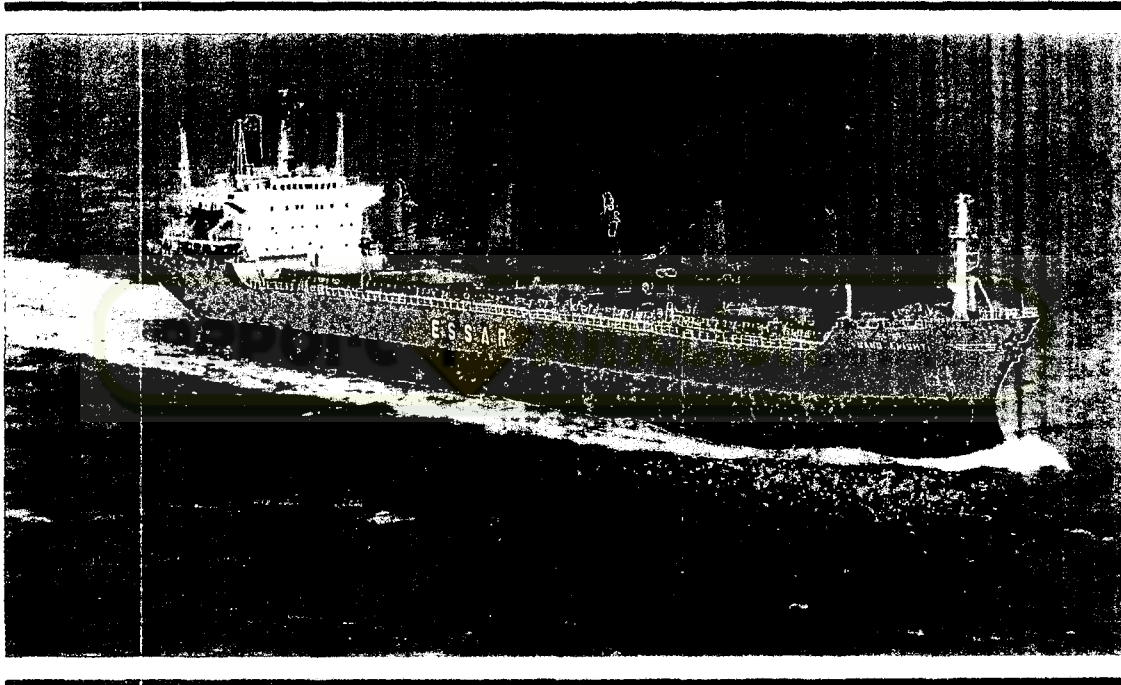


MD	<input checked="" type="checkbox"/>		BKG	<input checked="" type="checkbox"/>
CS	<input checked="" type="checkbox"/>		DPY	NA
RO	<input checked="" type="checkbox"/>		DIV	<input checked="" type="checkbox"/>
TRA	<input checked="" type="checkbox"/>		AC	<input checked="" type="checkbox"/>
ACM	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	SHI	<input checked="" type="checkbox"/>
YE	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>		



Essar Shipping Limited



Twentysecond
Annual Report
1997-98

Annual Report
2000-01
Sub 12

Essar Shipping Limited

BOARD OF DIRECTORS

Sri Shashi Ruia	<i>Chairman</i>
Sri Ravi Ruia	<i>Vice Chairman</i>
Sri N.N. Kampani	
Sri R.N. Bansal	
Sri S. Doreswamy	<i>ICICI Nominee</i>
Sri O.P. Khaitan	
Sri S.K. Poddar	
Capt. B.S. Kumar	
Sri M.S. Varadan	<i>Wholetime Director</i>

COMPANY SECRETARY

Sri V. Gopal Rao

BANKERS

State Bank of India
 IndusInd Bank Ltd.
 ABN Amro Bank N.V.
 Bank of Nova Scotia Asia Ltd., Singapore
 Development Bank of Singapore Ltd.
 Bank of India

AUDITORS

M/s. Deloitte Haskins & Sells
 Chartered Accountants

INTERNAL AUDITORS

M/s. B.P. Jain & Co.,
 Chartered Accountants

SOLICITORS

1. M/s. Crawford Bayley & Co.,
 State Bank Building
 NGN Vaidya Marg
 Mumbai 400 023
2. Nataraj, Rao, Raghu & Sundaram
 Dare House Annexe
 No. 44, Second Line Beach Road
 Chennai 600 001

REGISTERED OFFICE

2/3, Main Guard Cross Road
 Bangalore 560 001
 Fax: 080-5591382
 Phone: 080-5591650/5596986-90

