



Essar Oil Limited

Annual Report 2009 - 2010



BOARD OF DIRECTORS (As on 26th July, 2010)

Shashi Ruia
Prashant Ruia
Anshuman Ruia
Naresh K. Nayyar
P. Sampath
Dilip J. Thakkar
K. N. Venkatasubramanian
K.V. Krishnamurthy
Dr. G. Goswami
V. K. Sinha
Manju Jain

Chairman

Managing Director
Director Finance

Nominee of IDBI Ltd.
Nominee of LIC of India
Nominee of IFCI Ltd.

COMPANY SECRETARY

Sheikh S. Shaffi

BANKERS

ICICI Bank Ltd.
State Bank of India
IDBI Bank Ltd.
Punjab National Bank
Axis Bank Ltd.
Indian Bank
Allahabad Bank
State Bank of Mysore

Bank of India
Indian Overseas Bank
HDFC Bank Ltd.
Oriental Bank of Commerce
State Bank of Patiala
Bank of Baroda
Central Bank of India
Syndicate Bank
State Bank of Indore

AUDITORS

M/s. Deloitte Haskins & Sells, Mumbai

REGISTERED OFFICE

Khambhalia Post, Post Box No. 24
Dist. Jamnagar - 361 305, Gujarat
Tel.: 91-2833-66 1444
Fax: 91-2833-66 2929
Email: eolinvestors@essar.com

CORPORATE OFFICE

Essar House, Post Box No. 7945
11, Keshavrao Khadye Marg
Mahalaxmi, Mumbai - 400 034
Tel.: 91-22-66601100
Fax: 91-22-23544281 / 23540450
Website: <http://www.essar.com>

SHARES LISTED AT

Bombay Stock Exchange Ltd.

National Stock Exchange of India Ltd.

TRANSFER AGENTS

M/s. Datamatics Financial Services Ltd.
Unit: Essar Oil Limited
Plot No. A16 & A17, Part B Cross Lane
MIDC, Andheri (East), Mumbai - 400 093
Tel.: +91-22-66712151 to 66712156
Fax: +91-22-66712230
Email: eolinvestors@dfssl.com
Website: <http://www.dfssl.com>

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

NOTICE

NOTICE is hereby given that the **Twentieth Annual General Meeting** of the members of **ESSAR OIL LIMITED** will be held at the Registered Office of the Company at Khambhalia Post (39th km. stone on Jamnagar-Okha Highway), Dist. Jamnagar - 361305, Gujarat on Friday the **24th September, 2010 at 2:30 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 March, 2010, the Statement of Profit & Loss for the financial 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 Prashant S Ruia who retires from office by rotation and being eligible, offers himself for reappointment.
3. To appoint a Director in place of Shri Naresh K Nayyar who retires from office by rotation and being eligible, offers himself for reappointment.
4. To appoint a Director in place of Shri K N Venkatasubramanian who retires from office by rotation and being eligible, offers himself for reappointment.

SPECIAL BUSINESS:

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

"RESOLVED THAT M/s. Deloitte Haskins & Sells, Chartered Accountants, Ahmedabad, having ICAI Registration number 117365W, be and are hereby appointed as the Auditors of the Company in place of 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 at a remuneration to be fixed by the Board of Directors of the Company."

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

"RESOLVED THAT Shri K V Krishnamurthy, who was appointed as an Additional Director by the Board of Directors pursuant to section 260 of the Companies Act, 1956 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 in partial modification of the resolution passed by the members at the Extraordinary General Meeting of the Company held on 18th December, 2007 and 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(s) 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 for the revision in the terms of remuneration payable to Shri Naresh Kumar Nayyar, Managing Director of the Company with effect from 1st April, 2009 for the remaining period of his term in office upon the terms as set out in the Explanatory Statement annexed to this Notice which is hereby specifically approved with authority to the Board of Directors (which term shall include the Remuneration Committee constituted by the Board of Directors) to alter and vary the terms and conditions as may be agreed to between the Board of Directors and Shri Naresh Kumar Nayyar in the best interest of the Company."

"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 in partial modification of the resolution passed by the members at the 19th Annual General Meeting of the Company held on 27th June, 2009 and 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(s) 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 for the revision in the terms of remuneration payable to Shri P Sampath, Director Finance of the Company with effect from 1st April, 2009 for the period of his term in office upon the terms as set out in the Explanatory Statement annexed to this Notice which is hereby specifically approved with authority to the Board of Directors (which term shall include the Remuneration Committee constituted by the Board of Directors) to alter and vary the terms and conditions as may be agreed to between the Board of Directors and Shri P Sampath, in the best interest of the Company."

"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 pursuant to 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 required from the appropriate authorities, the Articles of Association of the Company be and are hereby altered as follows:

- i. In Article 2, the following sub-clauses be added after the existing sub-clause (xi) :

(xi)(a) "**Base Refinery Facilities** means, collectively, all such existing facilities of the Company as are restructured or reconstituted in accordance with restructuring package approved by the CDR Empowered Group as set out in letter dated November 17, 2004 from the Corporate Debt Restructuring Cell, as amended from time to time, and all rupee term loans, foreign currency loans, LC facilities, guarantee facilities and deferred interest facilities extended to the Company, from time to time, for the purposes of the Base Refinery Project, as provided in accordance with the aforesaid restructuring package."

