



Report



Essar Shipping Limited

30th Annual Report 2005-2006

BOARD OF DIRECTORS

Shashi Ruia
Chairman

Ravi Ruia
Vice Chairman

Anshuman S Ruia
Director

Sanjay Mehta
Managing Director

A R Ramakrishnan
Wholetime Director & CEO

R N Bansal
Independent Director

N Srinivasan
Independent Director

S K Poddar
Independent Director

COMPANY SECRETARY
Hemant K Thanvi

AUDITORS
Deloitte Haskins & Sells

SOLICITORS
M/s. Khaitan & Co.

AUDIT COMMITTEE

Anshuman S Ruia
R N Bansal
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
Wholetime Director & CEO

V Ashok
Chief Financial Officer

Capt. S K Bhatia
Vice President (Marketing)

REGISTERED OFFICE
2494, 17th Main, HAL II Stage,
Bangalore 560 008.

CORPORATE OFFICE
Essar House
11, Keshavrao Khadye Marg,
Mahalaxmi, Mumbai 400 034.

REGISTRARS & TRANSFER AGENTS
Data Software Research Company Pvt. Ltd.
"Sree Sovereign Complex",
22, 4th Cross Street,
Trustpuram, Kodambakkam,
Chennai 600 024.
e-mail: dsr cmd@vsnl.com

NOTICE TO MEMBERS

Notice is hereby given that the Thirtieth Annual General Meeting of Essar Shipping Limited will be held at the Dayanandasagar Memorial Hall, Chandrasagar Complex No.264/266, T. Mariappa Road, 2nd Block (Near Ashoka Pillar), Jayanagar, Bangalore 560 011 at 10.15 a.m. on Friday, September 22, 2006, 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 2006, 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 the place of Mr. Ravi Ruia, who retires by rotation and being eligible, offers himself for re-appointment.
3. To appoint a Director in the place of Mr. R N Bansal, who retires by rotation and being eligible, offers himself for re-appointment.
4. To re-appoint M/s. Deloitte Haskins & 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 and to fix their remuneration.

SPECIAL BUSINESS:

5. To consider and if thought fit, to pass the following resolution as an Ordinary resolution:
 - (a) "RESOLVED THAT Mr. A R Ramakrishnan, who was appointed as an Additional Director by the Board of Directors pursuant to Section 260 of the Companies Act, 1956 and who 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 Director of the Company."
 - (b) "RESOLVED THAT pursuant to the provisions of Section 198,269, 309 and all other applicable provisions, if any, of the Companies Act, 1956 read with schedule XIII to the Companies Act, 1956, (including any statutory modification(s) or re-enactment thereof for the time being in force) and subject to such approval from the Central Government or any other authority, as may be required, consent of the Company be and is hereby accorded to the appointment of Mr. A R Ramakrishnan as a Wholtime Director of the Company for a period of five years commencing from July 31, 2006 on the terms and conditions including remuneration as set out in the Explanatory statement annexed to the notice convening this meeting with liberty to the Board of Directors (hereinafter referred to as "Board" which term shall be deemed to include the Remuneration/Compensation Committee of the Board) to alter and vary the terms and conditions of the said appointment, as may be agreed to between the Board and Mr. A R Ramakrishnan."

RESOLVED FURTHER THAT the Board of Directors be and is hereby authorized to take all such steps as may be necessary, proper or expedient to give effect to this resolution."

By Order of the Board

HEMANT K THANVI
COMPANY SECRETARY

Place : Mumbai
Dated : July 31, 2006

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 Monday 18th September, 2006 to Friday 22nd September 2006, both days inclusive.
4. 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 Pvt. Ltd., "Sree Sovereign Complex", 22, 4th Cross Street, Trustpuram, Kodambakkam, CHENNAI 600 024, Tel : 91-44-24833738, Fax: 91-44-24834636.
5. 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 Bombay Stock Exchange Limited, Mumbai, is in compulsory demat mode.
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.Ltd.
8. Members desiring any information regarding the accounts are requested to write to the Company at Essar House, 11, Keshavrao Khadye Marg, Mahalaxmi, Mumbai 400 034 atleast 7 days before the date of the Meeting to enable the company to keep the information ready.
9. The Chairman of the Audit Committee of the Board of Directors shall be present at the Annual General Meeting to answer queries of shareholders arising out of the Accounts of the Company.
10. The Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956 relating to the Special Business mentioned in item no. 5(a) and 5(b) of the accompanying notice is annexed.
11. Appointment / Re-appointment of Directors:
At the ensuing Annual General Meeting, Mr. Ravi Ruia and Mr. R N Bansal retire by rotation and being eligible offer themselves for reappointment and Mr. A R Ramakrishnan is being appointed as a Director. 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 31, 2006

ANNEXURE TO NOTICE:

Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956.