CORPORATE OFFICE

Essar House
 11, Keshavrao Khadye Marg
 Mahalaxmi
 Mumbai 400 034
 Fax: 022-4954312
 Phone: 022-4950606
 Website: www.essar.com
 E-Mail: raman.essarhouse@wiprobtgw.wiprobt.ems.vsnl.net.in

TRANSFER AGENTS

DATA SOFTWARE RESEARCH COMPANY LTD.
 "Sree Sovereign Complex"
 22, 4th Cross Street, Trustpuram
 Kodambakkam
 Chennai 600 024
 Fax: 044-4833738
 Phone: 044-4834636

NOTICE TO THE MEMBERS

Notice is hereby given that the Twentysecond Annual General Meeting of Essar Shipping Limited will be held at the Dayanandasagar Memorial Hall, Chandrasagar Complex No. 264/266, T. Mariappa Road, 2nd Block (Near Ashoka Pillar), Jayanagar, Bangalore 560 011 at 2.30 P.M. on Friday, the 17th July, 1998, to transact the following business :

ORDINARY BUSINESS

1. To receive, consider and adopt the audited Balance Sheet of the company for the financial year ended 31st March, 1998 and Profit and Loss Account for the year ended on that date and Report of the Directors and Auditors thereon;
2. To declare Dividend;
3. To appoint a Director in the place of Shri N.N. Kampani, who retires by rotation and, being eligible offers himself for reappointment;
4. To appoint a Director in the place of Shri O.P. Khaitan, who retires by rotation and, being eligible offers himself for reappointment;
5. To appoint a Director in the place of Shri R.N. Bansal, who retires by rotation and, being eligible offers himself for reappointment;

ORDINARY RESOLUTION:

6. To appoint Auditors of the Company and fix their remuneration.

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

'RESOLVED THAT M/s. Deloitte, Haskins & Sells, the retiring auditors, be and are hereby re-appointed Auditors of the company to hold office from the conclusion of this Annual General Meeting until the conclusion of the next Annual General Meeting on a remuneration to be fixed by the Board in consultation with the auditors, exclusive of travelling and out-of-pocket expenses that may be incurred by them in connection with the audit'

SPECIAL BUSINESS

ORDINARY RESOLUTION

7. To consider and, if thought fit, to pass with or without modifications, as a Special Resolution, the following:-
"RESOLVED that pursuant to sub-section (1)(d) of Section 293 of the Companies Act, 1956 and other enabling provisions, if any, of the said Act, and subject to the approval of such authority, institution, government department of the Government whether within or outside India, as may be required, the Board of Directors of the Company be and it is hereby authorised and shall be deemed to have always been so authorised to raise or borrow, for and on behalf of the Company, any sum or sums of money from time to time from State or Central Government or one or more bodies corporate, or Banks

or Financial Institutions or Overseas Corporate Bodies, or Foreign Financial Institutions or any other agency either domestic or foreign or the public either Resident/ Non-resident by way of cash credit, advances, deposits or Bridge loans, Term Loans or any other loans either in Indian Currency or in foreign currency, whether unsecured or secured by mortgage, charge, hypothecation or pledge of the Company's assets and properties whether movable and/or immovable or stock-in-trade (including book debts, bills, raw materials, stores and spare parts and components in stock or in transit) and debts and advances, notwithstanding that the sum or sums so borrowed together with the moneys, if any, already borrowed by the Company (apart from the temporary loans obtained from the Company's bankers in the ordinary course of business) may exceed in the aggregate of the paid-up capital of the company and its free reserves, that is to say, Reserves not set apart for any specific purpose but so that the total amount upto which the moneys may be so borrowed shall not at any one time exceed Rs. 3,000 Crores (Rupees Three Thousand Crores only)".

"RESOLVED FURTHER that the Board of Directors of the Company and the Company Secretary, be and are hereby empowered to do all necessary acts and things sign and file all necessary papers and documents and for this purpose to nominate one or more officials who shall also be authorised likewise from time to time to give effect to the above resolution."

SPECIAL BUSINESS

SPECIAL RESOLUTION

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

"RESOLVED that in supersession of earlier Resolution passed at the Annual General Meeting held on 22nd September, 1995 and pursuant to Section 370 of the Companies Act, 1956 and other applicable provisions, if any, and also subject to aproval from other authorities concerned as may be necessary, the Board of Directors of the Company be and are hereby authorised to make loans without the prior approval of the Central Government:

- (a) upto such percentage of the aggregate of the subscribed capital of the lending company and its free reserves as may be notified and in force from time to time where all such other bodies corporate are not under the same management as the lending company;
- (b) upto such percentage of the aggregate of the subscribed capital of the lending company and its free resrves as may be notified and in force from time to time where all such other bodies corporate are under the same management as the lending company."

