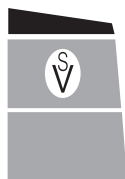


VARUN



Go Green

40th annual report
2010-2011



VARUN SHIPPING COMPANY LIMITED

Go Green

Just as a trickle of tiny drops forms an ocean, a series of initiatives helps to conserve the environment around us. As a maritime company, Varun Shipping appreciates this concept and follows policies and practices to ensure that all vessels owned and/or operated by it comply with national and international laws and regulations relating to protection and conservation of the marine environment.

All vessels owned and/or operated by Varun Shipping duly comply with statutory requirements relating to disposal of various residues causing marine pollution, such as oil, chemicals, sewage and garbage. We also endeavor to control environmental pollution caused by release of exhaust emissions, cargo vapour emissions, chlorofluorocarbons (CFCs), ozone-depleting substances (ODS), halons and other volatile organic compounds into the atmosphere. Low sulphur fuels are also used in designated sea areas in accordance with international maritime regulations.

Our commitment to a greener future is manifested in positive measures which we have undertaken to conserve energy, which include improving the design of conventional diesel engines, a conscious drive to reduce specific fuel consumption, implementation of waste heat recovery systems in diesel propulsion plants, extensive use of thermal insulation, slow steaming to reduce emission of harmful greenhouse gases and monitoring, maintenance and dry docking of vessels from time to time. These measures are in keeping with our commitment towards achieving a greener and cleaner environment.

The “Green Passport” is an innovative environmental conservation document in the shipping industry which is envisaged to accompany a ship throughout its working life. It includes an inventory of all materials which are potentially hazardous to human health and environment which are used in the construction of a ship. The builders and/or owners of vessels bear the onus of maintaining the accuracy of “Green Passport”, including vessels’ deliveries to the recycling yard at the end of their useful lives. Varun Shipping strongly supports this concept.



As the world is facing global warming, every individual and every organisation is required to make a conscious effort to sail towards a greener future. Varun Shipping, too, is contributing to achieve this global objective. The image of a leaf symbolises a ‘green’ ship and the efforts we are putting in to save the environment, and the clear water and air represent endless possibilities, giving hope that it is never too late to turn over a new leaf and make the world a better place to live in.

Varun Shipping Company Limited

Board of Directors

Mr. Arun Mehta
Chairman & Managing Director

Mr. Yudhishtir D. Khatau
Vice Chairman & Managing Director

Mr. C. M. Maniar

Mr. Praveen Singh

Dr. A. K. Bhattacharya

Mr. Khurshed M. Thanawalla

Ms. Manali Parekh
*Vice president – Corporate Affairs,
Secretarial & Legal and Company Secretary*

Registered Office

Laxmi Building,
6, Shoorji Vallabhdas Marg,
Ballard Estate,
Mumbai 400 001.

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Auditors

Messrs Sorab S. Engineer & Co.,
Chartered Accountants,
Ismail Building,
381, Dr. D. Naoroji Road,
Mumbai 400 001.

Bankers

State Bank of India
Bank of India
ICICI Bank Limited
Axis Bank Limited
Bank of Baroda

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.

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. Since then, the Company has become the largest owner of LPG carriers in India and has established a leadership position globally.

2005

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 a Very Large Gas Carrier (VLGC), which is the largest LPG Carrier in the Indian fleet.

2007-09

In 2007, the Company acquired two modern highly sophisticated AHTS vessels. With the acquisition of three more large AHTS vessels in 2008 and 2009, Company established its leadership position in the large AHTS sector in the Asian region.



Directors' Report

Your Directors have pleasure in presenting the Fortieth Annual Report together with the audited statements of account of the Company for the year ended 31st March, 2011.

(Figures in millions of Rupees)

	Current Year ended	Previous Year ended
	31.03.2011	31.03.2010
PROFIT BEFORE TAX	168.22	538.86
Less: Provision for Taxation		
Current Tax	33.52	413.58
Excess provision of Income-Tax for prior years written back	(12.78)	-
Fringe Benefit Tax	-	(0.25)
PROFIT AFTER TAX	147.48	125.53
Add : Surplus brought forward from previous year	934.92	949.33
Amount available for appropriation	1082.40	1,074.86

Your Directors have recommended payment of dividend of Rs.0.80 per equity share for the year ended 31st March, 2011, which will absorb Rs.120.01 million. Additional amount of Rs.19.47 million will be absorbed towards dividend tax. After the above appropriations, your Directors propose to carry forward a balance of Rs.942.92 million in the Profit and Loss Account.

