



Essar Shipping Limited
28th Annual Report 2003 - 2004

BOARD OF DIRECTORS**Shashi Ruia**

Chairman

Ravi Ruia

Vice Chairman

Anshuman S. Ruia**Sanjay Mehta**

Managing Director

R. N. Bansal**S. K. Poddar****M. P. Modi**

ICICI Bank Ltd. Nominee

AUDIT COMMITTEE

R. N. Bansal

M. P. Modi

COMPENSATION COMMITTEE

Shashi Ruia

Ravi Ruia

R. N. Bansal

SHARE TRANSFER & INVESTORS**GRIEVANCE COMMITTEE**

Shashi Ruia

Ravi Ruia

Sanjay Mehta

MANAGEMENT TEAM**Sanjay Mehta**

Managing Director

A. R. Ramakrishnan

Chief Operating Officer

Capt. S. K. Bhatia

Vice President (Marketing)

REGISTERED OFFICE2494, 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: secretarial.esl@essar.com**COMPANY SECRETARY**

Hemant K Tharvi

AUDITORS

B. P. Jain & Co., Mumbai

SOLICITORS

Crawford Bayley & Co., Mumbai

REGISTRAR & TRANSFER AGENTS

Data Software Research Company Pvt. Ltd.

"Sree Sovereign Complex"

22, 4th Cross Street

Trustpuram, Kodambakkam

Chennai 600 024

e-mail: dsrclmd@vsnl.com

Report Junction

Essar Shipping Limited

NOTICE TO MEMBERS

Notice is hereby given that the Twenty-eighth Annual General Meeting of the Members 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 10.15 am on Friday, the 17th September, 2004, to transact the following business:

ORDINARY BUSINESS

1. To receive, consider and adopt the Profit and Loss Account for the year ended 31st March 2004, and the Audited Balance Sheet as on that date and the Reports of the Board of Directors and Auditors thereon.
2. To appoint a Director in place of Mr. R N Bansal, who retires by rotation and being eligible, offers himself for re-appointment.
3. To appoint M/s B. P. Jain & Co., Chartered Accountants, as Auditors of the Company to hold office from the conclusion of this Annual General Meeting until the conclusion of the next Annual General Meeting of the Company and authorise the Board of Directors to fix their remuneration.

SPECIAL BUSINESS

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

RESOLVED THAT Mr. Anshuman S. Ruia, who was appointed as an Additional Director of the Company pursuant to Section 260 of the Companies Act, 1956 and holds office upto the date of this Annual General Meeting, and in respect of whom the Company has received a notice under Section 257 of the Companies Act, 1956, in writing, proposing his candidature for the office of Director, be and is hereby appointed as a Director of the Company subject to retirement by rotation under the Articles of Association of the Company."

By Order of the Board

HEMANT K THANVI
Company Secretary

Place: Mumbai
Dated: July 30, 2004

NOTES:

1. A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT ONE OR MORE PROXIES TO ATTEND AND VOTE INSTEAD OF HIMSELF ON A POLL ONLY. THE PROXY NEED NOT BE A MEMBER OF THE COMPANY. Proxy Forms in order to be effective 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 September 13, 2004 to September 17, 2004, both days inclusive.
4. Pursuant to Section 205(A) of the Companies Act, 1956 the following information is furnished:
 - a. The unclaimed Dividend for Financial Years 1996-97 and 1997-98 are held in separate accounts for each year.
 - b. The details of unpaid dividends that will become due for transfer to the Investors Education and Protection Fund are:

Year ended	Date of Declaration	Due for Transfer on
30.09.1997	27.02.1998	16.04.2005
31.03.1998	17.07.1998	03.09.2005

Members who have not encashed their dividend warrants for the aforesaid years may approach the transfer agent.

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 Private Limited, "Sree Sovereign Complex", 22, 4th Cross Street, Trustpuram, Kodambakkam, CHENNAI 600 024.
Tel: 91-44-24833738, Fax: 91-44-24834636.
E-mail : dsrcmd@vsnl.com
6. Members are informed that in case of joint holders attending the Meeting, only such joint holder who is higher in the order of names will be entitled to vote.

7. In terms of Section 109A of the Companies Act, 1956, Members are entitled to make nomination in respect of shares held by them in physical form. Members desirous of making nominations are requested to send their requests in Form 2B, in duplicate, to the Secretarial Department at the Registered Office of the Company or to the Registrar and Transfer Agents - M/s. Data Software Research Company Pvt. Limited.
8. Members desiring any information regarding the accounts are requested to write to the Company at Essar House, No.11, Keshavrao Khadye Marg, Mahalaxmi, Mumbai 400 034 at least 7 days before the date of the Meeting to enable the company to keep the information ready.
9. The Explanatory Statements pursuant to Section 173 (2) of the Companies Act, 1956 relating to the Special Business mentioned in item no. 4 of the accompanying notice are annexed.
10. Re-appointment of Director:
At the ensuing Annual General Meeting, Shri R N Bansal retires by rotation and being eligible offers himself for reappointment. The information or details pertaining to the aforesaid Director to be provided in terms of Clause 49 of the Listing Agreement with the Stock Exchanges is furnished in the statement on Corporate Governance published in this Annual Report.