Essar Shipping Limited

"RESOLVED FURTHER that the Board of Directors of the company be and are hereby authorised to make loans in excess of the aforesaid percentages with the prior approval of the Central Government to bodies corporate whether under the same management as the lending company or not, provided that such loans so made do not exceed the paid up capital and free reserves of the lending company at any time."

"RESOLVED FURTHER that the Board of Directors of the Company be and are hereby authorised to give any guarantee or provide any security in connection with any loan by any other person to or any other person by any body corporate provided, however, the total amount of guarantees or security, as the case may be, shall not exceed the sum of Rupees (1000) One Thousand Crores in aggregate."

SPECIAL BUSINESS**SPECIAL RESOLUTION**

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

"RESOLVED pursuant to Section 81 and other applicable provisions, of the Companies Act, 1956 and in supersession of the Special Resolution passed by the members of the company at the Annual General Meeting held on 7th September, 1994 and subject to such approvals, consents, permissions and sanctions as may be necessary from the Government of India (GOI), Reserve Bank of India (RBI), and/or any other authorities or institutions as may be relevant, the Board of Directors of the Company (hereinafter called "The Board" which shall include any committee constituted/to be constituted by the Board for exercising the powers conferred on the Board by this resolution) be and it is hereby authorised to offer / issue and allot Equity / Preference Shares, Fully / Partially Convertible Bonds / Debentures, Depository Receipts, any other instruments / securities in the nature of Shares / Debentures / Bonds, Securities in registered or bearer forms, warrants convertible into Shares along with any such securities in the International Market to Foreign Institutional Investors / Foreign Companies, whether incorporated or not / Overseas Corporate Bodies (OCB's) / Foreign Nationals / Non-resident Indians (NRI's) / Promoters and/or their Associates, such other entities as may be decided by the Board through Prospectus, Offering Letter, Circular, or through any other mode on private placement, preferential basis as the case may be from time to time in one or more tranches, as may be deemed appropriate by the Board for an amount not exceeding US \$ 500 Million on such terms and conditions including pricing as the Board may in its sole discretion decide."

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

to the offer, issue, allotment and utilisation of the issue proceeds as it may deem fit."

By order of the Board of Directors

V. GOPAL RAO
Company Secretary

Mumbai
23rd April, 1998

Registered Office:
2/3, Main Guard Cross Road
BANGALORE 560 001

NOTES :

- (a) The relative Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956 in respect of the business under item Nos.7 to 9 set out above is annexed hereto.
- (b) **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.**
- (c) 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, except Saturdays, Sundays and Bank holidays, between 11.00 AM and 1.00 PM upto the date of the Annual General Meeting.
- (d) Members/proxies should bring the attendance slip duly filled in for attending the meeting.
- (e) The Register of Members and Share Transfer Books of the Company will remain closed from Monday the 13th July, 1998 to Friday, the 17th July, 1998, both days inclusive.
- (f) The Dividend, if declared, will be payable to those members, whose names appear in the Register of Members of the Company as on 17th July, 1998.
- (g) Pursuant to Section 205A of the Companies Act, 1956 the following information is furnished:

The unclaimed Dividend for Financial Years 1994-95, 1995-96 and 1996-97 are held in separate accounts for each year.
- (h) Members are requested to immediately notify in their own interest the Bank account numbers / name of the Bank / Branch to be specified in the Dividend Warrants and any change in their address to the Company's Registrar and Transfer Agents:

***M/s. Data Software Research Company Ltd.,
"Sree Sovereign Complex"
22, 4th Cross Street,
Trustpuram,
Kodambakkam,
Chennai 600 024.***

- (i) Members desiring any information with regard to Accounts are requested to write to the Company atleast 10 days before the date of the meeting, so as to enable the management to keep the information ready.

ANNEXURE TO NOTICE

Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956 in respect of item Nos.7 to 9 of the accompanying notice is as under:-

Item No. 7

The present borrowing powers of the company pursuant to the provisions of Section 293(1)(d) is Rs. 2000 crores. As against this, the total borrowings of the company as on 31st March, 1998 is less than Rs. 1000 crores. Your company is in the process of establishing a Terminal Project at Vadinar, Jamnagar, Gujarat at a cost of Rs. 1435 Crores. The project is to be funded by a mix of debt and internal accruals.

The total borrowings of the company including the proposed borrowings for the Terminal project is likely to cross Rs. 2000 crores, the present borrowing limits of the company. Hence, in order to facilitate borrowal for this project, it is necessary to increase the Borrowing powers to Rs. 3000 crores pursuant to the provisions of Section 293(1)(d) of the Companies Act, 1956.