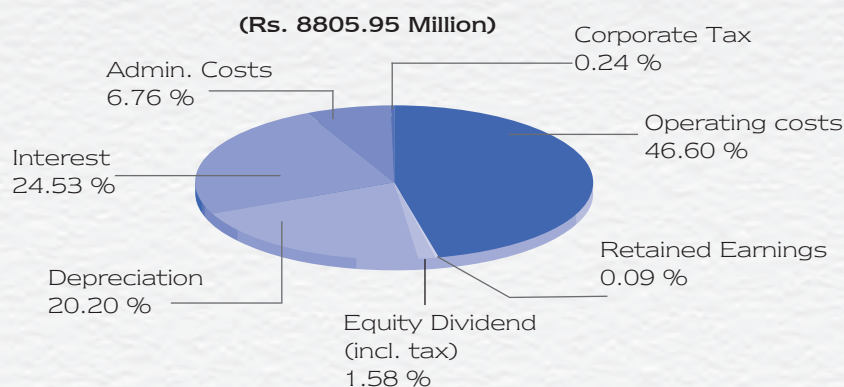
Freight and charter hire income was Rs.4,914.27 million compared to Rs. 6,662.23 million for the year ended 31st March, 2010. Profit before tax was Rs.168.22 million for the year ended 31st March, 2011 as against Rs. 538.86 million during the preceding year. Net profit after tax was Rs.147.48 million for the year ended 31st March, 2011 as against Rs.125.53 million during the preceding year.

In order to reduce the incidence of tax, the Company has decided to opt out of tonnage tax system with effect from assessment year 2011-2012 (corresponding financial year 2010-2011) and be assessed under normal income tax.

During the financial year under review, the Company set up and invested in the following joint venture companies in Singapore and Cyprus :

- i) Varun Asia Pte. Ltd. in Singapore and acquired 19,600 shares aggregating USD 19,600, which forms 49 per cent of the paid up capital of the joint venture company.
- ii) Ocean Race Shipping Company Limited in Cyprus and acquired 490 shares aggregating Euro 490, which forms 49 per cent of the paid up capital of the joint venture company.
- iii) Varun Cyprus Limited in Cyprus and acquired 490 shares aggregating USD 490, which forms 49 per cent of the paid up capital of the joint venture company.
- iv) Sea Fidelity Shipping Company Limited in Cyprus and acquired 490 shares aggregating Euro 490, which forms 49 per cent of the paid up capital of the joint venture company.

DISTRIBUTION OF REVENUE



In addition to the above, in April, 2011 the Company also promoted and established a new Company in India, namely Varun Gas Infrastructure Limited. The Company will be initially acquiring 999,994 equity shares of Rs.10 each aggregating Rs.9,999,940, which forms 100 per cent of the paid up capital of the newly formed company thereby making it Company's subsidiary.

During the financial year ended 31st March, 2011 Company sold Maharshi Shubhatreya to its associate company Tarun Shipping and Industries Limited and has thereafter taken the said vessel on bareboat charter. During the financial year ended 31st March, 2011 the Company sold two of its crude oil tankers, namely Amba Bhakti and Amba Bhavanees to its joint venture company, namely Varun Asia Pte. Ltd., Singapore, on bareboat charter cum demise basis. During the financial year ended 31st March, 2011 the company sold two of its AHTS vessels, namely Subhiksha and Sudaksha on bareboat charter cum demise basis to its joint venture company, namely Varun Cyprus Limited, Cyprus.

The Company presently owns and/or operates a well diversified fleet of 21 vessels. The LPG carrier fleet presently owned by the company is the largest in India in terms of both fleet size and cargo carrying capacity. In November, 2010 the Company received "The Safety at Sea Award" at the Lloyd's List Middle East & Indian Sub-continent Awards-2010 ceremony, held at Dubai.

In September, 2010 Mr. Yudhishtir D. Khatau, Vice Chairman & Managing Director received "Young Entrepreneur of the Year" award at the All India Maritime and Logistics Awards 2010 ceremony, held at Mumbai.

