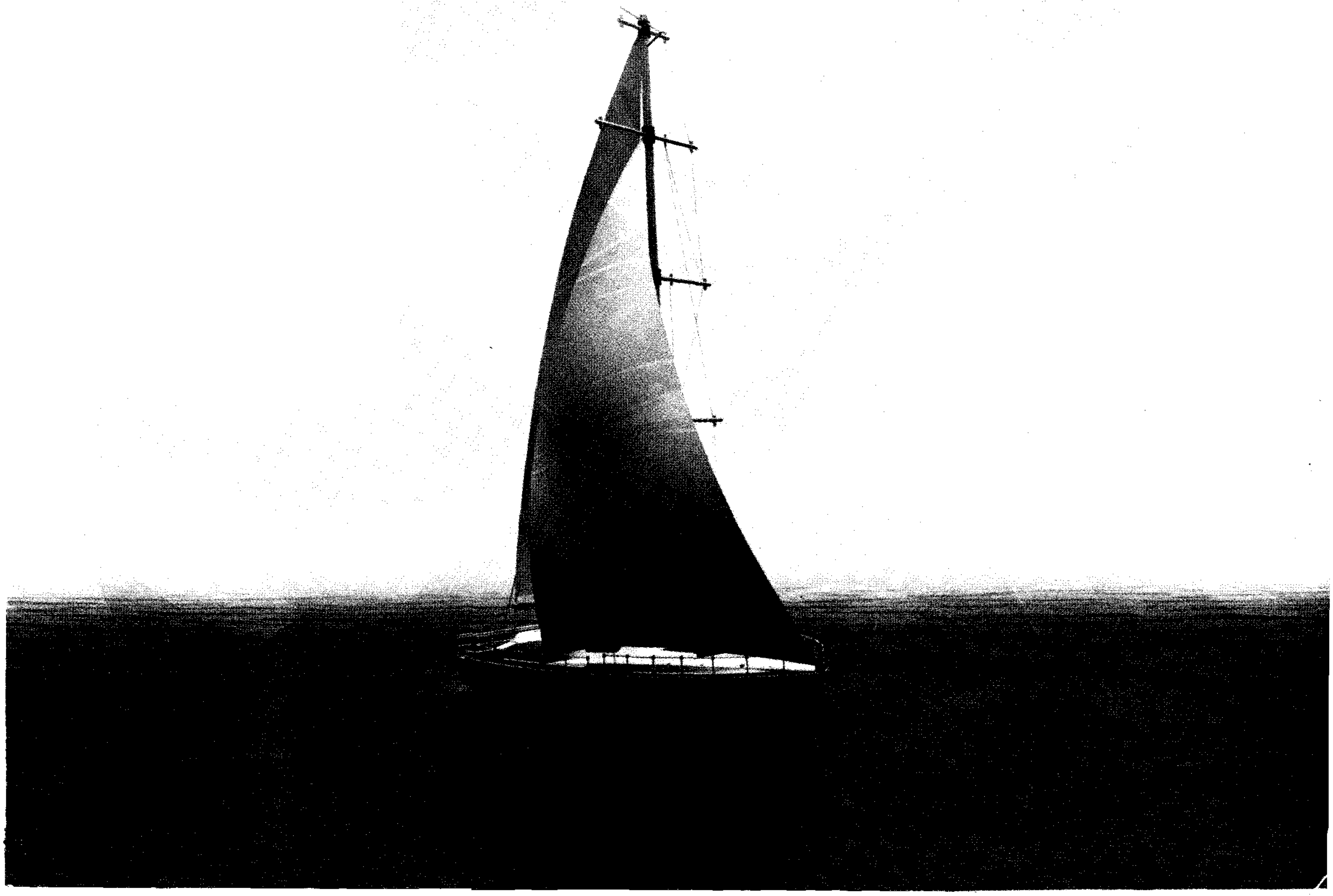
62nd ANNUAL REPORT 2009-10

THE GREAT EASTERN SHIPPING CO. LTD.

