



**Essar Shipping Limited**

1st annual report  
2010-11

# **ESSAR SHIPPING LIMITED**

## **Annual Report 2010-11**

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## ESSAR SHIPPING LIMITED

### BOARD OF DIRECTORS

Anshuman Ruia  
**Director**

R. N. Bansal  
**Independent Director**

N. Srinivasan  
**Independent Director**

K. V. Krishnamurthy  
**Independent Director**

Deepak Kumar Varma  
**Independent Director**

A. R. Ramakrishnan  
**Managing Director**

Capt. Anoop Kumar Sharma  
**Whole-time Director**

Ankur Gupta  
**Director**

**COMPANY SECRETARY**  
Vinayak Joshi

#### **AUDITORS**

Deloitte Haskins & Sells, Ahmedabad  
(Registration No. 117365W)

#### **AUDIT COMMITTEE**

Anshuman Ruia  
K. V. Krishnamurthy  
R. N. Bansal  
N. Srinivasan

#### **SHARE TRANSFER AND SHAREHOLDERS' GRIEVANCE COMMITTEE**

Deepak Kumar Varma  
A. R. Ramakrishnan  
Capt. Anoop Kumar Sharma  
Ankur Gupta

#### **COMPENSATION COMMITTEE**

Anshuman Ruia  
R. N. Bansal  
N. Srinivasan

#### **REGISTERED OFFICE**

Administrative Building  
Essar Refinery Complex  
Okha Highway (SH-25)  
Taluka Khambalia  
District Jamnagar  
Gujarat - 361 305  
Website: [www.essar.com](http://www.essar.com)

#### **REGISTRAR & TRANSFER AGENT**

Data Software Research Company Private Limited  
9, Pycroft Garden Road, Off Haddows Road  
Nungambakkam, Chennai - 600 006  
Tel: (044) 2821 2154, 2821 2207, Fax: (044) 2821 2133  
E-mail: [essar.shipping@dsr-cid.in](mailto:essar.shipping@dsr-cid.in)

#### **CORPORATE OFFICE**

Essar House  
11, K. K. Marg  
Mahalaxmi  
Mumbai - 400 034

## DIRECTORS' REPORT

### To the Members of Essar Shipping Limited

Your Directors take pleasure in presenting the First Annual Report of your Company together with Audited Accounts for the year ended March 31, 2011. Pursuant to the provisions of Section 219 of the Companies Act, 1956 and as permitted by the Securities and Exchange Board of India (SEBI), the abridged annual accounts of the Company are enclosed. Any member interested in obtaining a copy of the unabridged accounts may write to the Company Secretary at the Registered Office.

### 1. FINANCIAL RESULTS:

The summary of the standalone and consolidated financial results of your Company for the year ended March 31, 2011 are furnished below:

(₹ in crore)

Particulars	Consolidated		Standalone	
	For the year ended 31.03.2011*	For the year ended 31.03.2010**	For the year ended 31.03.2011*	For the Year ended 31.03.2010**
Total Income	1,342.80	—	546.95	—
Total Expenditure	1,005.81	—	287.27	—
EBITDA	336.99	—	259.68	—
Less: Interest & Finance charges	139.37	—	123.11	—
Less: Provision for Depreciation	162.23	—	56.90	—
Profit before Tax	35.39	—	79.67	—
Less: Provision for Tax	2.09	—	1.50	—
Profit before Share of Minority Interest	—	—	—	—
Add: Share of Minority Interest (loss)	—	—	—	—
Profit after Tax	33.30	—	78.17	—

The Composite Scheme of Arrangement for demerger of shipping, oilfields and logistics business of Essar Ports Limited (formerly known as Essar Shipping Ports & Logistics Limited) into Essar Shipping Limited became effective on May 9, 2011 and all assets and liabilities pertaining to shipping, logistics and oilfields business stood transferred to Essar Shipping Limited from the appointed date i.e., October 1, 2010, accordingly there are no comparative figures available.

\* Performance for the period April 16, 2010 to March 31, 2011.

\*\* The Company was incorporated on April 16, 2010. Since this is the first year of operations of the Company, previous year figures have been shown as Nil.

### 2. SCHEME OF ARRANGEMENT

Essar Shipping Ports & Logistics Limited (ESPLL) has successfully implemented the Scheme of Arrangement whereby Essar Ports & Terminals Limited and Essar International Limited got amalgamated with ESPLL and the Shipping & Logistics and Oilfields Drilling businesses were demerged into your Company.

The Demerger has resulted in the vesting of the Shipping & Logistics and Oilfields Drilling businesses into your Company. The Scheme has resulted in focused business operations of the Company and will give the Company increased flexibility in taking advantage of the huge growth opportunities in the business segments it operates in.

The authorised share capital of the Company was increased to ₹ 500,00,00,000/- from ₹ 5,00,000/-.

The Board of Directors of your Company have on May 21, 2011 issued and allotted 20,52,27,768 equity shares of ₹ 10/- each credited as fully paid to all eligible members of ESPLL as on May 19, 2011 being the Record Date fixed for ascertaining the members eligible to receive the shares of your Company pursuant to the demerger. Consequently the issued, subscribed and paid up share capital of your Company currently stands at Rs. 205,22,77,680/-. The shares of your Company shall be listed on the Bombay Stock Exchange and the National Stock Exchange.

### 3. DIVIDEND

Your Company which comprises of Sea Transportation, Oilfield Services and Logistics Businesses is currently expanding the capacities in these businesses through acquisition of suitable assets. These assets are highly capital intensive in nature and therefore require substantial investment. This necessitates the operating profits to be ploughed back towards capital expenditure. With a view to conserving resources for these requirements, your Directors have not recommended any dividend for the year ended March 31, 2011.

### 4. MANAGEMENT DISCUSSION & ANALYSIS

#### Overview of the World Economy

The world is gradually recovering from the shocks of the most severe recession since World War II. After fighting off the economic depression with massive public investment, the major concern today is to maintain growth without inflation as most developing nations have reached the pre-crisis activity levels. While the developing nations strengthen their financial policies to contain inflation, the developed economies seem to be continuing with the post-crisis clean up job. Two major events affecting the global economy this fiscal were the earthquake and tsunami in Japan and the continuing political struggle in the Middle East and North Africa, both of which have negatively affected the global economy. Emerging economies in Asia and the BRICS are expected to lead the



global economic growth scenario, led by robust domestic consumption and a strong demand for global oil and mineral resources. China overtook Japan as the world's second largest economy this fiscal highlighting the changing global economic scenario.

The IMF predicts the global GDP to grow at 4.3% in 2011, down from its previous estimate of 4.4% and much lower than the growth of 5.1% in 2010, with the high-income nations growing at a meager 2.2%, mainly due to the Japanese earthquake and tighter policy measures. The developing economies are expected to grow at a strong 6.3%, even as developing economies around the world fight rising domestic inflation and take steps to avoid overheating.

The Euro zone is facing a severe debt crisis as it scrambles to bail out several of its members. The ECB has already spent over Euro 250 billion to fund the bailouts of three member nations even as the Euro faced downward pressure against the U.S. Dollar as the ECB prepares to slowly raise rates after a two year lull. Coupled with low growth prospects, The Euro zone may be entering a phase of severe economic austerity and the IMF predicts the Euro area to grow by 2% this fiscal.

The US economy is on the recovery path but will grow at a lower rate than previously estimated mainly due to higher global oil prices and a lower than expected factory output. The US economy is expected to grow at 2.5% in 2011, below its growth of 2.9% in 2010. The key focus areas for the high-income countries going forward will be deficit reduction and employment generation.

### Overview of the Indian Economy

The Indian economy grew at an average annual GDP growth of over 9 per cent during the period 2005 to 2008, before slowing down to 6.1% due to the global financial crisis. After growing at 10.4% in 2010, the first time that the economy grew in double digits, the Indian economy is expected to grow at 8.2% in 2011. The RBI revised India's growth rate for 2011 downwards by 1 percentage point and expects it to grow at 8% this fiscal year. India's fiscal deficit is expected to fall in the coming years, though is expected to remain high at 4.6% of the GDP in 2011. Similarly, its debt ratio is expected to fall mainly due to higher output.

Inflation remains the biggest worry in the Indian political and economic circles as economists warn high food and global oil prices can hamper growth. Continuing its hawkish stance, the RBI has raised key rates 10 times in the past 15 months, most recently in June when it raised its key policy rate by 25 basis points to 5.7%. Higher interest rates will affect private capital expenditure and hurt growth as global bankers do not rule out further hikes in the future as core inflation continues to remain above RBI's comfort zone.

Global commodity pressures continue to remain a worry for India as its demand for global oil and mineral assets grows. Higher commodity prices, particularly food, will also put an upward pressure on wages, affecting India's competitiveness in several industries. Several sectors may face lower demand due to higher interest rates.

### YOUR COMPANY'S BUSINESS PERFORMANCE, OPPORTUNITIES AND OUTLOOK

The business model adopted by your Company is unique in nature with no peer group comparison. The business is based on the intrinsic and captive demand for transportation services and logistics & cargo handling infrastructure required by the steel, power generation and refining industry. With interests in crude and dry bulk carriers, port to plant logistics and oilfield services, your Company continues to provide end-to-end logistics solutions to its customers in a very cost effective manner.

#### a) Sea Transportation Business:

The global tanker and bulk carrier markets are still hampered by an oversupply of vessels amid weaker economic cues thus indicating a continued period of soft rates. However, the spot freight rates seemed to have stopped their downward spin in the recent past and it seems that the market may have bottomed out and even picked slightly, although the weak global economic cues will curtail significant growth in output and rates may not improve much in the near term.

In 2010, the main driver of global demand for commodities was China, and as the world's second largest economy takes steps to cool down its overheating economy and prevent an asset bubble, the growth in its demand for commodities is expected to remain subdued. At the same time, coal production in Australian mines was cut off due to flooding, thus depressing the rates further. Coal trade is expected to grow at 6+% in 2011 as India and China continue to use it as the primary source of fuel for power.

The global oversupply of bulk carriers, particularly capesize vessels, resulted in poor market conditions. However, new building addition is expected to slow, albeit slowly, as buyers cancel or put on hold new buildings and ship builders are asked to delay construction. The impact of the International Maritime Organization (IMO) regulations requiring the phasing out of single hull vessels by 2010 should be behind the global tanker market in the coming year. With Japan rebuilding its physical infrastructure and major developing economies continuing their infrastructure push, bulker rates may see slight improvements in the near future.

Even as global oil supplies experienced some major production shifts, with output from Libya coming to a halt and OPEC increasing production to make up for the deficit. Increased OPEC production is expected to lead to a stronger tanker market in 2011. Global oil demand is expected to grow by 1.7% to 89.4 MMbpd, lower than the growth rate of 3.4% in the previous year.

A significant shift is also being witnessed in the global sources of oil and minerals. With depleting coal supplies at home, China and India are now importing coal from as far as South America, and countries like Brazil and Russia are increasing their production of oil, thus necessitating newer sea routes and contracts.

With an experience of over 250 ship years and a diversified fleet of 25 vessels, Your Company's sea transportation business has an integrated business model that provides opportunities to cater to the complete supply chain management services to clients in the oil and gas, steel and power generation businesses.

The Sea Transportation business fleet includes two modern double hull Very Large Crude Carriers (VLCC) which are employed on time charter with global oil majors. Your company owns a fleet of six capesize dry bulk carriers which are employed with domestic and international steel mills. Your company has long term Contracts of Affreightment (CoA) for transportation of iron ore, coal, limestone etc.

Your Company will add to its fleet 12 new vessels in the next two years that will be employed on long term contracts for transportation of coal, iron ore and other raw materials for the steel and power sector. With its entire fleet under a CoA or time charter, your Company's exposure to the volatile spot market is greatly reduced.

#### **b) Oilfields Services Business:**

Global demand for offshore services is likely to revive gradually in line with a positive outlook on crude. New supplies of assets are expected to continue through 2011. Hence, while demand for rig services will revive gradually, continued inventory supply may keep rates tepid for some time along with idling of rigs. As off-shore drilling stretches out to newer regions, older rigs will face a pressure to upgrade to newer technologies or be phased out.

With a surge in oil prices over the last five years and improved technology, deepwater projects which were unviable in the past due to very low oil prices have become economically viable. This has warranted huge investments in the offshore space leading to increased demand for offshore support services. Global drilling in shallow waters is expected to decline as exploration companies explore more offshore prospects, including previously untapped regions such as the Arctic seas of Russia and production from traditional regions such as Norway decline.

Global oil demand grew at higher than expected 3.4% to 87.9 MMbpd in 2010, and is expected to grow at 1.7% in 2011 to 89.4 MMbpd, backed by continued global recovery efforts and higher demand expected from Japan as it rebuilds itself post-tsunami and looks to displace nuclear power with conventional power. China's oil imports, despite its efforts to slow down its overheating economy, are expected to account for 40% of the total increase in global oil demand, in addition to expanding in tons per mile, as it imports more from sources in West Africa and South America. The past year also witnessed a shift in production areas, as Russia and Brazil increased their output and OPEC pumped up its production levels on higher global demand and disruption in supply from Libya. As crude continues to hover above

\$100, off-shore drilling companies are expected to continue to focus on new explorations.

In its annual forecast, the Energy Information Administration (EIA) said that global oil demand will average about 105 million barrels per day in 2030 and almost 111 million bpd in 2035. Developing countries like China and India are expected to account for most of this increase in global oil demand.

The domestic offshore services sector is poised for significant growth on the back of recent successes by Reliance, ONGC and others under the New Exploration Licensing Policy (NELP), growing offshore crude/gas production, and monetization of new discoveries in basins like KG, Cambay and Mahanadi. This is likely to be a catalyst for demand for offshore supply vessels, drilling units and construction services.

During the 11th five year plan period, the total sedimentary basin area to be brought under exploration coverage is being targeted at 80%. Under NELP-VIII, the highest numbers of blocks were awarded for exploration, covering an area of 1.63 lakh sq. km. Further, the Government's Hydrocarbon Vision 2025 envisages a program for a comprehensive appraisal of all of India's basins by 2025, which augurs well for the offshore drilling industry. Hence strong domestic demand and relatively improved market conditions are likely to favour Indian rig owners going forward.

With an increase in demand for oil as envisaged, the demand-supply deficit is bound to increase going forward. Thus, tightening of oil supply, combined with a long term growth in demand, imply stable to increasing oil prices.

Your company, through its wholly owned subsidiary, Essar Oilfields Services Limited (EOSL), has recently qualified for a contract with ConocoPhillips to deploy its semisubmersible offshore rig Essar Wildcat in Indonesian waters for drilling 12 wells after the successful completion of its contract with Vietsovpetro. Land rig MR1 successfully completed drilling 2 wells for Schlumberger for their shale gas project with ONGC. Your company's Oilfield Services business has two jack-up rigs on order that will be delivered during this financial year. These rigs will be capable of drilling deeper and be able to withstand harsh environments.

#### **c) Logistics Business:**

Road transportation dominates the logistics market as it enables point-to-point transportation, effective tracking of cargo and limited multiple handling of consignments. Moreover, improved road infrastructure and higher capacity trucks (multi axle vehicles) have reduced transit times, thereby further improving the competitiveness of road transportation for shorter lead distances (<500 kms). The outlook for the road freight transport sector heavily depends on the outlook for other sectors such as agriculture and industry.

90 percent of India's logistics sector is unorganized but highly evolving. While the industry has been growing at

almost 10 percent in the past few years, the organized players have witnessed a much higher growth, thus shifting the weight in their favour. With the proposed Goods & Services Tax (GST), major gains are expected for the organized players, as infrastructure continues to remain a bottleneck. With a renewed push from the Government towards construction of national highways and expressways, fleet owners are expected to continue their drive to replace their fleets with newer and more powerful vehicles.

Your Company through its wholly owned subsidiary Essar Logistics Limited (ELL), carries out the business of logistics management, transshipment and port services and specializes in handling, storage distribution and movement of cargo by sea, road and rail. ELL operates a fleet of over 5,000 trucks for the movement of petroleum and steel products all across the country and handles the inter-carting activity of Essar Steel's Hazira plant. ELL plans to acquire more assets in the future to augment its cargo movement capabilities.

## 5. RISK MANAGEMENT

**Economic Risks:** As a business philosophy, your Company has followed the conservative policy of entering into long term contracts with reputed global majors in each of its divisions thereby ensuring long term profitability of the Company and assured cashflows.

**Forex Risk:** A majority of the revenues of your Company are in foreign currency which creates a natural hedge against foreign exchange exposures. Apart from this, Essar Group's specialised forex team provides efficient advice to mitigate the exchange risk of your Company.

**Interest Rate Risk:** Your Company has been undertaking suitable hedging strategies to overcome any adverse interest rate risks. It has formulated internal target rates at which any open interest rate risk can be hedged.

## 6. QUALITY, SAFETY AND ENVIRONMENT

Your Company, in order to ensure highest standard of safety, has implemented and initiated various measures with respect to Quality, Safety and Environment Management Systems. The initiatives by your Company have been rewarded with several recognitions. Some of the noticeable ones amongst the many are as follows:

- a) OHSAS 18001 certified by American Bureau of Shipping (ABS); first and only shipping company in India to obtain this certification.
- b) ISO 9001:2000 and ISO 14001:2004 certification to the Sea Transportation business by ABS Quality Evaluations Inc.
- c) Essar Wildcat awarded by the International Association of Drilling Contractors (IADC) for achieving 2 years without LTI.
- d) Essar Wildcat received positive recommendations on its external HSE audit conducted by ABS.

- e) Land Rig MR#1 recorded zero LTI since its inception in Schlumberger's India shale gas project.

## 7. INTERNAL CONTROL FRAMEWORK

Your Company conducts its business with integrity, high standards of ethical behavior and in compliance with the laws and regulations that govern its business. Your Company has a well established framework of internal controls in operation, including suitable monitoring procedures. In addition to the external audit, the financial and operating controls of your Company at various locations are reviewed by Internal Auditors, who report their observations to the Audit Committee of the Board.

## 8. HUMAN RESOURCE

Your Company has introduced contemporary Human Resource practices to enhance technical and managerial competence of the employees and to further leverage their capabilities to enhance the performance of its business. Further the Company has taken a series of initiatives to enhance emotional and intellectual engagement of employees with the Company and its business.

## 9. INFORMATION TECHNOLOGY

Your Company has successfully implemented SAP in its financial and budget management systems. The Company is also exploring various methods of automation so as to have greater visibility and control over its assets and further improve the turnaround time thereby increasing asset utilisation and profitability. All the vessels are undergoing upgradation of systems in terms of hardware and software. Your Company has implemented a robust Document Management System thus improving the availability of critical information in e-mode thereby reducing the use of paper.

## 10. SUBSIDIARIES:

Post the Scheme of Arrangement, following are the subsidiaries of your Company:

1. Essar Logistics Limited
2. Essar Oilfields Services Limited
3. Essar Oilfield Services (India) Limited
4. Energy Transportation International Limited
6. Energy II Limited

In accordance with the general circular issued by the Ministry of Corporate Affairs, Government of India, the Balance Sheet, Profit & Loss Account and other documents of the subsidiary companies are not being attached with the Balance Sheet of the Company. The Company will make available the Annual Accounts of the subsidiary companies and the related information to any member of the Company who may be interested in obtaining the same. The annual accounts of the subsidiary companies will also be kept for inspection at the Registered Office of the Company and that of the respective subsidiary companies. The Consolidated Financial Statements presented by the Company include the financial results of the subsidiary companies.



## 11. DIRECTORS

In accordance with the provisions of the Companies Act, 1956 and the Articles of Association of the Company Mr. A. R. Ramakrishnan retires at the ensuing Annual General Meeting and being eligible offers himself for re-appointment.

Mr. V. Ashok, Mr. Rajiv Agarwal and Mr. Shailesh Sawa have resigned from the Directorship of your Company. Your Board places on record their appreciation for the valuable contribution made by these Directors in the progress of the Company.

Mr. Anshuman Ruia, Mr. R. N. Bansal, Mr. N. Srinivasan, Mr. K. V. Krishnamurthy, Mr. Deepak Kumar Varma and Mr. Ankur Gupta have been appointed as Additional Directors. They will cease to be Directors on the date of the ensuing Annual General Meeting. The Company has received notices from members proposing the appointment of Mr. Anshuman Ruia, Mr. R. N. Bansal, Mr. N. Srinivasan, Mr. K. V. Krishnamurthy, Mr. Deepak Kumar Varma and Mr. Ankur Gupta as Directors of the Company.

Capt. Anoop Kumar Sharma was appointed as Additional Director in the wholetime employment of the Company designated as CEO – Sea Transportation Business. Capt. Sharma holds office upto the date of the ensuing Annual General Meeting. The Company has received a notice from members proposing the appointment of Capt. Sharma as Director in the wholetime employment of the Company designated as CEO – Sea Transportation Business of the Company.

## 12. AUDITORS

Your Company's Auditors, M/s. Deloitte Haskins & Sells, Chartered Accountants, Ahmedabad (Registration No. 117365W) retire at the ensuing Annual General Meeting. It is proposed to re-appoint M/s. Deloitte Haskins & Sells, Chartered Accountants as the Auditors of the Company from the conclusion of this Annual General Meeting until the conclusion of the next Annual General Meeting.

## 13. CORPORATE GOVERNANCE

The Company has complied with the requirements under the Corporate Governance reporting system. The disclosures as required in Clause 49 of the Listing Agreement have been furnished in the Annexure to the Directors' Report under the head "Corporate Governance".

## 14. PARTICULARS REQUIRED UNDER THE COMPANIES (DISCLOSURE OF PARTICULARS IN THE REPORT OF THE BOARD OF DIRECTORS) RULES, 1988

This does not apply to your Company as the Shipping industry is not included in the Schedule to the relevant rules.

Foreign exchange earnings and outgo are summarised below:

Total Foreign Exchange:

- |  |                  |
|--|------------------|
| (1) Earned (including loan receipts, sale of ships, freight, charter hire earnings, interest income, etc.) | : ₹ 359.38 crore |
| (2) Used (including cost of acquisition of ships, loan repayments, interest, operating expenses, etc.)     | : ₹ 353.40 crore |

The Company has been exempted by the Central Government vide their Letter F. No. 46/45/2011-CL-III dated January 24, 2011 Under Section 211(4) of the Companies Act, 1956, from disclosing quantitative details in compliance with paras 4 D (a), (b), (c) and (e) of Part - II of Schedule - VI to the Companies Act, 1956 as Amended vide Notification No. GSR. 494(E) dated October 30, 1973.

