



Essar Shipping Limited

Annual Report 2006 - 2007

BOARD OF DIRECTORS

Shashi Ruia

Chairman

Ravi Ruia

Vice Chairman

Anshuman Ruia

Director

Rewant Ruia

Director

R. N. Bansal

Independent Director

N. Srinivasan

Independent Director

S. K. Poddar

Independent Director

Sanjay Mehta

Managing Director

A. R. Ramakrishnan

Wholetime Director & Chief Executive Officer

V. Ashok

Wholetime Director

COMPANY SECRETARY

Manoj Contractor

AUDITORS

Deloitte Haskins & Sells, Mumbai

SOLICITORS

Khaitan & Co.

AUDIT COMMITTEE

Anshuman Ruia

R. N. Bansal

N. Srinivasan

COMPENSATION COMMITTEE

Ravi Ruia

Anshuman Ruia

Sanjay Mehta

SHARE TRANSFER & SHAREHOLDERS' GRIEVANCE COMMITTEE

Ravi Ruia

Sanjay Mehta

A. R. Ramakrishnan

V. Ashok

MANAGEMENT TEAM

Sanjay Mehta
Managing Director

A. R. Ramakrishnan

Wholetime Director & Chief Executive Officer

V. Ashok

Wholetime Director

REGISTERED OFFICE

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

CORPORATE OFFICE

Essar House

11, Keshavrao Khadye Marg,

Mahalaxmi, Mumbai 400 034.

REGISTRARS & SHARE TRANSFER AGENTS

Data Software Research Company Pvt. Ltd.

"Sree Sovereign Complex",

22, 4th Cross Street,

Trustpuram, Kodambakkam,

Chennai 600 024.

e-mail: dsrclmd@vsnl.com

NOTICE TO MEMBERS

Notice is hereby given that the Thirty-first 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 11.00 am on Tuesday, September 25, 2007, to transact the following business:

ORDINARY BUSINESS:

1. To receive, consider and adopt the Profit and Loss Account for the year ended March 31, 2007 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. Anshuman Ruia, who retires by rotation and being eligible, offers himself for re-appointment.
3. To appoint a Director in place of Mr. S. K. Poddar, who retires by rotation and being eligible, offers himself for re-appointment.
4. To appoint a Director in place of Mr. Shashi Ruia, who retires by rotation and being eligible, offers himself for re-appointment.
5. To re-appoint Messrs. 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:

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

"RESOLVED THAT Mr. Rewant Ruia, 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 in writing under Section 257 of the Companies Act, 1956, proposing his candidature for the office of Director, be and is hereby appointed as Director of the Company."

7. To consider and if thought fit, to pass with or without modification, the following resolutions as Ordinary Resolutions:

(a) "RESOLVED THAT Mr. V. Ashok, 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 in writing under Section 257 of the Companies Act, 1956, 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. V. Ashok as a Wholtime Director of the Company for a period of five years commencing from December 7, 2006 on the terms and conditions including remuneration as set out in the Explanatory Statement annexed to this notice 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. V. Ashok."

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

By Order of the Board

MANOJ CONTRACTOR
Company Secretary

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 Wednesday, September 19, 2007 to Tuesday, September 25, 2007, 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 Share Transfer Agents, 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.
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 dematerialised 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 Share Transfer Agents – Data Software Research Company Private Limited.
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 Directors shall be present at the Annual General Meeting to answer queries of shareholders on the Annual 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. 6, 7(a) and (b) of the accompanying notice is annexed.
11. Appointment / Re-appointment of Directors:

At the ensuing Annual General Meeting, Mr. Anshuman Ruia, Mr. S. K. Poddar and Mr. Shashi Ruia retire by rotation and being eligible offer themselves for reappointment and Mr. Rewant Ruia and Mr. V. Ashok are being appointed as Directors. 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

MANOJ CONTRACTOR
Company Secretary

EXPLANATORY STATEMENT PURSUANT TO SECTION 173(2) OF THE COMPANIES ACT, 1956.

Item No. 6

Mr. Rewant Ruia was appointed as an Additional Director of the Company with effect from December 7, 2006. In terms of Section 260 of the Companies Act, 1956 and in accordance with Article 73 of the Articles of Association of the Company, Mr. Rewant Ruia holds office upto the date of ensuing Annual General Meeting.

Accordingly, the resolution at Item No. 6 of the notice is being proposed for his appointment as Director of the Company.