(xi)(b) "**Base Refinery Lenders** means all lenders providing Base Refinery Facilities to the Company."

(xi)(c) "**Base Refinery Project** means operation and maintenance of the existing facilities for refining 10.5 million tonnes of crude oil per annum at District Jamnagar in the State of Gujarat."

- ii. In Article 2, the following sub-clauses be added after the existing sub-clause (xiii):

(xiii)(a) "**Expansion Project** means the de-bottlenecking and upgradation of the existing 10.5 MMTPA crude oil refinery by addition of delayed coker, hydrotreating units amongst others to increase the refinery capacity to 16 MMTPA."

- (xiii)(b) **"Expansion Project Facilities** means all rupee term loans, foreign currency loans, LC/LOU facilities, guarantee facilities and deferred interest facilities extended to the Company, from time to time, for the purposes of the Expansion Project."
- (xiii)(c) **"Expansion Project Lenders** means all lenders providing Expansion Project Facilities to the Company."
- iii. In Article 2, the sub-clause (xiv) be substituted as follows:
- (xiv) **"Facilities** means, collectively, the Base Refinery Facilities and the Expansion Project Facilities."
- iv. In Article 2, the following sub-clause be added after the existing sub-clause (xiv):
- (xiv)(a) **"Financing Documents** means all documents entered into between inter alia, the Company, the Promoters and the Lenders in relation to the financing of the Project."
- v. In Article 2, the sub-clauses (xviii) and (xix) be substituted as follows:
- (xviii) **"Project** means collectively, the Base Refinery Project and the Expansion Project."
- (xix) **"Promoters** shall include any entity which has been disclosed as Promoter in Prospectus issued by the Company and any entity which has been disclosed as "group company" for the purposes of SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 1997 in the published Annual Report of the Company and holding or any of the subsidiary companies of such entities at the relevant time for ascertainment."
- vi. Article 75 shall 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 (3) or more than seventeen (17).
- vii. Article 75A(1) and (2) shall be substituted as follows:
- 75A. (1) Notwithstanding anything to the contrary contained in these Articles, so long as any monies/liabilities in relation to:
- (a) any of the Base Refinery Facilities remain owing by the Company to the Base Refinery Lenders, the Base Refinery Lenders shall have a right, by a notice in writing addressed to the Company, duly signed by an authorized officer of any of the Base Refinery Lenders, to appoint from time to time any person or persons, as shall together, not exceed four (4) Directors, as Director or Directors (such directors hereinafter referred to as the **"Base Refinery Lenders' Nominee Director(s)"**) on the Board of Directors of the Company (excluding the Debenture Directors appointed pursuant to Article 84(A)), and to remove from such office any person or persons so appointed and on a vacancy being caused in such office from any cause whether by resignation, death, removal or otherwise, of any such persons so appointed, to appoint any person to fill such vacancy; and
- (b) any of the Expansion Project Facilities remain owing by the Company to the Expansion Project Lenders, the Expansion Project Lenders shall

have a right, by a notice in writing addressed to the Company, duly signed by an authorized officer of any of the Expansion Project Lenders, to appoint from time to time any person, not exceeding one (1) Director, as Director (such directors hereinafter referred to as the **"Expansion Project Lenders' Nominee Director"**) on the Board of Directors of the Company (excluding the Debenture Directors appointed pursuant to Article 84(A)), and to remove from such office any person or persons so appointed and on a vacancy being caused in such office from any cause whether by resignation, death, removal or otherwise, of any such persons so appointed, to appoint any person to fill such vacancy;

(collectively, the Base Refinery Lenders' Nominee Director(s) and Expansion Project Lenders' Nominee Director are referred as the **"Lenders' Nominee Director(s)"**). A Director so appointed by the Lenders shall neither be liable to retire by rotation nor be bound to hold any qualification shares.

- (2) The Promoters shall have the right, by a notice in writing addressed to the Company, duly signed by the Promoters/ Directors or Chief Executives of the Promoters, to appoint such persons as shall together, at any time, not exceed Five (5) Directors of the Company (such directors hereinafter referred to as the **"Promoters Nominee Director(s)"**) and to remove from such office any person or persons so appointed and on a vacancy being caused in such office from any cause whether by resignation, death, removal or otherwise, of any such persons so appointed, to appoint any person to fill such vacancy; provided that if Lenders decide to limit the number of Lenders' Nominee Directors which they are entitled to appoint to a maximum of four (three nominee directors to be appointed by Base Refinery Lenders and one nominee director to be appointed by Expansion Project Lenders), then the Promoters entitlement to appoint the Promoters' Nominee Directors shall also simultaneously be limited to a maximum of four. Subject to the provisions of the Act and Article 75A(1), Director so appointed by the Promoters shall neither be liable to retire by rotation nor be bound to hold any qualification shares.

