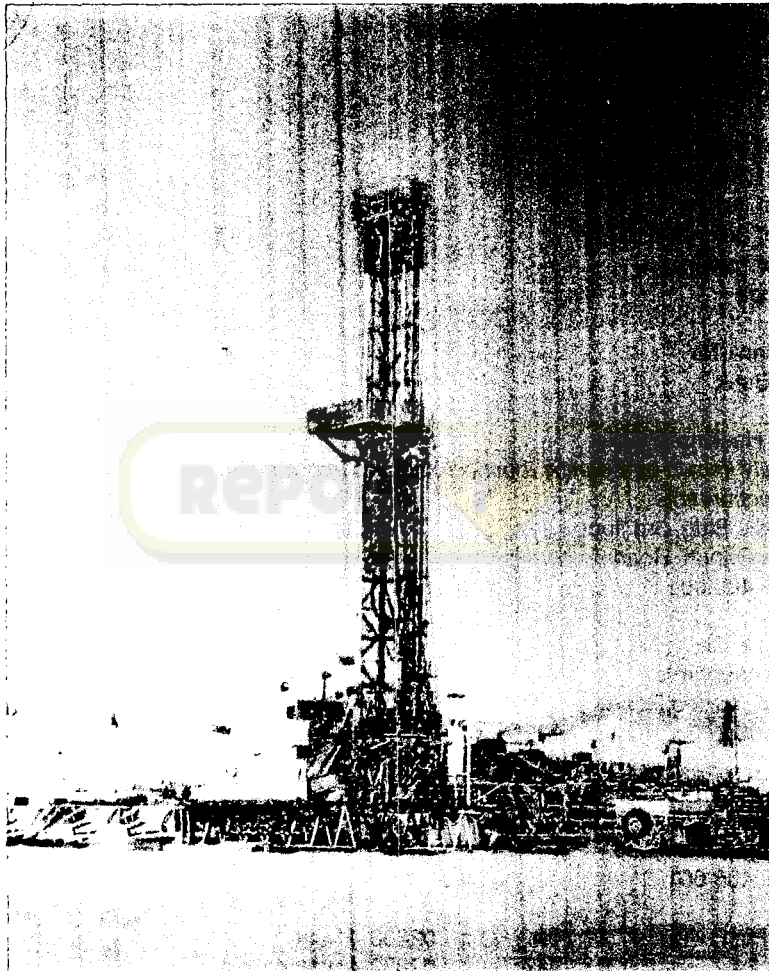




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RO	<input checked="" type="checkbox"/>		DIV	<input checked="" type="checkbox"/>
TRA	<input checked="" type="checkbox"/>		AC	<input checked="" type="checkbox"/>
AGM	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	SEI	<input checked="" type="checkbox"/>
YE	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>

Essar Oil Limited



**Ninth
Annual Report
1997-98**

Essar Oil Limited

BOARD OF DIRECTORS	Shashi Ruia	<i>Chairman</i>
	Ravi Ruia	<i>Vice Chairman</i>
	R K Sukhdevsinhji	<i>Managing Director</i>
	Anshuman S Ruia	
	E B Desai	
	S V Venkatesan	
	Dilip J Thakkar	
	S K Chakrabarti	<i>Nominee of IDBI</i>
	M M Kapur	<i>Nominee of UTI</i>
	A T Kusre	<i>Nominee of ICICI</i>
P S Teckchandani	<i>Whole-time Director</i>	
Shishir R Agrawal	<i>Director - Finance</i>	
COMPANY SECRETARY	Sheikh S Shaffi	
BANKERS	State Bank of India	
	State Bank of Mysore	
	State Bank of Indore	
	State Bank of Bikaner & Jaipur	
	State Bank of Travancore	
	Bank of Baroda	
	Indian Bank	
	ABN Amro Bank NV	
The Sakura Bank		
AUDITORS	M/s. Deloitte Haskins & Sells	
	<i>(Internationally known as Deloitte Touche Tohmatsu International)</i>	
	Chartered Accountants	
	Jehangir Wadia Bldg, 3rd floor	
	51, Mahatma Gandhi Road	
	Fort, Mumbai 400 001	
INTERNAL AUDITORS	M/s. B. P. Jain & Co.	
	Chartered Accountants	
	A-16, Everest, Tardeo Road	
	Mumbai 400 034	
SOLICITORS	M/s. Mulla & Mulla & Craigie Elunt & Caroe	
	Jehangir Wadia Bldg.	
	51, Mahatma Gandhi Road	
	Fort, Mumbai 400 001	
REGISTERED OFFICE	Khambhalia Post	Tel. : 02833-41444
	Post Box No. 24	Fax : 02833-41818/41414
	Dist. Jamnagar - 361 305	
	Gujarat	
CORPORATE OFFICE	Essar House	Tel. : 022-4950606
	P O Box No. 7913	Fax : 022-4854281
	11, Keshavrao Khadye Marg	E-mail : shaffi.essaroil@wiprobtgw.
	Mahalaxmi	wiprobt.ems.vsnl.net.in
	Mumbai 400 034	Web site : http://essar.com
TRANSFER AGENTS	M/s. MCS Limited	Tel. : 044-5240116-20
	Unit: Essar Oil Limited	Fax : 044-5223306
	'Sri Venkatesh Bhavan'	
	35, Armenian Street	
Chennai 600 001		

