



ESSAR

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Essar Oil Limited

14th Annual Report
2002-2003

Essar Oil Limited

BOARD OF DIRECTORS (As on 25th August, 2004)

Shashi Ruia	Chairman
Ravi Ruia	Vice Chairman
Prashant Ruia	
Awadhesh N. Sinha	Managing Director & CEO
Hari L. Mundra	Dy. Managing Director and Director (Finance)
Dilip J. Thakkar	
K. N. Venkatasubramanian	
R. Jayaraman Iyer	Nominee of IDBI
R. Kannan	Nominee of ICICI Bank Ltd.
Sanjoy Chowdhury	Nominee of IFCI Ltd.
Sriram N. Gogate	Nominee of Debenture Trustees - WITCO

COMPANY SECRETARY

Sheikh S Shaffi

BANKERS

State Bank of India	Punjab National Bank
State Bank of Saurashtra	IndusInd Bank Ltd.
ICICI Bank Ltd.	ABN Amro Bank
Union Bank of India	
Allahabad Bank	

AUDITORS

M/s. Deloitte Haskins & Sells
Chartered Accountants
12, Dr. Annie Besant Road
Opp. Shiv Sagar Estate, Worli
Mumbai-400 018.

INTERNAL AUDITORS

M/s. B.P.Jain & Company
Chartered Accountants
A-16, Everest, Tardeo Road
Mumbai-400 034

REGISTERED OFFICE

Khambhalia Post
Post Box No. 24
Dist. Jamnagar-361 305
Gujarat
Tel.: 02833-241444
Fax: 02833-241818 / 241414

TRANSFER AGENTS

M/s. Sharepro Services
Unit: Essar Oil Limited
Satam Estate, 3rd Floor, Above Bank of Baroda
Cardinal Gracious Road, Chakala
Andheri (East), Mumbai-400 099
Tel.: 022-28215168, Fax: 022-28375646
Email: sharepro@vsnl.com
Website: <http://www.shareproservices.com>

CORPORATE OFFICE

Essar House
Post Box No. 7945
11, Keshavrao Khadye Marg,
Mahalaxmi, Mumbai-400 034
Tel.: 022-24950606 Fax: 022-24954281
Website: <http://www.essar.com>

SECURITIES LISTED AT

The Stock Exchange, Mumbai

National Stock Exchange of India Ltd.

Saurashtra Kutch Stock Exchange Ltd.

Madras Stock Exchange Ltd.

The Calcutta Stock Exchange Association Ltd.

The Delhi Stock Exchange Association Ltd.

The Stock Exchange, Ahmedabad

Vadodara Stock Exchange Ltd.

1st Floor, Rotunda Bldg., P.J. Towers, Dalal Street,
Mumbai-400 023

Exchange Plaza, 5th Floor, Plot No. C/1, G Block,
Bandra-Kurla Complex, Bandra (E), Mumbai-400 051

Popatbhai Sorathia Bhavan, Sadar Bazar, Rajkot-360 001

P.O. Box No. 183, 11, Second Line Beach, Chennai-600 001

7, Lyons Range, Kolkata-700 001

DSE House, 3/1, Asaf Ali Road, New Delhi-110 002

Kamdhenu Complex, Opp. Sahajanand College, Panjarapole,
Ahmedabad-380 015

Fortune Tower, P.O.Box No. 2547, Sayajigunj, Vadodara-390 005

NOTICE

NOTICE is hereby given that the **Fourteenth 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 **Saturday, the 25th September, 2004 at 3:00 p.m.** to transact, with or without modifications, as may be permissible, the following business:

ORDINARY BUSINESS

1. To receive, consider, approve and adopt the Balance Sheet as at 31st December 2003, the Profit & Loss Account for the financial year (15 months) ended on that date and the reports of the Board of Directors and Auditors thereon.
2. To appoint a Director in place of Shri S. N. Ruia who retires from office by rotation and being eligible, offers himself for reappointment.
3. To appoint a Director in place of Shri Dilip J. Thakkar who retires from office by rotation and being eligible offers himself for reappointment.
4. To appoint Auditors, M/s. Deloitte Haskins & Sells, Chartered Accountants, Mumbai, to hold office from the conclusion of this Annual General Meeting until the conclusion of the next Annual General Meeting and to authorise the Board of Directors to fix their remuneration.

SPECIAL BUSINESS

5. To consider and, if thought fit, to pass the following resolution as an Ordinary Resolution:
"RESOLVED THAT Shri Hari L. Mundra, who was appointed as an Additional Director by the Board of Directors pursuant to Section 260 of the Companies Act, 1956 and who holds office upto the date of this Annual General Meeting and in respect of whom the Company has received a notice under Section 257 of the Companies Act, 1956, in writing, proposing his candidature for the office of director, be and is hereby appointed as a Director of the Company liable to retirement by rotation."
6. To consider and, if thought fit, to pass the following resolution as an Ordinary Resolution:
"RESOLVED THAT Shri Awadhesh N. Sinha, who was appointed as an Additional Director by the Board of Directors pursuant to Section 260 of the Companies Act, 1956 and who holds office upto the date of this Annual General Meeting and in respect of whom the Company has received a notice under Section 257 of the Companies Act, 1956, in writing, proposing his candidature for the office of director, be and is hereby appointed as a Director of the Company."
7. 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 and other applicable provisions, if any, of the Companies Act, 1956 read with Schedule XIII thereto, and subject to such approval from the Central Government or any other authority, as may be required, and subject to any conditions and/or modifications as may be imposed and/or suggested by such authorities, while granting such approvals, approval of the Company be and is hereby given to the appointment of Shri Hari L. Mundra as Deputy Managing Director & Director (Finance) of the Company, for a period of four years, with effect from 31st October 2003 determinable earlier at the option of the Board of Directors (which term shall include the Remuneration Committee constituted by the Board of Directors), upon the terms and conditions as to remuneration and otherwise as set out in the Explanatory Statement annexed to this Notice which is hereby specifically approved with authority to the Board of Directors to alter and vary the terms and conditions of the said appointment as may be agreed to between the Board of Directors and Shri Hari L. Mundra, in the best interest of the Company but, unless approved by the relevant authority, 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 a Special Resolution:
"RESOLVED THAT pursuant to the provisions of Sections 198, 269, 309 and other applicable provisions, if any, of the Companies Act, 1956 read with Schedule XIII thereto, and subject to such approval from the Central Government or any other authority, as may be required, and subject to any conditions and/or modifications as may be imposed and/or suggested by such authorities, while granting such approvals, approval of the Company be and is hereby given to the appointment of Shri Awadhesh N. Sinha as the Managing Director & CEO of the

Company for a period of three years with effect from 31st January 2004, determinable earlier at the option of the Board of Directors (which term shall include the Remuneration Committee constituted by the Board of Directors), upon the terms and conditions as to remuneration and otherwise as set out in the Explanatory Statement annexed to this Notice which is hereby specifically approved with authority to the Board of Directors to alter and vary the terms and conditions of the said appointment as may be agreed to between the Board of Directors and Shri Awadhesh N. Sinha, in the best interest of the Company, but unless approved by the relevant authority, 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."