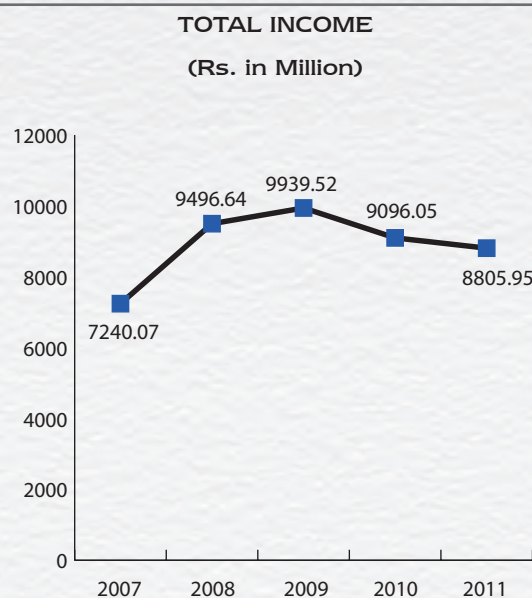
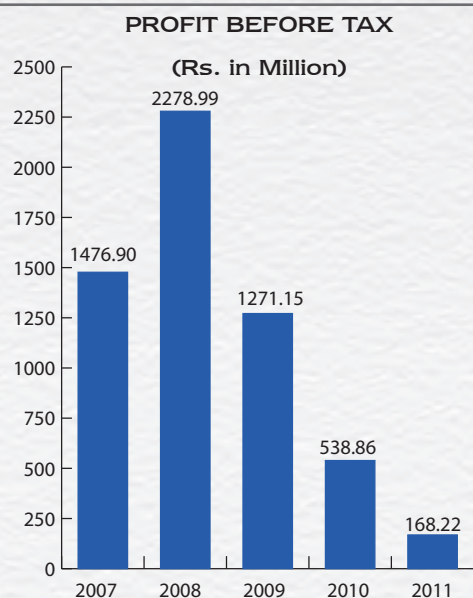
In October, 2010 Mr. Arun Mehta, Chairman & Managing Director received "Lifetime Achievement Award" at the Lloyds' List Asia Awards- 2010 ceremony, held at Singapore.

Management Discussion and Analysis :

(a) Industry Structure and Development :

Transportation by sea is the leading and also most preferred mode of transportation the world over. The international shipping industry transports hydrocarbons and bulk commodities in wet bulk, dry bulk, liquefied gas, bulk chemicals and container sectors. Further, specialized vessels are also used to carry passengers, automobiles and project cargoes the world over. In addition thereto, offshore support vessels are used to provide services to offshore oil and gas exploration and production industry. The Company owns and/or operates a well diversified fleet of 21 vessels, in the oil, gas and offshore support services sector.

According to Platou Report-2011 the close correlation between the world economy and world shipping is well-known. In the period 2003-2010, as much as 80 percent of the annual variations in tonnage



demand could be explained by the variations in global economic growth. The remaining 20 percent must be explained by factors not correlated with economic growth. Such factors can be random and temporary such as abnormal weather conditions, strikes, non-cyclical inventory fluctuations and changed sailing routes to avoid sea pirates, which are difficult and even impossible, to predict.

The global economy seemed to be on a recovery path from the economic crisis but the key constraints need to be addressed such as banking problems and high unemployment in advanced economy and risks of overheating in emerging markets.

According to Platou Report-2011, the improved economic recovery contributed strongly to the extraordinarily high growth of 11-12 per cent in tonnage demand for the world merchant fleet. However, this impressive growth rate must also be regarded in light of the very low 2009 base line.

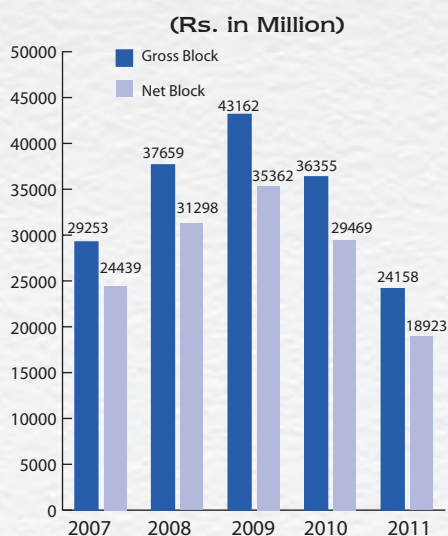
According to Platou Report -2011, after underlying growth in total tonnage demand of 8 percent annually in the years 2002-08, demand fell by 3 percent in 2009, and the sound market balance through many years collapsed. The utilization rate fell from 90 percent in 2008 to only 82 percent in 2009. This indicates an overcapacity not seen since the 1980's. The growth in tonnage demand in 2010, together with the somewhat moderated fleet growth, lifted the utilization rate from 82 to 85 percent.