## 15. PARTICULARS OF EMPLOYEES

Information as per Section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975, as amended, is given in the Annexure forming part of this Report. However, as per the provisions of Section 219(1)(b)(iv) of the said Act, the Report and Accounts are being sent to all the shareholders of the Company excluding the statement of particulars of employees under u/s 217 (2A) of the said Act. Any shareholder interested in obtaining a copy of this statement may write to the Company Secretary for the same at the Registered Office of the Company.

## 16. STATEMENT OF DIRECTORS RESPONSIBILITIES

Pursuant to the requirement of Section 217(2AA) of the Companies Act, 1956 the Board of Directors hereby state that:

- in the preparation of the annual accounts, the applicable accounting standards have been followed and there have been no material departures;
- the Directors have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit or loss of the Company for that period;
- the Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- the Directors have prepared the annual accounts on a going concern basis.

## 17. FIXED DEPOSITS

Your Company has not accepted any public deposits under section 58A of the Companies Act, 1956 during financial year under report.

## 18. APPRECIATION AND ACKNOWLEDGEMENTS

Your Directors express their sincere thanks and appreciation to all the employees for their commendable teamwork and contribution to the growth of the Company.

Your Directors also thank its bankers and other business associates for their continued support and co-operation during the year.

For and on behalf of the Board

Mumbai  
July 4, 2011

**A. R. Ramakrishnan**  
Managing Director

**K. V. Krishnamurthy**  
Director

## CORPORATE GOVERNANCE REPORT

### 1. Statement on Company's philosophy on Code of Corporate Governance

Your Company believes that adhering to global standards of Corporate Governance is essential to enhance shareholders value and achieve long term corporate goals. The Company's philosophy on Corporate Governance stresses the importance of transparency, accountability and protection of shareholder interests. The Board overseas periodic review of business plans, monitors performance and ensures compliance of regulatory requirements including SEBI Regulations and Listing requirements.

#### Code of Conduct for Board Members and Senior Management

The Board of Directors of the Company at their meeting held on May 23, 2011 adopted Code of Conduct applicable to all Directors and specified senior management executives in compliance with Clause 49 of the Listing Agreements (the Code). The Code is based on the premise that the Directors and senior management executives shall act in accordance with the highest standards of honesty, integrity, fairness and ethical conduct and shall exercise utmost good faith, due care and integrity in performing their duties. The Code is available on the Company's website 'www.essar.com'.

The Company has received a declaration of compliance with the Code of Conduct from Directors and Senior Management Personnel. The declaration by the Executive Director affirming compliance of the Board of Directors and Senior Management Personnel to the Code of Conduct is given in this Report.

### 2. Board of Directors

Your Company has an optimum combination of Executive and Non-Executive Independent Directors on the Board. The Board comprises of 8 (Eight) Directors out of which (Four) are Non-Executive.

The Composition of the Board is in conformity with Clause 49 of the Listing Agreements entered into with the Stock Exchanges.

#### A. Composition, Category, Attendance and Number of other Directorships of the Directors are furnished below:

As at March 31, 2011 the Board consisted of five members namely Shri Rajiv Agarwal, Shri K. K. Sinha, Shri A. R. Ramakrishnan, Shri V. Ashok and Shri Shailesh Sawa. Post the Composite Scheme of Arrangement, as approved by the Hon'ble High Court of Gujarat at Ahmedabad, the new composition, category of directors (**Post De-merger**) and directorships held in other companies as of May 23, 2011 was as under:

Name of Director	Category of Director	* No. of outside Directorships in other Indian public companies	**No. of Committee positions held in other public companies	
			Chairman	Member
#Mr. Anshuman Ruia	Promoter Non-Executive	8	—	—
#Mr. R. N. Bansal	Independent Non-Executive	10	4	8
#Mr. N. Srinivasan	Independent Non-Executive	14	4	5
#Mr. K. V. Krishnamurthy	Independent Non-Executive	10	4	3
#Mr. Deepak Kumar Varma	Independent Non-Executive	1	—	1
#Mr. A.R. Ramakrishnan (Managing Director)	Non-Promoter Executive	4	—	3
@Capt. Anoop Sharma	Whole Time Director	—	—	—
#Mr. Ankur Gupta	Non-Promoter Non Executive	1	—	1

@ Capt Anoop Sharma appointed as Whole Time Director w.e.f., May 9, 2011

# Appointed w.e.f., May 23, 2011.

\* excludes foreign companies, private limited companies, Section 25 companies and Alternate Directorships.

\*\* includes membership of Audit and Share Transfer & Shareholders' Grievance Committee only.

All Independent Directors are persons of eminence and bring a wide range of expertise and experience to the Board hereby ensuring the best interest of stakeholders and the Company.

None of the Directors are related to any other Director on the Board in terms of the definition of "relative" given under the Companies Act, 1956.

None of the Directors on the Board is a member of more than 10 committees and Chairman of more than 5 committees (as specified in Clause 49 of the Listing Agreement) across all the Companies in which he is a Director. The necessary disclosures regarding Committee positions have been made by the Directors.

#### B. Details of Board Meetings held during the year:

Sr. No.	Date	Board Strength	No. of Directors present
1	April 19, 2010	3	3
2	April 22, 2010	3	3
3	May 25, 2010	3	3
4	June 19, 2010	3	3
5	August 2, 2010	4	4
6	August 9, 2010	4	4
7	August 23, 2010	4	4
8	August 25, 2010	4	4
9	September 9, 2010	4	4
10	October 20, 2010	5	5
11	November 26, 2010	5	5
12	November 29, 2010	5	5
13	February 2, 2011	5	3

**C. Attendance of Directors at Board Meetings and at the last Annual General Meeting:**

The ensuing Annual General Meeting, being the first Annual General Meeting of the Company, the above provisions do not apply to the Company.

Since Mr. Anshuman Ruia, Mr. R. N. Bansal, Mr. N. Srinivasan, Mr. K. V. Krishnamurthy, Mr. Deepak Kumar Varma and Mr. Ankur Gupta have been appointed w.e.f., May 23, 2011 they have not attended any meeting of the Board of Directors. Mr. A. R. Ramakrishnan attended 13 Board Meetings of the Company.

**3. Audit Committee:**

**Composition, Details of Audit Committee Meetings**

The Board of Directors in their meeting held on May 23, 2011 has constituted a Qualified and Independent Audit Committee in line with the provisions of Clause 49 of the Listing Agreement entered into with the Stock Exchanges read with Section 292A of the Companies Act, 1956.

The Audit Committee of the Company is mandated to perform the functions specified under the Companies Act, 1956 and Clause 49 of the Listing Agreement and has the powers and terms of reference in compliance with the requirements provided therein.

The Committee comprises of Mr. Anshuman Ruia and three Independent Directors viz., Mr. K. V. Krishnamurthy, Mr. R. N. Bansal and Mr. N. Srinivasan. The Chairman of the Audit Committee is Mr. K. V. Krishnamurthy an Independent Director. All the members of the Committee are financially literate and have relevant financial management and/or audit exposure. The Managing Director, Wholtime Director, Chief Financial Officer, Head – Accounts, Statutory Auditors and Internal Auditors attend the meetings. The Company Secretary is the Secretary to the Committee.

**4. Remuneration to Directors:**

The Company has appointed Mr. A. R. Ramakrishnan as Managing Director of the Company with effect from May 23, 2011 and Capt. Anoop Kumar Sharma as Whole-time Director designated as CEO-Sea Transportation Business with effect from May 23, 2011. Therefore no remuneration was paid to Managing Director and Whole-time Director during the year ended March 31, 2011.

No Employee Stock Option Schemes have been provided by the Company till March 31, 2011. Services of the aforesaid Executive Directors can be mutually terminated by giving three months notice or three months salary *in-lieu* thereof.

**Details of sitting fees paid to Non-Executive Directors for the meetings held during the year ended March 31, 2011:**

No Sitting fees were paid to Non-Executive Directors for the meetings held during year ended on March 31, 2011.

No shares or convertible instruments are held by any members of the Board.

**5. Share Transfer & Shareholders' Grievance Committee:**

The Board at its meeting held on May 23, 2011 has constituted the Share Transfer and Shareholders Grievance Committee.

**Terms of reference of Shareholders Grievance Committee:**

To redress grievances and complaints of members on all matters pertaining to their shareholding in the Company and to oversee the functioning of the Registrar & Share Transfer Agent and ensure that the process of share transfers, transmission and issue of duplicate shares is effective and efficient.

**Composition:**

As on May 23, 2011 the Committee comprised of Mr. Deepak Kumar Varma, Mr. A. R. Ramakrishnan, Capt. Anoop Kumar Sharma and Mr. Ankur Gupta. Shri Deepak Kumar Varma has been appointed as Chairman of the Committee.

The Board has further authorised the Executive Directors and Company Secretary to approve the Share Transfer and other related transactions on a regular basis under the supervision of the Committee.

**Details of Share Transfer and Shareholders' Grievance Committee Meetings held during the year and attendance thereat:**

No meetings were held during the year ended on March 31, 2011 since the Committee was constituted on May 23, 2011.

**Details of shareholders complaints received, solved and pending share transfers:**

No shareholders complaints were received during the year ended March 31, 2011.

**6. General Body Meeting:**

**Details of General Meetings held in last three years:**

The ensuing Annual General Meeting, being the first Annual General Meeting of the Company, the provisions of this clause do not apply to the Company.

**Details of the Extraordinary General Meetings Held**

Date	Brief of Businesses Transacted
August 9, 2010	Change of Registered Office
August 25, 2010	Amendment to the Memorandum of Association and Borrowing Limits and Creation of Charge
November 30, 2010	Approving the Composite Scheme of Arrangement
May 6, 2011	Increase in the Authorised Capital

**7. Disclosures:**

- There are no materially significant related party transactions made by the Company with its Promoters, Directors or Management, their relatives, its subsidiaries, etc. that may have potential conflict with the interest of the Company at large.

- Transactions with related parties during the year are disclosed in Note No. B(13) of Schedule 13 to the accounts in the Annual Report.
- Since incorporation of the Company, no penalty or stricture has been imposed on the Company by Stock Exchanges/SEBI/Statutory Authorities on matters related to Capital Markets.

## 8. Subsidiary Monitoring Framework:

All the subsidiary Companies of the Company are Board managed with their Boards having the right and obligations to manage such Companies in the best interest of their stakeholders. As a majority shareholder, the Company at times nominates its representatives on the Boards of subsidiary Companies and monitors the performance of such Companies, *inter-alia*, by the following means:

- Mr. R. N. Bansal, Independent Director on the Board of Directors of the Essar Shipping Limited (the holding company) has been appointed as a Director on the Board of Directors of all material non-listed Indian subsidiary companies.
- A copy of the Minutes of the Meetings of the Board of Directors of the Subsidiary Companies is tabled before the Company's Board on quarterly basis.
- A statement containing all significant transactions and arrangements entered into by the unlisted subsidiary Companies is placed before the Company's Board.
- Quarterly compliance reports issued by Director-in-charge/Finance and Accounts head/Company Secretary/HR head are tabled before the Company's Board on quarterly basis.
- Financial Results are also tabled before the Company's Board on quarterly basis.

## 9. Means of Communication:

Financial results and other information about the Company	The quarterly and annual financial results are displayed on the Company's website: <b>www.essar.com</b>
Publication of financial results	Published in major newspapers such as Business Standard and Jai Hind
Presentation to Institutional Investors and to the Analyst	Press releases and presentations made to Institutional Investors and Analysts are displayed on the Company's website : <b>www.essar.com</b>
Management Discussion & Analysis	Forms part of the Annual Report, which is mailed to the shareholders of the Company

## 10. General Shareholders information:

### A. Annual General Meeting details:

Date	Friday, September 9, 2011
Venue	Administrative Building Essar Refinery Complex Okha Highway (SH-25) Taluka Khambalia District Jamnagar, Gujarat - 361 305
Time	2.00 p.m.
Book Closure Dates	September 5, 2011 to September 9, 2011 (both days inclusive)

### B. Financial Calendar:

Financial year of Company	April 1, 2011 to March 31, 2012
First Quarter results	On or before August 13, 2011
Second Quarter results	On or before November 15, 2011
Third Quarter results	On or before February 14, 2012
Annual results for the year	On or before May 30, 2012

### C. Registrars and Share Transfer Agents:

Data Software Research Company Private Limited  
9, Pycroft Garden Road, Off Haddows Road  
Nungambakkam, Chennai - 600 006  
Tel: (044) 2821 2154, 2821 2207, Fax: (044) 2821 2133  
E-mail: dsrcomd@vsnl.com

### D. Share Transfer System:

To expedite the process of share transfers, transmission, etc., the Board of your Company has delegated these powers to the Executive Directors and the Company Secretary.

The share transfers are registered within an average period of 15 days. Presently the Company dematerialises the shares after getting the dematerialisation requests being generated by the Depository Participant.

### E. Listing on Stock Exchanges:

The Company has applied to the Bombay Stock Exchange Limited and National Stock Exchange of India Limited for listing of the equity shares of the Company.

### F. Market price data (High/Low) during each month in the year 2010-2011 on the Bombay Stock Exchange Limited and National Stock Exchange Limited and Share Price performance in comparison to BSE Sensex:

Since the securities of the Company are yet to be admitted for listing the above mentioned data is not available for the year 2010-2011.



**G. Shareholding Pattern as on May 21, 2011 (POST DEMERGER):**

Shareholding By	No. of Shares	%
Promoters	171,793,080	83.71
Financial Institutions/Mutual Funds/Banks/Insurance Companies	297,967	0.14
Other Corporate Bodies	4,448,681	2.17
Non-Domestic Companies/ Foreign Banks	–	0.00
Foreign Institutional Investors	17,465,852	8.51
Non-Resident Individuals	304,287	0.15
Public	10,917,901	5.32
<b>Total</b>	<b>205,227,768</b>	<b>100.00</b>

**H. Distribution of Shareholding as on May 21, 2011 (POST DEMERGER):**

No. of equity shares held	Number of share-holders	% of share-holders	Total number of shares	% of holding
Upto 5000	105503	97.784	6,280,626	3.060
5001-10000	1270	1.177	913,175	0.445
10001-20000	573	0.531	848,674	0.414
20001-30000	134	0.124	333,650	0.163
30001-40000	126	0.117	430,206	0.210
40001-50000	51	0.047	233,977	0.114
50001-100000	88	0.082	637,768	0.311
100001 and above	149	0.138	195,549,692	95.284
<b>Total</b>	<b>107894</b>	<b>100.000</b>	<b>205,227,768</b>	<b>100</b>

I. **Compliance Officer** : Mr. Vinayak Joshi  
Company Secretary

J. **Registered Office** : Administrative Building  
Essar Refinery Complex  
Okha Highway (SH-25)  
Taluka Khambalia  
District Jamnagar  
Gujarat - 361 305

K. **Corporate Office** : Essar House  
11, K. K. Marg  
Mahalaxmi  
Mumbai - 400 034  
Tel : (022) 6660 1100  
Fax: (022) 2354 4312  
Email: [esl.secretarial@essar.com](mailto:esl.secretarial@essar.com)

**L. Status of Dematerialisation of shares as on May 21, 2011 (POST DEMERGER):**

Mode	No. of shares	No. of folios	%
Physical	30,84,233	57,393	1.50
Demat	20,21,43,535	50,801	98.50
<b>Total</b>	<b>20,52,27,768</b>	<b>1,08,194</b>	<b>100.00</b>

**11. Nomination Facility:**

Shareholders holding shares in physical form and desirous of making a nomination in respect of their shareholding in the Company, as permitted under Section 109A of the Companies Act, 1956 are requested to submit to the R&T Agent of the Company in the prescribed nomination form.

**12. Outstanding GDRs/ADRs/Warrants or any convertible instruments, conversion date and likely impact on equity:**

Post Demerger there are 2,800 outstanding Foreign Currency Convertible Bonds aggregating US\$ 240,000,000 which can be converted into equity shares of the Company at a conversion price of ₹ 91.70 per share.

**13. Secretarial Audit:**

A qualified practicing Company Secretary will carry out secretarial audit to reconcile the total admitted capital with National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL) and the total issued and listed capital. The audit confirms that the total issued/paid up capital is in agreement with the total number of shares in physical form and the total number of dematerialised shares held with NSDL and CDSL.

**14. Non-mandatory requirements:****1. Compensation Committee:**

The Committee comprises of three non-executive Directors with the Company Secretary as the Secretary of the Committee. The Committee is empowered to formulate and recommend to the Board from time to time, the compensation structure for Managing/Executive/Wholtime Directors and to administer and supervise the Employee Stock Option Schemes, whenever applicable.

**2. Shareholders right:**

Quarterly financial results are available on the website of the Company i.e., [www.essar.com](http://www.essar.com). No separate financials are sent to shareholders of the Company.

**3. Audit qualifications:**

There are no audit qualifications in the Auditor's report on the financial statements to the Shareholders of the Company.

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## AUDITOR'S CERTIFICATE ON CORPORATE GOVERNANCE

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To the Members of  
Essar Shipping Limited  
(formerly Essar Ports & Terminals Limited)

We have examined the compliance of conditions of Corporate Governance by Essar Shipping Limited (formerly Essar Ports & Terminals Limited) ("the Company"), for the year ended March 31, 2011, as stipulated in clause 49 of the Listing Agreement entered into by the said Company with Stock Exchanges in India.

The compliance of conditions of Corporate Governance is the responsibility of the management. Our examination has been limited to review of procedures and implementation thereof, adopted by the Company for ensuring the compliance of the conditions of the Corporate Governance. It is neither an audit nor an expression of opinion on the financial statements of the Company.

In our opinion and to the best of our information and according to the explanations given to us, we certify that

the company has complied with the conditions of Corporate Governance as stipulated in the above mentioned Listing Agreement.

We further state that such compliance is neither an assurance as to the future viability of the Company nor the efficiency or effectiveness with which the management has conducted the affairs of the Company.

For **Deloitte Haskins & Sells**  
Chartered Accountants  
(Registration No. 117365W)

**Khurshed Pastakia**  
Partner  
(Membership No. 31544)

Mumbai  
July 4, 2011

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## DECLARATION ON COMPLIANCE OF THE COMPANY'S CODE OF CONDUCT TO THE MEMBERS OF ESSAR SHIPPING LIMITED

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The Company has framed a specific code of conduct for the members of the Board and the Senior Management Personnel of the Company pursuant to Clause 49 of the Listing Agreement with the Stock Exchanges to further strengthen corporate governance practices in the Company.

All the members of the Board and Senior Management Personnel of the Company have affirmed due observance of

the said code of conduct in so far as it is applicable to them and there is no non-compliance thereof during the year ended March 31, 2011.

Mumbai  
July 4, 2011

**A.R. Ramakrishnan**  
Managing Director

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## AUDITORS' REPORT ON ABRIDGED FINANCIAL STATEMENTS TO THE MEMBERS OF ESSAR SHIPPING LIMITED

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We have examined the abridged Balance Sheet of Essar Shipping Limited (formerly Essar Ports & Terminals Limited) ("the Company"), as at 31<sup>st</sup> March, 2011 and also the abridged Statement of Profit and Loss and the Cash Flow Statement for the period from 16<sup>th</sup> April, 2010 to 31<sup>st</sup> March, 2011 and both annexed thereto. These abridged financial statements have been prepared by the Company pursuant to Rule 7A of the Companies (Central Government's) General Rules and Forms, 1956 and are based on the audited financial statements of the Company as at and for the period ended 31<sup>st</sup> March, 2011 prepared in accordance with the provisions of sub-section 3(C) of Section 211 of the

Companies Act, 1956 and covered by our report of even date to the members of the Company, which is attached hereto.

For **DELOITTE HASKINS & SELLS**  
Chartered Accountants  
(Registration No. 117365W)

**Khurshed Pastakia**  
Partner  
(Membership No. 31544)

Mumbai  
July 4, 2011

## AUDITORS' REPORT

### TO THE MEMBERS OF ESSAR SHIPPING LIMITED

(formerly Essar Ports & Terminals Limited)

1. We have audited the attached Balance Sheet of Essar Shipping Limited (formerly Essar Ports & Terminals Limited) ("the Company") as at March 31, 2011, the Statement of Profit and Loss for the period from 16th April 2010 to March 31, 2011 and Cash Flow Statement of the Company for the period ended on that date, both annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with auditing standards generally accepted in India. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. As required by the Companies (Auditor's Report) Order, 2003 (CARO) issued by the Central Government in terms of Section 227(4A) of the Companies Act, 1956, we give in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.
4. Further to our comments in the Annexure referred to in paragraph 3 above, we report that:
  - (i) We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;
  - (ii) In our opinion, proper books of account as required by law have been kept by the Company so far as appears from our examination of those books;
  - (iii) The Balance Sheet, the Statement of Profit and Loss and the Cash Flow Statement dealt with by

this report are in agreement with the books of account;

- (iv) In our opinion, the Balance Sheet, the Statement of Profit and Loss and the Cash Flow Statement dealt with by this report are in compliance with the Accounting Standards referred to in Section 211(3C) of the Companies Act, 1956;
- (v) In our opinion and to the best of our information and according to the explanations given to us, the said accounts give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:
  - (a) in the case of the Balance Sheet, of the state of affairs of the Company as at 31st March, 2011;
  - (b) in the case of the Statement of Profit and Loss, of the profit of the Company for the period from April 16, 2010 to March 31, 2011 and
  - (c) in the case of the Cash Flow Statement, of the cash flows of the Company for the period from April 16, 2010 to March 31, 2011 ended on that date.
5. On the basis of written representations received from Directors as on 31st March, 2011 taken on record by the Board of Directors, we report that none of the Directors is disqualified as on 31st March, 2011 from being appointed as a director in terms of Section 274(1) (g) of the Companies Act, 1956.

For **Deloitte Haskins & Sells**  
Chartered Accountants  
(Registration No. 117365W)

**Khurshed Pastakia**  
Partner  
(Membership No. 31544)

Mumbai  
July 4, 2011

## ANNEXURE TO THE AUDITOR'S REPORT TO THE MEMBERS OF ESSAR SHIPPING LIMITED

(Referred to in paragraph 3 of our report of even date)

In our opinion and according to the information and explanations given to us, the nature of the Company's business/activities during the year are such that clauses (vi), (viii), (x), (xiii), (xiv), (xviii), and (xx) of para 4 of the Companies (Auditor's Report) Order, 2003 are not applicable to the Company.

