The Great Eastern Shipping Co. Ltd.

51ST ANNUAL REPORT 1998 - 99

In Millions except for Earnings, Cash earnings & Dividend per share

	March 31, 1999 Rs.	March 31, 1999 US$	March 31, 1998 Rs.	March 31, 1998 US$
For the Year				
Total Revenue	9,808	233	9,641	259
Operating Profit (PBIDT)	3,913	93	4,206	113
Non-cash charges written off/provisions	143	3	85	2
Profit after tax (PAT)	1,264	30	1,642	44
PBIDT as a percentage of total revenue	39.89	39.89	43.62	43.62
Earnings per share	4.40	0.10	5.71	0.15
Cash earnings per share	10.12	0.24	11.13	0.30
Dividend per share (Net)	2.00	0.05	4.00	0.10
At the end of the year				
Total debt	9,347	220	8,318	211
Shareholders' Funds	11,917	281	11,687	296
Equity Capital	2,876	68	2,876	73
Market Capitalisation	6,241	147	11,272	285

Figures in US$ are arrived at by converting Rupee figures at the average conversion rate for all Profit and Loss items and at closing rate for all Balance Sheet items, as given below, to facilitate comparison.

Rs./US$	1998-99	1997-98
Exchange Rate		
— Closing	42.43	39.50
— Average	42.13	37.17

GREAT EASTERN SHIPPING

BOARD OF DIRECTORS

Executive Chairman	K.M.Sheth
Executive Deputy Chairman	S.J.Mulji
Managing Directors	Vijay K.Sheth Bharat K.Sheth Ghanshyam S.Sheth
Directors	R.N.Sethna K.P.Byramjee A.K.Parikh Asha V.Sheth Manu Shroff T.N.Pandey
Company Secretary	P.R.Naware

Auditors
Kalyaniwalla & Mistry
Chandabhoy & Jassoobhoy

Registered and Head Office	Ocean House, 81, D.N.Road, Mumbai 400 001.

CHAIRMAN'S STATEMENT

Dear Shareholder,

This is my last statement to you in dual capacity as Chairman & Managing Director of your Company. Effective April 1, 1999, both Mr. Mulji, who was your Deputy Chairman and Joint Managing Director, and I are passing on the Managing Directorships to Mr. Vijay K. Sheth, 44, Mr. Bharat K. Sheth, 41, and Mr. Ghanshyam S. Sheth, 42, who have been hitherto serving your company in their capacity as Executive Directors of the Offshore, Shipping Division and Property Development Division respectively.

The Board felt that it should put in place a management structure that will help the Company sustain its leadership position in the next millennium. The new Managing Directors have, since the early 1980s, occupied various positions within the Company, gaining exposure to all aspects of the Company's operations. They have indeed, been the principle architects behind the growth of their respective divisions and I am unequivocally confident of the Company's continued prosperity under their leadership.

Along with the above management changes, your Board has proposed demerging certain business activities relating to the Property Division into a separate company, GESCO Corporation in which all shareholders will be issued shares on a proportionate basis.

I believe that the demerger process will be beneficial to shareholders for two reasons: First, it gives shareholders **a choice** with respect to their holdings, in being able to own shares representing two distinct activities-marine related and property related. Second, this process will enable **equity participation** by a suitable international collaborator in the new company. Further, given the recent amendments to the Income Tax Act, this restructuring would enjoy tax neutral status. Mr. Ghanshyam Sheth will takeover as the Managing Director of the new Company, after the demerger becomes effective.

The above restructuring proposals should be seen as the beginning of what could be a series of initiatives by your management in enhancing shareholder value.

I do hope that all of you will give the same support and encouragement to the new Managing Directors as you have given me in the past.

Thank you

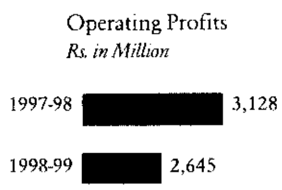
K. M. Sheth
Executive Chairman
7th June 1999

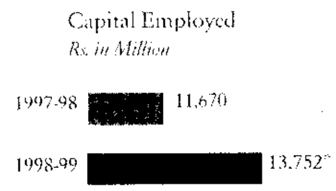
MANAGEMENT DISCUSSION & ANALYSIS

Annual Report

Shipping Division

The Division's overall operating profits decreased by 15.38 % over the previous year.





* includes two Aframax crude carriers costing Rs. 3715 million delivered in Feb/March '99.

The year 1998 was one of the worst for the dry bulk sector in the last decade, with both vessel earnings and values showing steep declines. The Handy/Handymax vessel earnings dropped to levels marginally above their *operating costs whereas Panamax earnings fell below operating cost levels before recovering subsequently.* Under these conditions, the profitability of the Division's dry bulk fleet came under severe pressure. In addition, operating profits were also affected by a fall of about 8% in the number of vessel operating days (on account of a reduced fleet), and lower profit on sale of vessels. The operating profit would have been lower but for the fact that the fleet exposure was hedged through committed cargo contracts and period charter contracts. The time charter yield of the Division's dry bulk fleet dropped by only 18% (in $ terms) whereas yields for similar vessels in the market dropped by 30%.