Cover Photo : Land Rig operating in Oman

NOTICE

NOTICE is hereby given that the **Ninth Annual General Meeting** of the members of **ESSAR OIL LIMITED** will be held at the Registered Office, Khambhalia Post, (40th Km Stone on Jamnagar - Okha Highway) Dist. Jamnagar - 361305, Gujarat on **Thursday the 2nd July, 1998** at 11:00 a.m. to transact with or without modifications, as may be permissible, the following business as :

ORDINARY BUSINESS :

1. To receive, consider and adopt the Balance Sheet as at 31st March, 1998, the Profit & Loss Account for the year ended on that date and the reports of the Board of Directors and Auditors thereon.
2. To appoint a Director in the place of Shri. S N Ruia, who retires by rotation as a Director and being eligible offers himself for re-appointment.
3. To appoint a Director in the place of Shri. P S Teckchandani, who retires by rotation as a Director and being eligible offers himself for re-appointment.
4. To appoint a Director in the place of Shri. A S Ruia, who retires by rotation as a Director and being eligible offers himself for re-appointment.
5. To appoint Auditors to hold office from the conclusion of this Annual General Meeting until the conclusion of the next Annual General Meeting and to fix their remuneration.

SPECIAL BUSINESS :

6. To approve the appointment of Shri. S R Agrawal as Director - Finance of the Company and to consider and, if thought fit, to pass the following Resolution as a **Special Resolution** :-

"RESOLVED THAT pursuant to the provisions of Sections 198, 269, 309, 314 and other applicable provisions, if any, of the Companies Act, 1956, and Schedule XIII thereto and subject to the approval of the concerned authorities, if any necessary, and subject to applicable guidelines issued by the Central Government, from time to time, approval of the Company be and is hereby given to the appointment of Shri. S R Agrawal on the Board as a Whole-time Director, designated as Director - Finance for a period of five years with effect from the 28th November, 1997 upon the terms and conditions as to remuneration and otherwise as set out in the Explanatory Statement annexed to this Notice."

"RESOLVED FURTHER THAT the Directors be and are hereby authorised to revise the terms of his remuneration and in particular give annual increments in his monthly salary in such amount as the Board thinks fit with proportionate increase in the perquisites related to the monthly salary and subject to the limits in that behalf as per Schedule XIII of the said Act as explained in the Explanatory Statement in respect of this item of Notice with the liberty to agree to modifications, if any, of the above terms as may be suggested by any authority wherever applicable and as agreed to by the Board of Directors and the said Shri. Agrawal."

7. To consider and, if thought fit, to pass the following resolution as a **Special Resolution**:-

"RESOLVED pursuant to Section 81 and other applicable provisions of the Companies Act, 1956 and subject to such approvals, consents, permissions and sanctions as may be necessary from the Government of India (GOI), Reserve Bank of India (RBI), and/or any other authorities or institutions as may be relevant, the Board of Directors of the Company (hereinafter called

"The Board" which shall include any committee constituted/to be constituted by the Board for exercising the powers conferred on the Board by this resolution) be and it is hereby authorised to offer / issue and allot Equity / Preference Shares, Fully / Partially Convertible Bonds / Debentures, Depository Receipts, any other instruments / securities in the nature of Shares / Debentures / Bonds, Securities in registered or bearer forms, warrants convertible into Shares along with any such securities in the International Market to Foreign Institutional Investors / Foreign Companies, whether incorporated or not / Overseas Corporate Bodies (OCB's) / Foreign Nationals / Non-resident Indians (NRI's) / Promoters and/or their Associates, such other entities as may be decided by the Board through Prospectus, Offering Letter, Circular, or through any other mode on private placement, preferential basis as the case may be from time to time in one or more tranches, as may be deemed appropriate by the Board for an amount not exceeding US \$250 Million on such terms and conditions including pricing as the Board may in its sole discretion decide."