Accordingly, your Directors recommend this resolution for your approval.

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

Item No. 8

At the Annual General Meeting held on 22nd September, 1995 approval under Section 370 of the Companies Act, 1956 in respect of loans/guarantees to be given by the Company upto a limit of Rs. 500 Crores was obtained.

The present paid up capital and free reserves of the company is about Rs. 994 Crores, it has become necessary to seek the approval of the members to raise the limits under Section 370 to enable the company to give guarantee or security upto a sum of Rs. 1000 Crores.

Accordingly, your Directors recommend this resolution for your approval.

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

Item No. 9

The members had earlier authorised the Board at their Annual General Meeting held on 7th September, 1994 to offer/ issue in the International Market various securities for an

aggregate amount not exceeding US\$ 200 Million. The Company has not so far raised any amount under this authorisation.

Due to efflux of time, the authorisation given by the Members to the Board may not be valid, to certain kinds of issue. The company is also making all out efforts to substitute the high cost domestic debt with low cost overseas borrowings. The company requires additional funds to meet margin money for larger working capital due to increased operations, to meet normal capital expenditure and to meet additional capital expenditure.

The issue is intended to be made after receiving appropriate approvals to the foreign investors. In the likelihood of the issue being fully underwritten or subscribed by one or a few select group of investors, which may include collaborators, companies in shipping, oil and gas industry, financial investment companies, promoters and/or their associates, the Company has been advised that the offer of such FCCBs to the select group of investors may attract the provisions of the SEBI/RBI Guidelines on preferential issues. Hence, the Company proposes the Special Resolution as mentioned in the Item No. 9 of this Notice which will give adequate flexibility to the Company through its Board or any committee thereof in making the above FCCBs offer as well as the other International offers the aggregate of all such offers shall not however exceed US\$ 500 Million either to the investors at large or to select group of investors.

The detailed terms and conditions for the International Offer will be determined in consultation with the Lead Managers, Advisors, Underwriters and/or such other agencies to the issue. Wherever necessary and applicable the pricing of the issue will be done in accordance with the applicable guidelines of SEBI, RBI and other relevant authorities, in force.

The Board of Directors therefore, recommend the resolution for your approval.

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

By order of the Board
V. Gopal Rao
Company Secretary

Mumbai
23rd April, 1998
Registered Office
2/3, Main Guard Cross Road
BANGALORE 560 001

Essar Shipping Limited

DIRECTORS' REPORT

To the Members of Essar Shipping Limited:

1. Your Directors have pleasure in presenting the Twenty Second Annual Report of your Company together with the audited accounts for the six months period ended on 31st March, 1998.

2. FINANCIAL RESULTS

The financial results relates to a period of six months and hence are not comparable to the previous period of eighteen months.

	(Rs. in Crores)	
	Period ended on 31-03-98 (6 months)	Period ended on 30-09-97 (18 months)
Gross Profit	157.20	406.67
Less: Interest & finance charges (net) and Lease & bare boat rentals of fleet	73.28	179.14
Less: Provision for depreciation	33.48	117.53
Profit before Tax	50.44	110.00
Less: Provision for taxation	5.30	12.64
Profit after tax	45.14	97.36
Add: Balance brought forward from previous years	129.76	116.43
Total funds available for appropriation	174.90	213.79
Proposed dividend	10.54	26.71
Corporate Dividend Tax	1.05	2.67
Transfer to Capital/ Debenture Redemption Reserve	7.07	22.21
Transfer to Reserve created under section 33 AC of the Income Tax Act, 1961	20.00	30.00
Transfer to General Reserve	1.13	2.44
Total appropriations	39.79	84.03
Balance carried forward	135.11	129.76

3. DIVIDEND

Your directors recommend, subject to necessary approvals, payment of dividend at 5%, for the period ended 31st March, 1998. (10% on an annualised basis)

Particulars	(Rs. in Crores)
i) Dividend on 10,00,000 – 14% Redeemable Cumulative Preference shares of Rs.100/- each @14% p.a.	0.70
ii) Dividend on 19,68,65,855 Equity shares of Rs.10/- each @ 5% p.a.	9.84
iii) Corporate Dividend Tax	1.05
Total	11.59

4. BUSINESS REVIEW

Your company has declared a net profit of Rs. 45.15 crores for the 6 months period ended 31st March, 1998, after providing for MAT of Rs. 5.29 crores. This is higher by 39% as compared to the previous year, on an annualised basis.

Your company's total income for the period, was Rs. 249.38 crores (Rs. 794.39 crores for 1996-97, 18 months) and the gross profit was Rs. 157.20 crores (Rs. 406.66 crores for 1996-97, 18 months), representing 63% of the total income of Rs. 249.38 crores and reflecting an increase of 14% over the previous period on an annualised basis.