Strong winds
Stronger sail



62nd Annual Report 2009-10

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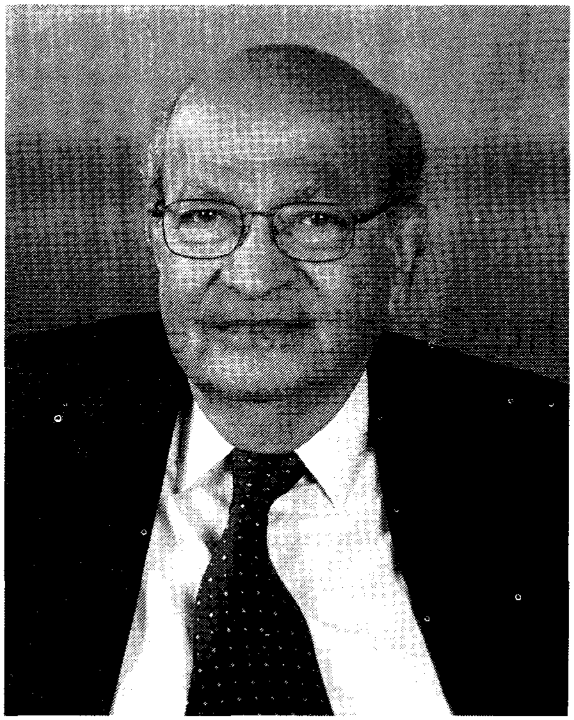
Chairman's Statement

Dear Shareholders,



At the dawn of the financial year 2009-10, there was a great deal of uncertainty about the world economy and, consequently, an expectation that in our industry, with the huge order book of ships due to deliver during the year, the spectre of the 1980s was upon us.

Events, however, turned out to be better than expected with developing economies recovering smartly and signs of a turnaround in the USA. As a result, cautious optimism returned to the shipping industry towards the end of the year. This was reflected both by an increase in asset values as well as by additional investments being made in the new building market. A detailed analysis of the shipping freight markets has been provided in the Management Discussion & Analysis section of annual report and, therefore, I will not dwell upon this in detail.

For the financial year 2009-10, your Company has recorded a net profit of Rs. 395.75 crores on a standalone basis and Rs. 512.76 crores on a consolidated basis. Your Company has announced a total dividend of Rs. 8 per share, thereby significantly enhancing the pay out ratio for the year. Your Company's Oil & Gas subsidiary, Greatship (India) Limited has now achieved significant size of operations that has contributed meaningfully to the consolidated revenues of your Company.

While global economies are on the mend, growth pockets are generally within the emerging economies as the developed nations continue to thrive more on the Government stimulus packages than on domestic consumption driven demand. Accordingly, world GDP and hence, global trade demand is expected to register steady growth in 2010 driven mostly by China, India and other Asian economies. Currently, only two factors seem certain for our freight markets – volatility and uncertainty. While tonnage demand both in the tankers and the dry bulk segments is likely to improve going forward, uncertainty of this improvement reflecting upon the shipping markets is mostly on account of the actual new building deliveries that can happen during the course of the year. However, it is only during such challenging times that real growth opportunities surface and in this connection, I am happy to report that your Company is well positioned to capitalize on any downturn in asset values to further expand its fleet. In the midst of the choppy seas, where profitable operations and meeting repayment obligations has been a challenge for many shipping companies that had expanded very aggressively in the good times, your Company was in a better position than most due to its innate conservatism philosophy. During the last few years of a very strong freight market, your Company had steered its way steadily with unwavering focus on financial prudence without compromising on the need for growth. As on March 31, 2010, your Company had cash and cash equivalents amounting to approx Rs. 3,450 crores and a net debt equity ratio of 0:03 enabling it to make significant asset acquisitions at the opportune time. The timing of such acquisition is difficult to define today, but I am certain that patience will be duly rewarded. Over the next 3 years, your Company will complete its committed capital expansion plan of approx. US$ 570 mn thereby taking the total dwt to around 3.8 mn dwt.

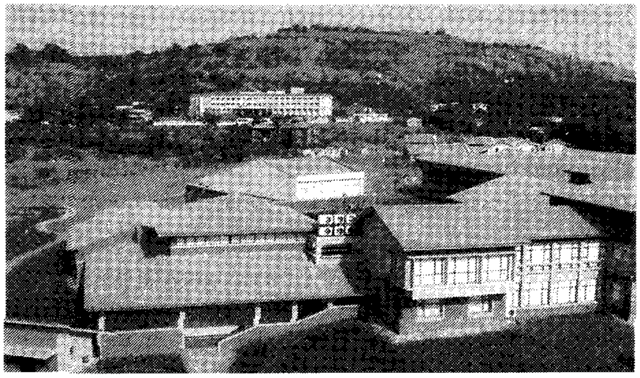
I take this opportunity to thank all our customers for their unstinted support extended during these extraordinary times. Needless to say, sailing through these rough seas would not have been possible without the dedication and faith exhibited by all my colleagues both on shore and on board particularly so in meeting their paramount objective of safety of life, carriage and environment. Finally, I am, as ever, grateful to the Government of India as well as the Regulatory authorities for their continuous support.

