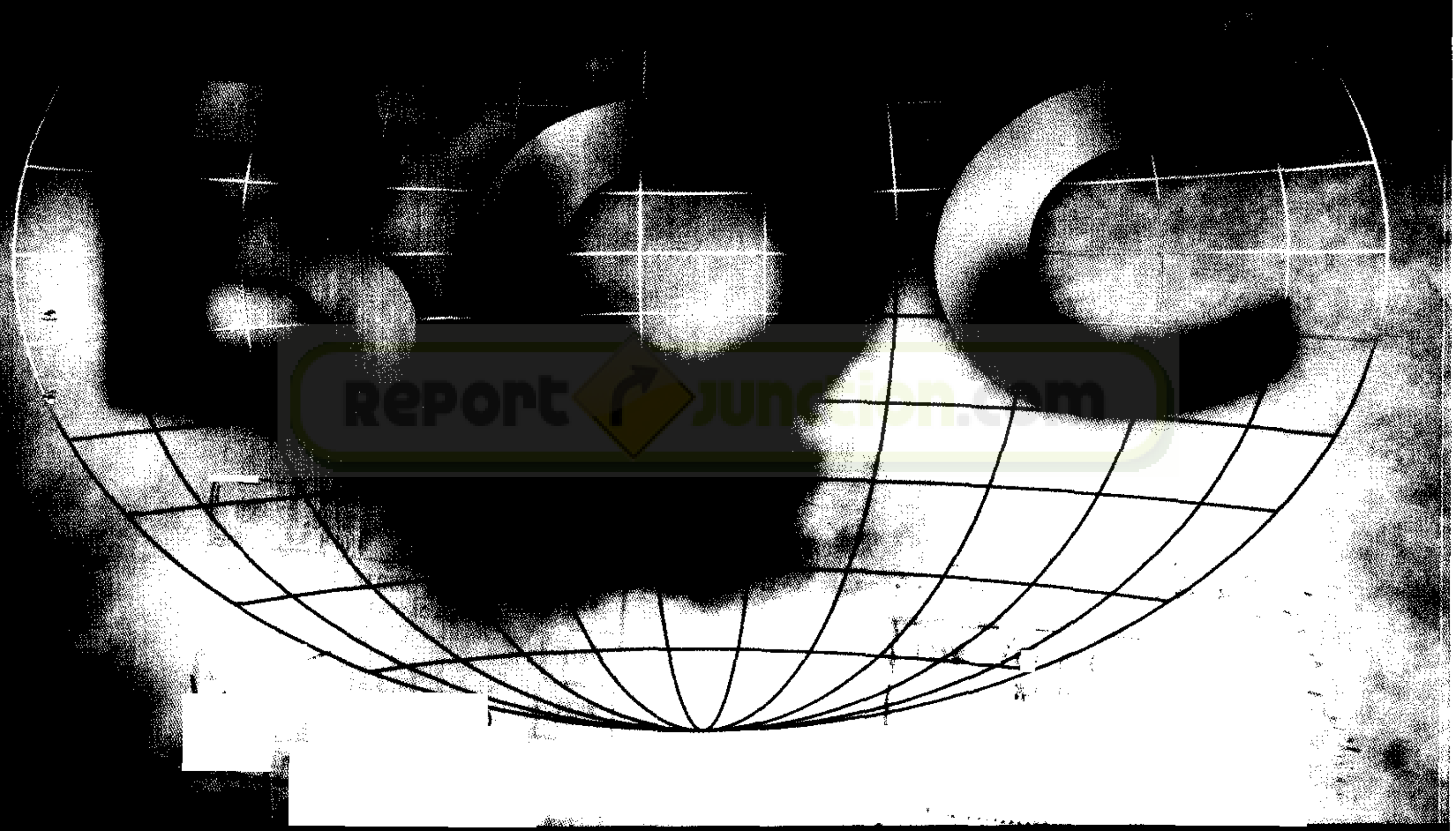