Taking into account the unabsorbed depreciation available, your company is not likely to have any liability under Income Tax Act, 1961 and hence provision of Rs. 5.29 crores has been made towards minimum alternate tax.

Your company's current fleet is diversified, well balanced and relatively young with an average age of around 9 years, as against

the average of 15 years for the Indian Shipping Industry and your Company has one of the largest fleet size in the country with a DWT of 1.42 million.

Your company's financial position as on 31st March, 1998 is quite strong, with a low debt equity ratio of 0.63:1 and current ratio at 4.70:1.

During the period under review, (6 months) your company operated its fleet of bulkers, tankers, and OSVs, with 98% efficiency, for 3931 days as against 4004 available operating days. During the period, the Company had sold one offshore vessel Nand Godavari for further trading, and one Bulk carrier Nand Neeti was sold and repurchased under Bareboat charter cum demise arrangement. Your company realised a profit of Rs. 22.07 crores on the sale of the above mentioned vessels.

The tanker market continued its improving trend. Freight rates have risen more markedly in 1997 than in previous years. However, our perception of steady cashflow in the crude tanker segments through long term charters have proved to be correct with our average yield on tankers at USD 25,000 as against market average of USD 24,000 a day. The capacity utilisation of tankers was 100% as against the Industry capacity utilisation of 90%.

With the disbanding of Administered Price mechanism (APM) in the oil sector, the costplus formula for crude tankers on Indian sector will stand withdrawn from 1st April 1998. Notwithstanding, our performance is likely to be maintained due to favourable market rates. The Dry bulk market showed increase in the first half of the year. However the financial turmoil in Asia during the latter part of the year clearly affected freight market trends and in the final months values began to decrease.

5. GOVERNMENT POLICY

The share of Indian export and import cargo carried by Indian vessels has declined from about 40% in the eighties to 29% during the period under review. This has resulted in a substantial outflow of foreign exchange to meet freight/charter hire for shipment of Indian cargo on foreign flag vessels.

The Indian tonnage as on 31.12.1997 has declined to 6.87 million GRT from 7.10 million GRT as on 1.4.1996. The decline of tonnage has been due to the lack of interest in investing in ship acquisitions by Indian shipowners. This is attributable to the following reasons:

1. absence of any cargo support for Indian vessels;
2. withdrawal of fiscal concessions earlier granted to Indian shipping industry;
3. acute shortage of skilled personnel to man Indian flag vessels due to their migration to foreign flag vessels offering tax free salary;
4. restrictions on maturity period for raising foreign currency loans beyond USD 15 million.

This has been somewhat rectified by the Ministry of Finance recently by relaxing the minimum average maturity required for ECBs from 7 years to 5 years for foreign currency loans above USD 15 million, for the shipping industry, in the latest ECB policy, issued in April 1998.

The shipping industry has been continuously pursuing with the Government of India to provide adequate incentives for its growth. In order to set the role of national shipping in the overall industrial machinery of the country, the Government of India has initiated steps to redefine the national shipping policy by entrusting this task to a committee headed by Shri M.P. Pinto, Director General of Shipping. The committee's report is awaiting clearance from the cabinet. The basic theme of the policy has been to assert the role of shipping industry as a direct earner/saver of foreign exchange as much as an exporter of merchandise rather than a mere facilitator of the exports. Towards this end, the shipping industry has sought for the following major recommendations of

the Pinto Committee to be implemented forthwith:

- 1) Recognition of coastal shipping as an infrastructure industry.
- 2) Shipping industry to be given export-oriented industry status.
- 3) Enhancement of depreciation of ships from existing 20% to 33.33%.

As the shipping industry is one of the major foreign exchange earners, and plays a vital role in the country's economic development and international trade, the Government of India should consider favourably the aforesaid representations of the industry to enable it to cope up with the expected demand for sizeable additions to tonnage in the Ninth Five Year plan.

6. INDUSTRY REVIEW AND PROSPECTS

The South East Asia region and Japan, with its strong economic growth in the last decade had become a model for the rest of the world. The Asian Tigers had fuelled growth and development across the world. There was general optimism all around, as also in the Shipping industry.

However, 1997 turned out to be a year of portents which began in promise with adulatory articles being written about the Asian Tigers and the high profile bankers and financial wizards who directed fund flows into those economies. Unfortunately, it ended in turbulence after the autumnal collapse of share prices and local currencies in the region.

