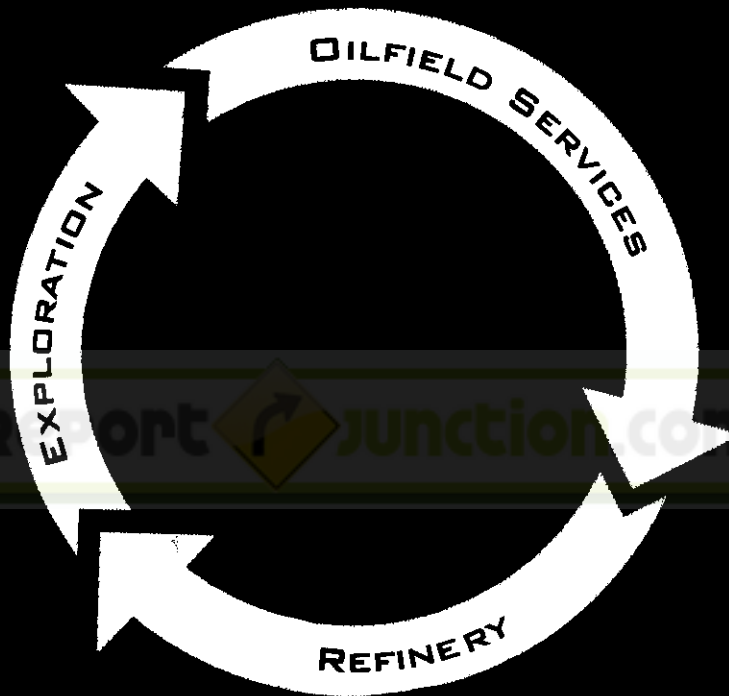


Eleventh Annual Report
1999-2000



ESSAR

Essar Oil Limited

BOARD OF DIRECTORS

Shashi Ruia

Chairman

Ravi Ruia

Vice Chairman

R K Sukhdevsinhji

Managing Director

Anshuman S Ruia

S V Venkatesan

E B Desai

Dilip J Thakkar

Nominee of IDBI

R Jayaraman Iyer

Nominee of ICICI Ltd.

A T Kusre

Nominee of Debenture Trustees - ICICI Ltd.

R Kannan

Whole-time Director

P S Teckchandani

Director - Finance

S R Agrawal

COMPANY SECRETARY

Sheikh S Shaffi

BANKERS

State Bank of India

Allahabad Bank

State Bank of Saurashtra

Punjab National Bank

Central Bank of India

Indusind Bank Ltd.

ABN Amro Bank

ICICI Banking Corporation Ltd.

AUDITORS

M/s. Deloitte, Haskins & Sells

Chartered Accountants

Mafatlal House, Backbay Reclamation

Mumbai-400 020

INTERNAL AUDITORS

M/s. B. P. Jain & Co.

Chartered Accountants

A-16, Everest, Tardeo Road

Mumbai-400 034

SOLICITORS

M/s. Mulla & Mulla & Craigie Blunt & Caroe

Jehangir Wadia Bldg.

51, Mahatma Gandhi Road

Fort, Mumbai-400 001

REGISTERED OFFICE

Khambhalia Post

Post Box No. 24

Dist. Jamnagar-361 305

Gujarat

Tel.: 02833-41444

Fax : 02833-41818/41666

CORPORATE OFFICE

Essar House

P O Box No. 7913

11, Keshavrao Khadye Marg

Mahalaxmi, Mumbai-400 034

Tel. : 022-4950606

Fax : 022-4954281

Website : <http://www.essar.com>

TRANSFER AGENTS

M/s. MCS Limited

Unit: Essar Oil Limited

'Sri Padmavathi Bhavan'

Plot No. 93, Road No. 16

MIDC Area

Andheri (East), Mumbai-400 093

Tel. : 022-8201785

Fax : 022-8201783

SECURITIES LISTED AT

Saurashtra Kutch Stock Exchange Ltd.

Madras Stock Exchange Ltd.

National Stock Exchange Ltd.

The Calcutta Stock Exchange Association Ltd.

The Delhi Stock Exchange Association Ltd.

The Stock Exchange, Ahmedabad

The Stock Exchange, Mumbai

Vadodara Stock Exchange Ltd.

