ESSAR
SHIPPING

Essar Shipping Limited

2nd Annual Report 2011-12

Essar Shipping Limited released its first Sustainability Report titled 'Sustainability – Our Propelling Force'

The report has been checked by Global Reporting Initiative (GRI) for adherence to its Generation 3.1 (Generation 3 Guidelines) Guidelines and has been awarded with an A+ Application Level against its Sustainability Reporting Framework, becoming the first Indian Shipping Company to be so awarded. An A+ Rating denotes that the report has been externally assured; ESL's Report was independently assured by international agency, DNV, using the AA1000 AccountAbility Principles Standard and DNV's Sustainability Verification Protocol – VeriSustain.

- Essar Shipping Limited is the first Indian shipping Company and among few in the international maritime sector to report as per the GRI Generation 3 Guidelines.

- The Company is among the few to report its alignment with the National Voluntary Guidelines of Social, Environmental and Economic Responsibilities of Business issued by the Ministry of Corporate Affairs.

- The company is also among the first in India, and the first in Essar, to report as per GRI G3.1 guidelines.

ESSAR
SHIPPING

BOARD OF DIRECTORS

Anshuman Ruia
Director

R. N. Bansal
Independent Director

N. Srinivasan
Independent Director

K. V. Krishnamurthy
Independent Director

Deepak Kumar Varma
Independent Director

A. R. Ramakrishnan
Managing Director

Captain Anoop Kumar Sharma
Wholetime Director

Ankur Gupta
Director

COMPANY SECRETARY

Vinayak Joshi

AUDITORS

Deloitte Haskins & Sells, Ahmedabad
(Registration No. 117365W)

AUDIT COMMITTEE

Anshuman Ruia
R. N. Bansal
K. V. Krishnamurthy
N. Srinivasan

SHARE TRANSFER AND INVESTORS' GRIEVANCE COMMITTEE

Deepak Kumar Varma
A. R. Ramakrishnan
Captain Anoop Kumar Sharma
Ankur Gupta

COMPENSATION COMMITTEE

Anshuman Ruia
R. N. Bansal
N. Srinivasan
K. V. Krishnamurthy

REGISTERED OFFICE

Administrative Building
Essar Refinery Complex
Okha Highway (SH-25)
Taluka Khambalia
District Jamnagar, Gujarat - 361 305
Website: **www.essar.com**

REGISTRAR & SHARE TRANSFER AGENT

Data Software Research Company Private Limited
19, Pycroft Garden Road, Off Haddows Road
Nungambakkam
Chennai - 600 006
Tel: (044) 2821 3738, 2821 4487
Fax: (044) 2821 4636
E-mail: essar.shipping@dsrc-cid.in

CORPORATE OFFICE

Essar House
11, K. K. Marg, Mahalaxmi
Mumbai - 400 034
Maharashtra, India

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NOTICE TO MEMBERS

Notice is hereby given that the Second Annual General Meeting of Essar Shipping Limited will be held at the Registered Office of the Company at Administrative Building, Essar Refinery Complex, Okha Highway (SH–25), Taluka Khambalia, District - Jamnagar, Gujarat - 361305 at 11:00 a.m. on Friday, August 24, 2012 to transact the following business:

ORDINARY BUSINESS

1. To receive, consider and adopt the Profit and Loss Account for the year ended March 31, 2012 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. Ankur Gupta who retires at the ensuing Annual General Meeting and being eligible offers himself for re-appointment;

3. To appoint a Director in place of Mr. R. N. Bansal who retires at the ensuing Annual General Meeting and being eligible offers himself for re-appointment;

4. To re-appoint M/s. Deloitte Haskins & Sells, Chartered Accountants, Ahmedabad (Firm Registration No.117365W) as the Statutory 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 with or without modification, the following Resolution as a Special Resolution:

