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Essar Shipping Limited

29th Annual Report 2004 - 2005

BOARD OF DIRECTORS**Shashi Ruia**

Chairman

Ravi Ruia

Vice-Chairman

Sanjay Mehta

Managing Director

Anshuman S Ruia

Director

R. N. Bansal

Independent Director

S. K. Poddar

Independent Director

N Srinivasan

Independent Director

AUDIT COMMITTEE

R N Bansal

Anshuman S Ruia

N Srinivasan

COMPENSATION COMMITTEE

Shashi Ruia

Ravi Ruia

R N Bansal

SHARE TRANSFER & SHAREHOLDERS**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)

COMPANY SECRETARY

Hemant K Thanvi

REGISTERED OFFICE2494, 17th Main,

HAL II Stage,

Bangalore 560 008.

AUDITORS

B. P. Jain & Co., Mumbai

CORPORATE OFFICE

Essar House, 11 K K Marg,

Mahalaxmi, Mumbai 400 034.

SOLICITORS

M/s. Crawford Bayley & Co. Mumbai

REGISTRARS & TRANSFER AGENTS

Data Software Research Co Pvt Ltd.

"Sree Sovereign Complex"

22, 4th Cross Street,

Trustpuram, Kodambakkam,

Chennai 600 024.

e-mail : dsrcomd@vsnl.com

NOTICE TO MEMBERS

Notice is hereby given that the Twenty-ninth 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 a.m. on Thursday, September 29, 2005, to transact the following business:

ORDINARY BUSINESS

1. To receive, consider and adopt the Profit and Loss Account for the year ended at 31st March 2005, 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. S K Poddar, who retires by rotation and being eligible, offers himself for re-appointment.
3. To appoint a Director in place of Mr. S N Ruia, who retires by rotation and being eligible, offers himself for re-appointment.
4. To appoint M/s Deloitte Haskin & Sells, 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

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

RESOLVED THAT Mr. N Srinivasan, 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."

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

"RESOLVED THAT pursuant to the provisions of Section 198, 269, 309 read with Schedule XIII and other applicable provisions, if any, of the Companies Act, 1956, Mr. Sanjay Mehta be and is hereby re-appointed as a Managing Director of the Company with effect from September 18, 2005 on the following terms and conditions which shall be effective for a period of three years:

Basic Salary in the range of Rs. 75,000 to Rs 2,00,000 per month, as may be determined from time to time by the Board of Directors or such authority as may be delegated by the Board of Directors of the Company.

In addition to the Basic 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.

Provided further that in the event of loss or inadequacy of profits in any financial year, Mr. Sanjay Mehta shall be paid remuneration by way of salary, perquisites and allowances as specified above or as may be decided by the Board of Directors.

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 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 THAT the Board of Directors is hereby authorised to take all necessary steps including filing of necessary applications, forms, letters, etc., to the Government and other authorities to give effect to the above resolution."

By Order of the Board

HEMANT K THANVI
COMPANY SECRETARY

Place: Mumbai

Dated: July 22, 2005

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 26, 2005 to September 29, 2005, both days inclusive.
4. Pursuant to Section 205(A) of the Companies Act, 1956 the following information is furnished:
 - a. The unclaimed Dividend for the Financial Year 1997-98 is held in a separate bank account.
 - b. The details of unpaid dividend that will become due for transfer to the Investors Education and Protection Fund is:

| Year ended | Date of Declaration | Due for Transfer on |
|------------|---------------------|---------------------|
| 31.03.1998 | 17.07.1998 | 03.09.2005 |

Members who have not encashed their dividend warrants for the aforesaid year 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.
6. Members who are holding shares in identical order of names in more than one folio are requested to send to the Company the details of such folios together with the Share Certificates for consolidating their holdings in one folio. Members are further advised to hold the shares in dematerialized form, as the trading of the shares on The Stock Exchange, Mumbai is in compulsory demat mode.

7. 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.
8. 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.
9. 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.
10. The Chairman of the Audit Committee of Directors shall be present at the Annual General Meeting to answer queries of shareholders arising out of the Accounts of the Company.
11. The Explanatory Statements pursuant to Section 173 (2) of the Companies Act, 1956 relating to the Special Business mentioned in item no. 5 and 6 of the accompanying notice are annexed.
12. Re-appointment of Directors:
At the ensuing Annual General Meeting, Mr. S K Poddar and Mr. S N Ruia retire by rotation and being eligible offers themselves for reappointment. Mr. N Srinivasan has been appointed as an Additional Director during the year and seeks appointment at the ensuing Annual General Meeting. The term of Mr. Sanjay Mehta as a Managing Director expires on September 17, 2005. The terms of re-appointment of Mr. Sanjay Mehta as Managing Director is placed before the members for their approval. The information or details pertaining to the aforesaid Directors to be provided in terms of Clause 49 of the Listing Agreement with the Stock Exchange is annexed hereto.