In retrospect, the first signs of an impending crisis in East Asia was possibly the absence of a tangible improvement in regional export performance in the first quarter of 1997 itself, which seemed to confirm and increasingly widespread view that the region was losing its competitive edge. It was then that for the first time in a decade nearly, East Asian export growth did not keep pace with world trade growth. For many of the region's economies the loss of market share was slight, following sharp gains over the past decade.

Crude oil production in India, despite efforts by the last few Governments to speed up Exploration and Production activity, is unlikely to keep pace. The crude oil production in 1997-98 is likely to be 30.6 million tonnes which is expected to go up to 35.5 million tonnes by 2001-2002. As the overall demand for oil products rises to 112.8 million tonnes, there will be a very great need for crude imports on the back of increased refining capacities.

This signifies a considerable need for crude imports, reduction in product imports and possibly some product exports. The Indian Shipping fleet grew from 192,000 GRT on the eve of independence in 1947 to 7.1 million GRT on 1st August 1996. It is playing a vital role in the nations economic resurgence. However, the Indian merchant fleet has stagnated at these levels and its share in the overseas trade has been slipping continuously, declining from a healthy level of 41% in 1987 to above 27.8% in 1996.

The Asian financial turmoil is likely to result in sharp decrease in Imports to East and South Asian regions. Reduced growth rates of economic activity will result in slower growth in tonnage demand, thus pushing in freight rates lower. "Domino" effect will also be felt in the new building prices which are expected to move downwards.

7. DIVERSIFICATION

Your company's plans for setting up the proposed port & terminal facility at Vadinar, at an estimated cost of Rs.1435 crores, are moving swiftly. ESL proposes to take up the project for implementation subject to the approval of the lenders/ financial institutions.

The orders relating to the procurement have been placed and engineering operations are underway. The company is in the process of achieving financial closure for financing of the cost of the project and the project is expected to go on stream by the end of second quarter of 1999.

8. SUBSIDIARIES

Information pursuant to the provisions of Section 212 of The Companies Act, 1956 relating to the Subsidiary Companies, forming part of this report is annexed.

Your company has the following subsidiaries:

- 1) Essar Tankers Limited
- 2) Essar International Limited

9. DIRECTORS

Your Directors deeply condole the sad demise of Shri K.R. Ramamani, Director of the Company on 6th March, 1998 and record their sincere appreciation of the valuable contributions made by Shri K.R. Ramamani, during his tenure as a Director, on various matters relating to the affairs of the Company.

In accordance with the provisions of the Companies Act, 1956 and the Articles of Association of the Company, Shri N.N. Kampani, Shri R.N. Bansal and Shri O.P. Khaitan retire by rotation at the ensuing Annual General Meeting of the company and being eligible offer themselves for reappointment.

During the period under review, Shri V.B. Chaturvedi, has resigned effective 27th February, 1998. Shri M.J. Subbaiah has ceased to be a director with effect from 28th February, 1998. In his place Shri S. Doreswamy was nominated as Director by the Industrial Credit & Investment Corporation of India Limited. Your Directors take this opportunity of recording their appreciation of the valuable contribution made by Shri V.B. Chaturvedi and Shri M.J. Subbaiah, during their tenure of office.

10. AUDITORS

M/S DELOITTE HASKINS & SELLS, Chartered Accountants the Statutory Auditors of the company retire at the ensuing Annual General Meeting and are eligible for reappointment.

11. PERSONNEL

Information as per Section 217(2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975 as amended is given in the Annexure forming part of the report. However, as per the provisions of Section 219(1)(b)(iv) of the said Act, the Report and Accounts are being sent to all Shareholders of the Company excluding the statement of particulars of employees u/s 217(2A) of the said Act. Any shareholder interested in obtaining a copy of this statement may write to the Company Secretary at the Registered Office.

12. CONSERVATION OF ENERGY

Pursuant to Section 217(1)(e) of The Companies Act, 1956 read with the Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules, 1988, the statement annexed hereto gives the particulars as required under the said rules and forms part of this report.

13. COMMENTS ON AUDITORS' REPORT

With regard to the points highlighted by the Auditors in their Report, the respective notes to the accounts are self explanatory.

14. ACKNOWLEDGEMENTS

Your Directors wish to thank the Ministry of Surface Transport, Transchart, Ministry of Finance, Reserve Bank of India, the Directorate General of Shipping, the Mercantile Marine Department, the Port Trusts, Oil Coordination Committee, Oil and Natural Gas Corporation Ltd., Indian Oil Corporation Ltd., ICICI, IDBI, IFCI, The Bank of Nova Scotia Asia Ltd., State Bank of India and all its other bankers and business associates for their continued cooperation.