According to Platou Report.-2011, ordering activity recovered strongly in 2010 a tripling from year before. Deliveries were even higher resulting in a declining order book. During 2010, demand for new tonnage was significantly higher compared with the low activity seen in the aftermath of the financial crisis.

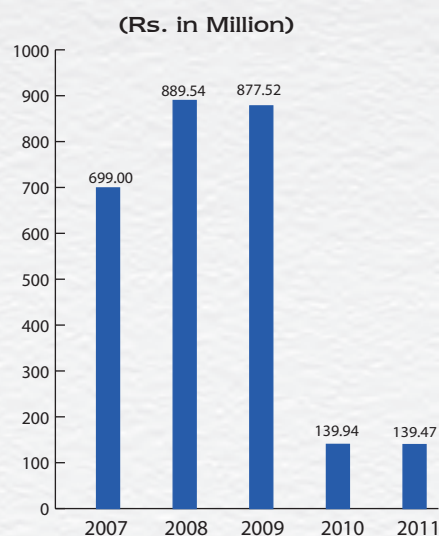
According to Platou Report 2011, despite the strongest ton-mile growth in seaborne oil trade since the late 1980s, the year 2010 was a relatively weak year for tanker owners. Most tankers delivered after 2006 were ordered at building prices requiring higher freight rates than those obtained in 2010. The very weak starting point after the dramatic downturn in 2009 is responsible for this. A sudden decline in floating storage during the summer resulted in a sharp drop in freight rates. Oil consumption increased by 3 percent and seaborne oil trade in terms of ton-miles showed the strongest growth since the late 1980s. The fleet growth of 5 percent was somewhat higher than expected due to fewer removals of single-hull tankers than anticipated. Despite the brisk rise in tonnage demand, the utilization rate for the total tanker fleet recovered only marginally from 85 to 86 percent, significantly below the 90 percent level that we define as full capacity utilization.

While LPG markets during the first half of 2010 were difficult, they started improving during the second half. The improvement in global economy has had a positive effect on LPG demand, leading to an

GROSS AND NET BLOCK



EQUITY DIVIDEND



improvement in both utilization and charter rates. Both Asia and Middle East have exhibited strong growth in LPG demand. Asia is the largest LPG consuming region in the world and the demand for LPG is growing in this region. The Middle East is also becoming a significant LPG demand centre due to increased LPG requirement of growing petrochemical industry and continuous growth in residential and commercial sectors. Further, there is a trend of increase in consumption in Latin America. Seaborne LPG flows are predicted to grow 47 per cent over 2008-2016. The VLGC markets improved mainly due to increase in Middle East export LPG due to the start-up of LNG trains.

According to Platou Report-2011, although much of the Offshore Supply Vessel (OSV) industry was still dominated by an overhang of tonnage ordered prior to the financial crisis, bright spots emerged in 2010. We saw activity in the OSV industry begin to increase last year on the back of rising oil prices and Exploration & Production (E&P) spending. However, the higher activity in the OSV markets was uneven and benefited large Platform Support Vessels (PSV) the most.

Although demand rose substantially, the market had to absorb many new deliveries, while scrapping and removals were basically insignificant. Nearly 250 AHTS vessels were delivered in 2010, increasing the AHTS fleet by 15 per cent. The PSV fleet is estimated to have grown by 11 per cent as nearly 90 PSVs entered the market. The fleet grew considerably less than anticipated, however, because many of the expected deliveries were delayed (and in some cases cancelled).

The Deepwater Horizon accident in the Macondo Exploration Well for BP in the Gulf of Mexico in April, 2010 seriously brought into question the safety routines of operators and contractors and heightened environmental concerns within the offshore, oil and gas sector. It served as a reminder to oil and gas companies that new clean designs and environmentally friendly vessels is the way forward.

(b) Opportunities and Threats :

Indian flag ships have a 'Right of First Refusal' for any cargo of Indian Public Sector Undertakings which are imported into India. This enables an Indian company to ensure better utilization of its vessels in Indian trade. Further, as per recent Shipping Development Circular, Indian companies acquiring vessels on Bareboat Charter cum Demise (BBCD) basis will have right of second refusal (i.e. after first right of refusal) over foreign flag vessels. This will encourage the Indian ship owners to acquire more vessels on BBCD basis.

