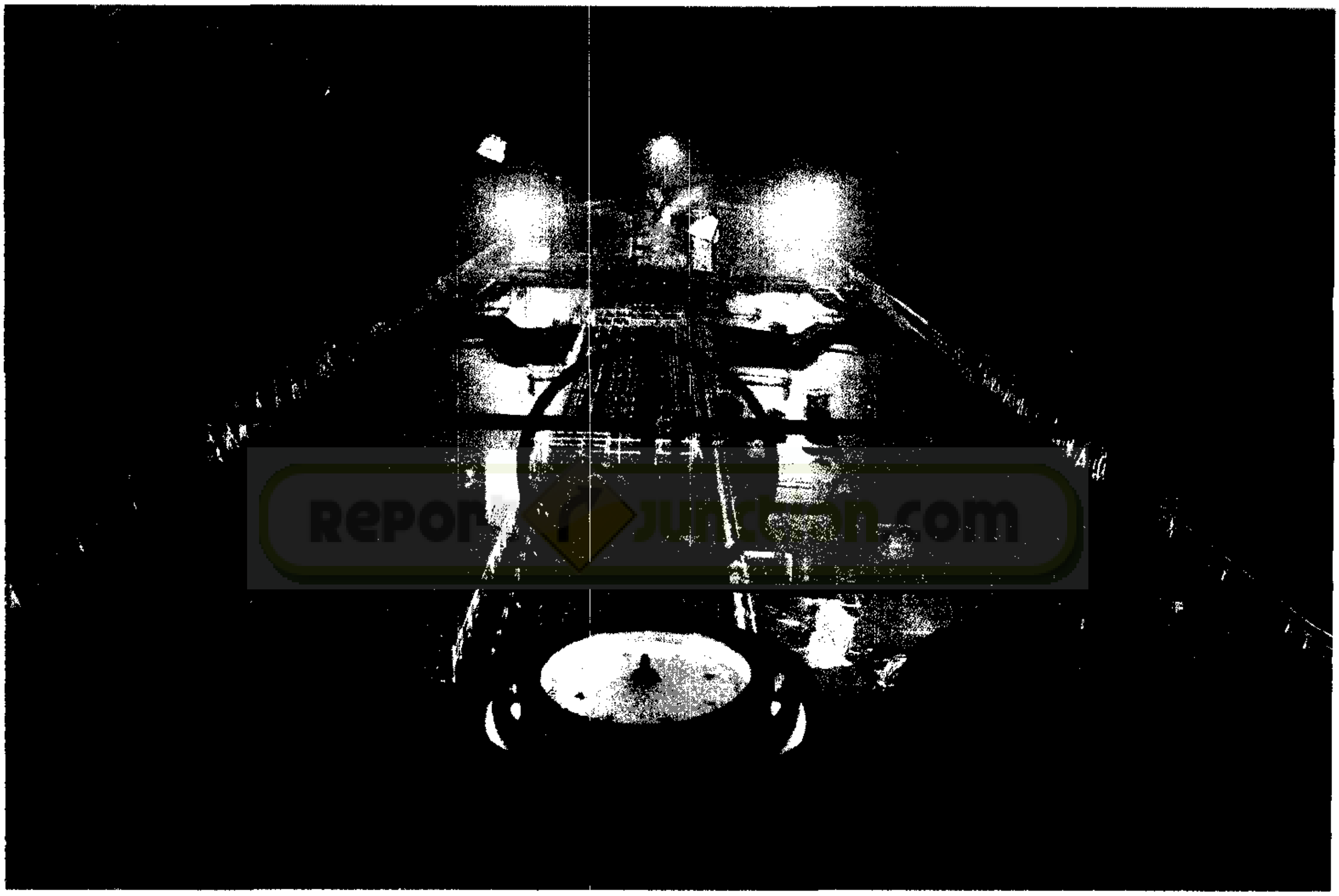
Essar Shipping Limited



Twenty-fourth
Annual Report
1999-2000

Board of Directors

Mr. Shashi Ruia
Chairman

Mr. Ravi Ruia
Vice Chairman

Mr. B. S. Kumar
Managing Director

Mr. N. N. Kampani

Mr. R. N. Bansal

Mr. O. P. Khaitan

Mr. S. K. Poddar

Mr. S. Doreswamy
ICICI Nominee

Mr. M. P. Modi
ICICI Nominee

Mr. Morten Arntzen
(from 21st June, 2000)

Company Secretary
Mr.V. Gopal Rao

Auditors
Deloitte Haskins & Sells, Chennai

Solicitors
Crawford Bayley & Co.,

Bankers
IndusInd Bank Ltd
State Bank of India

Registered Office
2494, 17th Main
HAL II Stage
Bangalore 560 008

Corporate Office
Essar House
11, Keshavrao Khadye Marg
Mahalaxmi, Mumbai 400 034
Website: www.essar.com