The Company has received a notice from a member under Section 257 of the Companies Act, 1956, with requisite deposit, proposing the name of Mr. Rewant Ruia as a candidate for the office of Director of the Company.

The profile of Mr. Rewant Ruia is furnished in the annexure annexed hereto.

The Board of Directors are of the opinion that the appointment of Mr. Rewant Ruia would be in the best interest of the Company. Your Directors accordingly recommend the resolution at Item No. 6 of the Notice for your approval.

Mr. Rewant Ruia is interested in the resolution as it relates to his appointment. Mr. Ravi Ruia, being a relative of Mr. Rewant Ruia, may be deemed to be interested in the resolution. None of the other Directors of the Company are concerned or interested in the said resolution.

Item No. 7 (a) and (b)

Mr. V. Ashok was appointed as an Additional Director in the Wholetime employment of the Company with effect from December 7, 2006 for a period of five years. In terms of Section 260 of the Companies Act, 1956 and in accordance with Article 73 of the Articles of Association of the Company, Mr. Ashok holds office upto the date of ensuing Annual General Meeting.

Accordingly, the resolution at Item No. 7(a) of the notice is being proposed for his appointment as Director of the Company.

The Company has received a notice from a member under Section 257 of the Companies Act, 1956, with requisite deposit, proposing the name of Mr. V. Ashok as a candidate for the office of Director of the Company.

The profile of Mr. V. Ashok is furnished in the annexure annexed hereto.

The terms relating to his appointment are as follows:

- (a) Period of Appointment : five years from December 7, 2006.
- (b) In consideration of his duties, Mr. Ashok shall be paid the following remuneration:

1. Remuneration :

Basic Salary in the range of Rs. 1,00,000/- to Rs. 3,50,000/- per month, as may be determined by the Board of Directors or by such other authority as may be delegated by the Board of Directors.

In addition to the Basic Salary, Mr. Ashok 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 may be agreed by the Board of Directors or such other authority as may be delegated by the Board of Directors from time to time upto a limit of Rs. 5,00,000/- per month. As per the rules of the Company, Mr. Ashok is eligible for Provident Fund, Gratuity and Superannuation, which payments shall not be included for the purpose of calculation of Managerial Remuneration.

2. Minimum Remuneration:

Notwithstanding anything to the contrary herein contained, where in any financial year during the currency of tenure of Mr. Ashok, the Company has no profits or its profits are inadequate, the Company will pay remuneration by way of salary, 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.

The above may be treated as an abstract of the agreement between the Company and Mr. Ashok pursuant to Section 302 of the Companies Act, 1956.

The Board of Directors are of the opinion that the appointment of Mr. Ashok would be in the best interest of the Company. Your Directors accordingly recommend the resolutions at Item No. 7(a) and (b) of the notice for your approval.

None of the Directors other than Mr. Ashok are concerned or interested in the resolutions at Item No. 7(a) and (b).

By Order of the Board

MANOJ CONTRACTOR
Company Secretary

Mumbai
June 29, 2007

Annexure to Notice:

Details of Directors seeking re-appointment / appointment in the Thirty-first Annual General Meeting in pursuance of Clause 49 of the Listing Agreement.

Mr. Anshuman Ruia

Mr. Anshuman Ruia, is a Commerce graduate who has experience of over a decade in overseeing the growth of group's major businesses. He is also involved in the group's Shipping & Logistics, Communications and Power businesses. Mr. Anshuman Ruia is responsible for the expansion and diversification of the power business into new, renewable energy sources and plans for entry into transmission and distribution. He is also involved in new business ventures of the group in India and overseas. In addition, he also works on consolidation of the group's business enterprises and strategy for growth. He is a member of the YPO (Young Presidents' Organisation).

Mr. Anshuman Ruia is a Director on the Board of Essar Power Limited, Vadinar Power Co. Limited, India Securities Limited, Essar Oil Limited, Vadinar Oil Terminal Limited, Hutchison Essar Limited, Essar Hazira Power SEZ Limited, Essar Power MP Limited, Aegis BPO Services Limited, Essar Power Transmission Co. Limited and Essar Bulk Terminal Limited. Mr. Anshuman Ruia is also a member of the Audit Committee of the Company.

Mr. Anshuman Ruia does not hold any shares of the Company.