   "RESOLVED THAT pursuant to Sections 81, 81(1A) and all other applicable provisions of the Companies Act, 1956 (including any statutory modification or re-enactment thereof, for the time being in force) and enabling provisions of the Memorandum and Articles of Association of the Company and the Listing Agreements entered into by the Company with the Stock Exchanges where the securities of the Company are listed and subject to any guidelines, regulations, approvals, consents, permissions or sanctions issued by Government of India (GOI), Reserve Bank of India (RBI), the Securities and Exchange Board of India (SEBI), the applicable provisions of Foreign Exchange Management Act, 1999 ("FEMA"), Foreign Exchange Management (Transfer or Issue of Security by a Person Resident Outside India) Regulations, 2000, Issue of Foreign Currency Convertible Bonds and Ordinary Shares (through Depository Receipt Mechanism) Scheme, 1993, (FCCB Scheme), Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2009 and any other appropriate authorities, institutions or Bodies (hereinafter collectively referred to as "the appropriate authorities"), and subject to such conditions as may be prescribed by any of them while granting any such approvals, consents, permissions, and / or sanction (hereinafter referred to as "the requisite approvals"), which may be agreed to by the Board of Directors of the Company (hereinafter called "the Board" which term shall be deemed to include any Committee which the Board may have constituted or hereinafter constitute to exercise its powers including the power conferred by this Resolution), the Board be and is hereby authorised to issue, offer and allot, in international and/or domestic offerings any securities including equity shares, Global Depositary Receipts and/or American Depositary Receipts convertible into equity shares, preference shares whether Cumulative or Non-Cumulative/Redeemable/Convertible at the option of the Company and/or at the option of the holders of the security and/or securities linked to equity shares/preference shares and/or any instrument or securities representing convertible securities such as convertible debentures, bonds or warrants convertible into equity shares/preference shares or issuance through Institutional Placement Program in compliance with SEBI Guidelines or any combination of such securities aforesaid or Follow-on Public Offer in compliance with SEBI regulations (hereinafter referred to as "Securities") to be subscribed by Indian/Foreign Investors/Institutions and/or Corporate Bodies, Mutual Funds, Banks, Insurance Companies, Trusts and/or individuals or otherwise, whether or not such persons/ entities/investors are Members of the Company, whether in Indian currency or Foreign Currency aggregating to an amount not exceeding US$500 Million (United States Dollar Five Hundred Million only) or in equivalent Indian Rupees or Euro or any other currency thereof to be issued and allot at such time or times in one or more tranche or tranches, at par or at such price or prices, and on such terms and conditions including with the differential rights as to dividend, voting or otherwise and in such manner as the Board may, in its absolute discretion think fit, in consultation with the Lead Managers, Underwriters, Advisors or other intermediaries.

   RESOLVED FURTHER THAT without prejudice to the generality of the above, the aforesaid issue of Securities may have all or any terms or combination of such terms including as to conditions in relation to payment of interest, additional interest, premium on redemption discount, prepayment and any other debt service payments whatsoever, and all such matters as are provided in Securities offerings of this nature including terms for issue of such Securities or variation of the conversion price of the Security during the tenure of the Securities and the Company is also entitled to enter into and execute all such arrangements as the case may be with any lead Managers, Managers, Underwriters, Bankers, Financial Institutions, Solicitors, Advisors, Guarantors, Depositories, Custodians and other Intermediaries in such offerings of Securities and to remunerate all such Intermediaries, agencies including the payment of commissions, brokerage, fees or payment of their remuneration for their services or the like, and also to seek the listing of such Securities on one or more Stock Exchanges including international Stock Exchanges, wherever permissible.

RESOLVED FURTHER THAT the Company may enter into any arrangement with any agency or body authorised by the Company for the issue of Securities in registered or bearer form with such features and attributes as are prevalent in capital markets for instruments of this nature and to provide for the tradability or free transferability thereof as per the international/Domestic practice and regulations, and under the forms and practices prevalent in the relevant securities markets.

RESOLVED FURTHER THAT the Board or any Committee thereof be and is hereby authorised to issue and allot such number of shares as may be required to be issued and allotted upon conversion of any Securities referred to in these Resolutions or as may be necessary in accordance with the terms of the offering, all such shares being pari-passu with the then existing shares of the Company in all respects.

RESOLVED FURTHER THAT such of these Securities to be issued as are not subscribed may be disposed of by the Board to such persons and in such manner and on such terms as the Board in its absolute discretion thinks fit in the best interest of the Company and as is permissible by law.

RESOLVED FURTHER THAT for the purpose of giving effect to any issue or allotment of Securities or instruments representing the same, as described in these Resolutions, the Board or any Committee thereof be and is hereby authorised on behalf of the Company to do all such acts, deeds, matters and things as it may at its discretion deem necessary or desirable for such purpose, including without limitation the entering into of underwriting, marketing and depository arrangement and institution/trustees/agents and similar agreements and to remunerate the Managers, underwriters and all other agencies/intermediaries by way of commission, brokerage, fees and the like as may be involved or connected in such offerings of securities, with power on behalf of the Company to settle any questions, difficulties or doubts that may arise in regard to any such issue or allotment as it may in its absolute discretion deem fit.