NOTICE

NOTICE is hereby given that the **Eleventh Annual General Meeting** of the members of **ESSAR OIL LIMITED** will be held at the Registered Office of the Company at Khambhalia Post, (40th Km Stone on Jamnagar - Okha Highway) Dist. Jamnagar - 361305, Gujarat on **Wednesday, the 27th September, 2000** at 11:30 a.m. to transact with or without modifications, as may be permissible, the following business :

ORDINARY BUSINESS :

1. To receive, consider and adopt the Balance Sheet as at 31st March, 2000, 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 place of Shri E B Desai, who retires from office by rotation and being eligible, offers himself for re-appointment.
3. To appoint a Director in place of Shri S N Ruia, who retires from office by rotation and being eligible, offers himself for re-appointment.
4. To appoint a Director in place of Shri P S Teckchandani, who retires from office by rotation 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 consider and if thought fit, to pass the following resolution as an Ordinary Resolution.

"RESOLVED THAT pursuant to the provisions of Sections 198, 269, 309, 310 and other applicable provisions, if any, of the Companies Act, 1956 read with Schedule XIII thereto and subject to approval of the concerned authorities, if any necessary, and subject to the applicable guidelines issued by the Central Government, from time to time, approval of the Company be and is hereby given to the re-appointment of Shri R K Sukhdevsinhji as Managing Director of the Company for a further period of five years with effect from 12th January, 2000 upon the terms and conditions including remuneration as are set out in the agreement a copy whereof is placed before the meeting, which agreement is hereby specifically approved, with liberty to the directors to alter and vary the terms and conditions of the said appointment and/or agreement, as may be agreed to between the Directors and Shri R K Sukhdevsinhji in the best interest of the Company and so far as not to exceed the limits of remuneration specified in Schedule XIII to the Companies Act, 1956 or any amendments that may be made thereto or otherwise as may be permissible at law."

"RESOLVED FURTHER that the Board of Directors be and is hereby authorised to take such steps as may be necessary or expedient to give effect to this resolution."

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

"RESOLVED THAT pursuant to the provisions of Sections 198, 269, 309, 310 and other applicable provisions, if any, of the Companies Act, 1956 read with Schedule XIII thereto and subject to approval of the concerned authorities, if any necessary, and subject to the applicable guidelines issued by the Central Government, from time to time, approval of the Company be and is hereby given to the re-appointment of Shri P S Teckchandani as Wholtime Director of the Company for a further period of five years with effect from 12th January, 2000 upon the terms and conditions including remuneration as are set out in the agreement, a copy whereof is placed before the meeting, which agreement is hereby specifically approved, with liberty to the directors to alter and vary the terms and conditions of the said appointment and/or agreement, as may be agreed to between the Directors and Shri P S Teckchandani in the best interest of the Company and so as not to exceed the limits of remuneration specified in Schedule XIII to the Companies Act, 1956 or any amendments that may be made thereto or otherwise as may be permissible at law."

"RESOLVED FURTHER that the Board of Directors be and is hereby authorised to take such steps as may be necessary or expedient to give effect to this resolution."

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

"RESOLVED THAT pursuant to the provisions of section 293 (1)(a) and other applicable provisions, if any, of the Companies Act, 1956 and the Memorandum and Articles of Association of the Company and subject to the approval of the Financial Institution/Banks, and subject to such other consents, sanctions, permissions or approvals as may be necessary, the Company hereby accords its consent to the Board of Directors of the Company ("the Board") to transfer by way of sale, de-merger, hiving-off, lease or otherwise dispose of as a going concern the undertaking of the Company's Energy Division (contract drilling business) or any part thereof together with the use of all its infrastructure, contracts, licenses, permits, consents and approvals whatsoever and all the rights and benefits attached thereto and the related liabilities, situated at various locations in the Middle East countries and/or in India on such terms and conditions including the consideration therefore whether in cash or in kind or partly in cash and partly by shares and/or in any other manner, to be fixed in accordance with the valuation report to be obtained in that behalf, as the Board may deem fit in the best interest of the Company."