Registrars & Transfer Agents
Data Software Research Co. Ltd
"Sree Sovereign Complex"
22, 4th Cross Street,
Trustpuram, Kodambakkam
Chennai 600 024

Audit Sub Committee

Mr. N. N. Kampani
Mr. R. N. Bansal
Mr. S. Doreswamy
Mr. M. P. Modi

Management Team

Mr. Sanjay Mehta
Mr. Rajiv Agarwal
Mr. A. R. Ramakrishnan
Mr. A. K. Bishnoi
Mr. S. Govindrajan
Mr. S. K. Bhatia

NOTICE TO MEMBERS

Notice is hereby given that the Twenty-fourth 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 Monday, the 18th September, 2000, to transact the following business:

ORDINARY BUSINESS

1. To receive and adopt the audited Balance Sheet as at 31st March 2000, Profit and Loss Account for the year ended on that date and the Reports of the Board of Directors and Auditors thereon.

2. To appoint a Director in the place of Sri. R.N Ruia, who retires by rotation and being eligible, offers himself for re-appointment.

3. To appoint a Director in the place of Sri. N.N Kampani, who retires by rotation and being eligible, offers himself for re-appointment.

5. To re-appoint M/s. Deloitte Haskins & Sells, Chennai, Chartered Accountants who shall hold office from the conclusion of this Annual General Meeting until the conclusion of the next Annual General Meeting and to fix their remuneration.

SPECIAL BUSINESS:

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

   "RESOLVED THAT pursuant to Section 31 and other applicable provisions, if any, of the Companies Act, 1956, the Articles of Association of the Company be and are hereby altered as follows:

   That the existing sub clause (b) of Clause 95 of the Articles of Association be amended as follows:

   "(b) The seal of the company shall not be affixed to any instrument except by the authority of a resolution of the Board or of a Committee of the Board authorised by it in that behalf, and except in the presence of atleast one director or Secretary or such other person as the Board may appoint for the purpose; and the director or secretary or other person aforesaid shall sign on every instrument to which the seal of the company is so affixed in his presence, subject to the provisions of Article 14 hereof, in respect of share certificates.

   The Company may exercise the powers conferred by Section 50 with regard to having an official Seal for use abroad, and such powers shall be vested in the Board".

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

   "RESOLVED that in accordance with the provisions of Sections 79A, 81 and other applicable provisions, if any, of the Companies Act, 1956, (including any statutory modification(s) or reenactment thereof) and in accordance with the provisions of the Memorandum and Articles of Association of the Company and the regulations/ guidelines, prescribed by the Securities and Exchange Board of India or any other relevant authority, from time to time, to the extent applicable and subject to such other approvals, permissions and sanctions, as may be necessary and subject to such conditions and modifications as may be considered necessary by the Board of Directors of the Company (hereinafter referred to as the "Board" which expression shall also include a Committee thereof), or as may be prescribed or imposed while granting such approvals, permissions and sanctions, which may be agreed to or accepted by the Board in its sole discretion, the consent of the Company be and is hereby accorded to the Board to grant to such employees as are in the permanent employment of the Company at the time the grant is made including the Directors of the Company, as may be decided solely by the Board, an option to subscribe to such number of Ordinary Shares of the Company of the face value of Rs.10/- each, under the Employees' Stock Option Scheme and therefor to issue, allocate and allot such number of Ordinary Shares of the Company at such price, in such manner, during such period, in one or more tranches and on such other terms and conditions as the Board may decide prior to the issue and offer thereof, as set out in the Explanatory Statement hereto, not exceeding an aggregate five per cent of the Subscribed Ordinary Shares of the Company as on 31st March, 2000."

   "RESOLVED FURTHER that the Board be and is hereby authorised to issue, allocate and allot such number of Ordinary Shares as may be required in pursuance of the above issue, and that the Ordinary Shares so issued, allocated and allotted shall rank in all respects pari passu, with the existing Ordinary Shares of the Company save and except that such Ordinary Shares shall carry the right to receive either the full dividend or a pro-rata dividend from the date of allotment, as may be decided by the Board, declared for the financial year, in which the allotment of the Shares shall become effective."

   "RESOLVED FURTHER that for the purpose of giving effect to the above, the Board be and is hereby authorised to determine the form and terms of the Issue, the Issue price and all other terms and matters connected therewith, to do all such acts, deeds, matters and things as it may, in its absolute discretion, deem necessary or desirable for such purpose, and to make and accept any modifications in the proposal as may be required by the authorities involved in such issues and to settle any questions or difficulties that may arise in regard to the Issue."