1. In respect of its fixed assets:
  - a. The Company has maintained proper records showing full particulars, including quantitative details and situation of its fixed assets.
  - b. The fixed assets of the Company are physically verified by the management according to a phased programme designed to cover all the items over a period of three years, which in our opinion, is largely reasonable having regard to the size of the Company and the nature of its assets. As per the information given to us by the management, no material discrepancies as compared to book records were noticed in respect of fixed assets verified during the year.
  - c. In our opinion and according to the information and explanations given to us, the Company has not made substantial disposals of fixed assets during the year and the going concern status of the Company is not affected.
2. In respect of its inventories:
  - a. As explained to us, inventories were physically verified during the year by the management at reasonable intervals.
  - b. In our opinion and according to the information and explanations given to us, the procedures of physical verification of inventories followed by the management were reasonable and adequate in relation to the size of the Company and the nature of its business.
  - c. According to the information and explanations given to us, the Company's inventories comprise fuel oil and lube oil on board the ships. Having regard to the nature of the Company's business and scale of operations, quantities are determined by physical count and it is not considered feasible to maintain records of movements of inventories of such items by the vessel in which they are carried. As quantities are determined by physical count and records of movements are not maintained on board the ships, the question of discrepancies on physical verification thereof does not arise.
3. In our opinion and according to the information and explanations given to us, there are no companies, firms or parties required to be entered into the register maintained under section 301 of the Companies Act, 1956. Accordingly, paragraphs 4(iii) (a) to (g) of the Order are not applicable to the Company.

4. In our opinion and according to the information and explanations given to us, there is an adequate internal control system commensurate with the size of the Company and the nature of its business for the purchase of inventory and fixed assets and for the sale of services. During the course of our audit, we have not observed any continuing failure to correct major weaknesses in such internal controls. The nature of the Company's business does not involve sale of goods.
5. In our opinion and according to the information and explanations given to us, there are no contracts or arrangements that need to be entered into the register maintained under section 301 of the Companies Act 1956.
6. The provisions relating to internal audit are not applicable to the Company.
7. According to the information and explanations given to us in respect of statutory dues:
  - a. The Company has been generally regular in depositing undisputed statutory dues, including Provident Fund, Investor Education and Protection Fund, Income Tax, Sales Tax, Wealth Tax, Service Tax, Value Added Tax, Customs Duty, Excise Duty, Cess and any other material statutory dues, as applicable, with the appropriate authorities during the year. As informed to us Employees State Insurance Scheme is not applicable to the Company.

There are no material undisputed amounts payable in respect of above statutory dues outstanding as at 31<sup>st</sup> March, 2011 for a period exceeding six months from the date they became payable.

- b. The details of disputed Income Tax and Sales Tax dues which have not been deposited as at 31<sup>st</sup> March, 2011 on account of disputes pending, are given below:

Name of the statute	Nature of the disputed dues	Amount (₹ in crore)	Period to which the amount relates	Forum where dispute is pending
Income tax Act, 1961	Income Tax	7.29	Assessment Year from 1994-1995	Appellate Authority – Tribunal Level
Tamil Nadu Sales Tax Act, 1959	Sales Tax and penalty thereon	52.20 (security deposit 0.50)	Assessment Year 1997-98	Madras High Court
Director General of Foreign Trade, Bangalore	Customs duty	27.40	F.Y 07-09	Bombay High court

According to the information and explanation given to us, there were not dues pending to be deposited on account of any dispute in respect of Wealth Tax, Service



- Tax, Customs Duty, Excise Duty and Cess as on 31st March, 2011.
8. In our opinion, on the basis of audit procedures and according to the information and explanations given to us, the Company has not defaulted in repayment of dues to banks, financial institutions or debenture holders.
  9. According to the information and explanations given to us and based on the documents and records produced to us, the Company has not granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities.
  10. In our opinion and according to the information and explanations given to us, the terms and conditions on which the Company has given guarantees for the loans taken by others from banks and financial institutions, are not, prima facie, prejudicial to the interests of the Company.
  11. To the best of our knowledge and belief and according to the information and explanations given to us, in our opinion, term loans availed by the Company were, prima facie, applied by the Company during the year for the purposes for which the loans were obtained, other than temporary deployment pending application.
  12. According to the information and explanations given to us, and on an overall examination of the Balance sheet of the Company, we report that the funds raised on short-term basis have, prima facie, not been used during the year for long-term investment.
  13. According to the information and explanations given to us, during the period covered by our audit report, in respect of the debentures outstanding the securities created fully cover the amount of debentures.
  14. To the best of our knowledge and belief and according to the information and explanations given to us, no material fraud on or by the Company was noticed or reported during the year.

For **Deloitte Haskins & Sells**  
Chartered Accountants  
(Registration No. 117365W)

**Khurshed Pastakia**  
Partner  
(Membership No. 31544)

Mumbai  
July 4, 2011



BALANCE SHEET AS AT 31<sup>ST</sup> MARCH, 2011

Particulars	Schedule No.	As at 31.03.2011 (₹ in crore)
<b>I. SOURCES OF FUNDS</b>		
<b>Shareholders' funds:</b>		
Capital	1	205.23
Reserves and surplus	2	4,938.39
		<b>5,143.62</b>
<b>Loan funds:</b>		
Secured loans	3	1,321.03
Finance lease obligations (refer Note no.B (6) of schedule13)		580.63
Unsecured loans	4	1,257.50
		<b>3,159.16</b>
<b>TOTAL</b>		<b>8,302.78</b>
<b>II. APPLICATION OF FUNDS</b>		
<b>Fixed assets:</b>	5	
Gross block		2,230.96
Less: Depreciation		485.16
Net block		1,745.80
Capital work in progress (including capital advances)		8.54
		<b>1,754.34</b>
<b>Investments</b>	6	<b>5,629.88</b>
<b>Current assets, loans and advances:</b>	7	
Inventories		25.27
Sundry debtors		114.05
Cash and bank balances		19.31
Other current assets		10.19
Loans and advances		867.45
		<b>1,036.27</b>
<b>Less: Current liabilities and provisions:</b>	8	
Current liabilities		111.44
Provisions		6.27
		<b>117.71</b>
<b>Net current assets</b>		<b>918.56</b>
<b>TOTAL</b>		<b>8,302.78</b>
<b>SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO FINANCIAL STATEMENTS</b>	13	

In terms of our report attached

For **Deloitte Haskins & Sells**  
Chartered Accountants**Khurshed Pastakia**  
PartnerMumbai  
4<sup>th</sup> July, 2011

For and on behalf of the Board

**A.R. Ramakrishnan**  
Managing Director**Vikram Gupta**  
Chief Financial OfficerMumbai  
4<sup>th</sup> July, 2011**K.V. Krishnamurthy**  
Director**Vinayak Joshi**  
Company Secretary

## STATEMENT OF PROFIT AND LOSS FOR THE PERIOD FROM 16.04.2010 TO 31.03.2011

Particulars	Schedule No.	From 16.04.10 to 31.03.11 (₹ in crore)
<b>INCOME</b>		
Fleet operating and chartering earnings		456.67
Profit on sale of assets		57.99
Other income	9	29.58
Currency exchange gain, net		2.71
		<b>546.95</b>
<b>EXPENDITURE</b>		
Fleet operating expenses	10	260.05
Establishment and other expenses	11	27.22
		<b>287.27</b>
<b>PROFIT BEFORE INTEREST, DEPRECIATION AND TAX</b>		<b>259.68</b>
Interest and finance expenses	12	123.11
<b>PROFIT BEFORE DEPRECIATION AND TAX</b>		<b>136.57</b>
Depreciation		56.90
<b>PROFIT BEFORE TAX</b>		<b>79.67</b>
Less: Provision for taxation		
- Current tax (including tonnage tax)		(1.50)
		<b>(1.50)</b>
<b>PROFIT FOR THE PERIOD BEFORE APPROPRIATIONS</b>		<b>78.17</b>
<b>APPROPRIATIONS</b>		
Transferred to tonnage tax reserve		20.00
Transferred to debenture redemption reserve		10.00
Balance carried forward to balance sheet		<b>48.17</b>
Basic earnings per share (₹) (face value of ₹ 10/- per share)		—
Diluted earnings per share (₹) (face value of ₹ 10/- per share) (refer note no.B (9) of schedule 13)		<b>3.71</b>
<b>SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO FINANCIAL STATEMENTS</b>	<b>13</b>	

In terms of our report attached

For **Deloitte Haskins & Sells**  
Chartered Accountants

**Khurshed Pastakia**  
Partner

Mumbai  
4<sup>th</sup> July, 2011

For and on behalf of the Board

**A.R. Ramakrishnan**  
Managing Director

**Vikram Gupta**  
Chief Financial Officer

Mumbai  
4<sup>th</sup> July, 2011

**K.V. Krishnamurthy**  
Director

**Vinayak Joshi**  
Company Secretary



## CASH FLOW STATEMENT FOR THE PERIOD FROM 16.04.10 TO 31.03.11

Particulars	From 16.04.10 to 31.03.11 (₹ in crore)
<b>A CASH FLOW FROM OPERATING ACTIVITIES</b>	
Profit before tax	79.67
Adjustments for :	
Depreciation / impairment	56.90
Interest and finance expenses	123.11
Interest income	(27.72)
Profit on sale of assets	(37.97)
Surplus on extinguishment of finance lease liability cancelation	(20.02)
Foreign exchange difference loss / (gain)	(2.71)
<b>Operating profit before working capital changes</b>	<b>171.26</b>
Adjustments for:	
Trade and other receivables	(61.48)
Inventories	(3.32)
Trade and other payables	1.07
<b>Cash generated from operations</b>	<b>107.53</b>
Income taxes paid	(6.66)
<b>Net cash flow from operating activities</b>	<b>100.87</b>
<b>B CASH FLOW FROM INVESTING ACTIVITIES</b>	
Purchase of fixed assets including capital work in progress /advance	(196.21)
Proceeds from sale of fixed assets *	62.31
Fixed deposits matured for a period of more than three months,net	5.83
Loans and advances given to subsidiaries and other body corporate	(8.75)
Loans and advances repaid by subsidiaries and other body corporate	32.96
Interest received	22.92
<b>Net cash used for investing activities</b>	<b>(80.94)</b>
<b>C CASH FLOW FROM FINANCING ACTIVITIES</b>	
Interest and finance expenses paid	(122.97)
Proceeds from term loans	228.95
Proceeds from commercial papers	205.00
Proceeds from unsecured loans	26.17
Repayment of term loans	(115.86)
Repayment of finance lease obligations	(38.19)
Repayment of commercial papers	(205.00)
Repayment of unsecured loan	(11.17)
<b>Net cash flow from financing activities</b>	<b>(33.07)</b>
<b>DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(13.14)</b>
Cash and cash equivalents received upon demerger	32.51
<b>Cash and cash equivalents at end of the year</b>	<b>19.37</b>
<b>Notes :</b>	
<b>1 Cash and cash equivalents include :</b>	
Cash and bank balances	19.37
Unrealised foreign currency (loss) / gain on cash and cash equivalents	(0.07)
<b>Total cash and cash equivalents</b>	<b>19.30</b>
Balances in fixed deposits (maturity period of more than 3 months)	0.01
<b>CASH AND BANK BALANCES (as per schedule 7)</b>	<b>19.31</b>

## CASH FLOW STATEMENT FOR THE PERIOD FROM 16.04.10 TO 31.03.11 (Contd.)

Particulars		From 16.04.10 to 31.03.11 (₹ in crore)
<b>2 Non cash transactions</b>		
i) Pursuant to the scheme, the EPL has transferred the following assets and liabilities at its book value as on 01.10.2010.		
<b>a) Assets:</b>		
Fixed assets including capital advance	1887.23	
Investments	4210.48	
Inventories	21.95	
Sundry debtors	128.31	
Margin deposits with bank	5.81	
Other current assets	0.05	
Loans and advances	2238.94	8492.77
<b>b) Liabilities</b>		
Secured loans	1214.77	
Finance lease obligations	879.87	
Unsecured loans	1248.69	
Current liabilities and provisions	116.50	3459.83
		<b>5,032.94</b>
ii) Equity shares - pending allotment refer note no. B (1) of schedule 13)		<b>205.23</b>
iii) During the period the company has cancelled the finance lease obligation amounting to ₹ 248.70 crore against the net book value of the vessel M.T. Ashna ₹ 228.68 crore.		
<b>3</b> Cash Flow Statement has been prepared under the indirect method as set out in Accounting Standard - 3 'Cash Flow Statement' as notified under the Companies (Accounting Standard) Rules, 2006.		

In terms of our report attached

For **Deloitte Haskins & Sells**  
Chartered Accountants

**Khurshed Pastakia**  
Partner

Mumbai  
4<sup>th</sup> July, 2011

For and on behalf of the Board

**A.R. Ramakrishnan**  
Managing Director

**Vikram Gupta**  
Chief Financial Officer

Mumbai  
4<sup>th</sup> July, 2011

**K.V. Krishnamurthy**  
Director

**Vinayak Joshi**  
Company Secretary

## SCHEDULES ATTACHED TO AND FORMING PART OF THE BALANCE SHEET AS AT 31ST MARCH, 2011

Particulars	As at 31.03.2011 (₹ in crore)
<b>SCHEDULE 1</b>	
<b>CAPITAL</b>	
<b>Authorised</b>	
50,000 Equity shares of ₹ 10/- each	0.05
49,99,50,000 Increase of equity shares under the scheme of arrangement	499.95
	<b>500.00</b>
<b>Issued, subscribed and paid up</b>	
50,000 Equity shares of ₹ 10/- each issued for cash	0.05
Less: extinguishment under the Scheme of arrangement	0.05
20,52,27,768 Equity shares of ₹ 10/- each, pending allotment (allotted on May 21,2011) (refer note no.B (2) fo Schedule 13)	— 205.23
	<b>205.23</b>
<b>SCHEDULE 2</b>	
<b>RESERVES AND SURPLUS</b>	
<b>Debenture redemption reserve</b>	
Transferred as per scheme of demerger (refer note no.B (2) of schedule13)	25.00
Add: Transferred from Statement of Profit and Loss	10.00
	35.00
<b>Tonnage tax reserve</b>	
(In terms of Section 115VT of the Income Tax Act, 1961)	
Transferred from Statement of Profit and Loss	20.00
	20.00
<b>General reserve</b>	
Transferred as per scheme of demerger (refer note no.B (2) of schedule13)	4,835.22
<b>Balance in Statement of Profit and Loss</b>	48.17
	<b>4,938.39</b>
<b>SCHEDULE 3</b>	
<b>SECURED LOANS</b>	
<b>DEBENTURES</b>	
11.35%, 7,000 secured non convertible debentures of ₹ 10,00,000 each, secured by mortgage on immovable property, first charge on three bulk carriers, two tugs of the company and six land rigs of a subsidiary	700.00
Of the above, 5000 debentures issued on 22.06.09 are redeemable on 22.06.19 with put and call option exercisable after five years from the date of issue, and 2000 debentures issued on 25.03.10 are redeemable on 25.03.20 with put and call option exercisable after five years from the date of issue.	
<b>FROM BANKS</b>	
Rupee term loans [converted into FCNR(B) facility], secured by first charge on a very large crude carrier and its receivables	318.40
Foreign currency term loans secured by first charge on four bulk carriers and its receivables	198.13
Rupee term loan, secured by charge on a bulk carrier of the company	4.50
	<b>521.03</b>
<b>FROM FINANCIAL INSTITUTION</b>	
Rupee term loan, secured by first charge on eight mini bulkers and four tugs	100.00
<b>TOTAL</b>	<b>1,321.03</b>

## SCHEDULES ATTACHED TO AND FORMING PART OF THE BALANCE SHEET AS AT 31ST MARCH, 2011

Particulars	As at 31.03.2011 (₹ in crore)
<b>SCHEDULE 4</b>	
<b>UNSECURED LOANS</b>	
5% Foreign currency convertible bonds	1,071.52
Series -A ; US\$ 128,571,429, interest bearing bonds due on 24th August 2015	
Series - B; US\$ 111,428,571, interest bearing bonds due on 24th August 2017	
[The above bonds are convertible into fully-paid ordinary shares of ₹ 10 each of the Company at an initial conversion rate of ₹ 91.70 per equity share at a fixed exchange rate of ₹ 46.94]	
Short term loans from banks	25.98
Short term loans from others	
- Commercial paper	160.00
[maximum balance ₹ 160 crore- repayable within one year]	
<b>TOTAL</b>	<b>1,257.50</b>

### SCHEDULE 5 FIXED ASSETS

(₹ in crore)

Details	GROSS BLOCK AT COST/ VALUATION				DEPRECIATION / IMPAIRMENT			NET BLOCK	
	Transfer as per scheme of demerger 01.10.2010 (refer Note B(1) of Schedule 13)	Additions	Sale / deductions	As at 31.03.2011	Transfer as per scheme of demerger 01.10.2010	For the period	Deductions	As at 31.03.2011	As at 31.03.2011
			*A						
<b>Tangible fixed assets</b>									
Land - freehold	0.02	–	–	0.02	–	–	–	–	0.02
Buildings	6.53	–	–	6.53	2.56	0.21	–	2.77	3.76
Fleet –									
– owned	1,312.29	187.67	73.73	1,426.23	357.52	35.21	61.75	330.98	1,095.25
– taken on lease	1,025.45	–	358.26	667.19	183.50	18.92	118.00	84.42	582.78
Plant and machinery *B	39.00	–	–	39.00	38.99	0.00	–	38.99	0.00
Aircraft - Gulfstream - taken on lease	83.72	–	0.76	82.96	19.24	2.18	–	21.42	61.54
Furniture, fixture, airconditioners refrigerators and office equipments	4.70	0.25	–	4.95	3.26	0.22	–	3.48	1.47
Vehicles	4.29	–	0.21	4.08	3.13	0.17	0.20	3.10	0.98
<b>Total tangible fixed assets</b>	<b>2,476.00</b>	<b>187.92</b>	<b>432.96</b>	<b>2,230.96</b>	<b>608.20</b>	<b>56.91</b>	<b>179.95</b>	<b>485.16</b>	<b>1,745.80</b>
Capital work in progress (capital advances)	–	–	–	–	–	–	–	–	8.54
<b>Grand total</b>	<b>2,476.00</b>	<b>187.92</b>	<b>432.96</b>	<b>2,230.96</b>	<b>608.20</b>	<b>56.91</b>	<b>179.95</b>	<b>485.16</b>	<b>1,754.34</b>

#### NOTES :

\*A Pursuant to the notification of Ministry of Company Affairs relating to the effects of changes in foreign exchange rates, the resultant gain of ₹ 19.17 crore arising on conversion/translation/settlement of long term foreign currency items has been adjusted in the current period deductions to the corresponding fleet and aircraft (refer note no.B (3) of schedule 13).

\*B Gross block of Plant & Machinery includes ₹ 38.84 crore leased out, W.D.V on 1st October, 2010 ₹ Nil.



## SCHEDULES ATTACHED TO AND FORMING PART OF THE BALANCE SHEET AS AT 31ST MARCH, 2011

Particulars	As at 31.03.2011 (₹ in crore)
<b>SCHEDULE 6</b>	
<b>INVESTMENTS</b>	
<b>LONG TERM INVESTMENTS</b>	
Investments in subsidiaries	
<b>Equity shares (fully paid up, at cost)</b>	
<b>- Unquoted</b>	
7,30,00,000 equity shares of ₹ 10/- each of Essar Logistics Limited #	73.00
20,00,00,001 equity shares of US\$1/- each of Essar Oilfields Services Limited	4,524.16
2,30,92,732, 2% cumulative preference shares of US\$ 10 each of Essar Oilfields Services Limited	1,023.90
1,952,000 equity shares of Energy Transportation International Limited of US\$ 1 each fully paid up	8.77
12,000 equity shares of Energy II Limited of US\$ 1 each, fully paid up	0.05
<b>TOTAL</b>	<b>5,629.88</b>
# Negative lien undertaking of 51% in favour of lenders for loan availed by Essar Steel Holdings Ltd and pledge of 49% shares in favour of IDBI Trusteeship Services Limited as security against NCD of ₹ 700 crore.	
<b>NOTES:</b>	
Aggregate cost of unquoted investments	5,629.88
<b>SCHEDULE 7</b>	
<b>CURRENT ASSETS, LOANS AND ADVANCES</b>	
<b>CURRENT ASSETS</b>	
Inventories - fuel oil and lubes (at cost or net realisable value whichever is lower)	25.27
Sundry debtors (unsecured, considered good)	
a) Debts outstanding for a period exceeding six months	35.39
b) Other debts	78.66
	114.05
Cash and bank balances	
Cash on hand *	—
Balance with scheduled banks	
In current accounts	17.70
In margin deposits	1.61
Balance with other bank	
In current account - HSBC Middle East Limited, (Dubai)*	—
(Maximum amount due at any time during the period ₹ 2,009)	—
	19.31
Other current assets	
Interest accrued on bank deposits	0.03
Other receivable	10.16
	10.19
<b>TOTAL (A)</b>	<b>168.82</b>
* Amount less than ₹ 1 lakh	

## SCHEDULES ATTACHED TO AND FORMING PART OF THE BALANCE SHEET AS AT 31ST MARCH, 2011

Particulars	As at 31.03.2011 (₹ in crore)
<b>SCHEDULE 7 (Contd.)</b>	
<b>LOANS AND ADVANCES (unsecured, considered good)</b>	
Loans and advances to subsidiaries	453.93
Inter corporate desposits with group companies	6.91
Advance towards allotment of shares	282.26
Advances recoverable in cash or in kind or for value to be received	17.10
Rental and other deposits	52.89
Cenvat receivables	10.69
Advance tax and tax deducted at source (net of provision for tax)	5.19
Prepaid expenses	31.08
Insurance claims receivable	7.39
<b>TOTAL (B)</b>	<b>867.45</b>
<b>TOTAL (A)+(B)</b>	<b>1,036.27</b>
<b>SCHEDULE 8</b>	
<b>CURRENT LIABILITIES AND PROVISIONS</b>	
<b>CURRENT LIABILITIES</b>	
Sundry creditors:	
– Due to micro and small enterprises (refer note no.B(14) of schedule13)	–
– Others	69.35
Other liabilities	5.50
Interest accrued but not due on loans	15.45
Freight / hire amount received in advance	7.64
Deposits including security deposit	13.50
	<b>111.44</b>
<b>PROVISIONS</b>	
Provision for gratuity	3.13
Provision for compensated absences	3.14
	<b>6.27</b>
<b>TOTAL</b>	<b>117.71</b>

## SCHEDULES ATTACHED TO AND FORMING PART OF THE STATEMENT OF PROFIT AND LOSS FROM 16.04.2010 TO 31.03.2011

Particulars	From 16.04.10 to 31.03.11 (₹ in crore)
<b>SCHEDULE 9</b>	
<b>OTHER INCOME</b>	
Interest income from banks [inclusive of tax deducted at source ₹ 0.02 crore]	0.23
Interest income from others [inclusive of tax deducted at source ₹ 0.42 crore]	27.49
Miscellaneous Income	1.86
	<u><b>29.58</b></u>
<b>SCHEDULE 10</b>	
<b>FLEET OPERATING EXPENSES</b>	
Consumption of fuel, oil and water	74.14
Direct voyage expenses	131.63
Commission, brokerage and agency fees	1.60
Salaries, wages, bonus and other expenses on off shore staff	
- Salaries, wages and bonus	25.31
- Contribution to staff provident and other funds	0.69
- Staff welfare expenses	3.87
Consumption of stores and spares	5.12
Standing costs	10.89
Insurance, protection and indemnity club fees	6.80
	<u><b>260.05</b></u>
<b>SCHEDULE 11</b>	
<b>ESTABLISHMENT AND OTHER EXPENSES</b>	
Salaries, wages and bonus	10.57
Contribution to staff provident and other funds	1.08
Staff welfare expenses	0.94
Rent	3.22
Repairs and maintenance-buildings	0.10
Repairs and maintenance-others	0.53
Legal and professional fees	6.49
Traveling and conveyance	1.97
Auditors' remuneration (refer note no. B (8) of schedule 13)	0.48
Miscellaneous expenses	1.84
	<u><b>27.22</b></u>
<b>SCHEDULE 12</b>	
<b>INTEREST AND FINANCE EXPENSES</b>	
Interest to banks on secured loans	11.45
Interest to financial Institutions	6.46
Interest on debentures	39.62
Interest on others	15.01
Interest on finance lease obligations	18.48
Interest on foreign currency convertible bonds	27.58
Guarantee fees, processing and other charges	0.71
Loan arrangement expenses	3.80
	<u><b>123.11</b></u>

## SCHEDULE 13

### SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31<sup>st</sup> MARCH, 2011

#### A. SIGNIFICANT ACCOUNTING POLICIES:

##### 1. BASIS OF ACCOUNTING

These financial statements are prepared under the historical cost convention, on accrual basis of accounting, and are in accordance with generally accepted accounting principles and in compliance with the applicable Accounting Standards (AS) referred to in sub-section (3C) of Section 211 of the Companies Act, 1956.

