Rates and Taxes		81,232	79,755
Repairs and Maintenance		103,157	80,589
General Office Expenses		78,447	61,344
Electricity		83,641	84,890
		957,977	723,078
SCHEDULE 11			
OTHER EXPENSES			
Auditor's Remuneration			
Audit Fees	25,000		25,000
Other Matters	6,200		5,860
Reimbursement of Expenses	1,924		1,412
Service Tax	3,693		3,095
		36,817	35,367
Bank Charges		72,436	80,997
Books and Periodicals		1,383	928
Computer Expenses		4,953	2,740
Insurance		111,814	178,272
Travelling & Conveyance		157,984	208,517
Postage and Telephone		282,685	256,664
Printing and Stationery		103,607	91,799
Professional and Consultancy Fees		240,861	244,105
Loss on sale/discard of assets		19,442	23,505
Loss on Foreign Exchange Fluctuations		3,947	17,795
Miscellaneous Expenses		277,342	63,308
		1,313,271	1,203,997
SCHEDULE 12			
MARKETING & DISTRIBUTION COST			
Distribution Expenses			
Freight	1,295,509		906,130
Others	475,075		342,889
		1,770,584	1,249,019
Marketing Expenses			
Incentives	2,053,648		1,017,507
Product Promotion Expenses	1,359,727		2,574,358
Advertisement	449,752		386,672
Rebates and Discounts	3,619,765		1,616,106
Sales Promotion	2,003,174		1,123,626
Others	549,312		414,655
		10,035,378	7,132,924
Selling Expenses			
Commission	2,196,626		1,122,380
Field Staff Expenses	1,323,593		1,377,338
		3,520,219	2,499,718
		15,326,181	10,881,661

Schedules to the Profit & Loss Account for the year ended March 31,

in Rupees

	2006	2005
SCHEDULE 13		
PROVISIONS AND WRITE OFFS		
Provision for doubtful debtors	0	123,600
Bad Debts	567,515	244,193
	567,515	367,793

Schedules to the Financial Statements for the year ended March 31, 2006

SCHEDULE — 14

SIGNIFICANT ACCOUNTING POLICIES

1. The Accounts of the Company have been prepared using the accrual concept on a going concern basis consistently.
2. Fixed Assets are capitalised at cost inclusive of legal and/or installation expenses.
3. Depreciation has been provided on written down value method at the rates and the manner prescribed in schedule XIV to the Companies Act, 1956.

   In case of additions during the year, depreciation is provided for the full year irrespective of the date of installation and no depreciation is provided in the year of sale/ disposal.
4. Sales turnover includes sale value of goods (net of Trade Discount) and excludes Sales Tax.
5. Inventories are valued at cost or market price whichever is lower, on first in first out basis. Cost of Unpacked Materials includes Freight, Customs Duty, Insurance and Clearing charges. Cost of Packed Materials includes repacking charges, packing materials etc.
6. The Company has participated during the year in Group Gratuity cum Life Assurance Scheme of Life Insurance Corporation of India for gratuity payable to the employees and contribution thereto is charged to the Profit & Loss Account.

   Provision for leave encashment is made as per actuarial valuation basis as at the end of the financial year.
7. Foreign currency transactions are recorded at the rate of exchange in force at the time of occurrence of transactions. Gains and losses arising out of subsequent fluctuations are accounted for upon actual payment. The Foreign Currency payables are converted at the exchange rates prevailing on the last working day of the accounting period. The net loss or gain arising out of such fluctuation/conversion is adjusted to the Profit & Loss Account.
8. The Company adopts full provision basis for deferred tax without discounting, in accordance with the Accounting Standard 22 on Accounting for Taxes on Income. Provision for deferred tax asset/liability is made for timing differences which have arisen but not reversed at the balance sheet date and are expected to reverse in the foreseeable future.

SCHEDULE — 15

NOTES FORMING PART OF THE ACCOUNTS

1. Out of the balance lying in deposit accounts, Rs. 25 Lacs has been pledged with HDFC bank against overdraft facility of Rs. 20 Lacs and a bank guarantee limit of Rs. 5 Lacs.
2. Interest Income includes interest on:

in Rupees

	Year ended March 31,	
	2006	2005
Deposits	388,644	298,841
Others	3,355	0
Staff Loans	1,169	697
	393,168	299,538

3. As stated in item no. 8 of the Significant Accounting Policies (Schedule 13), deferred tax asset and liability has been calculated as under:

in Rupees

	As at March 31,	
	2006	2005
Deferred Tax Assets		
Provision for Doubtful Debts	481,826	644,018
Leave Encashment	197,323	120,463
Bonus	3,226	6,138
Depreciation on Fixed Assets	27,980	0
Sub total (A)	710,355	770,619
Deferred Tax Liability		
Depreciation on Fixed Assets	0	13,371
Sub total (B)	0	13,371
Net Deferred Tax Assets (A-B)	710,355	757,248

4. Claims against the Company not acknowledged as debt :

in Rupees

	As at March 31,	
	2006	2005
Income tax demand where the matter is in appeal	259,691	259,691
Customs demand where the matter is in appeal	540,464	540,464

5. Profit on sale of investments is from sale of 369022 units of HDFC Liquid Fund & 315947 units of Prudential ICICI Liquid Fund (Growth plan).

6. The Company has during the year written off a sum of Rs. 360,712/- as bad debts. Provision for which were made in prior years till March 31, 2004 and the effect of write off is credited to Excess Provision written back.

7. Sundry Creditors include Rs. 666,493/- (Previous Year Rs. 323,484/-) due to small scale and ancillary undertakings to the extent such parties have been identified by the management from available information. Amounts due to Small Scale Industrial Undertakings for outstanding of more than 30 days is “Indian Extrusions”.

8. As per the Accounting Standard on ‘Related Party Disclosures’ (AS 18) issued by the Institute of Chartered Accountants of India, the related parties of the Company are as follows :

Name of the Holding Company : Hindustan Oil Exploration Company Limited

The Nature and volume of transactions of the Company during the year with the above party are as follows :

Particulars	Rupees
Expenditure	
Interest on Unsecured Loan	165,452
Office Premises usage charges	76,558
Deputation Allowance	96,250
Liabilities	
Unsecured Loans Paid	5,012,500

9. The balances of creditors are subject to their confirmations.

10. Additional Information pursuant to provisions of paragraph, 3, 4C & 4D of Schedule VI- part II of the Companies Act, 1956.

(A)

		Year ended March 31,			
Turnover		2006		2005	
Product	Unit	Quantity	Value (Rs.)	Quantity	Value (Rs.)
Additives	Litres	125,013.33	62,395,979	87,102.48	42,010,487
Grease	Kgs.	27.860	20,516	7.56	5,392
Cream	Nos.	324	137,496	12	3,652
Spares	Nos.	115	132,081	30	53,760

(B) RAW MATERIAL CONSUMED : Not Applicable

(C)

Stocks		Opening Stock		Closing Stock	
Product	Unit	Quantity	Value (Rs.)	Quantity	Value (Rs.)
Additives	Litres	54,910.40	6,259,376	53,769.79	6,963,657
Grease	Kgs.	426.45	221	398.59	151
Cream	Nos.	180	23,908	475	55,817
Spares	Nos.	30	51,275	161	73,831

(D) Capacity and production:

Capacity - Licensed : N. A.