Item no. 5 (a) and 5 (b)

Mr. A R Ramakrishnan was appointed as an Additional Director of the Company on July, 31, 2006 and thereafter was appointed as a Wholetime director of the company for a period of five years from July 31, 2006. In terms of section 260 of the Companies act, 1956 and according to Article 73 of the articles of association of the Company Mr. Ramakrishnan holds the office upto the date of the ensuing Annual General Meeting. Accordingly the resolution at item No. 5 (a) of the notice is being proposed for his appointment as Director of the Company.

Mr. A. R. Ramakrishnan is a graduate in Mechanical Engineering with an Honours Degree and is a Post Graduate from the Indian Institute of Management, Kolkata. He has been with the Essar Group since 1992. He spent the first two and half years as a Business Analyst, dealing with all the Essar Group companies. He joined the management team of Essar Shipping Limited at the end of 1994 as General Manager (Commercial). In 1999, he took over as Chief Operating Officer. Prior to joining the Essar Group, Mr. Ramakrishnan was employed with Godrej for 12 years gaining experience in marketing, sales, manufacturing, systems and finance. He has wide experience in dealing with International companies and agencies, including building joint ventures.

Mr. Ramakrishnan is presently serving as a Director on the Board of the Indian National Shipowners' Association (INSA) and The Baltic and International Maritime Council (BIMCO). He is also on the Board of Trustees of Chennai Port Trust. He had earlier served on the Board of Trustees of New Mangalore Port Trust for a period of four years. He has been a member of various Expert Groups constituted by Ministry of Shipping. He represents the company at various National and International Forums on shipping related matters. He does not hold any shares in the Company.

The gist of Material terms and conditions relating to his appointment as Wholetime Director are as follows:

- (a) Period of Appointment: 5 years from July 31, 2006.
- (b) In consideration of his duties, Mr. Ramakrishnan shall be paid the following remuneration:

1. Remuneration :

Basic salary in the range of Rs. 75,000 to Rs. 3,00,000 per month as may be determined by the Board or Remuneration/ Compensation Committee constituted by the Board.

In addition to the Basic Salary, the Wholetime director shall be entitled to perquisites and allowances like accommodation (furnished or otherwise) or House Rent Allowance in lieu thereof; House Maintenance Allowance, 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 or Remuneration/ Compensation Committee up to the limit of Rs. 12,00,000 per month. As per the rules of the Company, the Director is eligible for Provident Fund, Gratuity and Superannuation, which payments shall not be included for the purpose of calculation of the Managerial Remuneration.

2. Minimum Remuneration:

Notwithstanding anything to the contrary herein contained where in any financial year during the currency of tenure of Mr. Ramakrishnan, the Company has no profits or its profits are inadequate, the Company will pay remuneration by way of salary and perquisites and allowances as specified above subject to compliance with the applicable provisions of Schedule XIII to the Act, if and to the extent necessary, with the approval of the Central Government.

- (c) Mr. Ramakrishnan shall not be paid any sitting fees for attending the Meetings of the Board or Committees thereof.
- (d) Mr. Ramakrishnan shall be bound by the non-compete and confidentiality provisions as specified in his agreement.
- (e) Mr. Ramakrishnan shall cease to be a director if he ceases to be an employee.
- (f) Either party shall be entitled to terminate the Agreement by giving not less than three calendar months prior notice in writing in that behalf to the other party, provided that the Company shall be entitled to terminate Mr. Ramakrishnan's employment at any time by payment to him of three months remuneration in lieu of such notice.

The above may be treated as an abstract of the agreement between the company and Mr. A R Ramakrishnan pursuant to section 302 of the Companies Act, 1956. A copy of the proposed agreement is available for inspection at the Registered office of the Company during the business hours on any working day (except Saturdays, Sundays and public holiday.)

