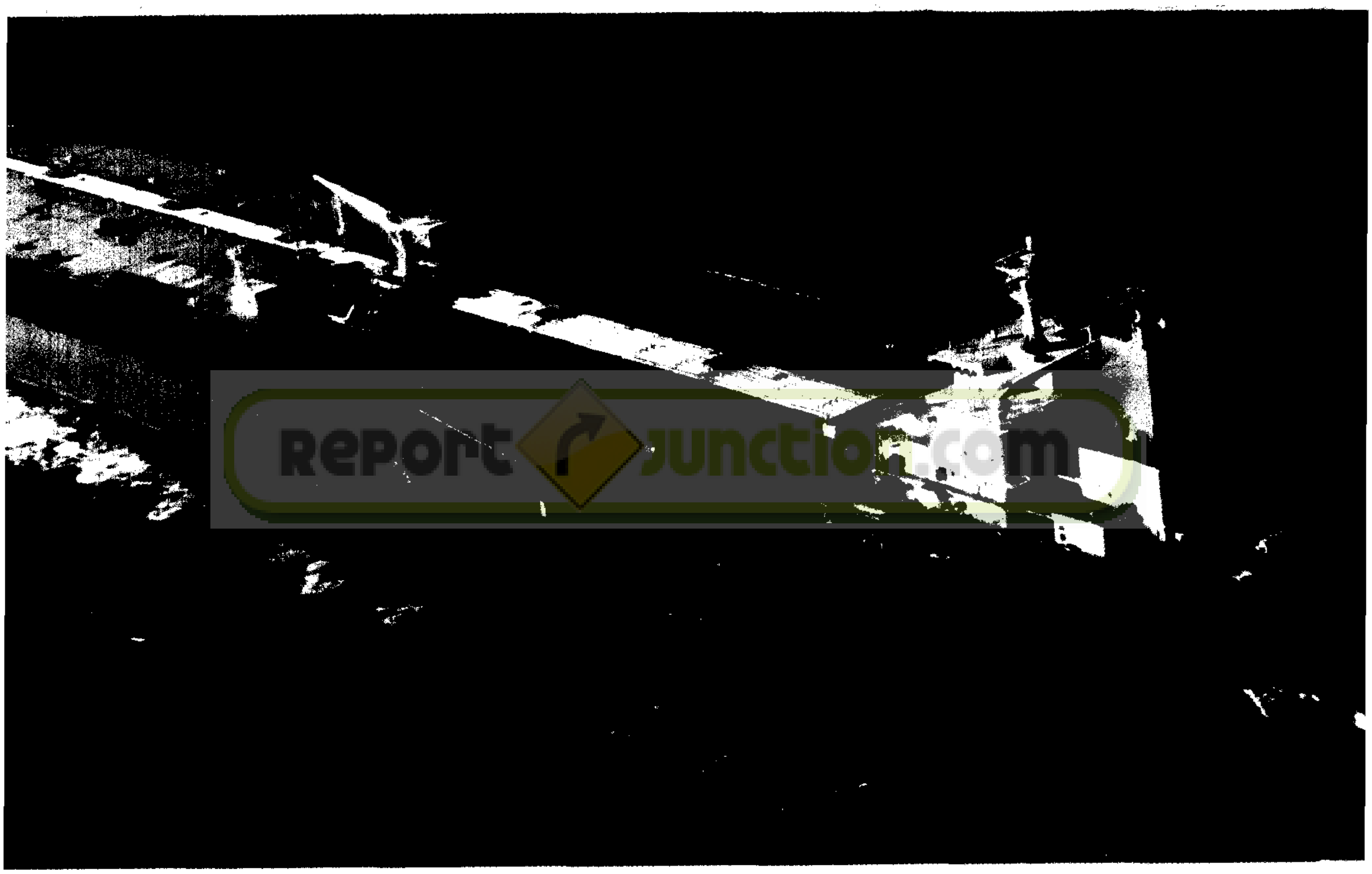
ESSAR



Essar Shipping Limited

Twenty-fifth
Annual Report
2000-2001

Board of Directors

Shashi Ruia
Chairman

Ravi Ruia
Vice Chairman

Sanjay Mehta
Managing Director
(from 18.09.2000)

Rajiv Agarwal
Executive Director
(from 18.09.2000)

R. N. Bansal

N. N. Kampani
(Upto 12.02.2001)

O. P. Khaitan

S. K. Poddar

S. Doreswamy
ICICI Nominee

M. P. Modi
ICICI Nominee

Morten Arntzen

Audit Sub Committee

R. N. Bansal
S. Doreswamy
M. P. Modi
N. N. Kampani (upto 12-02-2001)

Compensation Committee
Shashi Ruia
Ravi Ruia
S. Doreswamy

Share Transfer & Shareholders Grievance Committee
Shashi Ruia
Ravi Ruia
V. Gopal Rao

