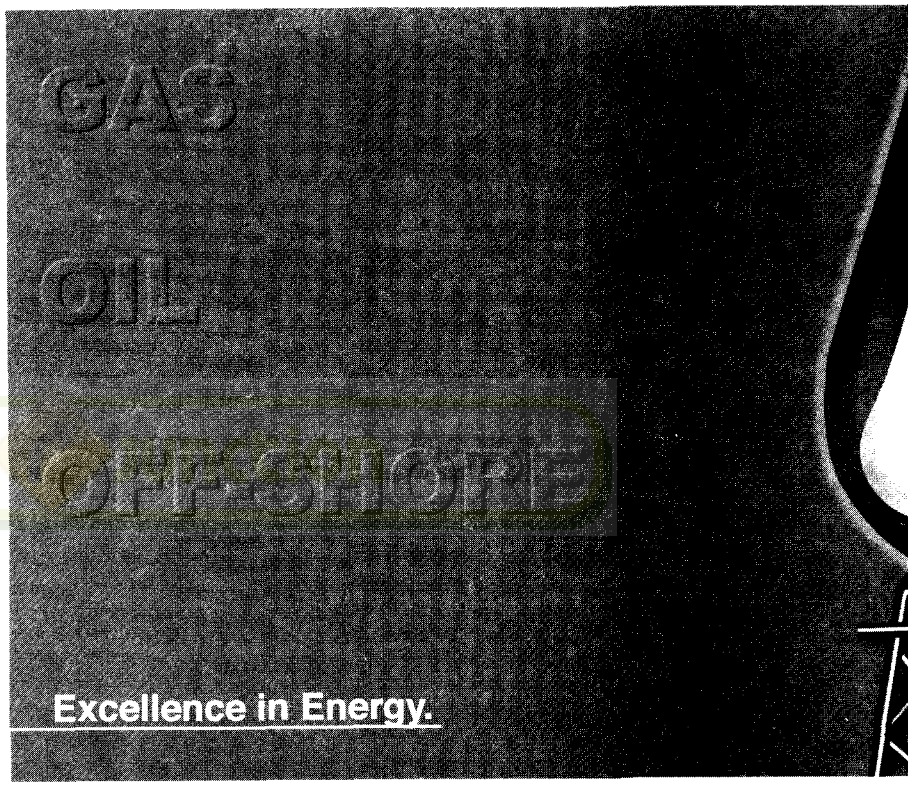


36th annual report
2006-2007

VARUN SHIPPING COMPANY LIMITED

Excellence in Energy

At Varun, the focus of business activity is clear and well defined - "To achieve excellence in energy". The company's core competence is firmly established in seaborne transportation of bulk cargoes in the hydrocarbon sector, including transportation of LPG, crude oil and petroleum products. With a view to sail towards new opportunities in energy, Varun is expanding its asset base and business operations in the area of offshore support services.

Varun's business operations are empowered by its well diversified fleet of 20 vessels. The company endeavors to fulfill the energy requirements across industries globally and maximize value for its customers, stakeholders and the economy at large.

The cover picture represents Varun's area of specialization—Gas, Oil and Offshore. The drop of oil signifies crude oil and petroleum products, which are transported by Varun. The gas flame represents Varun's leadership in Indian LPG shipping. The oil rig stands for offshore support services, an area in which Varun is expanding its business operations. Taken together, the cover picture conveys Varun's corporate focus of achieving excellence in energy.

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
State Bank of India
Bank of India
UTI Bank Limited
ICICI Bank Limited
Bank of Baroda

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
Datamatics Financial Services Limited
Plot No. A-16 & A-17,
Part - B, Crosslane,
MIDC, Andheri (East),
Mumbai 400 093.

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).

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.

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.

2006

"Fastest expanding Indian Shipping Company" award was conferred on the Company by The National Maritime Day Celebrations Committee.

2006

The Company issued 22,550,000 equity shares to various entities on preferential basis raising Company's equity capital from Rs. 1189.57 million to Rs. 1415.07 million

2007

In 2005, the Company diversified into transportation of crude oil with acquisition of two modern Aframax crude oil tankers. Since then, the Company acquired its third modern, double hull Aframax crude oil tanker in 2007

2007

The Company acquired two modern highly sophisticated 2001 built AHTS vessels, with highest bollard pull under Indian flag.

2007

The Company acquired a Very Large Gas Carrier (VLGC), which is the largest LPG Carrier in the Indian fleet. With acquisition of this VLGC, the Company owns LPG fleet of twelve vessels.

Directors' Report

Your Directors have pleasure in presenting the Thirty-sixth Annual Report together with the audited statements of account of the Company for the year ended 31st March, 2007.