9. To consider and, if thought fit, to pass the following resolution as a Special Resolution:
"RESOLVED THAT in accordance with the provisions of sections 31, 94 and other applicable provisions, if any, of the Companies Act, 1956 (including any statutory modification(s) or re-enactments thereof for the time being in force), the Authorised share capital of the Company be and is hereby increased from Rs.20,00,00,00,000/- (Rupees two thousand crore only) divided into 200,00,00,000 (Two hundred crore) equity shares of Rs.10/- (Rupees ten only) each to Rs.50,00,00,00,000/- (Rupees five thousand crore only) divided into 500,00,00,000 (Five hundred crore) equity shares of Rs.10/- (Rupees ten only) each by creation of 300,00,00,000 (Three hundred crore) equity shares of Rs.10/- (Rupees ten only) each and then Clause V of Memorandum of Association and Article 3 of the Articles of Association of the Company be altered accordingly."
10. To consider and, if thought fit, to pass the following resolution as a Special Resolution:
"RESOLVED THAT pursuant to the provisions of Section 31 and other applicable provisions of the Companies Act, 1956 and subject to such approvals, consents, permissions and sanctions as may be necessary from the appropriate authorities, the Articles of Association of the Company be and is hereby altered as follows:
The existing Article 75 be substituted as follows:
75. Subject to the provisions of Section 252 of the Act, the number of Directors, excluding any Debenture Directors and Special Directors, shall not be less than three or more than thirteen."
11. To consider and, if thought fit, to pass the following resolution as a Special Resolution:
"RESOLVED THAT pursuant to section 81(3) of the Companies Act, 1956 and such other statutory or contractual approvals as may be necessary, consent be and is hereby accorded to the Board of Directors of the Company (hereinafter referred to as "the Board") which term shall be deemed to include any committee constituted by the Board and for the time being exercising powers of the Board in this connection) to enter into loan and other agreements with the lenders to the Refinery Project namely ICICI Bank Limited, IDBI, IFCI Limited, Life Insurance Corporation of India, General Insurance Corporation of India, New India Assurance Co. Ltd., United India Insurance Co. Ltd., Oriental Insurance Co. Ltd. and National Insurance Co. Ltd. and such other lender as the case may be (hereinafter referred to as "Refinery Lenders") for restructuring of existing loans and availing of new Priority Loans on the terms and conditions as contained in the Corporate Debt Restructuring (CDR) Package, details of which are set out in the Explanatory Statement annexed to this Notice, and as may be mutually agreed by the Company with the respective Refinery lenders, including a term as to conversion of existing and new loans into Equity Shares of the Company, on the happening of events of default, as stipulated in the CDR Package, in a manner prescribed under the Public Companies (Terms of Issue of Debentures and Raising of Loans with option to convert such Debentures or Loans into Shares) Rules, 1977."
"RESOLVED FURTHER THAT the Board of Directors of the Company be and is hereby authorized to do all the necessary acts, deeds, matters and things including making applications, obtaining approvals, executing documents, filing forms, etc., to give effect to the above resolution."

By Order of the Board of Directors

Mumbai
25th August, 2004
Registered Office :
Khambhalia Post, P. O. Box 24,
Dist. Jamnagar-361 305, Gujarat

SHEIKH S SHAFFI
Company Secretary

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 of the Company. The proxy, in order to be effective, must be deposited at the Registered Office of the Company not less than 48 hours before the commencement of the meeting.
- (b) The Register of Members and Share Transfer Books of the Company will remain closed from Wednesday, the 22nd September, 2004 to Saturday, the 25th September, 2004, 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 11.00 a.m. and 1.00 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 ten days before the date of the meeting, so as to enable the management to keep the information ready.
- (f) The Company has already transferred unclaimed dividend for the year ended 31st March, 1996 to the Investor Education and Protection Fund (IEPF). The details of unpaid dividend that will become due for transfer to IEPF are :

Year ended	Date of Declaration	Due for Transfer on
31.3.1997	25.9.1997	12.11.2004

Members who have not encashed their dividend warrants for the aforesaid year may approach the transfer agents of the Company, M/s Sharepro Services, by 30th September, 2004. It may be noted that once the unclaimed dividend is transferred to the IEPF, as above, no claim shall lie with the Company in respect of such amount.

- (g) Directors retiring by rotation :

Shri S. N. Ruia, Chairman of Essar Group is 60 years old. He is one of the new generation industrialists, who have played a major role in promoting India's industrial growth in the last two decades. With his entrepreneurial ability, he has been able to set a fast pace, which has catapulted the Essar Group to among the top industrial houses in the country. The Group is involved in diverse infrastructure sectors viz. Steel, Shipping, Oil & Gas, Power, Telecom and Construction. The other companies in which Shri S. N. Ruia is a Director are: Essar Constructions Ltd., Essar Global Ltd., Essar Shipping Ltd., Essar Steel Ltd., India Securities Ltd., Karthik Financial Services Ltd. and Vadinar Oil Terminal Ltd. Shri S N Ruia retires by rotation at the Annual General Meeting and offers himself for reappointment.

Shri D. J. Thakkar is 67 years old. He is a practicing Chartered Accountant, of great repute, with over 40 years experience in Taxation and FEMA matters. The other companies in which Shri D J Thakkar is a Director are: Blueberry Trading Company Pvt. Ltd., Chrysanthemum Investments Pvt. Ltd., Deccan Florabase Ltd., Hamlet Constructions India (P) Ltd., Himatsingka Seide Ltd., India Consultancy Group Pvt. Ltd., Indo Count Industries Ltd., Matsushita Lakhnawal Battery India Ltd., Monotona Exports Ltd., Omega Management Services Ltd., PAE Ltd., Rajasvi Properties Holdings Pvt. Ltd., Starrock Investments & Trading Pvt. Ltd., The Ruby Mills Ltd., Thirumalai Chemicals Ltd., Township Real Estate Developers Pvt. Ltd., Walchandnagar Industries Ltd. and Windmere Hospitality (I) Pvt. Ltd. He is also the Chairman of the Audit & Governance Committee and a member of Investors' Relations Committee of the Board. Shri D. J. Thakkar, retires by rotation at the Annual General Meeting and offers himself for reappointment.

- (h) The Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956 relating to the Special Business mentioned in Item Nos. 5 - 11 of the accompanying Notice is annexed.

ANNEXURE TO NOTICE

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

Item Nos. 5 and 7

Shri Hari L. Mundra was appointed as an Additional Director of the Company on 31st October 2003 and thereafter appointed as the Deputy Managing Director & Director (Finance) of the Company, for a period of four (4) years, with effect from 31st October 2003. In terms of Section 260 of the Companies Act, 1956 and Article 82 of Articles of Association of the Company, Shri Mundra would hold office as a Director upto the date of the ensuing Annual General Meeting. Accordingly the resolution at item no. 5 of the Notice is being proposed for his appointment as Director of the Company.

Shri Hari L. Mundra is 54 years old. He is a Bachelor of Arts in Economics from Bombay University and MBA from IIM Ahmedabad with around 33 years of experience. Shri Mundra worked in Hindustan Lever Ltd. for about 24 years in several positions, both in the Financial and General Management areas and finally as Vice President / Director, Exports. Thereafter, he was associated with the RPG Group for 7 years as the Chief Financial Officer of the Group as well as the President and Chief Executive of Carbon Black Business. Prior to joining Essar Oil, Shri Mundra was Executive Vice-Chairman of Wockhardt Ltd., in charge of its domestic pharma business and Vice Chairman of Wockhardt Hospitals Ltd.