The Board of Directors are of the opinion that the appointment of Mr. A R Ramakrishnan would be in the best interest of the company. Directors accordingly recommend the resolution at Item No. 5 (b) of the notice for your approval.

None of the directors other than Mr. A R Ramakrishnan is concerned or interested in the resolution at item No. 5 (a) and 5 (b).

By Order of the Board

HEMANT K THANVI
COMPANY SECRETARY

Place : Mumbai
Dated : July 31, 2006.

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

Name of the Director	Mr. Ravi Ruia	Mr. R N Bansal	Mr. A R Ramakrishnan
Date of Birth	22 nd April, 1949	15 th July 1930	7 th February, 1957
Qualifications	Eng. Course	B. Com., F.C.A., A.C.S.	Mechanical Engineer, MBA from IIM-Kolkata
Date of appointment	1 st September, 1989	19 th June, 1987	31 st July, 2006
Experience/Expertise in specific functional areas	<p>Mr. Ravi Ruia, Vice Chairman, Essar Group, belongs to the generation of industrialists who have played a significant role in strengthening India's industrial renaissance. An engineer by training, his entrepreneurial abilities have enabled the Essar Group to be one of the leading corporate houses of India, that now has an asset base of Rs.23,000 crores. Mr. Ravi Ruia began his career in his family business in 1969 and has since then worked along with his elder brother Mr. Shashi Ruia to steer the Essar Group to its current position. The Group's current interests span the core sector industries of steel, oil & gas, power, Telecom, Information Technology, shipping & logistics and construction. Mr. Ravi Ruia masterminded the consolidation of Essar's business through backward and forward integration. He was responsible for setting up the overseas ventures of the Group. He is connected with several industry and trade association both at the national and bilateral level.</p>	<p>Mr. R N Bansal is a Commerce Graduate and Chartered Accountant and Company Secretary. He joined the Department of Company Affairs in December 1956. He was the Registrar of Companies, Punjab, Tamilnadu and Maharashtra. He was Regional Director, Company Law Board. He served as Government Nominee Director on all major Stock Exchanges in India.</p>	<p>Mr. A. R. Ramakrishnan is graduated in Mechanical Engineering with an Honours Degree and is a Post Graduate from the Indian Institute of Management, Kolkata. He has been with the Essar Group since 1992. He spent the first two and half years as a Business Analyst, dealing with all the Essar Group companies. He joined the management team of Essar Shipping at the end of 1994 as General Manager (Commercial). In 1999, he took over as Chief Operating Officer. Prior to joining the Essar Group, Mr. Ramakrishnan was employed with Godrej for 12 years gaining experience in marketing, sales, manufacturing, systems and finance. He has wide experience in dealing with International companies and agencies, including building joint ventures.</p>
List of other Indian Companies in which Directorship held	<ol style="list-style-type: none"> 1. Essar Steel Ltd 2. Essar Investments Ltd 3. Essar Oil Limited 4. India Securities Limited 5. Hutchison Essar Ltd. 6. Essar Power Limited 7. Hazira Plate Ltd. 8. Hazira Steel Limited 9. Essar Steel (Hazira) Ltd. 	<ol style="list-style-type: none"> 1. Chambal Fertilizers Chemicals Ltd 2. Orient Ceramics and Industries Ltd 3. The Hindoostan Spinning & Weaving Mills Ltd. 4. Gobind Sugar Mills Ltd 5. Spice Ltd 6. Jonas Woodhead & Sons (India) Ltd 7. Pushpsons Industries Ltd 8. Vadinar Oil Terminal Ltd. 	Nil
Chairman/Member of the Committees of the Board of Directors of other Companies in which he is a Director	Nil	<p><u>Chairman</u></p> <ol style="list-style-type: none"> 1. Chambal Fertilizers and Chemicals Ltd. - Shareholders Grievance Committee. 2. Spice Limited - Audit Committee 3. Pushpsons Industries Ltd. - Audit Committee 4. Orient Ceramics & Industries Ltd. - Audit Committee 5. Orient Ceramics & Industries Ltd. - Shareholders Grievance Committee. <p><u>Member</u></p> <ol style="list-style-type: none"> 1. Chambal Fertilizers and Chemicals Ltd. - Audit Committee 2. Gobind Sugar Mills Ltd. - Audit Committee 	Nil
Details of Shareholding (both own or held by/for other persons on a beneficial basis), if any, in the Company	Nil	Nil	Nil

DIRECTORS' REPORT**To the Members of Essar Shipping Limited**

1. Your Directors take great pleasure in presenting the Thirtieth Annual Report of your Company together with Audited Accounts for the year ended 31st March, 2006.