SPECIAL BUSINESS:

ORDINARY RESOLUTION:

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

   (i) "RESOLVED that the appointment of Mr.Morten Arntzen as an Additional Director of the company with effect from 21st June, 2000, made by the Board of Directors of the company vide their resolution dated 21st June, 2000, be and is hereby approved."

   (ii) "RESOLVED further that Mr.Morten Arntzen, be and is hereby appointed as a Director of the Company."

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

   "RESOLVED that the existing Clause V of the Memorandum of Association of the Company be and is hereby altered by substituting in its place the following:

V. "The Authorised Share Capital of the Company is Rs.510,50,00,000/- (Rupees Five Hundred and Ten Crores Fifty Lakhs) divided into 40,00,00,000 (forty crores) Equity Shares of Rs.10/- each and 1,10,50,000 (one crore ten lakh fifty thousand) Preference Shares of Rs.100/- each, with power to the company to divide the shares in the Capital for the time being, into several classes and to increase or reduce the said share capital and to issue any part of its capital, original or increased, with or without any preferential, priority or special rights or privileges or subject to any postponement of right or to any conditions or restrictions as may be determined by or in accordance with the Companies Act, 1956 and the Articles of Association of the company and to vary, modify or abrogate any such rights, privileges or conditions in such manner as may for the time being be provided by the Articles of Association of the company, and so that, unless the conditions of issue shall otherwise expressly declare, every issue of shares whether declared to be preference or otherwise, shall be subject to the powers hereinabove contained."

"RESOLVED that Article 6 of the Articles of Association of the Company be amended as follows:

"6. **Allotment of shares:** Subject to the provisions of the Act and these presents, the shares in the Capital of the Company shall be under the control of the Board who may allot or otherwise dispose of the same at such times and to such persons and in such manner and upon such terms as they may think proper;

The Company shall have the power to increase or reduce the capital for the time being of the company and to divide the shares in the capital into several classes with rights, privileges or conditions as may be determined. The company may issue preference shares which shall, or at the option of the company shall be, liable to be redeemed".

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

"RESOLVED THAT pursuant to the provisions of Section 293(1)(a) and other applicable provisions, if any, of the Companies Act, 1956 and subject to the approval of the Financial Institutions/Banks and subject to such other consents, sanctions, permissions or approvals as may be necessary, the Company hereby accords its consent to the Board of Directors of the Company ("the Board") to transfer with effect from 1st April, 2000, the undertaking of the Company's Terminal Project to its wholly owned subsidiary, as a going concern, or any part thereof together with the use of all its infrastructure, licenses, permits, consents and approvals whatsoever and all the rights and benefits attached thereto and the related liabilities, situated at various locations on such terms and conditions including the consideration therefor whether in cash or in kind or partly in cash and partly by shares and/or in any other manner, to be fixed in accordance with valuation report to be obtained in that behalf, as the Board may deem fit in the best interest of the company."

"RESOLVED FURTHER that the Board (including any Committee of the Board) be and is hereby authorised to do and perform all such acts, deeds, matters and things, as it may in its absolute discretion deem necessary, desirable or appropriate, and execute all such deeds, agreements, documents, applications and writings as it may consider necessary, usual, requisite or proper for the purpose of giving effect to this Resolution as it may deem expedient in the best interest of the company and the shareholders."

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

"RESOLVED that the consent and authority of the Company be and is hereby granted to the Board of Directors (hereinafter referred to as "the Board" which term shall include Committee of Directors constituted by the Board) to participate in the project of transportation of Liquified Natural Gas for Petronet LNG Ltd (PLL) and for that purpose to form and join a Consortium or Joint Venture jointly and along with any reputed shipowners having experience and expertise of operating LNG tankers and other parties whether Indian or foreign as the Board may deem fit;

"RESOLVED FURTHER that the Board be and is hereby authorised to participate in a joint venture body corporate, to be formed in due course by the participants of the Consortium promoting and registering a new body corporate in India or abroad, for the purpose as stated above, and to fix and accept the terms and conditions of such joint venture including subscribing to the capital of the joint venture company to the extent as may be mutually agreed among the participants of the Consortium."

NOTES:

1. A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF ON A POLL ONLY. 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.

2. Members/proxies should bring the attendance slip duly filled in for attending the meeting.

3. The Register of Members and Share Transfer Books of the Company will remain closed from Friday, the 15th September, 2000 to Friday, the 22nd September, 2000, both days inclusive.

4. Pursuant to Section 205(A) of the Companies Act, 1956 the following informations are furnished:

   The unclaimed Dividend for Financial Years 1994-95, 1995-96, 1996-97 and 1997-98 are held in separate accounts for each year.

5. The Members are requested to immediately notify, in their own interest, the change in their address to the company's Registrar and Share Transfer Agents:

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

6. Members desiring any information on the accounts are requested to write to the Company at Essar House, No.11, Keshavrao Khadye Marg, Mahalaxmi, Mumbai 400 034 atleast seven days before the date of the Meeting to enable the company to keep the information ready.