Management Team

Sanjay Mehta
(Managing Director)

Rajiv Agarwal
(Executive Director)

A. R. Ramakrishnan
(Chief Operating Officer)

S. Govindrajan
Vice President (Sale & Purchase)

Capt. S. K. Bhatia
Vice President (Marketing)

Capt. A. H. Handa
President, (Integrated Coastal Transporation Division)

Company Secretary
V. Gopal Rao

Auditors
Deloitte Haskins & Sells, Chennai

Solicitors
Crawford Bayley & Co.
Little & 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
http://www.essar.com
e-mail:sraman@essar.com

Registrars & Transfer Agents
Data Software Research Company Ltd
"Sree Sovereign Complex"
22, 4th Cross Street
Trustpuram, Kodambakkam, Chennai 600 024
e-mail: dsrcmd@vsnl.com

Notice to Members

Notice is hereby given that the Twenty-fifth Annual General Meeting of Essar Shipping Limited will be held at Dayanandasagar Memorial Hall, Chandrasagar Complex No.264/266, T. Mariappa Road, 2nd Block (Near Ashoka Pillar), Jayanagar, Bangalore 560 011 at 10.30 AM on Thursday, the 20th September, 2001, to transact the following business:

ORDINARY BUSINESS

1. To receive and adopt the audited Balance Sheet as at 31st March 2001, 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 Mr.Morten Arntzen, who retires by rotation and being eligible, offers himself for re-appointment.

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

4. To re-appoint Auditors to 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:

5. To appoint Mr.Sanjay Mehta as a Director and then as Managing Director and for that purpose 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.Sanjay Mehta as an Additional Director of the Company with effect from 18th September, 2000, made by the Board of Directors of the Company vide their resolution dated 18th September, 2000, be and is hereby approved."

   (ii) "RESOLVED FURTHER that Mr.Sanjay Mehta, be and is hereby appointed as a Director of the Company liable for retirement by rotation."

   (iii) "RESOLVED FURTHER that the appointment by the Board of Directors, of Mr.Sanjay Mehta, as Managing Director of the Company subject to the provisions of Sections 198, 269 and 309 and Schedule XIII and other applicable provisions, if any, of the Companies Act, 1956, for a period of five years with effect from 18th September, 2000 and the remuneration fixed by the Board of Directors as mentioned below be and is hereby approved."

   Salary in the range of Rs. 35,000/- to Rs.1,00,000/- per month, as may be determined by the Board of Directors or such other authority as may be delegated by the Board of Directors from time to time.

   In addition to salary, the Managing Director shall be entitled to perquisites and allowances like accommodation (furnished or otherwise) or House Rent Allowance in lieu thereof; House Maintenance Allowance together with reimbursement of expenses/ allowances for utilisation of gas, electricity, water, furnishing and repairs; medical reimbursement; education allowance; leave travel concession for self and his family including dependents; club fees, premium for medical insurance, commission and all other payments in the nature of perquisites and allowances as agreed by the Board of Directors or such other authority as may be delegated by the Board of Directors from time to time up to the limit of Rs.5,00,000/- per month. As per the rules of the Company, the Managing Director is eligible for Provident Fund, Gratuity and Superannuation, which payments shall not be included for the purpose of calculation of the Managerial Remuneration.

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

   The terms and conditions set out for appointment and payment of remuneration herein, may be altered and varied from time to time by the Board of Directors of the Company as it may, at its discretion deem fit so as not to exceed the limits specified under the Companies Act, 1956 (including any statutory modification or re-enactment thereof, for the time being in force) or any amendments made thereto.

   The Board is entitled to revise the salary, perquisites and allowances and commission payable to the Managing Director of the Company at any time, such that the overall remuneration payable to the Managing Director of the Company shall however be subject to the limits laid down under the Companies Act, 1956.

   The Agreement may be terminated by either party (Company or the Managing Director) by giving the other three months prior notice of termination in writing.

   "RESOLVED FURTHER to do all necessary steps including filing of necessary applications to the Government and other authorities to give effect to the above resolution."

6. To appoint Mr.Rajiv Agarwal as a Director and then as Executive Director and for that purpose 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.Rajiv Agarwal as an Additional Director of the Company with effect from 18th September, 2000, made by the Board of Directors of the Company vide their resolution dated 18th September, 2000, be and is hereby approved."

   (ii) "RESOLVED FURTHER that Mr.Rajiv Agarwal, be and is hereby appointed as a Director of the Company liable for retirement by rotation."

(iii) "RESOLVED FURTHER that the appointment by the Board of Directors, of Mr.Rajiv Agarwal, as Executive Director of the Company subject to the provisions of Sections 198, 269 and 309 and Schedule XIII and other applicable provisions, if any, of the Companies Act, 1956, for a period of five years with effect from 18th September, 2000 and the remuneration fixed by the Board of Directors as mentioned below be and is hereby approved."

