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Essar Steel Limited

26th Annual Report
2001-2002

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BOARD OF DIRECTORS

Shashi Ruia	Chairman
Ravi Ruia	Vice Chairman
Prashant Ruia	
Vikram Amin	Executive Director
Jitendra Mehta	
S. V. Venkatesan	
Sanjeev Shriya	
Jitendra Balakrishnan	Nominee - IDBI
G. A. Hayek	Nominee - UTI
G. D. Gopinath	Nominee - ICICI
N. B. Vyas	Company Secretary

REGISTERED OFFICE
Post : Hazira Pin. 394 270
Dist : Surat
Gujarat
Tel : 0261-2872400
Fax : 0261-2872799

CORPORATE OFFICE
Essar House
11 Keshavrao Khadye Marg
Mahalaxmi
Mumbai 400 034

BANKERS
State Bank of India
Punjab National Bank
Bank of India
Allahabad Bank
State Bank of Patiala
State Bank of Mysore
Indian Bank
State Bank of Saurashtra
State Bank of Indore
Sidbi Bank

AUDITORS
Lovelock & Lewes
Chartered Accountants
#104, Raheja Chambers
Nariman Point
Mumbai 400 021

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

SOLICITORS
M/s. Crawford Bayley & Co
State Bank Buildings
N.G.N Vidya Marg
Mumbai 400 023

TRANSFER AGENTS
Data Software Research Co. Pvt. Ltd
Sree Sowrirajan Complex
No. 22, 4th Cross Street
Thyagaraya, Kodambakkam
Chennai 600 024
Tel : 044-24834851/3738
Fax : 044-24834836
E-mail : dsrcmd@md3.vsnl.net.in

Visit us at our website
http://www.essar.com

Please send in your e-mail address to webmaster@essar.com to keep you informed about the progress of the Company.

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Notice is hereby given that the Twenty-Second Annual General Meeting of the Members of **ELGI EQUIPMENTS LIMITED** will be held at the Registered Office of the Company at Post Box No. 2, Post Box 3170, Coimbatore, on **Thursday, March 20, 2003** at 3.30 p.m. to transact with or without modifications, as may be permissible, the following as:

ORDINARY BUSINESS :

1. To receive, consider and adopt the Audited Balance Sheet as at September 30, 2002 and the Profit and Loss Account for the period ended on that date and the Reports of the Directors and Auditors thereon.
2. To appoint a Director in the place of Mr. J. Vetri, who retires by rotation as a Director and, being eligible, offers himself for reappointment.
3. To appoint a Director in the place of Mr. P. B. Pillai, who retires by rotation as a Director and, being eligible, offers himself for reappointment.
4. To appoint M/s. B.P. Jain & Co., Chartered Accountants, as Auditors of the Company and to fix their remuneration.

SPECIAL BUSINESS

5. Appointment of Mr. Vikram Amin as Whole-time Director of the Company

To consider and, if thought fit, to pass with or without modifications, the following as an Ordinary Resolution :

"RESOLVED THAT pursuant to Section 198, 269, 309 and Schedule XIII and other applicable provisions, if any, of the Companies Act, 1956 Mr. Vikram Amin be and is hereby appointed as Whole-time Director of the Company for a period of five years with effect from October 31, 2002 on the terms and conditions as set out in the Explanatory Statement annexed to this Notice."

6. Revision in the Company's Accounts

"RESOLVED THAT subject to such approvals, as may be required, accounts of the Company be and is hereby amended by the Board for creation of Investment Allowance Reserve by appropriating the accounts of the Company for the financial years 1990-91, 1991-92, 1992-93 and 1993-1994, with suitable adjustments withdrawal, as the Board may deem fit.

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

7. Commencement of new business

To consider and, if thought fit, to pass with or without modifications, the following as a Special Resolution :

"RESOLVED THAT pursuant to the provisions of Section 149(2-A) of the Companies Act, 1956 approval be and is hereby accorded to the Company for commencing the following business not given under Article 18 of "Other Objects" as contained in sub-clause C of the Memorandum of Association of the Company.-

"To carry on business as manufacturers, producers, makers, contractors, importers, exporters, dealers, representatives, dealers, stockists, importers or distributors of industrial, commercial, agricultural, domestic, household, domestic, [illegible] and allied products, commodities, goods, plants, machineries, equipments, appliances, gadgets, appliances, accessories, spare parts and other merchandise, including but, cotton, cocoa, jute and jute goods, fibres, textiles, cotton, yarn, silk, nylon, terylene, synthetic and or fibrous substances, wool or woollen goods, handicrafts, [illegible] of skin, penalisy, [illegible], knitted, [illegible], whips and other [illegible], jewellery, ornaments, [illegible], musical and sports goods, cloth, dresses, garments, [illegible], food products, [illegible], books, reading and educative materials, paper and other paper products, stationery and electrical goods, rubber, plastic goods, PVC and other synthetic [illegible]."

NOTES :

1. The Explanatory Statement pursuant to Section 173 of the Companies Act, 1956 relating to the Special Business under Item Nos. 5 to 7 is annexed hereunto.
2. A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT A PROXY AND VOTE INSTEAD OF HIMSELF ON A POLL. ONLY AND THE PROXY NEED NOT BE A MEMBER OF THE COMPANY. Proxy forms should be deposited at the Registered Office of the Company not less than 48 hours before the time fixed for the meeting.
3. Register of Members and Share Transfer Books of the Company will remain closed from March 19, 2003 to March 20, 2003 (both days inclusive).
4. The Chairman of the Audit Committee of Directors shall be present at the Annual General Meeting to answer queries of shareholders arising out of the Accounts of the Company.
5. All documents referred to in the accompanying notice and the explanatory statement are open for inspection at the Registered Office of the Company on all working days between 10.00 a.m. and 1.00 p.m. upto the date of the Annual General Meeting.
6. Members who have not encashed their dividend warrants for the year/period ended 31st March, 1997 may approach Company's R & T Agents for revalidating the expired order or obtaining duplicate warrants.
7. The Company shares are listed with Ahmedabad, Madras, Bangalore, Kolkata, Delhi Channel, Mumbai & Kanpur Stock Exchanges. The Company has paid the listing fees for the year 2002-2003 to all the aforesaid Stock Exchanges.
8. Members are requested to notify any change in their address to the Company's R & T Agents, Data Software Research Co. Pvt. Ltd., Sree Sowmiya Complex, No. 33, 4th Cross Street, Tirupur, Kaveri Nagar, Chennai 600 026.
9. MEMBER'S NOTE should bring the Attendance Slip duly filled in for attending the meeting.
10. Members desiring any information as regards the accounts are requested to write to the Company at least 15 days before the date of the meeting, to enable the management to keep the information ready.