- viii. The following Article 96(1A) be added after existing Article 96(1):

96(1A) The Company and the members will cause the Company to comply with the provisions of the financing agreements entered into or to be entered with banks, financial institutions and other creditors providing fund based and non fund based financial assistance to the Company, from time to time, and shall not take any action that is inconsistent with or which contravenes the provisions of such financing agreements."

By Order of the Board of Directors

Mumbai
26th July, 2010

SHEIKH S. SHAFFI
Company Secretary

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

Essar Oil Limited

NOTES:

1. **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, i.e. before 2:30 p.m. of 22nd September, 2010.**
2. The Register of Members and Share Transfer Books of the Company will remain closed from Wednesday, the 22nd day of September, 2010 to Friday, the 24th day of September, 2010 (both days inclusive).
3. 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.
4. Members / proxies should bring the attendance slip duly filled in for attending the meeting.
5. 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.
6. Directors retiring by rotation:

Shri Prashant S. Ruia is 41 years old. He was appointed as Director on our Board on 29th November, 2000. He is also the Vice-Chairman of Essar Energy Plc. Shri Ruia has been involved with the Essar Group's operations and management since 1985. He is actively involved in the Group's growth and diversification both within India and internationally.

Shri Ruia was instrumental in structuring the Vodafone and Essar Partnership, commissioning the Company's Refinery in record time and involved in the acquisition of Algoma Steel in Canada. He has set new standards for adopting best practices in corporate governance, health, safety and environmental practices.

Shri Ruia holds several key positions on various regulatory and professional boards and was recently appointed to the audit committee of the World Steel Association. He was also a member of the Prime Minister of India's advisory council on trade and industry in 2007. Shri Ruia is a member of the Energy Boardroom at the World Economic Forum.

The other companies in which Shri Prashant S. Ruia is a director are: Essar Energy Plc, Essar Steel Ltd., Vodafone Essar Ltd., Kama Schachter Jewelry Private Ltd., Essar Steel Orissa Ltd. He is a member of the Investors' Relations Committee, Audit & Governance Committee, Banking & Finance Committee and Committee of Directors (Capital Issues). He does not hold any shares in the Company.

Shri Naresh Nayyar is 57 years old. He is a Chartered Accountant and an alumnus of Indian Institute of Management, Ahmedabad and has over 35 years of experience in the oil & gas industry. He joined the Company on 15th October, 2007 as Managing Director.

Prior to joining the Company, Shri Naresh Nayyar was with ONGC Mittal Energy Ltd. a joint venture between ONGC and Mittal Investments of Arcelor Mittal Steel, where he was instrumental in steering its growth through mergers and acquisitions.

Earlier he was with Indian Oil Corporation Ltd. (IOC) since 1975

where he rose to become its Director (Planning & Business Development) on the Board in October 2002, after having handled several key assignments. Shri Naresh Nayyar has been a nominee of IOC on the Board of reputed companies like ONGC, IBP and Petronet LNG and also Chairman of Lanka IOC Ltd., Sri Lanka and Indian Oil Panipat Power Consortium Ltd.

The other companies in which Shri Nayyar is a director are: Vadinar Power Company Ltd. (Managing Director), SNS Creations Pvt. Ltd., Matix Fertilizers and Chemicals Ltd., Kenya Petroleum Refineries Ltd. and Essar Power Ltd. He is a member of Investors' Relations Committee, Banking & Finance Committee and Committee of Directors (Capital Issues). He does not hold any shares in the Company.

Shri K. N. Venkatasubramanian is 72 years old. He was appointed as Director on 29th November, 2000. He is a chemical engineer from A.C. College of Technology, Chennai and M.Tech from IIT, Kharagpur. He has 50 years of experience in the petroleum sector with several companies in the petroleum sector including Indian Petroleum Corporation Ltd. (IPCL), Indian Oil Corporation Ltd.(IOC) and Gulf Oil Limited. He has previously served as Director – Marketing and Director - Operations of IPCL, Chairman and Managing Director of Engineers India Ltd., Chairman and Managing Director of IOC and as Chairman of Gulf Oil Ltd.

The other companies in which Shri K. N. Venkatasubramanian is a director are: Gulf Carrosserie India Ltd., Gulf Oil Corporation Ltd., Imperial Corporate Finance & Services Pvt. Ltd., Mundra Port & SEZ Ltd., Royal Chemic Corporation Ltd., Time Technoplast Ltd. He holds 6,500 shares of the Company.

7. The Explanatory Statement pursuant to section 173(2) of the Companies Act, 1956 relating to the Special Business to be transacted at the meeting is annexed.
8. The Securities and Exchange Board of India (SEBI) has mandated submission of Permanent Account Number (PAN) by every participant in securities market for transfer / transmission / transposition of securities and deletion of name. Members holding shares in physical form are requested to submit their PAN details to the Company / Share Transfer Agents (STA), M/s. Datamatics Financial Services Ltd. Members holding shares in electronic form have to submit the PAN details to their DPs.
9. Facility for making nominations is available to individuals holding shares in the Company. Members holding shares in physical form may obtain the prescribed nomination form 2B from the Company or the STA or can download the form from the Company's website www.essar.com. Members holding shares in electronic form are requested to approach their DPs for the nomination.