By Order of the Board

HEMANT K THANVI
Company Secretary

Place: Mumbai
Dated: July 30, 2004

Explanatory Statement pursuant to Section 173(2) of the Companies Act 1956 in respect of Item No. 4:**Item No. 4:**

Mr. Anshuman S. Ruia was appointed as an Additional Director of the Company w.e.f. 30th July, 2004 pursuant to Section 260 of the Companies Act, 1956 and Articles of Association of the Company and holds the office upto the date of this Annual General Meeting.

Notice under Section 257 of the said Act has been received from a member along with the deposit of Rs.500/- signifying his intention to propose the name of Mr. Anshuman S. Ruia, for appointment as a Director of the Company. Mr. Anshuman Ruia, has filed his consent, to act as a Director, with the Company.

Mr. Ruia belongs to a new dynamic younger generation of industrialists. Mr. Ruia commenced his career in his family business. Mr. Ruia is a Director on the Board of all major companies of the Essar Group. Mr. Ruia is fully involved in the business strategy of the Essar group and also closely associated with his father Mr. Shashi Ruia and uncle Mr. Ravi Ruia on strategies to consolidate the Group's activities through backward and forward integration and to utilise the synergy to propel the Group towards further growth.

Presently, he is on the Board of Directors of Hutchison Telecom East Limited, India Securities Limited, Pratik Estates Limited, Essar Power Limited, Clickforsteel Services Limited, Aircel Digilink India Limited, E Telequest (India) Limited, Hutchison Essar Telecom Limited, Vadinar Power Company Limited and Aegis Communications Group, Inc., USA. He is a Member of the Audit Committee of Aircel Digilink India Limited and also a Member of the Audit Committee and Shareholders Grievance Committee of India Securities Limited.

The Board of Directors accordingly recommends the resolution for your approval.

Shri S N Ruia, Shri R N Ruia and Shri Anshuman S Ruia, Directors of the Company may be treated as concerned or interested in the resolution.

By Order of the Board

HEMANT K THANVI
Company Secretary

Place: Mumbai
Dated: July 30, 2004

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

DIRECTORS' REPORT

To the Members of Essar Shipping Limited

1. Your Directors take great pleasure in presenting the Twenty-Eighth Annual Report of your Company together with Audited Accounts for the year ended 31st March 2004.

2. **FINANCIAL RESULTS:**

The freight rates remained buoyant for a major part of the financial year 2003-2004. This facilitated your Company in registering a 35% increase in total income at Rs. 671.26 Crores (US \$ 151.12 million) as compared to Rs. 496.15 Crores (US \$ 103.95 million) last year.

Your Company has earned a net profit of Rs. 129.55 Crores (US\$ 29.30 million), after providing for interest at Rs. 60.29 Crores (US\$ 12.63 million), depreciation of Rs. 66.17 Crores (US\$ 14.96 million) and deferred tax liability of Rs. 20.79 Crores (US\$ 4.36 million).

The summary of financial results of the company for the year ended 31st March, 2004 are furnished below:

	(Rs. Crores)	
	For the year ended 31-03-2004	For the Year ended 31-03-2003
Total Income	671.26	496.15
Total Expenditure	393.27	295.85
Profit before Interest and Tax	277.99	200.30
Less: Interest & Finance charges	60.29	71.60
Profit before Depreciation and Tax	217.70	128.70
Less: Provision for Depreciation	66.17	66.88
Profit before tax	151.53	61.82
Less: Provision for Tax	1.19	2.37
Add: Deferred Tax Asset / (Liability)	(20.79)	3.85
Profit after tax	129.55	63.30
Add: Balance in Profit and Loss Account as per last Balance Sheet	107.11	133.22
Balance before appropriation to Reserve	236.66	196.52
Less: Transfer to Ship Acquisition Reserve	156.50	103.00
Add: Transfer from Debenture Redemption Reserve (net)	28.87	13.59
Balance carried forward to Balance Sheet	109.03	107.11

3. **DIVIDEND:**

The Company plans to augment its fleet in the current year and also fulfill its commitments in its 100% subsidiary, viz. Vadinar Oil Terminal Limited (VOTL). In view of this, the Board of Directors has decided to retain the resources of the Company and therefore, has not recommended payment of dividend for the year.

4. **MANAGEMENT DISCUSSION, ANALYSIS AND REVIEW:**

Energy Transportation Group (ETG):

The year under review has been a good year for the tanker industry. The increase in the freight rates has been largely due to increased import of crude oil by China, falling oil inventories in the West. The crude oil production grew by 1.4 mn bpd (2%) which was driven by cold weather, fuel switching and strong growth from China.

Under the Energy Transportation Group, in line with the Company's strategy of strengthening its presence in the crude oil transportation segment, the Company in March 2004 added one Double Hull Double Bottom Very Large Crude Carrier (VLCC), MT Ashna into this division. The vessel is of 301,428 dwt and capable of carrying two million barrels of crude oil. The vessel is India's largest ship and first Double Hull VLCC.

The Energy Transportation Group consisting of five Suezmax Vessels and one VLCC acquired in March 2004 contributed Rs. 378.19 Crores (Rs. 300.00 Crores for 2002-03) to the earnings in financial year 2004. These vessels were deployed largely with International Oil majors and other charterers.

During the financial year the total earning days available were 1799 days, and the utilisation of the Suezmax tankers was close to 98.44%.