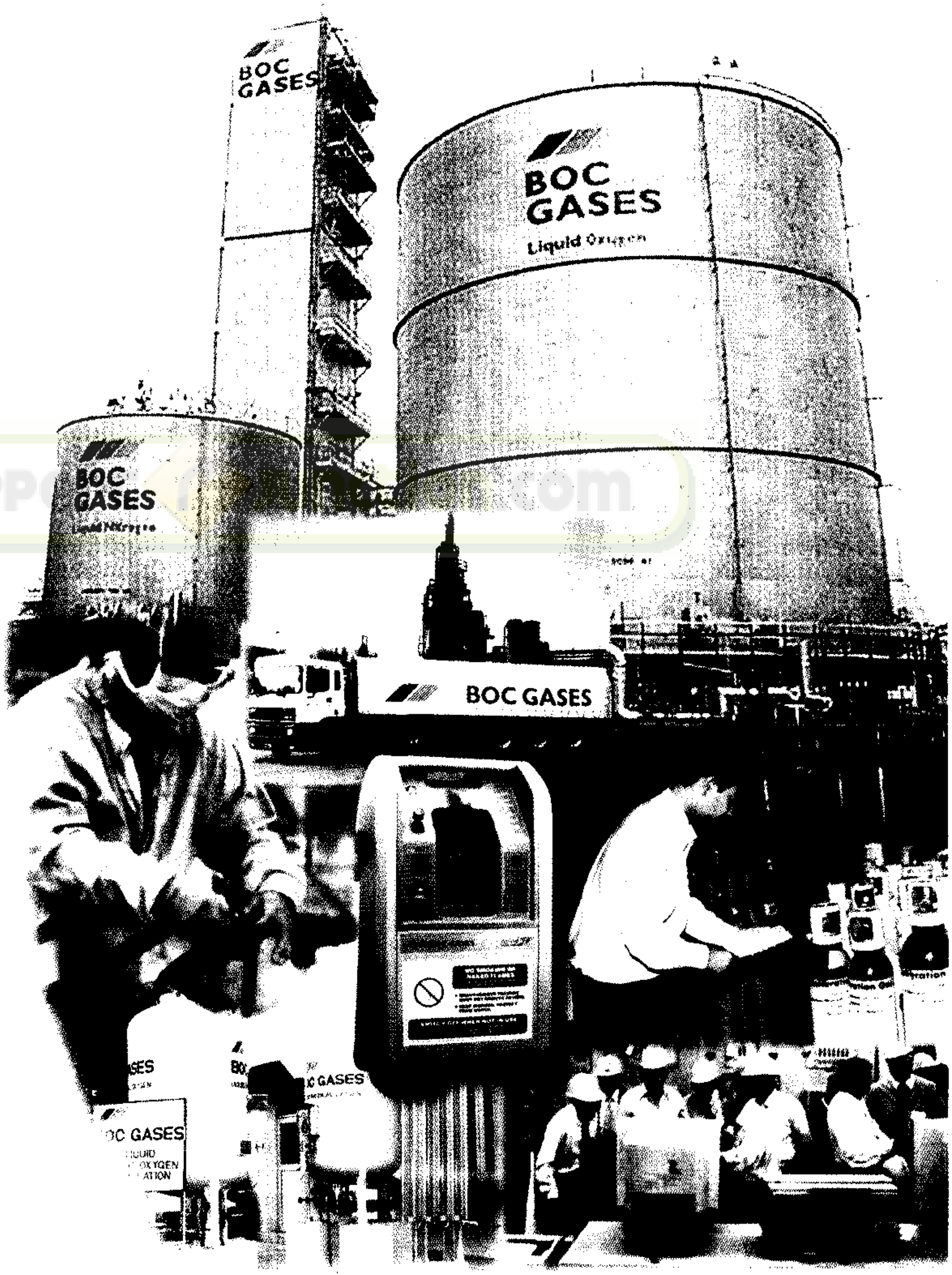