Salary in the range of Rs. 35,000/- to Rs.1,00,000/- per month, as may be determined by the Board of Directors or such other authority as may be delegated by the Board of Directors from time to time.

In addition to salary, the Executive Director shall be entitled to perquisites and allowances like accommodation (furnished or otherwise) or House Rent Allowance in lieu thereof; House Maintenance Allowance together with reimbursement of expenses/ allowances for utilisation of gas, electricity, water, furnishing and repairs; medical reimbursement; education allowance; leave travel concession for self and his family including dependents; club fees, premium for medical insurance, commission and all other payments in the nature of perquisites and allowances as agreed by the Board of Directors or such other authority as may be delegated by the Board of Directors from time to time up to the limit of Rs.5,00,000/- per month. As per the rules of the Company, the Executive Director is eligible for Provident Fund, Gratuity and Superannuation, which payments shall not be included for the purpose of calculation of the Managerial Remuneration.

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

The terms and conditions set out for appointment and payment of remuneration herein, may be altered and varied from time to time by the Board of Directors of the Company as it may, at its discretion deem fit so as not to exceed the limits specified under the Companies Act, 1956 (including any statutory modification or re-enactment thereof, for the time being in force) or any amendments made thereto.

The Board is entitled to revise the salary, perquisites and allowances and commission payable to the Executive Director of the Company at any time, such that the overall remuneration payable to the Executive Director of the Company shall however be subject to the limits laid down under the Companies Act, 1956.

The Agreement may be terminated by either party (Company or the Executive Director) by giving the other three months prior notice of termination in writing.

"RESOLVED FURTHER to do all necessary steps including filing of necessary applications to the Government and other authorities to give effect to the above resolution."

NOTES:

1. A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF 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 14th September, 2001 to Thursday, the 20th September, 2001(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 Transfer Agents:

   M/s.Data Software Research Company Limited
   "Sree Sovereign Complex",
   22, 4th Cross Street,
   Trustpuram, Kodambakkam,
   CHENNAI 600 024
   Tel : 91-44-4834441
   Fax : 91-44-4834636
6. Members desirous of getting any information regarding the accounts are requested to write to the Company at Essar House, No.11, Keshavrao Khadye Marg, Mahalaxmi, Mumbai 400 034 atleast 7 days before the date of the Meeting to enable the Company to keep the information ready.

(By order of the Board)

Mumbai
26th July, 2001

V. Gopal Rao
Company Secretary

Explanatory Statement pursuant to Section 173(2) of the Companies Act 1956 in respect of Item Nos.5 and 6 of the acCompanying Notice are as under:

Item No. 5:

Mr.Sanjay Mehta has been in the Shipping Finance industry for the last ten years. Prior to joining Essar Shipping Limited, Mr. Mehta was heading the South East Asia Investment banking desk at American Marine Advisors Inc., New York. During his tenure as a banker he was responsible for Project Finance and Merger & Acquisition advisory activities for the maritime and offshore industry in South East Asia and Asia Pacific countries.

Mr. Mehta has a Master's Degree from City University Business School and London Business School. He has graduated with Honors from London School of Economics. Mr. Mehta took over as the Chief Executive Officer of your Company before taking over as Managing Director on the Board. Mr. Mehta's qualifications and various experience would be most beneficial to the Company.

The Board of Directors at their meeting held on 18th September 2000, have appointed Mr.Sanjay Mehta as an Additional Director. In the same meeting he was appointed as the Managing Director for a period of five years with effect from 18th September, 2000 under Schedule XIII to the Companies Act and fixed his remuneration. In view of his appointment as Additional Director, Mr. Mehta vacates his office as Director at the ensuing Annual General Meeting. Requisite notice under Section 257 has been received by the Company from a member proposing his appointment as a Director. Mr.Sanjay Mehta is to be appointed as a Director liable to retire by rotation. Approval of members is also hereby sought for his appointment as Managing Director for a period of five years with effect from 18th September, 2000 and the remuneration fixed by the Board in terms of Schedule XIII to the Companies Act, 1956.

None of the Directors, except Mr.Sanjay Mehta, is interested or concerned in this resolution.

The resolution is recommended for the approval of the shareholders.

Item No.6:

Mr. Rajiv Agarwal, aged 37 years is an A.C.A., I.C.W.A., A.C.S., and has over 17 years of experience in various industries and has successfully led businesses as CEO since 1992, mainly in telecom services and shipping transportation & ports. Mr.Agarwal was the Chief Executive Officer of Modi Champion during 1992-94 and Joint Managing Director of Modi Korea Telecom during 1994-97. He joined the Essar Group in 1997 as Chief Operating Officer in Essar Telecom. Mr.Agarwal joined as Chief Financial Officer of Essar Shipping Limited before taking over as Executive Director on the Board of your Company. Mr. Agarwal's qualifications and various experience would be most beneficial to the Company.