(Figures in millions of Rupees)

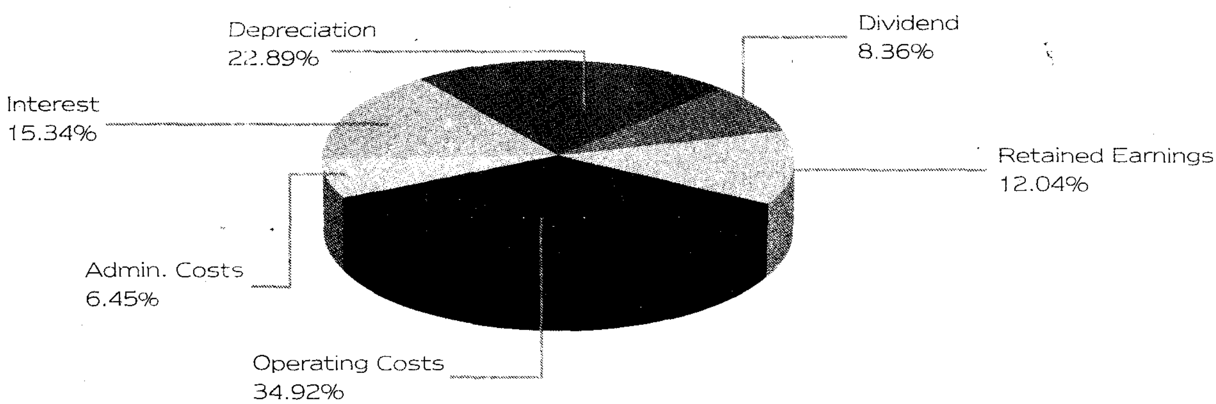
	Current Year ended 31.03.2007	Previous Year ended 31.03.2006
PROFIT BEFORE TAX	**1,476.90**	1,833.71
Less : Provision for Taxation		
Current Tax	**56.80**	13.20
Fringe Benefit Tax	**6.60**	11.60
PROFIT AFTER TAX	**1,413.50**	1,808.91
Less : Transferred to Tonnage Tax Reserve under Section 115VT of the Income-tax Act, 1961	**260.00**	370.00
Add : Surplus brought forward from previous year	**758.85**	185.99
Amount available for appropriation	**1,912.35**	1,624.90

Out of the amount of Rs.1,912.35 million available for appropriation, your Directors propose to transfer an amount of Rs.400.00 million to General Reserve. The Directors recommend payment of final dividend of Rs.1.50 per equity share for the year ended 31st March, 2007 which together with two interim dividends totalling to Rs. 3.00 per equity share declared and paid earlier for the year ended 31st March, 2007 aggregating to Rs. 4.50 per equity share will absorb Rs. 604.96 million and Rs. 91.21 million towards dividend tax. After the above appropriations, your Directors propose to carry forward a balance of Rs. 813.36 million in the Profit and Loss Account.

Income from operations was Rs. 6,726.27 million compared to Rs. 6,429.31 million for the year ended 31st March, 2006. Net profit after tax was Rs. 1,413.50 million for the year ended 31st March, 2007 as against Rs.1,808.91 million during the preceding year.

The Company continues to maintain its focus on the hydrocarbon sector and build on its core competencies by expanding its fleet of tankers and gas carriers as also by expanding its assets and operations in the rapidly developing oil and gas exploration and production industry. Towards this end, the Company acquired its twelth LPG carrier, Maharshi Vamadeva in December, 2006 with a cargo carrying capacity of 57,206 cbm. This vessel is the largest LPG carrier in the Indian fleet. The Company also acquired LPG carrier Maharshi Bhavatreya with a cargo carrying capacity of 35,559 cbm in March, 2007, which was on bareboat charter with a purchase option with the Company. With these acquisitions, the Company's LPG carrier

DISTRIBUTION OF REVENUE
(Rs. 7240.07 Million)