REPORT & ACCOUNTS
2000

BOC India Limited

India's largest



BOC

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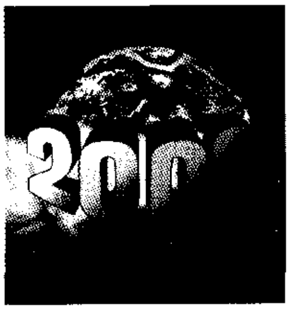
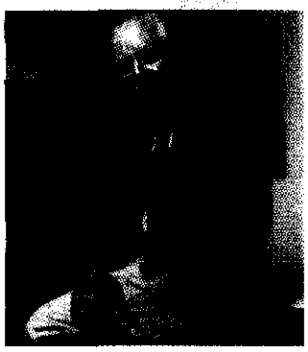


Chairman's Statement



The end of a millennium and the dawn of another is a good time to review and introspect. Corporate developments are inevitably impacted by the environment in which they operate and your Company is no exception. At the time of independence, fifty years ago, the country inherited a very rudimentary economic and industrial infrastructure. In its desire to have an accelerated economic, industrial and societal transformation and perhaps, as a reaction to our colonial past, it drew inspiration from the Soviet model and adopted a Planned Mixed economy development model, with the Commanding Heights reserved for the State Sector. Also to give the fledgling domestic industries time to grow and establish themselves, it created a protective wall through a series of legislative, regulatory and fiscal measures. In the process, it succeeded in the first forty years to build a modicum of industrial base. However, the companies that came to dominate the Indian industrial scene were largely inefficient, uneconomic and producing goods of a quality that short changed the consumer who in the absence of any choice had no alternative but to accept them.

Having largely isolated ourselves from the rest of the world and being content with the discarded and outdated products being offered under the garb of "relevant technology" we were suddenly caught off-guard when the rapid developments in the knowledge, information, computer and satellite based industries altered the rules of the game and forced the breakdown of protective barriers that the nation had surrounded themselves with. Globalisation with its attendant benefits and dislocation was upon us like a whirlwind and no country could afford to ignore this without dire consequences to itself. Liberalisation and the opening up of the Indian economy became a fait accompli and now the debate, if any, can only be at the speed of change to minimise the dislocation and hurt to the weaker sectors of society in the interim.

In recognition of the rapidly changing global business environment, The BOC Group itself had taken several steps to make it a more lean and focussed organisation. Despite this, in July 1999 Air Products and Chemicals of USA and Air Liquide of France had made a joint pre-conditional cash offer at £14.60 per share for all the shares of The BOC Group plc, UK, the holding company. BOC India, however, had continued business as usual despite the restrictions of the takeover code which had become applicable to the Group in the UK. Although necessary clearances had been obtained in the UK, the European Union and Canada, approval from the Federal Trade Commission of USA was not forthcoming and the pre-conditional offer lapsed on 12th May, 2000.

Clearly this takeover duration has been a period of uncertainty for BOC and its customers. Nevertheless, as an organisation, BOC India continued to perform in a focussed determined manner taking a hard look at its under-utilised capital assets and putting them to better use. At the same time, the implementation of SAP provided an opportunity to carry out stringent internal reviews and thorough audit of its assets, inventory, debts and liabilities, as well as its systems. Consequently, accumulated and unrealisable debts, obsolete plant and equipment and inventory were identified and where necessary, written off and provided for. Over the past decade, BOC India has taken several steps to make itself a more focussed and lean organisation. It has exited from the Welding and Ohmeda (Health Care) businesses following the decision of The BOC Group to exit from these businesses. With a view to improving productivity and doing away with inefficient operations, unviable units at Kanpur, Guwahati, Asansol and Ghatkopar (Mumbai) were closed and where possible, idle assets were disposed off. In the process, during the decade, the workforce has come down from 5124 employees in 1990 to 660 in March this year.

The accounting year of BOC India was extended to an 18 months period, ending 31st March 2000, to be in line with the Income Tax year. The Board availed of this opportunity to complete the due diligence exercise in consultation with the auditors of the Company and thereafter considered it appropriate to provide Rs 402 million towards obsolete assets and unrecoverable debts, etc.