(By order of the Board)

B.S. Kumar
Managing Director

Mumbai
21st June, 2000

Explanatory Statement pursuant to Section 173(2) of the Companies Act 1956 in respect of Item Nos. 6 to 11 of the accompanying Notice is as under:

Item No. 6

Presently the Company's Articles provide for affixation of Common Seal in the presence of atleast two directors and the Secretary of the company. The business nature of your company is such that the Common Seal need to be affixed on documents which is outside the jurisdiction of your Registered or Corporate Office and presence of Directors are not easily feasible. It is therefore proposed that the Board of Directors may be empowered to decide the person(s) for execution of documents requiring affixation of common seal, depending upon the nature and place of transaction.

Your Directors recommend this resolution for your approval.

None of the Directors are interested in the above resolution.

Item No.7

The Securities and Exchange Board of India (SEBI) has issued guidelines for issue of shares to the employees of the company under "The Employee Stock Option Scheme and Employee Stock Purchase Scheme."

Under these Schemes, the Employees will be given an option to acquire a certain number of Ordinary Shares at the exercise price to be determined. On exercise of the option, the Employees will pay the exercise price per share and the shares will be allotted to them.

All permanent employees of the company including the Directors, as may be decided by the Compensation Committee, constituted by the Board, are eligible to apply for such shares under this Scheme.

In the context of today's competitive environment, Stock Option Scheme are designed to foster a sense of ownership and belonging amongst the personnel and are globally accepted as a means of rewarding deserving employees of the company. Such a Scheme will help the company meet the ever increasing challenges of the business environment and be in the long term interest of the company as it will encourage and motivate employees to perform better and increase shareholder value.

For the above purpose a Compensation Committee has been formed for administration of the Scheme. This Committee, comprising of a majority of independent directors, is also empowered to decide the quantum of issue, exercise period, condition of lapse, pricing of shares, etc. The necessary permission shall be obtained Under Section 81(1A) of the Companies Act, 1956, from the General Body.

The salient features of the Scheme are given under:

Maximum quantum of issue: The Compensation Committee will determine the quantum of option of shares per employee and in aggregate, based on criteria such as talent, performance etc. Under the Companies Act, the issue shall not exceed 5% of the paid-up capital of the company in any one year.

Pricing: The exercise price for the purpose of grant will be computed on the basis of the average of the weekly high and low prices on the Stock Exchanges where the shares of the company are listed, during 13 weeks prior to the date of the grant, or the closing price on the date of the grant whichever is lower.

Discount on Issue price: As per the Companies Act, the issue of shares at a discount requires the approval of the members and the Central Government.

The company's shares are quoted in the market below par. It is proposed to issue the shares at par. However, if the shares of the company are quoted above par, the Compensation Committee will exercise the price option based on pricing formula mentioned above.

Lock in period: Shares issued under this scheme shall be locked in for a minimum period of one year from the date of allotment.

Accounting method: The Company shall confirm to the accounting policies specified by SEBI (Employees' Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999, as may be applicable.

Section 81 of the Act provides, inter alia, that whenever it is proposed to increase the Subscribed Capital of a Company by a further allotment of shares, such shares shall be offered to the existing shareholders of the Company in the manner laid down in the said Section unless the shareholders in general meeting decide otherwise. To enable the Company to introduce Stock Option Scheme, the consent of the Shareholders is required for issue of the shares in the manner set out in the Resolution.

Your Directors recommend the Resolution for approval.

The Directors of the Company may be deemed to be concerned or interested in the Resolution above to the extent of the Stock Options that may be granted to them.

Item No. 8

Mr.Morten Arntzen, currently the Chief Executive Officer of American Marine Advisors, Inc., (AMA), New York, USA has been in the shipping industry since 1979. Mr.Arntzen brings his vast experience in the international shipping industry, which will be of immense value to the company. Prior to joining AMA in 1997, Mr.Arntzen managed the Global Transportation Group of the Chase Manhattan Bank.

Mr.Arntzen was appointed by the Board of Directors, as an Additional Director of the company with effect from 21st June, 2000. Under Section 257 of the Companies Act, Mr.Arntzen shall vacate the office in the Annual General Meeting and seek re-appointment.

It is recommended that the appointment of Mr.Arntzen as an Additional Director with effect from 21st June, 2000 may be ratified by the members. Further, Mr.Arntzen is seeking re-appointment as a Director eligible to retire by rotation, under the Articles of Association of the Company. Your Directors recommend Mr.Arntzen's re-appointment.

Except Mr.Arntzen, none of the Directors are deemed to be interested in the General Body approving the above resolution.