By Order of the Board

HEMANT K THANVI
COMPANY SECRETARY

Place: Mumbai
Dated: July 22, 2005

Explanatory Statement pursuant to Section 173(2) of the Companies Act 1956 in respect of Item No. 5 and 6:

Item No. 5:

Mr. N Srinivasan was appointed as an Additional Director of the Company w.e.f. 28th April, 2005 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. N Srinivasan, for appointment as a Director of the Company. Mr. N Srinivasan has filed his consent, to act as a Director, with the Company.

Mr. N Srinivasan is a Commerce graduate and a member of the Institute of Chartered Accountants of India since 1955 and has been a senior partner in Fraser & Ross / Deloitte Haskins & Sells until 1997. He has been closely associated with the development of the profession of Accounting and Auditing in India. He was the Chairman of Southern Indian Regional Council and a Central Council Member of the Institute of Chartered Accountants. Mr. Srinivasan has been associated with various Business Organisations and has served as Deputy President of the Associated Chamber of

Commerce and Industry of India (ASSOCHAM), New Delhi, Chairman of The Madras Chamber of Commerce and Industry, President of the Indo-Australian Chamber of Commerce, Regional President of The Indo-American Chamber of Commerce among others. He has also served as a Director on the Board of The Institute of Internal Auditors, Inc., Florida, USA, Director of Indian Bank, Chennai, Senate Member of the Annamalai University and Honorary Professor, Institute of Financial Management and Research, Chennai.

The appointment of Mr. Srinivasan would bring along with him a varied experience in the field of Accounts, Audit and Business Management. The Board recommends the appointment of Mr. Srinivasan on the Board of your Company.

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

Item No. 6:

Mr. Sanjay Mehta was appointed as a Managing Director of the Company on September 18, 2000 for a period of 5 years. The term of appointment of Mr. Mehta as a Managing Director expires on September 17, 2005. Considering his vast experience and good management skills, the Board at its meeting held on July 22, 2005, has re-appointed him as the Managing Director with effect from September 18, 2005 for a further period of three years, on the terms and conditions spelt out under this Item of the Notice, subject to the approval of the Members of the Company.

Mr. Sanjay Mehta has an Honors Degree from London School of Economics and a Masters Degree from London Business School. Prior to joining our management team in June 2000, Mr. Mehta was head of the South East Asia Investment Banking Desk at American Marine Advisors Inc., New York. Prior to his tenure with American Marine Advisors, Inc. he worked with Simpson, Spence & Young, Hambros Bank and Goldman Sachs. Mr. Mehta has experience in raising capital in the US financial markets for South East Asian shipping companies. He is also a member of the Asia/India committee of Det Norske Veritas and of the American Bureau of Shipping. Mr. Mehta has vast experience in the shipping industry and currently sits on the Boards of Det Norske Veritas, American Bureau of Shipping and Steamship Mutual Insurance.

Mr. Sanjay Mehta has been associated with the Company for past five years and under his leadership the Company has seen record profits. Under the visionary leadership of Mr. Mehta, the Company has made good progress and a clear vision and growth plan for the company's future has been set in place. Mr. Mehta has a Masters Degree from City University Business School and London Business School. He has graduated with Honors from London School of Economics.

The Board is of the opinion that his appointment as the Managing Director of the Company would be in the interest of the Company and accordingly the resolution under this item of the Notice is recommended for Members approval.