The loss of Rs 794 million in the 18 months period is the cumulative result of several factors. With two new bulk tonnage plants, our own at Jamshedpur and a competitor's plant at Hospet, having come on stream within six months of each other, the supply of industrial gases exceeded demand substantially. Also, given the sluggish growth in the steel fabrications, ship making and scrap cutting sectors, which constitute the largest part of the Company's customer base, and the state of heightened competition with the entry of other multinationals, the price of gases in the merchant market could not be increased adequately and margins remained under severe pressure. The Company was therefore unable to recover the higher depreciation of Rs 195 million and interest charges of Rs 315 million which the commissioning of the 1290 tpd plant at Jamshedpur entailed. To add to this, was the one off provisioning charge of Rs 402 million mentioned above and the payment of Rs 122 million for separation and terminal payments to employees.

Your Board and the management are obviously not happy with the present situation. A plan has been drawn up and put into action to rectify the position and put the Company on an aggressive growth path. This entails - a focussed attention on its key cost drivers e.g. power, freight and carbide where a series of initiatives on cost reduction are already yielding results.

Secondly, the strategy of refurbishing and re-deploying idle assets including cylinders, plants, vacuum insulated storage and transport tanks has resulted in reduced capital expenditure while improving asset utilisation. The relocation of the refurbished 120 tpd plant from Jamshedpur to Maharashtra for an attractive medium term contract is another step in the right direction.

Thirdly, the Company's initiative in setting up a pipeline grid around Taloja to secure a customer base has been successful with the signing up of a long term contract with Hikal Chemicals. Your Company has also entered into an MoU with another customer who will be added on to the same pipeline grid.

Your Company has also launched a new product, an Oxygen Concentrator providing mobile medical oxygen and based on the test marketing it expects significant growth in this area. Added to this, the focus on value added medical gases and Argoshield has also shown good results and we expect good growth in these segments over the coming years.

Given its high interest burden from the high cost borrowings taken to finance the 1290 tpd plant in Jamshedpur, your Company has initiated a dialogue with the financial institutions and banks and has successfully refinanced a part of the high cost borrowing and expects to complete the refinancing of the balance loan within the next few months.

Your Company has also made significant investment in training and developing its employees over the last 18 months and the induction of a new sales team provides it with a good foundation to achieving its growth targets.

To summarise, your Board and the Management team are committed to successfully completing the change process initiated in the Company and delivering performance to you, our shareholders. The gestation of the 1290 tpd plant at Jamshedpur is above expectations and your Company has started producing cash profits over the last few quarters. However, given the large depreciation and interest burden of the 1290 tpd plant it may take the Company another 2 to 3 years to deliver business profits.

Mr Shashi S. Prasad retired on 31st July 1999. He had joined BOC in 1987 as Director-Gases and was appointed Managing Director and in 1997 made the Vice Chairman of the Board. I would like to place on record my appreciation of the substantial contribution made by Mr Prasad to the growth and re-organisation of the Company over the years under his stewardship.

Mr Sanjiv Lamba who has been with the Company for over 11 years and was hitherto Chief Executive - Finance, has joined the Board as Director - Finance in January 2000. The induction of a full time finance director was much needed and I am sure you will join me in welcoming him.

I also express my gratitude to The BOC Group for their support in technology, processes and systems to your Company throughout this period.

My sincere thanks to the employees, both past and present, for having supported the Company in its difficult times and endeavoured to progress despite the market pressures.

In conclusion, may I offer my personal thanks to each of you for your support and understanding of the demanding times we are passing through. It is my belief that our partnership will continue to stand the test of time as the future unfolds.