Item No. 9

The existing capital clause of the company envisages the Share Capital as Rs.510,50,00,000 divided into 50,00,00,000 Equity Shares of Rs.10/- each, 50,000 11% Redeemable Cumulative Preference Shares of Rs.100/- each and 10,00,000 14% Redeemable Cumulative Preference Shares of Rs.100/- each.

However Clause 6 of the Articles of Association empowers the Board of Directors to allot and dispose of the shares at such times, persons and in such manner as they may think proper. For division of the share capital, approval of members in General Body is required. After this division, the Authorised Share Capital shall be Rs.510,50,00,000/- (Rupees Five Hundred and Ten Crores Fifty Lakhs) divided into 40,00,00,000 (forty crores) Equity Shares of Rs.10/- each and 1,10,50,000 (one crore ten lakh fifty thousand) Preference Shares of Rs.100/- each.

The division has been done to facilitate private placement of preference shares with Financial Institutions/Banks, Corporate Bodies, FIIs, OCBs, NRIs and others, when the need thereof arises.

Your Directors recommend that the above resolution may be passed.

None of the Directors are deemed to be interested in the General Body approving the above resolution.

A copy of the Memorandum and Articles of Association of the company will be open for inspection at the Registered Office of the Company.

Item No.10

Your company is setting up an all weather, natural deep draft port and oil terminal port at Vadinar, Jamnagar.

The project has been financed by various Financial Institutions, with ICICI Ltd., being the lead institution. The total cost of the project which was originally estimated at Rs.1435 Crores, has been re-appraised by ICICI Ltd., and the revised estimation of the project cost is Rs. 1874 Crores.

Any attempts for financing expansion and other business activities of the company, are weighed down by this risk attached to the Company. By transfer of the port project to a subsidiary, the financials of the shipping business would improve substantially. It would therefore, be beneficial for the Company to segregate the shipping business from the port project to enhance the business advantages of both the shipping and port businesses.

The Board of Directors at their meeting held on 21st June, 2000, decided to segregate the port project and the shipping business by transferring the port project to its wholly owned subsidiary, Essar Tankers Limited, (to be renamed Vadinar Oil Terminal Limited) with effect from 1st April, 2000.

Your Directors recommend that the above resolution may be approved.

None of the Directors are deemed to be interested in the General Body approving the above resolution.

Item No.11

Petronet LNG Ltd., (PLL) has been set up by four national petroleum sector companies Bharat Petroleum Limited (BPCL), Gas Authority of India Limited (GAIL), Indian Oil Corporation Limited (IOC) and Oil & Natural Gas Corporation Limited (ONGC) for importation, regasification and utilisation of LNG in the country.

PLL is responsible for providing shipment of LNG contracted from RasGas in Qatar to PLL's regasification terminals proposed at Dahej and Kochi. Import of LNG in the country is likely to grow and it is PLL's desire to provide opportunities to the Indian Shipping Industry to participate in such development.

To this effect PLL has floated a global tender for the purpose of time chartering of 3 + 1 (optional) LNG Tankers for its LNG transportation requirements as mentioned above.

Since PLL has specified that the bids shall be made only by a Consortium of shipowners, whether Indian or foreign, operating LNG Tankers, your company has decided to form and join a consortium for the purpose of participating in the tender. Your company will have voting share capital in the joint venture body corporate proposed to be formed.

As the participation by your company in the project will be of advantage to the company, your Directors recommend the resolution for approval of the members.

None of the Directors are deemed to be interested in the General Body approving the above resolution.

By order of the Board

B. S. Kumar
Managing Director

Registered Office

2494, 17th Main
HAL II Stage
BANGALORE 560 008

DIRECTORS REPORT

To the Members of Essar Shipping Limited

1. Your Directors have pleasure in presenting the Twenty-fourth Annual Report of your Company together with audited accounts for the year ended 31st March 2000.

2. **FINANCIAL RESULTS:**

The summary of financial results of the company for the year ended 31st March, 2000 are furnished below:

(Rs. Crores)

	For the Year ended 31-03-2000	For the Year ended 31-03-99
Gross Profit	254.26	249.96
Less: Interest & Finance charges & lease & bare boat rentals of fleet	130.80	131.34
Less: Provision for Depreciation	69.53	65.69
Profit before tax	53.93	52.93
Less: Provision for taxation	5.49	4.90
Profit after tax	48.44	48.03
Add: Balance brought forward from previous year	202.53	135.11
Add: Transfer from Reserves of amounts no longer required	–	33.75
Total funds available for appropriation	250.97	216.89
Less: Transfer to Capital/ Debenture Redemption Reserve	14.32	14.36
Transfer to reserve under section 33AC of the income tax act 1961	40.00	–
Transfer to general reserve	100.00	–
Total appropriations	154.32	11.36
Balance carried forward	96.65	202.53