Shri Mundra has been associated with a number of professional bodies in Finance, Taxation and Export Fields and has been an active participant at the policy making level as member of CII, FICCI, ASSOCHAM etc.

A Corporate Debt Restructuring package approved by CDR Cell of lenders is under execution for implementing a 10.5 MMTPA Oil Refinery project at a cost of Rs. 11,728 crores, which on completion will generate an annual turnover of approximately Rs. 15,600 crores. Further, the Company has started marketing of petroleum products by setting up Retail Outlets across the country with plans of developing over 2000 outlets and marketing over five million tonnes of fuel through them. The Company in such demanding situation needs a specialist like Shri Mundra to handle Finance functions.

The particulars of remuneration payable and the terms of the appointments of Shri Hari L. Mundra are basic salary of Rs. 3,00,000 per month in the scale of Rs.3,00,000 to Rs.5,00,000 per month, as may be determined by the Board or the Remuneration Committee constituted by the Board. In addition to the salary, the Deputy Managing Director & Director (Finance) shall be entitled to perquisites and allowances such as unfurnished rent-free accommodation maintained by the Company or House Rent Allowance in lieu thereof; special allowances; full reimbursement of medical expenses incurred for him and his spouse and dependents and hospitalisation facilities as per the Company's Hospitalisation policy. The contribution to Provident Fund will be as per the Rules of the Company. Further, the Company will contribute 15% of basic salary per annum towards Superannuation fund upto the age of 58 years. In addition, he shall be entitled to reimbursement of car expenses, telephone and entertainment expenses incurred in the conduct of Company's business as per Company rules. He shall be further entitled to receive performance bonus as may be determined by the Board. The perquisite value of the facilities / benefits / allowances and bonus shall be evaluated, wherever applicable, as per the Income Tax Act, 1961 and the Rules framed thereunder. However, the total of perquisites / allowances / other benefits and bonus, as may be decided by the Board of Directors or the Remuneration Committee, will not exceed Rs.8,00,000 per month.

The Deputy Managing Director & Director (Finance) shall not be entitled, under any circumstances whatsoever, to any compensation for loss of office, unless otherwise decided by the Company.

In the event of loss or inadequacy of profits in any financial year during the period of appointment, the remuneration payable as aforesaid, will be paid as minimum remuneration subject to the approval of the Central Government, as may be required.

Shri Hari L. Mundra is a director of CEAT Limited.

The above may be treated as an abstract of the agreement between the Company and Shri Hari L. Mundra pursuant to section 302 of the Companies Act, 1956. A copy of the proposed agreement is available for inspection at the Registered Office of the Company between 11:00 a.m. and 1:00 p.m. on all working days except Saturdays, Sundays and Bank holidays.

The Board of Directors is of the opinion that the appointment of Shri Hari L. Mundra as Deputy Managing Director & Director (Finance) would be in the interest of your Company. Directors accordingly recommend the resolution at Item No.7 of the Notice for your approval.

None of the Directors other than Shri Hari L. Mundra is concerned or interested in the resolutions at Item nos. 5 and 7.

Item Nos. 6 and 8

Shri Awadhesh N. Sinha was appointed as an Additional Director of the Company on 31st January, 2004 and thereafter appointed as the Managing Director & CEO of the Company for a period of three (3) years with effect from the said date. In terms of Section 260 of the Companies Act, 1956 and Article 82 of Articles of Association of the Company, Shri Sinha would hold office as a Director upto the date of the ensuing Annual General Meeting. Accordingly the resolution at item no. 6 of the Notice is being proposed for his appointment as Director of the Company.



Shri Awadhesh N. Sinha is 66 years old. He is a Masters in Science and MBA in Marketing with 43 years of rich industry experience. Shri Sinha started as an Assistant Professor in 1960 teaching Post Graduate Students. After a year, he joined Caltex in the sales function where he was for 6 years. He then joined Indian Oil Corporation (IOC) in middle management level. During his 30 years service with them, he had headed all functions in Marketing - sales, operations, aviation, LPG, supply & distribution and HR. He was in the top management team placed in Mathura to complete the Refinery & commission. He grew to the level of Executive Director and a Board member of IOBL - a subsidiary of IOC, a position from which he retired in 1996. Thereafter, he was with Macdormott, Dubai in India for a brief period. Thereafter, he held the positions of Chief Executive (Marketing) of Essar Oil Ltd. for 3 years and President (Business Development) of Reliance Petroleum for 4 years.

Before rejoining Essar Oil he was with Oil and Natural Gas Corporation (ONGC) where his key contributions were the acquisition and operations of the Mangalore Refinery and advising ONGC / MRPL on their forward integration in down-stream sector. His contribution in turning around MRPL from a sick company to profit making one is well recognised.

His rich experience in the oil and gas industry and in particular his experience in Marketing functions, managing of Refinery complex and integration of various segments of oil industry will help the Company setting-up its Refinery project, which is under implementation, and putting-up a nation-wide infrastructure of retail outlets for marketing of petroleum products.

The particulars of remuneration payable and the terms of the appointment of Shri Awadhesh N. Sinha are basic salary of Rs. 3,00,000 in the scale of Rs.3,00,000 - Rs.5,00,000 per month, as may be determined by the Board or the Remuneration Committee constituted by the Board. In addition to the salary, the Managing Director & CEO shall be entitled to perquisites such as unfurnished rent-free accommodation maintained by the Company or House Rent Allowance in lieu thereof; special allowances; provision of Company car and full reimbursement of car expenses, telephone expenses and entertainment expenses incurred for company's business, full reimbursement of domiciliary medical expenses incurred for him, his spouse and dependent children and hospitalisation facilities as per the Company's Hospitalisation scheme. The contribution to Provident Fund will be as per the Rules of the Company. In addition, he shall be entitled to Leave Travel allowance of Rs.6 lakhs p.a. He shall be further entitled to receive performance bonus as may be determined by the Board. The perquisite value of the facilities / benefits / loan provided / allowances and bonus shall be evaluated, wherever applicable, as per the Income Tax Act, 1961 and the Rules framed thereunder. However, the total of perquisites / allowances / other benefits and bonus as may be decided by the Board of Directors or the Remuneration Committee, will not exceed Rs.9,00,000 per month.

The Managing Director & CEO shall not be entitled, under any circumstances whatsoever, to any compensation for loss of office, unless otherwise decided by the Company.

In the event of loss or inadequacy of profits in any financial year during the period of appointment, the remuneration payable as aforesaid, will be paid as minimum remuneration subject to the approval of Central Government, as may be required.

Shri Awadhesh N. Sinha is a director of Petronet India Limited as nominee of Essar Oil Limited. He is also a member of the Investors' Relations Committee of Directors of the Company.

The above may be treated as an abstract of the agreement between the Company and Shri Awadhesh N. Sinha pursuant to section 302 of the Companies Act, 1956. A copy of the proposed agreement is available for inspection at the Registered Office of the Company between 11:00 a.m. and 1:00 p.m. on all working days except Saturdays, Sundays and Bank holidays.