"RESOLVED FURTHER THAT for the purposes of giving effect to this resolution, the Board be and it is hereby authorised to do all acts, deeds, matters and things as it may, in its absolute discretion, deem necessary or to settle any question, difficulty or doubt that may arise in regard to the offer, issue, allotment and utilisation of the issue proceeds as it may deem fit."

8. To consider, and if thought fit, to pass the following resolution as an **Ordinary Resolution** :

"Supplemental to the earlier resolution passed at the Extra Ordinary General Meeting of the Company held on 4th October, 1994 RESOLVED THAT pursuant to the provisions of section 293(1)(a) and all other applicable provisions, if any, of the Companies Act, 1956 consent of the Company be and is hereby accorded to the Board of Directors of the Company including a committee thereof for creating mortgages and/or charges, on such terms and conditions and at such time (s) and in such form and manner as it may think fit, all or any of the movable or immovable properties of the Company, wheresoever situated, both present and future or the whole or substantially the whole or any one or more of the Company's undertaking/s in favour of all or any of the financial institutions, banks, trustees, investing agencies, bodies corporate, corporations, foreign institutional investors, any foreign lenders, any other person(s), or any combination of the above (whether Indian or Foreign entity) to secure rupee, foreign currency loans, debentures, bonds, convertible loans, fully /partly paid convertible / non-convertible bonds, or any other debt instruments (by private placement basis or otherwise) of an equivalent aggregate value not exceeding Rs.10,000 Crores together with interest thereon at the respective agreed rates, compound interest, additional interest, liquidated damages, commitment charges, premia on pre-payment or on redemption, costs, charges, expenses and all other monies payable by the Company to the aforesaid parties or any of them under the agreements entered into / to be entered into by the Company in respect of the said loans, debentures, bonds and or other instruments."

"RESOLVED FURTHER THAT the securities to be created by the Company as aforesaid may rank pari passu with the mortgages and/or charges already created or to be created in future by the Company or in such other manner and ranking as may be thought expedient by the Board of Directors and as may be agreed to between the concerned parties."

Essar Oil Limited

"RESOLVED FURTHER THAT the Board of Directors of the Company be and is hereby authorised to finalise with any or all of the aforesaid parties, the documents for creating the mortgages / charges / hypothecation and accepting or making any alterations, changes, variations to or in the terms and conditions, and to do all such acts, deeds, matters and things and to execute all such documents and writings as it may consider necessary, desirable or expedient for the purpose of giving effect to this resolution and to resolve any question or doubt relating thereto or otherwise considered by the Board of Directors to be in the best interest of the Company."

By Order of the Board of Directors

Mumbai
20th May, 1998

SHEIKH S SHAFFI
Company Secretary

Registered Office :
Khambhalia Post,
Dist. Jamnagar-361 305
Gujarat.

NOTES :

- (a) The relative Explanatory Statement pursuant to Section 173 of the Companies Act, 1956 in respect of the business under item nos.6 to 8 set out above is annexed hereto.
- (b) **A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote instead of himself and the proxy need not be a member.**
- (c) All documents referred to in the accompanying Notice and the Explanatory Statement are open for inspection at the Registered Office of the Company on all working days, except Saturdays, Sundays and Bank holidays, between 11 a.m. and 1 p.m. upto the date of the Annual General Meeting.
- (d) Members/proxies should bring the attendance slip duly filled in for attending the meeting.
- (e) The Register of Members and Transfer Books of the Company will be closed from Monday the 29th June, 1998 to Thursday the 2nd July, 1998, both days inclusive.
- (g) Members desiring any information with regard to Accounts are requested to write to the Company at least 10 days before the date of the meeting, so as to enable the management to keep the information ready.

ANNEXURE TO NOTICE :

Explanatory Statement pursuant to Section 173 of the Companies Act, 1956 in respect of item nos. 6 to 8 of the accompanying notice is as under :

Item No. 6

Shri. S R Agrawal has been appointed by the Board for a period of five years with effect from the 28th November, 1997 as Whole-time Director designated as Director - Finance subject to the requisite approval of the Company in General Meeting relating to the terms of his remuneration. He is Chartered Accountant and also qualified Company Secretary besides being a Law Graduate. He has been with the Company for the last several years and has gained considerable experience in the Company's existing line of business and particularly in the field of Finance, Accounts and Commercial activities. He joined Essar Group in 1986 as Finance Manager and in 1990 he became

Chief Executive of Contract Drilling Operations and his record with the Company is quite remarkable. As a result of his long association with the Company, your Board is of the opinion that his presence on the Board would be of considerable benefit to the Company.