By Order of the Board
H.B. Vyas
Company Secretary

Mumbai, February 28, 2003

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[illegible] DIRECTORS' REPORT

Pursuant to Section 173 (2) of the Companies Act, 1956 the following Explanatory Statement sets out the material facts relating to Item No. 5 to 7 mentioned under the heading as **SPECIAL BUSINESS**.

Item No.5

Mr. Vikram Juneja (5) is a Commerce graduate with Honours and has obtained his Masters Degree in Business Administration from Syracuse University, USA in 1995 specialising in General Management of Marketing and Finance areas.

Mr. Amit has working experience of approximately 20 years including that with Essar Group for 14 years. He joined the Essar Group in 1987 and has held various assignments from offshore construction to onshore and offshore drilling operations. He has spent over 4 years in Dubai taking care of assets of steel for the Middle East, procurement of raw material for the steel plant of Hazira and power group activities. In 1995, he took over as Head of Marketing and has been Promoter Director since 1998 of PT Essar Dharmajaya (PTEDI), Indonesia, the manufacturer of Cold Rolled Coils. During the 5 years of his tenure with PTED securing 3 years as Head of the Unit, Mr. Amit has gained rich experience in all the areas of running a steel plant and the Company under his able guidance and supervision has been doing well given the difficult scenario in steel industry across the globe.

He is in charge of all functions at Hazira and especially carries out and is responsible to Chief of Operations, VP Marketing, Chief of HR & R&D, Controller of Accounts and Chief of Sales and Marketing. These heads of respective functional areas are assisted and supported by dedicated and expert team of professionals mainly having experience in steel industry.

The terms of appointment and remuneration payable to the Whole-time Director are as under:

Salary:

Rs.87,500/- per month in the scale of Rs.35,000 to Rs.1,00,000 per month, as may be determined by the Board of Directors or Committee of Directors (Remuneration) or such other authority as may be delegated by the Board of Directors, from time to time.

Perquisites and Allowances:

In addition to salary, Mr. Vikram Juneja shall be entitled to perquisites and allowances like, accommodation (furnished or unfurnished) or House Rent Allowance in lieu thereof, House Maintenance Allowance together with reimbursement of expenses/allowances for utilisation of gas, electricity, water, furnishing and repairs, medical reimbursement, Education allowance, Leave Travel Concession as per prevailing Rules including dependants' club fees, premium for medical insurance, commission (fixed or on the basis of revenue or profit) and such allowances as agreed to by the Board of Directors or Committee of Directors (Remuneration) as per the Company's rules valued in line with the prevailing of the income tax Act, 1961 but restricted to Rs.3,00,000 per month.

In the event of loss or inadequacy of profits in any financial year, the whole-time Director shall be paid remuneration by way of salary, perquisites and allowances as specified above.

The tenure of the operation has appointment as Whole-time Director would be in the interest of your Company.

Your Directors recommend the resolution for your approval.

None of the Directors except Mr. Vikram Amit is concerned or interested in the resolution.

The above may be treated as an abstract of the agreement proposed to be entered into between the Company and the Vikram Amit 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 10 a.m. to 1.00 p.m. on any working day of the Company.

Item No.6

In the Assessment Year 1990-91 (Accounting Year 1989-90), the Company has claimed investment Allowance of Rs.29.77 crores. However in the absence of any taxable income the Company had not provided the required reserve of Rs.44.63 crores at 75% of this allowance in that year as was so in the succeeding years till the Accounting Year 1991-92 in 1992-93, since adequate profits were available the Company had made part reserve of Rs.10.00 crores and a balance reserve of Rs.34.63 crores was created in 1993-94 however, since the Company did not have any taxable income in all the aforesaid accounting years there was no necessity for tax reserve to be created for all the aforesaid accounting years. The fact that the Company did not have any taxable income in all the aforesaid accounting years was reflected in the Returns of Income duly filed with the concerned income tax authorities for all the aforesaid accounting years and was confirmed by the original assessment years corresponding to the above accounting years, duly passed by the concerned income tax authorities.

However, the assessment for the Assessment Year 1993-94 (FY 1992-93) was re-opened by the Commissioner of Income-tax Act. That was a positive taxable income was been computed by the ending by authorities for the aforesaid year. Consequently the non-creation the aforesaid of the above exception provision in the financial year 1992-93. For the purpose the Company must add to make an assessment alternative reserve of Rs.44.63 crores created by the year ended 31.3.1993. As only a reserve of Rs.10 crores was available in 31.3.93, the balance reserve of Rs.34.63 crores has to be created by FY. 1992-93.

The reserve already created in FY. 1993-94 of Rs.34.63 crores is proposed to be withdrawn so that the charge will affect the Balance Sheet only for the which number of years i.e. 1989-90 and 1993-94 and not all the Balance Sheets to date.