Integrated Coastal Transportation Group (ICT):

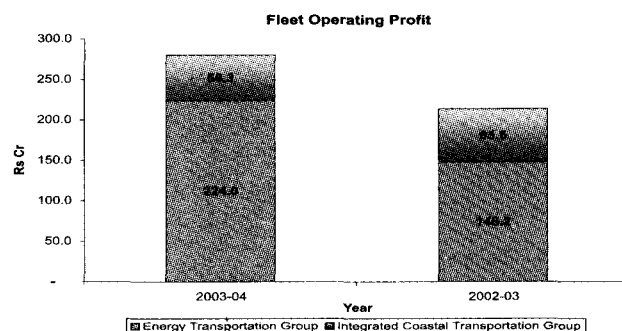
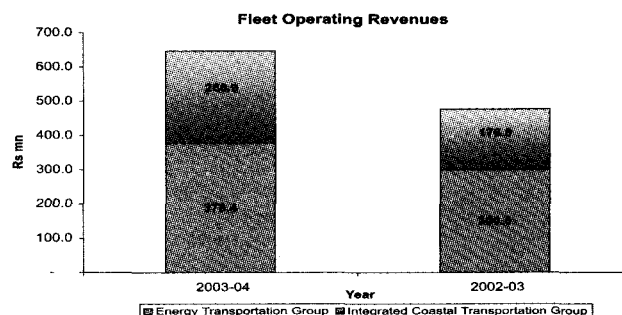
Moving forward with its vision of becoming a logistic service provider in the integrated bulk and petroleum product transportation business, the Company is looking at building on its existing clientele of steel mills, power plants and oil refiners in India. This business would result in streamlining of revenues and lesser reliance on the fluctuations of the bulk and freight market. The year under review was one of the best for the bulk carrier market in many years, mainly on account of the movement of raw materials and finished products to China.

The Company's ICT fleet of 26 vessels during the financial year ended 31st March, 2004, consisting of the Bulk Carrier, Product Carrier and Offshore Supply Vessels divisions, performed consistently in the financial year 2004 as under:

Product Carrier Division: The Product Carriers Division consisting three vessels contributed Rs. 36.73 Crores (Rs. 36.68 Crores for 2002-03) to the earnings in financial year 2004. These vessels were deployed largely with Indian oil majors and also other major international charterers on time charter.

Bulk Carrier Division: The Company's fleet of two Capesizes, three Handymax/Handysize vessels, eleven Mini bulk carriers, four Tugs and Inchartered vessels, accounted for an income of Rs. 226.17 Crores for the year, as against Rs. 131.05 Crores in the last year. In the early part of the year Nand Neeti, a Handymax Bulk Carrier, was sold for USD 5.90 million.

Offshore Supply Vessels Division: This division of your company consisted of three offshore supply vessels. These vessels were in continuous employment with ONGC till September 30, 2003. The total earnings of this division (for half year operations) was Rs. 6.16 Crores as against Rs. 11.57 Crores during 2002-03. In line with the Company's decision to exit from the Offshore business, the said division as a whole was sold on 1st October 2003.



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Terminalling Group:

In view of the delays caused by the cyclone, which hit the site of the terminal in 1998 and stoppage of work, the project cost has to be restructured. To rationalize the cost of the project, the project had been referred to the Corporate Debt Restructuring (CDR) Cell. The CDR Cell has reviewed and approved the debt restructuring proposal and the entire debt has now been restructured and the interest cost has been substantially reduced to current market rates along with an elongation of the maturity of the loans. With the current debt structure, the cost of the project is Rs. 3,219 Crores.

The CDR Cell has also approved the transfer of the loans, relating to the terminal project, to the wholly owned subsidiary in October 2000 and the investment in the shares of Essar Oil Limited to its another subsidiary.

Financial Analysis:

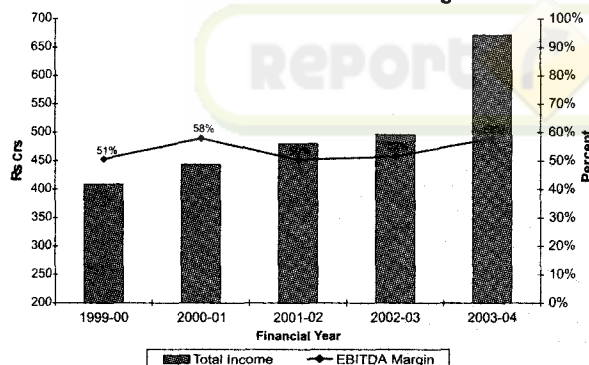
The bulk carrier market has been buoyant and the tanker market has been firm throughout the year. This coupled with the Company's move towards the logistics business, has resulted in top-line growth.

The Company has registered a 35% increase in total income at Rs. 671.26 Crores (US \$ 151.12 million) as compared to Rs. 496.15 Crores (US \$ 103.95 million) last year.

Vessel operating margins:

Your Company's ongoing move towards rationalising operating costs continues, without compromising on quality of the fleet. Operating margin on TCE basis has improved at 58% for the year under review as against 52% during last year. Dry docking expenses were Rs. 42.53 Crores on seventeen vessels during the year as against Rs. 19.16 Crores on five vessels last year.

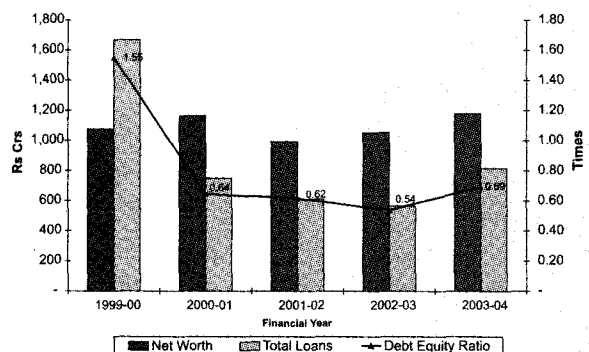
Total Income & EBITDA Margin



Debt-Equity Ratio:

Due to the addition of fresh tonnage during the end of the year, the Company has raised fresh debt, resulting in an increase in debt of the Company. The Debt: Equity ratio of your company is at 0.69:1 on 31st March, 2004, as compared to 0.54:1 on 31st March, 2003.