With warm regards,

K. M. Sheth
Executive Chairman

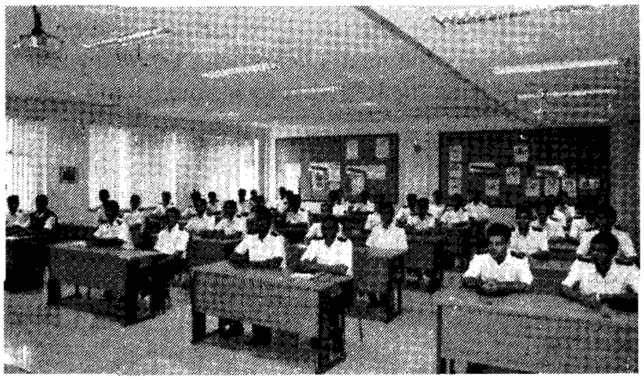
The Great Eastern Institute of Maritime Studies

The Great Eastern Institute of Maritime Studies located on a 18.5 acres land at Lonavala, commenced its pre-sea training from January 2006.



The Institute is 'bench marked' by CRISIL and awarded Grade 1 (outstanding) since December 2006 – the highest rating, and continues to be so from year to year. The Institute is ISO 9001:2008 certified by the Indian Register of Shipping with effect from November 2009.

To start with, it was contemplated to have a capacity of 160 students for Trainee Navigating Officer Cadets and Graduate Mechanical Engineer Cadets, which was subsequently, raised to train 240 students, 120 deck cadets and 120 engineering cadets. The Institute, since 2009, has been affiliated to Indian Maritime University and the Trainee Navigating Officer Cadets have been appearing for examinations conducted by them.



The Institute has so far trained 507 Trainee Navigating Officers and 523 Graduate Mechanical Engineers. At present, there are about 50 Engineers and about 10 Navigating Officers sailing on the Company's ships. Since July 2007, the Institute has also commenced training Electrical Officers. Till now 61 such officers were trained of which about 15 Trainee Electrical Officers have taken independent charge on board the Company's ships.

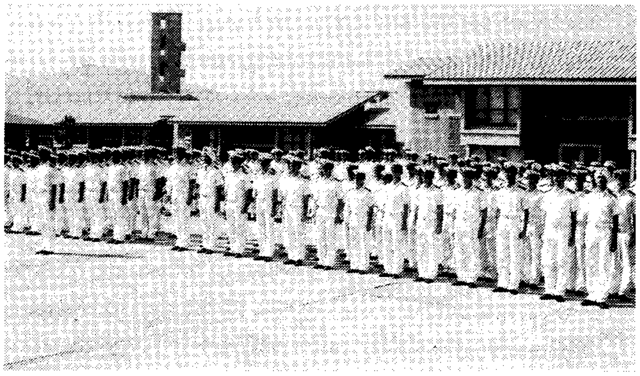
The Institute has also commenced in-house training for the four mandatory STCW Safety Courses by providing the necessary equipment and trainers. With this the Institute is able to provide comprehensive training as a pre-requisite for eligibility of a C.D.C. before the cadet joins the ship.

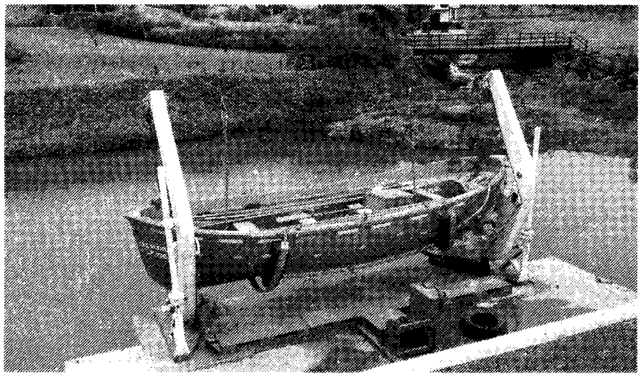
All these efforts have helped achieve economies of integrated training.