For and on behalf of the Board

Mumbai,
23rd April, 1998

B. S. KUMAR
Director

Essar Shipping Limited

ANNEXURE TO THE DIRECTORS' REPORT
(Referred to in paragraph 1 of our report of even date)

A. CONSERVATION OF ENERGY

- | | |
|--|---|
| (a) Energy Conservation measures taken | : Not applicable being a Shipping Company |
| (b) Additional investment and proposal, if any, being implemented for reduction of energy consumption and consequent impact on the cost of production of goods | : Not applicable being a Shipping Company |
| (c) Impact of measures taken at (a) and (b) above | : Not applicable being a Shipping Company |
| (d) Total energy consumption and energy consumption per unit of production | : Not applicable being a Shipping Company |

B. TECHNOLOGY

- | | |
|--|---|
| (e) Efforts made in technology absorption progress | : Progress was made in the upgradation of technology in respect of running and maintenance of the fleet |
|--|---|

C. FOREIGN EXCHANGE EARNINGS AND OUTGO

- | | |
|--|---|
| (f) Activities relating to exports, initiative taken to increase exports, development of new export markets for product and services and export plans. | : Not applicable being a Shipping Company |
| (g) Total Foreign Exchange | |
| (1) Used (including cost of acquisition of ships, loan repayments, interest etc.) | : Rs. 116.71 crores |
| (2) Earned (including savings) and sale of ships | : Rs. 276.30 crores |

For and on behalf of the Board

Mumbai
23rd April, 1998

B.S. KUMAR
Director



AUDITORS' REPORT

To the Members of Essar Shipping Limited

We have audited the attached Balance Sheet of Essar Shipping Limited as at 31st March, 1998 and the Profit and Loss Account of the Company for the period ended on that date annexed thereto, and report that:

1. As required by the Manufacturing And Other Companies (Auditors' Report) Order, 1988 issued by the Company Law Board in terms of Section 227 (4A) of the Companies Act, 1956, and on the basis of such checks of the books and records of the company as we considered appropriate and the information and explanations given to us during the course of audit, we give in the Annexure a statement on the matters specified in the paragraphs 4 and 5 of the said order as are applicable to the company.
2. Further to our comments in the Annexure referred to in paragraph 1 above, we report that:
 - (a) We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;
 - (b) In our opinion proper books of account as required by law have been kept by the Company so far as it appears from our examination of such books;

- (c) The Balance Sheet and the Profit & Loss Account referred to in this report are in agreement with the books of accounts;
- (d) We have placed our reliance upon
 - (i) Counsels' opinion that the Disputed Incometax/ Salestax demands referred to in Note B-3 of Schedule 13 are not sustainable in law.
 - (ii) Managements' view that the Significant diminution in the market value of longterm investments is temporary in nature. (Refer Schedule 6)
- (e) In our opinion and to the best of our information and according to the explanations given to us, the said Balance Sheet and Profit and Loss Account give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view:
 - (i) in the case of Balance Sheet of the state of affairs of the Company as at 31st March, 1998 and
 - (ii) in the case of Profit & Loss Account, of the Profit of the Company for the period ended as on that date.

for DELOITTE HASKINS & SELLS
N. SETHURAMAN
Partner
Chartered Accountants

Mumbai
23rd April, 1998.

ANNEXURE TO THE AUDITORS' REPORT

(Referred to in paragraph 1 of our report of even date)

1. The Company has maintained proper records showing full particulars including quantitative details and situation of fixed assets. These fixed assets have been physically verified by the management and we are informed that no material discrepancies were noticed on such verification. With regard to the Plant & Machinery leased out, confirmation has been obtained from the lessee.
2. None of the fixed assets have been revalued during the year.
3. As the Company is not engaged in manufacture or processing of goods there are no finished goods or raw material and the question of physical verification and valuation thereof do not arise.
4. The Company has neither granted nor taken any loans from Companies, firms or parties in which Directors are interested or from Companies under the same management. We are informed that there are no Companies under the same management as defined in sub section 1B of Section 370 of the Companies Act, 1956.
5. The parties and employees to whom loans and advances in the nature of loans have been given by the Company are repaying the principal amount as stipulated and are also regular in payment of interest wherever applicable.
6. There are adequate internal control procedures commensurate with the size of the Company and nature of its business for purchase of fleet operating equipments and other assets.
7. According to the information and explanations given to us, there were no transactions of purchase of materials and sale of materials and service made in pursuance of contracts or arrangements in which Directors are interested and aggregating to Rs. 50,000/- or more during the year in respect of each party.
8. In our opinion and according to the information and explanations given to us the company has complied with the provisions of Section 58A of the Companies Act, 1956 and Rules framed thereunder with regard to repayment of deposits accepted from public.
9. The company's internal audit is conducted by a firm of Chartered Accountants which is generally commensurate with the size and nature of its business.