Mr. S. K. Poddar

Mr. S. K. Poddar, has done his Graduation in Commerce with Honors. Mr. Poddar has been involved in the promotion of various new projects including several joint ventures with international corporations. Mr. Poddar is the President of International Chamber of Commerce - India. He was the immediate past President of Federation of Indian Chambers of Commerce and Industry and past President of Indian Chamber of Commerce, All India Organisation of Employers (AIOE) and Council of Indian Employers (CIE). He was a member on the local Board of Reserve Bank of India. He has also served on the Board of Governors of Indian Institute of Technology, Kharagpur for a long time. He is the recipient of Rastriya Samman from Central Board of Direct Taxes.

Mr. Poddar is a Director on the Board of Gillette India Limited, Simon India Limited, Areva T & D India Limited, Indian Furniture Products Limited, Texmaco Limited, Chambal Fertilizers & Chemicals Limited, Zuari Industries Limited, Poddar Heritage Investments Limited, Lionel India Limited, Zuari Cement Limited and Chambal Infrastructure Ventures Limited.

Mr. Poddar is also a Member of the Audit Committee of Gillette India Limited, Texmaco Limited and Share Transfer Committee of Areva T&D India Limited. He is the Chairman of the Audit Committee of Zuari Cement Limited, Areva T&D India Limited and Investors / Shareholders' Grievance Committee of Texmaco Limited.

Mr. Poddar holds 254 equity shares of the Company.

Mr. Shashi Ruia

Mr. Shashi Ruia is a Commerce graduate and has played a significant role in promoting India's industrial growth and expansion. An industrialist with a vision and mission, he has engineered the Essar Group to a premier position among top industrial houses in the Country. Mr. Shashi Ruia has seen the growth of Essar Group to an enterprise value of US\$ 15 billion. He was a member of the Managing Committee of the Federation of Indian Chambers of Commerce and Industry and was the Chairman of the Indo-US Joint Business Council. He was also the former President of Indian National Shipowners' Association.

Mr. Shashi Ruia is a Director on the Board of Essar Steel Limited, Essar Oil Limited, Essar Power Limited, Essar Constructions (India) Limited, India Securities Limited, Vadinar Oil Terminal Limited, Hazira Steel Limited, Essar Steel (Hazira) Limited and Hazira Plate Limited.

Mr. Shashi Ruia does not hold any shares of the Company.

Mr. Rewant Ruia

Mr. Rewant Ruia has done his high school education from the Hackley School in Tarrytown, New York and completed his Bachelors in Business Administration from Bentley College, Boston, USA.

He began his formal career with Essar group in the year 2005. Mr. Rewant Ruia is currently responsible for the groups foray into telecom, retail and new business development. Mr. Rewant Ruia has also been part of the group's initiative to put up infrastructure businesses of Steel, Oil, Power, etc. and for acquisition of related businesses in India and abroad. Besides this, he is actively involved in the positioning, strategy and brand management practices across group companies.

Mr. Rewant Ruia is a Director on the Board of Essar Steel Limited, Essar Constructions (India) Limited, Hazira Plate Limited, Essar Power Limited and Futura Travels Limited.

Mr. Rewant Ruia does not hold any shares of the Company.

Mr. V. Ashok

Mr. V. Ashok is a Commerce graduate and a Chartered Accountant. He has over nineteen years experience in the fields of Finance, Commerce, Accounts and General Business.

Mr. Ashok has been with the Company since 1997 and has handled the treasury, working capital and long-term finance portfolio of the Company.

Mr. Ashok is also on the Board of Essar Bulk Terminal Limited and Essar Sisco Ship Management Co. Limited.

Mr. Ashok does not hold any shares of the Company.

DIRECTORS' REPORT

To the Members of Essar Shipping Limited

Your Directors take pleasure in presenting the Thirty-first Annual Report of your Company together with Audited Accounts for the year ended March 31, 2007.

FINANCIAL RESULTS:

The summary of financial results of your Company for the year ended March 31, 2007 is furnished below:

| | (Rs. in Crores) | |
|---|-------------------------------|-------------------------------|
| Particulars | For the year ended 31-03-2007 | For the year ended 31-03-2006 |
| Total Income | 1,044.62 | 760.29 |
| Total Expenditure | 718.49 | 502.16 |
| Gross Profit | 326.13 | 258.13 |
| Less: Interest & Finance charges | 94.48 | 26.03 |
| Less: Provision for Depreciation | 90.51 | 37.48 |
| Profit before tax | 141.14 | 194.62 |
| Less: Provision for tax | (7.16) | (9.40) |
| Profit after tax | 133.98 | 185.22 |
| Add: Balance in Profit and Loss Account as per last Balance Sheet | 490.45 | 331.23 |
| Less: Transfer to Tonnage Tax Reserve | (34.50) | (26.00) |
| Balance carried forward to Balance Sheet | 589.93 | 490.45 |

DIVIDEND:

Your Company is continuously evaluating various opportunities towards organic and inorganic growth, which will involve substantial investments. Considering this, the Board of Directors has not recommended any payment of dividend this year.