RESOLVED FURTHER THAT for the purpose aforesaid, the Board be and is hereby authorised to settle all questions, difficulties or doubts that may arise in regard to the issue, offer or allotment of Securities and utilisation of the issue proceeds including but without limitation to the creation of such mortgage/ charges under Section 293(1)(a) of the said Act in respect of the aforesaid Securities either on *pari-passu* basis or otherwise or in the borrowing of loans as it may in its absolute discretion deem fit without being required to seek any further consent or approval of the Members or otherwise to the end and intent that the Members shall be deemed to have given their approval thereto expressly by the authority of this Resolution.

RESOLVED FURTHER THAT the Board be and is hereby authorised to delegate all or any of the powers herein conferred to any Committee of Directors or and Managing Director or any Wholetime Director or any other Officer or Officers of the Company to give effect to the aforesaid Resolution."

By Order of the Board

Mumbai
May 17, 2012

Vinayak Joshi
Company Secretary

Registered Office:
Administrative Building
Essar Refinery Complex
Okha Highway (SH – 25)
Taluka Khambalia
District Jamnagar
Gujarat 361305

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.**
2. 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.
3. Members / Proxies should bring the attendance slip duly filled in for attending the meeting.
4. The Register of Members and Share Transfer Books of the Company shall remain closed from August 13, 2012 to August 24, 2012, both days inclusive.
5. All documents referred to in the accompanying Notice are open for inspection at the Registered Office of

the Company on all working days, except Saturdays, Sundays and Bank holidays, between 11.00 a.m. and 1.00 p.m. upto the date of the Annual General Meeting.

6. The Explanatory Statement pursuant to section 173(2) of the Companies Act, 1956 relating to the Special Business mentioned in Item No. 5.

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. Corporate Members are requested to send a duly certified copy of the Board Resolution authorizing their representatives to attend and vote at the Annual General Meeting.

9. The information pertaining to the appointment/re-appointment of Directors at the ensuing Annual General Meeting in terms of Clause 49 of the Listing Agreement with the Stock Exchange is annexed hereto.

10. 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 at least 7 days before the date of the Meeting to enable the Company to keep the information ready.

11. In accordance with Green initiative of the Ministry of Corporate Affairs in Corporate Governance, the Companies can now send various communications to Shareholders electronically to those who register their email addresses. In order to receive all communications including Annual Reports by e-mail:

    a. Holders of shares in physical form are requested to fill up the pre-paid postage e-mail registration form setout at page no. 83 of Annual Report and send it to the Registrar & Share Transfer Agent Data Software Research Company Private Limited

    b. Members holding shares in Demat Form, may register their e-mail IDs with the Company or the Depository Participant.

ANNEXURE TO NOTICE:

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

Item No. 5

The Company requires funds for expanding its operations, acquisitions of various assets, to meet its CAPEX plans and investments in its business undertakings.

The Company, in order to enhance its global competitiveness, and increase the ability to compete with the peer group in domestic and international markets, needs to strengthen its financial position by augmenting long term resources. To achieve the significant competitive advantages, through easy access to large amounts of international and domestic capital, with extended maturities, at optimal costs, the Company may need to issue equity shares or GDRs or any form of Securities in the international and/or domestic markets, as may be decided by the Board and found to be expedient and in the interest of the Company.

Also your Company is required to Comply provisions of Clause 40 of the Listing Agreement read with listing approval received from Securities and Exchange Board of India under Rule 19(2) of the Securities Contracts (Regulation) Rules, 1957, wherein Company requires to increase public shareholding to minimum of 25% of the paid up share capital of the Company on or before June 04, 2013.

The Public shareholding in your Company as on March 31, 2012 is 16.29%. Your Company is therefore required to increase its Public Shareholding to 25% by June 3, 2013 or such other time as may be specified by SEBI from time to time.