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

By Order of the Board

HEMANT K THANVI
COMPANY SECRETARY

Place: Mumbai
Dated: July 22, 2005

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

Details of Directors seeking appointment/reappointment in the Twenty-ninth Annual General Meeting (in pursuance of Clause 49 of the Listing Agreement)

| Name of the Director | Mr. S K Poddar | Mr. Shashi N Ruia | Mr. Sanjay Mehta | Mr. N Srinivasan |
|---|--|---|--|--|
| Date of Birth | 15th September, 1945 | 23rd December, 1943 | 26th March, 1968 | 27th July, 1931 |
| Qualifications | B. Com (Hons.) | B. Com | Masters Degree from City University Business School and London Business School and has graduated with Honors from London School of Economics. | B.Com, FCA |
| Date of appointment | 27th March, 1985 | 20th December, 1984 | 18th September, 2000 | 28th April, 2005 |
| Experience/Expertise in specific functional areas | He has been involved in the promotion of various new projects including several joint ventures with International Corporations. Mr. Poddar is on the local board of the RBI and is also the Senior Vice President of FICCI. Mr. Poddar has also served on the Board of Governors of Indian Institute of Technology, Kharagpur for a long time. Mr. Poddar is also the Senior Vice President of Federation of Indian Chambers of Commerce & Industry, past President of All India Organisation of Employers (AIOE) and Chairman of Council of Indian Employers. | Mr. Shashi N Ruia, Chairman, belongs to a new dynamic younger generation of industrialists. Mr. Shashi Ruia, has played a significant role in promoting India's industrial growth and expansion. An industrialist with a vision and a mission, he was able to engineer the Essar Group into a premier position among top industrial houses in the Country. Mr. Ruia has seen the growth of the Essar Group to an asset capitalization of US\$ 4.7 billion. He is a member of the Executive Committee of the Federation of Indian Chambers of Commerce and Industry, and was the Chairman of the Indo-US Joint Business Council. | Mr. Mehta was head of the South East Asia Investment Banking Desk at American Marine Advisors Inc., New York. Prior to his tenure with American Marine Advisors, Inc. he worked with Simpson, Spence & Young, Hambros Bank and Goldman Sachs. Mr. Mehta has experience in raising capital in the US financial markets for South East Asian shipping companies. He is also a member of the Asia/India committee of Det Norske Veritas and of the American Bureau of Shipping. | Mr. Srinivasan, ret'd. Partner, Fraser & Ross / Deloitte Haskins & Sells has been closely associated with the development of the profession of Accounting and Auditing in India and has been associated with various Business Organisations. He has also served as a Director on the Board of The Institute of Internal Auditors, Inc., Florida, USA, Director of Indian Bank, Chennai, Senate Member of the Annamalai University and Honorary Professor, Institute of Financial Management and Research, Chennai. |
| List of other Companies in which Directorship held | <ul style="list-style-type: none"> a. Gillette India Limited b. Simon India Limited c. Alstom Limited d. Singer India Limited e. Sri Vishnu Cement Limited f. Indian Furniture Product Ltd. g. Texmaco Limited h. Chambal Fertilizers & Chemicals Limited i. Zuari Industries Limited j. Poddar Heritage Investments Limited k. Lionel India Limited l. Zuari Cement Limited | <ul style="list-style-type: none"> a. Essar Steel Limited b. Essar Oil Limited c. India Securities Limited d. Essar Constructions Limited e. Karthik Financial Services Limited f. Essar Power Limited | Vadinar Oil Terminal Limited | <ul style="list-style-type: none"> a. United Breweries (Holdings) Limited b. Herbertsons Limited c. Tractors and Farm Equipment Limited d. The Peria Karamalai Tea & Produce Company Ltd e. India Cements Capital & Finance Limited f. Ador Multiproducts Limited g. Amco Batteries Limited h. The United Nilgiri Tea Estates Company Limited i. GATI Limited j. Suspa Pneumatics Limited k. Ador Fontech Limited l. Tafe Motors & Tractors Limited m. The Andhra Pradesh Paper Mills Limited |
| Chairman/Member of the Committees of the Board of Directors of other Companies in which he is a Director | <ul style="list-style-type: none"> a. Member of the Audit Committee of Gillette India Limited b. Chairman of the Audit Committee and Member of the Share Transfer Committee of Alstom Limited c. Member of the Audit Committee of Singer India Limited d. Member of the Audit Committee and Chairman of the Shareholders Grievance Committee of Texmaco Limited | NIL | Member of the Audit Committee of Vadinar Oil Terminal Limited | <ul style="list-style-type: none"> a. Chairman of Investors Grievance Committee of United Breweries (Holdings) Limited b. Chairman of the Audit Committee of Herbertsons Limited, Tractors and Farm Equipment Limited, India Cements Capital & Finance Limited and GATI Limited c. Member of the Audit Committee of Amco Batteries Limited d. Member of the Audit Committee and Investors Grievance Committee of The Andhra Pradesh Paper Mills Limited. |
| Details of Shareholding (both own or held by/for other persons on a beneficial basis), if any, in the Company | 254 shares | NIL | NIL | NIL |

DIRECTORS' REPORT

To the Members of Essar Shipping Limited

1. Your Directors take great pleasure in presenting the Twenty-Ninth Annual Report of your Company together with Audited Accounts for the year ended 31st March 2005.