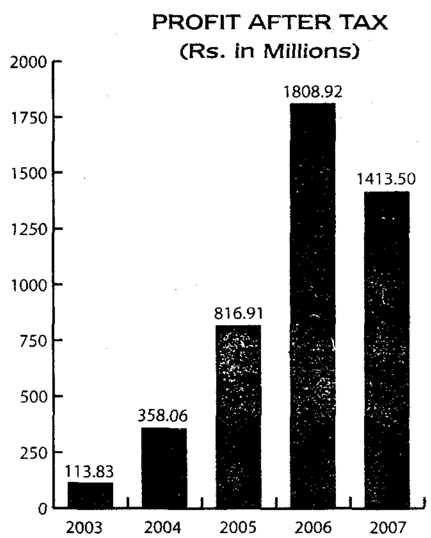
fleet of 12 vessels is the largest in India in terms of both fleet size and cargo carrying capacity of 332,023 dwt (412,725 cbm) and forms approximately 80 per cent of total LPG tonnage under Indian flag. In order to strengthen its presence in the crude oil sector, the Company acquired its third modern, double hull Aframax crude oil tanker, Amba Bhargavi in January, 2007 with a cargo carrying capacity of 106,004 dwt. The Company acquired one large, modern Anchor Handling Towing and Supply (AHTS) vessel, Subhiksha in January, 2007 with approximately 16,000 T British Horse Power (BHP)and a Bollard Pull in excess of 180 Tons. This modern and highly sophisticated world-class vessel can be used for supporting rigs and platforms in deep sea oil exploration activities in the North Sea, Bay of Bengal and the Atlantic Ocean, off the coasts of Nigeria, Brazil and Mexico. This vessel is the most powerful AHTS vessel with the highest bollard pull under Indian flag and as such, has established a new milestone in offshore support services for India's oil industry. Consequent to the said acquisitions, the Company presently owns a diversified fleet of 19 vessels. The Company has also contracted to acquire one more AHTS vessel, which is sister vessel of Subhiksha and one Very Large Gas Carrier (VLGC). These vessels are expected to be delivered to the Company in May, 2007 and June, 2007 respectively. During the year under review, the Company sold two single hull product tankers, namely, M.T. Hansdoot and M.T. Jaladoot and one bulk carrier, namely, M.V. Surya Kripa. The Company has decided to sell the 1974 built LGC Maharshi Vishwamitra.

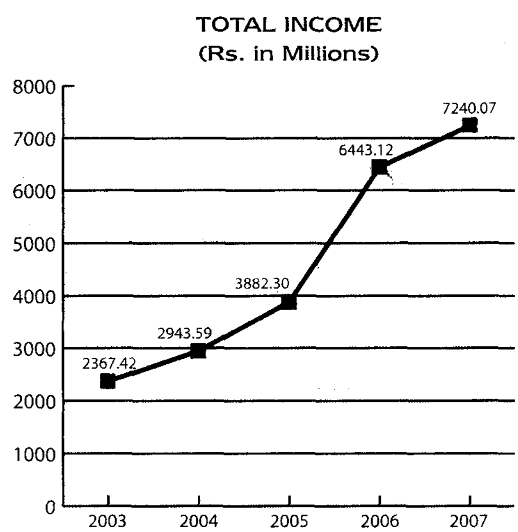
Mr. Yudhishthir D. Khatau, the Managing Director of your Company was the recipient of the "Personality of the Year" award at the Lloyds List Middle East/Indian Sub-Continent Awards 2006 ceremony on 8th November, 2006. According to Lloyds List, this award is given to "the person whose performance and business conduct in the eyes of the judges has stood head and shoulders above all others in Middle East/ Indian Sub-Continent maritime circles."

The Company had in connection with the proposed issue of Singapore Depository Shares filed an amended prospectus with the Monetary Authority of Singapore, but as during the road-show period, the Indian stock markets witnessed a major setback with a similar downturn throughout the South East Asia, the Company in consultation with its lead managers, decided to withhold the issue.

The Company thereafter issued and allotted 22,550,000 equity shares on preferential basis at a price of Rs. 75 per share i.e. Rs.10 on capital account and Rs. 65 on premium account aggregating to Rs.1,691.25 million on 5th December, 2006.

The Company, on 5th December, 2006 also issued and allotted 3,950,000 Optionally Fully Convertible Warrants (OFCWs) each to Khatau International Limited and Tarun Shipping and Industries Limited, promoter group companies and 600,000 OFCWs to Mr. Arun Mehta, Vice Chairman & Managing Director of the Company aggregating to 8,500,000 OFCWs on preferential basis. The said OFCWs were also issued at a price of Rs.75 per OFCW aggregating to Rs. 637.50 million.





During the year under review, the Company issued and allotted 1,650,000 equity shares of Rs.10 each to Khatau International Limited pursuant to the exercise of option for conversion of 1,650,000 OFCWs at Rs. 32.09 per share. During the year under review, the Company also issued and allotted 1,100,000 and 150,000 equity shares of Rs.10 each to Tarun Shipping and Industries Limited and Mr. Arun Mehta, Vice Chairman & Managing Director of the Company respectively, pursuant to their exercise of option for conversion of 1,100,000 and 150,000 OFCWs respectively at Rs. 75 per share.