Capacity - Installed : N. A.

Production : N. A.

(E) Value of Imports on CIF basis in respect of:

		Year ended	
		March 31, 2006	March 31, 2005
	(i) Materials	Rs. 13,856,592	Rs. 8,993,957
	(ii) Components & Spare parts	Rs. Nil	Rs. Nil
	(iii) Capital goods	Rs. Nil	Rs. Nil
(F)	Expenditure in foreign currency :		
	(i) Business Travelling	Rs. Nil	Rs. Nil
	(ii) Others	Rs. 17,714	Rs. Nil
(G)	The amount remitted in foreign currency during the year on account of dividends	Rs. Nil	Rs. Nil
(H)	Earnings in foreign exchange	Rs. Nil	Rs. Nil

11. Figures of the previous year have been regrouped and rearranged wherever necessary.

Balance Sheet Abstract and Company's General Business Profile

I. Registration Details	
Registration No.	11536
State Code	04
Balance Sheet Date	31.03.2006
II. Capital Raised During The Year	
Public Issue	NIL
Rights Issue	NIL
Bonus Issue	NIL
Private Placement	NIL
III. Position of Mobilisation and Deployment of Funds	(In Rupees)
Total Liabilities	39,052,584
Total Assets	39,052,584
Sources of Funds	
Paid-up Capital	5,000,200
Reserves & Surplus	13,493,610
Secured Loans	NIL
Unsecured Loans	NIL
Application of Funds	
Net Fixed Assets	862,551
Investments	NIL
Net Current Assets	16,920,903
Miscellaneous Expenditure	NIL
Accumulated Losses	NIL
IV. Performance of the Company	(In Rupees)
Turnover	62,686,072
Total Expenditure	44,562,025
Profit Before Tax	19,141,906
Profit After Tax	12,235,014
V. Generic Names of Principal Products/Services of Company	
(as per monetary terms)	
Item Code No. (ITC Code)	38112900
Product Description	Oil Additives
Item Code No. (ITC Code)	38112900
Product Description	Fuel Additives

AUDITORS' REPORT

TO THE BOARD OF DIRECTORS OF HINDUSTAN OIL EXPLORATION COMPANY LIMITED ON THE CONSOLIDATED FINANCIAL STATEMENTS OF HINDUSTAN OIL EXPLORATION COMPANY LIMITED AND ITS SUBSIDIARY

1. We have examined the attached Consolidated Balance Sheet of HINDUSTAN OIL EXPLORATION COMPANY LIMITED and its subsidiary ("the Group") as at March 31, 2006, the Consolidated Profit and Loss Account and the Consolidated Cash Flow Statement of the Group for the year ended on that date, both annexed thereto. These financial statements are the responsibility of the Company's Management. Our responsibility is to express an opinion on these financial statements based on our audit.

2. We conducted our audit in accordance with the auditing standards generally accepted in India. These Standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

3. (a) The Accounts have been drawn up in accordance with the statement of Significant Accounting Policies (Schedule 15). Accounting Policy 3 relating to "Successful Efforts Method" and the treatment of exploration and development costs are significant to the oil and gas exploration and production industry.

   (b) Categorisation of the wells as exploratory and producing and the depletion of producing wells on the basis of proved developed hydrocarbon reserves and accrual of estimated site restoration liability on the basis of proved hydrocarbon reserves are made according to technical evaluation by the Management, on which we have placed reliance.

4. The accounts include assets aggregating Rs. 2,912,402,900, liabilities aggregating Rs. 122,963,004, income aggregating Rs. 142,641 and expenditure aggregating Rs. 161,428,822 relating to the Group's share in six joint ventures, which have been incorporated on the basis of accounts audited by other auditors. We did not audit the financial statements of the subsidiary, whose financial statements reflect total assets of Rs. 18,493,810 as at March 31, 2006, total revenues of Rs. 63,703,931 and net increase in cash flows amounting to Rs. 7,982,698, for the year ended on that date. These financial statements have been audited by another auditor whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included in respect of the subsidiary, is based solely on the report of the other auditor.

5. In respect of three non-producing joint ventures, exploration expenditure aggregating Rs. 422,335,001, other assets aggregating Rs.17,134,781 and liabilities aggregating Rs. 12,356,143 have been incorporated on the basis of the information available, in the absence of audited accounts. Accounts of two of the three joint ventures have been audited upto March 31, 2005.

6. We report that the consolidated financial statements have been prepared by the Company's Management in accordance with the requirements of Accounting Standard 21 (Consolidated Financial Statements), issued by the Institute of Chartered Accountants of India and on the basis of the separate audited financial statements of the Company and its subsidiary included in the consolidated financial statements.

7. Based on our audit and on consideration of the report of the other auditor on the separate financial statements of the subsidiary and to the best of our information and according to the explanations given to us, we are of the opinion that the aforesaid consolidated financial statements, subject to our comments in paragraph 5 above to the extent of unaudited accounts relating to the joint ventures referred to therein, give a true and fair view in conformity with the accounting principles generally accepted in India:

   (i) in the case of the Consolidated Balance Sheet, of the consolidated state of affairs of the Group as at March 31, 2006;

   (ii) in the case of the Consolidated Profit and Loss Account, of the consolidated profit of the Group for the year ended on that date; and

   (iii) in the case of the Consolidated Cash Flow Statement, of the cash flows of the Group for the year ended on that date.

For S. B. BILLIMORIA & CO.
Chartered Accountants

Nalin M. Shah
Partner
(Membership No. 15860)

Place : Mumbai
Date : June 12, 2006

Consolidated Balance Sheet as at March 31,

in Rupees

	Schedule	2006	2005
SOURCES OF FUNDS			
SHAREHOLDERS' FUNDS			
Share Capital	1	587,609,465	587,609,465
Reserves and Surplus	2	1,837,561,969	1,717,486,736
LOAN FUNDS			
Secured Loans	3	163,000,000	275,000,000
		2,588,171,434	2,580,096,201
APPLICATION OF FUNDS			
FIXED ASSETS	4		
Gross Block		2,930,642,865	2,341,259,219
Less : Depreciation, Amortisation and Depletion		1,076,004,953	982,627,367
NET BLOCK		1,854,637,912	1,358,631,852
INVESTMENTS	5	49,954	49,304,014
DEFERRED TAX ASSET (NET)		176,941,356	91,988,248
CURRENT ASSETS, LOANS AND ADVANCES	6	1,597,700,282	1,828,538,525
Less : CURRENT LIABILITIES AND PROVISIONS	7	1,041,445,570	748,941,438
NET CURRENT ASSETS		556,254,712	1,079,597,087
MISCELLANEOUS EXPENDITURE (to the extent not written off or adjusted)			
Share Issue Expenses		287,500	575,000
		2,588,171,434	2,580,096,201
Accounting Policies	15		
Notes forming part of the Accounts	16		
Schedules 1 to 16 annexed hereto form part of the Accounts.			