The Board of Directors at their meeting held on 18th September 2000, have appointed Mr.Rajiv Agarwal as an Additional Director. In the same meeting he was appointed as the Executive Director for a period of five years with effect from 18th September, 2000 under Schedule XIII to the Companies Act and fixed his remuneration. In view of his appointment as Additional Director Mr.Agarwal vacates his office as Director at the ensuing Annual General Meeting. Requisite notice under Section 257 has been received by the Company from a member proposing his appointment as a Director. Mr.Rajiv Agarwal is to be appointed as a Director liabile to retire by rotation. Approval of members is also hereby sought for his appointment as Executive Director for a period of five years with effect from 18th September, 2000 and the remuneration fixed by the Board in terms of Schedule XIII to the Companies Act, 1956.

None of the Directors, except Mr.Rajiv Agarwal, is interested or concerned in this resolution.

The resolution is recommended for the approval of the shareholders.

By Order of the Board

Mumbai
26th July, 2001

V. Gopal Rao
Company Secretary

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-fifth Annual Report of your Company together with audited accounts for the year ended 31st March 2001.

2. Financial Results

The summary of financial results of the Company for the year ended 31st March, 2001 are furnished below:

(Rs. Crores)

	Year ended 31-03-2001	Year ended 31-03-2000
Gross Profit	278.65	254.26
Less: Interest & Finance charges & lease & bareboat rentals of fleet	100.04	130.80
Less: Provision for Depreciation	69.38	69.53
Profit before tax	109.23	53.93
Less: Provision for taxation	8.96	5.49
Profit after tax	100.27	48.44
Add: Balance brought forward from previous year	96.65	202.53
Total funds available for appropriation	196.92	250.97
Less: Transfer to Capital/Debenture Redemption Reserve	10.00	14.32
Transfer to reserve under section 33AC of the Income Tax Act 1961	80.00	40.00
Transfer to General Reserve	20.00	100.00
Total appropriations	110.00	154.32
Balance carried forward	86.92	96.65

3. Dividend

Your Company has performed well for the year ended 31st March, 2001. However, due to the investment requirements for the completion of the terminal project at Vadinar, the Management has made a prudent decision to retain the Company's profits. No dividend has been proposed to be paid for the year ended 31st March 2001.

4. Business Review (2000-2001)

Your Company has registered a year-on-year growth of 107%. The net profit for the year ended 31st March 2001 was Rs.100.27 crores (US$ 21.43 Million) compared to Rs.48.44 crores (US$ 10.35 Million). The earning per share also registered a growth of 107% to Rs.5.10 for the year compared to Rs.2.46 for the last year.

The Company's total income for the year was up by 5% to Rs.472.39 crores (US$ 100.96 million) compared to Rs.449.92 crores (US$ 96.16 Million) for the last year. The Company has earned a net profit of Rs.100.27 crores (US$ 21.43 million), after providing for interest at Rs.59.24 crores (US$ 12.66 million) and depreciation of Rs.69.38 crores (US$ 14.83 million).

During the financial year under review, the Company continued its efforts to reduce operating cost through streamlining of its operations into 3 business groups, Energy Transportation Group, Integrated Coastal Transportation Group and Terminalling Group. As a result, the Company was able to reduce its operating costs by 8%. During the year your Company decreased its debt by 7% thereby improving its debt:equity ratio from 0.72:1 (for the shipping division) to 0.65:1.

Note : The US $ conversion rate used is as of 31st March, 2001.

5. Management's Discussion & Analysis

Energy Transportation Group:

Crude Oil Transportation Management Services.

Fleet owned and operated:

6 Suezmax tankers.

Integrated Coastal Transportation Group:

Integrated sea logistics, focus on logistics of dry bulk and refined products.

Fleet owned and operated:

Product Carriers Division – 4 vessels,

Bulk Carriers Division – 18 vessels,

Offshore Supply Vessels and Tugs Division – 7 vessels.

Terminalling Group

Energy Transportation Group:

During the year the Company operated a fleet of six Suezmax Tankers as part of its Energy Transportation Group. This Group accounted for 57.01% of the total operating earnings of the Company as against 53.50% during 1999-2000. The earnings of this division was Rs 253.03 crores as against Rs 210.57 crores during 1999-2000. The utilisation of the vessels was close to 100% of the available days. During the financial year the total earnings days available was 2,190. The average TCE earnings for the year was US$ 24,100/- per day per vessel as against US$ 16,300/- per day per vessel in 1999-2000. Two of the vessels underwent dry-docking during the year.

Integrated Coastal Transportation Group:

The Company operated a fleet of 21 vessels during the financial year 2000-2001 as part of Integrated Coastal Transportation Group. This division consists of Product Carriers Division, Bulk Carrier Division, Offshore Supply Vessels and Tugs Division.