ANNEXURE TO NOTICE

Explanatory Statement pursuant to section 173(2) of the Companies Act, 1956 setting out all material facts relating to special business mentioned in accompanying Notice dated 26th July, 2010.

Item No. 5

The retiring auditors M/s. Deloitte Haskins & Sells, Mumbai have expressed their inability to seek re-appointment as Auditors of the Company. Instead it is proposed to appoint M/s. Deloitte Haskins & Sells, Chartered Accountants, Ahmedabad as the Statutory Auditors in their place. Although the matter is not governed strictly by the provisions of sections 225(1) of the Companies Act, 1956 but by the provisions of section 224(2)(b) of the Act, which makes no reference

to any special notice being given, by way of abundant caution, such a special notice has been received by the Company from a member proposing to appoint M/s. Deloitte Haskins & Sells, Chartered Accountants, Ahmedabad as Auditors of the Company. M/s. Deloitte Haskins & Sells, Chartered Accountants, Ahmedabad have confirmed that if appointed, their appointment will be in accordance with the provisions of the Companies Act, 1956.

The Directors recommend the resolution at Item no. 5 for your approval.

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

Item No. 6

Shri K V Krishnamurthy was appointed as an Additional Director of the Company on 22nd January, 2010. In terms of section 260 of the Companies Act, 1956 and Article 82 of Articles of Association of the Company, Shri K V Krishnamurthy would hold office as a Director upto the date of the ensuing Annual General Meeting.

Shri K V Krishnamurthy is a Chartered Accountant and fellow member of the Indian Institute of Bankers and has been a member of its Governing Board. He has over 33 years of experience in Public Sector Banking. His areas of specialization include both domestic and international banking, treasury management, risk management, foreign exchange management and human resource management. He is credited with the remarkable turnaround of both Bank of India and Syndicate Bank, leading nationalized banks. He has been the Chairman / Director of nationalized banks like Bank of India, Bank of Baroda, Syndicate Bank and other financial institutions like Indo Hong Kong International Finance Company Limited, Export Credit Guarantee Corporation of India and Agricultural Finance Corporation of India Limited.

Shri K V Krishnamurthy is a Director of FCH Centrum Direct Limited, Asset Reconstruction Company (I) Limited, Borosil Glass Works Ltd., Centrum Capital Ltd., Essel Propack Limited, Essar Steel Limited, Essar Shipping Ports & Logistics Ltd., KPIT Cummins Infosystems Ltd., Sundaram BNP Paribas Trustees Co. Ltd., Thirumalai Chemicals Ltd. and VVF Industries Ltd. He does not hold any shares in the Company.

The Directors recommend the resolution at Item No. 6 of the Notice for your approval.

Except for Shri K V Krishnamurthy none of the other Directors is in any way concerned or interested in the resolution at Item no. 6.

Item Nos. 7 & 8

Shri Naresh Kumar Nayyar was appointed as Managing Director of the Company for a period of 5 years with effect from 15th October, 2007. His appointment and terms thereof were approved by the shareholders at an Extraordinary General Meeting held on 18th December, 2007. Shri P Sampath was appointed as Director Finance of the Company for a period of 5 years with effect from 1st April, 2009. The shareholders at the 19th Annual General Meeting held on 27th June, 2009 approved the appointment and the terms thereof. The two directors are hereinafter collectively referred to as "wholetime directors".

Due to inadequacy of profits in the financial year preceding the year of appointment of the respective wholetime directors, the Company applied for and obtained approval of the Central Government in terms of section 198(4) read with schedule XIII of the Companies Act, 1956 for the appointment and payment of managerial remuneration to them.

Taking into consideration the increased business activities and the responsibilities cast on the wholetime directors and also the contribution made by the wholetime directors, the Board of Directors has deemed it fit to increase the remuneration of the wholetime

directors with effect from 1st April, 2009 for the remaining period of their respective tenure in office.

Information required to be given to members as per Schedule XIII of the Companies Act, 1956 is as under:

I General Information:

(1) Nature of Industry:

The Company belongs to the oil and gas industry. It is an existing company engaged in exploration and production of oil and gas, refining of crude oil and marketing of petroleum products.

(2) Expected date of commencement of commercial production:

The 10.5 MMTPA Oil Refinery of the Company commenced commercial production at full capacity with effect from 1st May, 2008.

(3) Financial performance:

(Rs. in crore)

Financial year ended on	31/3/2010	31/3/2009	31/3/2008
Profit / (loss) computed under section 198 of the Companies Act, 1956	(725.64)	(755.86)	(213.37)
Net profit/(loss) after tax as per Statement of Profit & Loss	29.46	(513.51)	(41.18)

(4) Export performance:

During the year ended 31st March, 2010, FOB value of exports (on accrual basis) was Rs. 8769.51 crore.