##### 2. USE OF ESTIMATES

The preparation of financial statements in conformity with the generally accepted accounting principles requires estimates and assumptions to be made that affect the reported balances of assets and liabilities and disclosures relating to contingent liabilities as at the reporting date and the reported amounts of income and expenses during the reporting period. Differences between the actual results and estimates are recognised in the period in which the results are known / materialised.

##### 3. FIXED ASSETS

Fixed assets are recorded at cost of acquisition net of revaluation less accumulated depreciation and impairment loss, if any. Cost of acquisition of fleet includes brokerage, start up costs and cost of major improvements / upgradations.

Assets acquired under finance leases are capitalised as fixed assets at lower of fair value at inception of the lease and the present value of minimum lease payments and a corresponding liability is recognised. The lease rentals paid (excluding operating expenses) are bifurcated into principal and interest components by applying an implicit rate of return. The interest is charged against income as a period cost and the principal amount is adjusted against the liability recognised in respect of assets taken on finance lease.

Foreign exchange differences on conversion/ translation/ settlement in respect of long term monetary items used for acquisition of depreciable fixed assets are added to the cost of fixed assets.

##### 4. DEPRECIATION

Depreciation on fleet, including second hand fleet, is provided by using the straight-line method based on a technical evaluation of the economic useful life of respective vessels or at the rates prescribed under the Schedule XIV to the Companies Act, 1956, whichever are higher as follows:

Fleet	Method of depreciation	Estimated useful life
Tankers	SLM over balance useful life or 5% whichever is higher	14-25 years
Bulk carriers		3-26 years
Mini bulk carriers		20 years
Tugs	SLM over balance useful life or 7% whichever is higher	20 years

Depreciation on water circulation treatment plant and aircraft is provided by using the straight-line method at the rates prescribed in Schedule XIV to the Companies Act, 1956.

All other assets are depreciated by using the written down value method at the rates prescribed in Schedule XIV to the Companies Act, 1956. Assets costing less than ₹ 5,000/- are fully depreciated in the year of acquisition.

Depreciation on additions/deductions to fixed assets made during the year is provided on a pro-rata basis from / up to the date of such additions /deductions, as the case may be.

##### 5. IMPAIRMENT OF ASSETS

The Company assesses on each balance sheet date whether there is any indication that an asset may be impaired. If any such indication exists, the Company estimates the recoverable amount of the asset. If such recoverable amount of the asset is less than its carrying amount, the carrying amount is reduced to its recoverable amount. The amount so reduced is treated as an impairment loss and is recognised in the statement of profit and loss, except in case of revalued assets, where it is first adjusted against the related balance in fixed assets revaluation reserve.

If at the balance sheet date, there is an indication that a previously assessed impairment loss no longer exists, the recoverable amount is reassessed and the asset is carried at the recoverable amount subject to a maximum of depreciated historical cost.

## 6. BORROWING COSTS

Borrowing costs that are directly attributable to the acquisition, construction/development of qualifying asset are capitalized as a part of cost of such asset. A qualifying asset is one that necessarily takes substantial period of time to get ready for the intended use.

Costs in connection with the borrowing of funds to the extent not directly related to the acquisition of fixed assets are amortised and charged to the Statement of Profit and Loss, over the tenure of the loan.

## 7. INVESTMENTS

- a) Long term investments are carried at cost less provision for other than temporary diminution in the fair / market value of these investments.
- b) Current investments are carried at lower of cost and fair value.

## 8. INVENTORY

Inventory is valued at the lower of cost and net realisable value. Cost is determined on first-in-first-out basis.

## 9. FLEET OPERATING EARNINGS

Fleet operating earnings represent the value of charter hire earnings, demurrage, freight earnings, fleet management fees and lighterage earnings, and are accounted on accrual basis. Freight earnings are recognised on a pro-rata basis for voyages in progress at balance sheet date after loading of the cargo is completed; revenues and related expenses for voyages where cargo has not been loaded as on the balance sheet date are deferred and recognised in the following year. Lighterage is recognised on the basis of unloading of entire cargo.

## 10. INTEREST INCOME

Interest income is recognised on an accrual basis.

## 11. INSURANCE CLAIMS

Insurance claims are recorded based on reasonable certainty of their settlement.

## 12. FLEET OPERATING EXPENSES

All expenses relating to the operation of the fleet including crewing, insurance, stores, bunkers, dry docking, charter hire and special survey costs, are expensed under fleet operating expenses on accrual basis.

## 13. OPERATING LEASES

Rentals are expensed with reference to the terms of the lease agreement and other considerations in respect of operating leases.

## 14. EMPLOYEE BENEFITS

- a) The Company (employer) and the employees contribute a specified percentage of eligible employees' salary- currently 12%, to the employer established provident fund "Essar Staff Provident Fund" set up as an irrevocable trust by the Company. The Company is generally liable for annual contributions and any shortfall in the fund assets based on government specified minimum rates of return – currently @ 9.5%, and recognises such provident fund liability, considering fund as the defined benefit plan, based on an independent actuarial valuation carried out at every statutory year end.
- b) Provision for gratuity for floating staff is made as under:
  - (i) For officers on actuarial valuation.
  - (ii) For crew on accrual basis as per rules of the National Maritime Board and is charged to the Statement of Profit and Loss.

Contribution in respect of gratuity for on shore staff is made to Life Insurance Corporation of India based on demands made. The Company also accounts for gratuity liability based on an independent actuarial valuation carried out at every statutory year end.



- c) Contribution towards superannuation, funded by payments to Life Insurance Corporation of India, is a fixed percentage of the salary of eligible employees under a defined Contribution plan, and is charged to the Statement of Profit and Loss.
- d) Provision for all compensated absences of eligible employees is based on an independent actuarial valuation.

## 15. FOREIGN CURRENCY TRANSACTIONS

Transactions denominated in foreign currencies are recorded at standard exchange rates determined monthly which approximates the actual rate on the date of transaction. The difference between the standard rate and the actual rate of settlement is accounted in the Statement of Profit and Loss.

Monetary items denominated in foreign currency are translated at the rate prevailing at the end of the year. Gains/ losses on conversion/translation/settlement of foreign currency transactions are recognised in the Statement of Profit and Loss, except gains/ losses on conversion/translation/settlement in respect of long term foreign currency monetary items related to acquisition of a depreciable asset is adjusted to the carrying amount to those depreciable assets.

Gains/losses on conversion/translation/settlement in respect of long term foreign currency items relating to other than an acquisition of depreciable assets are accumulated in a "Foreign Currency Monetary Item Translation Difference Account" and amortised over the balance period of such long term foreign currency item but not beyond 31st March, 2012.

## 16. TAXES ON INCOME

- a) Income tax on income from qualifying fleet is provided on the basis of the Tonnage Tax Scheme whereas income tax on other income is provided as per other provisions of the Income Tax Act, 1961.
- b) The tax effect of timing differences relating to non-tonnage tax activities that occur between taxable income and accounting income and are capable of reversal in one or more subsequent periods are recorded as a deferred tax asset or deferred tax liability. They are measured using the substantively enacted tax rates and tax regulations as at the balance sheet date.

Deferred tax assets arising on account of brought forward losses and unabsorbed depreciation under tax laws are recognised only if there is a virtual certainty of realisation, supported by convincing evidence. Deferred tax assets on account of other timing differences are recognised to the extent there is reasonable certainty of realisation.

## 17. PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

Provisions are recognised for present obligations arising out of past events if it is probable that an outflow of economic resources, the amount of which can be reliably estimated, will be required to settle the obligation.

Contingent liabilities are disclosed in respect of possible obligations that arise from past events, the existence of which will be confirmed by the occurrence or non occurrence of one or more uncertain future events not wholly within the control of the Company, or a present obligation that is not recognised because a reliable estimate of the liability cannot be made, or the likelihood of an outflow of economic resources is remote.

Contingent assets are neither recognized nor disclosed in the financial statements.

## B. NOTES TO THE FINANCIAL STATEMENTS

- 1) The Company was incorporated in the name of Essar Ports & Terminals Limited in the State of Gujarat on April 16, 2010. The Company received the Certificate of Commencement of Business on June 1, 2010. The main object of the Company on incorporation was to carry on the business inter alia of providing ports and terminals services. The main objects of the Company were expanded on August 25, 2010 to inter alia provide shipping & logistics and oilfields services business. The name of the Company was then changed to Essar Shipping Limited with effect from September 7, 2010.

### 2) Composite Scheme of arrangements

The Hon'ble High Court of Gujarat at Ahmedabad vide order dated March 1, 2011 approved the Composite Scheme of Arrangement (Scheme) between Essar Shipping Ports & Logistics Limited (ESPLL), Essar Ports & Terminals Limited (EPTL) Mauritius, Essar International Limited (EIL) Mauritius and Essar Shipping Limited (ESL).

The Scheme provided for the merger of EPTL and EIL with ESPLL and the demerger of the Shipping & Logistics Business and the Oilfields Services Business into ESL.

Pursuant to the Scheme, all the assets and liabilities pertaining to the Shipping & Logistics Business and the Oilfields Services Business stood transferred to and became vested in ESL at the book values (ignoring revaluation) as appearing in the books of account of ESPLL with effect from October 1, 2010 being the Demerger Appointed Date, which are based on financial statements as on 30th September, 2010. The difference between the values of assets and liabilities transferred was first adjusted against share capital (₹ 205.23 crores), ₹ 25 crores against Debenture Redemption Reserve and the balance to General Reserve of the Company.

Upon the Scheme becoming effective, ESL ceased to be a subsidiary of ESPLL with effect from October 1, 2010.

Non Convertible Debentures aggregating to ₹ 700 crores and Foreign Currency Convertible Bonds aggregating to USD 240 million (out of USD 280 million) issued by ESPLL stood transferred to ESL.

In consideration of the demerger, the Company allotted 20,52,27,768 equity shares of ₹ 10/- each as fully paid up to the eligible members of ESPLL whose name recorded in register of members of ESPLL as on May 21, 2011, in terms of the Scheme as detailed below.

Name of the company	No. of shares
Essar Shipping & Logistics Limited (immediate holding company)	170,451,856
Essar Global Limited	33
Essar Steel Limited ( subsidiary of Essar Global Limited)	1,273,610
Erstwhile other shareholders of ESPLL	33,502,269
<b>Total</b>	<b>205,227,768</b>

Simultaneously the original issued equity shares capital i.e. 50,000 equity shares of ₹ 10/- each were cancelled in accordance with the Scheme.

The Company is in the process of having its equity shares listed on the Bombay Stock Exchange and the National Stock Exchange of India Limited.

The first financial year of the Company is for the period from April 16, 2010 to March 31, 2011. This being the first year of incorporation, there are no comparative figures.

The Board of Directors has since appointed Mr. A. R. Ramakrishnan as the Managing Director of the Company with effect from May 23, 2011.

### 3) Fixed assets

Pursuant to notification issued by the Central Government under Companies (Accounting Standards) Amendment Rules, 2009 dated 31<sup>st</sup> March, 2009; the Company has chosen to adjust the gains/losses arising on conversion/ translation/settlement of long term foreign currency items into the corresponding costs of fixed assets to the extent it is related to acquisition of depreciable fixed assets.

The effect of this treatment has resulted into decrease in the profit for the period by an amount of ₹ 17.78 crores.

### 4) Contingent liabilities: (₹ in crores)

Particulars	As on 31.03.2011
i) Guarantees given by banks	30.00
ii) Corporate guarantees on behalf of subsidiaries	1,386.24
iii) Bills discounted with bank	17.64
iv) Disputed Sales tax demand under appeal in the Honorable High Court of Madras	52.20
iv) Income tax appeals before ITAT	7.29

### 5) Estimated amount of contract remaining to be executed on capital account and not provided for ₹ 76.35 crores (net of advance ₹ 8.54 crores)

**6) Finance leases:**

The minimum lease rentals outstanding at period end are as under:

(₹ in crores)

Particulars	As on 31.03.2011		
	Minimum lease payments	Interest	Present value of minimum lease payments
Future lease rental obligation payable :			
– not later than one year	97.72	33.91	63.81
– later than one year but not later than five years	391.16	89.95	301.21
– later than five years	233.90	18.29	215.61
<b>TOTAL</b>	<b>722.78</b>	<b>142.15</b>	<b>580.63</b>

**7) Business segment and geographical segment:**

**a) Business segment**

The Company has one primary business segment of fleet operations and chartering.

**b) Geographical segment**

The Company's fleet operations are managed on a worldwide basis from India. Fleet operating and chartering earnings based on the geographical location of customers:

(₹ in crores)

Fleet operating and chartering earnings	Period ended 31.03.2011
India	370.54
Hongkong	55.10
China	17.35
U.S.A	9.06
Rest of the world	4.62
<b>TOTAL</b>	<b>456.67</b>

The main operating assets represent floating fleet, which is not identifiable to any geographical location.

**8) Auditors' remuneration:**

(₹ in crores)

Particulars	Period ended 31.03.2011
Audit fees	0.20
Other matters	0.24
Out of pocket expenses*	–
Service tax on above	0.04
<b>TOTAL</b>	<b>0.48</b>

\* Amount is less than ₹ 1 lakh

**9) Earnings per share:**

The calculation of the basic and diluted earnings per share is based on the following data:

Particulars	Period ended 31.03.2011
Earnings for the purpose of basic earnings per share (net profit for the period) (₹ in crore)	78.17
Add: Adjustment on account of interest on foreign currency convertible bonds (net of income tax) (₹ in crore)	22.07
Net earnings for the purpose of diluted earnings per share (net profit for the period) (₹ in crore)	100.24
Equity shares at the beginning of the period (nos.)	50,000
Equity shares to be issued on demerger- pending allotment (nos.)	205,227,768
Weighted average equity shares for the purpose of calculating basic earnings per share (nos.)	NA <sup>(1)</sup>
Weighted average equity shares for the purpose of calculating diluted earnings per share (nos.)	279,276,019
Earnings per share-basic (face value of ₹ 10/- each) (₹)	—
Earnings per share-diluted (face value of ₹ 10/- each) (₹)	3.71

(1): the shares to be issued on demerger are pending allotment as of the date of the balance sheet and hence have not been considered for calculation of basic earnings per share.

- 10) i) There were no forward / options contracts entered into by the Company during the period to hedge against foreign currency exposures.
- ii) The outstanding foreign currency exposures that have not been hedged by a derivative instrument or otherwise are given below:

**a) Amount receivable in foreign currency on account of the following:**

Particulars	₹ in crores	Currency	Foreign currency in million
	31.03.11		31.03.11
i) Export of goods and services	8.01	USD	1.43
ii) Advance to vendors	0.57	USD	0.13
iii) Advance towards purchase of shares	282.31	USD	62.62
iv) Bank balances	14.93	USD	3.34
v) 2% Cumulative Preference Shares	1,023.90	USD	230.93

**b) Amount payable in foreign currency on account of the following:**

Particulars	₹ in crores	Currency	Foreign currency in million
	31.03.11		31.03.11
i) Import of goods and services	30.20	USD	6.75
	0.06	GBP	0.01
	0.80	EUR	0.13
	0.66	JPY	0.68
	1.48	SGD	0.42
	0.18	AED	0.15
	<b>33.38</b>		<b>8.13</b>
ii) Due to holding company	<b>5.98</b>	USD	<b>1.34</b>
iii) Secured and unsecured loans payable (including interest accrued but not due)	<b>517.58</b>	USD	<b>117.13</b>
iv) Foreign Currency Convertible Bond (including interest accrued but not due)	<b>1076.96</b>	USD	<b>240.16</b>
v) Lease loans obligation	<b>587.68</b>	USD	<b>131.62</b>

# 11) Employee benefits:

The Company has classified the various benefits provided to employees as under:

## I. Defined contribution plans

The Company has recognised the following amounts in the Statement of Profit and Loss during the year:

(₹ in crores)

Particulars	Period ended 31.03.11
a) Employer's contribution to gratuity fund (offshore crew staff)	0.09
b) Group accident policy premium (all employees)	0.01
c) Employer's Contribution to pension fund (offshore crew staff)	0.13
d) Employer's Contribution to Superannuation Fund	0.11
e) Employer's Contribution to Provident Fund (offshore crew staff)	0.08

The above amounts are included in 'Contribution to staff provident and other funds' (Schedule 11 and 12).

## II. Defined benefit plans

- Contribution to provident fund
- Contribution to gratuity fund
- Provision for compensated absences (CA)

In accordance with AS-15, relevant disclosures are as under:

### (A) Changes in present value of defined benefit obligation:

(₹ in crores)

Particulars	Provident fund (funded)	Gratuity-shore officers (funded)	Gratuity-off shore officers (non-funded)	CA - paid leave (non-funded)
	31.03.11	31.3.11	31.03.11	31.03.11
Present value of defined benefit obligation as at the beginning of the period	16.69	—	—	—
Current service cost	1.39	0.07	0.30	0.10
Current service contribution - employee	1.52	—	—	—
Interest cost	—	—	0.15	—
Transfer in *	0.87	1.57	1.95	1.33
Benefits paid	(2.62)	—	(0.10)	—
Actuarial (gain)/loss on obligations	0.80	—	0.22	—
Plan amendment	0.88	—	—	—
Present value of defined benefit obligation as at the end of the period	19.53	1.64	2.52	1.43

\*on account of demerger and transfer of employees from EPL to ESL

### (B) Changes in the fair value of plan assets:

(₹ in crores)

Particulars	Provident fund (funded)	Gratuity-shore officers (funded)	Gratuity-off shore officers (non-funded)	CA - paid leave (non-funded)
	31.03.11	31.3.11	31.03.11	31.03.11
Fai value of plan assets at the beginning of the period	16.69	—	—	—
Expected return on plan assets	—	—	—	—
Actual return on plan assets	1.67	—	—	—
Acquisitions/ Transfers	—	1.03	0.10	—
Contributions by the employer/ employees	3.79	—	—	—
Benefits paid	(2.62)	—	—	—
Fair value of plan assets as at the end of the period	19.53	1.03	0.10	—

\* Amount is less than ₹ 1 lakh



**(C) Amount recognised in balance sheet:**

(₹ in crores)

Particulars	Provident fund (funded)	Gratuity-shore officers (funded)	Gratuity-off shore officers (non-funded)	CA - paid leave (non-funded)
	31.03.11	31.3.11	31.03.11	31.03.11
Present value of defined benefit obligation as at the beginning of the period	19.53	1.64	2.52	1.43
Fair value of plan assets as at end of the period	(19.53)	1.03	–	–
Liability/(asset) recognised in the Balance Sheet (included in current liabilities and provisions) (schedule 8)	–	0.61	2.52	1.43

**(D) Expenses recognised in the Statement of Profit and Loss:**

(₹ in crores)

Particulars	Provident fund (funded)	Gratuity-shore officers (funded)	Gratuity-off shore officers (non-funded)	CA - paid leave (non-funded)
	31.03.11	31.3.11	31.03.11	31.03.11
Current service cost	1.39	0.07	0.30	0.10
Interest cost	0.87	–	0.15	–
Expected return on plan assets	(0.87)	–	–	–
Net actuarial (gain)/loss recognised in the period	–	–	0.22	–
Total expenses recognised in the Statement of Profit and Loss (Included in Contribution to provident and other funds (Schedule 10))	1.39	0.07	0.67	0.10

**(E) Experience history:**

(₹ in crores)

Particulars	Provident fund (funded)	Gratuity-shore officers (funded)	Gratuity-off shore officers (non-funded)	CA - paid leave (non-funded)
	31.03.11	31.3.11	31.03.11	31.03.11
Defined benefit obligation at the end of the year	–	(1.64)	(2.52)	(1.43)
Plan assets at the end of the period	–	1.03	–	–
Funded status	–	(0.61)	(2.52)	(1.43)
Experience gain /(loss) adjustments on plan liabilities	–	–	(0.25)	–
Experience gain /(loss) adjustments on plan assets	–	–	–	–
Actuarial gain/(loss) due to change on assumptions	–	–	0.03	–

**(F) Category of plan assets:**

(₹ in crores)

Particulars	Provident fund (funded)	Gratuity-shore officers (funded)	Gratuity-off shore officers (non-funded)	CA - paid leave (non-funded)
	31.03.11	31.3.11	31.03.11	31.03.11
Administered by Life Insurance Corporation of India	–	100%	–	–
Government of India security	25%	–	–	–
Public sector bonds/ TDRs	60%	–	–	–
State government securities	15%	–	–	–

**(G) Actuarial assumptions**

In accordance with Accounting Standard (AS) 15 (Revised), actuarial valuation as at the year end was done in respect of the aforesaid defined benefit plans based on the following assumptions:

i) General assumptions:

(₹ in crores)

Particulars	Provident fund (funded)	Gratuity-shore officers (funded)	Gratuity-off shore officers (non-funded)	CA - paid leave (non-funded)
	31.03.11	31.3.11	31.03.11	31.03.11
Discount rate (per annum)	7.80%	8.00%	8.00%	8.00%
Rate of return on plan assets (for funded scheme)	8.50%	8.50%	N.A	N.A
Expected retirement age of employees (years)	58	58	58	58
Separation rate of employees	—	10.00%	7.00%	10.00%
Rate of increase in compensation	—	9.00%	9.00%	9.00%

ii) Mortality rates considered are as per the published rates in the Life Insurance Corporation (1994-96) Mortality table.

iii) Leave policy:

- Sick leave balance as at the valuation date and each subsequent year following the valuation date will be availed by the employee against future sick leave; the sick leave balance is not available for encashment.
- Leave balance as at the valuation date and each subsequent year following the valuation date to the extent not availed by the employee is available for encashment on separation from the Company up to a maximum of 120 days

iv) The contribution to be made by the Company for funding its liability for gratuity during the financial year 2011 will be made as per demand raised by the fund administrator Life Insurance Corporation of India.