In terms of our report of even date attached.

For S.B. BILLIMORIA & CO.
Chartered Accountants

Nalin M. Shah
Partner

Place : Mumbai
Date : June 12, 2006

R. Vasudevan
Chairman

Manish Maheshwari
Chief Financial Officer

Rakesh Jain
Managing Director

Vikash Jain
Company Secretary,
Tax & Legal Co-ordinator

Atul Gupta
Finian O'Sullivan
Rahul Bhasin
Directors

Place : London, England
Date : May 23, 2006

Consolidated Profit and Loss Account for the year ended March 31,

in Rupees

	Schedule	2006	2005
INCOME			
Sales	8	1,005,128,153	897,421,020
Increase in stock of Crude Oil		27,086,408	2,877,864
Other Income	9	55,065,931	68,834,463
		1,087,280,492	969,133,347
EXPENDITURE AND CHARGES			
Field Operating Expenses	10	170,623,662	168,103,536
Cost of goods for Resale	11	20,482,044	13,681,717
Corporate Expenses	12	85,828,123	66,994,439
Marketing & Distribution Costs	13	15,393,700	10,881,661
Provisions and Write Offs / (Write Back)	14	418,733,490	(10,969,122)
Interest & Financing Charges		18,218,580	16,324,617
Depletion of Producing Properties		69,832,624	77,816,188
Depreciation and Amortisation		8,414,439	10,400,322
		807,526,662	353,233,358
PROFIT BEFORE TAX		279,753,830	615,899,989
Less : Provision for Current Income Tax (Includes Rs. 27,792 (Previous year Rs. 113,470) in respect of Prior years)		174,427,792	197,545,470
Less / (Add) : Provision for Deferred Tax		(84,953,108)	31,707,003
Less : Provision for Wealth Tax		160,000	78,000
Less : Fringe Benefit Tax		3,060,000	0
PROFIT AFTER TAX		187,059,146	386,569,516
Profit brought forward		711,851,698	392,266,095
PROFIT AVAILABLE FOR APPROPRIATION		898,910,844	778,835,611
APPROPRIATIONS :			
Proposed Dividend		58,744,935	58,744,935
Tax thereon		8,238,978	8,238,978
Balance carried to Balance Sheet		831,926,931	711,851,698
		898,910,844	778,835,611
Earning per share of Rs. 10 face value (basic and diluted)		Rs. 3.19	Rs. 6.58
Schedules 1 to 16 annexed hereto form part of the Accounts.			

In terms of our report of even date attached.

For S.B. BILLIMORIA & CO.
Chartered Accountants

Nalin M. Shah
Partner

Place : Mumbai
Date : June 12, 2006

R. Vasudevan
Chairman

Manish Maheshwari
Chief Financial Officer

Rakesh Jain
Managing Director

Vikash Jain
Company Secretary,
Tax & Legal Co-ordinator

Atul Gupta
Finian O'Sullivan
Rahul Bhasin
Directors

Place : London, England
Date : May 23, 2006

Consolidated Cash Flow Statement for the year ended March 31,

In Rupees

			2006	2005
A.	CASH FLOW FROM OPERATING ACTIVITIES			
	Net Profit Before Tax		279,753,830	615,899,989
	Adjustments for :			
	Provision for :			
	Loss / (Gain) on revaluation of Current Investments		0	(8,282,864)
	Leave Encashment		151,000	(423,000)
	Provision for Contingencies		0	(396,574)
	Provision for doubtful Debtors/Loans		0	(2,603,205)
	Depreciation, Depletion and Amortisation		78,247,063	88,216,510
	Exploration Expenses Written off		418,347,620	0
	Other Miscellaneous Expenses Written off		287,500	495,834
	Dividend / Interest Income		(48,842,714)	(59,136,400)
	Bad Debts written off (Write back)		(225,640)	(97,620)
	Loss / (Profit) on sale / discard of Assets		288,057	(51,041)
	(Profit) / Loss on sale of Investment		(375,863)	2,809,279
	Interest and Finance Charges		18,218,580	16,324,617
	Excess Provisions written back		(469,145)	(276,691)
	Recovery of doubtful debts		(103,000)	(125,000)
	Unrealised Exchange (Gain) / Loss		1,351,139	0
	OPERATING PROFIT BEFORE WORKING CAPITAL CHANGES		746,628,427	652,353,834
	Adjustments for :			
	Trade and Other Receivables		79,321,738	(185,607,289)
	Inventories		(105,189,868)	(22,811,096)
	Payables		(59,140,262)	72,898,066
	CASH FROM OPERATIONS		661,620,035	516,833,515
	Taxes paid		(159,338,190)	(196,816,576)
	Excess Provision written back		469,145	276,691
	NET CASH FROM OPERATING ACTIVITIES		502,750,990	320,293,630
B.	CASH FLOW FROM INVESTING ACTIVITIES			
	Purchase of Fixed Assets		(522,866,160)	(407,023,304)
	Insurance Claim on replacement well		0	64,144,438
	Proceeds from Sale of Fixed Assets		1,678,842	3,008,801
	Exploration Expenses Incurred		(297,762,657)	(271,718,704)
	Purchase of Current Investments		(491,845,280)	(727,022,255)
	Proceed from Sale of Current Investments		541,475,203	867,492,759
	Dividend / Interest Received		49,701,644	61,282,067
	Decrease / (Increase) in Inter Corporate Deposits		95,000,000	(45,000,000)
	NET CASH USED IN INVESTING ACTIVITIES		(624,618,408)	(454,836,198)
C.	CASH FLOW FROM FINANCING ACTIVITIES			
	Secured Loan Taken		0	350,000,000
	Secured Loan Repaid		(112,000,000)	(75,000,000)
	Interest and Finance Charges Paid		(18,218,580)	(16,324,617)
	Dividend Paid (including tax thereon)		(65,968,484)	(65,099,403)
	NET CASH (USED IN) / FROM FINANCING ACTIVITIES		(196,187,064)	193,575,980
	NET (DECREASE) / INCREASE IN CASH OR CASH EQUIVALENTS		(318,054,482)	59,033,412
	Cash, Cash Equivalents :			
	Opening Balance		1,062,829,732	1,003,796,320
	Closing Balance		744,775,250	1,062,829,732
			(318,054,482)	59,033,412
	Cash and Bank balance as per Schedule 6		744,775,250	932,829,732
	Inter Corporate Deposits as per Schedule 6		0	225,000,000
	Less : Inter Corporate Deposits placed for more than 90 days		0	95,000,000
			0	130,000,000
	Total Cash or Cash equivalents as at March 31, 2006		744,775,250	1,062,829,732

In terms of our report of even date attached.