In order to meet the funding needs for the expansions plans mentioned above, including but not limited to meeting the equity needs of the Company for further organic and inorganic expansions, reducing the debt and to bring the public shareholding to 25%, your Company proposes for the issue of Securities, by issuance of either Equity Shares and/or Global Depository Receipts (GDRs), Foreign Currency Convertible Bonds (FCCBs), or any other security ("Securities") of the Company either by way of (including but not limited to) public issue, rights issue, offer for sale, private placement, Qualified Institutional Placement in accordance with Chapter VIII of SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009, Institutional Placement Programme (IPP), Follow-on Public Offer e.t.c., with the Offering Size to be upto US$500,000,000 (United States Dollars Five Hundred Million only) or equivalent amount in Euro or Indian Currency or any other currency (inclusive of such premium or such discount as may be determined) as above may be made in one or more tranches, in the international and/or domestic market in one or more currency to be listed on such International and/or Indian Stock Exchanges as the Board may determine.

The detailed terms and conditions of the Issue as and when made will be determined by the Board of Directors in consultation with the Lead Merchant Bankers, Lead Managers, Advisors, Underwriters and other experts in accordance with the applicable provisions of law.

Section 81of the Companies Act, 1956, provides, inter-alia, that where it is proposed to increase the subscribed share capital of the Company by allotment of further shares, such further shares shall be offered to the persons who on the date of the offer are holders of the equity shares of the Company, in proportion to the capital paid up on those shares as of that date unless the Members decide otherwise. The Listing Agreements with the various Stock Exchanges also provide that the Company shall issue or offer in the first instance all Securities to the existing equity shareholders, unless the Members decide otherwise.

Accordingly, the consent of the members is being sought pursuant to the provisions of Section 81(1A) and all other applicable provisions of the Companies Act, 1956 and in terms of the provisions of the Listing Agreement(s) executed by the Company with the stock exchange(s), authorising the Board of Directors and/or a Committee thereof to issue the Securities, as stated in the Resolution, which would result in issuance of securities of the Company to persons other than the existing members of the Company.

None of the Directors of the Company is in any way concerned or interested in the proposed Resolution. The Board recommends the Special Resolution at Item No. 5 of the acCompanying notice for approval by the members.

By Order of the Board

Mumbai
May 17, 2012

Vinayak Joshi
Company Secretary

Registered Office:
Administrative Building
Essar Refinery Complex
Okha Highway (SH – 25)
Taluka Khambalia
District Jamnagar
Gujarat 361305

ANNEXURE TO NOTICE:

Details of Directors seeking Appointment/Re-Appointment at the Second Annual General Meeting of the Company in pursuance of Clause 49 of the Listing Agreement

1) **Mr. Ankur Gupta**

Mr. Ankur Gupta has over 23 years of experience in the Oilfield Services industry. Prior to joining Essar, he was Regional Vice President (Asia Pacific) for Paradigm Geophysical, a Company specialising in providing geophysical software and services to oil and gas companies. Mr. Ankur Gupta has also held a variety of operations, technical and management positions with Schlumberger, the world's largest integrated oilfield services Company. He has worked in five countries across three continents. Mr. Ankur Gupta is also a Director on the Board of Essar Oilfield Services India Limited. Mr. Gupta does not hold any shares in the Company.

2) **Mr. R. N. Bansal**

Mr. R.N. Bansal is a Commerce Graduate and M.A. (Economics) and a Fellow Member of the Institute of Chartered Accountants of India, Associate Member of the Institute of Chartered Secretaries and Administrators, London and Associate Member of the Institute of Company Secretaries of India.

He joined the Department of Company Affairs in December 1956. He was the Registrar of Companies, Punjab, Tamilnadu and Maharashtra.

Mr. R. N. Bansal has served as a Government Nominee Director on all major Stock Exchanges of India. He was the Additional Director of Inspection & Investigation, Company Law Board, New Delhi, Regional Director (Southern and Western Regions), Director (Investment) and Additional Controller of Capital Issues and member of Company Law Board. He dealt with matters relating to Share Transfer Appeals, Company Law Boards Bench Petitions, Policy Rules and Amendment of the Companies/MRTP Acts e.t.c.,