With the issue and allotment of the aforesaid equity shares, the total issued equity share capital of the Company, as on date, stands at 142,757,773 equity shares. In case the option to convert the outstanding OFCWs into equity shares is exercised by the holders thereof, the total equity share capital of the Company would be 150,007,773 equity shares of Rs.10 each aggregating to Rs.1,500 million.

In response to the Company's application for voluntary delisting of its equity shares, the Company's equity shares have been delisted from Ahmedabad Stock Exchange Limited. The delisting of the equity shares from The Delhi Stock Exchange Association Limited and The Calcutta Stock Exchange Association Limited is awaited.

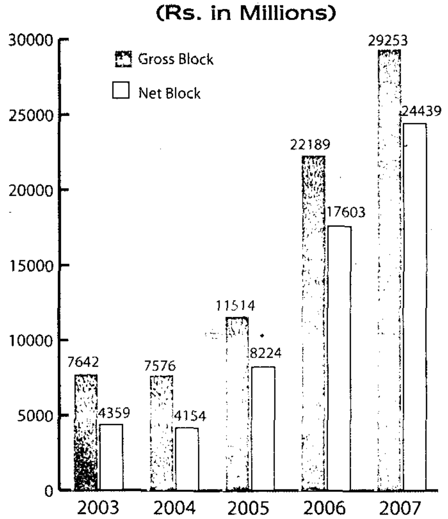
Management Discussion and Analysis :

(a) Industry Structure and Development :

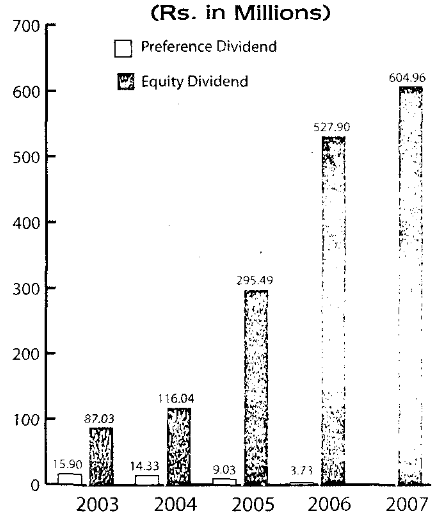
The international shipping industry involved in transportation of cargoes, primarily comprises of vessels operating in the wet-bulk, dry-bulk, liquefied gas, bulk chemical and container sectors. Specialized vessels such as ferries, car carriers and heavy lift ships are also involved in the transportation of passengers, automobiles and project cargoes. Offshore support vessels provide various services to the offshore exploration and production industry. The Company has a diversified fleet of vessels operating in the oil, gas and offshore sectors.

According to the Platou Report, 2007, worldwide economic growth in 2006 was higher than predicted, except for the USA and Japan. China was the most important driver for world trade and tonnage demand. Roughly 40 per cent of the extra need for seaborne transport capacity can be ascribed to China. 2006 was also notable for the amount of liquidity in the global financial system providing conditions that have benefitted consumers everywhere and emerging market energy, minerals and metal producers and therewith the overall shipping industry. Tightening monetary policies leading to higher interest rate are prevalent but rates are hopefully close to their cyclical peaks and liquidity remains high with capital seeking investments and providing the required impetus for sustained commerce through 2007.

GROSS AND NET BLOCK
(Rs. in Millions)



DIVIDEND
(Rs. in Millions)



Despite signs of slower economic growth in the US and China, the latest view of the OECD's International Energy Agency is for a doubling of global oil demand growth in 2007 to 1.6 m-bpd. The EIA forecasts that OPEC will raise output by 1m-bpd in second half 2007. A strong demand and sea-borne trade in oil, bodes well for the tanker and offshore markets.

LPG is one of the most preferred fuels due to its clean burning properties and therefore is in strong demand the world over. LPG carriers are primarily used for transportation of LPG and ammonia. It was observed that combined Japanese, Chinese and South Korean LPG imports in the first ten months of 2006 were up compared to the same period during the year 2005. Further, the Middle East exports in the first ten months of 2006 were also up compared to the same period of 2005. Towards the end of 2006, price differentials between the FOB (free on board) and CF (cost and freight) rates in both propane and butane made trading difficult leading to a sharp decline in very large gas carrier (VLGC) rates. However, large gas carrier (LGC) and medium gas carrier (MGC) rates have continued to hold steady.

The demand for crude oil and petroleum products is influenced by world regional trade activities, refinery capacity and heating fuel requirements based on weather conditions. The crude and product tanker market continued to remain firm in the year 2006 but was marginally lower than the year 2005, primarily due to weak winter rates, effected by warm weather throughout the northern hemisphere.