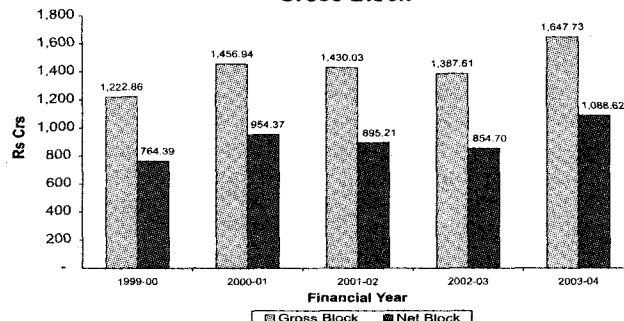
Debt - Equity Ratio



Gross Block :

With the recent addition of MT Ashna, the largest vessel owned by any Indian Company, the gross block of your Company has gone up to Rs. 1,647.73 Crores as compared with Rs.1,387.61Crores as at 31st March 2003.

Gross Block



Interest Cost:

The Company has reduced its interest cost to Rs. 60.29 Crores as against Rs. 71.60 Crores in the previous year, through a series of ongoing interest cost reduction methods, i.e. refinancing of high cost debt, re-alignment of interest rates of existing debt to current market rates, repayment of high cost debt, etc.

Risk Management:

Forex Management: Essar group's specialized Forex team helps in efficiently mitigating the exchange risk of your company.

Tax: The total tax paid by the company during the year under review was Rs. 1.19 Crores as against Rs. 2.37 Crores paid during 2002-2003. This tax is mainly on the other income of the Company as shipping companies are exempt from MAT from FY 2004. The Company has also provided for a deferred tax liability of Rs. 20.79 Crores for the year. The Company takes advantage of special concessions allowed under Section 33AC of the Income Tax Act and has therefore nil tax liability for the year on the shipping profits.

Freight Risks : In order to take full advantage of the firm markets, your Company has kept the crude carriers mostly in the Spot market during the year under review. This strategy of keeping majority of the ships in the spot market when the freight rates are firm, has yielded good results for the company which is evident from its strong financial performance.

Operational Efficiency: Your company's quality personnel are well trained in the upkeep of the vessels. Voyage operations are professionally managed ensuring high productivity levels thus increasing the operational efficiency and utilization thereby increasing the revenues. This is reflected in the Operating Profit to Sales ratio, which at 58% is one of the highest in the industry. Your company employs skilled personnel to monitor and maintain its oil-spill and other emergency response plans.

Internal Control systems and their adequacy: Your company maintains an adequate and effective internal control system commensurate with its size and business. We believe that these internal control systems provide, among other things, a reasonable assurance that transactions are executed with management authorization and that they are recorded in all material respects to permit preparation of financial statements in conformity with established accounting principles and that the assets of the company are adequately safeguarded against significant misuse or loss.

Quality and Safety: Your company has continued its endeavor to maintain a high standard of excellence through its adherence to the highest Quality and Safety Standards. It has also kept its commitment to the protection of the environment, in particular the

marine environment, by maintaining safe working practices, establishing safety measures against all identified risks, constantly improving skills both of the ship's staff as well as the shore personnel, through regular training programs based on both physical involvement as well as classroom activities.

Your company's Quality Management system is certified by ABS, to conform to the ISO 9001:2000 standards.

As a result of these committed efforts of your Company towards quality, safety, protection of environment, your Company was awarded the Most Quality Conscious Indian Shipping Company Award for the year 2002 on the eve of World Maritime Day on 23rd September 2003 and also became the first Indian shipping company to have its ships MT Nandu and MT Nand Hari, audited under the International Ship & Port Security (ISPS) Code. The dedicated and committed effort taken will ensure the code implemented on all the vessels well before the due date of 1st July 2004.

Your company is also taking steps to honour those who perform any outstanding achievement for search and rescue on the high seas and is jointly working with Indian Coast Guard towards establishing the same in the next year. A vessel of your Company's fleet was also involved in the laudable feat of rescuing six fishermen from a distressed boat in June 2003.

Human Resources: Your Company is managed by highly skilled professionals in all its operations, ashore and afloat, thereby achieving organisational efficiency. The talent and efficiency of its officers are reviewed regularly, and training needs are identified periodically. Your company is known for its lowest manpower management in the shipping industry without compromising on efficiency and safety.

5. INDUSTRY REVIEW AND PROSPECTS 2004-05:

Crude Oil Sector: Global economic growth during 2004 and 2005 is expected to be higher as compared to 2003. It is therefore expected that in 2004, world seaborne trade will continue to rise by 2%. Further, based on current delivery and scrapping schedule of tankers, annual average growth of tanker fleet is expected to be 2% from 2003 to 2004. It is expected that tanker freight rates would remain steady but not at the high levels seen in 2003. The most critical factors are likely to be Chinese oil consumption, Russian oil exports* (including congestion problems) and OPEC's response to the need for production cutbacks.

