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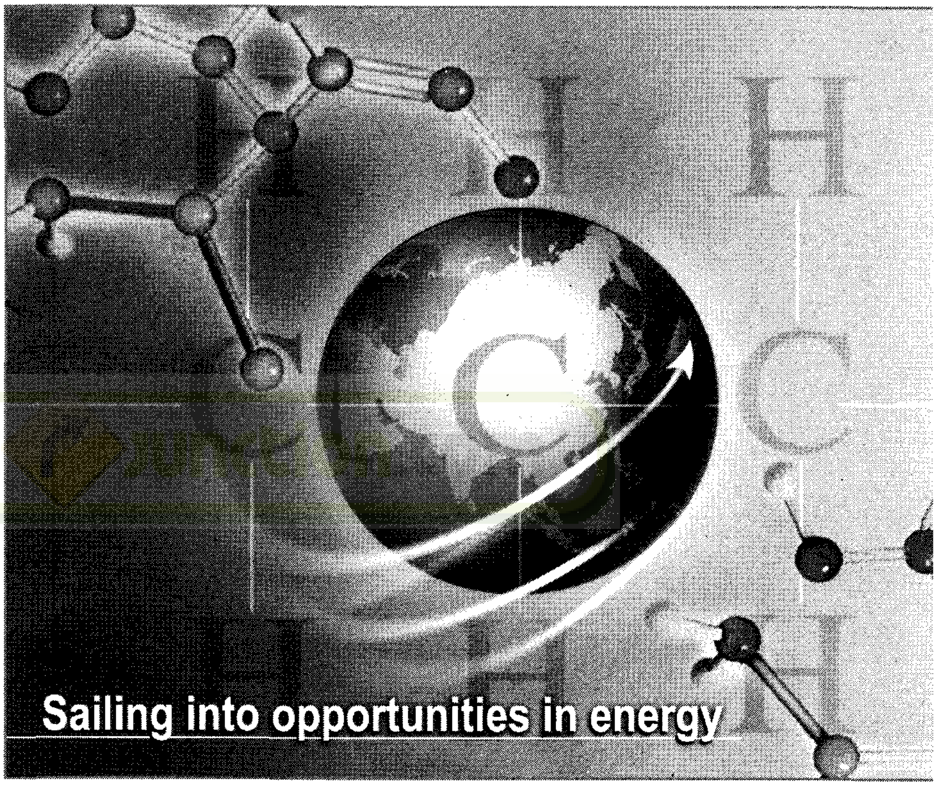

34th annual report
2004-2005

VARUN SHIPPING COMPANY LIMITED

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Sailing into opportunities in energy

"To meet the challenges of a new world" – a vision that has fuelled our every venture, encouraged us to navigate into unexplored oceans and sail into the potential of new opportunities in energy.

Our steadfast anchorage in the LPG logistics chain coupled with promising economic trends in sea-borne trade opens opportunities in the hydrocarbon sector. Opportunities that encourage us to harness the strength of hydrocarbons, mobilise trade across the globe and enhance our service offerings in energy transportation.

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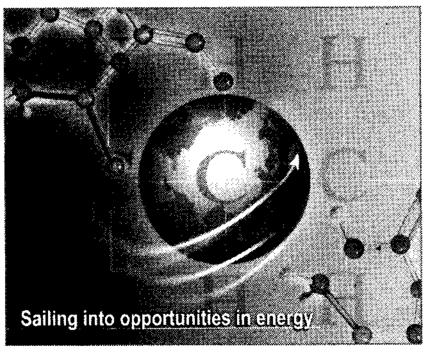

Set against the energetic background of hydrocarbon structures, the cover visual showcases a globe encircled by concentrated energy lines – a symbol of Varun's unceasing and focused efforts to transport hydrocarbons across nations.

The molecular structures represent the hydrocarbon sector and its significance in Varun's future prospects and are indicative of the company's endeavour to provide its clients with comprehensive shipping solutions.