As already stated, the above creation of reserve is a legal requirement for allowing the Company to claim the above unprovided investment allowance of Rs.29.77 crores. In Assessment Year 1993-94 any hence the re-opening of Accounts as mentioned above will prejudicial to the Company to avail of the allowance. The re-opening of Accounts will not affect the tax-loss or financial position of the Company for these years. A copy of the statement of assessments in respect of creation and/or withdrawal of Investment Allowance Reserve, pertaining to the Balance Sheet & Profit and Loss Accounts prepared with the Auditors Report for financial years 1992-93 and 1993-94, is enclosed and the Explanatory Statement.

Your Directors recommend the resolution for your approval.

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

Item No. 7

Your Company has been concentrating on the manufacture of steel products as its main business. It is now proposed to diversify into areas of trading in certain other products such as agricultural produce and other products as laid down in the resolution. This is not a step away from the core nature of the steel industry in the future.

In order to comply with provisions of the business as laid down in Article 18 of the Articles of Association of the Company approval of the members is required under Section 149(2-A).

Your Directors recommend the resolution for your approval.

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

By Order of the Board
N.R.Vyas
Company Secretary

Mumbai, February 25, 2003

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Your Directors have pleasure in presenting the Twenty-Sixth Annual Report of your Company together with the Annual Statements of Accounts for the period of 18 months ended September 30, 2002.

OPERATIONS & PERFORMANCE

◆ Plant Operations Highlights

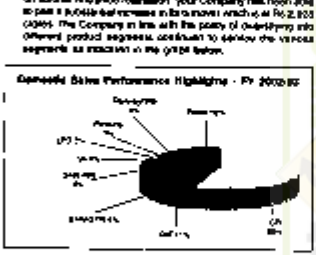
The Steel Industry has been going through a major downturn. During the last 4 years the impact of which has been felt across the globe. The major reason for this has been global surplus of products coupled with declining steel prices. Your Company has been no exception to the international trend.

However, the steel markets on and from June 2002 have shown signs of recovery and currently the steel prices are at a length of Rs. 17,500 per tonne in the domestic market and US$ 360 per tonne in the export market as compared to the low of Rs. 11,500 per tonne and US$ 280 per tonne a year ago. With the overall trend of increasing prices steel companies hope to have the momentum and spread up with positive results in the immediate future.

During the period under review, your Company achieved a capacity utilisation of 88% in its Hot Dip galvanised iron pipes and 72% in its Hot Rolled Coils/ Sheets. Your Company achieved Sales Turnover of Ten Rupees Crore per month of Rs. 13,213 in the domestic market and Rs. 12,488 per MT in the export market.

◆ Marketing & Sales Highlights

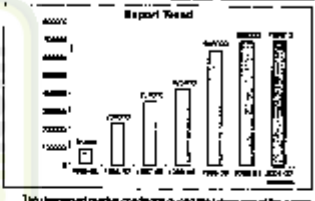
During the period under review, even with the severe pressure on volume and price realisation, your Company has been able to post a notable turnover in the overall analysis at Rs. 2,803 crores. The Company in line with its policy of diversifying into different product segments continues to develop the various segments as indicated in the pie chart below.



With the steel markets firming up Your Company hopes to achieve a much higher turnover in the years to come and will especially cater to niche segments where a high degree of specialisation and superior product quality is required.

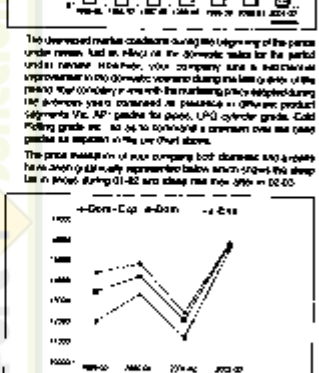
Export Performance Highlights

Your Company has an excellent track record in the overseas markets and this has helped it maintain its status as the largest exporter of Hot Rolled Coils in India. With the markets in United States closed due to anti dumping laws, Your company concentrated on other major markets such as the Middle East, China and South East Asia. Your company's exports during the period have been depicted in the pie chart below. Your Company continued to concentrate on high value added grades of steel to name name only which has enabled it to consistently generate profit products. The export of your company has been steadily rising as depicted in the chart below.



The downward market conditions during the beginning of the period under review had an effect on the domestic sales for the period under review. However, your company saw a mechanical improvement in the domestic volumes during the last quarter of the period. Your company in view of the marketing policy adopted during the previous years continued its presence in different product segments viz. API grades for pipes, LPG cylinder grades, Cold Rolling grade etc. so as to minimise a premium over the pipe grades as depicted in the pie chart above.

The price realisation of your company both domestic and export have been generally represented below which shows the steep fall in prices during 01-02 and steep rise thereafter in 02-03.



Product development

- Your Company has been continuously endeavouring to see new technologies in the field of innovative product development both for the domestic as well as the overseas market. Some of the major achievements during the following
- Major supplier of NACE of API 5L and API 5CT specifications for manufacture of pipes and tubes for the Oil and Gas industry.
- Development and supply of high value added Sour Gas Quality steel in API 5L X52 thickness upto 17.5 mm and API 5L X 60 thickness upto 12 mm. Trials have been conducted and the results are encouraging.

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- Development of high quality Stainless Steel Sheets for rolling operations of motors, transformers etc.
- High Strength Low Alloy steels for automotive applications both for domestic and overseas market to cater the needs of high rack automobiles. Development and supply of steel grades for wheel disc applications upto 14-inch rims and Rim (thickness upto 12.65mm) and long member of chassis.
- Development and supply of SAE1541 grade steel for long life of rear axle pipes for heavy vehicles which has been well accepted by customers and is an import substitution product
- Supply of hot rolled, pickled and oiled steel coils for manufacture of compressor shell for refrigerators. These shells were made from cold rolled steel sheets of extra deep drawing quality in the past.

Our company continues to thrust for developing new grades of steel for domestic and overseas market, taking all new challenges by producing high quality steel coils in demanding steel specifications, and in short so far not produced in the country and has been the pioneer of a selected few companies worldwide.