2. FINANCIAL RESULTS:

The year under review was a good year for your Company. Tonnage demand for the world merchant fleet did not grow as much as in the two previous years and the fleet growth was significantly higher compared with previous years. The result was a modest decline in the utilization rate, but still at the second highest level ever registered since 1990.

The continued buoyancy in the market for the second successive year resulted in your Company registering a Total Income of Rs. 760.30 Crores (USD 172.87 million), as compared to Rs.862.57 Crores (USD 196.13 million) during the previous year on a stand alone basis. The decrease in earnings was largely due to the sale of four Suezmax tankers during the year.

Your Company has made a Net Profit of Rs. 185.22 Crores (USD 42.11 million), after providing for Interest at Rs. 26.03 Crores (USD 5.92 million) and depreciation of Rs. 37.48 Crores (USD 8.52 million).

The summary of financial results of the company for the year ended 31st March, 2006 is furnished below:

(Rs. in Crores)

	For the year ended 31-03-2006	For the Year ended 31-03-2005
Total Income	760.29	862.57
Total Expenditure	502.16	393.98
Gross Profit	258.13	468.59
Less: Interest & Finance charges	26.03	127.04
Less: Provision for Depreciation	37.48	80.01
Profit before tax	194.62	261.54
Less: Provision for Tax	(9.40)	(3.50)
Add: Reversal of Deferred Tax Liability	—	30.58
Profit after tax	185.22	288.62
Add: Balance in Profit and Loss Account as per last Balance Sheet	331.23	109.03
Less: Transfer to Tonnage Tax Reserve	(26.00)	(72.00)
Add: Transfer from Debenture Redemption Reserve	—	5.10
Add: Dividend of earlier years on forfeited shares	—	0.48
Balance carried forward to Balance Sheet	490.45	331.23

3. DIVIDEND:

Your Company is evaluating various organic and inorganic opportunities for growth. These will require substantial investments which will accrue returns to the shareholders over a long run. Considering this the Board of Directors has not recommended any payment of dividend this year.

4. MANAGEMENT DISCUSSION, ANALYSIS AND REVIEW:**A. Energy Transportation Group (ETG):**

This Division contributed Rs. 102.99 Crores to the total income during the financial year. The vessels in this division were prudently employed with a combination of spot, timecharter and voyage charter in order to optimize the earnings per day and also to take advantage of the buoyant freight markets.

In order to increase its market share in the Crude Oil Transportation and Crude Oil Transportation Management Services, your Company has acquired 2 Very Large Crude Carriers (VLCC) during the year, MT Ashna and MT Smiti. Both the vessels are modern and built in 1999 and 2005 respectively. MT Ashna has been acquired on a Bareboat Cum Demise charter basis with a purchase option at the end of a pre-agreed period. With these two acquisitions, the total Deadweight Tonnage of this division is 737,938 tons and comprises of two VLCCs and one Suezmax tanker.

During the year under review, your Company sold four of its Suezmax tankers. This transaction was undertaken, taking into view your Company's requirement of investing into modern VLCC fleet. The sale of the Suezmax tankers has enabled your Company to take advantage of high asset valuation prevailing in the shipping market and dispose these tankers at attractive value. All the four vessels were delivered to the buyers in April 2005.

B. Integrated Bulk and Petroleum Product Transportation Group (IBPPT):

The group provides Integrated Bulk Transportation and Petroleum Products Transportation services to various refineries, steel mills, and traders along the Asian and South East Asian coast through various employment contracts including Contracts of Affreightment (COA's). It contributed Rs. 575.82 crore to the Total Income during the year under review. The group consists of the following divisions:

- Product Carrier Division:** This division consists of three product tankers which were primarily employed with Indian oil majors servicing their requirements along the Indian Coast.
- Bulk Carrier Division:** This division consists of 3 Capesizes, 3 Handymax/Handysize vessels, 11 Mini bulk carriers and 4 Tugs. The vessels were employed on COA's with major steel mills in India and South East Asia to provide supply chain logistics services along the Indian Coast and for Intra-Asian trade.