The terms of appointment and remuneration payable are as under :

Basic Salary : Rs.34,240/- per month in the scale of Rs.30,000/- to Rs.75,000/-, the annual increments to be determined by the Board.

Perquisites And Allowances:

Accommodation / House Rent Allowance	: Company accommodation in accordance with prescribed standards or 60% of the salary per month as House Rent Allowance.
City Allowance	: Rs.1850/- (revised to Rs. 3000/-) per month.
Education Allowance	: Rs.500/- per month.
Other Allowances	: Rs.99,696/- per month.
Performance Bonus	: As per Company's Rules.
Medical / Hospitalisation Expenses Reimbursement	: As per Company's rules as applicable to Senior Executives from time to time.
Leave Travel Allowance	: Rs. 38,400/- per annum.
Provident Fund	: 12% of basic salary and city allowance.
Gratuity	: 15 days salary for every completed year of service.
Superannuation	: 13% (revised to 15%) of salary per annum as Company's contribution.
Club fees / Personal Accident Insurance	: As per Company's Rules as applicable to Senior Executives from time to time.
Conveyance and Telephone	: The Company shall provide car with driver and telephone at the Director's residence for official use.
Earned / Privilege Leave	: As per the Rules of the Company as applicable to Senior Executives from time to time.
Entertainment Allowance	: Reimbursement of expenses incurred for business purpose on actual basis.

Subject as aforesaid, the perquisites and allowances may be altered and varied from time to time in accordance with the Company's Rules and /or by the Board. However, the aggregate value of perquisites and allowances shall be restricted to Rs.300,000 /- per month. Further, he shall be governed by such of the existing service rules as applicable to Senior Executives from time to time.

Notwithstanding anything hereinabove contained, in the event of loss or inadequacy of profits in any financial year, the Wholetime Director shall be paid remuneration by way of salary, perquisites and allowances as specified above.

Your Directors recommend this resolution for your approval.

None of the Directors except Shri. S R Agrawal is concerned or interested in the resolution.

The above may be treated as an abstract pursuant to Section 302 of the Companies Act, 1956.

Item No. 7

The members had earlier authorised the Board at the Seventh Annual General Meeting held on 27/9/96 to offer / issue in the International Market various securities for an aggregate amount not exceeding US \$250 Million to part finance the Refinery Project.



In furtherance of the resolution the Company has taken various steps in this regard and, as of the date, received in-principle approval from Ministry of Finance to issue Foreign Currency Convertible Bonds (FCCBs) for US \$142 Million. The issue is intended to be made as per approved terms on receipt of the final approval from Ministry of Finance to the foreign investors. In the likelihood of the issue being fully underwritten or subscribed by one or a few select group of investors, which may include collaborators, companies in oil and gas industry, financial investment companies, promoters and/or their associates, the Company has been advised that the offer of such FCCBs to the select group of investors may attract the provisions of the SEBI/RBI Guidelines on preferential issues. Hence, the Company proposes the Special Resolution as mentioned in the item no. 7 of this Notice which will give adequate flexibility to the Company through its Board or any committee thereof in making the above FCCBs offer as well as the other International offers for the balance amount, subject however to the aggregate of all such offers shall not exceed US \$250 Million either to the investors at large or to select group of investors.

The detailed terms and conditions for the International Offer will be determined in consultation with the Lead Managers, Advisors, Underwriters and/or such other agencies to the issue. Wherever necessary and applicable the pricing of the issue will be done in accordance with the applicable guidelines of SEBI, RBI and other relevant authorities, in force.

The Board of Directors therefore, recommend the resolution for your approval.

None of the Directors of the Company is any way concerned or interested in the resolution.

Item No.8

The members have approved the creation of mortgages/charges on the Company's movable / immovable properties in favour of term lending

financial institutions, commercial banks, trustees for debenture-holders, government institutions and/or authorities at the Extra Ordinary General Meeting held on 4th October, 1994 for an amount not exceeding Rs.10,000 crores.