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Varun Shipping Company Limited

BOARD OF DIRECTORS	Mr. Dilip D. Khatau	Chairman
	Mr. Arun Mehta	Vice Chairman & Managing Director
	Mr. Yudhishthir D. Khatau	Managing Director
	Mrs. Rina D. Khatau	
	Mr. C. M. Maniar	
	Mr. Praveen Singh	
	Dr. A. K. Bhattacharya	
COMPANY SECRETARY	Ms. Manali Parekh	
BANKERS	Bank of India Bank of Baroda State Bank of India UTI Bank Limited	
AUDITORS	Messrs Sorab S. Engineer & Co., Chartered Accountants Ismail Building, 381, Dr. D. Naoroji Road, Mumbai 400 001.	
REGISTERED OFFICE	Laxmi Building, 6, Shoorji Vallabhdas Marg, Ballard Estate, Mumbai 400 001.	
REGISTRARS & TRANSFER AGENTS	MCS Ltd. Sri Venkatesh Bhavan, Plot No. 27, Road No. 11, MIDC Area, Andheri (East), Mumbai 400 093.	

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Corporate Landmarks

1973

The Company commenced operations
with the acquisition of one product tanker.

1983-84

The Company's first diversification programme-entered into support services for oil exploration with the acquisition of Anchor Handling and Towing Supply Vessels (AHTS).

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1986

The Company's shares were listed on the Stock Exchanges and a Public Issue of Rs. 17.50 million raising Company's equity capital to Rs. 33.50 million.

1993

Second diversification programme-acquisition of two modern geared bulk carriers for dry cargo movement.

1995

The Company received ISO 9002 certification from DNV for Shore Based Ship Management Services.

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1995

The Company promoted a wholly owned subsidiary company in Singapore, VSC International Pte Ltd.

1996

The Company acquired its first LPG carrier making it the first private sector Indian company to commercially operate LPG carriers.

1998

The Company has obtained the Document of Compliance from the Director General of Shipping and the applicable ships have been issued their respective Safety Management Certificates.

2004

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Rights Issue of 36261591 equity shares aggregating to Rs. 652.70 million which increased the Company's equity capital to Rs. 1087.85 million. The equity capital of the Company as on 31st March, 2005 stands at Rs. 1114.84 million.

2005

The Company acquired its eighth LPG carrier, as a result the Company now owns the largest LPG fleet in the country i.e. 71 per cent of the total LPG tonnage operating under Indian flag.

2005

The Company diversified into transporation of crude oil with acquisition of its first modern Aframax crude oil tanker.

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Directors' Report

Your Directors have pleasure in presenting the Thirty-fourth Annual Report together with the audited statements of account of the Company for the year ended 31st March, 2005.

(Figures in millions of Rupees)

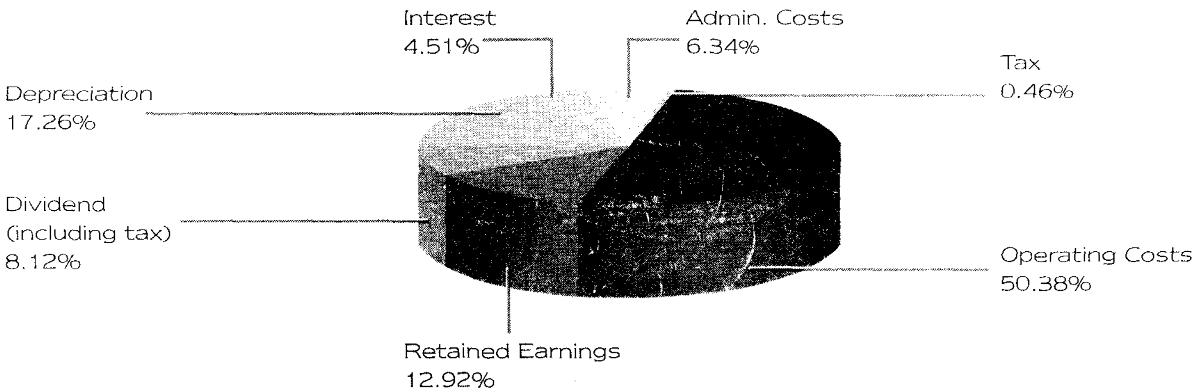
	Current Year ended 31.03.2005	Previous Year ended 31.03.2004
PROFIT BEFORE TAX	**834.78**	381.10
Less : Provision for Taxation		
Current Tax	**17.87**	23.04
PROFIT AFTER TAX	**816.91**	358.06
Less : Transferred to Reserve under Section 33AC of the Income-tax Act, 1961	—	390.00
Less : Transferred to Tonnage Tax Reserve under Section 115VT of the Income-tax Act, 1961	**175.00**	—
Add : Transferred from Reserve under Section 33AC of the Income-tax Act, 1961 (utilized) account	—	87.20
Add : Transferred from Debenture Redemption Reserve	—	22.80
Add : Surplus brought forward from previous year	**3.40**	78.41
Amount available for appropriation	**645.31**	156.47