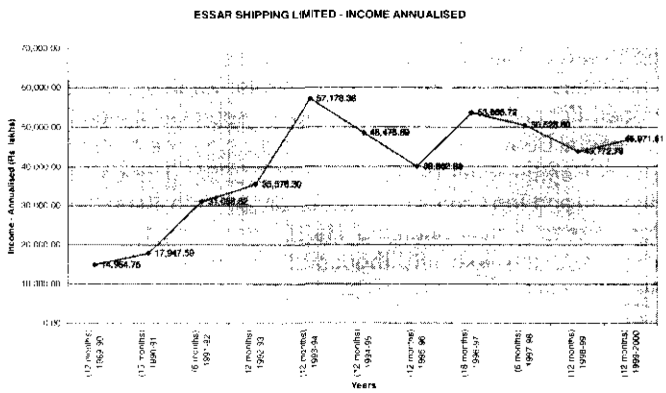
3. DIVIDEND:

With the continued requirement for investment in the port project, there is a demand on the company's cashflows. Due to this, it has been proposed that dividend may not be paid for the year ended 31st March 2000.

4. BUSINESS REVIEW:

The year under review has been one of the worst in the shipping industry. Both the tanker market and the dry-bulk carrier market, which were at low levels at the beginning continued to slide during the year and recovered slightly towards the end of the period. Even in this depressed market, your Company has registered a net profit of Rs.48.44 crores for the year under review, which is marginally higher than that reported in the previous year.

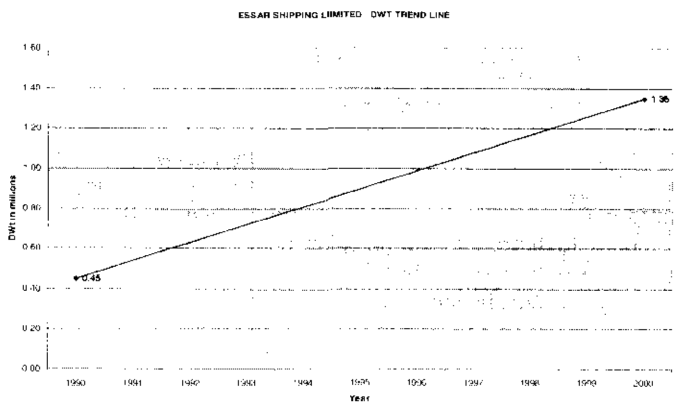
The depressed market conditions in the last year did affect the Company's earnings, mainly on account of lower yields, on voyage chartered vessels. However, the Company has registered a 7% increase in its total income, at Rs. 469.72 crores for the year, as against the total income of Rs. 439.99 crores, registered in the previous year. The company continues its policy of maintaining its vessels on an optimum mix of time and voyage charters to maximise revenue and to protect against the cyclical fluctuation in the shipping industry.



The company's fleet is maintained with strict quality, safety and operational standards. The safety record of the company's vessels is exemplary.

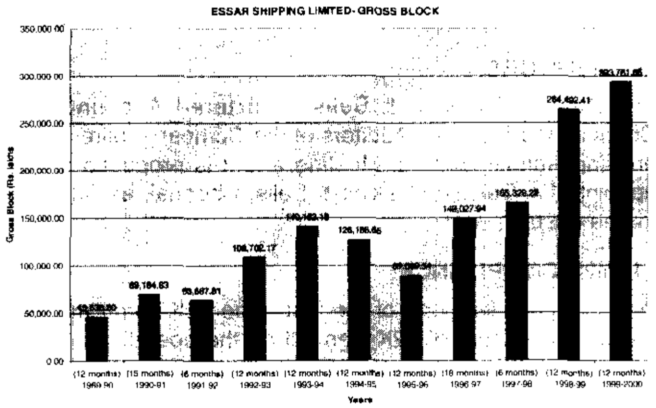
Your company's performance is measured by the highest standards, whether for safety and protection of environment or the ability to compete in the international market. In recognition of its maritime safety standards, the company's vessels have received the AMVER award instituted by the US Coast Guard. Its professional management and skilled manpower ensures high productivity levels.

The Company has maintained its performance as a major foreign exchange earner amounting to Rs.179.20 crores, which is 44% of its income from operations and chartering.

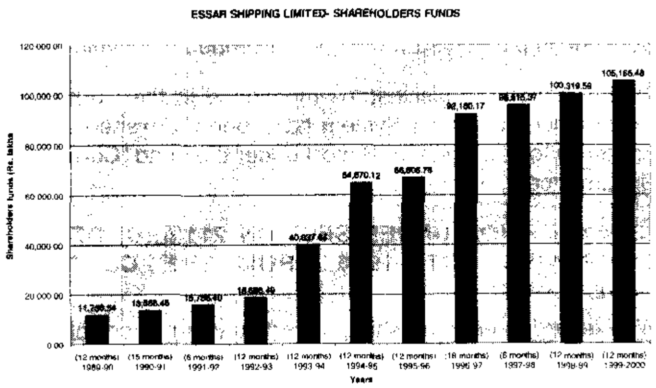


During the year the company availed a foreign currency loan from GE Capital Corporation, USA and Boeing Capital Corporation, USA of US $ 116 Million. The maturity of this loan is 12 years with attractive terms. This is one of the largest ever foreign currency loans drawn by an Indian shipping company and with one of the longest maturity period. With this deal, the company has elongated the maturity of its borrowings thus improving its cashflows significantly.