Dry bulk Sector:

Capesize: Australian Iron Ore exports rose by 13% in 2003 to reach 187 mt and exports to China increased by 35% to approximately 60 mt. Ore demand is still trending upwards with the world steel production rising 8.4% to reach 81.7 mt. Chinese steel output also rose by 25%. Slower growth in ore demand due to increasing prices and rising newbuilding deliveries are likely to undermine the freight rates for Capesizes. On the supply side the current buoyancy in rates are likely to minimize scrapping of Capesizes.

Panamax: The coal production is likely to increase to around 120 mt in 2004 from around 109 mt in 2003. This increase is likely to increase the utilization levels of the Panamaxes. Steady fleet growth and a gradual easing of port congestions are expected to drive Panamax earnings lower over the coming months. The Panamax fleet is expected to grow at around 4% in 2004. Due to owners preference for South Korean Yards, the yard capacity for bulk carriers remains tight.

Handymax: The impact of Chinese industrial boom has led to Steel and Aluminium companies increased demand for base raw materials. The imports into China are expected to increase further in 2004 thereby improving the market for bulkers. Moreover, strong growth in grain and minor bulk trades will provide support to the handymax market in case of a fall in the freight rates. Due to the rise in the freight rates the demolitions of handymax vessels has reduced and it is expected that the active supply of handymax vessels will increase by 1% in the year 2004.

6. GOVERNMENT POLICY :

There is a continuous decline in Indian tonnage carrying Indian cargoes. This is mainly on account of the lack of fiscal incentives for Indian Shipping Companies to invest in ship acquisition. The Government has recommended introduction of Tonnage Tax in the ensuing fiscal. However, the actual implementation of Tonnage Tax is long awaited by the industry.

Apart from this, the imposition of withholding tax on external commercial borrowings increases the cost of borrowing for the purpose of acquisition, thus making it inefficient to operate under Indian flag.

Given the above scenario and the shipping industry's premier position in earnings in foreign currency for the country, the Government of India should look favorably at the representations made by the industry, and provide adequate incentives for growth of tonnage of the country on par with other progressive countries.

7. SUBSIDIARIES :

Your Company has the following Subsidiaries as on March 31, 2004:

1. Vadinar Oil Terminal Limited
2. Essar Sisco Ship Management Company Limited
3. Essar International Limited, Guernsey, Channel Islands
4. Energy Transportation International Limited, Bermuda (wholly owned subsidiary of Essar International Limited).
5. Energy I Limited, Bermuda (wholly owned subsidiary of Energy Transportation International Limited).
6. ESL Sea Logistics Limited, Cyprus, promoted during the year
7. Prime Sea Logistics Limited, Cyprus, promoted during the year

During the year the Company has de-subsidiarised two of its non-operating, wholly owned subsidiaries namely, Vilsat Investments Private Limited and ESL Worldwide Sea Logistics Limited.

The Company has obtained exemption from the Central Government under Section 212(8) of the Companies Act, 1956 from attaching the Balance Sheets, Profit & Loss Account, report of the Board of Directors and the report of the Auditors of the subsidiary companies with the Annual Report, as required under section 211/212 of the Companies Act, 1956, vide Order no. 46/60/2003-CL-III dated 31st March 2004. The Company will make available the annual accounts of the subsidiary companies and the related detailed information to the holding and subsidiary companies' investors seeking such information at any point of time. The annual accounts of the subsidiary companies will be kept for inspection for investors at the Registered office of the company and its subsidiaries.

In accordance with Accounting Standard AS-21 on Consolidated Financial Statements read with Accounting Standard AS-23 on Accounting for Investments in Associates, your Directors have pleasure in attaching the Consolidated Financial Statements, which form part of the Annual Report and Accounts.

8. DIRECTORS

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

Mr. R N Bansal, Independent Director, is a Member of the Institute of Chartered Accountants of India and Institute of Company Secretaries of India. He has served with the Department of Company Affairs as Registrar of Companies, Regional Director, Member of Company Law Board and Ministry of Finance as Additional Controller of Capital Issues. He also served as nominee of the Central Government with the Central Council of Institute of Chartered Accountants of India, Institute of Company Secretaries of India and on the Governing Boards of various Stock Exchanges. He has rich experience of 50 years in the finance, accounts and company law matters.

Essar Shipping Limited

During the year ICICI Bank Limited has withdrawn the nomination of Mr. S Doreswamy and Unit Trust of India has withdrawn the nomination of Mr. R. S. Agarwal from the Board of the Company. Mr. Morten Arntzen due to his other business commitments resigned as a Director from the Board. Your Directors express their gratitude to Mr. S Doreswamy, Mr. R S Agarwal and Mr. Morten Arntzen for the guidance provided to the company throughout their tenure as Directors.

9. AUDITORS:

Your Company's Auditors, M/s B P Jain & Co., Chartered Accountants, will retire at the ensuing Annual General Meeting. It is proposed to reappoint M/s. B P Jain & Co., Chartered Accountants as the Auditors of the Company from the conclusion of the 28th Annual General Meeting until the conclusion of the next Annual General Meeting. M/s B P Jain & Co., have also confirmed to the company that their appointment will be in accordance with the provisions of the Companies Act, 1956.

10. VOLUNTARY DELISTING OF SHARES:

During the year the Company's equity shares were delisted from Bangalore Stock Exchange Limited, Madras Stock Exchange Ltd, The Delhi Stock Exchange Association Ltd and The Stock Exchange, Ahmedabad pursuant to the resolution passed by the members at the 27th Annual General Meeting held on 5th September 2003. The Company's application for voluntary delisting of the shares is pending with Calcutta Stock Exchange Association Ltd..