The Company has accordingly approached various financial institutions/banks / foreign lenders for financial assistance for the Refinery project at Jamnagar and will also obtain in the near future financial assistance by way of Foreign Syndicated Loans, External Commercial Borrowings, Issue of Bonds, Floating Rates Notes, or any other debt instruments which may be secured by creation of mortgages, charges and hypothecation of assets of the Company.

In terms of Section 293(1)(a) of the Companies Act, 1956, the shareholders approval is required to create mortgages and /or charges on the assets of the Company. This resolution will enable the Company to create mortgage in favour of foreign lenders and / or trustees to the secured debt instruments in addition to the parties mentioned in the earlier resolution eventhough the limit of Rs.10,000 crores remain same. The Directors accordingly recommend this resolution for your approval. None of the Directors is concerned or interested in the resolution.

By Order of the Board of Directors

Mumbai
20th May, 1998

SHEIKH S SHAFFI
Company Secretary

Registered Office :
Khambhalia Post,
Dist. Jamnagar,
Gujarat - 361305.

Directors' Report

To The Members of Essar Oil Limited

The Directors have pleasure in presenting the Ninth Annual Report together with the audited accounts of the Company for the year ended March 31, 1998.

FINANCIAL RESULTS :

	(Rs. in Crores)	
	1997-98	1996-97
Gross Income	228.96	325.97
Gross Profit	41.77	68.58
Less : Depreciation	19.15	19.81
Profit before tax	22.62	48.77
Less : Provision for Income Tax	2.38	6.30
Net Profit	20.24	42.47
Add : Balance brought forward from the previous year	96.99	88.37
Total amount available for appropriations	117.23	130.84
Less : Appropriations		
(a) Transfer to General Reserves	—	—
(b) Dividend	—	30.77
(c) Tax on proposed dividend	—	3.08
Balance carried to Balance Sheet	117.23	96.99

CONVERSION OF PART C OF OFCDs :

As per the terms of the Prospectus the Promoter Companies have converted in full the Part C of 3,15,79,003 OFCDs of Rs.105/- each into 6,31,58,006 Equity Shares at a premium of Rs.42.50 whereas the public shareholders have exercised option to convert 11,58,300 OFCDs into 23,16,600 Equity Shares. Consequently the Share Capital has increased to Rs.417.07 Crores.

EXISTING OPERATIONS :

Your Company's presence in the Middle East through its Contract Drilling Division continues to grow from strength to strength. Contracts valued at over US \$240 Million are being executed in Oman and Qatar. A significant achievement during the year was the entry into Kuwait by securing a contract worth US \$16 Million with PNZ WG, a joint venture between the government owned Kuwait Oil Company and the US oil major Texaco. With this almost all the rigs are deployed in the Middle East region, making Essar Oil one of the major Drilling Contractors in the oil rich area. The international onshore drilling market is firming up with increase in demand accompanied by rise in charter hire rates. In the last one year, the charter hire rates have increased and this should result in improvement in the Company's income in the coming years.

The offshore construction activity in India has not seen major changes and is yet to pick up. The steep decline in offshore construction contracts awarded by Government agencies have continued this year also. Consequently the activities of the Offshore Construction Division of your Company, which used to contribute significantly to the income and profit of the Company in the earlier years, has been adversely affected.

Exploration & Production Division has commenced seismic activity in Rajasthan and Saurashtra exploration blocks. The initial reports upon

interpretation of the seismic data are encouraging. Execution of the contracts awarded to us by the Government of India for the development of Ratna & R Series Oil Fields should take place shortly.

REFINERY PROJECT :

The implementation of the 10.5 million metric tonnes per annum Oil Refinery Project at Jamnagar (Gujarat) is progressing smoothly. Effective 1st April, '98 the Government of India abolished the system of Administrative Price Mechanism (APM) for the oil refineries. Anticipating this, your Company had already taken necessary steps well in advance by effecting changes in the configuration of the project and execution philosophy so that the Refinery can operate profitably under the free pricing scenario.

Procurement of all major plant and equipment has been committed and some of the equipment has already been received at the site. Construction / Erection work is progressing satisfactorily. Warehouse and administration buildings are completed. Construction jetty is ready. Contract for providing permanent power supply has been awarded by the Government and survey work is in progress. Railways have cleared both inplant yard rail layout and connection with the mainline. Contracts for all the residential units of Township have been awarded and work is in progress. An amount of about Rs.3400 Crores has been spent on the Project upto 30/04/98. The refinery project is expected to be completed in 1999.