The tanker sector also faced difficult times. A large number of factors were responsible for the negative impact on the Division's tanker earnings. The continuing effect of the South East Asian crisis resulted in lower trade volumes in the Asian region. There was a general decline in the tanker and LPG markets. In addition, the oil industry in India did not settle freight rates for the product tankers deployed on the coast. The product tankers have been receiving charter hire on a provisional basis, at 80% of the charter hire of the earlier contract for vessels employed for both Administered Price Mechanism (APM) and non-APM cargoes. This affected cash flow and profitability of the tanker fleet. However, most of the larger Product Tankers, operating on a spot basis, remained steadily employed on carrying imports into India. The Division has endeavoured to maintain margins through a tight control on costs.

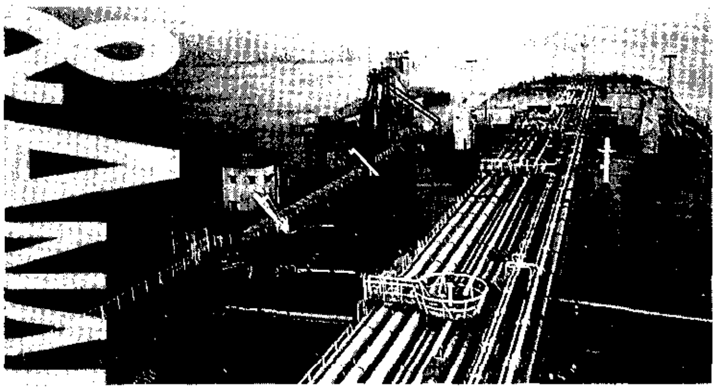
The crude carrier m.t. "JAG LAADKI" continues to be employed with SCI on market related rates. In earlier years, the vessel was employed on a cost plus basis, which has however been abolished from April 1998.

During the first six months of the year, the LPG carrier "JAG VAYU" had difficulty in getting full employment for want of sufficient cargo. However in the second half of the year, the Company was successful in obtaining and executing a Contract Of Affreightment with the Indian oil industry for carriage of about 162,000 tons of LPG in 18,000 ton parcel sizes. As a result, during the tenure of this contract i.e. between October 98 and April 99, the vessel was kept fully employed at reasonable rates.

During the year, the Division sold one dry bulk carrier. As on date, two bulk carriers and two product tankers have been committed for sale, and will be delivered in FY1999-00. During the year, the dry bulk fleet was augmented by two newly built minibulk carriers and the tanker fleet expanded with the addition of two newly built Aframax crude carriers. The Division's fleet, after the delivery of vessels committed for sale, will consist of 13 bulk carriers, 4 minibulk carriers, 13 product tankers, 3 crude carriers and 1 LPG carrier. The capital employed in the Division as a percentage of total capital employed increased by 17.84% during the year.

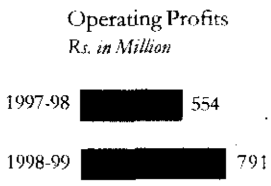
The ship values of both newbuilding and secondhand tonnage have been declining over the last few years. The Division, therefore, is closely looking at the prospects of augmenting the fleet, especially in the dry bulk sector. Interesting opportunities could arise especially if financially stretched owners find it difficult to meet their obligations. However, availability of good secondhand tonnage remains a problem. The Division continues to explore the market for possible newbuilding orders with reputed yards in South Korea and Japan. The Division feels that any investments made now will yield handsome returns over the medium term.

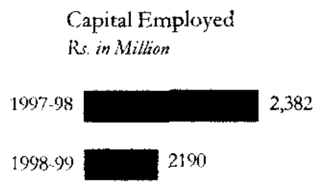
On the domestic front, the imports of product and crude into India, and movement of products along the coast, are expected to undergo a major change with new private sector refineries coming on-stream from next year. The proposed laying of pipelines could also affect the coastal movement of products. The Division is well abreast of the developments and is gearing itself accordingly to meet the challenges and opportunities under the changed scenario.



Offshore Division

The Division's operating profits increased by 42.78% as compared to the previous year.