11. CORPORATE GOVERNANCE:

The disclosures as required under the Corporate Governance Reporting System have been furnished in the Annexure to the Directors Report under the head "Corporate Governance" and the company is complying with the various requirements under the Corporate Governance reporting system.

12. Particulars required under the copanies (Disclosure of particulars in the report of the Board of Directors) Rules, 1988. :

Under Notification No. GSR 1029 dated 31.12.1988, the Company is required to furnish prescribed information regarding conservation of energy and technology absorption. This however, does not apply to the Company as the shipping industry is not included in the Schedule to the relevant rules.

With regard to foreign exchange earnings and outgo the position is as under: -

Total Foreign Exchange

(1) Used (including cost of acquisition : Rs. 704.42 Crores
of ships, Loan repayments,
Operating expenses, Interest etc.)

(2) Earned (including savings, loan : Rs. 484.22 Crores
receipts, sale of Ships, freight,
charter hire earnings, etc.)

13. The Company has obtained exemption from the Central Government under Section 211(4) of the Companies Act, 1956 from giving information required under clauses (a), (b), (c) and (e) of Paragraph 4-D of Part II of Schedule VI to the Companies Act, 1956 vide Order no. 46/60/2003-CL-III dated 31st March 2004.

14. PERSONNEL:

Your Directors would like to express their sincere thanks and appreciation to all the employees for their commendable teamwork and exemplary contribution to operations and company's performance.

Information in accordance with the provisions of Section 217(2A) of the Companies Act, 1956, read with the Companies (Particulars of

Employees) Rules, 1975, as amended, regarding employees is given in Annexure to this 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 the 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. The Company has 281 staff as on 31st March 2004 including 183 floating staff. 5 shore staff employed throughout the year were in receipt of remuneration of more than Rs. 24,00,000/- per annum and 1 shore staff and 98 floating staff employed part of the year were in receipt of remuneration of more than Rs. 2,00,000/- per month.

15. OBSERVATION ON AUDITORS REPORT:

With regard to the observation of the Auditors in para vi of their Report, the management is of the considered view that, taking into account the approval of the restructuring package with certain preconditions, by the lenders to the Terminal Project, the investments in and advances to Vadinar Oil Terminal Limited, wholly owned subsidiary, are good and ultimately realizable.

16. TRANSFER TO INVESTOR EDUCATION AND PROTECTION FUND:

In terms of Section 205C of the Companies Act, 1956, an amount of Rs. 37.66 lakhs being unclaimed Dividend and Fixed Deposits received by the company and due for payment/refund in the year 1996-97 was transferred during the year to the Investor Education and Protection Fund established by the Central Government.

17. STATEMENT OF DIRECTORS' RESPONSIBILITIES:

Pursuant to the requirement of Section 217(2AA) of the Companies Act, 1956 the Board of Directors hereby state that:

- in the preparation of the annual accounts, the applicable accounting standards had been followed along with proper explanation relating to material departures;
- the directors had selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit or loss of the Company for that period;
- the directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- the directors had prepared the annual accounts on a going concern basis.

18. ACKNOWLEDGEMENTS

Your Directors 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 Limited, Indian Oil Corporation Limited, Hindustan Petroleum Corporation Limited, Bharat Petroleum Corporation Limited, Sun Oil, Stat Oil, Chevron-Texaco, ExxonMobil, BP Amoco, Coastal Tankers, GE Capital Corporation, Boeing Capital Corporation, ICICI Bank Limited, IDBI, IFCI, State Bank of India, GIC, LIC, UTI and all its other bankers, charterers and other business associates, shareholders and employees for their continuous support and co-operation.

For and on behalf of the Board

Place : Mumbai,
Dated : May 19, 2004

Sanjay Mehta
Managing Director

R. N. Bansal
Director

CORPORATE GOVERNANCE REPORT

(as required under Clause 49 of the Listing Agreements entered into with the Stock Exchanges)

1. A brief statement on company's philosophy on Code of Corporate Governance

The Company's philosophy on Corporate Governance envisages the following:

- To ensure continuous monitoring & upgradation of information systems to enable the Board to provide effective direction by formulating and reviewing policies, business plans, compliance with applicable laws and secure the interests of the stakeholders.
- To ensure that adequate control measures exist to enable the Board to evaluate the performance of the Management, ensure that appropriate systems of financial control, reporting and risk monitoring are in place.
- To ensure that the decision making process is fair and transparent and avoid any possible conflicts that would arise through abuse in related party transactions.
- To enhance and protect wealth and resources of the Company for the benefit of stakeholders.
- To ensure that the employees of the Company subscribe to the corporate values and apply them in their conduct and
- To ensure that the Company follows globally recognised corporate governance practices.

The Company believes that Corporate Governance should be observed not only as per the letter but more important in spirit so as to become a way of life. The Company's practice of Corporate Governance over the years has enhanced its performance and strengthened its move towards professionalism and efficiency in its operations.