The Institute also conducts several value added courses for senior officers of the fleet including the recently introduced 18-day Skill Enhancement Course for operational level officers in collaboration with Germanischer Lloyd.

In time to come, most of the training required in the maritime sector will be imparted at the Institute. This will help to reduce the cost of training and will develop the Company's manpower.

International Maritime Organization (IMO), in April 2010, conducted a 'workshop' at the Institute to develop an 'Advanced Training package on Ballast Water Management' for ships and ports. This workshop was backed by IMO's 'Global Industry Alliance' members and the course is likely to be highly sought after by the Maritime Industry. IMO appreciated the assistance provided by the Institute and the valuable technical inputs provided by the Faculty. Such a programme conducted for the first time in the country, has given a tremendous boost to its image in the International Maritime Industry.





The overall objective of the Institute is not only to train competent officers to man the Company's ships but to also imbibe the appropriate values, culture, attitude and motivation in the minds of the cadets by training them for not just a job, but a life time career and commitment in the Company.

Risk Management

The Company views managing risk as an integral part of its operations. The objective of the risk management is to strike a balance between pursuing growth and business opportunities, and the need to manage the fluctuations in freight rates, currencies and other markets, along with maintaining operational and safety standards.

The Company has identified risks in the following broad categories:

1) Technical or Operational risk: This is the risk associated with the operation and safe running of the ships. These are managed by having stringent measures for quality and safety of people and cargo on board. Constant training and focused development to upgrade the skills on board is done so that the employees are fully geared to meet all possible challenges.

2) Market risk: The Company is operating in the tramp shipping business and owns crude and product tankers and dry bulk carriers, a significant portion of which are operated on the spot market. This relates to risk due to change in freight markets, bunker prices and counterparty risk. While management of fluctuation in freight rates is possible through long term charters, Contracts of Affreightment, etc., fluctuation in bunker prices can be offset through hedging transactions or by taking fixed price contracts with suppliers. Counterparty risk can be minimized by dealing with large, well reputed and good credit names.

3) Financial markets and liquidity risk: This is the risk associated with the financial position and cash flows of the Company. Liquidity risk may arise from inability to meet financial obligations, including loan repayments and payments for vessel acquisitions. This is dealt with by keeping low leverage, as a result of which the Company is able to borrow even in challenging markets such as those seen in 2008-09. It is also mitigated by keeping substantial liquidity at all times, which enables the Company to capitalize on any opportunities that may arise. Financial market risk may arise on account of exchange fluctuations, change in interest rates etc. Since the majority of the revenues of the Company are denominated in US dollars, there is a translation risk as the Company has to report its financial performance in Indian Rupees. Also, since most of the External Commercial Borrowings (ECBs) raised by the Company are based on floating rate, the Company is exposed to changes in interest rates. These risks are managed by actively hedging the net open Forex exposure and the floating/fixed rate liability.

Risk Management Strategy of the Company

- The Company has traditionally used a mix of long term time charters, contracts of affreightments to de-risk the revenues to some extent. As of March 31, 2010, the Company has 46% of its revenues from time charters and 54% from spot charters.
- As on March 31, 2010, 63% of the Company's loan portfolio was on fixed interest rates, and the balance 37% on floating rates.
- As on March 31, 2010, the Company has sold forward a total of USD 105 million for FY 2010-11, USD 63 million for FY 2011-12 and USD 30 million for FY 2012-13.
- As on March 31, 2010, the Company's gross debt equity ratio was 0.68 whilst its net debt equity ratio was 0.04.
- As on March 31, 2010, the Company had a balance of cash and equivalents totaling to Rs. 345453 lakhs, all in bank deposits and debt mutual funds.

Board of Directors

K. M. Sheth EXECUTIVE CHAIRMAN
Bharat K. Sheth DEPUTY CHAIRMAN & MANAGING DIRECTOR
R. N. Sethna
Asha V. Sheth
Cyrus Guzder
Keki Mistry
Vineet Nayyar
Berjis Desai
K. V. Kamath *(w.e.f. May 22, 2010)*
Ravi K. Sheth EXECUTIVE DIRECTOR

COMMITTEES

AUDIT COMMITTEE	SHAREHOLDER/INVESTORS' GRIEVANCE COMMITTEE	REMUNERATION COMMITTEE
Keki Mistry CHAIRMAN	Cyrus Guzder CHAIRMAN	Cyrus Guzder CHAIRMAN
R. N. Sethna	Berjis Desai	R. N. Sethna
Cyrus Guzder	Asha V. Sheth	Berjis Desai
Berjis Desai		