C. Terminalling Group:

The members are aware of the investments made by your Company in Vadinar Oil Terminal Limited. We are glad to mention that the construction activity at the Terminal is nearing completion and the project is expected to be commissioned by September 2006.

Once completed, the project will provide end-to-end sea logistics solutions to the crude oil refiners and other traders, through its crude oil and petroleum products terminalling and storage facilities at Jamnagar.

Financial Analysis:

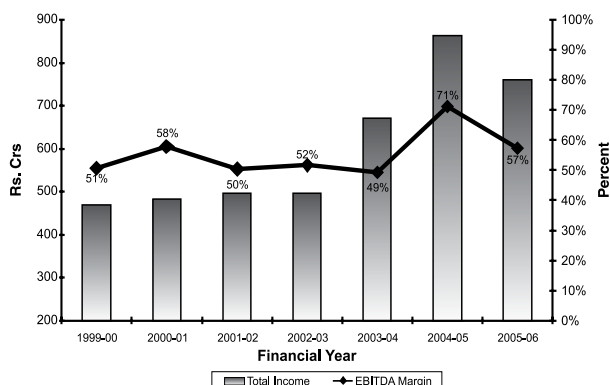
During the year under review, your Company has achieved a Total Income of Rs 760.30 Crores and a Net profit of Rs 185.22 Crores. This has been achieved through its focus on providing value added services to its clients and the strong freight markets.

The Company has also focussed on its endeavour to lower costs and reduce technical and commercial downtime on the vessels thereby ensuring better utilization of its assets. Further rationalization of operating costs is contemplated through supplier negotiations, cash payments, reduced borrowing cost, etc.

Vessel operating margins:

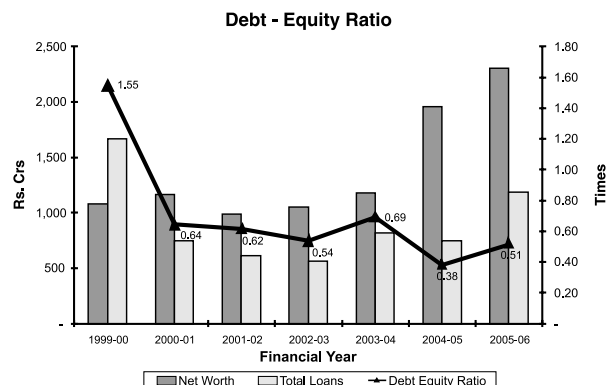
The focus on providing value added logistics and supply chain management services and constant initiatives towards reduction of operating costs has enabled your Company to improve operating margins. However, the Operating Margin on TCE basis was lower at 57.43% for the year under review as compared to 71.16% last year. The reduction in the operating margin was largely on account of the weakened markets as compared to the previous year.

Dry docking expenses were Rs. 30.20 Crores during the year as against Rs 39.35 Crores during last year. The Direct Voyage Expenses during the year under review were Rs. 310.84 Crores as compared Rs. 204.10 Crores during the previous year. The increase in the Direct Voyage Expenses is due to inchartering of vessels for providing logistics services to the steel mills.

Total Income and EBITDA:**Total Income & EBITDA Margin**

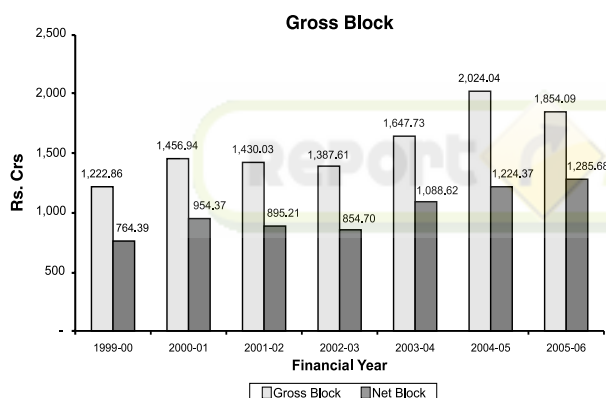
Debt-Equity Ratio:

The Debt Equity Ratio of your Company has stood at 0.51:1 on 31st March, 2006, as compared to that of 0.38:1 on 31st March, 2005. The increase in the Debt Equity Ratio was on account of additional debt for the acquisition of the two VLCCs. It also needs to be mentioned that your Company prepaid approximately Rs. 540 Crores of debt during the year.