MANAGEMENT DISCUSSION, ANALYSIS AND REVIEW:

A. Energy Transportation Group:

This group provides crude oil transportation and crude oil transportation management services to global and domestic crude oil refiners. This group contributed Rs. 358.15 Crores to the total income during the financial year, an increase of 248% as compared to the previous year, largely on account of acquisition of two Very Large Crude Carriers (VLCC's). The vessels in this group were mostly employed in the spot market to take advantage of buoyant freight markets. This group currently operates a fleet of two VLCC's and one Suezmax tanker with a total Dwt of 737,795 tons.

B. Integrated Bulk and Petroleum Product Transportation Group:

This group provides integrated bulk transportation and petroleum products transportation services to various refineries, steel mills and power generation plants along the Asian and South East Asian coast through various employment contracts including Contracts of Affreightment (COA's). This group contributed Rs. 666.15 Crores to the total income during the financial year, an increase of 16% as compared to the previous year. This group consists of the following divisions:

- Product Carriers Division:** This division consists of a fleet of three product tankers with a total Dwt of 45,826 tons which were primarily employed with Indian oil majors servicing their requirements for transportation of petroleum products along the Indian Coast.
- Bulk Carrier Division:** This division consists of a fleet of three Capesizes, two Handysize vessels, eleven Mini Bulk

carriers, four Tugs and one Diving Support Vessel with a total Dwt of 614,771 tons. These 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. The Diving Support Vessel has been chartered to assist mid sea terminalling facilities along the West Coast of India.

During the year under review, your Company sold one Handysize Dry Bulk Carrier, M.V. Nand Srishti and earned a profit of Rs. 12.47 Crores on the sale. Your Company also bought one new built Diving Support Vessel, MV Persistence for a consideration of Rs. 23 Crores from ABG Shipyard Limited.

FINANCIAL ANALYSIS:

During the year under review, your Company earned a Total Income of Rs. 1,044.62 Crores as compared to Rs. 760.29 Crores during the previous year, representing an increase of 37%. This has been achieved due to increase in tonnage on account of acquisition of two VLCC's during March 2006 and due to increased movement of cargo under the various COA's entered into during the year.

The Net Profit for the year has reduced from Rs. 185.22 Crores during the previous year to Rs. 133.98 Crores in the current year. This is largely due to the fact that the Net Profit for the previous year included Profit on Sale of Ships amounting to Rs. 70.70 Crores as compared to Rs. 12.47 Crores during the year under review. The freight markets continued to be robust during the year under review.

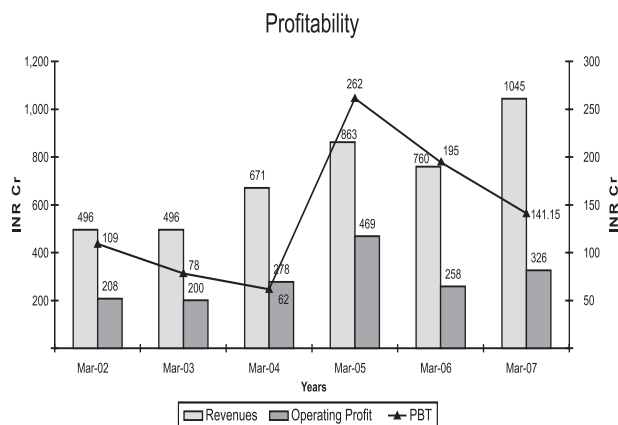
Vessel operating margins:

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. The Operating Margin on Time Charter Equivalent (TCE) basis has increased from 48% during the previous year to 59% during the year.

Dry docking expenses were Rs. 14.02 Crores during the year as against Rs. 30.20 Crores during the previous year. The Direct Voyage Expenses were Rs. 505.70 Crores as compared to Rs. 310.84 Crores during the previous year, which is due to increased inchartering of vessels for servicing the COAs.