Mr. R. N. Bansal visited USA in 1981 to attend the Meeting of the Expert Group of UN on Accounting Standards. Served as the National Treasurer of the All India Scouts & Guides. Mr. R. N. Bansal visited Japan as Indian representative in the World Congress in 1971. He is also a recipient of the Silver Elephant Award. Mr. R. N. Bansal presented papers on corporate law related matters in various publications. Mr. Bansal is serving as an Independent Professional Director on the Board of various Indian Public Limited companies viz., Chambal Fertilizer & Chemicals Limited, Orient Bell Limited, Essar Ports Limited, Vadinar Oil Terminal Limited, Essar Oilfield Services India Limited, Essar Logistics Limited, The Hindoostan Mills Limited, Pushpsons Industries Limited. Mr. R. N. Bansal is the Chairman of the Audit Committee of Orient Bell Limited, Essar Ports Limited and Pushpsons Industries Limited and also Member of the Audit Committee of Vadinar Oil Terminal Limited, The Hindoostan Mills Limited and Chambal Fertilizer & Chemicals Limited. Mr. R. N. Bansal does not hold any shares in the Company.

By Order of the Board

Mumbai
May 17, 2012

Vinayak Joshi
Company Secretary

Registered Office:
Administrative Building
Essar Refinery Complex
Okha Highway (SH – 25)
Taluka Khambalia
District Jamnagar
Gujarat 361305

DIRECTORS' REPORT

To the Members of Essar Shipping Limited

Your Directors take pleasure in presenting the Second Annual Report of your Company together with Audited Accounts for the Year Ended March 31, 2012.

FINANCIAL RESULTS:

The summary of the Standalone and Consolidated Financial Results of your Company for the year ended March 31, 2012 are furnished below:

(₹ in crore)

Particulars	Consolidated		Standalone	
	For the year ended 31-03-2012	For the period 16-04-2011 to 31-03-2011	**For the year ended 31-03-2012**	For the period 16-04-2011 to 31-03-2011
Total Income	2854.51	1,342.80	1304.86	546.95
Total Expenditure	2102.01	1,005.81	804.13	287.27
EBITDA	752.50	336.99	500.73	259.68
Less: Interest & Finance charges	329.43	139.37	266.90	123.11
Less: Provision for Depreciation	362.94	162.23	136.36	56.90
Profit before Tax	60.13	35.39	97.47	79.67
Less: Provision for Tax	(23.30)	(2.09)	(1.65)	1.50
Profit after Tax	36.83	33.30	95.82	78.17
Appropriations:				
Opening balance of Surplus	88.06	–	48.17	–
Add: Transfer on Demerger	–	84.76	–	–
Add: Profit of the current year	36.83	33.30	95.82	78.17
Less: Transfer to Debenture Redemption Reserve	(20.00)	(10.00)	(20.00)	(10.00)
Less: Transfer to Tonnage Tax Reserve	(45.00)	(20.00)	(45.00)	(20.00)
Surplus at the end of the year	59.89	88.06	78.99	48.17

DIVIDEND

Your Company engaged in of Sea Transportation, Oilfield Services and Logistics Business is currently expanding the capacities in these businesses through acquisition of suitable assets. These assets are highly capital intensive in nature and require substantial investment. This necessitates the operating profits to be ploughed back into the business. With this view, your Directors have not recommended any dividend for the Financial Year Ended March 31, 2012.

MANAGEMENT'S DISCUSSION AND ANALYSIS

(a) Overview of the World Economy

The global economy has been through a very difficult phase during the year which was marked by increased borrowing costs, inflationary pressures and plummeted investor confidence. The major concern of the countries is to stimulate growth with moderate inflation. Improved financial conditions, accommodative monetary policies and similar pace of fiscal tightening as in 2011 are expected to drive the growth in 2012. In major advanced economies a weak recovery is expected as compared to a modest growth in emerging economies like Asia and BRICS where the growth is expected to be led by robust domestic consumption and strong demand for oil and mineral resources.

The IMF predicts the global GDP to grow at 3.5% in 2012 lower than the growth of 4% registered in 2011. The advanced economies growth is projected at a meager 1.5%, mainly due to the fiscal uncertainty, weak internal demand and potential spillover of Europe crisis. The developing economies are expected to grow at a relatively strong 5.5-6%. The developing economies around the world fight rising domestic inflation and are taking steps to avoid overheating. In the MENA region the near term outlook is bit challenging as unrest has spread leading to heightened domestic uncertainty and difficult external conditions.