The Board of Directors is of the opinion that the appointment of Shri Awadhesh N. Sinha as Managing Director & CEO would be in the interest of your Company. Accordingly, the Directors recommend the resolution at Item No. 8 of the Notice for your approval.

None of the Directors other than Shri Awadhesh N Sinha is concerned or interested in the resolutions at Item nos. 6 and 8.

Item Nos. 9, 10 and 11

The Company is setting up a 10.5 million metric tonnes per Annum Oil Refinery Project at Vadinar, District Jamnagar in the State of Gujarat. The implementation of the Project was affected due to a severe cyclone in June, 1998 damaging some of the facilities under construction

and causing delay in project implementation.

The project reappraisal was undertaken by the Lead Lender, ICICI Bank Limited (formerly ICICI Limited), and thereafter the Corporate Debt Restructuring (CDR) Cell of Lenders approved a Restructuring Package vide its letter no.CDR/2146 dated 14th August 2003, which, inter-alia, includes: (a) payment of interest during project stoppage period at the end of 20th year from the date of commencement of commercial production of the Refinery; (b) reduction of interest on term loans; and (c) waiver of liquidated damages.

The Company convened an Extraordinary General Meeting on 17th September, 2003 and obtained approvals for issuance of securities, increase in authorised capital, authority to Board of Directors to borrow monies and create security under the aforesaid CDR package.

Certain terms and conditions of the Package were renegotiated with the lenders and the revised Package was approved by the CDR Cell vide its letter no. CDR/2738 dated 29th December 2003 (hereinafter referred to as the "CDR Package" which term shall be deemed to include any amendments or modifications thereto effected from time to time).

In terms of the CDR package, certain amendments are required to be made in the Memorandum and Articles of Association of the Company, such as (i) increase in authorised capital and (ii) increase in maximum strength of the Board from 12 directors to 13 directors.

The present authorised share capital of the Company is Rs.20,00,00,00,000/- (Rupees two thousand crore only). At the Extraordinary General Meeting held on 17th September, 2003, approval of the members was taken, for issue of equity shares and/or Foreign Currency Convertible Bonds (FCCBs) and/or other convertible financial instruments, on preferential issue basis, for an amount upto Rs.1300 Crores, to part finance the Refinery Project. The Company has now finalized to issue FCCBs for an amount of upto US\$ 207 million and taken requisite approval from the Ministry of Company Affairs. The applicable price, on the relevant date 18th August, 2003, in terms of SEBI Guidelines, for the issue of equity shares, upon conversion of FCCBs, in part or full, is Rs. 12.40 per share. An Offering Circular, for the proposed issue, has been forwarded to the Lenders for approval before filing with the Luxembourg Stock Exchange for seeking listing at the Stock Exchange. The issue will be completed very shortly. Subsequent to further issue of equity shares upon conversion of the FCCBs and also to provide for conversion of loans into equity shares by the lenders, in the event of default, it is proposed to increase the authorized share capital to Rs.50,00,00,00,000/- (Rupees five thousand crore only). In accordance with sections 31, 94 and other applicable provisions, if any, of the Companies Act, 1956, approval of the members is required to enhance the Authorised Share Capital and to make necessary changes in the Memorandum and Articles of Association of the Company.

The existing Article 75 provides for a maximum of 12 directors on the Board. It is proposed to increase the maximum strength of Board of Directors to 13 and make the relevant alterations in the Articles of Association of the Company. Under section 259 of the Companies Act, 1956, for increasing the maximum strength of Directors beyond 12 approval of the members and Central Government will be required.

Section 81(3) of the Companies Act, 1956, containing provisions for increasing the paid-up share capital of company as a result of conversion of loans into equity shares pursuant to a term included in the loan agreement, provides that in case of loans from institutions other than the notified financial institutions, the approval of the members should be obtained prior to signing of loan agreements. Since certain lenders to the Refinery project, such as ICICI Bank Limited, etc., are not among the notified institutions the approval of the members is sought for execution of loan agreements with such lenders incorporating a conversion clause.

The directors therefore recommend the resolutions at Item nos. 9, 10 and 11 to the accompanying notice for approval of the shareholders.

None of the Directors is in anyway concerned or interested in the above resolutions.

By Order of the Board of Directors

SHEIKH S. SHAFFI
Company Secretary

Mumbai
25th August, 2004

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

Essar Oil Limited

DIRECTORS' REPORT

To the Members of Essar Oil Limited

Your Directors have pleasure in presenting the Fourteenth Annual Report together with the audited accounts of the Company for the financial year ended 31st December 2003.

FINANCIAL RESULTS

(Rs. in Crores)

	2002-2003 (15 months)	2001-2002 (18 months)
Gross Income	217.94	329.05
Gross Profit	31.72	77.77
Less: Depreciation	17.69	35.47
Profit before Income Tax	14.03	42.30
Less: Provision for Income Tax	(6.61)	17.14
Net Profit	20.84	25.16
Add: Balance brought forward from previous year	82.89	113.62
Less: Transfer to deferred tax liability	-	30.73
Total amount available for appropriations	103.53	108.05
Less: Appropriations		
(a) Foreign Projects Reserve	4.45	14.00
(b) Debenture Redemption Reserve	16.19	11.16
(c) Transfer to General Reserve	-	-
(d) Proposed Dividend	-	-
Balance to be carried to Balance Sheet	82.89	82.89

The financial year of the Company was extended by three months to close on 31st December 2003 and the balance sheet and profit and loss accounts have been compiled for a period of fifteen months. The Registrar of Companies, Gujarat, has granted an extension of time for three months for holding the Annual General Meeting for considering the accounts for the financial year ended 31st December, 2003.

A debt restructuring package for the Company, under the Corporate Debt Restructuring (CDR) Scheme, of Reserve Bank of India (RBI) has been approved by the CDR Cell of lenders to the Refinery project vide its letter dated 14th August, 2003 as amended by its letter dated 29th December, 2003. However, further revisions are required in the CDR package in light of the developments relating to Project Management and supply of imported equipment. The effect of CDR package has not been incorporated in the accounts, for the financial year ended 31st December, 2003, pending amendments to and formalisation of the CDR package.

The Consolidated Financial Statements of the Company and its subsidiary, Vadinar Power Company Limited, prepared in accordance with Accounting Standard AS-21 on Consolidated Financial Statements form part of the Annual Report.

COMPANY'S BUSINESS

The Company sold its Energy Division (drilling operations) in May 2003 on a going concern basis. During the period, the Company has started selling High Speed Diesel and Motor Spirit through its Marketing Division with a view to create sufficient market network for its products when the Refinery begins its commercial production.

MANAGEMENT DISCUSSION AND ANALYSIS

Information on operational and financial performance, corporate debt restructuring, sale of Energy division of the Company etc. is given in the Management Discussion and Analysis which is annexed to the Directors' Report and has been prepared in compliance with the terms of clause 49 of the listing agreement with Stock Exchanges.

DIRECTORS

The Board of Directors appointed Shri Hari L. Mundra as Dy. Managing Director & Director (Finance) on 31st October, 2003. Shri Awadhesh N Sinha took over as Managing Director & CEO of the Company, on

31st January, 2004, in place of Shri Jagdeesh M Mehta. During the year Shri R K Chavali was appointed as Nominee Director of IFCI Ltd. replacing Shri Kamal Kishore. Subsequently Shri Sanjoy Chowdhury was appointed in place of Shri R K Chavali.