(5) Foreign investments and collaborations, if any:

Essar Energy Holdings Ltd. (formerly Prime Finance Company Ltd.), Foreign Promoter, has made investment of Rs.4218 crore in the Company and presently holds 178,858,624 (13.10%) equity shares and 1,843,724 Global Depository Shares represented by 282,089,772 (20.66%) underlying equity shares of the Company.

II Information about the wholetime directors:

(1) Shri Naresh Kumar Nayyar

Shri Naresh Nayyar is the Managing Director and is responsible for all the day to day operations of the Company subject to superintendence and control of the Board of Directors. A brief profile of Shri Nayyar is setout in notes to the Notice for this Annual General Meeting.

Under the leadership of Shri Nayyar the Refinery of the Company, at district Jamnagar, started commercial production from 1st May, 2008. The Refinery consistently operated above its name plate capacity of 10.5 MMTPA. A major turnaround was completed in a record time of 18 days in the first quarter of 2009 and subsequently the Company was able to improve its thruput to 14 MMTPA. The Company has achieved lowest Disabling Injury Index (DII) Certificate of Honour for completing 3 million man hours without accident and has won 3 Gujarat State Safety awards from Gujarat Safety Council for the year 2008.

Shri Nayyar has been instrumental in putting in place product supply agreements with Public Sector Undertakings (PSUs) and tie-up of supply arrangement with PSUs to the Company's Retail Outlets allowing pan India presence. In

the Exploration & Production business, the Company under the leadership of Shri Nayyar with the finding of gas in Raniganj block is emerging as a major player in the CBM space in the country.

During the preceding financial year, Shri Naresh Nayyar received remuneration of Rs. 1.29 crore.

The revised particulars of the terms of remuneration payable to Shri Naresh Nayyar with effect from 1st April, 2009 for the remaining period of his term in office as Managing Director are: Salary in the range of Rs. 4,00,000 to Rs. 5,00,000 per month and allowances and perquisites including reimbursement of car operating, entertainment, telephone, professional pursuit, medical expenses, etc. as per Company rules and annual performance bonus depending on the performance of the Company and his performance assessed as per Company policy, all of which shall not exceed Rs. 11,00,000 per month. He will be covered under Company's Provident Fund / Gratuity / Hospitalisation / Group Personal Accident Scheme. 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 salary / perquisites / allowances / other benefits and bonus as may be decided by the Board of Directors or the Remuneration Committee within such maximum amount, which will not exceed Rs. 2.00 crore per annum.

In the event of termination of employment, except in circumstances of fraud or gross misconduct on his part, he will be entitled to be paid remuneration for a maximum period of six months.

Subject to as aforesaid, he shall be governed by such of the existing service rules of the Company as may be in force from time to time.

In the event of loss or inadequacy of profits in any financial year during the period of the tenure in office of the Managing Director, the remuneration payable by way of salary, perquisites, allowances and other benefits shall be paid as minimum remuneration subject to the approval of Central Government, if any, required.

The remuneration proposed to be paid to the Managing Director is comparable with the remuneration being paid for similar assignments in the industry.

Shri Naresh Nayyar does not have direct or indirect pecuniary relationship with the Company or relationship with the managerial personnel other than getting remuneration as the Managing Director of the Company.

(2) Shri P Sampath

Shri P Sampath is 55 years old. He is a Bachelor of Commerce from Madras University a fellow member of the Institute of Cost & Works Accountants of India and Institute of Company Secretaries of India with over 32 years of rich experience.

Shri Sampath started his career with Kothari Industries Ltd. He also worked for Blow Plast Ltd. and Amtrex Ambience Ltd. Thereafter, he moved to GHCL Ltd., where he worked for about 17 years and rose to become its Managing Director and Director of all global subsidiaries. Prior to joining Essar Group, he was with RPG Enterprises Ltd. as Management

Board member and Group CFO where he was instrumental in integration of unit finance activities and fund raising for RPG Group.

Shri P Sampath is the Director Finance and is responsible for the finance, accounts and taxation matters including raising finance (both debt and equity) for the Refinery expansion project, E&P Business and other ventures, treasury and working capital management, term loans servicing, Accounts, Direct and Indirect taxation and Budgeting.

In the short period after taking over as Director Finance, Shri P Sampath has taken a number of measures for streamlining of the accounting system. Shri P Sampath is credited with tie-up of debt of Rs. 4600 crore for the Debottlenecking and Up-gradation Project for expanding the Refining capacity to 16 MMTPA, tie-up of working capital limits of Rs. 9,450 crore from a consortium of 14 Banks and renewal of working capital limits to Rs. 10,650 crore for the current year. He has been involved in developing institutional investor awareness both in India and overseas by continuous interactions through conference calls, meetings and presentations with various institutional investors. He has ensured that research of the Company was undertaken by top-notch research houses. He has also been instrumental in development and implementation of forex risk management policy for the Company to protect the Company from the downside of adverse currency movement.