FINANCIALS

The Financial Results (Rs. in crores)

PARTICULARS	Period ended 30 Sept 2000	31 March 2001
Sales	3,241.66	7,518.63
Other Income	17.53	46.22
	3,279.31	7,565.85
Expenditure		
(a) Increase / Decrease in Finished Goods/Work-in-Progress	181.01	(94.28)
(b) Materials Consumed	1,368.02	1,043.57
(c) Power and Fuel	867.50	2,331.96
(d) Staff Cost	74.84	89.62
(e) Other Expenditure	644.66	369.68
Profit/(Loss) before Interest, Depreciation, Amortisation and Charges pertaining to earlier years and Taxation (EBIDTA)	154.70	882.74
Finance Cost (net)	344.22	641.36
Profit/(Loss) before Depreciation, Amortisation, Charges pertaining to earlier years and Taxation	(189.52)	(38.62)
Depreciation	582.18	349.04
Deferred Revenue Expenditure written off	128.07	87.44
Provision for expenses pertaining to earlier years (net)	187.50	10.61
Charges pertaining to earlier years (net)	222.72	(147.24)
Deferred Tax Credit	(710.91)	
Net Profit/(Loss)	(1,109.07)	(348.61)
Paid-up Equity Share Capital	330.35	330.35
Reserves excluding revaluation reserves	(543.64)	565.89
Basic and Diluted Earnings per Share for the quarter, period and for the previous year (not annualised) (in Rupees)	(26.31)	(10.47)

CORPORATE DEBT RESTRUCTURING

The Reserve Bank of India, instituted Corporate Debt Restructuring (CDR) mechanism for rehabilitating the cases of sound companies in distress because of financial difficulties caused by certain external and internal factors. The Company submitted a Comprehensive Financial Restructuring Plan (CFRP) to the CDR Group. Your Directors are pleased to inform the members that the CDR Empowered Group have approved a Debt Restructuring package at Meeting of the Company Creditors and are seeking the formal communication. The package inter alia, envisages the following:

- waiver of accruing liquidated damages levied by the secured creditors
- conversion of overdue compound interest into zero coupon debt
- approval for rescheduling of Priority Debt to pay back unsecured loans at discount

[illegible] of the [illegible] Rs. 250 crores and Priority Debt of Rs. 100 crores. These Priority Debts will be utilized to buyback unsecured loans at steep discount as envisaged in the CDR package and thereby [illegible] commencing to increase in the net worth.

Your Directors place on record their gratitude to the members for their patience and confidence reposed in the year when the steel industry as a whole in the entire world was undergoing severe cyclic downturn. Your Directors also place on record their grateful acknowledgement for the Restructuring Package approved by CDR Group.

STATUTORY ANNUAL AUDIT

The Auditors observations on the accounts have been extremely rare and are not issues and since they are self-explanatory they are not commented upon.

DIVIDEND

In view of the losses, your Board of Directors are not recommending any dividend.

INTERNAL CONTROL SYSTEMS

The Company maintains a system of internal control, including suitable monitoring procedures. The internal audits regularly conduct review of the financial and operating controls. Any significant issues are brought to the attention of the Audit Committee of the Board.

[illegible]

The Company continued to have cordial and harmonious relations and its employees during the period.

DIRECTORS

Mr. H. Jain, who was on the Board from [illegible], 1993 has tendered his resignation from the Board, effective December 18, 2001. The Board accepted the resignation and placed on record its appreciation of the contributions made by him during his tenure.

[illegible] consent received on commission of Mr Sanjay Chatterjee from the Board with effect from December 07, 2001, [illegible] the resignation of Mr Sanjay Sunder with effect from August 06, 2002 and [illegible] the resignation of Mr. V. P. Sanjiv Kumar, who ceased with effect from September 30, 2001. The Board also places on record its appreciation of the valuable contributions made by them during their tenure.

[illegible] Mr. Jitendra Balakrishnan, as Director on the Board with effect from November 28, 2001, [illegible] Bank Ltd nominated Mr D.D. Goswami as Director on the Board with effect from August 02, 2002 and [illegible] Mr. D. J. Nanda as Director on the Board also effect from November 13, 2002.

Mr. J. Mehta and Mr. P. S. Rao, retire by rotation at the forthcoming Annual General Meeting and being eligible, offer themselves for reappointment. The Board recommends their reappointment.

DIRECTORS' RESPONSIBILITY STATEMENT

Pursuant to the requirements under Section 217(2AA) of the Companies Act 1956 the Board of Directors of the Company hereby state and confirm that

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[illegible] prepared on the going concern basis.

[illegible] the directors have selected accounting policies and applied them consistently and made judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit or loss of the Company for the year under review.

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

d) the directors have prepared the annual accounts for the financial year ended December 30, 2003 on a "going concern" basis.

AUDITORS

Your Company's Auditors M/s. Lowback & Lewis, Chartered Accountants, will retire at the ensuing Annual General Meeting. The Company has received a letter stating their intention not to seek reappointment as Auditors of the Company.

It is now proposed to appoint M/s. B.P. Jain & Co. Chartered Accountants, as the Auditors of the Company from the conclusion of the 38th Annual General Meeting until the conclusion of the next Annual General Meeting. M/s B.P. Jain & Co have also confirmed to the Company that if appointed, their appointment will be in accordance with the provisions of the Companies Act 1956.

PERSONNEL

As required by the provisions of Section 217(2A) of the Companies Act, 1956 read with Companies (Particulars of Employees) Rules, 1975, as amended the names and other particulars of the employees are set out in the Annexure to the Directors' Report. However, as per the provisions of section 219(1)(b)(iv) of the Companies Act, 1956, the Report and Accounts are being sent to all members of the Company excluding the said particulars of employees. Any shareholder interested in obtaining a copy of the particulars may write to the Company Secretary at the Registered Office of the Company.