Out of the amount of Rs. 645.31 million available for appropriation, your Directors propose to transfer an amount of Rs. 90.00 million to General Reserve and Rs.25.00 million to Capital Redemption Reserve. The Directors recommend payment of final dividend of Rs. 2.00 per equity share for the year ended 31st March, 2005 which together with interim dividend of Re.1.00 per equity share declared and paid earlier for the year ended 31st March, 2005 will absorb Rs. 295.49 million and Rs. 38.62 million towards dividend tax. During the year, an amount of Rs. 40 million being 1/3rd amount on 1,200,000 cumulative redeemable preference shares of the face value of Rs.100 each was redeemed. The Directors also recommend dividend of Rs. 9.03 million on 1,200,000 cumulative redeemable preference shares, which dividend has already been paid as interim dividend during the year and on which dividend tax of Rs. 1.18 million has been paid. After the above appropriations, your Directors propose to carry forward a balance of Rs.185.99 million in the Profit and Loss Account.

Income from operations was Rs. 3,889.61 million compared to Rs.2,928.73 million for the year ended 31st March, 2004. Net profit after tax was Rs. 816.91 million for the year ended 31st March, 2005 as against Rs.358.06 million during the preceding year. Increase in profit was due to better utilization of company's fleet, expansion of company's fleet and continued global buoyancy in freight rates.

The company continues to maintain its focus on the hydrocarbon sector. Towards this end, the company during the year acquired two LPG carriers, Maharshi Shubhatreya in August, 2004 and Maharshi Labhatreya

DISTRIBUTION OF REVENUE
(Rs. 3882 Million)



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in November, 2004 having a cargo carrying capacity of 43,670 cbm and 24,046 cbm respectively. In addition thereto, with a view to foray into transportation of crude oil, the company also acquired its first modern double-hull crude oil tanker, MT Amba Bhavanee in March, 2005 having a cargo carrying capacity of 107,081 dwt. In March, 2005 the company also acquired two Anchor Handling Towing and Supply (AHTS) vessels, MV Neel Kamal and MV Neel Akash from its wholly owned subsidiary, VSC International Pte Ltd, Singapore. During the year the company sold its two product tankers, MT Vishwa Doot and MT Shakti Doot. The company has since acquired its eighth LPG Carrier, Maharshi Devatreya having a cargo carrying capacity of 35,559 cbm on 25th April, 2005. With the acquisition of the eighth LPG carrier, the company now owns approximately 71 per cent of total LPG tonnage under Indian flag.

We are happy to state that consequent to the introduction of the tonnage tax system by Finance (No.2) Act, 2004, the Indian shipping industry has a globally comparable income-tax regime. The company has opted to be taxed under the Tonnage Tax scheme and has consequently improved its competitive edge in the international shipping arena.

The company's Rights issue of 36,261,591 equity shares of Rs.10 each for cash at a premium of Rs.8 per equity share aggregating to Rs.652.70 million issued in the ratio of one equity share for every two equity shares held was over subscribed 1.67 times and the said equity shares were allotted on 3rd December, 2004.

The company also issued 2,700,000 equity shares of Rs.10 each at a premium of Rs.22.09 per equity share aggregating to Rs.86.64 million on preferential basis to Transportation Infrastructure and Energy Investment, a sub-account of Matterhorn Advisory Singapore Pte Ltd., which is a Foreign Institutional Investor registered with Securities and Exchange Board of India (SEBI) on 22nd March, 2005. The company also issued 6,850,000 Optionally Fully Convertible Warrants (OFCWs) of Rs.32.09 each aggregating to Rs.219.82 million on a preferential basis to Khatau International Limited, which is a promoter group company and 623,000 OFCWs of Rs.32.09 each aggregating to Rs.19.99 million on a preferential basis to Mr.Arun Mehta, Vice Chairman & Managing Director of the company on 23rd March, 2005. Each OFCW can be converted into one equity share of Rs.10/- each at a premium of Rs.22.09 per share upon exercising the option of conversion, within a period of 18 months from the date of allotment, by the OFCW holder.