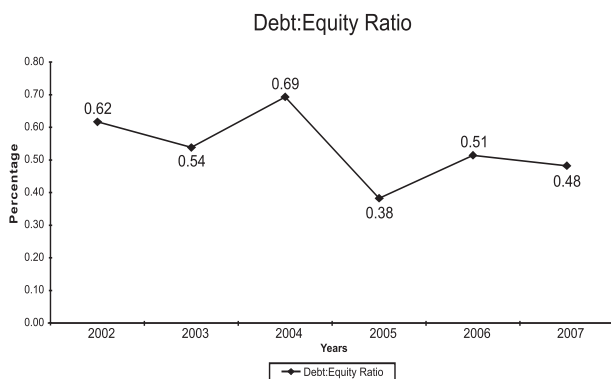
Total Income and EBITDA:

The Total Income of your Company during the year under review increased to Rs. 1,044.62 Crores from Rs. 760.29 Crores as compared to the previous year due to the acquisition of two VLCC's and the revenues generated from the COAs. Accordingly, the Operating Profit has also increased from Rs. 258.13 Crores during the previous year to Rs. 326.13 Crores during the year under review.



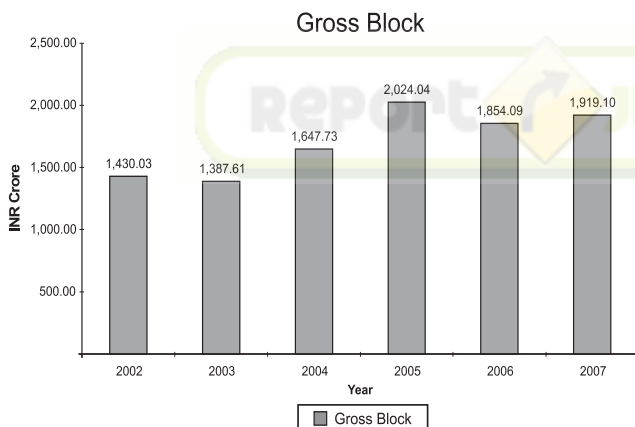
Debt-Equity Ratio:

The Debt Equity Ratio of your Company stood reduced at 0.48:1 as on March 31, 2007, as compared to 0.51:1 as on March 31, 2006. Your Company, has over the years, maintained the Debt Equity ratio within acceptable norms, which will enable it to raise debt for growth.



Gross Block:

The Gross Block of your Company as at March 31, 2007 is Rs. 1,919.10 Crores as compared with Rs. 1,854.08 Crores as at March 31, 2006. The net increase in the Gross Block is largely on account of acquisition of one Diving Support Vessel, M.V. Persistence.



Interest:

The interest outgo of your Company has increased to Rs. 94.48 Crores during the year under review from Rs. 26.03 Crores in the previous year. The increase in the interest cost is largely on account of debt availed towards acquisition of the two VLCC's.

RISK MANAGEMENT:

Economic Risks: Shipping is a global industry and closely related to the world economic growth and global demand and supply trends. Your Company has managed to mitigate this risk by having a global focus rather than region / country specific focus. This has helped your Company to diversify country or region specific risks.

Freight Risks: Shipping industry is prone to high volatility in freight rates thereby making the cashflows highly unpredictable. An optimum mix of voyage charters, time charters and COAs has enabled your Company to take optimum advantage of the freight rates and also maintain consistency of earnings.

Forex Risk: A majority of the revenues of your Company are in foreign currency which creates a natural hedge against foreign exchange exposures. Apart from this, the Essar Group's

specialised Forex team provides efficient advice to mitigate the exchange risk of your Company.

Interest Rate Risk: Your Company has been undertaking suitable hedging strategies to overcome any adverse interest rate risks. It has formulated internal target rates at which any open interest rate risk can be hedged. At present 57% of the total loans are completely hedged, interest rates being fixed during the tenure of the facility.

QUALITY, SAFETY AND ENVIRONMENT:

Your Company takes pride in being the forerunner in the industry when it comes to quality and safety. In its endeavor to achieve highest quality standards and practices for both procedure and environment, your Company has been accredited as the Most Quality Conscious Shipping Company by the Director General of Shipping and the Safest Indian Shipping Company for the second time in the last three years.