ENERGY, TECHNOLOGY & FOREIGN EXCHANGE

Details of energy conservation and research and development activities, undertaken by the Company along with the information in accordance with the provisions of section 217(1) (e) of the Companies Act 1956 (as amended) are given in the Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules, 1988, are given in the Annexure forming part of this report.

CORPORATE GOVERNANCE

Your Company attached considerable significance to good corporate governance as an important step towards building investor confidence, improve investors' protection and maximise long term shareholder value. Pursuant to Clause 49 of the Listing Agreement with the Stock Exchanges, a comprehensive report on the Corporate Governance forms part of the Annual Report along with auditors' Certificate on its compliance.

ACKNOWLEDGEMENT

Your directors would like to express their grateful appreciation for the assistance and cooperation received from the Financial Institutions, Banks, Government Authorities and Shareholders during the year under review. Your Directors wish to place on record their deep sense of appreciation to all the employees for their commendable teamwork, exemplary professionalism and exceptional contribution during the year.

For and on behalf of the Board

S. N. Raja
Chairman

Mumbai February 25, 2003

ANNEXURE TO DIRECTORS REPORT

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

A. CONSERVATION OF ENERGY:

a) Energy Conservation measures taken

1. Hot DRI charging: The percentage of Hot DRI in SAIL charge has increased from 21% in the year 2000-01 to 42% this year by providing additional measures to Hot DRI transportation (3 vessels or 90 kN capacity). The present target was to hot DRI charging is proposed as to increase for each year of hot charged at SAIL.
2. Hot delay blower systems: Hot cover roof systems have been installed in module I. By removing the cold contouring pipe, the unsatisfactory cooling of furnace center bed is avoided along the HO saving is achieved due to removal of the cold gas remove cone.
3. Top gas fuel injection: In module I & II top gas fuel chiller assisted to reduce the temperature and thereby increase the percentage of top gas fuel. It has resulted in about 5% to 10% temperature drop and thereby fuel volumetric flow on that gas fan resulting in double saving and higher net calorific value of top gas fuel.
4. All conveyors are connected to PLC to accomplish remotely.
5. Hot transfer cars (HTC) by EAF has been modified to reduce risk of breakdowns, resulting in power saving of 527 kW (from 4000 kW to 3473 kW) during these Feb-2003 and better fuel yield by reducing hole generation.
6. All arms remotely were equipped with Inverter Lenses to show on-line of automatic spatula adjustment from duration. The efficiency of oxygen and carbon injection has improved resulting in higher chemical energy to bring down EAF power consumption.
7. Auxiliary power consumption controlled by putting on cooling pumps and Fume Extraction fans whenever charge go down for repair.
8. Installed flue gas heat recovery on recuperator heat exchange technology is saving.
9. Installed flue gas heat recovery (Ceramic type) to control and increase coke time to 48+2.
10. Provided automatic in-line oil separators on the dump plant stoppage if it is more than half an hour.
11. Bag house modification: changed bags from polyester to Homopolymer Acrylic fibres.
12. Interface with Steel: Previously delay of two different with frequency involves a sequence break and maintain Market Higher the number of sequence breaks. Made the plant productivity and power consumption. This system was moved to real two different sequence of small mainly together thereby increasing frequency ranges with delaying planning. Also due to using of same number for casting sequence, saving of fuel and refractory.
13. Breakout Prediction System: This system was, ins. ability to monitor changes in the strand sequence and predicts model in Casting employs and avoid of a breakout thereby reducing machine downtime, increasing productivity and reducing metal losses.
14. Accumulator System: The system of improving the arc air temperature of the scrap used in furnace has helped in improving a smooth sequential charge which has led to reduced metal losses and power saving at Ladle Furnace due to decreased taking temperature of liquid steel for casting. This system is also helpful for increasing productivity and improved quality.
15. Tube Changer System: By adopting the system, higher heats can be taken in the same ladle leading to substantial productivity and quality and cost saving. This system is also helpful for increasing productivity.
16. Magnetic Stirrer: Increasing percentage of magnetic stirrer is helpful for better distribution of heat in form a volume wise saving in energy saving of only minutes.
17. Centralised hydraulic system: Installation of Centralised hydraulic system has led to reduction of losses of hydraulic oil.

b) Additional investments and proposals being implemented for reduction in consumption of energy:

1. Hot DRI system is being upgraded to achieve 60% Hot DRI with advantages from by providing large bins and vibrofeeders.
2. Providing by-pass a new cylinder, which will improve generation output from turbine power plant by adding 1 MW.

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Section Three

4. Bag house modification to improve by changing from polyester bags to acrylic material and type of bag plant by better efficiency.
5. Fuel costs to be reduced by using basic power consumption.

a) Impact of initiatives in (a) and (b) mean in reduction of energy consumption and on the cost of production of goods.

Any improvement in (a) & (b) above

B. TECHNOLOGY ABSORPTION.

The Company has fully absorbed the MICREX technology obtained from Yokogawa, Japan for the production of HBL. It has also absorbed technology received by MITCHELL and HPC plant including DC-Electric Arc Furnace Inc. Continuous Casting and the new Ring Mill. The Company has emerged as the largest user of HBI in SE ASIA and assimilated technology technology for the same.

C. FOREIGN EXCHANGE EARNINGS AND OUTGO

1. Activities relating to exports, initiatives to increase exports, development of new export markets for products and services and export plan

During the period ending 30.06.02 - in a span of 18 months, the export sales achieved was 0.70 MMT compared to 0.78 MMT the previous year (18 months). The downward trend in the last two quarters of the financial year 01-02, was under extreme price pressure and the company recorded a reduction in the export volumes. However, in the 2nd qtr of Financial year 01-02, exports were lower due to price weakness and receding market conditions. Inspite of Company's focus on value-added products, the impact of price collapse made the export not even break even profits currently and while this strategy has taken substantial hits from the qtr of the financial year 00-01 per plant operations, which had adversely affected by that could not be repaid up immediately. Post receding export volumes from the qtr of the year, exports have again picked up and is expected to further increase in 3rd & 4th quarters.