For S.B. BILLIMORIA & CO.
Chartered Accountants

Nalin M. Shah
Partner

Place : Mumbai
Date : June 12, 2006

R. Vasudevan
Chairman

Manish Maheshwari
Chief Financial Officer

Place : London, England
Date : May 23, 2006

Rakesh Jain
Managing Director

Vikash Jain
Company Secretary,
Tax & Legal Co-ordinator

Atul Gupta
Finian O'Sullivan
Rahul Bhasin
Directors

Schedules to the Consolidated Balance Sheet as at March 31,

In Rupees

	2006	2005
SCHEDULE 1		
SHARE CAPITAL		
AUTHORISED		
200,000,000 Equity Shares of Rs. 10 each	2,000,000,000	2,000,000,000
ISSUED		
58,777,910 Equity Shares of Rs. 10 each	587,779,100	587,779,100
SUBSCRIBED AND PAID-UP		
58,744,935 Equity Shares of Rs. 10 each fully paid	587,449,350	587,449,350
Add : Amount paid-up on shares forfeited	160,115	160,115
	587,609,465	587,609,465
SCHEDULE 2		
RESERVES AND SURPLUS		
Security Premium	1,001,765,038	1,001,765,038
General Reserve	3,870,000	3,870,000
Balance in Profit and Loss Account	831,926,931	711,851,698
	1,837,561,969	1,717,486,736
SCHEDULE 3		
SECURED LOANS		
Loan from bank	163,000,000	275,000,000
(Borrowings are secured by way of charge on Company's Participating Interest in PY-3 Field, first charge on Company's share of Crude Oil receivable from PY-3 Field and charge on Debt Service Reserves Account)		
	163,000,000	275,000,000

Schedules to the Consolidated Balance Sheet as at March 31,

SCHEDULE 4

FIXED ASSETS

in Rupees

Name of the Assets	GROSS BLOCK				DEPRECIATION, AMORTISATION AND DEPLETION				NET BLOCK	
	As at April 1, 2005	Additions during the year	Deductions/ Adjustments during the Year	As at March 31, 2006	As at April 1, 2005	For the Year	Deductions during the year	As at March 31, 2006	As at March 31, 2006	As at March 31, 2005
Producing Properties	1,023,611,001	324,187,606 #	854,629	1,346,943,978	860,963,937	69,832,624	0	930,796,561	416,147,417	162,647,064
OTHER FIXED ASSETS:										
Land-Freehold	3,444,512	0	0	3,444,512	0	0	0	0	3,444,512	3,444,512
Buildings	44,551,324	0	0	44,551,324	19,966,098	1,251,901	0	21,217,999	23,333,325	24,585,226
Office Equipments	13,409,460	6,740,074	40,027	20,109,507	8,774,560	1,679,966	20,672	10,433,854	9,675,653	4,634,900
Computers	10,899,646	5,604,918	38,800	16,465,764	7,405,675	3,846,404	35,613	11,216,466	5,249,298	3,493,971
Office Furniture	9,695,959	6,111,671	0	15,807,630	7,535,549	3,103,941	0	10,639,490	5,168,140	2,160,410
Improvements to Leasehold Premises	0	8,032,485	0	8,032,485	0	3,651,130	0	3,651,130	4,381,355	0
Plant & Machinery	72,776,667	2,480,547	1,675,742	73,581,472	61,759,546	3,773,184	854,629	64,678,101	8,903,371	11,017,121
Vehicles	7,211,063	2,757,132	659,932	9,308,263	3,840,936	1,516,803	391,317	4,966,422	4,341,841	3,370,127
Software	18,755,266	5,709,248	0	24,464,514	12,381,066	6,023,864	0	18,404,930	6,059,584	6,374,200
Total (A)	1,204,354,898	361,623,681	3,269,130	1,562,709,449	982,627,367	94,679,817 *	1,302,231	1,076,004,953	486,704,496 @	221,727,531 @
Capital Work in Progress:										
Development Expenditure	677,174,023	498,521,982	110,414,180	1,065,281,825	0	0	0	0	1,065,281,825	677,174,023
Exploration Expenditure	459,730,298	297,762,657	454,879,934	302,613,021	0	0	0	0	302,613,021	459,730,298
Others	0	38,570	0	38,570	0	0	0	0	38,570	0
Total (B)	1,136,904,321	796,323,209	565,294,114	1,367,933,416	0	0	0	0	1,367,933,416	1,136,904,321
GRAND TOTAL (A + B):	2,341,259,219	1,157,946,890	568,563,244	2,930,642,865	982,627,367	94,679,817	1,302,231	1,076,004,953	1,854,637,912	1,358,631,852
Previous year	1,651,609,950	832,979,917	143,330,648	2,341,259,219	848,625,488	136,765,117	2,763,238	982,627,367	1,358,631,852	802,984,462
Fixed Assets include the Groups share in Joint Venture Assets	2,238,544,107	1,153,545,898	567,824,485	2,824,265,520	926,371,998	86,265,378	854,629	1,011,782,747	1,812,482,773	1,312,172,109

* including Rs. 3,302,287 (previous year: Rs. 5,844,947) charged to Producing Properties and Rs. 13,130,467 (previous year: Rs. 54,205) to Development Expenditure and Rs. Nil (previous year: Rs. 36,223) charged to Exploration Expenditure.

@ including Rs. 8,906,390 (previous year: Rs. 12,192,175) considered for depletion of Producing Properties.

\# includes Rs. 248,767,808 (previous year: Rs. 75,196,398) increase in undiscounted estimated future Site Restoration cost of producing field capitalised.

Schedules to the Consolidated Balance Sheet as at March 31,

in Rupees

	2006	2005
SCHEDULE 5		
INVESTMENTS (FULLY PAID)		
TRADE		
LONG TERM		
QUOTED		
318 Equity Shares of Rs. 10 each of Reliance Industries Ltd.	25,975	49,953
318 Equity Shares of Rs. 5 each of Reliance Communication Ventures Ltd.*	19,332	0
318 Equity Shares of Rs. 10 each of Reliance Energy Ventures Ltd.*	3,647	0
318 Equity Shares of Rs. 10 each of Reliance Capital Ventures Ltd.*	649	0
318 Equity Shares of Rs. 5 each of Reliance Natural Resources Ltd.*	350	0
UNQUOTED		
100,000 Equity Shares of Rs. 10 each of Gujarat Securities Ltd.	1,000,000	1,000,000
CURRENT		
UNQUOTED		
— (31.03.05: 362,836.084) Units of Rs. 10 each of HDFC – Liquid Fund	0	3,668,489
— (31.03.05: 1,036,604.025) Units of Rs. 10 each of HDFC – Liquid Fund Premium Plus Plan	0	12,541,757
— (31.03.05: 2,788,178.124) Units of Rs. 10 each of Prudential ICICI Liquid Fund	0	33,043,814
	1,049,953	50,304,013
Less : Provision for Diminution in value of Investments	999,999	999,999
	49,954	49,304,014
Aggregate cost of quoted investments	49,953	49,953
Market value of quoted investments	383,412	172,674
Aggregate cost of unquoted investments	1,000,000	49,254,061
*Received on split during the year		
SCHEDULE 6		
CURRENT ASSETS, LOANS AND ADVANCES		
CURRENT ASSETS		
Interest accrued on Deposits	3,732,166	4,699,634
INVENTORIES		
Crude Oil	83,697,888	56,611,480
Stores and Spares	98,452,080	24,256,778
Goods in Transit	3,010,956	0
Materials Unpacked	2,891,605	3,296,265
Materials Packed	4,201,852	3,038,515
Packing Material	434,508	295,983
	192,688,889	87,499,021