2. FINANCIAL RESULTS:

The year under review saw freight rates in both the Wet Bulk and Dry Bulk cargo segments, to settle at a substantially higher average as compared to the previous year. This resulted in your Company registering a total income of Rs. 862.57 Crores (USD 196.13 million), as compared to Rs. 672.35 Crores (USD 152.05 million) during the previous year.

Your Company has made a net profit of Rs. 288.62 Crores (USD 65.63 million), after providing for interest at Rs. 127.04 Crores (USD 29.46 million) and depreciation of Rs. 80.01 Crores (USD 18.19 million). During the year under review, your Company has registered the highest turnover and profits since inception.

The summary of financial results of the company for the year ended 31st March, 2005 are furnished below:

| | (Rs. Crores) | |
|---|---------------|---------------|
| | For the | For the |
| | Year ended | year ended |
| | 31-03-2005 | 31-03-2004 |
| Total Income | 862.57 | 672.35 |
| Total Expenditure | 393.98 | 385.29 |
| Gross Profit | 468.59 | 287.06 |
| Less: Interest & Finance charges (net) | 127.04 | 69.36 |
| Less: Provision for Depreciation | 80.01 | 66.17 |
| Profit before tax | 261.54 | 151.53 |
| Less: Provision for Tax | (3.50) | (1.19) |
| Less: Deferred Tax Asset / (liability) | | (20.79) |
| Add: Reversal of Deferred Tax Liability | 30.58 | |
| Profit after tax | 288.62 | 129.55 |
| Add: Balance in Profit and Loss Account as per last Balance Sheet | 109.03 | 107.11 |
| Less: Transfer to Ship Acquisition / Tonnage Tax Reserve | (72.00) | (156.50) |
| Add: Transfer from Debenture Redemption Reserve (net) | 5.10 | 28.86 |
| Add: Dividend of earlier years on forfeited shares | 0.48 | — |
| Balance carried forward to Balance Sheet | 331.23 | 109.03 |

3. DIVIDEND:

The Board of Directors is considering various options for investment of the cash accruals, which will garner substantial returns to the shareholders in the long run. The Board believes that the Company needs to conserve its resources to pursue these investments. In view of this, the Board has not recommended any payment of dividend for the year.

4. MANAGEMENT DISCUSSION, ANALYSIS AND REVIEW:

Energy Transportation Group (ETG) :

Crude Carriers Division: This Division contributed Rs. 535.85 Crores to the total income in financial year 2005 as compared to Rs. 377.31 crores during the previous year. The vessels in this division were employed largely on the spot market to take advantage of the buoyant freight markets.

During the year the Company sold its Very Large Crude Carrier (VLCC), MT Ashna. The said vessel was taken on a Long Term Time Charter from the buyer by Energy Transportation International Limited (a wholly owned subsidiary of Essar International Limited). This transaction has enabled the company to reduce the capital cost on the vessel.

During the year, your Company entered into an Memorandum of Agreement (MOA) to sell four of its Suezmax tankers. This transaction has enabled your Company to take advantage of high asset valuation then prevailing in the shipping market and to sell its tankers (the four tankers are on an average 14 years old) at attractive rates. All the four vessels were delivered in April 2005. The impact of sale of the four vessels would be reflected in the Financial Year 2005-06.

Integrated Bulk and Petroleum Product Transportation Group (IBPPT) :

Your Company has been providing logistics support in the integrated bulk/petroleum product transportation business to Indian and South East Asian steel mills and power generation plants. Your company is further developing this business by garnering market through consolidation of cargoes, transshipment and by offering end-to-end sea logistics to its clients. This division carried approx. 7 million metric tonnes of dry bulk and petroleum products cargo during the year under review, an increase of approx. 27% compared to the previous year.

During the year, your Company acquired one Capesize Bulk carrier, MV Chandi Prasad, and with this acquisition, your Company is now the largest owner operator of Capesize Bulk carriers in India.