During February mid year 2002, US government imposed Section 201 safeguard measures against Steel imports. This was followed by similar action by Europe and China India, as a consequency, steelmaking raw material been subjected to all these measures currently. Unfortunately, as HR coil from Russia Costs is already covered by Anti-Dumping Duty in USA & Europe, future exports in this field were unable to derive benefit of the opportunity.

Company has now been approaching alternative markets for exports and today it is focussing heavily on the South East Asia markets including China and nearby markets like Bangladesh.

2. Total Foreign exchange used and earned

	(Rs. in Crores)
a) Total Foreign exchange directly earned	598.27
b) Foreign exchange earned through third party exports	219.30
c) Credits	12.72
Total foreign exchange earned (a + b + c)	831.29
d) Total foreign exchange used	
i) For import of plant and machinery technical know-how	0.18
ii) Others, including raw materials and interest	497.09
Total	497.26

Remarks are meant to Conservation of Energy

FORM A

A. Power and Fuel Consumption

	Current Year (18 Months)	Previous Year
1. Electricity		
a) Purchased		
Unit (Lakhs)	1215.81	1318.04
Total Amount (Rs. in crores)	33.38	35.45
Rate/Unit (Rs.)	10.24	10.81
b) Own generation		
i) through diesel generator		
Unit	—	—
Unit per ltr. of diesel oil	—	—
Cost/Unit (Rs.)	N.A.	N.A.
ii) through gas turbine - generator		
Unit (Lakhs)	2,560.86	1,282.78
Units / SCM of gas	5.69	3.57
Cost of material (Rs.)	1.92	0.48
2. Coal (specify quality and where used)		
Quantity (tonnes)	—	—
Total Cost	—	—
Average Rate	—	NA
3. Furnace Oil		
Quantity (K. ltrs)	—	—
Total Cost (Rs. crs)	—	—
Average Rate (Rs/ltr)	—	NA
4. Others		
Quantity (MT) - HSD	18,838.00	37,466.00
Total Cost (Rs Crs)	1.42	4.18
Rate/Unit	12,194	12,800
Quantity (MT) - LDO (SKO)	26,898.00	73,456.00
Total Cost (Rs. Crs)	3.07	3.64
Rate/Unit	3,418	3,31

B. Consumption per unit of Production

Product: Hot Briquetted Iron	Standard (if any) Unit Per MT	Current Year Unit Per MT	Previous Year Unit Per MT
Electricity	125	131	118
Furnace Oil	—	—	—
Coal (specify quality)	—	—	—
Coke/ Oil	—	—	—
Others - Natural Gas (SCM)	325	310	306
Others - Naphtha (KG)	—	—	—
Product: Hot Rolled Coils	**Unit Per MT**	**Unit Per MT**	**Unit Per MT**
Electricity	—	872	899
Furnace Oil	—	—	—
Coal (specify quality)	—	—	—
Diesel Oil	—	—	—
Others - NG (Lts)	—	19	31
Others - HR Coil (t)	—	12	45

FORM B

RESEARCH AND DEVELOPMENT (R & D):

The Company has well equipped Laboratory facilities with a highly qualified team of engineers and technologists, and the outstanding developments are as under:

1. Specific areas in which R & D carried by the Company
   i) Bigger size CLO: Trial taken with bigger mono CLO to improve productivity
   ii) Mould screening: Trial of continuous screening of HDRI to remove fines in melt shop feed to improve yield in meltshop process
   iii) Mixed Gases Burning with Grade Sequencer : This indigenous technology of burning of two different gases together without a machine model has helped in productivity (the required flexibility in handling state tools at well as timely Supply delivery of unsuitable short-order quantities earlier not accepted considering yield productivity.
   iv) Cooling of 750 mm width strip: Applied a developed indicating system based on thermocouple 300 mm wide strip. Necessary changes in the machine design has enabled to cool 750 mm width strip successfully. This development was opened as an enhanced market segment with higher selling realisation.
2. Future Plan of action
   a) Cold briquetting of product fines: Study is under progress to convert the product fines into cold briquettes for value added product.

TECHNOLOGY ABSORPTION, ADAPTATION AND INNOVATION:

1. Efforts, in brief, made towards technology absorption, adaptation and innovation
   a) The Company has fully absorbed the MICREX technology obtained from Yokogawa, Japan for the production of HBI
   b) The Company has fully assimilated the MITCHELL technology obtained from MITCHELL Inc. Canada for the production of HBI

2. Imported technology

Product	Technology from	Year of import	Status of assimilation/adaptation
HBI (Sponge Iron)	MICREX Corporation U.S.A. Mitsui Japan, Austria	1998-99	Fully assimilated
HBI	US Filtration Inc. Canada	1991-94	Fully assimilated

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State Street Corporation is committed to good Corporate Governance. Governance is essential to achieving sound corporate goals and to enhance shareholders' value. The Company's philosophy on Corporate Governance emphasizes the attainment of high-grade management, accountability and integrity in the functioning of the Company and the conduct of its business. All transactions with shareholders, shareholders, investors, customers and employees are carried out in a fair manner. The Company ensures due adherence of regulatory compliance.

The Company has in place its systems and policies, which facilitates fair performance of its operations, performance is reflecting in the Administration of shareholders' value in the long run.

2. BOARD OF DIRECTORS

Composition of Board

The Company's current policy is to have an appropriate mix of executive and independent directors to maintain the independence of the Board, and to separate the functions of governance and management. The Board consists of nine Directors including three Executive Directors and six Non-Executive Directors as on September 30, 2002. The Chairman of the Board is a Non-Executive Director.