Schedules to the Consolidated Balance Sheet as at March 31,

in Rupees

	2006	2005
SCHEDULE 6		
CURRENT ASSETS, LOANS AND ADVANCES (Contd.)		
SUNDRY DEBTORS (Unsecured)		
Due for more than six months		
Considered Good	329,240	43,975
Considered Doubtful	1,431,452	0
Others (Considered Good)	90,593,933	110,955,114
	92,354,625	110,999,089
Less : Provision for doubtful debts	1,431,452	0
	90,923,173	110,999,089
CASH AND BANK BALANCES		
Cash on Hand	216,931	174,360
With Scheduled Banks :		
Current Accounts	104,559,731	55,812,130
Deposit Accounts	637,896,859	876,811,293
With Non-scheduled Banks :		
Current Accounts	2,101,729	31,949
	744,775,250	932,829,732
	1,032,119,478	1,136,027,476
LOANS AND ADVANCES		
Considered good (See Notes 2 and 3 of Schedule 16)		
Advances recoverable in cash or in kind or for value to be received	52,008,303	44,833,063
Claims Recoverable	3,772	64,153,080
Inter Corporate Deposits	0	225,000,000
Advance Taxes	513,568,729	358,524,906
	565,580,804	692,511,049
Considered doubtful	15,556,856	17,316,948
Less : Provision for Doubtful Advances / Claims	15,556,856	17,316,948
	0	0
	565,580,804	692,511,049
	1,597,700,282	1,828,538,525

Schedules to the Consolidated Balance Sheet as at March 31,

in Rupees

	2006	2005
SCHEDULE 7		
CURRENT LIABILITIES AND PROVISIONS		
CURRENT LIABILITIES		
Sundry Creditors	224,685,985	283,206,928
Investor Education and Protection Fund		
Unpaid Dividend #	5,405,052	4,389,623
Other Liabilities	2,400,988	3,016,360
	232,492,025	290,612,911
PROVISIONS		
Provision for Leave Encashment	2,441,000	2,290,000
Provision for Site Restoration (See Note 11 of Schedule 16)	250,115,000	74,828,982
Provision for Taxation	489,413,632	314,225,632
Proposed Dividend (including tax thereon)	66,983,913	66,983,913
	808,953,545	458,328,527
	1,041,445,570	748,941,438

\# This does not include any amount due and outstanding to be credited to Investor Education and Protection Fund.

Schedules to the Consolidated Profit and Loss Account for the year ended March 31,

in Rupees

	2006	2005
SCHEDULE 8		
SALES		
Sale of Crude Oil	1,148,529,893	934,812,646
Less : Profit Petroleum to Government of India	206,087,812	79,464,917
	942,442,081	855,347,729
Sale of Additives and Grease	62,686,072	42,073,291
	1,005,128,153	897,421,020
SCHEDULE 9		
OTHER INCOME		
Interest Income (Gross) (See Note 4 of Schedule 16)	46,195,050	54,412,476
Dividend from Current Investments	2,645,280	4,722,254
Dividend from Long Term Investments	2,385	1,670
Net Profit on Sale of Current Investments	420,971	0
Net Profit on Sale of Assets	0	51,041
Gain on Foreign Exchange Fluctuation	5,113,018	0
Miscellaneous Income	689,227	9,647,022
	55,065,931	68,834,463

Schedules to the Consolidated Profit and Loss Account for the year ended March 31,

in Rupees

	2006	2005
SCHEDULE 10		
FIELD OPERATING EXPENSES		
Hire Charges	128,340,160	121,344,595
Insurance	9,194,840	10,759,137
Fuel, Water and Others	442,076	2,834,906
Production Expenses	20,131,254	19,981,299
Other Expenses	8,013,627	8,120,813
Royalty, Cess & Processing Charges	4,501,705	5,062,786
	170,623,662	168,103,536
SCHEDULE 11		
COST OF GOODS FOR RESALE		
Materials Packed & Unpacked		
Opening Stock	6,334,780	3,431,822
Add: Purchases	13,424,161	11,431,787
	19,758,941	14,863,609
Less: Closing Stock	7,093,457	6,334,780
	12,665,484	8,528,829
Packing Materials		
Opening Stock	295,983	195,805
Add: Purchases	4,238,387	3,014,404
	4,534,370	3,210,209
Less: Closing Stock	434,508	295,983
	4,099,862	2,914,226
Packing Cost		
Excise Duty	2,987,085	1,887,724
Repacking Cost	1,048,724	627,681
Cost of Samples & Replacements	(318,333)	(275,541)
Cost of Damaged Goods	(778)	(1,202)
	3,716,698	2,238,662
	20,482,044	13,681,717
SCHEDULE 12		
CORPORATE EXPENSES		
(A) STAFF EXPENSES		
Salaries, Allowances and Bonus	60,779,546	43,298,792
Voluntary Retirement Compensation	2,762,705	0
Contribution to Provident and Other Funds	5,279,723	4,115,067
Welfare Expenses	3,368,152	2,310,101
	72,190,126	49,723,960

Schedules to the Consolidated Profit and Loss Account for the year ended March 31,

in Rupees

	2006	2005
SCHEDULE 12		
CORPORATE EXPENSES (Contd.)		
(B) ESTABLISHMENT EXPENSES		
Rates and Taxes	256,748	501,769
Repairs and Maintenance – Others	8,177,874	6,298,048
General Office Expenses	770,368	971,964
Office and Guest House Rent	6,581,193	416,500
Electricity	2,748,920	2,014,746
	18,535,103	10,203,027
(C) OTHER EXPENSES		
Advertisement and Publicity	46,488	151,217
Auditors' Remuneration#		
Audit Fees	790,000	755,000
Tax Matters	1,060,000	115,000
Other Matters	15,200	56,724
Reimbursement of Expenses	216,499	77,562
Service Tax	107,733	88,185
	2,189,432	1,092,471
Bank Charges and Commission	3,291,167	1,149,614
Books and Periodicals	170,992	103,241
Computer Expenses	638,656	1,128,440
Directors' Fees	280,090	345,000
Stamp Duty and Filing Fees	0	6,050
Insurance	305,705	324,503
Travelling and Conveyance	8,368,956	7,078,480
Communication Expenses	4,669,095	3,094,331
Membership and Subscription	717,580	735,462
Printing and Stationery	3,667,364	2,738,765
Legal and Professional Expenses	34,908,601	20,815,954
Loss on Sale / Discard of Assets	288,057	0
Loss on Foreign Exchange Fluctuation	0	502,809
Loss on Sale of Current Investments	0	2,809,279
Miscellaneous Expenses	8,502,276	5,114,600
	68,044,459	47,190,216
(D) TOTAL CORPORATE EXPENSES (A+B+C)	158,769,688	107,117,203
Less : RECOVERY OF EXPENSES	72,941,565	40,122,764
	85,828,123	66,994,439

Auditors' Remuneration excludes Rs. 150,000 paid to a firm in which some partners of the audit firm are partners.