The Board wishes to place on record their appreciation for the valuable services rendered by Shri Jagdeesh M Mehta, Shri Kamal Kishore, and Shri R K Chavali.

Shri S N Rula, Chairman and Shri D J Thakkar, Director retire by rotation at the ensuing Annual General Meeting and offer themselves for re-appointment.

DIRECTORS' RESPONSIBILITY STATEMENT

Pursuant to the provisions of Section 217(2AA) of the Companies Act, 1956, it is hereby confirmed:

- that in the preparation of the accounts for the financial year ended 31st December, 2003, the applicable accounting standards have been followed along with proper explanation relating to material departures;
- that the Directors have selected such accounting policies and applied them consistently and made judgments 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 of the Company for that period;
- that the Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities; and
- that the Directors have prepared the accounts for the financial year ended 31st December, 2003 on a 'going concern' basis.

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 this 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, for the same, at the Registered Office.

ENERGY, TECHNOLOGY AND FOREIGN EXCHANGE

Information in accordance with Section 217(1)(e) of the Companies Act, 1956 read with 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 Note Nos. B5, B7 and B8 of Schedule XX to the Annual Accounts.

SUBSIDIARY COMPANY

As required under Section 212 of the Companies Act, 1956, the audited statements of accounts along with the report of the Board of Directors and the Auditors' Report thereon of the subsidiary company, Vadinar Power Company Limited for the financial year ended 31st December, 2003 are included in the Annual Report.

FIXED DEPOSIT

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

CORPORATE GOVERNANCE

In terms of clause 49 of Listing Agreement with Stock Exchanges, compliance report on Corporate Governance forms part of the Annual Report. A certificate from the Statutory Auditors of the Company, in this regard, is included in the Annual Report.

AUDITORS

M/s. Deloitte Haskins & Sells, Chartered Accountants, Mumbai, Auditors of the Company hold office until the conclusion of the ensuing Annual General Meeting. M/s B P Jain & Company, Chartered Accountants, Mumbai, were appointed as Joint Auditors of the Company at the Extraordinary General Meeting of members of the Company held on 17th September, 2003. However, M/s. B P Jain & Company submitted their resignation from the post of Joint Auditors which was accepted by the Board of Directors at its meeting held on 30th April, 2004. M/s. Deloitte Haskins & Sells, Mumbai continued as sole Auditors of the Company.

M/s. Deloitte Haskins & Sells, Chartered Accountants, Mumbai, have informed the Company that, if appointed, their appointment will be within the limits prescribed under Section 224(1B) of the Companies Act, 1956. Accordingly, the members' approval is being sought to their

appointment as the Auditors of the Company at the ensuing Annual General Meeting.

ACKNOWLEDGEMENT

The Board wishes to express appreciation and place on record its gratitude for the faith reposed in and co-operation extended to the Company by the Government of India, State Governments, various Government Agencies/Departments, 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

Mumbai
25th August, 2004

AWADHESH N SINHA **R N RUIA**
Managing Director & CEO Vice Chairman

Annexure forming part of the Directors' Report

MANAGEMENT DISCUSSION AND ANALYSIS REPORT

Industry Structure and Outlook

Oil PSUs have dominated the petroleum industry, but post liberalization the entry of private sector companies has ended this domination. Your company with the proposed refining capacity of 10.5 million metric tonnes per annum (MMTPA) is the second private sector player to be added to the industry.

A notable recent industry development has been the award of marketing rights to companies in the private sector and allowing them to directly import products to meet their marketing needs. This extends the liberalization of the oil and gas industry in India.

Opportunities in the market place arise from the fact that there is a growing vehicle population in India, in all categories: two-wheelers, three-wheelers, commercial vehicles and cars. Even with new generation fuel-efficient vehicles, the sheer growth in volume indicates opportunities for growth.

Review of operations

Your Company is engaged in the following businesses.

i. Refinery

Your Company is setting-up a 10.5 MMTPA crude oil refinery at Vadinar, Jamnagar in the state of Gujarat. The implementation of the refinery was affected due to a severe cyclone in June 1998, damaging some of the facilities under construction and causing delay in project implementation and consequent delay in tying up the balance funds required for the restart of the project.

In January, 2004, the Supreme Court has confirmed that the aforesaid refinery has all the necessary environmental permissions and directed the Gujarat state government to issue the necessary directions. Following this, your Company has obtained various other corporate/regulatory approvals, while taking appropriate insurance cover on the project assets. Since then, the restart activities have gathered momentum, with the support of the lenders.

The lead lender ICICI Bank Limited and other major lenders including IDBI, IFCI Limited, LIC of India etc. have approved a revised financial package under the Scheme of Corporate Debt Restructuring of Reserve Bank of India. Under this package, the debt maturity profile of the financial assistance already availed has been extended, the interest rate has been revised to be in line with the current market rates and reliefs have been granted on the interest for the past period. As a result of these changes, the project is now considered financially viable.

The Promoters stand fully committed to the project. They have arranged to raise requisite funds through an issue of Foreign Currency Convertible Bonds (FCCBs). In addition, a sum of Rs. 150 crore received from the sale of the Energy Division during the period under review, has been deposited in an escrow account with lenders, as required under the restructured financial package. Lenders have now permitted your Company to use these funds in the restart operations.

As a result of certain developments relating to the structure of the PMC Contract with ABB, your Company has now finalised arrangements with the SembCorp/ABB consortium for taking over the work of project management, performance testing, training and supervision of construction. SembCorp Simon Carves Limited (a

Singapore government company) will also assume the responsibility for the supply of balance imported equipments, performed earlier by ABB Group of companies. Even under the changed role, ABB's continued association with SembCorp, for all technical support to the project would provide continuity and assurance for the completion of the Project.

Your Company has recently cleared most of the equipments lying in the bonded custom warehouses for the restart of the project activities. Your Company has also started refurbishment of the equipment by deploying reputed contractors. With all the above mentioned arrangements in place, the restart risk has been effectively addressed.

The implementation of the refinery is 63% complete with progress of engineering being 94%, procurement 70% and construction 42%. This means that only a little over a third of the project remains to be completed. The funds mobilized would suffice till almost complete mechanical completion. The issue of mobilising investment required for activities after mechanical completion is also being addressed. Given all the above developments, there is a high degree of confidence over the restarting of the project activities. At present, over 800 workers are already at the site, and this number is increasing daily, with work at the site expected to be in full swing by October 2004.

Once the milestone of restart has been achieved, completion of the Project should logically follow, which is expected to be in a period of 24 months from restart. Given the manner in which it has approached the restart and given the support from the lenders, the Company do not anticipate any completion risk.

ii. Marketing and distribution of petroleum products

Your Company's long term vision is to become a major player in the arena of marketing of petroleum products and gas. In order to achieve this, the Company is in process of putting in place a superior supply/distribution model, comprehensive chain of retail marketing outlets and efficient marketing set-up. This in turn will enable your Company in creating a ready platform to market the products which the refinery will produce, once it goes on stream.

Although the Administered Pricing Mechanism for Transportation Fuels was dismantled effective 1st April, 2002 and the Company was given Marketing Authorization for Motor Spirit (MS) & High Speed Diesel (HSD), your Company could not enter the market since it did not have its own product nor was it able to procure this from other Indian Refineries nor import the same due to Exim Policy constraints.