J N Sapru

BOC Diary

A new product. Breathe a new life

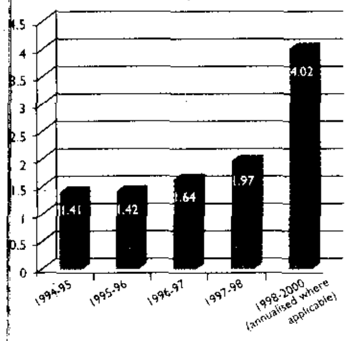
The need for long term oxygen therapy is increasing rapidly because of pollution-related diseases, an increasing ageing population and healthcare cost pressures. It is these reasons that brought about the launch of the BOC Oxy-concentrator. Contrary to popular belief, oxygen therapy is not only for people with health problems. Infact, sportsmen all over the world are administered oxygen therapy to boost their energy levels before a crucial match. This clearly goes to prove that everyone can enjoy the health benefits of the BOC Oxy-concentrator. BOC has also stepped into the rural market, where there is a growing need for the product, mainly due to the problem of non-availability of gas supply service. In the case of the BOC Oxy-concentrator, the oxygen never runs out. So there is no waiting, no refilling, no replacement required.

Revitalising our most valuable asset

With a view to equip our people for the demands of the future, training and human resources have assumed key focus. Keeping this in mind the theme for the Raichak meeting of officers in Dec. 1998 was called 'Teaming in for Growth', while the focus for the meeting held in Dec. 1999 was 'Making it Happen'. In addition, over 34 training programmes were undertaken. In our continuous efforts to deliver improvements, we have brought together employees from across the country to chalk out a blueprint to enable the company steer itself towards achieving corporate goals and delivering value to the shareholders by overcoming the depressed economy and corporate pressures. These meets encouraged cross functions and operations and better team spirit across the organisation. These moves helped improve future performance.

Turnover per employee

(Rs million per employee)



Your Company's Business Portfolio

Products

Medical Gases

- Compressed Medical Oxygen
- Liquid Medical Oxygen
- Compressed Nitrous Oxide
- ENTONOX- A powerful pain relieving gas mixture
- Gas Mixtures for blood gas analysis, laser eye surgery etc.
- Software for Hospital Cylinder Management

Industrial Gases

- Compressed Oxygen
- Dissolved Acetylene
- Compressed Nitrogen
- Compressed Hydrogen
- Liquid Oxygen
- Liquid Nitrogen
- Liquid Argon
- Iolar Grade High Purity gases like N_2, H_2, Ar, etc.
- ARGOSHIELD Shielding gases Welding

Speciality Gases

- Calibration Standards
- Special gas mixtures
- Gas mixing regulators
- Helium gas
- Leak Detection mixtures
- Pollution monitoring mixtures

Services

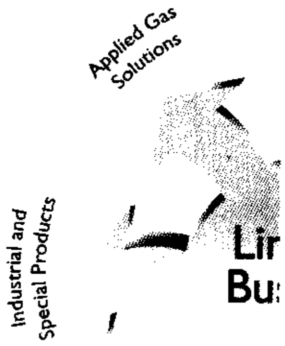
Delivery Options

- Compressed cylinders
- Liquid cylinders
- Vacuum Insulated Tankers
- Palletised Trailers
- Site-installed Vacuum Insulated Vessels
- Direct Pipeline supply
- On-site gas Production

Installation Service

- On-site vessel preventive & beakdown maintenance
- Customer installation engineering support
- Medical engineering services

A to Z in Gases



BOC

Production

Cryogenic & Non Cryogenic

- Air Separation Plants
- Pressure Swing Adsorption
- Vacuum swing Adsorption
- Deoxo systems for high purity nitrogen gas
- Liquid Assisted Nitrogen Generators
- Ultra High Purity Nitrogen Generators

Non Air-Gases

- Hydrogen and Syngas through
  - Reforming
  - Cracking
  - Electrolysis
  - Partial oxidation
- Carbon Monoxide production
- Recovery and recycle of CFCs & HCFCs
- Hydrogen/Nitrogen mixture through ammonia cracking for controlled atmospheres