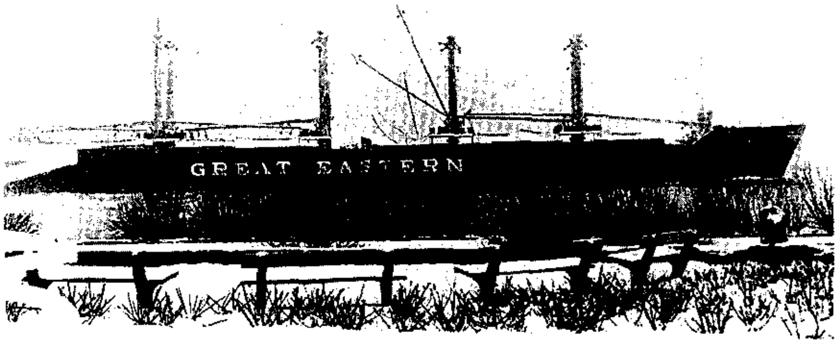
The Division continued its activities in the Oil Field Support Sector and Harbour Support Services under increasing difficult conditions. A brief synopsis of its performance for 1998-99 is given below :-

Offshore Support Vessels (OSVs) The Division maintained its market position as the largest private operator of OSVs in the country. However, the declining oil prices have made exploratory and production efforts unremunerative in many small and marginal fields which had an adverse impact on the domestic oil exploration and production programme. Consequently, only a handful of the awarded blocks commenced operation during the year and there was no additional requirement for vessels.

The expected delivery of an Anchor Handling Tug Supply Vessel (AHTSV), the biggest and most advanced in its class in the country, in the last quarter of 1999, should give a fillip to the Division's foray into market for deep water drilling activity.

The Division continues to make efforts to cater to various requirements in the Indian Offshore Industry.

Harbour Tugs During the year, one newly built tug was delivered on schedule. This vessel, along with the two tugs delivered earlier, have been given on contract to



Port Trusts. Due to its good performance in the earlier contract, one of the Harbour Tugs has been fixed on a long term charter. The expected delivery of two tugs, presently under construction, is scheduled in the second half of the current year. They are expected to meet the requirements of the various ports and gain immediate employment.

Oil Drilling Rigs The Jack-up Rig "Kedarnath" commenced its two year contract with Oil and Natural Gas Corporation Limited (ONGCL) and its performance continues to be satisfactory. This Rig was also involved in drilling relief wells to alleviate the gas pressure created by the recent blowout on Platform B-121. The Drill Barge "Badrinath" which is under a three year contract with ONGCL, has successfully drilled a geo technically difficult well in the Kerala Konkan area.

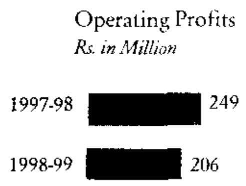
Marine Construction The Division's hook-up cum accommodation Barge – "Gal Constructor" was utilised on various jobs. Moreover, it assisted in various rehabilitation projects in the Kandla region, consequent to the severe cyclone in June 1998. The Barge also carried out salvage operations and re-construction of "Virtual Jetty" of Hindustan Petroleum Corporation Limited (HPCL) at Kandla port, which was damaged during this cyclone.

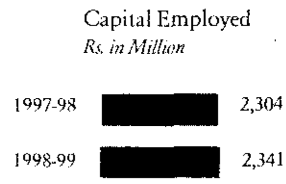
The Division, in partnership with Cochin Shipyard Ltd., a premier public sector yard, undertook a major oil enhancement project for ONGCL. Apart from providing the marine spread, the Division was also involved in overall project management, including procurement, logistics support, sourcing of engineering services, diving, installation and coordination. The project was completed ahead of schedule.

Air Logistics – Helicopters During the year, the Division's three leased Bell 212 helicopters continued to operate satisfactorily. The helicopters logged 2,276 accident-free flying hours and 40,800 passengers were air-lifted to various offshore locations.

Property Development Division

The Division's overall operating profits decreased by 17.27% over the previous year.





The Property market, in all the major cities, has witnessed a correction of over 25-40% in the last three years. However, since the first quarter of 1999, markets have witnessed a revival in demand with the entry of actual users viz. large government organisations. Ironically, the availability of ready possession flats is less than the demand for them.

The recent Finance Bill has provided a shot in the arm for the Housing Sector through the announcement of various fiscal measures and structural changes like modification in foreclosure norms, etc. Moreover, the Government has proposed to allow Foreign Direct Investment (FDI) in this Sector. The above factors will provide the required impetus for the Indian Housing Industry.

The Division has been emulating the strategy followed by successful international property developers which essentially entail dividing the business activities into two clear categories:

i) Buying land for development of commercial and residential projects for sale to customers;

ii) Focussing on higher value added businesses - by managing, developing and operating commercial complexes/international style buildings for multinational companies including owing and operating Business Centers on some of these properties. The properties falling under this category are located in prime parts of various cities in India and are retained by the Division. These developments have, in fact, been rated highly by renowned international property consultants.

It has been a challenging year for the properties developed for sale. The Company has effected substantial savings in project costs by delivering projects ahead of schedule. The Company's first project in Pune, delivered