Following amendment in the Exim Policy effective 1st April, 2003, your Company imported its first cargo in June 2003 and started marketing HSD to the bulk industrial consumers. In September 2003, the Company entered into an arrangement for purchasing MS & HSD locally from MRPL and since then has been selling both Imported and locally procured product to both Bulk and Retail customers.

Your Company has been active in the marketing of MS and HSD, focusing on the retail customer, the backbone of any petroleum company. Given this, your Company is in the process of building

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a nation-wide network of Retail Outlets (ROs), through a franchisee model, and your Company set up its first RO in September 2003, being the first company from the private sector to do so. The Company had commissioned 71 ROs by August 15, 2004, and hopes to complete 400 by March 31, 2005.

Through a rigorous franchise selection process, amongst other things, your Company plans to ensure against problems of adulteration, providing for a continuous quality check system at all ROs. In addition to quality, the Company is looking at incorporating the significant dimension of branding in its marketing efforts. Since RO location is a point of sale and is basic aspect for providing other products and services, in addition to fuel sales, the ROs will add site-specific portfolio of products. That has been made easy because of the modular approach to these additions.

While focusing on retail as its long-term strategy and vision, your Company is also responding to opportunities in sales to bulk customers. It is the first private sector oil company to break into the state road transport segment, which has been a monopoly of National Oil Companies.

Your Company is also working on developing a network of pipelines through which fuel will be transported, both inward and outward, with a focus on the high demand northwest and central regions of the country. It has obtained approval from government authorities and has initiated survey work for the route, river crossings etc. for these pipelines.

Your Company has provided for the logistics of crude receipt and product dispatch in such a way that it should result in the least cost option. Since it will import crude through VLCCs, your Company's freight costs are expected to be low. Similarly, its pipelines will ensure that evacuation too is cost effective.

Since it has chosen the partnership route to building a chain of ROs, your Company does not foresee any problem that cannot be addressed, in building its chain of retail outlets. What is critical is selection of right franchisees and location. Your company's successful record so far is evidence of its ability to overcome this risk.

III. Exploration and Production (E&P)

Currently your Company is engaged in exploration in these areas.

- Gujarat: Oil and Gas E&P contract for the Cambay Basin block CB-ON 3. It is also pursuing permission from the Government of India to exploit, in this block, the potential for Coal Bed Methane (CBM) gas.
- Assam: 16% share in oil and gas exploration block CR-ON-90/1, along with Premier Oil Cachar B.V which has a 84% participating interest and is a subsidiary of Premier Oil of the UK.
- West Bengal: A CBM E&P contract for the Raniganj (East) Block, which will become effective after the execution of a Petroleum Exploration License Deed.
- Mumbai Off-shore Basin: 50% share in a series of discovered fields known as Ratna and R series oil fields in this basin along with ONGC (40%) and Premier Oil Pacific Ltd. (10%). Government approval for executing the approved production sharing contract is awaited.

Financial highlights

Your Company earned total income of Rs. 218 Crores in the 15 months ended 31st December, 2003, of which income from contract and sales was Rs. 173 Crores, with Rs. 45 Crores accruing as other income. The previous reporting period was 18 months ended September 30, 2002. During the 15 months under review, the Company has earned a profit after tax of Rs. 21 Crores, after providing for depreciation of Rs. 18 Crores.

Human Resources

The Company views its employees as valuable resources who are important stakeholders in the growth, prosperity and development of the organization. The Company is committed to creating an appropriate climate, opportunities and systems to facilitate identification, development and utilization of Human Potential.

There are 378 employees on the rolls of the Company as of 31st July, 2004. The strength of the employees has doubled compared to the strength of 179 employees as of 30th September, 2002. Utmost care has been taken to induct (a) talented people from the campus and (b) experienced/ competent/ well-qualified people by way of lateral recruitment from the related industries.

Out of the 378 employees on the rolls of the Company, more than 70%

of the employees are professionally qualified with Engineering, CA/CS/CWA, MBA, and post graduation degrees and more than 20% are graduates. The average age of the employees is about 37 years. As a part of HR planning process your Company has developed well-established system for identifying training and development need for the benefit of individuals as well as the organization.

Training programs are designed and imparted on the basis of identified needs with a view to developing individuals and competencies required for enhancing stakeholders value and promoting learning environment throughout the organization. The training is leveraged as a business strategy with focus on forging ahead in business using strategic initiatives and modern technology, identifying and bridging skill gaps and inculcating enduring entrepreneurship quality for a lasting organization.

Information Technology

Your Company is of firm belief that a state-of-the-art IT system is an essential investment. Going by the best of breed principle, your Company is in the process of implementing SAP to cover all operations, supported by a suite of other application software.

Internal Controls

Your Company maintains adequate internal control systems, which provides among other things, reasonable assurance of recording the transactions of its operations in all material respect and providing protection against significant misuse or loss of company assets. The internal control aspects including utilization of funds for the project are monitored by a reputed accounting firm. Your company is in an advance stage of implementing Enterprise Resource Planning (ERP) package - which defines systems and procedures, which will aid and enhance internal control mechanism.

Safety, Health and Environment

Consistent with the group commitment to the environment, your Company will ensure compliance with Euro II & III standards for the transportation fuels, although the project started earlier than the announcement of these norms. It has been able to achieve this through a series of technical upgradation measures, and its choice of the best technologies available worldwide to produce cleaner fuels. Given that regulatory changes are continuous, your company's refining processes are so designed as to generate various petroleum products of next generation specification. It has also ensured that gaseous emissions will be in tune with the stipulated national standard. The refinery will have zero discharge as it will treat liquid effluent in Waste Water Treatment Plant (WWTP), which will then be utilized in irrigating greenbelt around the refinery.

Keeping safety in mind, your Company has gone in for state-of-the-art crude oil unloading and product loading systems, which are packed with intrinsic safety features. Even though chances of oil spill are very low, there is a round-the-clock oil spill response facilities to face even any small eventuality.

Since safety and productivity are two sides of a same coin, qualified and experienced safety professionals will supervise compliance of every prescribed safety norm, some of which have already been incorporated in the design stage itself.

At site, your Company already runs a clinic, which is equipped with all necessary preliminary equipment and medicines to provide primary treatment and first aid, manned by experienced doctors and paramedical staff. It has well-equipped ambulances to transfer any critically ill patient to the nearest hospital at the shortest possible time. It also carries out regular health check-up of all food handlers at site and city establishments.

A full-fledged Occupational Health Centre (OHC) will be operational in the future complying with various national and international guidelines.

Cautionary Statement

Certain words and statements in this Management Discussion and Analysis are forward-looking statements based on numerous assumptions regarding your Company's present and future business strategies and the environment in which your Company will operate in the future. The important factors that could cause actual results, performance or achievements to differ materially from such forward-looking statements include, among others, changes in demand and supply, government policies or regulations, political and economic development within and outside India and, in particular, changes relating to the administration of oil and gas industry.

CORPORATE GOVERNANCE REPORT

Your Company's philosophy on Corporate Governance envisages disclosure of timely and accurate information; effective monitoring, of the Company, by the Board of Directors and exercise by the Board of Directors of its fiduciary responsibility towards the stakeholders of the Company while ensuring that the Company positions itself to take maximum advantage of the business opportunities in the economic environment.