The Company's IBPPT fleet of 24 vessels during the financial year ended 31st March, 2005, were split into the bulk carrier and product carrier divisions. The performance of these divisions during the period under review was as under:

Product Carrier Division: The Product Carrier Division consisting of three vessels contributed Rs. 40.85 Crores to total income during the financial year 2004-05 against Rs. 36.72 crores during the financial year 2003-04. These vessels were employed largely with Indian oil majors and also other major international charterers

Bulk Carrier Division: The Company's Bulk Carrier fleet of 3 Capesize vessels, 3 Handymax/Handysize vessels, 11 Mini bulk carriers and 4 Tugs, accounted for an income of Rs. 266.96 Crores for the year, as against Rs. 226.03 Crores during the previous year. The vessels were employed on Contracts of Affreightment (COA's) with major steel mills and power generation plants in India and South East Asia to provide supply chain logistics services on Indian Coast and Intra-Asian trade.

Terminalling Group:

As part of its focus towards providing end – to – end sea logistics solutions to the crude oil refiners, your company has promoted the construction of crude oil and petroleum products terminalling and storage facilities at Jamnagar, which is being implemented by its wholly owned subsidiary, Vadinar Oil Terminal Limited (VOTL).

The debt of VOTL was referred to the Corporate Debt Restructuring (CDR) Cell for restructuring. We are glad to mention that the requirements under the restructuring package have now been met with and the project has achieved complete financial closure. With the achievement of the financial closure, the work on the project has started in full swing and we expect the full completion and commissioning of the project by fourth quarter of the financial year 2006-07.

Financial Analysis:

The markets were buoyant throughout the year, with the tanker freight rates scaling to the peak during the third quarter of FY 2005 on the back of increased demand for crude oil from US, China and India. The bulk carrier market was stable through

the year on the back of steady demand from China for raw materials and steel products.

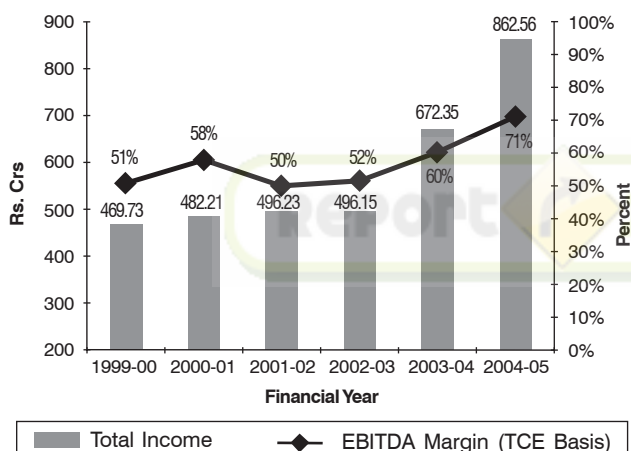
The Company has achieved a record Total Income of Rs 862.56 Crores and a Net profit of Rs 288.62 Crores. This has been achieved through its focus on value added services and the buoyant international trade with resultant effect on the transportation sectors.

The Company has also focussed on its endeavour to lower operating costs and reducing technical and commercial downtime on the vessels thereby ensuring better utilization of its assets. Further rationalisation of operating costs is contemplated through supplier negotiations, cash payments, bulk ordering for sister vessels etc.

Vessel operating margins:

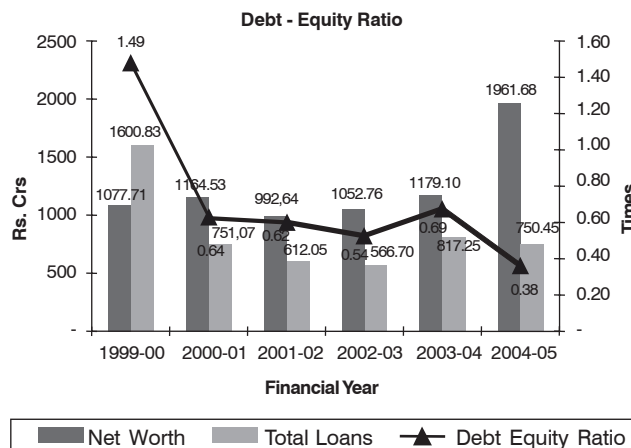
The focus on providing value added logistics and supply chain management services and constant initiatives towards reduction of operating costs has enabled the Company to improve operating margins. Operating margin on TCE basis was substantially higher at 71.16% for the year under review as compared to 59.86% last year. Dry docking expenses were Rs. 39.35 Crores during the year as against Rs. 42.60 Crores during last year.