Schedules to the Consolidated Profit and Loss Account for the year ended March 31,

in Rupees

	2006	2005
SCHEDULE 13		
MARKETING & DISTRIBUTION COSTS		
Distribution Expenses		
Freight	1,295,509	906,130
Others	475,075	342,889
	1,770,584	1,249,019
Marketing Expenses		
Incentives	2,053,648	1,017,507
Product Promotion Expenses	1,427,246	2,574,358
Advertisement	449,752	386,672
Rebates and Discount	3,619,765	1,616,106
Sales Promotion	2,003,174	1,123,626
Others	549,312	414,655
	10,102,897	7,132,924
Selling Expenses		
Commission	2,196,626	1,122,380
Field Staff Expenses	1,323,593	1,377,338
	3,520,219	2,499,718
	15,393,700	10,881,661

	2006	2005
SCHEDULE 14		
PROVISIONS AND WRITE OFFS / (WRITE BACKS)		
Provision for Loss on Revaluation of Current Investments	0	(8,282,864)
Provision for Contingencies	0	(396,574)
Excess Provision Written back	(469,145)	(426,506)
Provision for Doubtful Debtors / Loans	0	(2,603,205)
Bad Debts	567,515	244,193
Exploration Expenses Written off (See Note 3 of Schedule 15)	418,347,620	0
Share Issue Expenses Written off	287,500	287,500
Deferred Revenue Expenditure Written off (Signature Bonus)	0	208,334
	418,733,490	(10,969,122)

Schedules to the Financial Statement for the year ended March 31, 2006

SCHEDULE 15

SIGNIFICANT ACCOUNTING POLICIES

1. Accounting Convention

   The Accounts of the Company and its wholly owned subsidiary ("The Group") have been prepared using the accrual concept on a going concern basis consistently.

2. Basis of Consolidation

   The financial statements of the Group have been consolidated on a line by line basis after eliminating all significant intra-group transactions in accordance with the Accounting Standard 21 'Consolidated Financial Statements' issued by The Institute of Chartered Accountants of India (ICAI).

3. Exploration and Development Costs

   The Group generally follows the "Successful Efforts'' method of accounting for its exploration and production activities as explained below:

   (i) Cost of exploratory wells, including survey costs, is expensed in the year when determined to be dry/abandoned or is transferred to the producing properties on attainment of commercial production.

   (ii) Cost of temporary occupation of land, successful exploratory wells, development wells and all related development costs, including depreciation on support equipment and facilities, are considered as development expenses, which are capitalised as producing properties on attainment of commercial production.

   (iii) Producing properties, including the cost incurred on dry wells in development areas, are depleted using "Unit of Production'' method based on estimated proven developed reserves. Any changes in Reserves and/or Cost are dealt with prospectively. Hydrocarbon reserves are estimated and/or approved by the Management Committee of the joint ventures, which follow the International Reservoir Engineering Principles.

   Explanatory Note

   1. All exploration costs including acquisition of geological and geophysical seismic information, license and acquisition costs are initially capitalized as "Capital Work in Progress - Exploration Expenditure", until such time as either exploration well(s) in the first drilling campaign is determined to be successful, at which point the costs are transferred to "Producing Properties", or it is unsuccessful in which case such costs are written off consistent with para 2 below.

   2. Exploration costs associated with drilling, testing and equipping exploratory well and appraisal well are initially capitalized as "Capital Work in Progress - Exploration Expenditure", until such time as such costs are transferred to "Producing Properties" on attainment of commercial production <u>or</u> charged to the Profit and Loss Account unless:

      (a) such well has found potential commercial reserves; or

      (b) such well test result is inconclusive and is subject to further exploration or appraisal activity like acquisition of seismic, or re-entry of such well, or drilling of additional exploratory/step out well in the area of interest, such activity to be carried out no later than 2 years from the date of completion of such well testing;

      Management makes quarterly assessment of the amounts included in "Capital Work in Progress - Exploration Expenditure" to determine whether capitalisation is appropriate and can continue. Exploration well(s) capitalised beyond 2 years are subject to additional judgment as to whether facts and circumstances have changed and therefore the conditions described in (a) and (b) no longer apply.

4. Site Restoration

   Estimated future liability relating to dismantling and abandoning producing well sites and facilities whose estimated producing life is expected to end during next ten years is expensed in proportion to the production for the year and remaining estimated proved reserves of hydrocarbons based on latest technical assessment available with the Group.

5. Impairment

   At each Balance Sheet date, the Group reviews the carrying amount of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of impairment loss.

   Where the impairment loss subsequently reverses, the carrying amount of the asset (cash generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior accounting periods.

6. Joint Ventures

   The financial statements of the Group 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 Group's accounts to the extent of the participating interest of the Group as per the various joint venture agreements.

7. Fixed Assets

   Fixed Assets are stated at cost inclusive of all incidental expenses.

8. Depreciation
   (i) Depreciation is provided on the " Written Down Value'' method at the rates specified in Schedule XIV of the Companies Act, 1956.
   (ii) In case of additions during the year, depreciation is provided for the full year irrespective of the date of installation and no depreciation is provided in the year of sale/disposal.
   (iii) Improvements to Leasehold premises are amortised over the remaining primary lease period.

9. Intangible Assets (Software)
   Software are stated at cost of acquisition less accumulated amortisation and are included in fixed assets. Computer software is amortised on the "Written Down Value" method at 40% per annum.

10. Investments
    Investments are capitalised at cost plus brokerage and stamp charges. Long-term investments are valued at cost. Provision is made for other than temporary diminution in the value of long-term investments. Current investments are valued at the lower of cost and fair value on individual scrip basis.

11. Inventories
    (i) Closing stock of crude oil in saleable condition is valued at Net Realisable Value. Oil additives are valued at cost or market price whichever is lower on FIFO basis.
    (ii) Stores and spares are valued at cost on FIFO basis or market price, whichever is lower.
    (iii) Cost of unpacked materials includes freight, customs duty, insurance and clearing charges. Cost of Packed Materials includes repacking charges, packing materials etc.

12. Miscellaneous Expenditure
    (i) Share issue expenses are written off over a period of ten years commencing from the year of issue.
    (ii) "Signature Bonus" paid upon signing of Production Sharing Contract is considered as deferred revenue expense to be written off over three to five years commencing from the year of payment, depending on the size of the field.