During the period ended September 30, 2002, seven Board meetings were held on the following dates: June 26, 2001, July 27, 2001, September 20, 2001, October 31, 2001, January 31, 2002, April 26, 2002 and July 19, 2002.

The composition and category of members of the Board and the number of Board of Directors' meetings held are set out below:

Director	Category	Number of Meetings held in which attended	Committee Memberships held in other companies
Shaughnessy Pope	Promoter, Non-Executive	6	8
Rodney Pope	Promoter, Non-Executive	7	7
Pradeep Pant	Promoter, Non-Executive	7	3
Gordon Spencer	Non-Promoter, Non-Executive	7	1
Lalitha Suresh	Independent Non-Executive	7	–
R.V. Venkatesan	Independent Non-Executive	6	5
J. Hopkins*	Non-Promoter, Executive	3	–
D. D. Gadsden ** (Representing of DDG Bank Limited)	Independent Non-Executive	4	2
Alexander Bashkirov *** (Representing of DDG)	Independent Non-Executive	4	4

* Resigned as Managing Director with effect from June 26, 2002

** Appointed during the period as independent director with effect from October 31, 2001. Subject to the approval of the Central Bank of India and the shareholders

*** Appointed during the period

Meeting of the Board of Directors, as required by Listing Agreement, are held on a quarterly basis. Board meetings are held at the Company's corporate headquarters in Boston, Massachusetts, USA.

Attendance record of the Directors

Director	Board Meetings attended during the period	Attendance in last AGM (September 20, 2001)
Shaughnessy Pope	3	Present
Rodney Pope	7	Absent
Pradeep Pant	7	Present
R.V. Venkatesan	7	Present
J.C. Jain*	4	Present
Gordon Spencer	–	Absent
J. Hopkins**	3	Present
Sanjay Sachdev (Representing of DTL)	7	Absent
Sanjay Chit Mukerji (Representing of IDFC Bank Limited)	3	Absent
J.C. Bhayani *** (Representing of IDFC Bank Limited)	–	–
A.P. Singhal (Representing of IDFC)	1	Absent
Jitendra Nath Mishra *** (Representing of DDG)	3	–
Kishore Ajmera ***	4	–

* Resigned with effect from October 31, 2001

** Resigned as Managing Director with effect from June 26, 2002

*** Appointed during the period and resigned with effect from August 9, 2002

**** Appointed during the period with effect from August 3, 2002

All appointed with effect from September 30, 2001

** Appointed during the period

*** Appointed during the period and ceased to be a director with effect from October 31, 2001 subject to the approval of the Central Bank of India and the shareholders

Details of remuneration paid to all the Directors

The Remuneration Committee determines and recommends to the Board the compensation payable to the Directors. The remuneration policy is based on Market Benchmark Performance. The Compensation does not have any stock plan, which is based on performance and achievement of the Company's objectives. The Company has no stock option scheme. The details of remuneration paid to the Directors during the period are as under:

(Amount in Rupees)

Director	Salary & Perquisites	Commission & Other Benefits	Total
Kishore Ajmera *	1,80,000	30,17,002	31,97,002
J. Hopkins**	8,00,000	26,10,000	34,10,000

* Appointed during the period as independent director with effect from October 31, 2001 subject to the approval of the Central Bank of India and the shareholders

** Ceased as Managing Director with effect from June 26, 2002

\# Salary includes Basic Salary

\$ Perquisites include Accommodation, Leave Travel Assistance, Medical Reimbursement, Contribution to Provident and Superannuation Funds, Personal Use of Car etc.

The Company pays a Sitting fees of Rs. 2,000 to any Non-Executive Directors for each Board and Committee Meeting attended.

3. COMMITTEES OF THE BOARD

AUDIT COMMITTEE

As a member of good Corporate Governance and to provide assistance to the Board of Directors, which fulfilling the role of oversight responsibility, an Audit Committee has been constituted as a sub-committee of the Board.

Functions of the Committee

The functions of the Audit Committee include:

- Reviewing the Company's financial and risk management policies.
- Reviewing the adequacy of internal control systems and the Internal Audit Reports and their compliance thereof.
- Oversight of the Company's financial reporting process and the disclosure of its financial information to ensure that the financial statements are correct, sufficient and credible; and
- Reviewing quarterly, half yearly and annual financial results and findings of the internal auditors and making recommendations to the Board for the Annual Report.

Composition of Committee

Name of Director	Designation/Nature of Directorship (Executive/Non-Executive/Independent)	Number of Meetings held during the period	
		Held	Attended
R.V. Venkatesan	Chairman Non Executive	7	7
J.C. Jain*	Non Executive	2	2
P.S. Pant	Non Executive	7	7
Sanjay Sachdev	Non Executive	7	3

* Resigned as Chairman of the Committee with effect from September 19, 2001

In the Meeting of the Audit Committee held on January 31, 2002, the Auditors of the Company (Deloitte Touche Tohmatsu) were requested to be the Internal Auditors pertaining to the Sarbanes Oxley and remuneration caused by the resignation of Mr. J.C. Jain.

The Internal Statement of accounting of Mr. J.C. Jain with effect of the Annual General Meeting of the Company held on September 21, 2001.

The Quorum for the Committee is any two Non-Executive Directors. The meetings of the Committee were also attended by the Chief Financial Officer, Internal Auditors and Statutory Auditors as invitees.

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Physiology of the Company

The Company commenced making of Pellets and Plates. Foreign currency loans, working capital loans and guarantee issued, are fully or partially from the Company's performance and utilizing, a majority funds of the Company, performing executives of the Company is various companies, including sharing of common area, overheads and expense of subsidiary of the Company performance expenses, and payment of the Company, sharing and day equivalent of Joint Venture or joint ventures or the of loan facilities or equity, approving fundamentalistic delegation of powers to the employees of the Company executive management, including serious risk contracts, revenue, sales and compensation, sharing on issues of insurance and safety and recommendations of Board to the Board for all approval.