Product Carriers Division:

This division consists of the four product tankers of the Company. This division accounted for 11.06% of the total operating earnings of the Company as against 20.15% during 1999-2000. The total earnings of this division was

Rs 49.08 crores as against Rs 79.27 crores during 1999-2000. The average fleet utilisation was over 90%. These vessels were employed mainly with the Indian Oil Majors such as IOCL, HPCL and BPCL during the year carrying petroleum product on the Indian coast. The average TCE earnings for this division was US$ 7,800/- per day per vessel as against US$ 8,700/- per day per vessel during 1999-2000.

Bulk Carrier Division:

This division consists of the Handysize,Handymax, Panamax and Capesize vessels of the Company as well as its fleet of Mini Bulk Carriers. This division accounted for 29.83% of the total operating earnings of the Company as against 22.78% during 1999-2000. The total earnings of this division was Rs 132.37 crores as against Rs 89.67 crores during 1999-2000.

Offshore Supply Vessels and Tugs Division:

This division of the Company consists of its three offshore supply vessels. These vessels were employed on long term charter with ONGC. On conclusion of the earlier charters, these vessels were de-hired in August 2000 after continuous charter of 16 years. Subsequently, the vessels re-deployed with ONGC on charter for a period of 2 ½ years from March 2001. In the interim, these vessels were deployed on short-term charters with ONGC and other parties. Essential repairs to these vessels were also carried out in the interim. The division accounted for 2.10% of the total operating earnings of the Company as against 3.52% during 1999-2000. The total earnings of this division was Rs 9.22 crores as against Rs 13.86 crores during 1999-2000. The average TCE earnings for this division was US$ 3,111/- per day per vessel as against US$ 3,335/- per day per vessel during 1999-2000.

Terminalling Group

The Terminilling Group consists of crude oil, POL storage and distribution services which during the year has been transferred to the wholly owned subsidiary company, Vadinar Oil Terminal Limited.

6. Market Review 2000-2001

Enery Transportation Group

Crude Oil transportation markets were strong for the large part of the year. The World Scale for WAF-US sector, which is the main trading area for Suezmax tankers, increased from 125 in March 2000 to above 200 in September. By December, it had touched 233. However, the last quarter of the financial year saw softer rates in the wake of OPEC production cuts and export stoppage by Iraq under the Oil for Food Programme.

Integrated Coastal Transportation Group

Product Carriers Division

The Product tanker markets showed improvement in rates. The Oil stocks in the US were down and with deliveries set to fall by an estimated 40% during 2001, the rates are likely to remain strong with the prospect of rate spikes if heating oil shortages start to appear.

Bulk Carriers Division

The dry-bulk market showed a mixed trend during the year. Rates firmed up during the first two quarters and softened thereafter. On the whole, these rates showed an upturn compared to the last year. However, towards the end of the year rates had fallen below the average of the last year.

Dry bulk freight rates showed improvement during the earlier part of the period. By third quarter Capesize markets were firm especially in the Atlantic, while rates had started to soften in the Pacific. In the Handy segment rates softened marginally during the quarter, though towards the end of December there was a perception of steadiness in the market with larger handymax vessels being the major beneficiaries of the increased demand for liftings out of the Far East.

The revival of the Capesize market in 2000 has been aided by an anticipated 5.8% increase in demand for crude steel, which created sufficient requirement for raw materials to offset a rise to the extent of 3.7% in Capesize supply. In the Handy sector, there was further negative news for trade in agricultural commodities with a downward revision in Wasde's world coarse grain export forecast.

Offshore Supply Vessels and Tugs Division

During the financial year the Global Offshore Industry went through a consolidation phase with emergence of limited number of strong players. In Indian offshore sector the drilling activity was at the core of the sector with Government of India policy allowing for private and foreign investment for oil exploration.

Since this sector does not form a core competence, the management during the year has taken a decision to divest from the offshore sector. The management is actively looking to sell these assets.

Terminalling Group

The Company restructured its investments in the Vadinar Port Project. Earlier this project was a division of Essar Shipping Limited. Post-restructuring the project has been hived into a wholly owned subsidiary. Consequently, all the loans of the project are in the process of being transferred.

Looking at the Indian crude oil import scenario in coming years, the management believes that the Company is uniquely poised to provide value added logistics solutions for crude oil transportation into India. The investments and experience in the crude oil terminalling business will allow the Company to secure significant market share for crude oil transportation that is likely to emerge post adjusted price mechanism regime.

Financial Analysis

Essar Shipping's challenges during the financial year included the need to revive earnings and profits following a difficult 1999-2000, cost rationalisation and a business plan that would help the Company migrate from a shipping services company to one of a sea logistics service provider.

The Company addressed these challenges successfully. The Company capitalised successfully on the strong freight rates in the crude oil market through use of time and spot charters. On and off fleet costs were reduced, consequently fleet operating margins rose significantly.

The Company registered an improved return on capital employed, a reduction in interest and a consequent improvement in the bottomline.