12) Related party transactions:

a) Holding companies :

- Essar Global Limited, Cayman Island, ultimate holding company
- Essar Shipping & Logistics Limited, Cyprus, immediate holding company

b) Subsidiaries:

- Essar Logistics Limited, India
- Energy Transportation International Limited, Bermuda
- Energy II Limited, Bermuda
- Essar Oilfields Services Limited, Mauritius
- Essar Oilfield Services India Limited, India

c) Other related parties where there have been transactions:

Enterprises commonly controlled or influenced by major shareholders / directors / relatives of directors of the Company:

- Aegis Limited
- Arkay Holdings Limited
- Essar Agrotech Limited
- Essar Bulk Terminal Limited
- Essar House Limited
- Essar Information Technology Limited
- Essar Infrastructure Services Limited
- Essar Investments Limited
- Essar Oil Limited
- Essar Ports Limited
- Essar Shipping (Cyprus) Limited
- Essar Steel Limited
- Futura Travels Limited
- Imperial Consultants & Services Limited
- India Securities Limited
- Prajesh Marketing Limited
- Vadinar Oil Terminal Limited
- Vadinar Ports & Terminal Limited

## The details of transactions with related parties

(₹ in crores)

Nature of transactions	Holding and subsidiary companies	Other related parties	Total
	31.03.11	31.03.11	31.03.11
<b>INCOME</b>			
<b>Fleet operating income</b>			
Essar Steel Limited	–	290.24	290.24
Essar Shipping (Cyprus) Limited	–	0.62	0.62
Essar Logistics Limited	27.14	–	27.14
<b>Total</b>	<b>27.14</b>	<b>290.86</b>	<b>318.00</b>
<b>Equipment lease rental income</b>			
Essar Steel Limited	–	0.01	0.01
<b>Interest income</b>			
Essar Oilfields Services India Limited	25.84	–	25.84
Essar Oilfields Services Limited (Mauritius)	1.10	–	1.10
<b>Total</b>	<b>26.94</b>	<b>–</b>	<b>26.94</b>
<b>Purchase of fuel oil</b>			
Essar Oil Limited	–	12.73	12.73
Essar Bulk Terminal Limited	–	0.05	0.05
<b>Total</b>	<b>–</b>	<b>12.78</b>	<b>12.78</b>
<b>Vessel hire charges</b>			
Essar Shipping & Logistics Limited	41.67	–	41.67
<b>Manning charges</b>			
Essar Infrastructure Services Limited	–	0.08	0.08
<b>Direct voyage expenses</b>			
Essar Bulk Terminal Limited	–	6.80	6.80
<b>Rent charges</b>			
Essar House Limited	–	0.48	0.48
Essar Infrastructure Services Limited	–	1.56	1.56
<b>Total</b>	<b>–</b>	<b>2.04</b>	<b>2.04</b>
<b>Repair and maintenance</b>			
Essar Infrastructure Services Limited	–	0.18	0.18
Essar Agrotech Limited	–	0.01	0.01
<b>Total</b>	<b>–</b>	<b>0.19</b>	<b>0.19</b>
<b>Traveling expenses</b>			
Futura Travels Limited	–	1.33	1.33
<b>Reimbursement of expenses</b>			
Futura Travels Limited	–	4.64	4.64
Essar Logistics Limited	20.22	–	20.22
Essar Investments Limited	–	0.95	0.95
<b>Total</b>	<b>20.22</b>	<b>5.59</b>	<b>25.81</b>
<b>Professional /Advisory fees / Agency fee</b>			
India Securities Limited	–	0.15	0.15
Essar Investments Limited	–	4.09	4.09
Aegis Limited	–	0.84	0.84
Essar Information Technology Limited	–	0.03	0.03
Essar Logistics Limited	0.20	–	0.20
<b>Total</b>	<b>0.20</b>	<b>5.11</b>	<b>5.31</b>

**The details of transactions with related parties (Contd.)**

(₹ in crores)

Nature of transactions	Holding and subsidiary companies	Other related parties	Total
	31.03.11	31.03.11	31.03.11
<b>Aircraft usage charges reimbursed</b>			
Essar Oil Limited	–	23.60	23.60
<b>Interest on lease loan</b>			
Essar Shipping & Logistics Limited	16.63	–	16.63
<b>Application money for allotment of shares</b>			
Essar Oilfields Services Limited	46.32	–	46.32
<b>Loans and advances given</b>			
Essar Investments Limited	–	1.00	1.00
Essar Oilfield Services India Limited	16.46	–	16.46
<b>Total</b>	<b>16.46</b>	<b>1.00</b>	<b>17.46</b>
<b>Security Deposit received</b>			
Essar Oil Limited	–	2.50	2.50
<b>Guarantees given on behalf of others</b>			
Essar Logistics Limited	13.50	–	13.50
Essar Oilfield Services India Limited	1210.00	–	1210.00
<b>Total</b>	<b>1223.50</b>	<b>–</b>	<b>1223.50</b>

**Outstanding balances**

(₹ in crores)

Nature of transactions	Holding and subsidiary companies	Other related parties	Total
	31.03.11	31.03.11	31.03.11
<b>Sundry debtors</b>			
Essar Steel Limited	–	87.31	87.31
Essar Logistics Limited	13.23	–	13.23
Essar Shipping (Cyprus) Limited	–	1.05	1.05
<b>Total</b>	<b>13.23</b>	<b>88.36</b>	<b>101.59</b>
<b>Advance for purchase of shares</b>			
Essar Oilfields Services Limited	46.32	–	46.32
Energy II Limited	235.99	–	235.99
<b>Total</b>	<b>282.31</b>	<b>–</b>	<b>282.31</b>
<b>Loans and advances (including interest accrued) / Other receivables</b>			
Essar Investments Limited	–	6.91	6.91
Essar Ports Limited	–	15.46	15.46
Essar Oilfield Services India Limited	453.93	–	453.93
Futura Travels Limited	–	6.46	6.46
Imperial Consultants & Services Limited	–	10.16	10.16
<b>Total</b>	<b>453.93</b>	<b>38.99</b>	<b>492.92</b>
<b>Deposits given</b>			
Futura Travels Limited	–	6.25	6.25
Essar House Limited	–	31.00	31.00
Essar Investments Limited	–	0.06	0.06
Prajesh Marketing Limited	–	4.80	4.80
Essar Information Technology Limited	–	0.46	0.46
<b>Total</b>	<b>–</b>	<b>42.57</b>	<b>42.57</b>

## Outstanding balances (Contd.)

(₹ in crores)

Nature of transactions	Holding and subsidiary companies	Other related parties	Total
	31.03.11	31.03.11	31.03.11
<b>Lease loan obligation</b>			
Essar Shipping & Logistics Limited	533.99	—	533.99
<b>Sundry creditors</b>			
Essar Logistics Limited	0.63	—	0.63
Energy II Limited	0.10	—	0.10
Essar Shipping & Logistics Limited	5.98	—	5.98
Essar Bulk Terminal Limited	—	9.48	9.48
Essar Infrastructure Limited	—	0.01	0.01
India Securities Limited	—	0.05	0.05
Essar Investments Limited	—	0.83	0.83
Aegis Limited	—	0.63	0.63
Arkay Holdings Limited	—	0.02	0.02
Essar Agrotech Limited	—	0.01	0.01
Essar Information Technology Limited	—	0.09	0.09
Essar Oil Limited	—	2.07	2.07
<b>Total</b>	<b>6.71</b>	<b>13.19</b>	<b>19.90</b>
<b>Interest accrued but not due</b>			
Essar Shipping & Logistics Limited	7.05	—	7.05
<b>Security deposit received</b>			
Essar Oil Limited	—	9.00	9.00
Vadinar Oil Terminal Limited	—	1.50	1.50
Vadinar Ports & Terminals Limited	—	1.50	1.50
Essar Bulk Terminals Limited	—	1.50	1.50
<b>Total</b>	<b>—</b>	<b>13.50</b>	<b>13.50</b>
<b>Guarantees given on behalf of others</b>			
Essar Oilfield Services India Limited	1,310.00	—	1310.00
Essar Logistics Limited	76.24	—	76.24
<b>Total</b>	<b>1,386.24</b>	<b>—</b>	<b>1,386.24</b>

- 13) In view of exemption granted by Central Government for shipping companies vide press note no.2/2011 dated 08.02.2011, information required under sub-clauses (a), (b), (c) and (e) of paragraph 4-D of part II of schedule VI to the Companies Act, 1956, is not given.
- 14) The Company has not received any intimation from the suppliers regarding their status under Micro, Small and Medium Enterprises Development Act, 2006 (the Act) and hence the disclosure required by the Act have not been made. The Company is making efforts to get confirmations from the suppliers as regards their status under the Act.
- 15) The company has entered into Memorandum of agreement (MOA) for acquisition of a 152,065 DWT capsized bulk carrier which is expected to be delivered by end of July 2011.

For and on behalf of the Board

A.R. Ramakrishnan  
Managing DirectorVikram Gupta  
Chief Financial OfficerMumbai  
4<sup>th</sup> July, 2011K.V. Krishnamurthy  
DirectorVinayak Joshi  
Company Secretary



## AUDITORS' REPORT TO THE BOARD OF DIRECTORS OF ESSAR SHIPPING LIMITED

(Formerly ESSAR PORTS & TERMINALS LIMITED)

1. We have audited the attached Consolidated Balance Sheet of **ESSAR SHIPPING LIMITED** (formerly Essar Ports & Terminals Limited) ("the Company") and its subsidiaries (the Company and its subsidiaries constitute "the Group") as at 31<sup>st</sup> March, 2011, the Consolidated Statement of Profit and Loss for the period from April 16, 2010 to March 31, 2011 and the Consolidated Cash Flow Statement of the Group for the period ended on that date, both annexed thereto. These Consolidated financial statements are the responsibility of the Company's Management and have been prepared on the basis of the separate financial statements and other financial information regarding components. Our responsibility is to express an opinion on these Consolidated Financial Statements based on our audit.
2. We conducted our audit in accordance with the auditing standards generally accepted in India. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and the disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by the Management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. We report that the Consolidated Financial Statements have been prepared by the Company in accordance with the requirements of Accounting Standard 21 (Consolidated Financial Statements), as notified under the Companies (Accounting Standards) Rules, 2006.
4. Based on our audit and on consideration of the separate audit reports on individual financial statements of the Company and its aforesaid subsidiaries and to the best of our information and according to the explanations given to us, in our opinion, the Consolidated Financial Statements, give a true and fair view in conformity with the accounting principles generally accepted in India.
  - (i) in the case of the Consolidated Balance Sheet, of the state of affairs of the Group as at 31<sup>st</sup> March, 2011;
  - (ii) in the case of the Consolidated Statement of Profit and Loss, of the Profit of the Group for the period ended on that date; and
  - (iii) in the case of the Consolidated Cash Flow Statement, of the cash flows of the Group for the period ended on that date.

For **Deloitte Haskins & Sells**  
Chartered Accountants  
(Registration No. 117365W)

**Khurshed Pastakia**  
Partner  
(Membership No. 31544)  
Mumbai  
July 4, 2011

## CONSOLIDATED BALANCE SHEET AS AT 31<sup>st</sup> MARCH, 2011

Particulars	Schedule No.	As at 31.03.2011 (₹ in crore)
<b>I. SOURCES OF FUNDS</b>		
<b>Shareholders' funds:</b>		
<b>Capital</b>	<b>1</b>	<b>205.23</b>
Reserves and surplus	2	5,036.48
		<u>5,241.71</u>
<b>Loan funds:</b>		
Secured loans	3	2,904.25
Finance lease obligations (refer note no. B (5) of schedule 13)		827.30
Unsecured loans	4	1,257.50
		<u>4,989.05</u>
<b>Deferred tax liability (net)</b> (refer note no. B (10) of schedule 13)		22.26
<b>Total</b>		<u><u>10,253.02</u></u>
<b>II. APPLICATION OF FUNDS</b>		
<b>Fixed assets:</b>	<b>5</b>	
Gross block		5,222.01
Less: Depreciation		1,086.93
Net block		4,135.08
Capital work-in-progress (including capital advances) and expenditure during construction		1,500.64
		<u>5,635.72</u>
Goodwill on consolidation		3,658.41
<b>Investments *</b>	<b>6</b>	0.00
<b>Current assets, loans and advances:</b>	<b>7</b>	
Inventories		133.50
Sundry debtors		471.37
Cash and bank balances		224.36
Other current assets		13.75
Loans and advances		694.11
		<u>1,537.09</u>
<b>Less: Current liabilities and provisions:</b>	<b>8</b>	
Liabilities		568.29
Provisions		11.73
		<u>580.02</u>
<b>Net current assets</b>		957.07
<b>Miscellaneous expenditure (to the extent not written off or adjusted)</b>		1.82
<b>Total</b>		<u><u>10,253.02</u></u>
(*amount less than ₹ 1 lakh)		
<b>SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO FINANCIAL STATEMENTS</b>	<b>13</b>	

In terms of our report attached

For **Deloitte Haskins & Sells**  
Chartered Accountants

**Khurshed Pastakia**  
Partner

Mumbai  
4<sup>th</sup> July, 2011

For and on behalf of the Board

**A.R. Ramakrishnan**  
Managing Director

**Vikram Gupta**  
Chief Financial Officer

Mumbai  
4<sup>th</sup> July, 2011

**K.V. Krishnamurthy**  
Director

**Vinayak Joshi**  
Company Secretary

## CONSOLIDATED STATEMENT OF PROFIT AND LOSS FOR THE PERIOD FROM 16<sup>TH</sup> APRIL 2010 TO 31<sup>ST</sup> MARCH, 2011

Particulars	Schedule No.	From 16.04.10 to 31.03.11 (₹ in crore)
<b>INCOME</b>		
Fleet operating and chartering		659.84
Surface logistics services		448.11
Oilfields services		167.99
Profit on sale of fleet		38.47
Other income	9	21.56
Currency exchange gain, net		6.83
		<b>1,342.80</b>
<b>EXPENDITURE</b>		
Operating expenses	10	939.94
Establishment and other expenses	11	65.87
		<b>1,005.81</b>
<b>PROFIT BEFORE INTEREST, DEPRECIATION AND TAX</b>		<b>336.99</b>
Interest and finance expenses	12	139.37
<b>PROFIT BEFORE DEPRECIATION AND TAX</b>		<b>197.62</b>
Depreciation		162.23
<b>PROFIT BEFORE TAX</b>		<b>35.39</b>
Less: Provision for taxation		
– Current tax (including tonnage tax)		(3.56)
– Deferred tax credit		1.59
– Tax adjustments for earlier years		(0.12)
		<b>(2.09)</b>
<b>PROFIT FOR THE PERIOD AVAILABLE FOR APPROPRIATIONS</b>		<b>33.30</b>
<b>AMOUNT AVAILABLE FOR APPROPRIATION</b>		
<b>APPROPRIATIONS</b>		
Less: Transferred to tonnage tax reserve		20.00
Less: Transferred to debenture redemption reserve		10.00
Balance carried to balance sheet		3.30
Basic earnings per equity share (₹) (face value of ₹ 10/- per share		–
Diluted earnings per equity share (₹) (face value of ₹ 10/- per share [refer note no. B (8) of schedule 13]		1.37
<b>SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO FINANCIAL STATEMENTS</b>	13	

In terms of our report attached

For **Deloitte Haskins & Sells**  
Chartered Accountants

**Khurshed Pastakia**  
Partner

Mumbai  
4<sup>th</sup> July, 2011

For and on behalf of the Board

**A.R. Ramakrishnan**  
Managing Director

**Vikram Gupta**  
Chief Financial Officer

Mumbai  
4<sup>th</sup> July, 2011

**K.V. Krishnamurthy**  
Director

**Vinayak Joshi**  
Company Secretary

## CONSOLIDATED CASH FLOW STATEMENT FOR THE PERIOD ENDED 31<sup>ST</sup> MARCH, 2011

Particulars	From 16.04.10 to 31.03.11 (₹ in crore)
<b>A. CASH FLOW FROM OPERATING ACTIVITIES</b>	
Profit before tax	35.39
Adjustments for :	
Depreciation / impairment	162.23
Interest and finance expenses	139.37
Interest income	(14.40)
Loss / (Profit) on sale of assets	(38.47)
Foreign exchange difference loss / (gain)	(6.77)
<b>Operating profit before working capital changes</b>	<b>277.35</b>
Adjustments for:	
Trade and other receivables	(33.52)
Inventories	(4.51)
Trade and other payables	(13.16)
<b>Cash generated from operations</b>	<b>226.15</b>
Income tax paid	(12.63)
<b>Net cash flow from operating activities</b>	<b>213.52</b>
<b>B. CASH FLOW FROM INVESTING ACTIVITIES</b>	
Purchase of fixed assets including capital work in progress / advance	(371.14)
Proceeds from sale of fixed assets	74.08
Fixed deposits matured for a period of more than three months, net	(16.37)
Loans and advances given to body corporates	(450.43)
Loans and advances repaid by body corporates	18.84
Interest received	9.78
<b>Net cash used for investing activities</b>	<b>(735.24)</b>
<b>C. CASH FLOW FROM FINANCING ACTIVITIES</b>	
Interest and finance expenses paid	(138.72)
Proceeds from term loans	1,262.27
Proceeds from commercial papers	205.05
Proceeds from unsecured loans	29.00
Repayment of term loans	(841.40)
Repayment of finance lease obligations	(45.17)
Repayment of commercial papers	(205.00)
Repayment of unsecured loan	(11.17)
<b>Net cash flow from financing activities</b>	<b>254.85</b>
<b>INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(266.87)</b>
Cash and cash equivalents received upon demerger	336.30
<b>Cash and cash equivalents at end of the year</b>	<b>69.43</b>

## CONSOLIDATED CASH FLOW STATEMENT FOR THE PERIOD ENDED 31<sup>ST</sup> MARCH, 2011 (Contd.)

Particulars	From 16.04.10 to 31.03.11 (₹ in crore)
<b>Notes :</b>	
<b>1. Cash and cash equivalents include :</b>	
Cash and bank balances	69.43
Unrealised foreign currency (loss) / gain on cash and cash equivalents	(0.07)
Total cash and cash equivalents	69.36
Balances in fixed deposits (maturity period of more than 3 months)	154.97
<b>CASH AND BANK BALANCES (as per schedule 7)</b>	<b>224.33</b>
<b>2. Non cash transactions</b>	
(i) Pursuant to the scheme, the EPL has transferred the following assets and liabilities at its book value as on 01.10.2010.	
<b>(a) Assets:</b>	
Fixed assets including capital advance	5489.76
Inventories	128.99
Sundry debtors	447.13
Margin deposits with bank	138.60
Other current assets	2.59
Loans and advances	308.92
	<b>6,515.99</b>
<b>(b) Liabilities:</b>	
Secured loans	2495.89
Finance lease obligations	884.81
Unsecured loans	1248.69
Current liabilities and provisions	605.46
	<b>5234.85</b>
	<b>1,281.14</b>
(ii) Equity shares – pending allotment refer note no. B (1) of schedule 13)	<b>205.23</b>
3. Cash Flow Statement has been prepared under the indirect method as set out in Accounting Standard - 3 'Cash Flow Statement' as notified under the Companies (Accounting Standard) Rules, 2006.	