13. Revenue Recognition
    (i) Revenue from the sale of crude oil and gas net of Government's share of Profit oil, is recognised on transfer of custody to refineries/others.
    (ii) Sale of crude oil is recorded at the invoiced price, which is subject to the approval of the Government of India, Ministry of Petroleum & Natural Gas (MoP&NG). The difference between the invoiced price and the final approved price, if any, is adjusted in the year in which the aforesaid approval is received.
    (iii) Sales turnover of oil additives includes sale value of goods (net of trade discount) and excludes Sales Tax.

14. Retirement Benefits
    (i) The Group has defined contribution plan for Provident Fund and benefit-defined Superannuation Fund and the Group's contributions thereto are charged to the Profit and Loss Account.
    (ii) The Group has participated in Group Gratuity cum Life Assurance Scheme of Life Insurance Corporation of India for gratuity payable to the employees and cost of the scheme is charged to the Profit and Loss Account based on an actuarial valuation.
    (iii) Provision for leave encashment is made as per actuarial valuation basis as at the end of the financial year.

15. Borrowing Costs
    Borrowing Costs specifically identified to the acquisition or construction of qualifying assets are capitalised as part of such asset. A qualifying asset is one that necessarily takes substantial period of time to get ready for intended use. All other borrowing costs are charged to the Profit and Loss Account.

16. Foreign Currency Transactions
    (i) Transactions denominated in foreign currencies are recorded at the exchange rate prevailing at the time of the transaction.
    (ii) Monetary items denominated in foreign currencies at the year end and not covered by forward exchange contracts are translated at the year end rates and those covered by forward exchange contracts are translated at the rate ruling at the date of transaction as increased or decreased by the proportionate difference between the forward rate and exchange rate on the date of transaction, such difference having been recognised over the life of the contract.
    (iii) Any gain or loss arising on account of exchange difference on settlement or translation is recognised in the Profit and Loss Account except in cases where they relate to the acquisition of fixed assets outside India in which case they are adjusted to the carrying costs of such assets.

17. Taxation
The Group adopts full provision basis for deferred tax, in accordance with the Accounting Standard 22 “Accounting for Taxes on Income”. Provision for deferred tax asset/liability is made for timing differences which have arisen but not reversed at the balance sheet date and are expected to reverse in the foreseeable future. Deferred Tax asset is recognised when there is a reasonable certainty of future taxable income except for deferred tax assets in respect of unabsorbed loss or depreciation where it is recognised only if there is a virtual certainty with convincing evidence.

SCHEDULE 16

NOTES FORMING PART OF THE ACCOUNTS

1. The Group’s consolidated financial statement includes those of HOEC Bardahl India Limited, a wholly owned subsidiary, incorporated in India.
2. Out of the total Loans and Advances, amounts aggregating Rs. 104,036 (As at 31.03.05: Rs. 189,676) are secured.
3. Advances receivable in cash or kind or for value to be received includes Rs.1,354,621 (As at 31.03.2005: Rs. 1,354,621) paid towards capital commitment.
4. Interest Income includes interest on: in Rupees

	Year ended March 31	
Particulars	2006	2005
Deposits	46,178,951	54,388,995
Staff Loans	12,744	23,481
Others	3,355	0
Total	46,195,050	54,412,476

5. Contingent Liabilities:

	As at March 31,	
Particulars	2006	2005
In respect of Bank Guarantees	133,936,443	49,909,014
In respect of Guarantee for Housing Loan to employees	3,115,705	3,797,500
Estimated amount of contract remaining to be executed on capital account and not provided for (Excluding Company’s share of Joint Ventures’ commitments and including Rs. 136,823,000 in respect of a farm-in consideration for acquisition of participating right, in one of the Joint Venture)	139,851,359	377,163,359

6. Claims not acknowledged as debt :

	As at March 31,	
Particulars	2006	2005
Dispute with Contractors where the matter is under arbitration	23,788,903	37,765,544
In respect of Customs Duty where the matter is in appeal	540,464	540,464
Income Tax demands where the matters are in appeal	127,149,119	88,699,508

7. The Government had encashed the Performance Bank Guarantee of Rs. 101.49 lac for PG Block abandoned by the consortium under the *force majeure* clause of the Production Sharing Contract (PSC). The Government has also raised an additional demand of Rs. 2,378.01 lac (including interest) (As at 31.03.05 : Rs. 2,154.93 lac). The Parent Company has been legally advised that the said actions of the Government are not justified. The Parent Company has initiated legal proceeding as per the provisions of the PSC in the matter. Pending the outcome of this, provision has been made in this regard to the extent of Rs.101.49 lac (As at 31.03.05 : Rs.101.49 lac).
8. As per the Accounting Standard on ‘Related Party Disclosures’ (AS 18), issued by The Institute of Chartered Accountants of India, the related parties of the Group are as follows:
   (A) Entity with Substantial Interest
   Unocal Bharat Limited
   (B) Joint Venture Partners
   Gujarat State Petroleum Corporation Limited
   Hardy Exploration & Production (India) Inc.
   Heramec Limited
   Indian Oil Corporation Limited
   Mafatlal Industries Limited
   Mosbacher (India) LLC
   Oil and Natural Gas Corporation Limited
   Oil India Limited
   Premier Oil North East India BV
   Tata Petrodyne Limited

(C) Key Management Personnel

Mr. Rakesh Jain

The financial statements of the Group 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 Group's accounts to the extent of the participating interest of the Group as per the various joint venture agreements.

The Nature and volume of transactions of the Group during the year with the above parties were as follows:

in Rupees

Particulars	Joint Ventures' Partners	Key Management Personnel
EXPENDITURE		
— Recovery of Expenses	16,897,088	0
— Remuneration	0	7,624,953

9. Segment reporting in terms of Accounting Standard 17 is as under:

in Rupees

Particulars	Year ended March 31, 2006	2005
1. Segment Revenue		
— Hydrocarbon	975,224,243	867,944,070
— Oil Additives	62,792,563	42,001,836
— Unallocated	49,263,686	59,187,441
Gross Sales/Income From Operations	1,087,280,492	969,133,347
2. Segment Results		
— Hydrocarbon	229,875,500	553,656,356
— Oil Additives	18,833,224	11,097,945
— Unallocated	31,045,106	51,145,688
Total Profit Before Tax	279,753,830	615,899,989

in Rupees

Particulars	As at March 31, 2006	2005
3. Segment Assets		
— Hydrocarbon	2,274,907,921	1,710,102,661
— Oil Additives	22,232,519	12,031,882
— Unallocated	1,332,476,564	1,606,903,096
Total Assets	3,629,617,004	3,329,037,639
4. Segment Liabilities		
— Hydrocarbon	(471,349,251)	(361,440,744)
— Oil Additives	(13,698,774)	(6,291,149)
— Unallocated	(719,397,545)	(656,209,545)
Total Liabilities	(1,204,445,570)	(1,023,941,438)
5. Additions to Tangible and Intangible Fixed Assets		
— Hydrocarbon	1,157,203,837	832,643,709
— Oil Additives	743,053	336,208
— Unallocated	0	0
Total Additions to Tangible and Intangible Fixed Assets	1,157,946,890	832,979,917