Your Company has implemented the mandatory requirements of Corporate Governance as set out in the Listing Agreement with Stock Exchanges. Among the non-mandatory requirements, the Company has constituted a Remuneration Committee.

1. Board of Directors

The composition of the Board of Directors and other required details are given below:

Name	Category	No. of Board meetings attended	Whether attended last AGM	No. of other directorships held	Committee embership	
					Member	Chairman
Shaahikant N Ruia (Chairman)	Promoter, Non-Executive	NII	No	7	3	NII
Ravikant N Ruia (Vice Chairman)	Promoter, Non-Executive	5	No	16	2	NII
Prashant S Ruia	Promoter, Non-Executive	5	No	8	4	NII
Awadhesh N Sinha ¹ (Managing Director & CEO)	Executive	N. A.	N. A.	1	2	NII
Hari L Mundra ² (Dy. Managing Director & Director (Finance))	Executive	1	N. A.	1	1	NII
Dilip J Thakkar	Independent Non-Executive	5	Yes	10	10	5
K N Venkatasubramanian	Independent Non-Executive	4	Yes	6	2	NII
R Jayaraman Iyer	Nominee of IDBI	3	Yes	5	NII	NII
R Kannan	Nominee of ICICI Bank Ltd.	6	No	5	3	NII
Sanjoy Choudhury ³	Nominee of IFCI Ltd.	1	N. A.	2	2	NII
Sriram N Gogate ⁴	Nominee of Debenture Trustees, WITCO	4	No	NII	NII	NII
Jagdeesh M Mehta ⁵ (Managing Director & CEO)	Executive	6	Yes	3	2	NII
P S Teckchandani ⁶ (Wholetime Director)	Executive	2	No	-	-	-
E B Desai ⁷	Independent Non-Executive	3	No	-	-	-
Kamal Kishore ⁸	Nominee of IFCI Ltd.	NII	No	-	-	-
R K Chavali ⁹	Nominee of IFCI Ltd.	1	N. A.	-	-	-

Excluding directorship in Private Limited Companies and including directorship in Foreign Bodies corporate

1. Appointed as Managing Director & CEO w.e.f. 31st January, 2004
2. Appointed as Dy. Managing Director & Director (Finance) w.e.f. 31st October, 2003.
3. Nominated as Director w.e.f. 20th August, 2003 as Nominee of IFCI Ltd.
4. Nominated as Director w.e.f. 26th February, 2003 as Nominee of Debenture Trustees - WITCO
5. Ceased to be Managing Director & CEO w.e.f. 31st January, 2004
6. Ceased to be Wholetime Director w.e.f. 27th March, 2003
7. Ceased to be Directors w.e.f. 27th March, 2003.
8. Ceased to be Director w.e.f. 31st July, 2003.
9. Nominated as Director effective 31st July, 2003 and ceased to be Director w.e.f. 20th August, 2003.

Seven Board Meetings were held during the financial year on 31st October, 2002; 30th January, 2003; 26th February, 2003; 30th April, 2003; 31st July, 2003; 20th August, 2003 and 31st October, 2003.

The day-to-day management of the Company is conducted by the Managing Director & CEO who is assisted by the Dy. Managing Director & Director (Finance) and other Heads of Divisions / Departments, subject to the supervision and control of the Board of Directors.

Shri Shashi Ruia and Shri D J Thakkar retire by rotation and seek re-

appointment at the ensuing Fourteenth Annual General Meeting. Shri Hari L Mundra and Shri Awadhesh N Sinha are proposed to be appointed as the Dy. Managing Director & Director (Finance) and the Managing Director & CEO of the Company respectively, at the ensuing Annual General Meeting. A brief resume of the directors along with nature of their expertise and details of other directorships and committee positions held by them have been disclosed to the shareholders through Notes and Explanatory Statement annexed to the Notice for the Annual General Meeting.

2. Audit & Governance Committee

Audit & Governance Committee comprises 3 members viz: Shri D J Thakkar, Shri R Kannan and Shri P S Ruia. During his tenure as Director of the Company, upto 27th March, 2003, Shri E B Desai was also a member of the Committee. The terms of reference of the Committee are as contained in clause 49 of the Listing Agreement.

During the financial year 2002-2003, the Committee met five times. Shri D J Thakkar and Shri R Kannan attended four meetings each. Shri P S Ruia and Shri E B Desai attended two meetings each. Shri D J Thakkar, a qualified Chartered Accountant, generally chairs the Meetings. The Statutory Auditors, Internal Auditors, the Managing Director & CEO, the Dy. Managing Director & Director (Finance) and the Vice-President (Accounts) are invited to attend the meetings of the Committee.

3. Remuneration Committee

The Board of Directors has recently constituted a Remuneration Committee on 30th April, 2004. The terms of reference of the Remuneration Committee include review, determination, increase / decrease and approval of remuneration payable to executive and other directors; determination of terms of appointment, company's policy for specific remuneration packages for executive and other directors etc., and sitting fee payable to directors other than executive directors.

The Committee consists of three Directors viz: Shri P S Ruia, Shri R Kannan, Shri K N Venkatasubramanian as its members.

Remuneration to Directors

Non-Executive Directors

The Non Executive directors do not draw any remuneration from the Company except sitting fees at the rate of Rs. 2000/- for attending each meeting of the Board or any Committee thereof. The sitting fee paid to the Directors for the year ended 31st December, 2003 are as follows: Shri R N Ruia, Rs. 10,000/-; Shri P S Ruia, 62,000/-; Shri E B Desai, Rs. 42,000/-; Shri D J Thakkar, Rs. 1,06,000/-; Shri K N Venkatasubramanian, Rs. 8,000/-; Shri R Jayaraman Iyer, Rs. 6,000/-; Shri R Kannan, Rs. 20,000/-; Shri S N Gogate, Rs. 8,000/-; Shri R K Chavali, Rs. 2000/- and Shri Sanjay Chowdhury, Rs. 2,000.

During the year the Company engaged M/s. Mulla & Mulla & Craigie Blunt & Caroe, a Solicitor firm, in which Shri E B Desai is a Partner and who was also a director of the Company during the financial year upto 27th March, 2003. The services rendered by the firm are purely of professional nature. Shri K N Venkatasubramanian and Shri D J Thakkar have been paid professional charges; during the year, for acting as Chairman and conducting the Court convened meetings of debenture holders which were held pursuant to orders dated 4th April, 2003 passed by the Hon'ble Gujarat High Court, for seeking approval of debenture holders, for proposed Scheme of Arrangement / Compromise under section 391 of the Companies Act, 1956 between the Company and the debenture holders.

Executive Directors

During the financial year 2002-2003 remuneration paid to the executive directors as as under:

	Shri Jagdeesh M Mehta, Managing Director & CEO	Shri P S Teckchandani, Wholetime Director	Shri Hari L Mundra, Dy. Managing Director & Director (Finance)
Basic Salary	Rs. 48,59,100/-	Rs. 3,46,798/-	Rs. 6,09,863/-
Housing Rent / allowance	Rs. 45,00,000/-	Rs. 88,065/-	Rs. 4,26,904/-
Perquisites	Rs. 25,80,067/-	Rs. 13,53,807/-	Rs. 6,24,686/-
Employers contribution to retirement benefits	Rs. 15,41,803/-	Rs. 1,04,089/-	Rs. 1,84,663/-
Total	Rs. 1,34,80,970/-	Rs. 18,92,559/-	Rs. 18,26,116/-
Service contract	5 years from 31.10.2000	5 years from 12.01.2000	4 years from 31.10.2003
Notice period	3 months	3 months	3 months

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The resolutions appointing these directors do not provide for stock option.