Loans in absolute terms have reduced from Rs 1,600.82 crores to Rs 751.07 crores. The loans of the shipping business also lowered during the year. The shipping loans fell from Rs 824.83 crores to Rs 751.07 crores during 2000-01. The strengthening of the business and improvement in cashflows has not necessitated any further borrowings. The Company expects to lower its average interest costs in the near-term future.

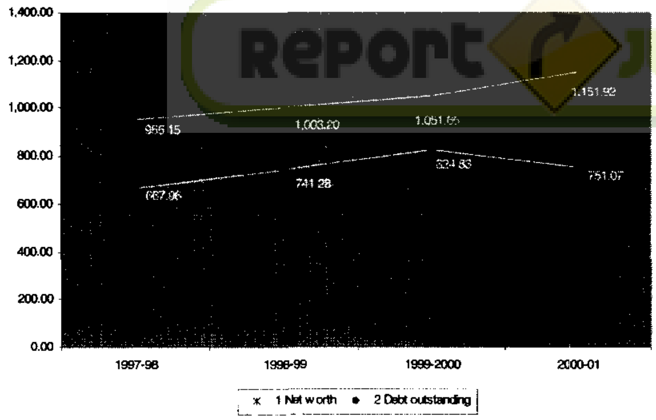
During this period, the net worth of the Company has also increased from Rs. 1,051.65 crores to Rs. 1, 151.92 crores.

Debt-Equity – *A comfortable ratio*

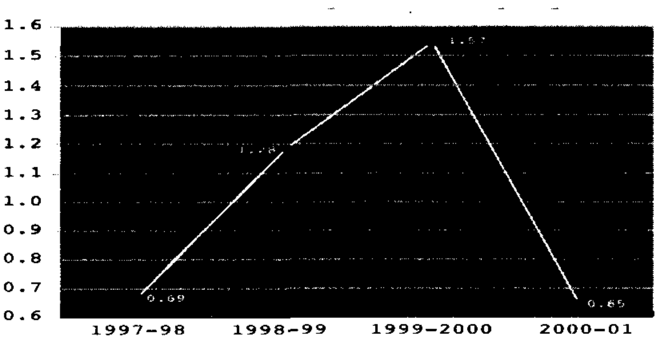
The Company's debt-equity has been registering an improving trend over the past four years. The debt-equity has decreased due to the strengthening of the Company's performance over the past few years. The debt-equity has also improved due to the hiving off the port project into the subsidiary.

The Company believes that the debt-equity of 0.65 as on 2000-01 is good by domestic and international standards.

Rs. crores Four Year Trend of Debt and Net Worth



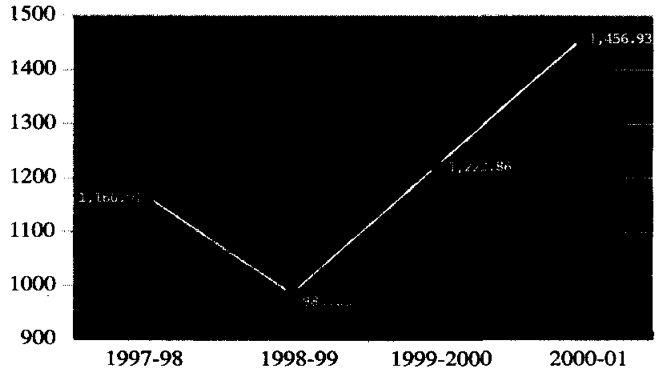
Ratio Four year debt-equity trend



Gross Block – *A strong base*

The gross block of the Company was Rs 1456.93 crores on 31st March 2001 (1999-2000 Rs 1,222.86 crores). A large portion of the gross block – Rs 1411.64 crores or 96.89 per cent of the gross block on 31st March 2001 was represented by the Company's fleet.

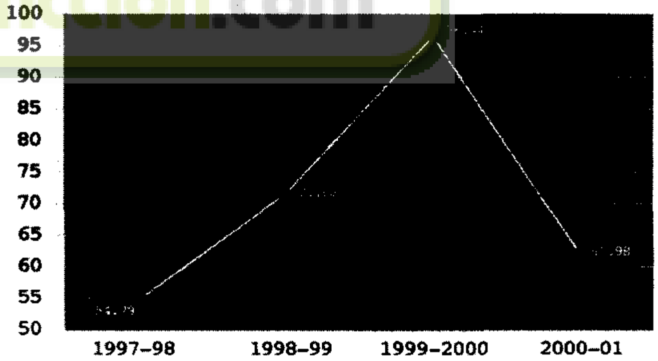
Rs. crores Four-year gross block



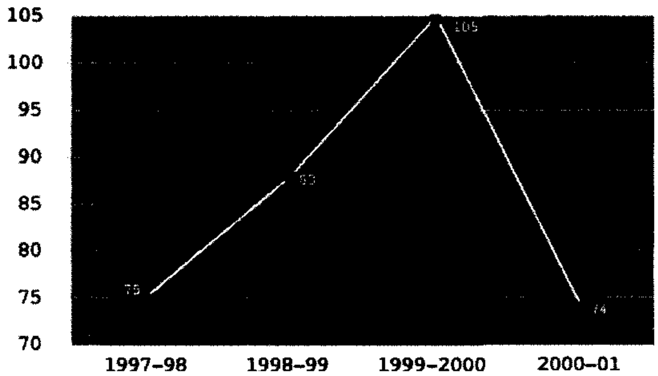
Working Capital – *A strong improvement*