Indian LPG consumption per capita is very less compared to other countries. There is a tremendous growth prospect for LPG consumption/demand in India in future. With Vision 2015 of the Government of India, the Rajiv Gandhi Gramin Vitrak Scheme, LPG penetration in the rural areas will improve. This scheme aims to enhance LPG usage in India with the number of connections increasing from almost 110 million to 165 million by 2015. This is likely to generate additional demand for import of LPG into India.

The freight rates are mainly determined by the fine balance between future demand and supply of vessels. The recent deliveries of new building orders resulting in a younger and larger world fleet coupled with expected new deliveries, may impact the freight rate if demand for vessels does not grow at the same rate.

Imposition of several taxes is an impediment to healthy growth of the Indian shipping industry. In order to be globally competitive, it is essential that these taxes are rationalized to ensure that Indian shipping companies have a level playing field in the international arena.

Also, Indian shipping companies are adversely affected due to drifting of qualified seafarers from Indian ships to foreign ships, due to peculiar taxation problems of discrimination faced by Indian seafarers.

(c) Segment-wise Performance

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

The Company together with its associates, owns and/or operates a fleet of eleven LPG carriers, including eight mid-size Gas Carriers (MGC's), one Large Gas Carrier (LGC) and two Very Large



Gas Carriers (VLGC's), which have been deployed on a mix of time charters and spot charters with charterers such as Indian Oil Corporation Limited, Hindustan Petroleum Corporation Limited, Bharat Petroleum Corporation Limited, Reliance Industries Limited and Pertamina.

In the crude oil sector, the Company owns and/or operates three double hull Aframax crude oil tankers, which are placed in the Sigma Tanker Pool, trading globally. The benefit of working in the pool is that earnings of group of vessels owned by different owners are pooled together and distributed amongst various owners.

In the offshore support services sector, the company owns and/or operates a fleet of seven Anchor Handling Towing and Supply (AHTS) vessels which are deployed on time charters and spot charters. The Company has committed its 3 large AHTS Vessels on time charter to Petrobras, Brazil for a firm period of four years with four extension options of one year each. The other 2 large AHTS Vessels are working in the North Sea spot market.

(d) Outlook :

According to Platou Report-2011 the predicted global economic growth of 4.4 percent in 2011 and 4.5 percent in the subsequent years will according to simplistic model, result in a tonnage demand growth of 8 percent in 2011 and 8 percent in the following years. If that proves to be the case, the industry will almost be back to the growth pattern it achieved in the best years before the financial crisis emerged and so this apparently looks promising. The problem is a weak start combined with an oversized order book for important shipping markets.

According to Platou Report-2011, world GDP is expected to remain at a healthy level also in 2011, which should result in continued high growth in tonnage demand. Fleet growth is also expected to remain high because of the large order book, which should result in a relative low utilization rate of the world merchant fleet. Ordering activity in 2011 is expected to remain below the building capacity, putting some pressure on new building prices.

According to Platou Report-2011 for tanker markets, a fleet growth of 7 percent is expected from 2010 to 2011 based on an annual average. Most likely, there will be another year with a brisk trend in seaborne oil trade in volume terms and transport distances. Higher OPEC output will normally lead to longer transport distances, but on the negative side, reduction in floating storage is predicted. It seems likely that the weak market conditions of the second half of 2010 will continue into 2011. However, continued increase in bunker prices and lower optimum speed may lead to higher tonnage demand growth and improved freight rates.

In the LPG sector as the supply-demand gap narrows, time charter rates are likely to improve. It is likely that Very Large Gas Carrier (VLGC) rates will improve further due to support from further increase of LPG production from the new projects in Middle East, crude production increases and very limited fleet expansion which is also likely to result in supporting higher Large Gas Carrier (LGC) rates. In case of Medium Gas Carrier (MGC), the growth in trade will balance out the recent fleet addition. It appears that new buildings orders may be placed for VLGC as the market fundamentals are very strong. The growth in seaborne trade of ammonia for fertilizers is likely to result in an increase in demand for LGC and MGC vessels and corresponding increase in freight rates.

According to Douglas Westwood report on Global Offshore Prospects released in November 2010, the world will increasingly rely on offshore and deepwater. Deepwater oil production is set to grow from 3% in 2002 to 10% by 2012. After 2015, deepwater is the only sector to continue to grow. Deepwater production to grow 99% (shallow water 20%). Deepwater investment is likely to be USD137 billion over the next five years.

(e) Risks and Concerns:

Shipping industry being global in nature is prone to several risks and uncertainties including international competition, state of global economy, marine mishaps and accidents, force majeure such as earthquakes, volcanic eruptions, etc amendments in Government policies, rules and regulations, new