Prior to joining the Company, Shri P Sampath was working with RPG Enterprises Ltd. where his salary was approximately Rs. Two crore per annum which included perquisites and allowances.

The revised particulars of the terms of remuneration payable to Shri P Sampath with effect from 1st April, 2009 for the remaining period of his term in office as Director Finance are: Salary which shall be in the range of Rs. 8,00,000 to Rs. 11,00,000 per month and reimbursement of car operating, entertainment, telephone, professional pursuits, medical expenses, food coupons, etc. as per Company rules and annual performance bonus depending on the performance of the Company and his performance assessed as per Company policy, all of which shall not exceed Rs. 15,00,000 per month. He will be covered under Company's Provident Fund / Gratuity / Hospitalisation / Group Personal Accident Scheme. 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 salary / perquisites / allowances / other benefits and bonus as may be decided by the Board of Directors or the Remuneration Committee within such maximum amount, which will not exceed Rs. 3.30 crore per annum.

In the event of termination of employment, except in circumstances of fraud or gross misconduct on his part, he will be entitled to be paid remuneration for a maximum period of three months.

Subject to as aforesaid, he shall be governed by such of the existing service rules of the Company as may be in force from time to time.

In the event of loss or inadequacy of profits in any financial year during the period of the tenure in office of the Director Finance, the remuneration payable by way of salary,

perquisites, allowances and other benefits shall be paid as minimum remuneration subject to the approval of Central Government, if any, required.

The remuneration proposed to be paid to the Director Finance is comparable with the remuneration being paid for similar assignments in the industry.

Shri P Sampath does not have direct or indirect pecuniary relationship with the Company or relationship with the managerial personnel other than getting remuneration as the Director Finance of the Company.

III Other information:

(1) Reasons for loss / inadequacy of profit, if any.

The 10.5 MMTPA Refinery of the Company at District Jamnagar started commercial production from 1st May, 2008. The construction of the refinery was delayed due to a cyclone, which caused extensive damage to the Refinery site and resulted in high debt and consequential higher interest charges.

Immediately, post-commissioning, in the financial year 2008-09, the Company incurred a loss of Rs. 514 crore (PAT) mainly attributable to an unprecedented depreciation in the value of Rupee (Rupee moved from Rs. 41/US\$ to Rs. 51/US\$) coupled with abnormal and steep fall in the crude and petroleum products prices resulting in write down of inventory to net realizable value (crude prices moved from US\$ 147/bbl to sub US\$ 40/bbl levels in March 2009).

In the financial year 2009-2010, the global economic downturn affected business sentiments. Refinery industry witnessed lower Gross Refining Margins (GRMs). Despite economic turmoil, the Company performed well and was able to earn a net profit of Rs. 29 crore (PAT) which however was not adequate to cover the past losses.

(2) Steps taken or proposed to be taken for improvement.

The Refinery of the Company is functioning satisfactorily. The losses suffered by the Company during the financial year ended 31st March, 2009 were mainly on account of exceptional items, referred to above, due to turbulence in the international financial and oil & gas markets and not related to operations of the Company.

Since May 2009, the Company has optimized its refinery operations resulting in a crude processing capacity of upto 14 MMTPA. The Company has been able to achieve considerable improvement in performance during the financial year ended 31st March, 2010, among others, due to operating of Refinery at 129% over its name plate capacity of 10.5 MMTPA; upgradation of bottom end distillates of crude oil to value additive products like Bitumen; better and improved fiscal management; extensive budgetary controls and improved foreign exchange management.

(3) Expected increase in productivity and profits.

The Company is currently in the process of expanding its Refinery capacity from 10.5 MMTPA to 16 MMTPA by debottlenecking and upgradation which will enhance the refining capacity to 16 MMTPA and also improve its complexity from 6.1 to 11.8. This will enable the Company to process tougher and cheaper crudes. Post this expansion, the Company will start production of Euro IV and Euro V compliant fuels which is expected to generate higher GRM.

Commercial production from the expansion is expected to commence within the next 12 months. In addition, post-expansion, the Company plans to further optimize by converting the Visbreaker Unit to process additional 2 MMTPA of heavy crude, which will take the total refining capacity to 18 MMTPA.

With global economy showing signs of revival and lesser volatility in crude oil and foreign exchange markets, the Company expects that its profits will not be adversely affected as it has happened in the preceding financial year.

The Company is expected to generate a gross revenue of approximately Rs. 39,000 crore during the financial year 2010-2011 depending on the international prices of petroleum products. The Company during current year has started processing the indigenously available Mangla crude and also proposes to use natural gas, which would help in improving the GRMs of the Company.

The above may be treated as an abstract of variation in terms of the agreements between the Company and Shri Naresh K Nayyar and Shri P Sampath respectively pursuant to section 302 of the Act.

Accordingly, the Directors recommend the resolution at Item No.7 & 8 of the Notice for your approval.