The Euro zone is still battling out the financial crisis and is now expected to go into a mild recession in 2012 as a result of the rise in sovereign yields, the effects of bank deleveraging on the real economy, and the impact of fiscal consolidation. In the Euro area the real GDP is forecasted to contract at 0.5% p.a. for the first half of 2012 and improve thereafter. The growth in the latter half of 2012 is expected to come from advanced economies in Europe which are seeing improved financial conditions, and external demand from other regions is likely to strengthen. Economic growth in Europe is expected to strengthen during the course of 2012 and the real GDP is expected to grow at 0.25% in 2012. The key concern for Euro area is despite the progress in strengthening the crisis management, a renewed escalation of Euro crisis remains a possibility as long as various underlying issues are not resolved.

The US economy is on the recovery path with growth improving in 2011 and the job market showing signs of improvement. The US economy is expected to grow at 2% in 2012, but the risk to over come are uncertainty, weakness in the housing market, and potential spillovers from Euro area. The key focus areas for the high-income countries especially US going forward will be deficit reduction and employment generation.

(b) Overview of the Indian Economy

The Indian economy grew at an average annual GDP growth of over 9% during the period 2005 to 2008, before slowing down to 6.1% due to the global financial crisis. After growing at 10.4% in 2010, the real GDP had registered a growth of 6.9% in 2011, marking a significant gap as compared to the pre-crisis level. The RBI revised India's growth rate for 2012 downwards by 0.5 percentage points and expects it to grow at 7.5% this fiscal year. India's fiscal deficit is expected to fall in the coming years, though the major concerns to be addressed would be to curb inflation in longer run and capital outflows.

Inflation remains the biggest concernin the Indian economic industries as economists warn of high food and global oil prices. With global economic scenario expected to remain sluggish, internal demand and domestic consumption would be key drivers of growth.

BUSINESS PERFORMANCE, OPPORTUNITIES AND OUTLOOK

The business model adopted by your Company is unique in nature with no peer group comparison. The business is based on the intrinsic demand for transportation services, logistics & cargo handling infrastructure required by steel, power generation and refining industry. With focus oncrude and dry bulk carriers, port to plant logistics and oilfield services, your Company continues to provide end-to-end logistics solutions to its customers in a very cost effective manner.

(a) Sea Transportation Business:

Shipping industry has been plagued by overcapacity and poor cash generation since 2009, and may only improve moderately as tonnage addition to the global fleet slows down. The Baltic Dry Index continues to be at historic lows indicating that it will take some time before the industry fully recovers.

With broader market fundamentals in the Dry Bulk trade expected to remain under stress due to demand supply mismatch, increase in scrapping activities is required to offset the new building pressure. On back of tough financing environment, order cancellations and slippages in deliveries are also likely to remain high easing some pressure on the supply side. On the demand side, global seaborne commodity movement is expected to improve as a result of increased imports into Asia. But a slowdown in China or prolonged recession in Europe could possibly result in downward revision of demand, which can have a significant negative impact on freight rates.

In the Wet Market, the freight rates remain volatile with crude spot rates being under pressure from decline of fixture activity of Middle East, West Africa and Mediterranean. The increased supply of super tankers competing forload the limited cargoes of Persian Gulf crude has put pressure on the daily earnings of tankers. The risk of Iranian oil output coming off line supports higher freight rates disrupting supply with demand. However, the crude tanker freight market remains in downward momentum with investors seem to have more faith in the U.S. product demand. Analysts have raised forecast of shipping rates for very large crude oil tankers to $25,000 per day during 2012 and to $30,000 per day during 2013 up from the previous estimate.

A significant shift is being witnessed in the global sources of oil and minerals. With depleting coal supplies at home, China and India are now importing coal from as far as South America, and countries like Brazil and Russia are increasing their production of oil, this shift would lead to increase ton-miles and will necessitate newer sea routes and contracts.

Despite tough market conditions the Sea Transportation business had done well based on the strategy of deploying vessels on long-term contracts, which not only provides us visibility of revenues over a longer horizon but also hedges us from spot market volatility. Your Company is completely shielded against the current downturn in the shipping industry because of its long term employment contracts with Charters focused in Steel, Power and Oil & Gas industry.

(b) Oilfields Services Business:

This year has seen the drilling market forge towards the peak levels of 2008 with the revival in crude prices. Though the global macroeconomic environment gives cause for concern, at the current stage there are few signs of this affecting day rates. In addition, it is notable that historically the oil/drilling market has remained rather robust even during several years of significant economic turmoil.