In terms of our report attached

For **Deloitte Haskins & Sells**  
Chartered Accountants

**Khurshed Pastakia**  
Partner

Mumbai  
4<sup>th</sup> July, 2011

For and on behalf of the Board

**A.R. Ramakrishnan**  
Managing Director

**Vikram Gupta**  
Chief Financial Officer

Mumbai  
4<sup>th</sup> July, 2011

**K.V. Krishnamurthy**  
Director

**Vinayak Joshi**  
Company Secretary



## SCHEDULES ATTACHED TO AND FORMING PART OF THE CONSOLIDATED BALANCE SHEET AS AT 31<sup>ST</sup> MARCH, 2011

Particulars	As at 31.03.2011 (₹ in crore)
<b>SCHEDULE 1</b>	
<b>SHARE CAPITAL</b>	
<b>Authorised</b>	
50,000      Equity shares of ₹ 10/- each	0.05
49,99,50,000      Increase of equity shares under the Scheme of arrangement	499.95
	500.00
<b>Issued, subscribed and paid up</b>	
50,000      Equity shares of ₹ 10/- each issued for cash	0.05
Less: Extinguishment under the Scheme of arrangement	0.05
	-
20,52,27,768      Equity shares of ₹ 10/- each, pending allotment (since allotted on May 21, 2011) (refer note no. B (3) of Schedule 13)	205.23
	205.23
<b>SCHEDULE 2</b>	
<b>RESERVES AND SURPLUS</b>	
<b>Debenture redemption reserve</b>	
Transfer as per scheme of demerger (refer note no. B (3) of schedule 13)	
Add: Transferred from statement of Profit and Loss	
	35.00
<b>Tonnage tax reserve</b>	
(In terms of Section 115 VT of the Income Tax Act, 1961)	
Transferred from statement of Profit and Loss	
	20.00
<b>General reserve</b>	
Transfer as per scheme of demerger (refer note no. B (3) of schedule 13)	
	4,835.22
<b>Foreign currency translation reserve</b>	
	58.20
<b>Balance in Statement of Profit and Loss</b>	
Accumulated balances transferred on demerger (refer note no. B (3) of schedule 13)	
Add : Profit for the period	
	88.06
	5,036.48

## SCHEDULES ATTACHED TO AND FORMING PART OF THE CONSOLIDATED BALANCE SHEET AS AT 31<sup>ST</sup> MARCH, 2011

Particulars	As at 31.03.2011 (₹ in crore)
<b>SCHEDULE 3</b>	
<b>SECURED LOANS</b>	
<b>DEBENTURES</b>	
11.35%, 7,000 secured non convertible debentures of ₹ 10,00,000 each, secured by mortgage on immovable property, first charge on three bulk carriers, two tugs of the Company and six land rigs of a subsidiary	700.00
Of the above, 5000 debentures issued on 22.06.09 are redeemable on 22.06.19 with put and call option after five years from the date of issue, and 2000 debentures issued on 25.03.10 are redeemable on 25.03.20 with put and call option after five years from the date of issue.	
<b>Loans from banks</b>	
Rupee term loans [converted into FCNR (B) facility], secured by first charge on a very large crude carrier and its receivables	
Foreign currency term loan secured by first charge on four bulk carriers and its receivables	
Rupee term loan, secured by charge on a bulk carrier of the Company	
	521.04
<b>Loan from financial institution</b>	
Rupee term loan, secured by first charge on eight mini bulkers and four tugs	100.00
<b>LOGISTICS BUSINESS:</b>	
<b>Loans from banks</b>	
Foreign currency term loan secured by first charge on six tugs and two floating cranes	
Rupee term loan [converted into FCNR (B) facility], secured by first charge on a barge unloader	
Rupee term loan secured by first charge on cargo handling equipment	
Cash credit facility from bank secured by first charge on current assets	
Interest accrued and due on foreign currency loan	193.98
<b>OIL FIELDS SERVICES BUSINESS:</b>	
<b>Loans from banks</b>	
Foreign currency term loan secured by first charge on a rig and corporate guarantees by Essar Shipping & Logistics Limited	
Rupee term loan secured by charge on six land rigs and receivable thereon and corporate guarantee by the Company.	
Rupee term loan secured by charge on Jack up rigs and receivable thereon and corporate guarantee by the Company and Essar Oilfields Services Limited.	
<b>Loan from financial institution</b>	
Rupee loan secured by charge on Jack Up rigs and receivable thereon and corporate guarantees by the Company and Essar Oilfields Services Limited.	
	1,389.23
<b>TOTAL</b>	<b>2,904.25</b>

## SCHEDULES ATTACHED TO AND FORMING PART OF THE CONSOLIDATED BALANCE SHEET AS AT 31<sup>ST</sup> MARCH, 2011

Particulars	As at 31.03.2011 (₹ in crore)
<b>SCHEDULE 4</b>	
<b>UNSECURED LOANS</b>	
5% Foreign currency convertible bonds	1,071.52
Series-A; US\$ 128,571,429, interest bearing bonds due on 24 <sup>th</sup> August, 2015	
Series-B; US\$ 111,428,571, interest bearing bonds due on 24 <sup>th</sup> August, 2017	
The above bonds are convertible into fully-paid ordinary shares of ₹ 10 each of the Company at an initial conversion rate of ₹ 91.70 per equity share at a fixed exchange rate of ₹ 46.94	
Short term loans from banks	25.98
Short term loans from others	
— Commercial paper	160.00
[maximum balance ₹ 160 crore-repayable within one year]	
	1,257.50

### SCHEDULE 5 FIXED ASSETS

(₹ in crore)

Particulars	GROSS BLOCK AT COST				DEPRECIATION				NET BLOCK
	Addition on demerger	Additions	Sale/ deductions	As at 31/3/2011	Addition on demerger	For the period	Deductions	As at 31/3/2011	As at 31/3/2011
Tangible Fixed Assets			*A						
Land-freehold	0.02	—	—	0.02	—	—	—	—	0.02
Buildings	6.53	—	—	6.53	2.56	0.21	—	2.77	3.76
Fleet —									
— Owned	1,519.87	185.83	73.74	1,631.96	433.71	43.60	61.75	415.56	1,216.40
— taken on lease	1,005.61	—	12.46	993.15	183.50	22.20	—	205.70	787.45
Plant and machinery *B	2,427.52	37.06	12.48	2,452.10	333.30	90.41	2.09	421.62	2,030.48
Aircraft-Gulfstream-taken on lease	83.72	—	0.76	82.96	19.24	2.18	—	21.42	61.54
Furniture, fixture, air conditioners, refrigerators and office equipments	7.72	0.59	0.01	8.30	4.64	0.47	0.01	5.10	3.20
Vehicles *C	36.42	10.78	0.21	46.99	11.80	3.16	0.20	14.76	32.23
<b>Total tangible fixed assets</b>	<b>5,087.41</b>	<b>234.26</b>	<b>99.66</b>	<b>5,222.01</b>	<b>988.75</b>	<b>162.23</b>	<b>64.05</b>	<b>1,086.93</b>	<b>4,135.08</b>
Capital work in progress (including Capital Advances)			—						1,500.64
<b>Grand Total</b>	<b>5,087.41</b>	<b>234.26</b>	<b>99.66</b>	<b>5,222.01</b>	<b>988.75</b>	<b>162.23</b>	<b>64.05</b>	<b>1,086.93</b>	<b>5,635.72</b>

**NOTES :**

\*A Pursuant to the notification of Ministry of Company Affairs relating to the effects of changes in foreign exchange rates, the resultant gain of ₹ 23.80 crore arising on conversion/translation/settlement of long term foreign currency items has been adjusted in the current year deductions to fleet and an aircraft. (refer note no B (3) of schedule 13).

\*B Gross block of plant and machinery includes ₹ 38.84 crore leased out, W.D.V on 1st October, 2010 ₹ nil. Plant and Machinery includes Essar Wildcat Rig having gross amount of ₹ 2063.82 crore is charged by the Company as security against the syndicated term loan of ₹ 736.73 crore.

\*C Vehicles gross book value of ₹ 7.11 crore have been taken under hire purchase agreement from India securities limited and hypothecated to it.

## SCHEDULES ATTACHED TO AND FORMING PART OF THE CONSOLIDATED BALANCE SHEET AS AT 31<sup>ST</sup> MARCH, 2011

Particulars	As at 31.03.2011 (₹ in crore)
<b>SCHEDULE 6</b>	
<b>INVESTMENTS</b>	
<b>CURRENT INVESTMENTS (non trade)</b>	
– <b>Unquoted</b>	
4,590 equity shares of ₹ 10/- each of Essar Bulk Terminal Paradip Limited*	0.00
	<u>0.00</u>
* Amount is less than ₹ 1 lakh	
<b>SCHEDULE 7</b>	
<b>CURRENT ASSETS, LOANS AND ADVANCES</b>	
<b>CURRENT ASSETS</b>	
<b>Inventories</b> (at cost or net realisable value whichever is lower)	
Fuel, oil and lubes	
Stores and spares	
	133.50
<b>Sundry debtors (unsecured)</b>	
Debts outstanding for a period exceeding six months	
(a) Considered good	
(b) Considered doubtful	
Less: provision for doubtful debts	
Other debts – considered good	
	471.37
<b>Cash and bank balances</b>	
Cash on hand	0.02
Cheque on hand	0.11
Balance with scheduled banks	
In current accounts	
In deposits [including margin money]	
	222.68
<b>Balance with other banks in current accounts</b>	
With HSBC Middle East [maximum amount outstanding at any time during the period ₹ 2,009] *	
With HSH Nord Bank, Hamburg [maximum amount outstanding at any time during the period ₹ 0.19 crore]	
Berenberg Bank, Hamburg USD current account [maximum amount outstanding at any time during the period ₹ 1.68 crore]	
Berenberg Bank, Hamburg Euro current account [maximum amount outstanding at any time during the period ₹ 0.48 crore]	
Commercial Bank of Qatar [maximum amount outstanding at any time during the period ₹ 27.91 crore]	
	1.55
* Amount less than ₹ 1/- lakh	<u>224.36</u>
<b>Other current assets</b>	
Interest accrued on bank deposits	
Other receivable	
	13.75
<b>TOTAL (A)</b>	<u>842.98</u>

## SCHEDULES ATTACHED TO AND FORMING PART OF THE CONSOLIDATED BALANCE SHEET AS AT 31<sup>ST</sup> MARCH, 2011

Particulars	As at 31.03.2011 (₹ in crore)
<b>SCHEDULE 7 (Contd.)</b>	
<b>LOANS AND ADVANCES (unsecured, considered good)</b>	
Advances and loan to subsidiaries / associates / affiliates	—
Loans to body corporates	514.16
Advances recoverable in cash or in kind or for value to be received	25.36
Rental and other deposits	53.34
Cenvat receivables	19.15
Advance tax and tax deducted at source (net of provision for tax)	14.68
Prepaid expenses	59.40
Insurance claims receivable	8.02
<b>TOTAL (B)</b>	<b>694.11</b>
<b>TOTAL (A) + (B)</b>	<b>1,537.09</b>
<b>SCHEDULE 8</b>	
<b>CURRENT LIABILITIES AND PROVISIONS</b>	
<b>CURRENT LIABILITIES</b>	
Sundry creditors:	
— Due to micro and small enterprises	—
— Others	474.51
— Sundry creditors (for capital goods)	22.49
Deferred profit on sale and lease back	5.65
Other liabilities	23.80
Interest accrued, but not due on loans	15.69
Freight / hire amount received in advance	10.92
Deposits including security deposit	15.23
	<b>568.29</b>
<b>PROVISIONS</b>	
Provision for income tax (net of advance tax paid)	1.22
Provision for gratuity	4.27
Provision for compensated absences	6.24
Proposed dividend on preference shares	—
	<b>11.73</b>
	<b>580.02</b>

# **SCHEDULES ATTACHED TO AND FORMING PART OF THE CONSOLIDATED STATEMENT OF PROFIT AND LOSS FOR THE PERIOD FROM 16<sup>TH</sup> APRIL 2010 TO 31<sup>ST</sup> MARCH, 2011**

Particulars	From 16.04.2010 to 31.03.2011 (₹ in crore)
<b>SCHEDULE 9</b>	
<b>OTHER INCOME</b>	
Interest income from banks [inclusive of tax deducted at source ₹ 0.73 crore]	4.53
Interest income from others [inclusive of tax deducted at source ₹ 1.27 crore]	9.87
Miscellaneous receipts	7.16
	<u>21.56</u>
<b>SCHEDULE 10</b>	
<b>OPERATING EXPENSES</b>	
Consumption of fuel, oil and water	75.94
Direct voyage / surface logistics services	718.29
Commission, brokerage and agency fees	1.53
Employee expenses on offshore staff	
– Salaries, wages and bonus	60.70
– Contribution to staff provident and other funds	0.69
– Staff welfare expenses	4.17
Consumption of stores and spares	37.73
Standing costs	25.38
Insurance, protection and indemnity club fees	15.51
	<u>939.94</u>
<b>SCHEDULE 11</b>	
<b>ESTABLISHMENT AND OTHER EXPENSES</b>	
Salaries, wages and bonus	23.81
Contribution to staff provident and other funds	1.73
Staff welfare expenses	1.88
Rent charges	7.05
Repairs and maintenance-buildings	0.10
Repairs and maintenance-others	0.64
Legal, professional fees and services charges	21.82
Travelling and conveyance	3.34
Auditors' remuneration	1.02
Miscellaneous expenses	4.48
	<u>65.87</u>
<b>SCHEDULE 12</b>	
<b>INTEREST AND FINANCE EXPENSES</b>	
Interest on secured loans	
To banks	38.64
To others	6.81
Interest on debentures	27.47
Interest on finance lease obligations	21.62
Interest on Foreign currency convertible bonds	9.27
Interest on others	15.00
Guarantee fees, processing and other charges	1.50
Loan arrangement expenses / prepayment charges	19.06
	<u>139.37</u>



**SCHEDULE 13****SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31<sup>st</sup> MARCH, 2011****A. SIGNIFICANT ACCOUNTING POLICIES:****1. BASIS OF ACCOUNTING**

These financial statements are prepared under the historical cost convention, except for the revaluation of fleet, on accrual basis of accounting and are in accordance with generally accepted accounting principles and in compliance with the applicable Accounting Standards referred to in Sub-section (3C) of Section 211 of the Companies Act, 1956.

**2. USE OF ESTIMATES**

The preparation of financial statements in conformity with the generally accepted accounting principles requires estimates and assumptions to be made that affect the reported balances of assets and liabilities and disclosures relating to contingent liabilities as at the reporting date and the reported amount of income and expenses during the reporting period. Differences between the actual results and estimates are recognised in the period in which the results are known / materialised.

**3. BASIS OF CONSOLIDATION**

- (a) The financial statements of Essar Shipping Limited (the Company) and its subsidiaries (together "Group") are combined on a line-by-line basis by adding together the book values of like items of assets, liabilities, income and expenses, after eliminating all material intra-group balances and intra-group transactions in accordance with AS 21 "Consolidated Financial Statements".
- (b) The difference between the costs of investment in the subsidiaries, over the net assets at the time of acquisition of shares in the subsidiaries is recognised in the financial statements as goodwill or capital reserve, as the case may be.
- (c) The consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances and where divergent, appropriate adjustments are made.
- (d) The accounts of overseas subsidiaries denominated in U.S. dollars are converted as explained in A-16 below and regrouped.

**4. FIXED ASSETS**

- (a) Fixed assets are recorded at cost of acquisition net of revaluation less accumulated depreciation and impairment loss, if any.

Cost of acquisition of fleet includes brokerage, start up costs and cost of major improvements / up gradation.

Cost of acquisition is inclusive of cost of construction including erection, installation and commissioning expenses, expenditure during construction, inseparable know-how costs, gains or losses earned / incurred during the trial run, non refundable duties and taxes, borrowing costs and other incidental costs, where applicable.

- (b) Assets acquired on hire purchase, being in the nature of finance lease, are capitalised as fixed assets at lower of fair value at inception of the lease and the present value of minimum lease payments and corresponding liability is recognised. The lease rentals paid (excluding operating expenses) are bifurcated into principal and interest components by applying an implicit rate of return. The interest is charged against income as a period cost and the principal amount is adjusted against the liability recognised in respect of assets taken on finance lease.
- (c) Foreign exchange differences on conversion/translation/settlement in respect of long term monetary items used for acquisition of depreciable fixed assets are adjusted to the cost of fixed assets in terms of notification issued by Central Government under the Companies (Accounting Standard) Amendment Rules, 2009 dated 31<sup>st</sup> March, 2009.

**5. INTANGIBLE ASSETS**

Intangible assets are recognised only when it is probable that future economic benefits attributable to the asset will flow to the Group and the cost of such assets can be measured reliably. Intangible assets are stated at cost less

accumulated amortisation and impairment loss, if any. All costs relating to the acquisition are capitalised. Intangible assets are amortised over the useful life of the asset, subject to a rebuttable presumption that such useful lives will not exceed ten years.

## 6. CAPITAL WORK-IN-PROGRESS, EXPENDITURE DURING CONSTRUCTION AND CAPITAL ADVANCES

Direct expenditure on assets under construction is shown under capital work in progress.

Expenditure incidental to the assets that take substantial period of time to get ready for their intended use is accumulated as expenditure during construction pending allocation to fixed assets and other accounts, as applicable, on completion of construction.

Advances on capital account include progress/milestone based payments made under the contracts for projects/assets under construction and other capital advances until the same are allocated to fixed assets and other accounts, as applicable.

## 7. DEPRECIATION

Depreciation for fleet including second hand fleet and rigs are provided by using the straight-line method based on a technical evaluation of the economic useful life of respective assets or at the rates prescribed under the Schedule XIV to the Companies Act, 1956, whichever are higher as follows:

Class of assets	Method of depreciation	Estimated useful life
Fleet		
– tankers	SLM over balance useful life or 5% whichever is higher.	14-20 years
– bulk carriers		3-26 years
– mini bulk carriers		20 years
– tugs and barges	SLM over balance useful life or 7% whichever is higher.	20 years
– dredgers		14 years
Rigs		
– semi submersible rig	SLM over balance useful life or 4.75% whichever is higher.	15 years
– land rig		10 years

- Depreciation on water circulation treatment plant, aircraft, forklifts, cranes, impact hammer, turning plates, clamps, pipelines, vehicles (other than motor car and two wheelers), tankages and other heavy plant and machinery and building is provided on straight line method at the rate prescribed in Schedule XIV to the Companies Act, 1956.
- All other assets are depreciated by using the written down value method at the rates and in the manner prescribed in Schedule XIV to the Companies Act, 1956. Assets costing less than ₹ 5,000/- are fully depreciated in the year of acquisition.
- Depreciation on additions / deductions to fixed assets made during the year is provided on a pro-rata basis from / up to the date of such additions / deductions, as the case may be.

## 8. IMPAIRMENT OF ASSETS

The Group assesses on each balance sheet date whether there is any indication that an asset may be impaired. If any such indication exists, the Group estimates the recoverable amount of the asset. If such recoverable amount of the asset is less than its carrying amount, the carrying amount is reduced to its recoverable amount. The amount so reduced is treated as an impairment loss and is recognised in the Statement of Profit and Loss, except in case of revalued assets, where it is first adjusted against the related balance in fixed assets revaluation reserve.

If at the balance sheet date, there is an indication that a previously assessed impairment loss no longer exists, the recoverable amount is reassessed and the asset is carried at the recoverable amount subject to a maximum of depreciated historical cost, except for revalued assets which are subject to a maximum of depreciated revalued cost.

## 9. BORROWING COST

Borrowing costs that are directly attributable to the acquisition, construction/development of qualifying asset are amortised over the tenure of the loan and capitalized as a part of cost of such asset till such time that the asset

is not capitalized; and is charged to the Statement of Profit and Loss thereafter. A qualifying asset is one that necessarily takes substantial period of time to get ready for the intended use.

Costs in connection with the borrowing of funds to the extent not directly related to the acquisition of fixed assets are amortised and charged to the Statement of Profit and Loss, over the tenure of the loan.

#### **10. INVESTMENTS**

- (a) Long term investments are carried at cost less provision for other than temporary diminution, in the fair/market value of these investments.
- (b) Current investments are carried at the lower of cost and fair / market value.

#### **11. INVENTORY**

Inventory is valued at the lower of cost and net realisable value. Cost is determined on first-in first-out basis.

#### **12. REVENUE RECOGNITION**

- (a) Operating and chartering earnings represent the value of charter hire earnings, demurrage, freight earnings, fleet management fees, road freight income and stevedoring and lighterage earnings, and are accounted on accrual basis.

Freight earnings, stevedoring and lighterage are recognised on a pro-rata basis for voyages in progress at balance sheet date after loading / unloading of the cargo is completed; revenues and related expenses for voyages where cargo has not been loaded / unloaded as on the balance sheet date are deferred and recognised in the following year.

- (b) Interest income is recognised using the time proportion method based on the rates implicit in the transactions.
- (c) Insurance claims are recorded based on reasonable certainty of their settlement.
- (d) Other income is recognised on accrual basis.

#### **13. OPERATING EXPENSES**

All expenses relating to road freight, interacting and the operation of fleet, including crewing, insurance, stores, bunkers, charter hire, special survey costs and other expenses are expensed under operating expenses on accrual basis.

Dry-docking expenses are recognised under operating expenses in the period to which it relates.

#### **14. OPERATING LEASE**

Rentals are expensed with reference to the terms of the lease agreement and other considerations in respect of operating leases.

#### **15. EMPLOYEE BENEFITS**

- (a) The Company (employer) and the employees contribute a specified percentage of eligible employees' salary- currently 12%, to the employer established provident fund "Essar Staff Provident Fund" set up as an irrevocable trust by the Company. The Company is generally liable for annual contributions and any shortfall in the fund assets based on government specified minimum rates of return – currently @ 9.5%, and recognises such provident fund liability, considering fund as the defined benefit plan, based on an independent actuarial valuation carried out at every statutory year end.
- (b) Provision for gratuity for floating staff is made as under:
  - (i) For officers on actuarial valuation.
  - (ii) For crew on accrual basis as per rules of the National Maritime Board and is charged to Statement of Profit and Loss.

Contribution in respect of gratuity for onshore staff is made to Life Insurance Corporation of India based on demands made. The Company also accounts for gratuity liability based on an independent actuary valuation carried out at every statutory year end.

- (c) Contribution for superannuation, funded by payments to Life Insurance Corporation of India, is a fixed percentage of the salary of eligible employees under a defined contribution plan is charged to Statement of Profit and Loss /expenditure during construction as applicable.

- (d) Provision for accumulated compensated absences of eligible employees is made based on independent actuarial valuation

## 16. FOREIGN CURRENCY TRANSACTIONS

Transactions denominated in foreign currencies are recorded at standard exchange rates determined monthly which approximates the actual rate on the date of transaction. The difference between the standard rate and the actual rate of settlement is accounted in the Statement of Profit and Loss.

Monetary items denominated in foreign currency are translated at the rate prevailing at the end of the year. Gains/losses arising on conversion/translation/settlement of foreign currency transactions are recognised in the Statement of Profit and Loss, except gains/losses on conversion/translation/settlement of long term foreign currency monetary items related to acquisition of a depreciable fixed asset are adjusted to the carrying amount to those depreciable assets.

Gains/losses arising on conversion/translation/settlement of long term foreign currency items relates to other than an acquisition of depreciable assets are accumulated in a "Foreign Currency Monetary Item Translation Difference Account" and amortised over the balance period of such long term foreign currency item but not beyond 31<sup>st</sup> March, 2011.

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates ruling on the balance sheet date. Income and expense items are translated at the average exchange rates for the year. The resultant exchange differences are classified as foreign currency translation reserve under reserves and surplus.

The exchange difference arising on account of investments made during the year in foreign subsidiaries by holding Company compared with related share capital of subsidiaries is adjusted in foreign currency translation reserve.

## 17. TAXATION

- (a) Income tax on income from qualifying fleet is provided on the basis of the Tonnage Tax Scheme whereas income tax on non-tonnage income and fringe benefit tax are provided as per the other provisions of the Income Tax Act, 1961. Taxes on income earned by foreign subsidiaries are provided based on tax laws of its domicile country.
- (b) The tax effect of timing differences relating to non-tonnage tax activities that occur between taxable income and accounting income and are capable of reversal in one or more subsequent periods are recorded as a deferred tax asset or deferred tax liability. They are measured using the substantively enacted tax rates and tax regulations as of the balance sheet date.

Deferred tax assets arising on account of brought forward losses and unabsorbed depreciation under tax laws are recognised, only if there is a virtual certainty of realisation, supported by convincing evidence. Deferred tax assets on account of other timing differences are recognised to the extent there is reasonable certainty of realisation.

## 18. PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

Provisions are recognised for present obligations arising out of past events if it is probable that an outflow of economic resources, the amount of which can be reliably estimated, will be required to settle the obligation.

Contingent liabilities are disclosed in respect of possible obligations that arise from past events, the existence of which will be confirmed by the occurrence or non occurrence of one or more uncertain future events not wholly within the control of the Group, or a present obligation that is not recognised because a reliable estimate of the liability cannot be made, or the likelihood of an outflow of economic resources is remote.

Contingent assets are neither recognised nor disclosed in the financial statements.