Save and except for Shri Naresh Nayyar and Shri P Sampath who are concerned/interested in the resolutions at Item No. 7 and 8 respectively, none of the other Directors of the Company is in anyway concerned or interested in the resolution.

Item No. 9

The Company is expanding the refining capacity of its Refinery at District Jamnagar from 10.5 MMTPA to 16 MMPTA and enhancing its complexity to attain a Complexity Index of 11.8 from the existing 6.1 (Expansion project). The debt for the Expansion project has been fully tied-up. The lenders to the Expansion project require the Company to increase the number of Lenders / Promoter nominees to 5 each (presently 4 each). This would necessitate increase in the maximum strength of the Board from 15 to 17 directors. Hence, to address these requirements and to make certain consequential amendments in the definitions, the Articles of Association of the Company need to be altered. Section 31 of the Companies Act, 1956 (Act) permits the Company to alter the Articles by passing special resolution. Further, section 259 of the Act provides that for increasing the maximum number of directors beyond twelve approval of the Central Government and members will be required.

The Directors accordingly recommend the resolution for your approval.

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

By Order of the Board of Directors

Mumbai
26th July, 2010

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

Your Directors have pleasure in presenting the Twentieth Annual Report together with the audited accounts of the Company for the financial year ended 31st March, 2010.

FINANCIAL RESULTS

	(Rs. in Crore)	
	2009-2010	2008-2009
Gross Income	42,401.68	41,816.30
Net Income	37,376.54	37,700.15
Profit / (Loss) before Depreciation and Tax	756.89	111.13
Less: Depreciation / Amortisation	728.31	654.85
Profit / (Loss) before Taxes	28.58	(543.72)
Less: Provision for Income Tax / Foreign Tax/		
Deferred Tax Liability / Fringe Benefit Tax	(0.88)	(30.21)
Net Profit / (Loss) after tax	29.46	(513.51)
Add: Balance brought forward from previous year	(556.96)	(51.45)
Less : Transfer to Debenture Redemption Reserve	29.46	0.00
Add: Transfer from Foreign Project Reserve	0.45	8.00
Total amount available for appropriations	(556.51)	(556.96)
Balance to be carried to Balance Sheet	(556.51)	(556.96)

Due to absence of distributable profits during the financial year, the Board has not recommended any dividend for the year.

COMPANY'S OPERATIONS

Information on operational and financial performance, etc. of the Company for the financial year is given in the Management Discussion and Analysis which is set out as Annexure B to the Directors' Report.

SHARE CAPITAL AND ISSUE OF SECURITIES

Pursuant to shareholders approval obtained at the Extraordinary General Meeting held on 22nd April, 2010, the Company has allotted in two tranches, on 27th April, 2010 and 28th May, 2010, 164,137,482 equity shares of Rs.10/- each to overseas depository on issue of Global Depository Shares (GDSs) aggregating to US \$ 518.30 million to Promoters on preferential issue basis. The funds have been raised for part financing the cost of Refinery expansion project and for other general corporate purposes.

Further, pursuant to the said approvals, the Company has allotted Foreign Currency Convertible Bonds (FCCBs) in two tranches on 15th June, 2010 and 9th July, 2010 aggregating to US\$ 262 million to Promoters for part financing expansion programmes.

Essar Energy Plc, subsidiary of ultimate holding company Essar Global Ltd., has in April 2010 raised US\$1.95 billion through offer of its shares (listed on London Stock Exchange). Out of the issue proceeds, Essar Energy Plc has infused US\$ 487 million in Essar Oil Ltd. The Company has already informed stock exchanges about inter se transfer of shareholding amongst promoter companies. The Company, within the meaning of section 4(6) of the Companies Act, 1956, continues to be an indirect subsidiary of Vadinar Oil, Mauritius, which along with its subsidiary holds 87.09% of the total share capital. Vadinar Oil in turn is a wholly owned subsidiary of Essar Energy Plc.

DIRECTORS

Shri K V Krishnamurthy joined the Board as Additional Director in January 2010. Further, in July 2010, IFCI Ltd. has nominated Smt. Manju Jain as its nominee on the Board in place of Shri R P Singh. Further, during the year, Shri R N Ruia, Vice Chairman, ceased to be director of the Company.

The Board wishes to place on record its appreciation for the guidance and valuable services rendered by Shri R N Ruia and Shri R P Singh during their tenure as members of the Board.

Shri P S Ruia, Shri Naresh Nayyar and Shri K N Venkatasubramanian retire by rotation at the ensuing Annual General Meeting and offer themselves for re-appointment. Particulars of the directors being appointed/re-appointed, as required under clause 49 of the listing agreement with the Stock Exchanges, are given in Notice / Explanatory Statement convening the ensuing 20th Annual General Meeting, forming part of the Annual Report.

DIRECTORS' RESPONSIBILITY STATEMENT

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

(i) that in the preparation of the accounts for the financial year ended 31st March, 2010, the applicable accounting standards have been followed along with proper explanation relating to material departures;

(ii) 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 / loss of the Company for that period;

(iii) 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

(iv) that the Directors have prepared the accounts for the financial year ended 31st March, 2010 on a 'going concern' basis.