The working capital of the Company has reduced over the past year due to improved debtor collections and reduced costs. This has resulted in lower working capital requirement for the Company. The working capital for the financial year 2000-01 was Rs 61.98 crores compared to Rs. 96.43 crores for the financial year 1999-2000. The Company has taken proactive steps to control debtors by reducing its exposure to charters with delayed payment history.

Rs. crores Four year trend



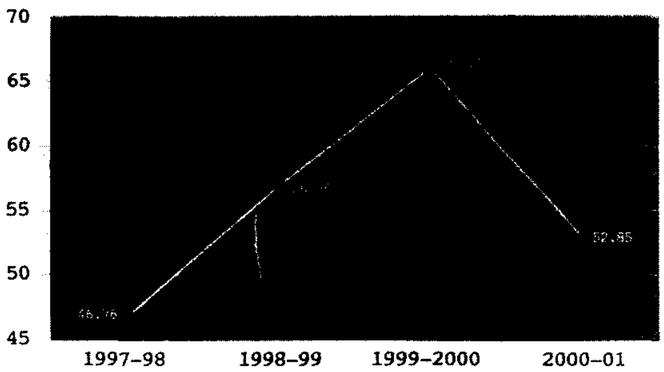
Days Four-year debt collection days



Vessel operating margins – *Best in the industry*

The vessel operating margins – operating revenues less cost of operations – is the highest in the shipping industry. Moreover, the Company's focus on curtailing costs and increasing productivity – reflected in the high vessel capacity utilisation of 95 per cent in 2000-01 – has contributed to increased operating margins.

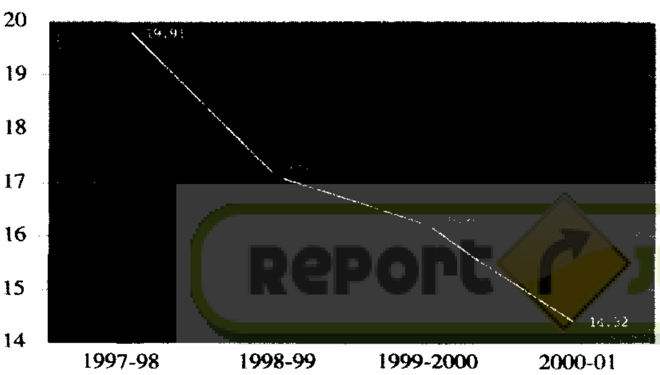
Percentage   Four-year Trend



Interest cost – *Working for the Shareholders*

Interest costs have been registering a falling trend due to the Company's continuous efforts in swapping high cost loans with lower cost ones. Additionally, the new loans taken by the Company are at lower spreads. These two initiatives have resulted in lowering overall interest costs of the Company.

Percentage   Interest costs as a per cent of total income



Risk management

Over the last year, the management of Essar Shipping embarked on a number of prudent initiatives to de-risk its business model. These are discussed below:

Forex management

Earnings in foreign exchange comprised Rs.335.70 crores in 2000-01 (1999-2000 – Rs.179.90 crores) 76 percent of the Company's revenues in 2000-1 (44 percent in 1999-2000). The Company's forex management was managed by a centralised Essar Group forex desk that comprised experienced treasury managers.

Tax

The Company has been paying corporate tax at the MAT levels for the past three years. This status is unlikely to change in the near-term. It is important to note that the shipping industry does not obtain any export income benefits even though it brings in foreign exchange revenues into the country. The Company paid Rs 8.97 crores in 2000-01 (1999-2000 – Rs 5.49 crores) as tax.

Freight risks

Essar Shipping has deployed its fleet on both time and spot charters to optimise and stabilise its revenue stream.

This has also resulted in insulating the Company's earnings from the volatility of the freight rates.

This strategy has paid dividends in 2000-01 when the freight rates more than doubled in the tanker segment. This enabled Essar Shipping to ply the spot markets very profitably - and at considerably higher rates than the time charter markets - with an odd charter generating revenues of almost US $ 100,000 per day. On average TCE basis the Company's fleet earnings during the year had the best per day earnings compared to its peer group.

Operational efficiency

Fleet operational efficiency is critical in the shipping business.