2. Board of Directors:

A. Composition, Category, attendance and number of other Directorships of the Directors are furnished below:

As at March 31, 2004 the Board consisted of seven members. The composition, category of directors and directorships held in other companies by the Directors on the Board of the company were as under:

Name of Director	Category of Director	No. of outside Directorships in Indian Public Limited Companies	No. of Directorships in Indian Private Limited Companies	No. of Board Committee other than Essar Shipping Limited in which	
				Chairman	Member
Shashi Ruia (Chairman)	Promoter, Non-Executive	6	-	-	1
Ravi Ruia (Vice Chairman)	Promoter, Non-Executive	9	-	-	-
Sanjay Mehta (Managing Director & CEO)	Non-Promoter, Executive	1	-	-	1
R. N. Bansal	Independent, Non-Executive	10	2	1	8
S. K. Poddar	Independent, Non-Executive	13	3	3	5
M. P. Modi	ICICI Bank Ltd. Nominee. Independent, Non-Executive	3	-	-	1
R. S. Agarwal *	Unit Trust of India Nominee Independent, Non-Executive	6	-	-	7

* Mr. Agarwal was nominated on the Board of the Company by Unit Trust of India (UTI). His nomination has been withdrawn by UTI and subsequently Mr. Agarwal has ceased to be a director wef May 19, 2004.

B. Details of Board Meetings held during the year:

Sr. No.	Date	Board Strength	No. of Directors present
1	16th May, 2003	10	5
2	19th June, 2003	9	5
3	18th July, 2003	9	6
4	22nd August, 2003	9	6
5	5th September, 2003	9	5
6	19th September, 2003	9	5
7	30th October, 2003	9	5
8	29th January, 2004	8	5
9	23rd March, 2004	7	3

Essar Shipping Limited

C. Attendance of Directors at Board Meetings and at the last Annual General Meeting:

Director	No. of Board meetings held	No. of Board Meetings attended	Attendance at last AGM
Shashi Ruia	9	3	Yes
Ravi Ruia	9	3	No
Sanjay Mehta	9	9	Yes
R. N. Bansal	9	8	Yes
O. P. Khaitan*	1	-	NA
S. K. Poddar	9	-	No
S. Doreswamy**	8	8	Yes
M. P. Modi	9	6	Yes
Morten Arntzen*** (Non-resident)	8	-	No
R. S. Agarwal****	9	9	Yes

* Resigned as Director w.e.f. 19th June, 2003.

** Nomination withdrawn by ICICI Bank Ltd w.e.f. 23rd March, 2004.

*** Resigned as Director w.e.f. 29th January, 2004.

**** Nomination withdrawn by Unit Trust of India w.e.f. 19th May, 2004

3. Audit Committee:

The Audit Committee performs the following functions:

- Overseeing the Company's financial process and disclosure of financial information to ensure that the financial statement is correct.
- Recommending the appointment and removal of external auditor, fixation of audit fee and approval for payment of any services.
- Reviewing with the management annual financial statement before submission to the Board.
- Reviewing with the management and external and internal auditors, the adequacy of internal control system.
- Reviewing the adequacy of internal audit function.
- Discussing with internal auditors any significant finding and follow up on such issues.
- Discussing with external auditors before the audit commences on the nature and scope of audit, as well as having post-audit discussion to ascertain any area of concern.
- Reviewing the Company's financial and risk management policies; and
- Examining reasons for substantial default in the payment to depositors, debenture holders, shareholders and creditors, if any.

Composition:

The committee was comprised of three Non-Executive Independent Directors as of March 31, 2003. During the year ICICI Bank Limited had withdrawn the nomination of Mr. S Doreswamy who was a member of the committee. Mr. R S Agarwal has been inducted as a member of the committee at the Board Meeting held on May 16, 2003. The Company Secretary is the Secretary to the Committee. The Chairman is elected from among the attending members at each meeting.

Details of Audit Committee Meetings held during the year:

Sr. No.	Date	Committee Strength	No. of Members present
1	16th May, 2003	3	3
2	19th June, 2003	4	3
3	18th July, 2003	4	4
4	30th October, 2003	4	3
5	29th January, 2004	4	4

Attendance at Audit Committee Meetings:

Director	No. of Committee meetings held	No. of Meetings attended
R. N. Bansal	4	3
M. P. Modi	4	3
S. Doreswamy	4	4
R. S. Agarwal	3	3

4. Share Transfer & Shareholders' Grievance Committee:**Terms of reference:**

To approve transfer, transmission, sub-division and issue of duplicate shares/debentures and for redressal of investor complaints on all matters.

Composition:

The Committee members comprised of two Non-Executive Directors, viz., Mr. Shashi Ruia, Chairman, Mr. Ravi Ruia, Vice Chairman, one Independent Director, viz., Mr. R S Agarwal and Mr. Sanjay Mehta, Managing Director. Mr. Sanjay Mehta, Managing Director and Mr. Hemant K Thanvi, Company Secretary, are authorised to transact the Share Transfer and other related transactions on a day to day basis under the supervision of the Committee.

Details of shareholders complaints received, solved, not solved and pending share transfers:

There was one complaint pending as of close of 31st March, 2003. A total of 1022 complaints were received for the period 1-4-2003 to 31-3-2004, most of which being re-validation of dividend/debenture warrants. All the complaints were redressed under the supervision of the Committee and no complaint was outstanding as on 31st March, 2004.

All the valid share transfer requests received during the period were duly attended to and processed in time. There were no valid requests pending for share transfers as on 31st March, 2004.

5. Compensation Committee:

The Committee comprised of three non-executive Directors viz., Mr. Shashi Ruia, Mr. Ravi Ruia and Mr. R N Bansal. Mr. Hemant K Thanvi, Company Secretary is the Secretary of the Committee. The Committee is constituted to formulate and recommend to the Board from time to time, a compensation structure for whole time Directors. Non-executive directors are at present not paid commission over and above the sitting fees. No Wholtime Director/s were appointed during the year and thus no meeting of the Committee was held during the year.