"RESOLVED FURTHER THAT the Board (including any Committee of the Board) be and is hereby authorised to do and perform all such acts, deeds, matters and things, as it may in its absolute discretion deem necessary, desirable or appropriate, and execute all such deeds, agreements, documents, applications and writings as it may consider necessary, usual, requisite or proper for the purpose of giving effect to this Resolution and the Board be and is hereby also authorised to make and accept such modifications in the foregoing as it may deem expedient in the best interest of the Company and the shareholders."

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

"RESOLVED THAT pursuant to the provisions of section 293 (1)(a) and other applicable provisions, if any, of the Companies Act, 1956 and the Memorandum and Articles of Association of the Company and subject to the approval of the Financial Institution/Banks and subject to such other consents, sanctions, permissions or approvals as may be necessary, the Company hereby accords its consent to the Board of Directors of the Company ("the Board") to transfer by way of sale, de-merger, hiving-off, lease or otherwise dispose of as a going concern the undertaking of the Company's Exploration & Production Division together with the use of all its infrastructure, licenses, permits, consents and approvals whatsoever and all the rights and benefits attached thereto and the related liabilities, situated at various locations in India or elsewhere on such terms and conditions including the consideration therefore whether in cash or in kind or partly in cash and partly by shares and/or in any other manner as the Board may deem fit in the best interest of the Company."

"RESOLVED FURTHER THAT the Board (including any Committee of the Board) be and is hereby authorised to do and perform all such acts, deeds, matters and things, as it may in its absolute discretion deem necessary, desirable or appropriate, and execute all such applications, deeds, agreements, documents and writings as it may consider necessary, usual, requisite or proper for the purpose of giving effect to this Resolution and the Board be and is hereby also authorised to make and accept such modifications in the foregoing as it may deem expedient in the best interest of the Company and the shareholders."

By Order of the Board of Directors

SHEIKH SAJJADI
Company Secretary

Number of
GEN.
31st JUN 2000

Registered Office :

Khambhalia Post,

P. O. Box 2475

Dist. Jamnagar-361305

Gujarat

8100

AGENT

OFFL

D.R.

Essar Oil Limited

NOTES :

- (a) 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.
- (b) The Register of Members and Share Transfer Books of the Company will be closed from Tuesday, the 19th September, 2000 to Wednesday the 27th September, 2000 both days inclusive.
- (c) All documents referred to in the accompanying Notice 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) Members desiring any information with regard to Accounts/Reports 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.
- (f) The Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956 relating to the special business mentioned in item nos. 6 to 9 of the accompanying Notice is mentioned hereto.

ANNEXURE TO NOTICE

Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956.

Item Nos. 6 & 7

The terms of office of Shri R K Sukhdevsinhji and Shri P S Teckchandani expired on 11th January, 2000. The Directors have re-appointed the aforesaid Directors as the Managing Director and the Wholtime Director respectively, for a further period of five years from 12th January, 2000. The remuneration to be paid to Shri R K Sukhdevsinhji and Shri P S Teckchandani by way of salary, perquisites and allowances within the overall limits are as set out hereunder.

Salary in the scale of Rs. 35,000 - Rs. 1,00,000 per month as may be determined by the Board or such other authority as may be delegated by the Board, from time to time.

In addition to salary, the Managing Director and Wholtime Director of the Company, shall be entitled to commission on annual profits to be computed in the manner laid down in the Companies Act, 1956 and or performance bonus, perquisites and allowances such as accommodation (furnished or otherwise) or House Rent Allowance in lieu thereof, City Allowance, Reimbursement of gas, electricity, water, furnishing, repair expenses and Medical/Hospitalisation Expenses, Leave Travel Allowance, Provident Fund, Gratuity, Superannuation, Club Fees, Personal Accident Insurance and such other perquisite and allowances in accordance with the Rules of the Company or as may be agreed to, by the Board and them, such commission, performance bonus, perquisite and allowances being subject to a maximum limit of Rs. 3,00,000 per month and further subject to overall ceiling of remuneration stipulated by law.

In the event of loss or inadequacy of profits in any financial year during the period of appointment, the remuneration payable by way of salary, perquisites and allowances paid as minimum remuneration, subject to the approval of the Central Government, if any, required.

The agreements between the Company and each of Shri R K Sukhdevsinhji and Shri P S Teckchandani respectively are available for inspection at the Registered Office of the Company.