The company acquired two Suezmax Tankers, which were earlier under Bareboat Charter cum Demise arrangement, during the year. The purchase consideration was met out of proceeds of the loan availed from GE Capital Corporation USA and Boeing Capital Corporation, USA.



The company's main objective is to achieve long term value for its shareholders through further consolidation of its earnings from time and voyage charters, and by increasing the value of assets both through well managed operations and the timely sale and purchase of vessels.



5. GOVERNMENT POLICY / GENERAL OUTLOOK:

The budget for 2000-2001 was formulated in the backdrop of serious fiscal slippage and a deceleration in economic growth. Its objective was to calibrate the pace and character of integration with the world economy, restore the momentum of industrial growth, reserve the decline in agriculture production, raise investment, particularly in infrastructure and ensure macroeconomic stability. The central Government finances during the current year continue to be under stress. Inspite of a turbulent international environment India's balance of payments has remained moderately comfortable.

With the continuing decline of the portion of India's international trade cargo being carried by Indian vessels, from around 40% in the eighties to its present level of around 30%, it has become paramount for the Government to provide incentives for the Indian Shipping Industry.

While it is happy to note that recognition to the shipping sector has been given importance by the Government, the benefits, that are available to the other export oriented activities, are yet to be given fully to this sector.

To supplement the additions to the tonnage of the country's registered fleet, it is essential for additional benefits to be given to ship owners in taxation laws and guidelines for borrowings. Apart from this, shipping companies have a problem with regard to the flight of skilled manpower to foreign carriers due to tax relaxation available upon employment in foreign carriers.

The shipping industry being a major foreign exchange earner for the country, the Government should favourably consider representations made by the industry to enable it to cope with the expected increase in the country's international trade.

6. INDUSTRY REVIEW AND PROSPECTS:

Last year, the world over, political uncertainties and economic problems beset the markets, resulting in a drop in international trade. Consequently with the decline in international trade, the demand for shipping saw a sharp southward movement.

The global sea-borne trade growth had shown a consistent 4% growth for a period of 3 years ending December 31st, 1997. However, 1998 registered a small growth of 0.7% and 1999 in fact declined to 0.2%.

The industry as a whole witnessed a restrained approach to buying new tonnage due to the credit squeeze from Banks and high prices.

The monsoons were again good in India and therefore the offtake of fertilizers continued to be good during the year under review. The drastic cut in the Steel production linked with reduction in demand resulted in the decrease of the cargo availability in the bulk cargo market.

Charter rates and ship values in the dry cargo market reached 10-year lows before recovering in the last few months of the year.

In the second half of the calendar year 1999, freight rates for Tankers fell to 10-year low levels, resulting in a huge drop in operating margins. Average spot earnings, which were in the range of US $ 17,000/- per day for Suezmax Tankers, moved downwards to US $ 12,000 per day.

However, in the later part of the year, rates have on an upward trend due to the renegotiations of the Iraqi "Oil for Food" programme and the ERIKA incident which led to a strengthening in the rates for modern tonnage. The company's Suezmax tankers benefited with this upward trend in the rates for modern Suezmax tankers.

Expectations are that the world wide economic growth would be around 3.5% in the next three years fuelled by the projected growth of around 6% in Asia. This overall positive trends the forecasts for a 3% growth rate in the global sea-borne trade for the next two years.

With the withdrawal of OPEC production cuts, it is expected that the tanker markets would remain buoyant in the next 2 years. Apart from this, with the projected demand for dry cargo movement, rate forecasts augur well for larger size tonnage in the dry bulk sector.

7. PORT PROJECT:

With the setbacks suffered by the cyclone in 1998 and the delay in financial closure for the Company's port project, the project has been delayed. The project is now slated for completion in the third quarter of 2001.

The project has also been reappraised by ICICI Ltd., the lead institution, and due to some increase in the scope of the project and the time overrun, the project is now expected to cost Rs.1874 crores.

Today, all risks relating to the project are associated with the Company as a whole resulting in a higher risk perception for the Company. Any attempts for financing expansion and other business activities of the company, are weighed down by this risk attached to the Company. By transfer of the port project to a subsidiary, the financials of the shipping business improve substantially and reduce the risk perception of the shipping business. It would, therefore, be beneficial to the Company to segregate the shipping business from the port project to enhance the business advantages of both the shipping and port businesses.