## 19. SEGMENT ACCOUNTING POLICIES:

### (a) Segment assets and segment liabilities:

Segment assets include all operating assets used by the segment and consist principally of fixed assets, inventories, sundry debtors, cash and bank balances. Segment assets and liabilities do not include share capital, reserves and surplus, income tax (both current and deferred) and un allocable assets and liabilities.

### (b) Segment revenue and segment expenses:

Segment revenue and expenses are directly attributable to segment. It does not include interest income on investments, inter-corporate deposits, interest expense and provision for taxes.

**B. NOTES TO THE FINANCIAL STATEMENTS**
**(1) Subsidiaries**

The reporting date of all the subsidiaries is 31<sup>st</sup> March, 2011. The list of the subsidiaries of the Company which are included in the consolidation and the Group's holding therein are as under:

Name of companies	Country of incorporation	Immediate holding Company	Relationship	Percent holding
		2011		2011
Essar Logistics Limited ("ELL")	India	ESL	Subsidiary	100%
Essar Oilfields Services Limited ("EOSL")	Mauritius	ESL	Subsidiary	100%
Essar Oilfields Services India Limited ("EOSIL")	India	EOSL	Subsidiary	100%
Energy Transportation International Limited ("ETIL")	Bermuda	ESL	Subsidiary	100%
Energy II Limited ("EII")	Bermuda	ESL	Subsidiary	100%

- (2) The Company was incorporated with the name of Essar Ports & Terminals Limited in the State of Gujarat on April 16, 2010. The Company received the Certificate of Commencement of Business on June 1, 2010. The main object of the Company on incorporation was to carry on the business *inter alia* of providing ports and terminals services. The main objects of the Company were expanded on August 25, 2010 to *inter alia* provide shipping & logistics and oilfields services business. The name of the Company was then changed to Essar Shipping Limited with effect from September 7, 2010.

**(3) Composite Scheme of arrangements**

The Hon'ble High Court of Gujarat at Ahmedabad vide order dated March 1, 2011 approved the Composite Scheme of Arrangement (Scheme) between Essar Shipping Ports & Logistics Limited (ESPLL), Essar Ports & Terminals Limited (EPTL) Mauritius, Essar International Limited (EIL) Mauritius and Essar Shipping Limited (ESL).

The Scheme provided for the merger of EPTL and EIL with ESPLL and the demerger of the Shipping & Logistics Business and the Oilfields Services Business into ESL.

Pursuant to the Scheme, all the assets and liabilities pertaining to the Shipping & Logistics Business and the Oilfields Services Business stood transferred to and became vested in ESL at the book values (ignoring revaluation) as appearing in the books of account of ESPLL with effect from October 1, 2010 being the Demerger Appointed Date, which are based on financial statements as on 30<sup>th</sup> September, 2010. The difference between the values of assets and liabilities transferred was first adjusted against share capital (₹ 205.23 crore), ₹ 25 crore against Debenture Redemption Reserve and the balance to General Reserve Accounts of the Company.

Upon the Scheme becoming effective, ESL ceased to be a subsidiary of ESPLL with effect from October 1, 2010.

Non Convertible Debentures aggregating to ₹ 700 crore and Foreign Currency Convertible Bonds aggregating to USD 240 million (out of USD 280 million) issued by ESPLL stood transferred to ESL.

In consideration of the demerger, the Company allotted 20,52,27,768 equity shares of ₹ 10/- each as fully paid up to the eligible members of ESPLL whose name recorded in register of members of ESPLL as on May 21, 2011, in terms of the Scheme as detailed below.

Name of the Company	No. of shares
Essar Shipping & Logistics Limited (immediate holding Company)	1,70,451,856
Essar Global Limited	33
Essar Steel Limited (subsidiary of Essar Global Limited)	1,273,610
Erstwhile other share holders of ESPLL	33,502,269
<b>Total</b>	<b>205,227,768</b>

Simultaneously the original issued equity shares capital i.e. 50,000 equity shares of ₹ 10/- each were cancelled in accordance with the Scheme.

The Company is in the process of having its equity shares listed on the Bombay Stock Exchange and the National Stock Exchange of India Limited.

The first financial year of the Company is for the period from April 16, 2010 to March 31, 2011. This being the first year of incorporation, there are no comparative figures.

The Board of Directors has since appointed Mr. A. R. Ramakrishnan as the Managing Director of the Company with effect from May 23, 2011.

#### (4) Fixed assets

Pursuant to notification issued by the Central Government under Companies (Accounting Standard) Amendment Rules, 2009 dated 31<sup>st</sup> March, 2009; the Company has chosen to adjust the gains/losses arising on conversion/translation/settlement of long term foreign currency items into the corresponding costs of fixed assets.

The compounding effect of this treatment has resulted into decrease in the profit for the period by an amount of ₹ 18.88 crore.

The Group is disputing a claim of ₹ 67.28 crore for supply of equipments and other support services during the trial run period of rig. However pending settlement, the group has made the provision for the entire claim towards cost of rig. The group is expecting the settlement in near future.

#### (5) (a) Contingent liabilities:

(₹ in crore)

Particulars	As on 31.03.2011
Guarantees given by banks	42.30
Disputed service tax demand	52.01
Disputed sales tax demand under appeal with the honorable high court of Madras	52.20
Income tax appeals before ITAT	7.29
Bills discounted with banks	103.64

(b) Estimated amount of contract remaining to be executed on capital account not provided for is ₹ 1,192.89 crore (net of advances ₹ 1,142.29)

#### (6) Finance lease obligations:

##### (a) Finance leases:

(i) The minimum lease rentals outstanding at the year-end are as under:

(₹ in crore)

Particulars	As on 31.03.2011		
	Minimum lease payments	Interest	Present value of minimum lease payments
– Not later than one year	139.05	51.66	87.39
– Later than one year but not later than five years	542.24	142.40	399.84
– Later than five years	364.86	24.79	340.07
<b>Total</b>	<b>1,046.15</b>	<b>218.85</b>	<b>827.30</b>



**(7) Business segment and geographical segment:**
**(a) Business segment**

(₹ in crore)

Particulars	Period ended 31.03.2011
<b>Segment revenue</b>	
<b>Operating income</b>	
Fleet operating and chartering	745.26
Surface transport services	448.11
Oilfields services	167.99
Unallocated	—
<b>Total</b>	<b>1,361.36</b>
Less: Inter segment revenue	(46.96)
<b>Net income from operation</b>	<b>1,314.40</b>
<b>Other income</b>	
Unallocated	63.72
Less Segment income	(35.32)
<b>Net other income (B)</b>	<b>28.40</b>
<b>Total income (A + B)</b>	<b>1,342.80</b>
<b>Segment results</b>	
Fleet operating and chartering	151.78
Surface transport services	—
Oilfields services	(5.42)
Unallocated	28.40
<b>Profit from operation before interest and finance charges</b>	<b>174.76</b>
Less: Un allocable Interest and finance expense	(139.37)
<b>Profit before Tax</b>	<b>35.39</b>
Less: Income tax	(2.09)
<b>Profit after tax</b>	<b>33.30</b>
<b>Segment assets</b>	
Fleet operating and chartering	2,444.24
Surface transport services	252.64
Oilfields services	3,781.83
Unallocated	694.11
<b>Total assets</b>	<b>7,172.82</b>
<b>Segment liabilities</b>	
Fleet operating and chartering	(145.80)
Surface transport services	(234.39)
Oilfields services	(199.83)
Unallocated	—
<b>Total liabilities</b>	<b>(580.02)</b>
<b>Fixed assets acquired during the period</b>	
Fleet operating and chartering	186.43
Surface transport services	10.78
Oilfields services	37.06
<b>Total</b>	<b>234.27</b>
<b>Depreciation</b>	
Fleet operating and chartering	74.05
Surface transport services	4.48
Oilfields services	83.70
<b>Total</b>	<b>162.23</b>

**(b) Geographical segment**

The Group's fleet operations are managed on a worldwide basis from India. Fleet operating and chartering earnings are based on the geographical location of customers.

(₹ in crore)

Segment revenue	Period ended 31.03.2011
India	1,027.31
Vietnam	150.65
Hong kong	55.10
China	17.35
U.S.A	9.06
South Korea	9.11
Brazil	2.74
Rest of the world	4.63
<b>Total</b>	<b>1,275.95</b>

The main operating assets represent floating fleet and rigs which is not identifiable to any geographical location.

**(8) Earnings per share:**

The calculation of basic and diluted earnings per share is based on the following data:

Particulars	Period ended 31.03.2011
Earnings for the purpose of basic earnings per share (net profit for the period) (₹ in crore)	33.30
Add: Adjustment on account of interest on foreign currency convertible bonds (net of income tax) (₹ in crore)	3.77
Earnings for the purpose of diluted earnings per share (net profit for the period) (₹ in crore)	37.07
Equity shares at the beginning of the period (nos.)	50,000
Equity shares to be issued on demerger – pending allotment (nos.)	205,227,768
Equity shares at the end of the period – pending allotment (nos.)	205,227,768
Weighted average equity shares for the purpose of calculating basic earnings per share (nos.)	NA <sup>(1)</sup>
Weighted average equity shares for the purpose of calculating diluted earnings per share (nos.)	279,276,019
Earnings per share-basic (face value of ₹ 10/- each) (₹)	—
Earnings per share-diluted (face value of ₹ 10/- each) (₹)	1.37

- (1) the shares to be issued on demerger are pending allotment as of the date of the balance sheet and hence have not been considered for calculation of basic earnings per share.

**(9) Foreign currency exposure**

- (i) There were no forward/options contracts entered in to by the Group during the period to hedge against foreign currency exposures.

- (ii) The year-end foreign currency exposures that have not been hedged by a derivative instrument or otherwise are given below.

**(A) Amount receivable in foreign currency on account of the following:**

Particulars	(₹ in crore)	Currency	In million
(i) Export of goods and services	157.72	USD	34.96
(ii) Advance to vendors	228.69	USD	51.21
	0.02	AED	0.01
	0.09	GBP	0.01
	0.21	EUR	0.03
(iii) Bank balances and fixed deposits including interest accrued thereon	40.27	USD	12.99

**(B) Amount payable in foreign currency on account of the following:**

Particulars	(₹ in crore)		In million
(i) Import of goods and services	34.77	USD	7.77
	0.39	GBP	0.02
	1.24	EUR	0.14
	1.32	JPY	12.94
	7.34	OMR	1.62
	6.33	SGD	1.51
	0.07	ZAR	0.06
	2.86	AED	1.40
	<b>54.32</b>		<b>25.45</b>
(ii) Due to holding Company	<b>5.98</b>	USD	<b>1.34</b>
(iii) Secured loans payable (including interest accrued)	<b>1414.51</b>	USD	<b>318.01</b>
(iv) Advance from customers	<b>0.70</b>	USD	<b>0.16</b>
(v) Lease loans obligation	<b>587.68</b>	USD	<b>131.62</b>

**(10) Taxation**

Income tax on income from qualifying fleet is provided on the basis of Tonnage Tax scheme. Income tax on other income is provided as per other provisions of Income Tax Act, 1961. Taxes on income earned by foreign subsidiaries are provided based on tax laws of its domicile country.

**(11) Deferred tax liability**

The components of net deferred tax liability are as follows:

(₹ in crore)

Details	As at 31 <sup>st</sup> March 11
<b>Deferred tax liability</b>	
Depreciation on fixed assets	29.77
<b>(A)</b>	<b>29.77</b>
<b>Deferred tax assets</b>	
Disallowance u/s 40(a)	0.55
Unabsorbed Depreciation	6.19
Employee benefits liability	0.77
<b>(B)</b>	<b>7.51</b>
<b>Net deferred tax liability (A – B)</b>	<b>22.26</b>

## (12) Employee benefits:

The Group has adopted Accounting Standard (AS) 15 (Revised) 'Employee benefits' as notified under the Companies (Accounting Standard) Rules, 2006, with effect from 1<sup>st</sup> April, 2007. The Group has classified the various benefits provided to employees as under:

### I. Defined contribution plans

The Group has recognised the following amounts in the Statement of Profit and Loss during the year:

(₹ in crore)

Particulars	31.03.11
(a) Employer's contribution to gratuity fund (offshore crew staff)	0.09
(b) Group accident policy premium (all employees)	0.07
(c) Contribution to pension fund (offshore crew staff)	0.13
(d) Employer's contribution to superannuation Fund	0.23
(e) Employer's contribution to Provident Fund (offshore crew staff)	1.20

The above amounts are included in 'Contribution to staff provident and other funds' (Schedule 11).

### II. Defined benefit plans

- (a) Contribution to provident fund.
- (b) Contribution to gratuity fund.
- (b) Provision for compensated absences (CA)

In accordance with AS-15, relevant disclosures are as under:

#### (A) Changes in present value of defined benefit obligation:

(₹ in crores)

Particulars	Provident fund (funded)	Gratuity-shore officers (funded)	Gratuity-off shore officers (non-funded)	CA - paid leave (non-funded)
	31.03.11	31.03.11	31.03.11	31.03.11
Present value of defined benefit obligation as at the beginning of the period	16.69	0.96	—	0.98
Current service cost	1.40	0.30	0.30	0.31
Current service contribution- employee	1.52	—	—	—
Interest cost	—	0.08	0.15	0.07
Transfer in *	0.87	1.57	1.95	1.33
Benefits paid	(2.62)	—	(0.10)	(0.03)
Actuarial (gain) / loss on obligations	0.80	0.30	0.22	0.27
Plan amendment	0.88	0.36	—	(0.08)
<b>Present value of defined benefit obligation as at the end of the period</b>	<b>19.53</b>	<b>3.57</b>	<b>2.52</b>	<b>2.85</b>

\* on account of demerger and transfer of employees from EPL to ESL

**(B) Changes in the fair value of plan assets**

(₹ in crores)

Particulars	Provident fund (funded)	Gratuity-shore officers (funded)	Gratuity-off shore officers (non-funded)	CA - paid leave (non-funded)
	31.03.11	31.03.11	31.03.11	31.03.11
Fair value of plan assets at the beginning of the period	16.69	—	—	—
Expected return on plan assets	—	0.06	—	—
Actual return on plan assets	1.67	1.03	—	—
Acquisitions / Transfers	—	—	—	—
Contributions by the employer / employees	3.79	0.08	0.10	0.07
Benefits paid	(2.62)	—	(0.10)	(0.07)
<b>Fair value of plan assets as at the end of the period</b>	<b>19.53</b>	<b>1.90</b>	<b>—</b>	<b>—</b>

\* Amount is less than ₹ 1 lakh

**(C) Amount recognised in Balance Sheet:**

(₹ in crores)

Particulars	Provident fund (funded)	Gratuity-shore officers (funded)	Gratuity-off shore officers (non-funded)	CA - paid leave (non-funded)
	31.03.11	31.03.11	31.03.11	31.03.11
Present value of defined benefit obligation as at the end of the period	19.53	3.57	2.52	2.85
Past service cost	—	—	—	—
Fair value of plan assets as at end of the period	(19.53)	(1.90)	—	—
<b>Liability / (asset) recognised in the Balance Sheet (included in current liabilities and provisions) (schedule 8)</b>	<b>—</b>	<b>1.67</b>	<b>2.52</b>	<b>2.85</b>

**(D) Expenses recognised in the Statement of Profit and Loss:**

(₹ in crores)

Particulars	Provident fund (funded)	Gratuity-shore officers (funded)	Gratuity-off shore officers (non-funded)	CA - paid leave (non-funded)
	31.03.11	31.03.11	31.03.11	31.03.11
Current service cost	1.39	0.30	0.30	0.31
Interest cost	0.87	0.08	0.15	0.07
Expected return on plan assets	(0.87)	(0.07)	—	—
Net actuarial (gain) / loss recognised in the period	—	0.30	0.22	0.27
Past service cost	—	0.36	—	—
<b>Total expenses recognised in the Statement of Profit and Loss (Included in Contribution to provident and other funds (Schedule 10))</b>	<b>1.39</b>	<b>0.97</b>	<b>0.67</b>	<b>0.65</b>

**(E) Experience history:**

(₹ in crores)

Particulars	Provident fund (funded)	Gratuity-shore officers (funded)	Gratuity-off shore officers (non-funded)	CA - paid leave (non-funded)
	31.03.11	31.03.11	31.03.11	31.03.11
Defined benefit obligation at the end of the period	–	(3.57)	(2.52)	2.85
Plan assets at the end of the period	–	1.90	–	–
Funded status	–	(1.67)	(2.52)	(2.85)
Experience gain / (loss) adjustments on plan liabilities	–	(0.28)	(0.25)	(0.21)
Experience gain / (loss) adjustments on plan assets	–	–	–	0.16
<b>Actuarial gain / (loss) due to change on assumptions</b>	<b>–</b>	<b>0.03</b>	<b>0.03</b>	<b>0.02</b>

**(F) Category of plan assets:**

(₹ in crores)

Particulars	Provident fund (funded)	Gratuity-shore officers (funded)	Gratuity-off shore officers (non-funded)	CA - paid leave (non-funded)
	31.03.11	31.03.11	31.03.11	31.03.11
Administered by Life Insurance Corporation of India	–	100%	–	–
Government of India security	25%	–	–	–
Public sector bonds/ TDRs	60%	–	–	–
State government securities	15%	–	–	–

**(G) Actuarial assumptions**

In accordance with Accounting Standard (AS) 15 (Revised), actuarial valuation as at the year end was done in respect of the aforesaid defined benefit plans based on the following assumptions:

**(i) General assumptions:**

(₹ in crores)

Particulars	Provident fund (funded)	Gratuity-shore officers (funded)	Gratuity-off shore officers (non-funded)	CA - paid leave (non-funded)
	31.03.11	31.03.11	31.03.11	31.03.11
Discount rate (per annum)	7.80%	8.00%	8.00%	8.00%
Rate of return on plan assets (for funded scheme)	8.50%	8.50%	N.A	N.A
Expected retirement age of employees (years)	58	58	58	58
Separation rate of employees	–	5.00% - 12.00%	5.00% - 12.00%	5.00% - 12.00%
Rate of increase in compensation	–	9.00%	9.00%	9.00%

**(ii)** Mortality rates considered are as per the published rates in the Life Insurance Corporation (1994-96) Mortality table.

**(iii) Leave policy:**

**(a)** Sick leave balance as at the valuation date and each subsequent year following the valuation date will be availed by the employee against future sick leave; the sick leave balance is not available for encashment.

- (b) Leave balance as at the valuation date and each subsequent year following the valuation date to the extent not availed by the employee is available for encashment on separation from the Company up to a maximum of 120 days.
- (c) The contribution to be made by the Company for funding its liability for gratuity during the financial year 2010-11 will be made as per demand raised by the fund administrator Life Insurance Corporation of India.

**(13) Related party transactions:****(a) Holding companies:**

- (i) Essar Global Limited, Cayman Islands (ultimate holding Company)
- (ii) Essar Shipping & Logistics Limited, Cyprus (immediate holding Company)

**(b) Key management personnel:**

- (i) Mr. A R Ramakrishnan, Managing Director (Essar Shipping Limited)
- (ii) Capt. Anoop Sharma, Whole-time Director (Essar Shipping Limited)
- (iii) Mr. Ankur Gupta, Whole-time Director (Essar Oilfields Services India Limited)
- (iv) Mr. A. K. Musaddy, Whole-time Director (Essar Logistics Limited)

**(c) Other related parties where there have been transactions:**

Enterprises commonly controlled or influenced by major shareholders / directors / relatives of directors of the Group: Essar Agrotech Limited

1. Essar Bulk Terminal Limited
2. Essar Bulk Terminal Salaya Limited
3. Essar Engineering Services Limited
4. Essar Exploration & Production India Limited
5. Essar House Limited
6. Essar Information Technology Limited
7. Essar Infrastructure Services Limited
8. Essar Investments Limited
9. Essar Oil Limited
10. Essar Power Gujarat Limited
11. Essar Power Limited
12. Essar Power M.P. Limited
13. Essar Projects (India) Limited
14. Essar Shipping (Cyprus) Limited
15. Essar Shipping & Logistics (Panama) Inc.
16. Essar Steel Limited
17. Futura Travels Limited
18. India Securities Limited
19. Vadinar Oil Terminal Limited
20. Vadinar Power Company Limited



# The details of transactions with related parties

(₹ in crore)

Nature of transactions	Holding companies	Other related parties	Key management personnel	Total
	31.03.2011	31.03.2011	31.03.2011	31.03.2011
<b>INCOME</b>				
<b>Fleet operating income</b>				
Essar Steel Limited	—	510.82	—	510.82
Essar Shipping (Cyprus) Limited	—	0.62	—	0.62
Essar Oil Limited	—	163.28	—	163.28
Essar Bulk Terminal Limited	—	17.87	—	17.87
Essar Project (India) Limited	—	51.26	—	51.26
Essar Power Gujarat Limited	—	21.68	—	21.68
Essar Power M.P. Ltd.	—	35.72	—	35.72
Essar Shipping & Logistics (Panama) Inc	—	0.16	—	0.16
Vadinar Power Company Ltd.	—	2.13	—	2.13
Vadinar Oil Terminal Limited	—	0.12	—	0.12
Essar Power Ltd.	—	0.30	—	0.30
Essar Bulk Terminal (Salaya) Ltd.	—	5.14	—	5.14
Others	—	10.32	—	10.32
<b>Total</b>	<b>—</b>	<b>819.42</b>	<b>—</b>	<b>819.42</b>
<b>Equipment lease rental income</b>				
Essar Steel Limited	—	0.01	—	0.01
<b>Interest income</b>				
Essar Shipping & Logistics Limited	4.94	—	—	4.94
Essar Investments Limited	—	3.42	—	3.42
<b>Total</b>	<b>4.94</b>	<b>3.42</b>	<b>—</b>	<b>8.36</b>
<b>Remuneration</b>				
A.K. Musaddy	—	—	0.52	0.52
<b>Purchase of fuel oil</b>				
Essar Oil Limited	—	249.27	—	249.27
Essar Bulk Terminal Limited	—	0.05	—	0.05
<b>Total</b>	<b>—</b>	<b>249.32</b>	<b>—</b>	<b>249.32</b>
<b>Purchase of Stores &amp; Spares</b>				
Essar Project (India) Limited	—	0.01	—	0.01
Essar Steel Limited	—	2.56	—	2.56
	<b>—</b>	<b>2.57</b>	<b>—</b>	<b>2.57</b>
<b>Direct Voyage Expenses</b>				
Essar Bulk Terminal Limited	—	7.38	—	7.38
Essar Oil Limited	—	0.23	—	0.23
<b>Total</b>	<b>—</b>	<b>7.61</b>	<b>—</b>	<b>7.61</b>
<b>Freight / Hire charges</b>				
Essar Shipping & Logistics Limited	41.67	—	—	41.67
Essar Project (India) Limited	—	0.81	—	0.81

**The details of transactions with related parties (Contd.)**

(₹ in crore)

Nature of transactions	Holding companies	Other related parties	Key management personnel	Total
	31.03.2011	31.03.2011	31.03.2011	31.03.2011
Futura Travels Limited	—	0.60	—	0.60
Essar Bulk Terminal Limited	—	0.36	—	0.36
Essar Shipping & Logistics (Panama) Inc	—	2.16	—	2.16
<b>Total</b>	<b>41.67</b>	<b>3.93</b>	<b>—</b>	<b>45.60</b>
<b>Manning charges</b>				
Essar Exploration & Production Limited	—	0.04	—	0.04
Essar Infrastructure Services Limited	—	0.08	—	0.08
Essar Information Technology Limited	—	0.14	—	0.14
<b>Total</b>	<b>—</b>	<b>0.16</b>	<b>—</b>	<b>0.16</b>
<b>Rent charges</b>				
Essar Infrastructure Services Limited	—	4.07	—	4.07
Essar House Limited	—	1.69	—	1.69
Essar Steel Limited	—	0.12	—	0.12
<b>Total</b>	<b>—</b>	<b>5.88</b>	<b>—</b>	<b>5.88</b>
<b>Repair and maintenance</b>				
Essar Information Technology Limited	—	0.67	—	0.67
Essar Agrotech Limited	—	0.01	—	0.01
Essar Infrastructure Services Limited	—	0.18	—	0.18
Essar Steel Limited	—	0.04	—	0.04
Essar Project (India) Ltd.	—	1.16	—	1.16
Essar Engineering Services Limited	—	0.01	—	0.01
Essar Bulk Terminal Limited	—	0.09	—	0.09
<b>Total</b>	<b>—</b>	<b>2.16</b>	<b>—</b>	<b>2.16</b>
<b>Traveling expenses</b>				
Futura Travels Limited	—	5.14	—	5.14
<b>Management fees</b>				
Essar Investment Ltd.	—	6.48	—	6.48
<b>Lodging &amp; boarding</b>				
Essar Steel Limited	—	0.02	—	0.02
Essar Investments Ltd.	—	0.03	—	0.03
<b>Total</b>	<b>—</b>	<b>0.05</b>	<b>—</b>	<b>0.05</b>
<b>Cargo Handling Expenses</b>				
Essar Bulk Terminal Limited	—	15.61	—	15.61
Essar Project (India) Ltd.	—	12.19	—	12.19
	<b>—</b>	<b>27.80</b>	<b>—</b>	<b>27.80</b>
<b>Rent / Business Centre fees</b>				
Essar Infrastructure Services Ltd.	—	4.52	—	4.52
Essar House Ltd.	—	1.35	—	1.35
	<b>—</b>	<b>5.87</b>	<b>—</b>	<b>5.87</b>

The details of transactions with related parties (Contd.)