As off-shore drilling stretches out to newer regions, older rigs will face a pressure to upgrade to newer technologies or be phased out. Over the previous year, the supply of assets has waned with many cold stacked rigs being scrapped, especially in the shallow and mid water segments. In the jack-up segment alone, 20 older, cold stacked rigs have been scrapped in the past year, which is more than the previous 15 years combined. This signals that a very limited number of currently cold stacked assets will be adding to the working fleet.

Given that most additions to the current rig fleet will be new builds, availability will be severely limited till 2014. Day rates currently look to have stabilized at USD 300,000 per day for standard midwater floaters.

Global E&P spending in 2012 have seen an increase of 10% to $598bn, versus $544bn in 2011. By region, exploration and production spending is expected to rise most meaningfully in Latin America, Africa, Europe, the Middle East and Russia. Latin American E&P spending is projected to rise by 21% in 2012. Spending gains are expected to be led by significant pickups in activity in Brazil (Petrobras up 13%), Venezuela (PDVSA up 62%), Colombia (Ecopetrol up by 25%) and Mexico (a 17% increase slated for PEMEX). Following a disappointing 2011 where political instability in several countries, government overhauls and administrative issues resulted in significantly curtailed spending, Exploration and Production expenditures in Africa are expected to increase by 14% in 2012 to $30bn from $26bn in 2011. Spending by companies in India, Asia and Australia are expected to increase by 11% in 2012 led by a ramp up in expenditures by CNOOC, Petronas, and Inpex Corp. Petronas Carigali alone has slated expenditures of over $1.5bn in the coming year, reflecting strengthening shallow water and deepwater activity in Malaysia.

During the 11th five year plan period, the total sedimentary basin area to be brought under exploration coverage is being targeted at 80%. Under NELP-VIII, the highest numbers of blocks were awarded for exploration, covering an area of 1.63 lakh sq. km. Further, the Government's Hydrocarbon Vision 2025 envisages a program for a comprehensive appraisal of all of India's basins by 2025, which augurs well for the offshore drilling industry. Hence strong domestic demand and relatively improved market conditions are likely to favor Indian rig owners going forward.

With an increase in demand for oil as envisaged, the demand-supply deficit is bound to increase. Thus, tightening of oil supply, combined with a long term growth in demand, imply stable to increasing oil prices.

The outlook for oilfields business is positive and your Company is well poised to cater to the growing opportunities. Going forward the oilfields business will contribute significantly to the profitability of your Company.

Your Company, through its wholly owned subsidiary, Essar Oilfield Services India Limited (EOSIL), has recently received LOA from NSOC Brunei and BG Shirke for LR#4 and LR#3 respectively. The semi-submersible rig, Essar Wildcat, is currently deployed with Conocophillips in Indonesia for an 18 month contract starting from October 2011.

(c) Logistics Business:

Road transportation dominates the logistics market as it enables point-to-point transportation, effective tracking of cargo and limited multiple handling of consignments. Indian trucking sector contributes about 4.5 - 5% of GDP and accounts for ~55% of freight transportation by volume. Moreover, improved road infrastructure and higher capacity trucks (multi axle vehicles) have reduced transit times, thereby further improving the competitiveness of road transportation for shorter lead distances (<500 kms). The outlook for the road freight transport sector heavily depends on the outlook for other sectors such as agriculture and industry. If the current share in GDP is maintained the growth in the sector is likely to be in the range of 1-1.5x the GDP growth. The overall cargo traffic is expected to grow at a CAGR of 14% between FY11 – 14, which will result in increased volumes to be handled, giving an opportunity to existing players to capitalize on scale and scope of operations.

The total share of organized players is estimated to be not more than 5-10% of the sector; hence it has enough scope for consolidation. While the industry has been growing at almost 10 percent in the past few years, the organized players have witnessed a much higher growth. Though infrastructure has witnessed slight improvement, there is still lot of scope for improvement in infrastructure and any favorable push from the Government towards construction of national highways and expressways will act as a strong impetus for growth with reduced costs. Further improved infrastructure would allow fleet owners to continue their drive to replace their fleets with newer and more powerful vehicles.

Your Company through its wholly owned subsidiary Essar Logistics Limited (ELL) provides project cargo, transshipment, lighterage and trucking services to steel mills, power plants and oil refineries.