The two sets of assets, i.e. shipping assets and the port project assets, would be segregated into two separate companies. The debt risk of each of these operations, i.e. shipping and port project, will get segregated and limited to each company's operations only.

Accordingly, the company has now decided to transfer the port project to a wholly owned subsidiary company, viz. Essar Tankers Limited (to be renamed Vadinar Oil Terminal Limited). Necessary steps in this regard are being expeditiously taken.

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.

The Accounts of these companies are annexed to the accounts of the company.

Essar International Limited had two subsidiaries, viz., Redwing Navigation Limited and Greywood Maritime Inc. The accounts of these companies are annexed to the accounts of Essar International Ltd. These companies have since been dissolved and hence cease to exist as companies.

9. DIRECTORS

In accordance with the provisions of the Companies Act 1956 and the Articles of Association of the company Mr. R.N.Ruia and Mr. N.N.Kampani retire at the ensuing Annual General Meeting of the company and being eligible, offer themselves for reappointment.

Mr. Morten Arntzen was appointed as an Additional Director with effect from 21st June 2000. As per the Companies Act, Mr. Arntzen will vacate his office in the ensuing Annual General Meeting and will seek reappointment. The required Notice under the Companies Act, 1956, was received in this regard.

10. AUDITORS:

M/s Deloitte Haskins & Sells, Chartered Accountants, Chennai, the Statutory Auditors of the Company retire at the ensuing Annual General Meeting and it is proposed to re-appoint M/s. Deloitte Haskins & Sells, Chennai, as Auditors for the ensuing year.

11. Y2K COMPLIANCE:

Your company was one of the first to be Y2K compliant. No impact on account of Y2K was felt on the operations of the company either ashore or afloat, as an outcome of the adequate steps taken in advance by the Company.

12. CORPORATE GOVERNANCE:

The company is complying with the requirements of various statutes under the new Corporate Governance reporting system incorporated under Clause 49 to the Listing Agreement. Most of the requirements of the reporting system are already incorporated in the Company's management style and practice. However, the full scope of the reporting system would be implemented within the prescribed time limit.

All the mandatory disclosures mentioned in the Corporate Governance Reporting System have been furnished in the Annexure to the Directors Report under the head "Corporate Governance".

13. EXEMPTION UNDER SECTION 211(4)(D) OF THE COMPANIES ACT, 1956 FROM THE CENTRAL GOVERNMENT:

With regard to non furnishing of certain information referred to in para (f) of the audit report, an application for exemption from furnishing the information has been applied to the Central Government and it is expected that such exemption would be granted as was done until last year. However, in the unlikely event of such exemption not being granted, the required particulars will be furnished along with those of the next year.

The required information is only in amplification of the figures already included in the accounts and non furnishing of the required additional information has no impact on the profits for the year.

14. EMPLOYEE STOCK OPTION SCHEME AND EMPLOYEE STOCK PURCHASE SCHEME:

In a highly competitive environment, Stock Option Schemes are being designed to encourage deserving employees to contribute towards meeting the challenges of a highly competitive business environment. The Scheme will reward, encourage and motivate employees to perform better and thereby also increase shareholder value. Through this Scheme select employees will be rewarded for their performance and best talent will be attracted and retained.

A Compensation Committee of the Board of Directors has been constituted for administration of the Scheme. This Committee is empowered to decide the quantum of issue, exercise period, condition of lapse, pricing of shares, etc. The necessary permission Under Section 81(1A) of the Companies Act, 1956, is proposed under Item No.7 of the accompanying Notice of AGM.

More details of the Scheme are furnished in the Explanatory statement to Item No.7 of the accompanying notice.

15. 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.

16. 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.

17. COMMENTS ON AUDITORS REPORT

With regard to certain matters referred to by the Auditors in their Report, the respective notes to the accounts are self explanatory.

18. ACKNOWLEDGEMENTS

Your Directors thank the Ministry of Surface Transport, Transchart, Ministry of Finance, Reserve Bank of India, the Directorate of General Shipping, the Mercantile Marine Department, the Port Trusts, Oil Coordination Committee, Oil and Natural Gas Corporation, Indian Oil Corporation Limited, Hindustan Petroleum Corporation Limited, Bharat Petroleum Corporation Limited, Sun Oil, Navion Shipping AS, Stat Oil, Chevron, Mobil, BP Amoco, Coastal Tankers, Texaco, GE Capital Corporation, Boeing Capital Corporation, ICICI, IDBI, IFCI, State Bank of India, GIC, LIC, UTI and all its other bankers, charterers and other business associates for their continued support and co-operation.

For and on behalf of the Board

B.S.Kumar
Managing Director

Mumbai,
21st June 2000