4. Investors' Relations Committee

The Investors' Relations Committee consists of three Directors viz: Shri P S Ruia, Shri Awadhesh N Sinha and Shri D J Thakkar. Shri E B Desai and Shri P S Teckchandani during their tenure as Directors of the Company, upto 27th March, 2003 and Shri Jagdeesh M Mehta during the term of his office upto 31st January, 2004 were also members of the Committee. One of the Non-executive Directors, generally chairs the meetings.

During the financial year 2002-2003, the Committee had 38 meetings. Shri D J Thakkar was present at 35 meetings, Shri Jagdeesh M Mehta was present at 27 meetings, Shri P S Ruia attended 19 meetings, Shri E B Desai participated in 13 meetings, and Shri P S Teckchandani attended 9 meetings.

The Company Secretary, Shri Sheikh S Shaffi is the Compliance Officer.

During the financial year, 31,904 letters / complaints were received from the share/debenture holders, out of which 31,721 letters / complaints were replied to / resolved. As of 31st December, 2003 183 letters/complaints were pending, which were subsequently replied to / resolved within a period of one month.

The Company had issued and allotted 12.5% Optionally Fully Convertible Debentures of Rs.190/- each, pursuant to a Public issue in 1995, to part finance the cost of the Refinery Project at Jamnagar, Gujarat. Post conversion, they became 14% Non Convertible Debentures of Rs.105/- each. The project activities came to a standstill after the project site was hit by a devastating cyclone in June 1998. Thereafter, ICICI Ltd (now ICICI Bank Limited), the Lead Lender, took up project reappraisal.

The interest payments were to be paid out of project finance upto June 1998 and thereafter interest and redemption of principal amount were to be paid out of revenue to be generated from the Refinery operations. The Company paid interest upto 31st December, 1998 to the public Debenture holders. Thereafter, till date due to stoppage of work at the Refinery project and non-availability of funds / cash flows, payment of dues to the debenture holders till the maturity date of 20th April 2003, could not take place.

The Company filed in March 2003, Schemes of Arrangement under section 391 of the Companies Act, 1956 before the Hon'ble Gujarat High Court for rescheduling of dues of the debenture holders. The High Court convened meetings of the holders of debentures on 8th May, 2003. Meetings of the (i) Debenture Holders holding upto 2000 debentures (Public); (ii) Debenture Interest Holders; (iii) partly paid debenture holders, on which calls are in arrears, were held on 6th May, 2003 and the resolutions approving the schemes were passed. The Company filed petitions on 8th May, 2003 before the High Court for confirmation of the aforesaid three Schemes of Arrangement. Thereafter, on representations received and as agreed to by Debenture Trustees, Department of Company Affairs, SEBI and Investor Grievance Forum, the Company has in February, 2004 filed an affidavit with the Court offering an additional 3rd option to small debenture holders, for making further expeditious payment. The Company has already represented to the High Court to expedite the hearing in the matter. The meeting of the fourth category of the debentureholders holding more than 2000 debentures, mainly comprising of Financial Institutions / Banks / Mutual Funds many of them are also lenders to the refinery project, is adjourned from time to time as the individual lenders need to take their Boards approval for voting on the resolution which is subject to the firming up of the corporate debt restructuring package proposed for the Company. The adjourned meeting is now scheduled to take place on 26th August, 2004.

The scheme approved by the relevant category of the debenture holders would be implemented once the confirmation of the Court is received. The implementation of the schemes would resolve complaints of all the debenture holders of the Company.

Further, the Gujarat High Court granted stay order on all proceedings pending or that may be filed against the Company by the debenture holders in any Court / Forum / Stock Exchange/ Securities and Exchange Board of India/any other statutory government authority, pending hearing and final disposal of the proceedings for sanction

of the said schemes of arrangement/ compromise.

As on 31st December, 2003, 36 requests involving transfer of 4,300 shares and 7 requests involving transfer of 400 debentures were pending to be processed. These pending requests are less than eight days old.

5. General Body Meetings

The date, time and venue of the last three Annual General Meetings of the Company are given below:

Financial Year	Date	Time	Venue
2001-2002	27 th March, 2003	2:30 p.m.	Khambhalia Post, Dist. Jamnagar
2000-2001	28 th September, 2001	12:30 p.m.	Khambhalia Post, Dist. Jamnagar
1999-2000	27 th September, 2000	11.30 a.m.	Khambhalia Post, Dist. Jamnagar

The Registrar of Companies, Gujarat, has granted extension of time for three months, upto 27th September, 2004, for holding the Annual General Meeting for considering the accounts for the financial year ended 31st December, 2003.

All resolutions including the special resolutions are generally passed by show of hands. No resolutions were required to be put through postal ballot last year.

6. Disclosures

- The Company does not have any Related parties' transactions which have potential conflict with the interest of the Company at large.
- There were no instances of non-compliance on any matter related to the capital markets, during the last three years except the following:
 - Listing fee has been paid to the National Stock Exchange of India Ltd. (NSE) and the Stock Exchange, Mumbai (BSE). The listing fee has not been paid fully to the other six Stock Exchanges.
 - Trading in securities of the Company was suspended by BSE for few days in April, 2001 due to non-resolution of complaints lodged with them pertaining to non-payment of debenture interest.
 - Trading in shares of the Company was suspended by BSE on 13th March, 2003, for non-payment of listing fee. On payment of outstanding dues, trading resumed under "Z" category, with effect from 24th May, 2004. On representation from the Company, the scrip was shifted to "B2" category with effect from 19th July, 2004.
 - Securities and Exchange Board of India (SEBI) had on 20th May, 2003, initiated adjudication proceedings against the Company for alleged failure to resolve the complaints mainly from debenture holders about non-receipt of interest / principal amount. The Hon'ble Gujarat High Court has vide order dated 19th August, 2003 as modified vide order dated 1st April, 2004 stayed proceedings initiated by SEBI in respect of complaints relating to payment of debenture amount and interest.

7. Means of communication

- Quarterly financial results are published in English daily, Indian Express and in a Gujarati daily, Jai Hind. The annual/quarterly results are made available at the website of the Company www.essar.com
- Management Discussion and Analysis Report, in compliance with the requirements of Clause 49 of the Listing Agreement with Stock Exchanges, is annexed to the Directors' Report which forms part of this Annual Report being sent to all the members of the Company.
- The Consolidated financial statements of the Company and its subsidiary, Vadinar Power Company Limited, form part of this Annual Report.
- The financial statements along with Corporate governance reports, Shareholding pattern, Action taken against the Company by any regulatory agency and Annual Reports, in compliance with the requirements of listing agreement entered into with Stock Exchanges, are made available on the website for Electronic Data Information Filing and Retrieval System (EDIFAR) maintained by SEBI and National Informatics Centre.