10. Maintenance of cost records under section 209(1)(d) of the Companies Act, 1956 is not applicable to the Company.
11. The company is regular in depositing Provident Fund dues with the appropriate authorities. We are informed by the Company that the provisions of Employees State Insurance scheme is not applicable to its employees.
12. According to the information and explanations given to us, and the books and records, examined by us, Tax deducted at source of Rs. 15.48 lakhs is outstanding for more than 6 months, and no other undisputed amounts payable in respect of Income Tax and Wealth Tax were outstanding as at 31st March, 1998 for a period of more than 6 months from the date they became payable.
13. During the course of our examination of the books of accounts carried out in accordance with the generally accepted auditing practices and according to the information and explanations given to us, we have not come across any personal expenses of employees or directors which have been charged to revenue, other than those payable under contractual obligations or in accordance with the generally accepted business practices.
14. The company is not a sick industrial company within the meaning of clause (o) sub-section (1) of Section 3 of the Sick Industrial Companies (Special Provisions) Act, 1985.
15. (a) As the hire charges for fleet are made on per diem rates the question of allocation of materials and manhours to each charter is not considered necessary.
- (b) In our opinion, there is a reasonable system for authorisation at proper levels and adequate system for internal control commensurate with the size of the Company and nature of its business, for the issue of stores and spares.
- (c) The Company has reasonable system of recording receipts, issues and consumption of stores and components commensurate with its size and nature of its business.

for DELOITTE HASKINS & SELLS
N. SETHURAMAN
Partner
Chartered Accountants.

Mumbai
23rd April, 1998.

Essar Shipping Limited

BALANCE SHEET AS AT 31ST MARCH, 1998

	Schedule No.	Amount as at 31.03.98 (Rs.)	Amount as at 30.09.97 (Rs.)
I. SOURCES OF FUNDS			
1. Shareholders Funds:			
(a) Share Capital	1		
(i) Equity Share Capital		1,967,267,006	1,967,263,066
(ii) Preference Share Capital		100,000,000	100,000,000
(b) Reserves & Surplus	2		
(i) Fixed Assets Revaluation Reserve		287,502,252	349,182,053
(ii) Others		7,584,270,085	7,248,753,867
		<u>9,939,039,343</u>	<u>9,665,198,986</u>
2. Loan Funds:			
(a) Secured Loans	3	5,512,850,722	5,870,549,698
(b) Unsecured Loans	4	1,166,702,922	218,219,790
		<u>6,679,553,644</u>	<u>6,088,769,488</u>
Total		<u>16,618,592,987</u>	<u>15,753,968,474</u>
II. APPLICATION OF FUNDS			
1. FIXED ASSETS:	5		
(a) Gross Block		11,660,100,515	12,071,195,922
(b) Less: Depreciation		3,898,696,631	3,723,405,002
(c) Net Block		7,761,403,840	8,347,790,920
(d) Advances for Capital Expenditure		1,695,675,000	1,419,750,000
		<u>9,457,078,884</u>	<u>9,767,540,920</u>
2. INVESTMENTS	6	3,709,449,172	3,715,527,172
3. CURRENT ASSETS, LOANS AND ADVANCES	7		
(a) Inventories		24,807,087	29,873,728
(b) Sundry Debtors-Trade		455,327,998	631,269,089
(c) Cash and Bank Balances		75,412,799	81,938,284
(d) Other Current Assets		1,050,181	94,649,132
(e) Loans and Advances		3,793,654,415	2,597,847,877
		<u>4,350,252,480</u>	<u>3,435,578,110</u>
4. Less: Current Liabilities and Provisions	8		
(a) Current Liabilities		808,761,662	900,398,072
(b) Provisions		116,362,356	301,676,686
Total Current Liabilities and Provisions		<u>925,124,018</u>	<u>1,202,074,758</u>
Net Current Assets		<u>3,425,128,462</u>	<u>2,233,503,352</u>
5. Miscellaneous Expenditure	9		
(to the extent not written off or adjusted)		26,936,469	37,397,030
Total		<u>16,618,592,987</u>	<u>15,753,968,474</u>
NOTES TO ACCOUNTS	14		

As per our Report of even date

For and on behalf of the Board

For **DELOITTE HASKINS & SELLS**
N. SETHURAMAN
 Partner
 Chartered Accountants

B.S. KUMAR
 Director

R.N. BANSAL
 Director

RAJIV AGARWAL
 Chief Financial Officer

V. GOPAL RAO
 Company Secretary

Mumbai
 23rd April, 1998

Mumbai
 23rd April, 1998