The Directors recommend the Resolutions set out in Item nos. 6 & 7 of the Notice for your approval.

The above may also be treated as an abstract of the terms of contract/agreement between the Company and Shri R K Sukhdevsinhji and Shri P S Teckchandani respectively pursuant to Section 302 of the Companies Act, 1956.

Shri R K Sukhdevsinhji and Shri P S Teckchandani are interested in the resolutions, which pertain to their respective reappointments. Save and except the above, none of the other Directors of the Company is in any way, concerned or interested in the resolution.

Item Nos. 8 & 9

The Lead Financial institution for the Refinery Project, ICICI Ltd. re-appraised the project after the cyclone and on the basis of the report by a high power expert committee set up by them. The committee confirmed the cost reasonableness and viability of the project at Revised Project cost of Rs. 8,000 Crores. The means of finance is tied-up with financial assistance from ABB Lummus and equity participation by Strategic Investors and/or from proceeds realised from divestment of other divisions/assets of the Company. Some of the prospective Strategic Investors have indicated to invest only in the Refinery Division and it may be necessary to separate the other assets of the Company. The Company is considering various options such as transferring them to a subsidiary or Special Purpose Vehicle or sale to another Company. It will undoubtedly be the endeavour of the Board to obtain the best possible price and favourable terms in relation to the sale of any of the divisions of the Company.

Pursuant to Section 293(1)(a) of the Act, consent of the Company in General Meeting is required before the sale of the whole or substantially the whole of any undertaking of the Company. The enabling resolutions set out at Item nos. 8 & 9 of the accompanying Notice seek to obtain the consent of the members to facilitate the Board to take the appropriate decision in the best interest of the Company.

The divestment of Energy (contract drilling business) and/or Exploration & Production Divisions is also subject to such approvals, sanctions, and permissions as may be necessary. The Company will take all necessary steps to obtain such approvals at the relevant time.

The Directors recommend the resolutions for the approval of the members.

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

By Order of the Board of Directors

Mumbai
31st July, 2000

SHEIKH S SHAFFI
Company Secretary

Registered Office :
Khambhalia Post,
P. O. Box 24,
Dist. Jamnagar-361 305
Gujarat.



Directors' Report

To the Members of Essar Oil Limited

The Directors have pleasure in presenting the Eleventh Annual Report together with the audited accounts of the Company for the year ended March 31, 2000.

FINANCIAL RESULTS

	(Rs. in Crores)	
	1999-2000	1998-99
Gross Income	261.90	245.11
Gross Profit	53.34	42.05
Less : Depreciation	22.29	21.03
Profit before Income Tax	31.05	21.02
Less : Provision for Income Tax	6.00	2.10
Net Profit	25.05	18.92
Add : Balance brought forward from previous year	136.15	
Less : Foreign Projects Reserve in respect of earlier years	27.82	108.33
Total amount available for appropriations	133.38	136.15
Less : Appropriations		
(a) Foreign Projects Reserve	18.50	—
(b) Transfer to General Reserve	—	—
(b) Dividend	—	—
Balance carried to Balance Sheet	114.88	136.15

EXISTING OPERATIONS

The Company's drilling business has continued to perform well and all the Rigs are now gainfully employed. The Company has secured a drilling contract for the first time in Saudi Arabia amongst stiff competition from international Companies and in Oman the Company has received extension of an existing contract and also secured a fresh contract for a period of four years. In Qatar, the Company has received a fresh contract for a period of three years. In India the Company has secured a contract for drilling coal bed methane wells for ONGC in Bihar. With the rise and stabilisation of oil prices, the Company's drilling activities is expected to intensify and offer greater opportunity in future.

The Company successfully executed a platform modification offshore project for ONGC/MDL and the performance so far has improved the possibility of securing further contracts in the near future.

Exploration & Production Division has commenced production sharing contract negotiations for the development of Ratna & R-Series field operations with the Government of India and ONGC. The contract and other associated agreements are expected to be finalised shortly. In respect of Saurashtra Offshore exploration blocks, the Government approval is received for induction of a partner and in Rajasthan Onshore exploration block, the Company is scheduled to drill its first exploratory well later this year. Activities in Cambay and Cachar onshore exploration blocks will commence on receipt of Petroleum exploration license.