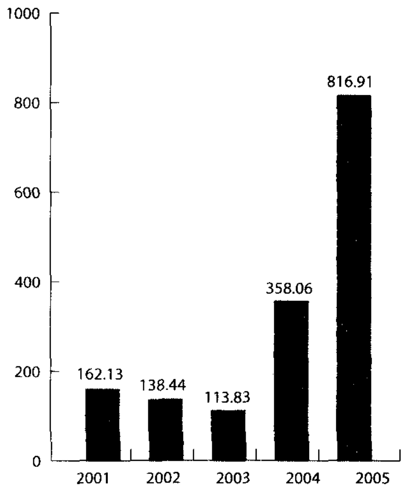
Further, in order to raise additional funds for our fleet expansion programme, the company proposes to issue Singapore Depository Shares (SDSs) in Singapore. The company in this connection has filed draft prospectus with Singapore Exchange Securities Trading Limited and will consider issue of SDSs after receiving all requisite approvals.

Management Discussion and Analysis :

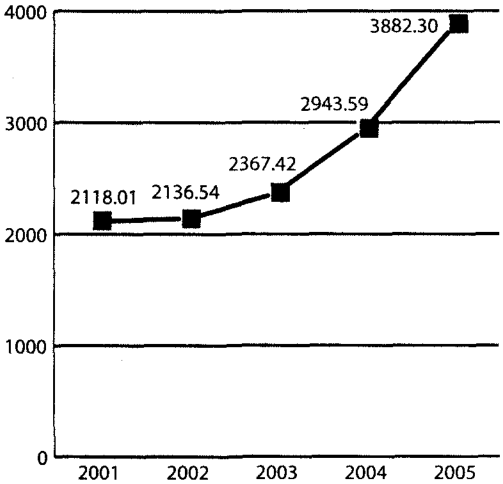
(a) Industry Structure and Development :

The international shipping industry transports hydrocarbons and bulk commodities in the wet, dry bulk, gas and chemical sectors by means of various vessels. The Company operates in the above mentioned sectors with a diverse mix of vessels and also in the offshore services sector. This diverse fleet is aimed to provide a positive and consistent return for our shareholders.

PROFIT AFTER TAX
(Rs. in Millions)



TOTAL INCOME
(Rs. in Millions)



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In the recent past, the shipping industry has benefitted from the growth of Asia-Pacific economies, including India and China. This growth is witnessing an increase in the demand in the Asia-Pacific region for bulk commodities such as crude oil, petroleum products, LPG, iron ore and steel resulting in strong tonne-mile growth for the overall shipping industry.

LPG is one of the most preferred fuels due to its clean burning properties and its contribution towards a clean and pollution free environment. Over the last decade, its demand has increased more rapidly than the global energy demand.

Demand for crude oil and petroleum products is inter-alia influenced by their prices, economic growth trends and heating fuel requirements based on weather conditions. Refining capacities/operations and the tonnage availability also play a vital role.

The world tanker fleet is expected to grow in 2005 after accounting for scrapping of Category-1 single hull tankers and deliveries from the tanker orderbook. The tanker demand is also expected to grow although not at the same rate as the growth in fleet in 2005. The requirements of China are seemingly driven by factors such as logistics and automobile demand, which are unaffected by recession.

Dry bulk trade comprises of cargoes such as coal, steel, iron ore, fertilisers and grains like wheat, etc. Last year witnessed an increased demand for coal and iron ore, with iron ore being a major driver of the market.

There is intensification of exploration and production activities in the offshore sector as the Indian government desires to enhance domestic production of oil and gas in India. Indian government has recently proposed an auction of more offshore exploration blocks in 2005. Increased activities in exploration and production are expected to be fuelled by high global crude oil prices. This is expected to result in higher utilization of offshore vessels.

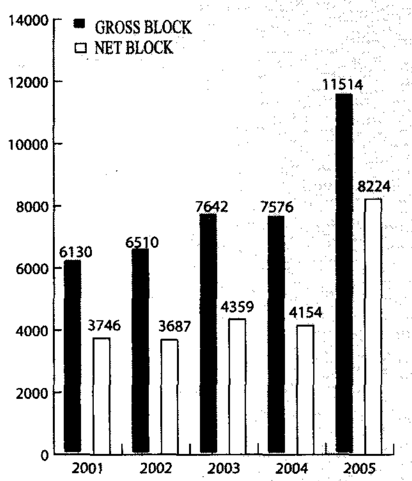
(b) Opportunities and Threats :

Indian and global demand for hydrocarbons is expected to increase in coming years. India and China are rapidly growing economies that are major consumers of oil and gas. In the near future, there is likely to be substantial growth in the import and use of LNG.