The increased oil exploration and production activities globally resulted in an increase in demand for vessels supporting offshore activities. According to Platou Report, 2007, fuelled by high oil prices and abundant exploration and production activity, the supply vessels market experienced 2006 as a record breaking year in all areas. In India, Oil and Natural Gas Corporation Limited, Reliance Industries Limited and Cairn Energy India Private Limited have plans for increased oil and gas exploration and production activities which will result in higher utilization of offshore support vessels.

(b) Opportunities and Threats :

As per Indian National Shipowners Association (INSA) Annual Review 2006 Indian shipping transported approximately 13.7 per cent of total overseas sea-borne trade in 2004-2005 and the average age of the Indian fleet was approximately 17.9 years with approximately 50 per cent of the fleet being above 20 years of age. There exists therefore an opportunity for the Indian shipping companies to acquire additional tonnage and access the growing cargo base required to be imported/exported into/ from India.

Freight rates will be determined by the fine balance between future demand and supply of ships. The global shipping industry is currently faced with a large orderbook of vessels in most sectors, leading to an increased supply of tonnage for global trade. Sustained and improved freight rates will be dependant on increased trade growth from emerging markets such as China and India.

Inspite of introduction of the Tonnage Tax regime since April, 2004, the Indian shipping industry, due to several other taxes, including service tax, withholding tax on interest and fringe benefit tax is once again losing the level playing field vis-à-vis foreign competitors.

An additional area of concern for Indian shipping companies has been the continuous drift of qualified shipboard personnel to the foreign shipping companies due to the receipt of tax free salaries from such companies. The shortage of quality manpower makes it increasingly difficult to operate the existing high priced assets to the demanding standards of international charterers and regulators.

(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 twelve LPG carriers, including 10 medium size (MGC) and two large size (LGC), have been deployed on a mix of time charters, voyage charters and pool arrangement. The Company has transported approximately 77 per cent of all LPG cargoes imported into the country by the PSU sector.

In the crude oil and petroleum products sector, the Company owns three, double hull Aframax crude oil tankers and one single hull product tanker. The three crude oil tankers are placed in the Sigma Tanker Pool, which trades globally and the product tanker is employed on time charter basis on the Indian coast

In the offshore sector, the Company has a fleet of three AHTS vessels of which two are deployed on time charter with Oil and Natural Gas Corporation Limited and one with Reliance Industries Limited for supporting their deep sea oil exploration and production activities, in Krishna Godavari basin.

(d) Outlook :

During the year 2007, it is forecasted that almost 9.6 per cent of the existing fully refrigerated LPG fleet will be delivered out of yard, but at the same time many LPG ships are due for scrapping thereby reducing the net increase in tonnage. Further, it is expected that greater amounts of LPG will be extracted from natural gas which coupled with increased LPG production is likely to result in increased tonne-mile demand. It is expected that freight rates for mid-size LPG gas carriers will remain firm whereas the rates for Very Large Gas Carriers may be under pressure compared to the previous year.

Oil imports into China as well as to Europe are expected to grow due to likely rise in oil consumption in China and due to continuing decline in North Sea production in Europe.

The tanker markets are faced with the challenge of absorbing a large order book of both crude and product tankers that will be delivered by 2011. However, parallel to that, there exists a planned phase out of single hull tankers by 2010 and an increase in trade. Approximately 9.8 m-bpd of new global refining capacity is scheduled to be added by the end of 2012, with almost 80 per cent of this capacity planned in Middle East, Africa and Asia. It is the anticipated trade in crude oil to these refineries and their long haul refined product exports to North America and Europe that has given rise to investments in the tanker segments. Crude tanker freight rates are expected to remain firm in the coming year with product tankers expecting to face greater challenges due to supply side increases.

Due to continuing exploration and production activity, the outlook for the offshore vessel market appears to be promising. According to the Platou Report, 2007, the expected drilling activity and construction/production activity will continue to increase, propelling the demand for offshore vessels in all segments forward even further expecting 2007 to be another exceptional year for the supply vessel market.

(e) Risks and Concerns :

Shipping industry being global in nature is prone to several risks and uncertainties including international competition, marine mishaps and accidents, amendments in government policies, rules and regulations, new regulatory compliances, port state control, exchange rate fluctuations, acts of terrorism, wars, piracy, arrest of vessel by maritime claimants, 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, complying with international ship management practices, insuring various risks with hull and machinery underwriters and Protection and Indemnity Clubs.

The Board of Directors periodically reviews and assesses the adequacy of the risk assessment and minimization procedures so that risks can be assessed and minimized through defined framework/ procedures.