Total Income and EBITDA Margin



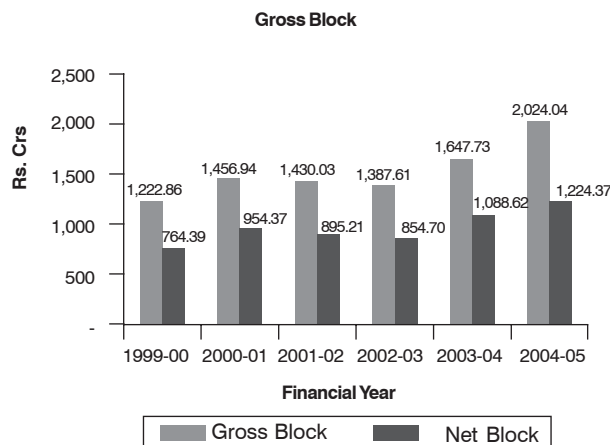
Debt-Equity Ratio:

The Debt : Equity Ratio of your Company has improved to 0.38:1 on 31st March, 2005, as compared to that on 0.69:1 on 31st March, 2004. This has been facilitated by prepaying high cost debt. The de-leveraged balance sheet of your Company provides sufficient flexibility for organic / inorganic growth.



Gross Block

The Gross Block of your Company on 31st March 2005 is Rs. 2024.04 Crores as compared with Rs. 1647.73 Crores on 31st March, 2004. The increase in Gross Block is mainly on account of creation of Revaluation Reserve during the year of Rs. 669.52 Crores.



Interest Cost:

The interest cost of your Company has increased from Rs 69.36 Crores in FY 2004 to Rs 127.04 Crores in FY 2005. This was mainly due to loan arrangement expenses of Rs 59.18 Crores incurred on refinancing of high cost loans. The benefit of the refinancing will accrue over the coming years in the form of reduced interest cost.

Risk Management:

Forex Management: A majority of the revenues of your company are in US Dollar which creates a natural hedge against foreign exchange exposures of the company. Apart from this, Essar group's specialized Forex team provides efficient advisory services to mitigate the exchange risk of your company.

Tax: The striking feature of the tax policy in India during the year under review was the introduction of Tonnage Tax for Indian Shipping companies. Tonnage tax is computed on the basis of the Net Registered Tonnage of the vessels irrespective of the amount of profits made by the Company. The introduction of Tonnage Tax will enable Indian companies to operate more competitively in the global shipping industry. Accordingly, your Company has also opted for Tonnage Tax during the year. Accordingly your Company has reversed the Deferred Tax provision of Rs. 30.58 Crores provided during the earlier years, and the Tax for the year including Tonnage tax provided during the year was Rs. 3.50 Crores. The effective tax rate to the Company during the year under review is 1.36% of the Net Profit.

Freight Risks: An optimum mix of voyage charters, time charters and COAs has enabled your Company to take advantage of the buoyant freight rates and also maintain consistency of cashflows.

Operational Efficiency: Your company's quality personnel are well trained in the upkeep of the vessels. Voyage operations are managed professionally ensuring high productivity levels which increases operational efficiency and utilization thereby increasing the revenues. This is reflected in the high EBITDA margin (TCE basis), which at 71.16% is one of the highest in the industry. Your company's skilled personnel monitor and maintain its oil-spill and other emergency response plans.

Quality and Safety: In its endeavor to achieve excellence through quality practices, your company continuously maintains and tries to improve on its Safety and Environment standards. In line with this the Company has been accredited with ISO 9001:2000 and is working towards obtaining ISO 14000 for quality, safety and environment.

Human Resources: Your Company is managed by highly skilled professionals in all its operations, ashore and afloat, thereby achieving organizational efficiency. The Company undertakes regular onboard and offshore training activities to improve the performance of its employees.

5. INDUSTRY REVIEW AND PROSPECTS :

The Markets

The global economic growth during the year under review was 5%, which was the highest in the last 30 years and is the result of strong growth in industrial countries and exceptionally rapid expansion in emerging markets, notably China. With the revival of the world economy and ongoing globalisation, ocean transport demand grew strongly during the year under review.