Jayesh M. Trivedi COMPANY SECRETARY

REGISTERED OFFICE	SHARE TRANSFER AGENT	AUDITORS
Ocean House	Sharepro Services (India) Pvt. Ltd.	Kalyaniwalla & Mistry
134/A, Dr. Annie Besant Road	13A/B, Samhita Warehousing Complex, 2nd floor	Kalpataru Heritage
Worli	Sakinaka Telephone Exchange Lane	127, Mahatma Gandhi Road
Mumbai 400 018	Off Andheri-Kurla Road, Sakinaka, Andheri (E)	Mumbai 400 001
	Mumbai 400 072	

Your Directors are pleased to present the 62nd Annual Report on the business and operations of your Company and Audited Accounts for the financial year ended March 31, 2010.

Financial Performance

The financial results of the Company for the financial year ended March 31, 2010 are presented below:

RS. IN LAKHS

	2009-10	2008-09
Total Income	**224539**	336474
Total Expenditure	**181343**	194505
Profit Before Tax	**43196**	141969
Less : Provision for Taxation		
- Current Tax	**3915**	4375
- Fringe Benefit Tax	-	125
Profit for the Year after Tax	**39281**	137469
Add : Prior period adjustments	**294**	1013
Net Profit	**39575**	138482
Less : Transfer to Tonnage Tax Reserve Account under Section 115VT of the Income-tax Act, 1961	**4000**	23000
	35575	115482
Add : Surplus brought forward from previous year	**271177**	183949
Amount available for Appropriation	**306752**	299431
Appropriations:		
- Transfer to General Reserve	**4000**	14000
- Interim Dividend on Equity Shares	-	12183
- Proposed Dividend on Equity Shares	**12183**	-
- Tax on Dividends	**1896**	2071
Balance Carried Forward	**288673**	271177

The total income for the year was recorded at Rs. 224539 lakhs as against Rs. 336474 lakhs in the previous year and a Net Profit after prior period adjustments of Rs. 39575 lakhs as against Rs. 138482 lakhs in the previous year.

Dividend on Equity Shares

Your Directors recommend a dividend of Rs. 8/- per share. The dividend will be paid after your approval at the ensuing Annual General Meeting. The aggregate outflow on account of the equity dividend for the year would be Rs. 14079 lakhs including tax on dividend. This represents a payout ratio of 35.57% (previous year 10.29%).