Essar Shipping has evolved robust systems that help maintain its fleet in fine quality. The Company has deployed stringent maintenance and quality norms to meet the demands of international companies, need to maintain fleet safety and foster cost-effective operations with a high degree of concern for international safety norms. The Company has been a pioneer in adopting several proactive quality initiatives - both in the global and domestic markets. Essar has also adopted stringent dry-dock repair initiatives that keeps the fleet in fine fettle. Essar Shipping has placed immense importance on adopting frontline measures to adhere to the enhanced standards.

Environment risks

Essar Shipping possesses a safety record that is comparable to the best in the world.

Essar Shipping attaches significant importance to conducting its operations safely. The priority is reflected in the nature of its fleet. The Company possesses six double-hull Suezmax tankers to transport crude oil. Since double-hull Suezmax tankers are constructed with a protective layer that prevents the cargo from spilling into the immediate environment, they are perceived to be an adequate insurance against environmental risks.

The Company complies with internationally recommended procedures and practices that make operations consistent and predictable. Essar Shipping enjoys approvals from a number of oil majors – an endorsement of its quality standards.

Quality:

Essar Shipping's quality conviction is enshrined in its Quality Policy: *"We are committed to excellence in ship operations and firmly believe that this can be achieved through integrity, teamwork and consistent application of good steamship practices."*

> ***'Essar's quality initiatives conform to our audit requirements. Importantly, the Company has taken initiatives that are a notch above the ISM and ISO requirements. While conducting the audit, we found that the Company's employees were completely aware of the quality requirements. This is a good indication of its quality concerns.'***
>
> *- RM Krishna, Senior Surveyor, ABS Pacific (ABS is one of world's leading Classification Societies)*

Quality Initiatives 2000-01

- Essar Shipping embarked on initiatives to obtain the ISO 14000 certification – to quantify and reduce pollutant discharge on the high seas.
- To meet the mandatory deadline of 1st July, 2002, the Company developed safety management systems for offshore supply vessels and mini-bulk carriers.
- The Company installed safety-training videos on its six Suezmax tankers.
- The Company initiated the process for being certified by the stringent American Bureau of Shipping (ABS) standards.

Awards:

The Suezmax Tankers M.T. Nandu, M.T. Chanda and M.T. Kishore were awarded Gold Pennant by United States Coast Guard in recognition of outstanding dedication to AMVER.

American Bureau of Shipping has awarded the Certificate of Company Compliance for Marine Safety and Quality Management Systems.

Human Resources:

Essar Shipping during the year managed a fleet of 33 vessels with 53 corporate shore executives - the lowest in the Indian shipping industry and amongst the lowest in the world.

The HR initiatives taken by the management has enhanced organisational efficiency.

Fleet HR

Essar Shipping's fleet personnel strengths translated into superior fleet operations. The Company continued to recruit frontline talent and develop strong training practises that included skill enhancement and capability development. Besides, the manning size and standards were finalised for each class of ship. A comparable uniformity was introduced in financial payments.

7. Vadinar Oil Terminal Project

To segregate the port and terminal business from the Company's core business of shipping, it was proposed that the Vadinar Oil Termianl Project be transferred to a wholly owned subsidiary of the Company. Members had approved the transfer of the project with effect from 1st April, 2000 at the last AGM. However, due to a few procedural delays in transferring the project, the effective date of the transfer is 1st October, 2000.

The project has reached financial closure after the reappraisal done by ICICI Ltd., in the last year. The Company has committed Rs.479 crores towards the project and has already brought in more than 70% of its commitment to the project.

8. Government Policy / General Outlook

Issues relating to Import Policy relating to ships were resolved during the year and the customs duty sought to be imposed on import of ships was also withdrawn. One of the long standing requests of increase in depreciation allowance for ships under the Income Tax Act, was conceded though not to the extent desired by the industry.

However, with growing competition in the international shipping markets, there is an urgent need for Indian Shipping Companies to cut costs to be able to compete in this truly global industry. To support this, fiscal policies and other regulations in India need to give a fillip to this drive of the Indian shipowners, in view of various issues which drive up the operating costs for the Company.

The imposition of withholding tax on External Commercial Borrowings from June, 2001 taken by a corporate has drastically increased the cost of borrowing by anything between 100 to 150 basis points, and that too in today's low interest rate scenario. This could be even higher if the interest rates increase in the future.

Ship owners have also been seeking relaxation in various taxation laws and guidelines for External Commercial borrowings, particularly in respect of average maturity norms for ECBs. Worldwide, countries are moving towards a tonnage tax regime for shipping, which would be ideal for Indian ship-owners.

Indian Shipowners are restricted from placing insurances with insurers other than Indian insurers, whose rates are guided by TAC guidelines, which rates are dramatically higher compared to the rates prevailing in the international market.

These above factors have been hindering growth in the shipping industry in India and it is now time that the Government of India consents to these requirements of the shipping industry to enable it to grow as planned in the Five Year Plans of the country.

9. 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.