Gross Block:

The Gross Block of your Company as at 31st March 2006 is 1854.09 Crores as compared with Rs. 2024.04 Crores as at 31st March 2005.



Interest:

The interest outgo of your Company has reduced from Rs 127.04 Crores in FY 2005 to Rs 26.03 Crores in FY 2006. This was mainly because of prepayment and refinancing of loans at lower cost of interest. Your Company raises debt at very competitive rates and the transaction costs incurred for contracting the loans has been competitive.

5. RISK MANAGEMENT :

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

Tax: Your Company paid a total tax of Rs. 9.40 Crores during the year under review as against Rs. 3.50 Crores for 2004-05. The effective tax rate to the Company during the year under review is 4.83% of the Net Profit before Tax.

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

Operational Efficiency: Your Company's staff is 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 EBITDA margins, which for the year stood at 57.43%.

Quality and Safety: Your Company takes pride in being the forerunner in the industry when it comes to quality and safety. In its endeavour to achieve highest quality standards and practices for both procedure and environment, your Company has been accredited with ISO 9001:2000 for Quality and ISO 14000 for environment. Your Company was also awarded the Safest Indian Shipping Company by the Director General of Shipping during the year under review, which emphasises your Company's efforts towards maintaining best quality and safety standards.

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.

6. RE-ORGANISATION OF BUSINESSES:

As a part of its strategy to enhance shareholders value and to consolidate its positions as an integrated sea logistics services provider, the Board of Directors of your Company has approved the reorganization of the Company's investments in Terminalling and Logistics businesses.

In order to achieve the above, your Company will shortly enter into an agreement with Essar Shipping & Logistics Ltd, Cyprus, (the group company) to sell its investments in Vadinar Oil Terminal Limited (VOTL) and Essar Logistics Limited (ELL) for a total cash consideration of USD 215 million.

The sale proceeds will provide your Company liquidity for investments in targeted fleet acquisitions allowing it to increase its market share in Energy Transportation and Integrated Bulk Transportation businesses.

7. INDUSTRY REVIEW AND PROSPECTS:

The Markets

During the year under review, the US economy continued to have a positive GDP growth rate. Economic growth in Japan recovered and is well established and in Europe there were signs of domestic demand picking up again. Outside the OECD area economic growth was well maintained, in China with 10 percent GDP growth and in India with 7.5 percent growth. Stimulated by higher oil prices there has also been strong economic growth in the Middle East, which is an important region for the business profile of your Company.

After two consecutive years with extraordinary high growth rates of 9 percent in the demand for world merchant tonnage, the growth rate fell to 6 per cent during the year under review. This 6 percent growth is in line with the average for the first six years of this decade. It is definitely worth considering when we compare it with the average tonnage demand of barely 3 percent in the 1990s. The two fold increase in demand is on account of following a lift in the underlying long-term growth in the world economy, up from 3.3 percent per year on average in the 1990s to 3.9 percent so far in this decade and favorable shift in the relation between economic growth and seaborne trade.

Crude Transportation:

The most important trend in the global oil market during the year under review was the stagnation in oil production outside OPEC. At the beginning of the year International Energy Association (IEA) expected an increase in non-OPEC production of more than 1 mbd. Hurricane-related supply disruptions in the US Gulf, higher North Sea depletion rates than anticipated and a more moderate growth in Russian oil output were the main elements behind the stagnation of non-Opec production. This led to significant rise in the price of crude oil.

Oil import statistics for most of the year under review for countries covering 75 percent of global seaborne oil trade in volume terms showed a modest 2 percent growth for crude, while imports of refined oil products was up by as much as 10 percent. This was a continuation from the year before in the strong shift in seaborne trade from crude to refined products. This process was mainly driven by the US, where the shortage of refining capacity is increasing rapidly. The mismatch of crude qualities, refinery structure and demand mix is a driving force behind strong dynamics in the seaborne oil trade. Analysts have expected these dynamics to result in a stronger volume growth in seaborne trade of refined products than in the trade of crude oil and longer transport distances.