HUMAN RESOURCES:

The operational efficiency of any shipping company is dependent a lot upon the quality of personnel on board the ship. Your Company believes in training its own cadets / engineers straight out of school and imparting them with the necessary skills required at various levels. Your Company is managed by highly skilled professionals in all its operations, ashore and afloat, thereby achieving organisational efficiencies. Voyage operations are managed professionally, ensuring high productivity levels which increases operational efficiency and utilisation thereby increasing the revenues. This is reflected in the EBITDA margins (on TCE Basis), which for the year stood at 59% as compared to 48% during the previous year. Regular onboard and offshore training activities are undertaken by your Company to improve the performance of its employees.

Adequate systems have been put in place for mapping the competencies of personnel, across the ranks. The competencies are then mapped against the desired competencies taking into consideration the business and quality objectives of your Company. Based on a compensation benchmarking study, a salary correction was carried out in June 2007.

The attrition rate was 16% for the year under review. Given the high economic growth globally and more so in India, the demand for skilled and competitive personnel is ever increasing. Your Company is taking suitable measures for talent retention.

INDUSTRY REVIEW AND PROSPECTS:

Crude Oil Transportation:

- ◆ The year under review ended on a mild winter and high stocks of crude oil reduced demand.
- ◆ Average spot earnings for the year under review fell by 5% as compared to the previous year.
- ◆ Average five year old tanker values rose by almost 4% as compared to the previous year.
- ◆ Global oil demand growth slowed to 0.8 mn barrels per/day (bpd) during the year as compared to 1.2 mn bpd in the previous year.
- ◆ The crude tanker fleet grew by 5.2% during the year with the VLCC segment growing by 5.8 mn dwt (4.3%) and the Suezmax fleet grew by 3.9 mn dwt (8%).
- ◆ The order book for crude oil tankers is now 34% of the total crude oil trading fleet. The deliveries are spread over a period of four years and as such the increased tonnage supply will be nullified against the phase out of the tankers in line with the IMO guidelines and the projected increase of worldwide refining capacity.

The freight rates for VLCC's averaged at USD 63,100 per day as compared to USD 60,400 during the previous year. The Suezmax tanker freight rates averaged at USD 53,100 as compared to USD 53,700 during the previous year.

Outlook:

After years of overcapacity in the refining sector, followed by years of modest investments and expansion, we are now finally seeing significant capacity additions planned (estimated over 12 mn bpd in 2006-2010), mostly in the Middle East, China and South Asia which follows a long-term trend. This mostly reflects the fact that these regions are also the ones with the fastest growing demand, so most of this capacity will be captive, especially in the case of China and India. Still, many of the larger projects in the Middle East and India are specifically designed as export-oriented. USA will remain the main driver of products trade, increasingly reliant on imports. The surplus will be in the Middle East and South Asia for exports into the developed markets. Growing imbalances in demand for specific products will fuel increased regional and inter-regional trades, such as between Europe and America. These factors would lead to a stable demand for tankers in the long term scenario.

Dry Bulk Carriers:

- ◆ Average earnings were down by 11%.
- ◆ Five years old bulk carrier values were up by 46% as compared to the previous year.
- ◆ New building values for bulk carriers were up by 16% as compared to the previous year.
- ◆ Raw material trade grew by 16% as compared to 7.3% during the previous year.
- ◆ Dry bulk fleet grew by 6.7% during the year.

The average earnings were slightly lower compared to the previous year, but that did not alter the medium-long term outlook, which was evident with the spurt in the freight rates during April and May 2007. The period under review saw emerging markets playing a much stronger role in the world trade and commerce with demand now rebalancing away from a reliance on US consumption to developing new high growth consumer markets like China and India.

In the capsize segment, a modern 170,000 dwt vessel averaged at USD 43,200 per day during the year under review as compared to USD 51,700 during the previous year. The panamax segment averaged at USD 21,400 per day as compared to USD 22,900 during the previous year. The handysize segment averaged at USD 15,700 per day as compared to USD 16,700 in the previous year.

Outlook:

On a macroeconomic basis, steel demand is forecasted to increase by 5-6% from the coming year with China's steel exports expected to increase by 10-15% and the iron ore import expected to increase by 40-50 million tons. With a high number of coal fired power plants becoming operational in China, India and Europe, coal trade is also expected to increase. With all this, the dry bulk trade is expected to remain buoyant in the coming year.

GOVERNMENT POLICY:

As reiterated, the Government needs to take a serious relook at issues relating to Withholding Tax, Tax on Capital Gains on Sale of Ships, Tax on Ship Staff Salary and Fringe Benefit Tax. Unless these are negated, the competitive edge of the Indian Shipping industry will be severely affected and jeopardise growth of tonnage.

INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY:

Your Company has in place adequate internal control systems commensurate with the nature of its business and the size of its operations. The Audit process is conducted under the direction,

guidance and supervision of the Audit Committee. All internal audit reports with significant observations and follow up actions thereon are reported to the Audit Committee.

SUBSIDIARIES:

Your Company has the following subsidiaries as on March 31, 2007:

1. Vadinar Oil Terminal Limited, India
2. Essar Sisco Ship Management Company Limited, India
3. Essar Logistics Limited, India
4. Essar International Limited, Guernsey, Channel Islands
5. Energy Transportation International Limited, Bermuda (wholly owned subsidiary of Essar International Limited)
6. Energy II Limited, Bermuda (wholly owned subsidiary of Essar International Limited).

Essar Logistics Limited became a subsidiary of the Company on May 19, 2006.

Your Company has obtained exemption from the Central Government under Section 212(8) of the Companies Act, 1956 from attaching the Balance Sheets, Profit & Loss Accounts, report of the Board of Directors and the report of the Auditors of its subsidiary companies with the Annual Report, as required under Section 212 of the Companies Act, 1956, vide Order no. 47/24/2007-CL-III dated February 26, 2007. Your Company will make available the annual accounts of the subsidiary companies and the related detailed information of the holding and subsidiary companies to members seeking such information at any point of time.

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 forms part of the Annual Report and Accounts.

DIRECTORS:

In accordance with the provisions of the Companies Act, 1956 and the Articles of Association of the Company, Mr. Anshuman Ruia, Mr. S. K. Poddar and Mr. Shashi Ruia, retire at the ensuing Annual General Meeting of the Company and being eligible, offer themselves for reappointment.

Mr. Rewant Ruia was appointed as an Additional Director on your Company's Board with effect from December 7, 2006. He ceases to be a Director on the date of the Thirty-first Annual General Meeting. Notice has been received in respect of his appointment as Director on the Board.

Mr. V. Ashok was appointed as an Additional Director in wholetime employment on your Company's Board with effect from December 7, 2006. He ceases to be a Director on the date of the Thirty-first Annual General Meeting. Notice has been received in respect of his appointment as Director on the Board.

AUDITORS:

Your Company's Auditors, Deloitte Haskins & Sells, Chartered Accountants, retire at the ensuing Annual General Meeting. It is proposed to re-appoint Deloitte Haskins & Sells, Chartered Accountants as the Auditors of the Company from the conclusion of this Annual General Meeting until the conclusion of the next Annual General Meeting.

CORPORATE GOVERNANCE:

The Company has complied with the various requirements under the Corporate Governance reporting system. The disclosures as required therein have been furnished in the Annexure to the Directors' Report under the head "Corporate Governance".

PARTICULARS REQUIRED UNDER THE COMPANIES (DISCLOSURE OF PARTICULARS IN THE REPORT OF THE BOARD OF DIRECTORS) RULES, 1988:

This does not apply to your Company as the shipping industry is not included in the Schedule to the relevant rules.

Foreign exchange earnings and outgo are summarised below:-

Total Foreign Exchange:

- (1) Used (including cost of acquisition : Rs. 603.60 Crores of ships, loan repayments, interest, operating expenses, etc.)
- (2) Earned (including loan receipts, : Rs. 694.93 Crores sale of ships, freight, charter hire earnings, interest income, etc.)

Your 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.46/12/2007-CL-III dated February 15, 2007.

AWARDS:

Apart from the awards relating to quality and safety, your Company, during the year under review was bestowed with the following awards:

- a. Best Bulk Operator Award Middle East/ Indian Subcontinent Region : Awarded by The Lloyd's List Middle East & Indian Subcontinent Awards, 2006.
- b. Best Tanker Operator Award Middle East/Indian Subcontinent Region : Awarded by The Lloyd's List Middle East & Indian Subcontinent Awards, 2006.
- c. Ship of the Year (Indian Flag in Foreign Trade) presented to your Company's Very Large Crude Carrier "M.T. Smiti". This award was presented at the 44th National Maritime Day 2007.

PERSONNEL:

Your Directors would like to express their sincere thanks and appreciation to all the employees for their commendable teamwork and exemplary contribution for the operations and performance of your Company.