Management Discussion and Analysis

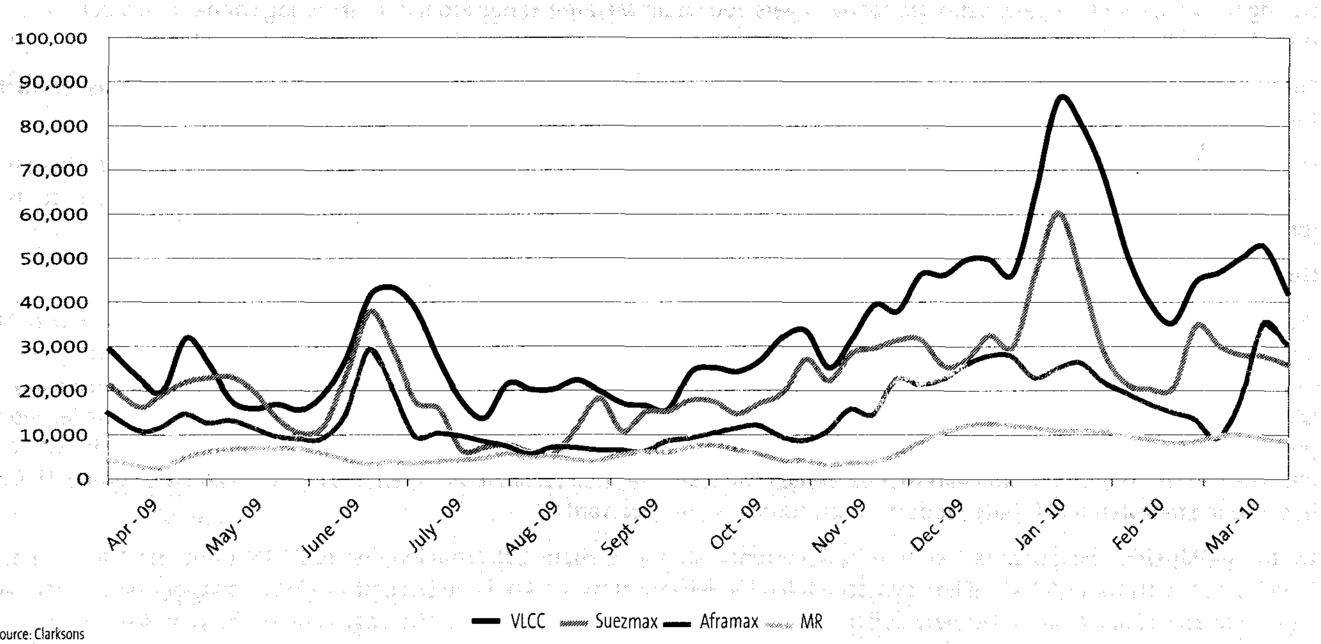
Company Performance

In FY 10, the Company recorded a total income of Rs. 224539 lakhs (previous year Rs. 336474 lakhs) and earned a PBIDT of Rs. 92139 lakhs (previous year Rs. 199182 lakhs).

Tanker Business

Market Trend and Analysis

Tanker average spot earnings over the year ($ per day)



Source: Clarksons

After enjoying several years of strong tanker markets, FY 10 turned out to be a turbulent year for tanker owners. During the first half of the year, earnings across various segments fell to levels wherein certain tanker owners were faced with the dilemma of operating their ships at or below the operating costs. This was particularly true in the clean and dirty products category.

Consequent to the collapse of global financial stability, in the first nine months of FY 10 average world oil demand dipped by about 0.45% or 0.4 million barrels per day over FY 09. This was largely led by the OECD nations where demand dropped by staggering 4% or 1.9 million barrels per day during the same period. To respond to the crisis, OPEC cut its average oil supply by about 5.4 % or 1.7 million barrels per day during FY 10.

The world tanker fleet increased to 441.40 million dwt at the end of the financial year, about 6% higher than the 416.90 million dwt at the beginning of FY 10. The fleet growth was more skewed in favour of the product tanker segment.

Floating storage provided some relief to the tanker owners in such a challenging environment. The main driver of this situation was an oversupplied market, with land-based crude oil storage largely full up and final demand for refined products well down. To tap the then prevailing contango (a term used when future prices are higher than 'spot' prices) in the spot and the future oil and oil products prices, it is believed that traders withdrew close to 150 tankers out of the active fleet to store approx. 55 million barrels of crude oil and 98 million barrels of clean products at the peak of this activity sometime in November 2009.

Amongst other factors that provided some respite to the tanker owners were increased scrapping *vis-à-vis* FY 09, slow steaming and lower single hull tonnage utilization. Also, towards the end of the financial year, increased crude oil imports by China, especially from West Africa, improved the tonne-mile demand.

Company Performance

The tanker business accounted for around 83% of the Company's net revenues and 87% of the operating profits.

In FY 09-10, around 61% of the tanker earnings were derived from the period market. The crude tankers, inclusive of 'spot' and 'period', earned an average TCY of $22,300/day (previous year $41,200/day). The product carriers, inclusive of 'spot' and 'period', earned an average TCY of $18,200/day (previous year $23,700/day).

Tanker Fleet Changes

The tanker fleet of your Company stood at 32 tankers aggregating 2.48 million dwt, with an average age of 10.6 years (as of 31st March 2010) as against 31 tankers aggregating 2.3 million dwt with an average age of 9.9 years as on 31st March 2009.

During the year, your Company acquired one double hull 1996 built Medium Range Product tanker 'Jag Padma' in January 2010.

During the year, your Company also took delivery of the following new building vessels:

- Double hull Long Range One (LR1) Product tanker 'Jag Amisha' in April 2009
- Double hull Long Range One (LR1) Product tanker 'Jag Aparna' in June 2009

During the year, your Company delivered to the buyers 2007 built Medium Range Product tankers 'Jag Panna' in July 2009 and 'Jag Payal' in May 2009.

Subsequently your Company delivered to the buyers 1996 built Suezmax Crude tanker 'Jag Layak' in April 2010 which was contracted for sale in October 2009 and 1985 built General Purpose Product tanker 'Jag Palak' in May 2010.