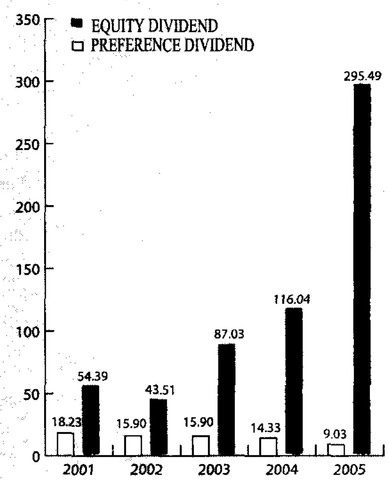
Only 15.1 per cent of all Indian overseas cargo was transported on Indian vessels in 2002-03 *(Source:Page 107 of Indian National Shipowners Association (INSA) Annual Review 2004)* and this is expected to reduce even further. The average age of the Indian fleet as on 01-10-2004 was approximately 16.9 years. *(Source:Page 105 of INSA Annual Review 2004)*. Hence there is an opportunity to acquire quality tonnage to replace the ageing Indian fleet and cater to both Indian, regional and global trade in the field of hydrocarbons.

In recent times, Government of India has recognised the importance and contribution of the shipping industry and its relevance to the overall growth and development of trade and commerce. Government

GROSS AND NET BLOCK
(Rs. in Millions)



DIVIDEND
(Rs. in Millions)



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has a policy of supporting Indian flag vessels by providing them with cargo preference and by encouraging the use of Indian ships through a policy of importing government cargoes on FOB (free-on-board) basis. The Company currently benefits and plans to develop its future Indian business by making full use of the cargo support policy of the Government.

Due to the Government of India's tonnage tax regime being implemented from April 2004, the Indian shipping companies are expected to have a level playing field compared to international companies. This has created opportunity for Indian companies as the low tax rate permits shipping companies to retain/re-invest a greater portion of their net earnings.

The Company is continuously assessing the viability and entry strategy vis-à-vis the LNG shipping. The Company has recently submitted a 'Request for Qualification' after forming an alliance with Exmar Marine NV of Belgium and Indian Oil Corporation Limited to Petronet LNG Limited, India offering LNG vessels and transportation services for their forthcoming Dahej Expansion and Kochi projects.

The key challenges for the Company and the Indian shipping industry are replacement of the ageing tonnage and the selection, training and retention of skilled seafarers.

As the quality requirements of international shipping increase, there is likely to be an increasing shortage of skilled sea-going manpower. In order to meet this challenge, the Company will have to develop training programme and retention packages that are attractive enough to retain well qualified and experienced seafarers on its vessels.

(c) Segment-wise Performance :

The company is engaged only in the business of shipping and there are no separate reportable segments.

The company's fleet of eight LPG carriers is the largest both in terms of fleet size and cargo carrying capacity in India constituting approximately 71 per cent of the total LPG tonnage under Indian flag. The vessels have been deployed on a mix of time charters, voyage charters and pool arrangements.

In the crude oil and petroleum products sector, the company owns three product tankers and one crude oil tanker, which are engaged in the transportation of petroleum products and crude oil.

Globally as well as in India, tankers are subject to strict environmental regulations and charterers requirements. Increased domestic production of petroleum products will give rise to greater movement of petroleum products along the Indian coast from regions of surplus to regions of deficit and as exports from India.

Presently, the crude oil and product tankers are deployed on either voyage charters, time charters or in pool arrangements.

In the dry bulk sector, the company owns one handymax bulk carrier, which is engaged in transportation of various dry cargoes, including coal, steel, mineral ores, etc. This vessel continues to be deployed on pool basis with the Bulkhandling Handymax AS of Norway.

As regards the offshore sector, the company owns two offshore supply vessels, which are on charter to Oil and Natural Gas Corporation Limited for their exploration, production and development of oil and natural gas.

(d) Outlook :

With the significant increase in the freight rates worldwide, the future prospects of the shipping industry appear to be promising.

Asia has emerged as an important LPG importing region. LPG consumption is expected to increase in India owing to the growing penetration in rural areas which is mainly due to the continuing shift in consumption from SKO to LPG. *(Source:Page 4 of CRIS INFAC Refining and Marketing Annual Review January 2005)*. Given the global and Indian trade outlook, we believe that this sector is expected to continue to be fundamentally strong.