Composition of Committee

Name of Director	Designation/ Non-Executive/ Independent	Number of Meetings held during the period	
		Held	Attended
Prasanth Ruia	Non-Executive	1	1
J. Mehta	Non Executive	1	–
S.V. Venkatesan	Non Executive	1	1
Mihir Jhaveri*	Executive	1	1

* Appointed during the period as whole time director with effect from October 31, 2001, subject to the approval of the Central Government and the shareholders.

The quorum for the Committee at all the meetings is present.

SHAREHOLDER GRIEVANCES COMMITTEE

As a listed or of good Corporate Governance and as such to issue on the shareholder's grievances towards shareholders, investor relations, the Company has a Shareholder Grievances Committee as a sub-committee of the Board of Directors.

Functions of the Committee

The functions of the committee include, inter alia, approval of transfer/transmission/transposition/dematerialisation of shares, issue of duplicate share certificates, consolidation/sub-division of shares, issuance of duplicate share certificates, transfer of shares, issuance of duplicate share certificates, and other matters relating to securities of the Company.

Composition of Committee

Name of Director	Designation/ Non-Executive/ Independent	Number of Meetings Held during the period	
		Held	Attended
Prasanth Ruia	Non Executive	18	18
J. Mehta	Non Executive	18	20
S.V. Venkatesan	Non Executive	20	16
V.C. Jain*	Independent	20	17
Mihir Jhaveri**	Executive	18	5

* Resigned with effect from December 18, 2001

** Appointed during the period as whole time director with effect from October 31, 2001, subject to the approval of the Central Government and the shareholders.

Compliance Officer

The Board has designated Mr. Mihir Jhaveri, Deputy General Manager (Secretarial) as the Compliance Officer.

Details of Shareholders complaints received, solved, not solved and pending share transfers

The Company has received only 7 (6,000) share-letters. During the period the share transfers in compliance manner and related to the allotment of shares which were 7 (7). There were 6 complaints outstanding as on September 30, 2002, which were redressed on October 10, 2002. As on valid share transfer requests received during the period which duly authorised in the prescribed time. There were no valid requests pending for share transfer as on September 30, 2002.

4. Details of AGM/EGM

Venue and Time of the last three Annual General Meetings are as under :

Financial Year	Date	Time	Venue
1998-1999	September 28, 1999	3.30 pm	Hotel Mahesh Palace, Hyderabad
1999-2000	September 30, 2000	3.30 pm	Hyderabad Education Society, Hyderabad
2000-2001	September 21, 2001	2.30 pm	Hotel Palmera Sheraton, Hyderabad

All the resolutions relating to special resolutions are put to the shareholders.

5. Disclosures

- Disclosure on the materially significant related party transactions made by the Company with its Promoters, Directors or Management, their relatives, or subsidiaries, or their relatives personal contacts with the management of the Company or group.

  Transactions with related parties during the period are disclosed in Note 10 to Schedule 20 to the Accounts in the Annual Report.

- During the last three years there are no statutory or penalties imposed by either SEBI or the Stock Exchanges or any statutory authority for non-compliance of any matter related to the capital markets.

6. Means of communication

- The quarterly half year financial results are communicated to all the Stock Exchanges where the Company's shares are listed. All such results are published in leading newspapers and which are posted by the Board of Directors of the Company. Further, the results are published in widely circulating national and local newspapers such as Indian Express (English) and Andhra Jyothi (Telugu). The results are not sent individually to the shareholders.

- The Company's results are displayed on its website www.essarsteel.com. The Company's website www.essar.com. The company presentations made to the institutional investors or analysts.

- The Management Discussion and Analysis Report forms part of the Directors' Report.

7. GENERAL SHAREHOLDER INFORMATION

Annual General Meeting

Date and time : March 20, 2003 at 3.30 pm

Venue : Hyderabad Hotel, Sri of Happy Road, Kundi 204 200

Tentative Financial Calendar for the Financial Year 2002-2003:

Financial reporting for the quarter

ending December 31, 2002 : January 30, 2003

Financial reporting for the quarter

ended March 31, 2003 : April 2003 to June, 2003.

Date of Book Closure : March 18, 2003 to March 20, 2003

Dividend Payment Date : Not Applicable

Listing on Stock Exchanges

The Stock Exchanges, Mumbai, Vishakhapatnam Stock Exchanges of India Limited, Mumbai, Madras Stock Exchanges Limited, The Stock Exchange, Ahmedabad, Ahmedabad Stock Exchange Limited, Bangalore Stock Exchange Limited, Calcutta Stock Exchange Association Limited and Delhi Stock Exchange Association Limited.

Stock Code:

The Stock Exchange, Mumbai (Physical)	500127
The National Stock Exchange of India Ltd	ESSARSTEEL
Demat ISIN Number for NSDL and CDSL	INE127A01018

Stock Market Data

High/Low of market price of the Company's shares traded on the Stock Exchange, Mumbai during the period ended September 30, 2002 is as under:

Period	High (Rs./paise)	Low (Rs./paise)
April 2001	8.70	6.00
May, 2001	8.90	6.75
June 2001	8.80	7.00
July, 2001	8.45	6.10
August, 2001	8.40	7.00
September, 2001	8.15	7.10
October, 2001	8.30	7.85
November, 2001	8.25	7.70
December, 2001	8.85	7.75
January, 2002	8.85	7.00
February, 2002	8.15	6.70
March, 2002	9.80	7.00
April, 2002	9.00	7.00
May, 2002	8.85	7.00
June, 2002	8.20	6.00
July, 2002	8.85	5.00
August, 2002	11.15	5.15
July, 2002	11.80	8.00
August, 2002	9.80	8.70
September, 2002	7.80	6.20

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