Contd.... in Rupees

Particulars	Year ended March 31, 2006	2005
6. Depreciation and Amortisation		
— Hydrocarbon	77,950,804	88,057,020
— Oil Additives	296,259	159,490
— Unallocated	0	0
Total Depreciation and Amortisation	78,247,063	88,216,510
7. Non Cash Expenses other than Depreciation and Amortisation		
— Hydrocarbon	418,635,120	2,627,545
— Oil Additives	98,370	(58,713)
— Unallocated	0	(8,282,864)
Total Non Cash Expenses other than Depreciation and Amortisation	418,733,490	(10,969,122)

10. Taxation:

As stated in item 17 of Significant Accounting Policies (Schedule 15), deferred tax asset and liability has been calculated as under:

in Rupees

Particulars	As at March 31, 2006	2005
Deferred tax asset		
Exploration Expenses	273,000,000	145,508,000
Provisions for Contingencies and Doubtful Loans & Debts	5,681,826	5,880,018
Site Restoration	0	10,159,000
Leave Encashment	797,324	781,463
Bonus	3,226	6,138
VRS Expenditure	700,000	0
Gratuity Provision	160,000	0
Sub total (A)	280,342,376	162,334,619
Deferred tax liability		
Depreciation on Fixed Assets	3,872,020	1,615,371
Producing Properties	84,529,000	68,731,000
Site Restoration	15,000,000	0
Sub total (B)	103,401,020	70,346,371
Net deferred tax asset (A – B)	176,941,356	91,988,248

11. In terms of Accounting Standard 29, the movement in provision for Site Restoration is as follows.

As per the terms of Production Sharing Contract this liability will arise at the time of abandonment of the field.

in Rupees

Particulars	As at March 31, 2006	2005
Opening Provision	74,828,982	42,613,229
Add: Provision for the Year	173,938,826	32,583,169
Less: Effect of Change in exchange rate	(1,347,192)	(367,416)
Closing Provision	250,115,000	74,828,982

12. Previous year’s figures have been regrouped and rearranged wherever necessary.

GLOSSARY

2D Seismic	–	*Two Dimensional Seismic*
3D Seismic	–	*Three Dimensional Seismic*
2P Reserves	–	*Proven and Probable Reserves*

Proved Reserves are those quantities of petroleum which, by analysis of geological and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under current economic conditions, operating methods, and government regulations. If probabilistic methods are used, there should be at least 90% probability that the quantities actually recovered will equal or exceed the estimate.

Probable Reserves are those unproved reserves which analysis of geological and engineering data suggests are more likely than not to be recoverable. In this context, when probabilistic methods are used, there should be at least a 50% probability that the quantities actually recovered will equal or exceed the sum of estimated proved plus probable reserves.

boe	–	*barrels of oil equivalent*
bopd	–	*barrels of oil per day*
boepd	–	*barrels of oil equivalent per day*
DP	–	*Depository Participant*
Development well	–	*A well drilled within the proved area of an oil or natural gas reservoir to the depth of a stratigraphic horizon known to be productive.*
DGH	–	*Directorate General of Hydrocarbons*
Exploratory well	–	*A well drilled to find oil or gas in an unproved area, to find a new reservoir in an existing field or to extend a known reservoir.*
E&P	–	*Exploration and Production*
JOA	–	*Joint Operating Agreement*
mmscfd	–	*Million standard cubic feet per day*
mmscm	–	*Million standard cubic meters*
MoP&NG	–	*Ministry of Petroleum and Natural Gas*
NELP	–	*New Exploration Licensing Policy*
HEPI	–	*Hardy Exploration and Production (India) Inc.*
HOEC	–	*Hindustan Oil Exploration Company Limited*
PSC	–	*Production Sharing Contract*
scmd	–	*standard cubic meters per day*
SEBI	–	*Securities and Exchange Board of India*
Working interest basis	=	*Field Production x Participating Interest*
Entitlement basis	=	*Working interest basis less Govt. of India Profit petroleum take*
Turnover	=	*Sales + Increase/(Decrease) in Stock of Crude Oil (Other Income is excluded)*

TEAR HERE

HINDUSTAN OIL EXPLORATION COMPANY LIMITED

Regd. Office: 'HOEC House', Tandalja Road, Vadodara - 390 020

ATTENDANCE SLIP

[To be presented at the entrance]

I hereby record my presence at the 22ND ANNUAL GENERAL MEETING of the Company held on Thursday, September 28, 2006 at 10.30 A.M. at 'Tropicana Hall', Taj Residency Vadodara, Akota Gardens, Akota, Vadodara–390 020

Folio No. ______________________ DP ID No. ________________ Client ID No. __________________________________

Name of the Shareholder/Proxy :____

No. of Shares :_________________

Date: September 28, 2006

____

Signature of the Shareholder/Proxy

HINDUSTAN OIL EXPLORATION COMPANY LIMITED

Regd. Office: 'HOEC House', Tandalja Road, Vadodara - 390 020

PROXY FORM

Folio No. __________________ DP ID No.___________________________ Client ID No.___________________________

No. of Shares : _____________________________

I/We ____ of _______________________________ in the district

of ______________________________ being a Member(s) of Hindustan Oil Exploration Company Limited hereby

appoint _______________________________________ of _____________________________________ or failing him/her

____ of ______________________________________ as my/our proxy to

attend and vote for me/us and on my/our behalf at the 22nd Annual General Meeting of the Company to be held on Thursday, September 28, 2006 at 10.30 A.M. and at any adjournment thereof.

Signed this __________________ day of _____________________ 2006.

Affix
15 paise
Revenue
Stamp

(....Signature....)

NOTE: The Proxy Form must be deposited at the Registered Office of the Company not less than 48 hours before the time for holding the Meeting.

AUDITORS	M/s. S. B. Billimoria & Company Chartered Accountants
COMPANY SECRETARY	Mr. Vikash Jain
PRINCIPAL BANKERS	HDFC Bank Limited UTI Bank Limited ABN AMRO Bank N.V. The Hong Kong and Shanghai Banking Corporation Limited
REGISTERED OFFICE	'HOEC House', Tandalja Road Vadodara – 390 020 (India) E-mail: contact@hoec.com Website: www.hoec.com
CHENNAI OFFICE	'Lakshmi Chambers' 192, St. Mary's Road Alwarpet Chennai – 600 018 (India)
REGISTRARS AND SHARE TRANSFER AGENT	Intime Spectrum Registry Limited 1st Floor, 308, Jaldhara Complex Opp. Manisha Society Vasna Road, Off Old Padra Road Vadodara – 390 015 (India) E-mail: vadodara@intimespectrum.com

Hindustan Oil Exploration Company Limited

Website: www.hoec.com

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