The freight rates for VLCCs reached an average of \$55,000 per day during the year under review, down from the extraordinary high \$89,000 per day the year before. The lowest level of \$18,000 per day was recorded in June 2006, the highest of \$125,000 in November 2005. The freight rates for Suezmax tankers averaged \$48,000 per day during the year under review, versus \$65,000 per day during the previous year.

Outlook

The current tanker order book shows 24 million deadweight of new buildings to be delivered in calendar year 2006. According to IMO regulation only 3 million deadweight of tankers would be phased out. In addition to the mandatory scrapping there will be removals of an extra 4 million deadweight of tanker tonnage. This should lead to a fleet growth of 6.5 percent as an annual average, 5 percent for the VLCC segment and 6 to 7 percent for Suezmax and Aframax segment. This could lead to another year of declining utilization rates for tankers. The trend in oil consumption will be the most decisive factor. Consensus forecasts for the world economy says that the coming year will be another year of high economic growth. In combination with a possible moderate fall in oil prices, oil consumption is expected to show some strength and which should lead to a comfortable return on capital for shipowners.

Bulk Carriers:

Due to a slight decrease in the average transport distances combined with a modest reduction in port congestion, tonnage demand rose slightly less than 4 percent during the year under review. The active dry bulk fleet increased by nearly 7 percent leading to capacity utilization rate falling from 97 per cent during the previous year to 94 percent during the year under review.

Average freight rates during the year under review dropped significantly from the all time high levels of the previous year. About 25 percent lower freight rates were noted for Handymax and Capesize tonnage, while Panamax ships experienced nearly 30 percent lower rates than the year before.

Iron ore transports rose 11 percent, mainly driven by China whereas trade in steel products fell about 4 percent, as all major importers reduced their imports over the last year. Global coal transports increased by only 2 percent during the year under review, which was less than expected at the start of the year.

Outlook

Steel production is believed to increase further, new coal-fired power utilities planned to commence operations in the coming year, and taking into account that alternative energy sources are expensive compared to coal, it is believed that the international coal trade is in for a recovery in the coming year.

There are 26 million deadweight of new ships scheduled to enter operation in the coming year whereas scrapping is expected to be 3-3.5 million deadweight. On this basis, provided that the share of combined ships in the dry trade remains stable, the active dry bulk fleet is expected to increase by 6-7 percent. Based on the above, the active dry bulk fleet will experience a further drop in capacity utilization. Freight rates are therefore expected to average out lower than in the year under review. The most critical factor will be the consequences of a continuation of the recent over-production in steel. A more negative development in Chinese steel production and consequently in iron ore imports, will naturally cause a more severe setback in freight rates.

8. GOVERNMENT POLICY:

A sincere review on issues relating to Withholding Tax, Tax on Ship Staff salary and Fringe Benefit Tax from the Government is required in order to make the Indian shipping industry globally competitive.

9. SUBSIDIARIES:

Your Company has the following Subsidiaries as on March 31, 2006:

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 II Limited, Bermuda (wholly owned subsidiary of Essar International Limited).

During the year the Company has voluntarily liquidated one of its wholly owned subsidiary Energy I Limited, Bermuda.

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. 47/70/2006-CL-III dated March 8, 2006. 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 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.

10. DIRECTORS:

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

11. AUDITORS:

M/s Deloitte Haskins & Sells, Chartered Accountants, retire at the ensuing Annual General Meeting and being eligible offer themselves for reappointment. The Audit Committee has recommended the appointment of M/s. Deloitte Haskins & Sells, Chartered Accountants as Auditors of the Company. M/s. Deloitte Haskins & Sells, Chartered Accountants have confirmed to the Company that if appointed, their appointment will be in accordance with the provisions of The Companies Act, 1956.

12. 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 has complied with the various requirements under the Corporate Governance reporting system.

13. 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. 689.38 Crores |
| (2) Earned (including savings, loan receipts, sale of Ships, freight, Charter hire earnings, etc.) | : Rs. 1,642.99 Crores |

14. 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. 46/70/2006-CL-III dated March 13, 2006.

15. 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.

16. TRANSFER TO THE INVESTOR EDUCATION AND PROTECTION FUND:

In terms of Section 205C of the Companies Act, 1956, an amount of Rs. 0.79 Crores being unclaimed Dividend, Debentures and interest thereon 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:

- (a) in the preparation of the annual accounts, the applicable accounting standards had been followed.
- (b) 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 of the Company for the year.