During FY 08-09, your Company had placed orders for two Suezmax tankers, both of which were to be delivered in 2011. These have been replaced with three Very Large Crude Carrier tankers to be delivered in early 2012. The total tanker new building order-book for your Company now stands at three vessels.

Outlook for the Tanker Market

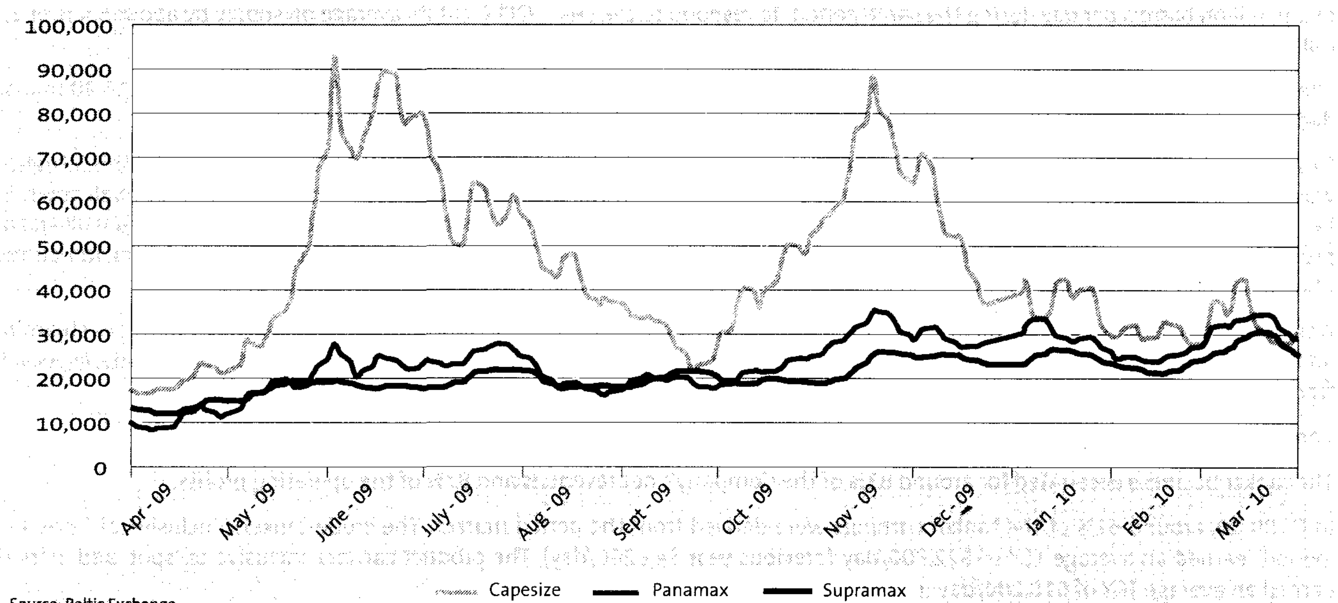
Prospects for the tanker market in FY 2010-11 remain uncertain. As per IEA, world oil demand in 2010 is expected to improve to 86.6 million barrels per day, which is about 2% or 1.7 million barrels higher than that seen in 2009. While China's oil demand growth is expected to stay in the region of 6.5%-7%, a lot depends on a sustainable oil demand recovery in the OECD nations, specifically the US and the Europe. While last quarter of the previous financial year did see slight improvement in the US oil demand, economic problems in Greece and surrounding Euro zone can dramatically alter demand dynamics. Significant refining capacity will come on stream in the Middle East and Asia in 2010, which will take away market share from refiners in the US and the Europe. This will boost tonne mile demand for the product tanker tonnage going forward.

On the supply side, the global tanker orderbook currently stands at about 128.6 million dwt or 29.1% of the fleet at the end of March 2010, with about 50.40 million dwt scheduled for delivery between April and December 2010. However, last calendar year registered 25% slippage in tanker new building deliveries against that scheduled at the beginning of the year. Assuming similar slippage and complete single hull tonnage phase out in 2010, net tanker fleet is expected to grow at approx. 2-3% in the calendar year. Overall, barring seasonal volatility, average tanker earnings in FY 11 are expected to remain similar to those seen in FY 10.

Dry Bulk Business

Market Trend and Analysis

Dry bulk average spot earnings over the year ($ per day)



Source: Baltic Exchange