REFINERY PROJECT

The Lead Financial Institution, ICICI Ltd. recently completed the re-appraisal of the 10.5 Million Metric Tonnes Oil Refinery Project at Jamnagar based on the recommendations of the high power Expert Committee set up by them to study all the aspects of the project. The Committee comprising of eminent personalities from Oil and Gas Industry confirmed the cost reasonableness and viability of the project at the revised project cost of Rs. 8,000 crores. The Company has already received the sanction letter from ICICI Ltd. IDBI Board has approved its share of assistance so have also several other Institutions and financial closure is in place.

The Company is in the process of entering into a Tripartite Agreement with ABB Lummus and ICICI Ltd. which will ensure total funds required for the Project and completion of the Project within 18 months. Under the agreement, the equity portion of the means of finance is fully tied-up with financial assistance from ABB Lummus, and equity participation by the Strategic Investors and/or divestment of some existing assets of the Company. In consideration of the requirement of Strategic Investors for the Refinery Project and advise of business consultants, it is proposed to separate other divisions from the Refinery, for which the necessary resolution for the shareholders approval are incorporated in the accompanying Notice for the ensuing AGM. The Company has already spent Rs. 5,564 crores as on 30th June, 2000 and barring unforeseen circumstances the project is likely to be completed by end of 2001.

SHARE CAPITAL

Subsequent to the forfeiture of shares as mentioned in the last year's Directors' report, the Company had received call monies on 42,950 shares, and forfeiture was annulled in respect of these shares.

DIRECTORS

Shri R K Sukhdevisinhji and Shri P S Teckchandani were re-appointed as Managing Director and Wholetime Director respectively for a further period of 5 years on 12th January, 2000. Shri R Kannan, General Manager, ICICI has been appointed as Nominee Director by ICICI Ltd., in their capacity as Debenture Trustees, Shri R Jayaraman Iyer, Chief General Manager of IDBI has been nominated by IDBI as Nominee Director in place of Shri S K Chakrabarti. The Directors wish to place on record their appreciation for the valuable services rendered by Shri S K Chakrabarti.

Shri E B Desai, Shri S N Ruia and Shri P S Teckchandani retire by rotation and being eligible offer themselves for re-appointment.

ENERGY, TECHNOLOGY AND FOREIGN EXCHANGE

Information as per the Companies (Disclosure of the Particulars in the Report of the Board of Directors) Rules, 1988 relating to the 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 Notes No. 6 and 7 of the Schedule XIX to the Profit and Loss Account and Balance Sheet.

Essar Oil Limited

SUBSIDIARY COMPANY

During the year Vadinar Power Company Private Ltd. has become a subsidiary company. Pursuant to section 43A of the Act, Vadinar Power Company Private Ltd. has become a deemed public company and its name has been changed accordingly. As required under Section 212 of the Companies Act, 1956, the audited statements of accounts along with the report of the Board of Directors of Vadinar Power Company Ltd., and the Auditors' Report thereon for the year ended 31st March, 2000 are enclosed.

Y2K COMPLIANCE

The operations of the Company did not have any problem and transition to year 2000 was smooth.

FIXED DEPOSIT

Your Company has not accepted any deposits from public under Section 58 A of the 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 of 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, Mumbai, Auditors of the Company hold office until the conclusion of the ensuing Annual General Meeting.

M/s Deloitte Haskins & Sells, Mumbai, 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

The projected financials in the prospectus for the year 1999-2000 include the income from the refinery operations. Since the commissioning of the Refinery Project has been delayed due to cyclone, the projected financials could not be achieved. Against the projected turnover of Rs. 467 crores for the existing operations the Company achieved a turn over of Rs. 229.89 crores for the financial year ended 31st March, 2000. The profit before tax during the year was Rs. 31.04 crores as against projected profit after tax of Rs. 132 crores. The reduced income/profit was mainly due to reduced activity in the offshore construction business.

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 the employees of the Company.

For and on behalf of the Board of Directors

R K SUKHDEVSINHJI
MANAGING DIRECTOR

R N RUIA
VICE-CHAIRMAN

Place : Mumbai
Dated : 31st July 2000