Terms of Reference

To recommend to the Board of Directors the compensation related matters and issues for Managing/Executive/Wholtime Directors and to administer and supervise the Employee Stock Option Schemes, whenever applicable.

Details of Remuneration paid to Mr. Sanjay Mehta, Managing Director during the year ended March 31, 2004 is as under:

(in Rs.)

Basic Salary	Allowances and other benefits	Perquisites	Contribution to Provident Fund	Total
12,00,000	53,21,448	6,78,552	1,44,000	73,44,000

The entire remuneration (other than perquisites, which are calculated as per Income Tax Rules) is fixed component and not linked to performance. No Employee Stock Option Schemes have been provided by the company till date.

The agreement with the Managing Director is for a period of 5 years from date of appointment, i.e., September 18, 2000 and can be terminated by the either party by giving three months notice in writing.

Details of payment to Non-Executive Directors for the period from 1-4-2003 to 31-3-2004:

Non-Executive Directors	Sitting Fees paid for Board/ Committee meetings attended.
Shashi Ruia	Rs.12,000/-
Ravi Ruia	Rs.12,000/-
R. N. Bansal	Rs.48,000/-
S. Doreswamy	Rs.52,000/-
M. P. Modi	Rs.40,000/-
R. S. Agarwal	Rs.76,000/-

6. General Meeting:

Details of General Meetings held in last three years:

Financial year	Meeting	Date	Time	Location
2000-01	AGM	20-09-01	10.30 AM	Dayanandasagar Memorial Hall, Bangalore
2001-02	EGM	30-03-02	11.00 AM	-do-
	AGM	13-09-02	02.45 PM	-do-
2002-03	AGM	05-09-03	2.45 AM	-do-
	EGM	19-09-03	2.45 PM	-do-

Special resolutions put through postal ballot last year -NIL-
Items proposed to be conducted through postal ballot this year -NIL-

7. Details of non-compliance by the Company, penalties, strictures imposed on the Company by Stock Exchanges/SEBI/ Statutory Authorities on matters related to Capital Markets during the last three years:

During the last three years no penalty or stricture has been imposed on the company by Stock Exchanges/SEBI/Statutory Authorities on matters related to Capital Markets.

8. Means of communication:

Financial results and other information about the Company	Regularly updated on to the website, www.essar.com
Half yearly report sent to each household of shareholders	Half yearly report not sent to each household of shareholders
Publication of Quarterly results	Published in major newspapers such as Deccan Herald, Udaya Vani etc.
Presentation to Institutional Investors or to the analyst	The company has not made any presentation to Institutional Investors or to the analyst.
Management Discussion & Analysis	Published as a part of Annual Report under Director's Report

9. Disclosures:

There are no materially significant related party transactions made by the Company with its Promoters, Directors or Management, their relatives, its subsidiaries etc that may have potential conflict with the interest of the Company at large.

Transactions with related parties during the period are disclosed in Note No.B-19 of Schedule 12 to the Accounts in the annual Report.

10. Brief Resume and other details of the Director seeking reappointment in the forthcoming Annual General Meeting

Name of the Director with brief resume with expertise	Other Directorships		Other Committee Memberships	
	Name of the Company	Position	Committee	Position
Mr. R N Bansal, Member of ICAI and ICSI Retired member of CLB, having 50 years experience in Accounts, Finance and Company Law	Gobind Sugar Mills Ltd	Director	Audit Committee	Member
	Vardhman Polytex Ltd	Director		
	The Hindustan Spinning & Weaving Mills Ltd	Director		
	Orient Ceramics & Industries Ltd	Director	i. Audit Committee ii. Shareholders Grievance Committee	Member Member
	Jonas Woodhead & Sons (I) Ltd	Director	Audit Committee	Member
	Pushpsons Industries Ltd	Director		
	Imaging Products Private Ltd	Director		
	HVS Computer & Management Services Private Ltd	Director		
	Chambal Fertilisers and Chemical Ltd	Director	i. Audit Committee ii. Shareholders Grievance Committee	Member Member
	Spice Net Limited	Director	iii. Remuneration Committee	Member
	Spice Systems Limited	Director	Audit Committee	Member
	Aruna Hotels Ltd	Director	Audit Committee	Chairman

11. General Shareholders information:

A. AGM details:

Date	17th September, 2004
Venue	Dayanandasagar Memorial Hall, Chandrasagar Complex, No.264/266, T. Mariappa Road, 2nd Block(Near Ashoka Pillar),Jayanagar, Bangalore 560 011
Time	10.15 AM
Book Closure Dates	13th September, 04 to 17th September, 04 (both days inclusive)

B. Financial Calendar:

Financial year of the company	1st April, 2004 to 31st March, 2005.
First Quarter results	On or before July 31, 2004
Second Quarter results	On or before October 31, 2004
Third Quarter results	On or before January 31, 2005
Annual results for the year	On or before June 30, 2005

C. Registrar and Share Transfer Agents:

Data Software Research Co Pvt Ltd
"Sree Sovereign Complex", 22, 4th Cross Street, Trustpuram, Kodambakkam, CHENNAI 600 024
Tel: (044) 24833738, Fax: (044) 24834636
E-Mail: dsrcmd@vsnl.com