Crude Transportation: To meet the rising global energy needs, the oil producing nations increased their output in 2004, principally in the Middle East but in percentage terms to a greater extent in West Africa and the former Soviet Union. Besides China, imports went up in the United States and Western Europe, with India also growing in importance, and generally oil products were transported into longer distances. The ton mile performance of tankers grew by 6% growing above average for the second year running. Total tonnage expanded to 306 million dwt as against 289 million dwt during the last year amid marginally lower new building deliveries, whereas demolitions more than halved compared to last year. On an average capacity increase was close to 4% during the year.

Utilisation of fleet continued to improve and was at 91.5% as compared to 89% during the previous year. The freight rates also improved on account of strong demand and tonnage shortage. Amidst strong fluctuations rate levels were above the previous year, depending on vessel size and whether on time or voyage charter. While oil prices continued to rise, there was no impact on freight rates.

Outlook

Based on favourable demand forecasts, new building orders for units with ice class, were vigorous. As at the year-end the order volume rose somewhat to around 27% of the fleet, which is substantially above replacement needs. In view of the substantial amount of newbuilding deliveries (nearly 10% of the existing fleet), capacity is forecast to grow again strongly despite the phase out required according to the IMO guidelines, while energy consumption will probably go up at a slower pace than 2004. Though high fleet utilisation is likely to suffer during the second half of the calendar year 2005, the employment situation should support rates to stay above the average of the last three years.

Bulk Carriers: In the dry bulk markets, the strong freight market of the previous year continued in the year under review. The bulk carrier fleet grew close to 6% to 320 million dwt, due to a rise in the new building deliveries, with only minor scrapping whereas capacity demand was up by nearly 10%. A combination of higher shipments of iron ore, coal and steel products, not only increased two folds in some cases but were on an average transported over longer distances, and port congestion in exporting and importing countries were responsible for better utilisation of fleet. Apart from China, bulk markets got additional boost from steam coal exports to Japan and Western Europe as well as from steel sector in the United States.

Outlook

Against the backdrop of very firm market conditions, owners ordered numerous new buildings and to an extent Capesize bulk carriers for transportation of iron ore and coal. The order book rose to 20% of the fleet during the year. Capacity is likely to go up by 6% in 2005 while only few vessels likely to be scrapped. At the same time transportation demand is set to grow again strongly, albeit not at the same rate as in 2004. It

remains to be seen to what extent China will be able to maintain the momentum of its booming economy, and whether other emerging countries will stimulate additional demand. Inroads in the development of port facilities and infrastructure and sustained high commodity prices will possibly influence the future demand.

6. GOVERNMENT POLICY:

The implementation of the Tonnage Tax in line with the international practice, has enabled Indian shipping companies to compete globally. As a step towards encouraging growth of the shipping industry, the government is also contemplating exemption to shipping industry from paying service tax with regard to input services received abroad.

A sincere review on seafarer taxation is required by the Government in order to attract quality seafarers to join Indian flag vessels.

Considering the sizable foreign exchange earnings by the shipping industry the government should favourably consider the withdrawal of withholding tax for overseas borrowings, to augment Indian tonnage.

7. SUBSIDIARIES

Your Company has the following Subsidiaries as on March 31, 2005:

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. Energy II Limited, Bermuda, promoted during the year (wholly owned subsidiary of Essar International Limited).

During the year the Company has de-subsidarised two of its non-operating, wholly owned subsidiaries namely, ESL Sea Logistics Limited, Cyprus, and Prime Sea Logistics Limited, Cyprus. During the year the Company has incorporated Essar Pipeline Limited as its wholly owned subsidiary, which has also been de-subsidarised in March 2005. Subsequent to the sale of the vessel, Mt Shravan in February 2005, by its subsidiary, Energy I Limited, the Company has initiated proceedings to liquidate the subsidiary.

The Company has obtained exemption from the Central Government under Section 212(8) of the Companies Act, 1956 from attaching the Balance Sheet, 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. 47/48/2005-CL-III dated 29th March 2005. 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 the investors at the Registered Offices of the Company and its subsidiary companies.

In accordance with Accounting Standard AS-21 on Consolidated Financial Statements 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. Shashi Ruia and Mr. S K Poddar, retire at the ensuing Annual General Meeting of the company and being eligible, offers themselves for reappointment. The term of Mr. Sanjay Mehta, Managing Director expires on 17th Septmeber, 2005 and comes up for re-appointment at the ensuing Annual General Meeting.

During the year Mr. N Srinivasan was appointed as an Additional Director of the Company and holds 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. N Srinivasan, for appointment as a Director of the Company. Mr. N Srinivasan has filed his consent, to act as a Director, with the Company.