CORPORATE GOVERNANCE

In terms of clause 49 of listing agreement with the Stock Exchanges, a certificate from Auditors of the Company on compliance of conditions of Corporate Governance is annexed to the Directors' Report as Annexure C. A report on Corporate Governance as provided in clause 49 of the listing agreement is included in the Annual Report.

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 Head – Human Resources, for the same, at the Registered Office of the Company.

ENERGY, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE

The particulars as prescribed under section 217(1)(e) of the Act read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 are set out in Annexure A to this Report.

FIXED DEPOSITS AND DEBENTURES

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

During the financial year, the Company repaid Rs. 123.69 crore to the debenture holders as per the terms of repayment under schemes of arrangement / compromise with the debenture holders.

SUBSIDIARY COMPANIES

During the year, Vadinar Power Company Limited and Essar Energy Overseas Limited ceased to be subsidiaries of the Company.

The Hon'ble High Court of Gujarat at Ahmedabad has sanctioned a Scheme of Amalgamation of Essar Oil Vadinar Limited with the Company vide orders passed on 3rd May, 2010. The merger is effective retrospectively from 1st April, 2008.

CONSOLIDATED FINANCIAL STATEMENTS

The Consolidated Financial Statements of the Company, its subsidiaries (Vadinar Power Company Ltd. upto 9th September, 2009 and Essar Energy Overseas Ltd. upto 7th July, 2009) and associates, prepared in accordance with Accounting Standard AS-21 on Consolidated Financial Statements forms part of the Annual Report.

AUDITORS AND AUDITORS' REPORT

Your Company's auditors M/s. Deloitte Haskins & Sells, Chartered Accountants, Mumbai are due to retire at the ensuing Annual General Meeting. They have expressed their inability to continue and accordingly tendered their resignation. It is now proposed to appoint M/s. Deloitte Haskins & Sells, Chartered Accountants, Ahmedabad, as the auditors of the Company from the conclusion of this meeting till the conclusion of the next Annual General Meeting. M/s. Deloitte Haskins & Sells, Chartered Accountants, Ahmedabad, have informed the Company that if appointed their appointment will be within the limits prescribed under section 224(1B) of the Companies Act, 1956.

The Auditors in their audit report have observed that the Company has used funds raised on short term basis to finance long term investments amounting to Rs.1528 crore (excluding short term liabilities of Rs.1836 crore mainly consisting of acceptances as at balance sheet date, relating to capital expenditure towards expansion of existing refinery which will eventually be converted into long term funds upon them becoming due in line with the loan agreements).

Your Company has since infused equity share capital of Rs.1026 crore (US \$225 million) for working capital purposes and plans to progressively fund the balance short term funds through further equity, internal accruals and long term borrowings.

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
26th July, 2010

S N RUIA
CHAIRMAN

Annexure A to the Directors' Report

Statement of particulars under the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988

A. CONSERVATION OF ENERGY

a) Energy Conservation measures taken:

In the Refinery at Jamnagar several initiatives have been taken for conservation of energy which has consistently improved the Company's energy consumption pattern. Refinery's fuel and loss has reduced considerably since its commissioning. This was possible due to series of energy saving measures that have been implemented by refinery. Energy audit and pinch study have been conducted by independent energy auditors and the recommendations are under implementation.

In the development field at Mehsana for effective water separation bath heater is being used. Pipelines have been insulated from outside for avoiding heat loss/ congealing. For safety reasons a small flare is maintained.

b) Additional Investments and proposals, if any, being implemented for reduction of consumption of energy:

In the Refinery:

- i. New facilities are being constructed for receipt and use of natural gas in the refinery. Once commissioned refinery's fuel consumption will reduce since Natural Gas has higher calorific value compared to the Fuel Oil that is being used at present. Use of natural gas will also reduce carbon emissions since it is a cleaner fuel.
- ii. Under Clean Development Mechanism (CDM) nine projects are under registration at United Nations (UN). Once registered and implemented refinery will be able to earn Carbon Credits for the energy saving initiative that are under various stages of implementation.
- iii. Gas turbines for power generation – New gas turbines are being installed under expansion plan of captive power plant. These turbines shall be operated on Natural gas which will reduce the carbon emission as compared to fuel oil and also reduce total fuel consumption.

In the development field at Mehsana studies are being carried out for use of dual fuel (gas/ diesel) operated Generator set.

c) Impact of the measures at (a) and (b) above for reduction of energy consumption and consequent impact on the cost of production of goods:

- i. Implementation of the energy conservation measures identified above have already started accruing benefits to the Refinery on a recurring basis.
- ii. The Carbon Credit projects so far identified at the Refinery, once registered at UN have the potential to cumulatively reduce about 1.0 million Tons of CO₂ annually and thus directly addressing the important aspect to mitigate the challenge of global warming to make a positive contribution towards reducing the effects of climate change.