Your Company has received 'in-principle' approval from Ministry of Finance for the Euro Issue of convertible bonds for US \$142 Millions and arrangements are being made for further Foreign Currency Loan / GDR issue in the near future. With these, the Company should achieve full financial closure for the Project.

The Marketing Division is co-ordinating all activities pertaining to the development of the required infrastructure and organisation for Marketing of Petroleum products including the arrangements with Indian Oil Corporation. It is also making arrangements to finalise contracts with crude producers and equity holders of crudes, required by the Refinery. In the run up to actual marketing after commission of the Refinery, the Division is engaged in parallel marketing of LPG. It has already commissioned a full fledged LPG import terminal at Hazira. The Division is also offering its expertise / experience for arranging imports of Kerosene on behalf of parallel marketers. Two cargoes of around 30,000 MT have already been imported so far and more are planned.

DIRECTORS :

- Shri. S R Agrawal has been appointed as Whole-time Director designated as Director - Finance with effect from 28th November, 1997 subject to the confirmation of this Annual General Meeting for which the resolution has been set out at item no.6 of Notice to this meeting.
- Shri. S K Chakrabarti, Executive Director of IDBI, has been appointed by IDBI as their Nominee Director on the Board.
- Shri. A T Kusre, General Manager ICICI, has been appointed as ICICI Nominee Director in place of Shri. S H Bhojani.
- Shri. J Jayaraman resigned from the Board on 28th November, 1997.

The Directors wish to place on record their appreciation for the guidance and valuable advice received from Shri. J Jayaraman and Shri. S H Bhojani.

Shri. S N Ruia, Shri. P S Teckchandani and Shri. A S Ruia retire by rotation and being eligible offer themselves for reappointment.


ENERGY, TECHNOLOGY AND FOREIGN EXCHANGE :

Information as per the Companies (Disclosure of the Particulars in the Report of Board of Directors) Rules, 1988 relating to conservation of energy and technology absorption is not provided as the same is not applicable to the Company. The Refinery Project is under implementation. Appropriate steps are being taken for the conservation of energy and effective absorption of technology.

Particulars relating to Foreign Exchange outgo and earnings appear in note No. 8 and 9 of schedule XVIII to the Profit and Loss Account and Balance Sheet.

FIXED DEPOSITS :

Company has not accepted any deposits from public under Section 58A of Companies Act, 1956 during the financial year under review.

PARTICULARS OF EMPLOYEES :

Information as per Section 217(2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975 as amended is given in the Annexure forming part of the report. However, as per the provisions of Section 219(1)(b)(iv) of the said Act, the Report and Accounts are being sent to all Shareholders of the Company excluding the statement of particulars or employees u/s 217(2A) of the said Act. Any shareholder interested in obtaining a copy of this statement may write to the Company Secretary at the Registered Office.

AUDITORS :

M/s. Deloitte Haskins & Sells, Auditors of the Company hold office until the conclusion of the ensuing Annual General Meeting. M/s. Deloitte Haskins & Sells, Chartered Accountants, have informed the Company that, if appointed, their appointment will be within the prescribed limits under Section 224 (1B) of the Companies Act, 1956. Accordingly, the members approval is being sought to their appointment as the auditor of the company at the ensuing Annual General Meeting.

PROJECTIONS v/s PERFORMANCE :

As per clause 43 of the listing agreement entered into with the Stock Exchanges, the projections of profitability as per the Prospectus dated 12-01-95 and actual performance as on 31st March, 1998 are given below :

The turnover for the year 1997-98 was Rs.205 Crores against the projected turnover of Rs.467 Crores. The other income is marginally less from Rs.29 Crores to Rs.24 Crores. The profit after tax was Rs.20 Crores whereas the projected figure was Rs.116 Crores. The lower income / profit was due to the steep decline in offshore construction contracts awarded by Government Agencies. The Refinery Project is under advance stage of implementation and scheduled to go on stream in 1999. In view of the above, and to conserve the funds for implementing the project, the Directors have not recommended any dividend.

ACKNOWLEDGEMENT :

The Board wishes to express its appreciation and place on record their gratitude for the confidence reposed and co-operation extended to the Company by the Government of India, State Governments, Financial Institutions, Banks, Customers, Suppliers and Investors of the Company. Your Directors place on record their appreciation of the dedicated and sincere services rendered by employees of the company.

For and on behalf of the Board of Directors

Place : Mumbai
Dated: 20th May, 1998

S N RUIA
CHAIRMAN