During the year ICICI Bank Limited has withdrawn the nomination of Mr. M P Modi from the Board of the Company. Your Directors express their gratitude to Mr. M P Modi for the guidance provided to the company throughout his tenure as Director.

9. AUDITORS:

Your Company's Auditors, M/s B P Jain & Co., Chartered Accountants, will retire at the ensuing Annual General Meeting. The Company has received a letter informing their intention not to seek reappointment as Auditors of the Company.

Your Directors take this opportunity to express their appreciation for the support, cooperation, assistance and services rendered by M/s B P Jain & Co., Chartered Accountants.

It is now proposed to appoint M/s. Deloitte Haskins & Sells, Chartered Accountants as the Auditors of the Company from the conclusion of the 29th Annual General Meeting until the conclusion of the next Annual General Meeting. M/s Deloitte Haskins & Sells, Chartered Accountants have also confirmed to the company that if appointed, 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 The Calcutta Stock Exchange Association Limited pursuant to the resolution passed by the members at the 27th Annual General Meeting held on 05th September 2003. The equity shares of the Company are listed on The Stock Exchange, Mumbai.

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 COMPANIES (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 of ships, Loan repayments, Operating expenses, Interest etc.) | : Rs. 805.24 Crores |
| (2) Earned (including savings, loan receipts, sale of Ships, freight, charter hire earnings, etc.) | : Rs. 1,527.24 Crores |

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. 46/60/2005-CL-III dated April 5, 2005.

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.

15. TRANSFER TO THE INVESTOR EDUCATION AND PROTECTION FUND:

In terms of Section 205C of the Companies Act, 1956, an amount of Rs. 4.67 Crores being unclaimed Dividend, Fixed Deposits, Debentures and interest thereon was transferred during the year to the Investor Education and Protection Fund established by the Central Government.

16. 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 the detecting fraud and other irregularities;
- The directors had prepared the annual accounts on a going concern basis.

17. 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, Indian Oil Corporation Limited, Hindustan Petroleum Corporation Limited, Bharat Petroleum Corporation Limited, ICICI, IDBI, IFCI, State Bank of India, GIC, LIC, UTI and all its other bankers, charterers and other business associates, shareholders and employees for their continued support and co-operation.

For and on behalf of the Board

Place : Mumbai,
Dated : April 28, 2005

Sanjay Mehta **R.N. Bansal**
Managing Director 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.

The Company has complied with all the mandatory requirements mentioned under Annexure 2 of the Code of Corporate Governance. In respect of Non Mandatory requirements the Company has complied with Clause b under Annexure 3 – Remuneration Committee.

2. Board of Directors:

The Company has a non-executive Chairman and the number of Independent Directors is more than the one-third of the total number of Directors. The number of Non-Executive Directors is more than 50% of the total number of Directors.

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

As at March 31, 2005 the Board consisted of six members. Mr. N Srinivasan has been appointed as an Additional Director on the Board of the Company on April 28, 2005. The composition, category of directors and directorships held in other companies of the Directors on the Board of the company was 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 |
| Mr. Shashi Ruia (Chairman) | Promoter, Non-Executive | 6 | — | — | — |
| Mr. Ravi Ruia (Vice Chairman) | Promoter, Non-Executive | 7 | — | — | — |
| Mr. Anshuman Ruia | Promoter, Non-Executive | 7 | — | — | 3 |
| Mr. Sanjay Mehta (Managing Director & CEO) | Non-Promoter, Executive | 1 | — | — | 1 |
| Mr. R. N. Bansal | Independent, Non-Executive | 8 | 2 | 5 | 4 |
| Mr. S. K. Poddar | Independent, Non-Executive | 12 | 3 | 2 | 4 |
| Mr. N Srinivasan | Independent, Non-Executive | 13 | 6 | 5 | 3 |

B. Details of Board Meetings held during the year:

| Sr. No. | Date | Board Strength | No. of Directors present |
|---------|---------------------|----------------|--------------------------|
| 1 | 19th May, 2004 | 7 | 4 |
| 2 | 30th July, 2004 | 7 | 4 |
| 3 | 21st October, 2004 | 7 | 5 |
| 4 | 02nd November, 2004 | 7 | 4 |
| 5 | 11th December, 2004 | 7 | 3 |
| 6 | 24th January, 2005 | 6 | 3 |