- (c) 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.
- (d) 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, Indian Oil Corporation Limited, Hindustan Petroleum Corporation Limited, Bharat Petroleum Corporation Limited, State Bank of India and all its other bankers, charterers and other business associates and shareholders for their continued support and co-operation.

Place: Mumbai
Date : 26th June 2006.

For and on behalf of the Board

Sanjay Mehta
Managing Director

R. N. Bansal
Director

"Persons constituting 'group' coming within the definition of group as defined in the Monopolies Restrictive Trade Practices Act, 1969 for the purpose of interse transfer of shares of the Company under regulation 3(1)(e)(i) of SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 1997".

Sr.No.	Name of the Company
1.	Essar Global Limited
2.	Essar Infrastructure Holdings Limited
3.	Essar Steel Holdings Limited
4.	Essar Energy Holdings Limited
5.	Essar Logistics Holdings Limited
6.	Essar Shipping & Logistics Limited
7.	India Shipping
8.	Asia Pacific Markets Limited
9.	Asia Pacific Corporation Limited
10.	Asia Pacific Enterprises Limited
11.	Asia Far East Limited
12.	Essar Investments Limited
13.	Teletech Investments (India) Limited
14.	ETHL Global Capital Limited
15.	Hazira Steel 2

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

Your company believes that adhering to global standards of Corporate Governance is essential to enhance shareholders value and achieve long term corporate goals. The Company's philosophy on Corporate Governance stresses the importance of transparency, accountability and protection of shareholder interests. The Board conducts periodic review of business plans, monitors performance and compliance to regulatory requirements.

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, 2006 the Board consisted of seven members. 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 Ltd. Companies	No. of Directorships in Indian Private Ltd. Companies	No. of Board Committee other than Essar Shipping Limited in which	
				Chairman	Member
Mr. Shashi Ruia (Chairman)	Promoter, Non-Executive	9	–	–	–
Mr. Ravi Ruia (Vice Chairman)	Promoter, Non-Executive	9	–	–	–
Mr. Anshuman Ruia	Promoter, Non-Executive	10	–	–	3
Mr. Sanjay Mehta (Managing Director)	Non-Promoter Executive	1	–	–	1
Mr. R. N. Bansal	Independent, Non-Executive	8	2	5	2
Mr. S. K. Poddar	Independent, Non-Executive	11	3	3	3
Mr. N Srinivasan	Independent, Non-Executive	12	1	–	–

B. Details of Board Meetings held during the year:

Sr. No.	Date	Board Strength	No. of Directors present
1	April 28, 2005	7	5
2	June 30, 2005	7	4
3	July 22, 2005	7	3
4	October 26, 2005	7	4
5	January 30, 2006	7	4

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
Mr. Shashi Ruia	5	2	No
Mr. Ravi Ruia	5	1	No
Mr. Anshuman Ruia	5	4	Yes
Mr. Sanjay Mehta	5	4	Yes
Mr. R N Bansal	5	4	Yes
Mr. S K Poddar	5	–	No
Mr. N Srinivasan	5	5	Yes

3. Audit Committee:

The Company has an Audit Committee with scope of activities as set out in the amended clause 49 of the Listing Agreement with the Stock Exchange read with Section 292A of the Companies Act, 1956. The broad terms of reference of the Audit Committee are as under:

- 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.
- Approval of payment to statutory auditors for any other services rendered by the statutory auditors.
- Reviewing with the management annual financial statement before submission to the Board
- Reviewing, with the management, the quarterly financial statements before submission to the board for approval
- Reviewing with the management performance of statutory and internal auditors, and 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
- Reviewing the findings of any internal investigations by the internal auditors into matters where there is suspected fraud or irregularity or a failure of internal control system of a material nature and reporting the matter to the Board.
- 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 one Independent and one Non-Executive Promoter Director as of April 1, 2005. During the year Mr. N Srinivasan, independent director has been inducted as a member of the committee at the Board Meeting held on April 28, 2005. All the members of the Committee are financially literate and have relevant finance and/or audit exposure. Mr. R N Bansal is elected as the Chairman at each meeting. The Managing Director, General Manager - Accounts, Statutory Auditors and Internal Auditors of the Company attend the meetings. The Company Secretary is the Secretary to the Committee.