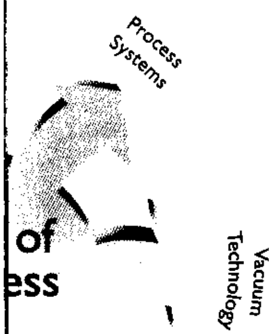
Process Applications

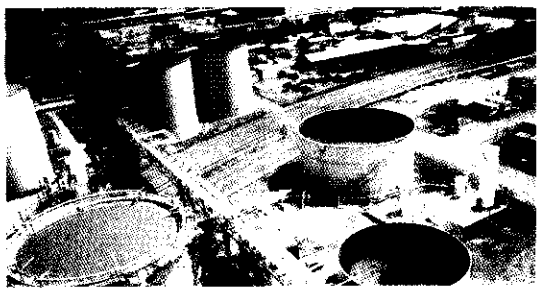
Industrial Process

- Use of oxygen in steel making processes
- Aluminium Degassing
- Enhanced fermentation activity through oxygen
- Enhancing Fluid Catalytic Cracker capacity through use of oxygen
- Increasing sulfur recovery capacity in refineries through oxygen
- Food freezing using tunnel or fluid bed freezers

Pollution Control

- BOD Control in existing ETP plants through VITOX
- pH control using Co_2 gas
- PRIMOX system for sewerage odour control

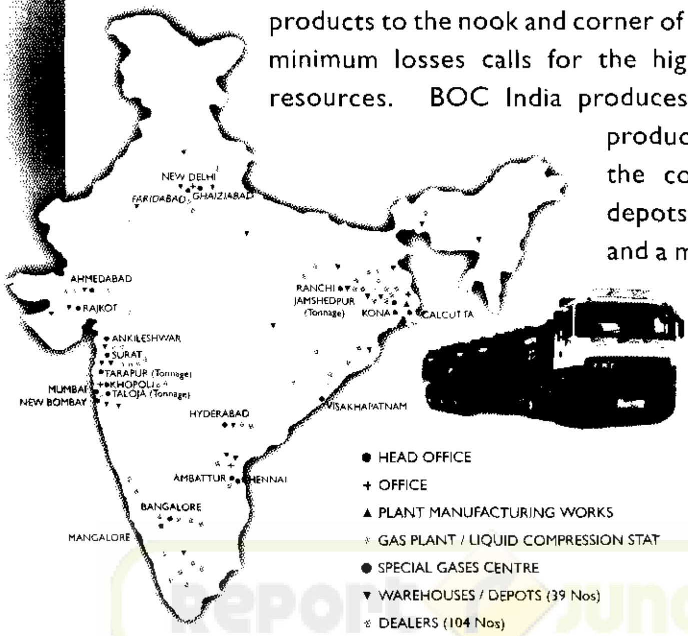




BOC Strengths

Efficient distribution logistics

Efficient and economical distribution is the key to the gases business. India, unlike western countries has poor road infrastructure and a highly unpredictable terrain. To reach our products to the nook and corner of the country, within a stipulated time and with minimum losses calls for the highest degree of specialised knowledge and resources. BOC India produces gases and liquid products from their 20 production and compression sites spread around the country, which are distributed to over 39 depots/warehouses, a 100 strong dealer network and a multitude of direct customers with the help of our own fleet of nearly 100 tankers. These apart, the Company maintains pipelines and on-site production units to produce and supply gases in bulk quantities to a wide variety of customers - a daunting task indeed! We use information technology and computerised stock records to analyse customer's usage patterns and determine the optimum moment for delivering further supplies. And we constantly monitor and audit customer satisfaction levels to ensure the most cost effective distribution service.



BOC's engineering expertise

We provide a package of products and services such as installation and testing of vacuum insulated cryogenic storage vessels, high pressure gas bullets, buffer holders, atmospheric vaporisers, flow monitoring and control schemes, pressure reducing and boosting stations and gas pipelines. We also engineer and construct on-site packaged cryogenic and non-cryogenic production units, state-of-the-art large capacity air separation units and compact hydrogen plants. BOC India employs a diverse team of engineers and specialists which include a pool of welders trained overseas on alloys, steel, aluminium and copper welding. One of the key tasks of this team is to provide assistance and advice on proper maintenance and disaster management for our customers' installations. We also undertake operation and maintenance of captive gas production plants. Valuable engineering advice is one of the most important services we provide our customers, because our on time installation capability and round-the-clock maintenance support means a healthier bottomline for our customers.