Indian demand for crude oil is expected to increase and with production being unable to meet the rising demand, the growing deficit is likely to be met by imports resulting in increased shipping demand.

According to CRIS INFAC Refining and Marketing Annual Review January 2005, during 2003-04 to 2008-09 the demand for petroleum products is expected to move up at a CAGR of 3.9 per cent from an estimated 103.9 MMT in 2003-04 to 129.03 MMT in 2008-09 whilst the supply of petroleum products would increase at a CAGR of 4.32 per cent from an estimated 117.6 MMT in 2003-04 to 144.3 MMT in 2008-09. *(Source:Page 36 of CRIS INFAC Refining and Marketing Annual Review January 2005)*.

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Further, during 2003-08, while LPG imports are expected to increase, SKO imports are expected to decline. During the same period naptha exports are expected to increase with the commencement of LNG imports. Exports of HSD and MS are likely to increase, following the expected additions to the surplus in petroleum products. *(Source:Page 38 of CRIS INFAC Refining and Marketing Annual Review January 2005).*

Dry bulk trade comprises of cargoes such as coal, steel, iron ore, fertilisers and grains, etc. Due to strong demand for iron ore, steel, cement, etc., to assist the construction and infrastructure industries, this sector is expected to continue to rule strong.

Indian government is increasingly emphasizing on enhancing domestic production of oil and gas resulting in increased oil exploration and production activities. According to Indian Government's Hydrocarbon Vision 2025, one of the objectives of the exploration policy would be to undertake a total appraisal of Indian sedimentary basins for tapping the hydrocarbon potential and to optimise production of crude oil and natural gas in the most efficient manner. Private players have also become active spurred by recent discoveries. Further increased activities in exploration and production are expected to be fuelled by high global crude oil prices.

(e) Risks and Concerns :

Shipping industry being global in nature is prone to several risks and adversities including international competition, marine mishaps and accidents, amendments in Government policies and regulations, new regulatory compliances, port state control, exchange rate fluctuations, etc.

The company endeavours to counteract these risks by adopting certain measures like diversifying its marine assets, hedging its freight rates through long term contracts and pool arrangements, insuring various risks with hull and machinery underwriters and Protection and Indemnity Clubs.

(f) Internal Control Systems and their adequacy :

The company has proper and effective internal control systems commensurate with its size of operations in order to ensure that all systems and procedures are functioning satisfactorily and all policies are being duly complied with as required.

The Audit Committee of the Board of Directors regularly reviews the effectiveness of the internal control systems in order to ensure due and proper implementation of and due compliance with various applicable laws, accounting standards and regulatory guidelines.

(g) Discussions on financial performance with respect to operational performance :

36,261,591 equity shares of Rs.10 each issued by the company for cash at a premium of Rs.8 per equity share aggregating to Rs.652.70 million were allotted on 3rd December, 2004.

Further, 2,700,000 equity shares of Rs.10 each at a premium of Rs.22.09 per equity share aggregating to Rs.86.64 million were issued and allotted on 22nd March, 2005 on preferential basis to Transportation Infrastructure and Energy Investment, a sub-account of Matterhorn Advisory Singapore Pte Ltd., which is a Foreign Institutional Investor, registered with SEBI.

6,850,000 Optionally Fully Convertible Warrants (OFCWs) of Rs.32.09 each aggregating to Rs.219.82 million were issued and allotted on 23rd March, 2005 on a preferential basis to Khatau International Limited, which is a promoter group company and 623,000 OFCWs of Rs.32.09 each aggregating to Rs.19.99 million were issued and allotted on 23rd March, 2005 on a preferential basis to Mr. Arun Mehta, Vice Chairman & Managing Director of the company.

During the year, Rs.40 million i.e. 1/3rd amount on 1,200,000 cumulative redeemable preference shares of Rs.100 each was redeemed.

The details of the financial performance of the company have already been dealt with in the earlier part of the report.

(h) Human Resources :

The relations between the employees and the company remained cordial throughout the year. The company had 85 shore staff and 440 floating staff employees as on 31st March, 2005. The committed shore based staff provides its prompt and efficient support and guidance to the floating staff on a continuous basis, which helps to maintain effective performance and operational efficiency at all times. The company continues to focus on the safety, training and development of the employees.