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, 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 members of the Company excluding the statement of particulars of employees' under section 217(2A) of the said Act. Any member interested in obtaining a copy of this statement may write to the Company Secretary at the Registered Office.

TRANSFER TO THE INVESTOR EDUCATION AND PROTECTION FUND:

In terms of Section 205C of the Companies Act, 1956, an amount of Rs. 0.62 Crores being unclaimed Dividend/Debentures/Interest thereon was transferred during the year to the Investor Education and Protection Fund established by the Central Government.

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 have been followed and there have been no material departures;
- (b) the Directors have 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;
- (c) the Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- (d) the Directors have prepared the annual accounts on a going concern basis.

ACKNOWLEDGEMENTS:

Your Directors thank the Ministry of Surface Transport, Transchart, Reserve Bank of India, Directorate General of Shipping, 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 for their continued support and co-operation.

For and on behalf of the Board

Mumbai,
June 29, 2007

Sanjay Mehta
Managing Director

R. N. Bansal
Director

"Persons constituting 'group' coming within the definition of group as defined in the Monopolies and Restrictive Trade Practices Act, 1969 for the purpose of inter se 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 Shipping & Logistics Limited |
| 3. | India Shipping |
| 4. | Asia Pacific Markets Limited |
| 5. | Essar Investments Limited |
| 6. | Teletel Investments (India) Limited |

CORPORATE GOVERNANCE REPORT

1. 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 has one-third of the total number of Directors as Independent 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, 2007 the Board consisted of ten members. The composition, category of directors and directorships held in other companies 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 Committees in which | |
|--|----------------------------|--|---|-----------------------------------|--------|
| | | | | Chairman | Member |
| Mr. Shashi Ruia (Chairman) | Promoter, Non-Executive | 9 | - | - | - |
| Mr. Ravi Ruia (Vice Chairman) | Promoter, Non-Executive | 8 | - | - | 1 |
| Mr. Anshuman Ruia | Promoter, Non-Executive | 11 | - | - | 4 |
| **Mr. Rewant Ruia | Promoter, Non-Executive | 5 | - | - | - |
| Mr. R. N. Bansal | Independent, Non-Executive | 8 | 1 | 5 | 4 |
| Mr. S. K. Poddar | Independent, Non-Executive | 12 | 3 | 3 | 3 |
| Mr. N. Srinivasan | Independent, Non-Executive | 14 | 3 | 5 | 5 |
| Mr. Sanjay Mehta (Managing Director) | Non-Promoter, Executive | 3 | - | - | 1 |
| ***Mr. A. R. Ramakrishnan (Wholetime Director) | Non-Promoter, Executive | 1 | - | - | 1 |
| **Mr. V. Ashok (Wholetime Director) | Non-Promoter, Executive | 2 | - | - | 1 |

The number of Independent Non-Executive Director is determined as per Section 256 of the Companies Act, 1956.

* includes membership of Audit and Share Transfer & Shareholders' Grievance Committee only.

** was appointed as Director w.e.f. December 7, 2006.

*** was appointed as Director w.e.f. July 31, 2006.

B. Details of Board Meetings held during the year:

| Sr. No. | Date | Board Strength | No. of Directors present |
|---------|------------------|----------------|--------------------------|
| 1 | May 16, 2006 | 7 | 4 |
| 2 | June 3, 2006 | 7 | 3 |
| 3 | June 26, 2006 | 7 | 4 |
| 4 | July 31, 2006 | 8 | 4 |
| 5 | October 31, 2006 | 8 | 6 |
| 6 | December 2, 2006 | 8 | 5 |
| 7 | January 30, 2007 | 10 | 6 |

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

| Directors | No. of Board Meetings attended | Attendance at last AGM |
|--------------------------|--------------------------------|------------------------|
| Mr. Shashi Ruia | 3 | N |
| Mr. Ravi Ruia | 3 | N |
| Mr. Anshuman Ruia | 5 | Y |
| *Mr. Rewant Ruia | - | N.A. |
| Mr. Sanjay Mehta | 3 | N |
| Mr. R. N. Bansal | 6 | Y |
| Mr. S. K. Poddar | - | N |
| Mr. N. Srinivasan | 7 | Y |
| **Mr. A. R. Ramakrishnan | 4 | Y |
| *Mr. V. Ashok | 1 | N.A. |

* was appointed as Director w.e.f. December 7, 2006.

** was appointed as Director w.e.f. July 31, 2006.