(₹ in crore)

Nature of transactions	Holding companies	Other related parties	Key management personnel	Total
	31.03.2011	31.03.2011	31.03.2011	31.03.2011
<b>Interest Expenses</b>				
India Securities Limited	—	0.19	—	0.19
<b>Reimbursement of expenses</b>				
Futura Travels Limited	—	4.64	—	4.64
Essar Exploration & Production Limited	—	0.04	—	0.04
Essar Steel Ltd.	—	61.24	—	61.24
Essar Infrastructure Services Ltd.	—	0.01	—	0.01
Essar Oil Limited	—	3.16	—	3.16
Essar Investments Limited	—	0.95	—	0.95
Essar Bulk Terminal Limited	—	1.86	—	1.86
Essar Power Gujarat Limited	—	1.38	—	1.38
Essar Power M.P. Ltd.	—	0.28	—	0.28
Others	—	0.51	—	0.51
<b>Total</b>	<b>—</b>	<b>74.07</b>	<b>—</b>	<b>74.07</b>
<b>Aircraft usage charges reimbursed</b>				
Essar Oil Limited	—	23.60	—	23.60
<b>Professional / Advisory fees / Agency Fees / survey</b>				
India Securities Limited	—	0.15	—	0.15
Essar Investment Limited	—	10.33	—	10.33
Aegis Limited	—	1.33	—	1.33
Essar Information Technology Limited	—	0.03	—	0.03
Essar Bulk Terminal Limited	—	0.20	—	0.20
<b>Total</b>	<b>—</b>	<b>12.04</b>	<b>—</b>	<b>12.04</b>
<b>Interest on loan (ICD)</b>				
Essar Shipping & Logistics Ltd.	0.91	—	—	0.91
<b>Interest on lease loan</b>				
Essar Shipping & Logistics Limited	16.63	—	—	16.63
<b>Loans and advances given</b>				
Essar Investments Limited	—	1.00	—	1.00
Essar Shipping & Logistics Limited	454.40	—	—	454.40
<b>Total</b>	<b>454.40</b>	<b>1.00</b>	<b>—</b>	<b>455.40</b>
<b>Advance towards purchase of preference shares</b>				
Essar Shipping & Logistics Limited	93.56	—	—	93.56
<b>Security deposit received</b>				
Essar Oil Limited	—	2.50	—	2.50
<b>Unsecured loans</b>				
Essar Investments Limited	—	11.54	—	11.54
<b>Total</b>	<b>—</b>	<b>11.54</b>	<b>—</b>	<b>11.54</b>

**The outstanding balances as on 31.03.2011**

(₹ in crore)

Nature of balances	Holding companies	Other related parties	Key management personnel	Total
	31.03.2011	31.03.2011	31.03.2011	31.03.2011
<b>Sundry debtors</b>				
Essar Steel Limited	—	143.41	—	143.41
Essar Shipping (Cyprus) Limited	—	1.05	—	1.05
Essar Oil Limited	—	17.05	—	17.05
Essar Project (India) Ltd.	—	27.45	—	27.45
Essar Bulk Terminal Limited	—	9.57	—	9.57
Vadinar Oil Terminal Limited	—	0.08	—	0.08
Essar Bulk Terminal (Salaya) Ltd.	—	0.33	—	0.33
Essar Power Gujarat Limited	—	7.51	—	7.51
Essar Offshore Subsea Ltd.	—	0.74	—	0.74
Essar Shipping & Logistics (Panama) Inc	—	1.36	—	1.36
Essar Power Jharkhand Ltd.	—	1.74	—	1.74
Essar Power MP Limited	—	6.59	—	6.59
Essar Oilfields Services Limited	—	0.00	—	0.00
Vadinar Power Company Ltd.	—	0.26	—	0.26
Others	—	0.03	—	0.03
<b>Total</b>		<b>217.17</b>	<b>—</b>	<b>217.17</b>
<b>Loans and advances (including interest accrued)</b>				
Essar Investments Limited	—	7.50	—	7.50
Futura Travels Limited	—	6.46	—	6.46
Imperial Consultants & Services Limited	—	10.16	—	10.16
Essar Shipping & Logistics Limited	434.18	—	—	434.18
<b>Total</b>	<b>434.18</b>	<b>24.12</b>	<b>—</b>	<b>458.30</b>
<b>Deposits given</b>				
Futura Travels Limited	—	6.25	—	6.25
Essar House Limited	—	31.00	—	31.00
Essar Investments Limited	—	55.09	—	55.09
Essar Steel Limited	—	4.80	—	4.80
Asia Motor Works Limited	—	4.91	—	4.91
Essar Information Technology Limited	—	0.46	—	0.46
<b>Total</b>	<b>—</b>	<b>102.51</b>	<b>—</b>	<b>102.51</b>
<b>Loans and advances received (including interest accrued)</b>				
Essar Global Limited	4.61	—	—	4.61
Essar Ports Limited	—	15.46	—	15.46
<b>Total</b>	<b>4.61</b>	<b>15.46</b>	<b>—</b>	<b>20.07</b>
<b>Lease loan obligation</b>				
Essar Shipping & Logistics Limited	<b>533.99</b>	<b>—</b>	<b>—</b>	<b>533.99</b>
<b>Sundry creditors</b>				
Futura Travels Limited	—	2.82	—	2.82

**The outstanding balances as on 31.03.2011 (Contd.)**

(₹ in crore)

Nature of balances	Holding companies	Other related parties	Key management personnel	Total
	31.03.2011	31.03.2011	31.03.2011	31.03.2011
Essar Infrastructure Services Limited	—	1.58	—	1.58
Essar Bulk Terminal Limited	—	9.48	—	9.48
India Securities Limited	—	0.05	—	0.05
Essar Shipping & Logistics Limited	5.98	—	—	5.98
Aegis Limited	—	1.07	—	1.07
Arkay Holdings Limited	—	0.02	—	0.02
Essar Agrotech Limited	—	0.01	—	0.01
Essar Investments Limited	—	4.81	—	4.81
Essar Information Technology Limited	—	0.31	—	0.31
Essar Projects (India) Ltd.	—	14.25	—	14.25
Essar Oil Limited	—	2.12	—	2.12
Essar Constructions Limited	—	2.99	—	2.99
Essar Engineering Services Limited	—	0.48	—	0.48
Essar Exploration & Production India Limited	—	5.86	—	5.86
Essar Steel Limited	—	0.00	—	0.00
Asia Motor Works Limited	—	5.20	—	5.20
Others	—	0.19	—	0.19
<b>Total</b>	<b>5.98</b>	<b>51.24</b>	<b>—</b>	<b>57.22</b>
<b>Security deposit received</b>				
Essar Steel Limited	—	5.00	—	5.00
Essar Oil Limited	—	9.00	—	9.00
Vadinar Oil Terminal Limited	—	1.50	—	1.50
Vadinar Ports & Terminals Limited	—	1.50	—	1.50
Essar Bulk Terminals Limited	—	1.50	—	1.50
India Securities Limited	—	4.00	—	4.00
<b>Total</b>	<b>—</b>	<b>22.50</b>	<b>—</b>	<b>22.50</b>
<b>Interest accrued on lease loan</b>				
Essar Shipping & Logistics Limited	7.06	—	—	7.06

**Note:** The Company has paid sitting fees to group of individuals having significant influence: ₹ 0.04 crore

(14) Receivable from Essar Shipping and Logistics (Panama) Inc. and Essar Shipping (Cyprus) Limited, Company under the same management within the meaning of Section 371 (1B) is ₹ 1.36 and ₹ 1.05 respectively.

(15) **Remuneration to Whole time Directors:**

(₹ in crore)

Particulars	Period ended 31.03.2011
Basic Salary	0.22
Allowance and other benefits / perquisites	0.27
Contribution to provident fund	0.03
<b>Total</b>	<b>0.52</b>

- (16) The Group has received intimations from certain suppliers regarding status under the Micro, Small and Medium Enterprises Development Act, 2006 (the Act). Amounts due to such suppliers at the end of the accounting year have been given in Schedule 9 under sundry creditors. There were no: a) interest paid during the year; b) interest payable at the end of the accounting year; and c) interest accrued and unpaid at the end of the accounting year, in respect of such suppliers.
- (17) The Company has entered into a Memorandum of agreement (MOA) for acquisition of a 152,065 DWT capsized bulk carrier which is expected to be delivered by end of July 2011.
- (18) Information pursuant to Section 212 (8)

(₹ in crore)

Details of Subsidiary Companies pursuant to exemption granted U/S. 212 (8)						
Sr. No.	Particulars	Essar Logistics Limited, Mumbai	Energy Transportation International Limited, Bermuda	Energy II Limited, Bermuda	Essar Oil-fields Services Limited, Mauritius	Essar Oil-fields Services India Limited, Mumbai
	Period ending	31.03.11	31.03.11	31.03.11	31.03.11	31.03.11
1.	Capital	73.00	8.72	0.05	1924.09	657.99
2.	Reserves	1215.17	0.80	4.69	40.54	(85.19)
3.	Total Assets	4132.67	253.68	239.27	2746.45	1276.18
4.	Total liabilities	4132.67	253.68	239.27	2746.45	1276.18
5.	Details of investments (excluding investments in subsidiaries)	—	—	—	—	—
6.	Turnover	681.17	9.10	5.42	153.94	28.21
7.	Profit before taxation	3.91	0.47	4.73	(13.75)	(39.36)
8.	Provision for taxation	0.58	—	—	—	—
9.	Profit after taxation	3.33	0.47	4.73	(13.75)	(39.36)
10.	Proposed dividend	—	—	—	—	—

- (19) Previous year's figures have not been shown as the Company has been incorporated on April 16, 2010.

For and on behalf of the Board

**A.R. Ramakrishnan**  
Managing Director

**K.V. Krishnamurthy**  
Director

**Vikram Gupta**  
Chief Financial Officer

**Vinayak Joshi**  
Company Secretary

Mumbai  
4<sup>th</sup> July, 2011

# ESSAR LOGISTICS LIMITED

## BOARD OF DIRECTORS

A. R. Ramakrishnan  
**Director**

V. Ashok  
**Director**

R. N. Bansal  
**Independent Director**

A. K. Musaddy  
**Whole-time Director**

### Audit Committee

R. N. Bansal  
A. R. Ramakrishnan  
A. K. Musaddy

### Auditors

Deloitte Haskins and Sells

### Registered & Corporate Office

Essar House  
11, K. K. Marg, Mahalaxmi  
Mumbai 400 034

## DIRECTORS' REPORT

Your Directors are pleased to present the Seventh Annual Report along with the audited Statement of Accounts for the year ended March 31, 2011.

### FINANCIAL RESULTS

The summary of the financial results of your Company for the year ended March 31, 2011 is furnished below:

(₹ in crore)

Particulars	For the year ended 31.03.2011	For the year ended 31.03.2010
Total Income	1286.65	1080.83
Total Expenditure	1221.51	1000.17
Profit before Interest, Depreciation and Tax	65.14	80.66
Interest and Finance Expenses	10.60	10.18
Profit before Depreciation and Tax	54.54	70.48
Depreciation	36.08	33.44
Profit/(loss) before Tax	18.46	37.04
Provision for Taxation	5.37	13.22
Profit/(loss) after Tax	13.09	23.82
Balance brought forward from previous year	108.43	84.61
Balance carried forward to Balance Sheet	121.52	108.43

### FINANCIAL ANALYSIS

During the year under review, your Company earned a Total Income of ₹ 1286.65 crore as compared to ₹ 1080.82 crore during the previous year, representing an increase of 19.04%. The increase in Total Income has been on account of increase in the revenue from surface logistics during the year.

The Net Profit for the year decreased to ₹ 13.09 crore as compared to ₹ 23.81 crore in the previous year.

Your Directors are of the view that considering the requirement of capital for growth in a highly competitive industry and also the need to plough back the resources for expansion, no dividend is recommended.

### OPERATIONS

The Company has been providing wet bulk and dry bulk logistics services in the areas of stevedoring, lighterage, trans-shipment, sea and land transportation and project cargo handling to various clients.

During the year under review, your Company handled about 16.40 mmt (million metric tonne) of cargoes. This was possible due to effective utilisation of the assets and by using systems which helped in vehicle planning, placement and movement.



## INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACIES

Your Company has in place adequate internal control systems commensurate with the nature of its business and size of its operations. The Audit process is conducted under the direction, guidance and supervision of the Audit Committee. All internal audit reports and significant observations and follow up actions thereon are reported to the Audit Committee.

## DIRECTORS

During the year under review, Shri Sanjay Mehta has resigned from the Board with effect from July 31, 2010. Your Board places on record their appreciation for the valuable contribution made by Shri Sanjay Mehta in the progress of the Company. Further the Board has appointed Shri Rajiv Agarwal, Shri Shailesh Sawa and Shri A. R. Ramakrishnan as an Additional Director with effect from August 3, 2010, October 27, 2010 and February 1, 2011 respectively. In accordance with the provisions of the Companies Act, 1956 and the Articles of Association of the Company, Shri A. K. Musaddy and Shri R. N. Bansal retire at the ensuing Annual General Meeting of the Company and being eligible, offer themselves for re-appointment.

## AUDIT COMMITTEE

During the year, the Board has reconstituted Audit Committee. The Audit Committee comprises of the following Directors:

1. Shri. R. N. Bansal
2. Shri. A. K. Musaddy
3. Shri. A R Ramakrishnan

## AUDITORS

Your Company's Auditors, Messrs. Deloitte Haskins & Sells, Chartered Accountants, Mumbai retire at the ensuing Annual General Meeting and have expressed their inability to be appointed as Statutory Auditors. It is proposed to appoint Messrs. Deloitte Haskins & Sells, Chartered Accountants, Ahmedabad as the Auditors of the Company from the conclusion of this Annual General Meeting until the conclusion of the next Annual General Meeting. The Company has received a notice from a member proposing the name of Messrs. Deloitte Haskins & Sells, Ahmedabad as Statutory Auditors.

## HOLDING COMPANY

Pursuant to the Scheme of Arrangement of Essar Ports Limited (formerly known as Essar Shipping Ports & Logistics Limited), Your Company became 100% subsidiary of Essar Shipping Limited.

## DIRECTORS' RESPONSIBILITY STATEMENT

Pursuant to the requirement of Section 217(2AA) of the Companies Act, 1956 the Board of Directors hereby state that:

- (a) in preparation of the annual accounts, the applicable accounting standards have been followed and there have been no material departures;
- (b) the Directors have selected such accounting policies and applied them consistently and made judgements and estimates that were reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit or loss of the Company for that period; and
- (c) the Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities; and
- (d) the Directors have prepared the annual accounts on a going concern basis.

## PARTICULARS OF EMPLOYEES

Information in accordance with the provisions of Section 217(2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975, as amended, is given as Annexure to this report.

## PARTICULARS REGARDING CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE EARNING AND OUTGO

The information required under Section 217(1)(e) of the Companies Act, 1956 read with Companies (Disclosure of particulars in the report of Board of Directors), Rules 1988, relating to Energy Conservation, Technology Absorption is not applicable since your Company is not a manufacturing company.

Foreign Exchange Earnings and Outgo	:	₹ in crore
Foreign Exchange earned during the year	:	0.31
Foreign Exchange outgo during the year	:	211.14

## ACKNOWLEDGEMENT

Your Directors thank its bankers, charterers, business associates, members and employees for their continued support and co-operation.

By Order of the Board

Mumbai  
May 30, 2011

**A. K. Musaddy**  
Whole-time Director

**A. R. Ramakrishnan**  
Director

## AUDITORS' REPORT

TO THE MEMBERS OF  
**ESSAR LOGISTICS LIMITED**

1. We have audited the attached Balance Sheet of ESSAR LOGISTICS LIMITED ("the Company") as at 31st March, 2011, the Statement of Profit and Loss and the Cash Flow Statement of the Company for the year ended on that date, both annexed thereto. These financial statements are the responsibility of the Company's Management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with the auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and the disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by the Management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. As required by the Companies (Auditor's Report) Order, 2003 (CARO) issued by the Central Government in terms of Section 227(4A) of the Companies Act, 1956, we give in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.
4. Further to our comments in the Annexure referred to in paragraph 3 above, we report that:
  - (i) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;
  - (ii) in our opinion, proper books of account as required by law have been kept by the Company so far as it appears from our examination of those books;
  - (iii) the Balance Sheet, the Statement of Profit and Loss and the Cash Flow Statement dealt with by this report are in agreement with the books of account;
  - (iv) in our opinion, the Balance Sheet, the Statement of Profit and Loss and the Cash Flow Statement dealt with by this report are in compliance with the Accounting Standards referred to in Section 211(3C) of the Companies Act, 1956;
  - (v) in our opinion and to the best of our information and according to the explanations given to us, the said accounts give the information required by the Companies Act, 1956 in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:
    - (a) in the case of the Balance Sheet, of the state of affairs of the Company as at 31st March, 2011;
    - (b) in the case of the Statement of Profit and Loss, of the profit of the Company for the year ended on that date and
    - (c) in the case of the Cash Flow Statement, of the cash flows of the Company for the year ended on that date.
5. On the basis of the written representations received from the Directors as on 31st March, 2011 taken on record by the Board of Directors, we report that none of the Directors is disqualified as on 31st March, 2011 from being appointed as a director in terms of Section 274(1) (g) of the Companies Act, 1956.

For **DELOITTE HASKINS & SELLS**  
*Chartered Accountants*  
(Registration No. 117366W)

**Khurshed Pastakia**  
*Partner*  
(Membership No.31544)

Mumbai  
May 30, 2011

## Annexure to the Auditor's Report to the members of Essar Logistics Limited

(referred to in paragraph 3 of our report of even date)

In our opinion and according to the information and explanations given to us, the nature of the Company's business/activities during the year are such that clauses (vi), (viii), (xiii), (xiv), (xviii), (xix) and (xx) of Para 4 of the Order are not applicable to the Company.

1. In respect of fixed assets:
  - a. The Company has maintained proper records showing full particulars, including quantitative details and situation of its fixed assets.
  - b. The fixed assets of the Company are physically verified by the management according to a phased programme designed to cover all the items over a period of three years, which in our opinion, is largely reasonable having regard to the size of the Company and the nature of its assets. As per the information given to us by the management, no material discrepancies as compared to book records were noticed in respect of fixed assets verified during the year.
  - c. In our opinion and according to the information and explanations given to us, the Company has not made substantial disposals of fixed assets during the year and the going concern status of the Company is not affected.
2. In respect of inventories:
  - a. As explained to us, inventories were physically verified by the management during the year at reasonable intervals.
  - b. In our opinion and according to the information and explanations given to us, the procedures of physical verification of inventories followed by the management were reasonable and adequate in relation to the size of the Company and nature of its business.
  - c. In our opinion and according to the information and explanations given to us, the Company has maintained proper records of its inventories. No material discrepancies were noticed on physical verification as compared to book records.
3. In our opinion and according to the information and explanations given to us, there are no companies, firms or parties required to be entered into the register maintained under section 301 of the Companies Act, 1956. Accordingly, paragraphs 4(iii) (a) to (g) of the Order are not applicable to the Company.
4. In our opinion and according to the information and explanations given to us, there is an adequate internal control system commensurate with the size of the Company and the nature of its business for purchase of inventory and fixed assets and for sale of services. During the course of our audit, we have not observed any continuing failure to correct major weaknesses in such internal controls. The nature of the Company's business does not involve sale of goods.
5. In our opinion and according to the information and explanations given to us, there are no contracts or arrangements that need to be entered into the register maintained in pursuance of Section 301 of the Companies Act, 1956.
6. In our opinion, the internal audit system of the Company commensurate with the size of the Company and the nature of its business.
7. According to the information and explanations given to us, in respect of statutory dues:
  - a. The Company has been generally regular in depositing undisputed statutory dues, including Provident Fund, Income Tax, Sales Tax, Value Added Tax, Service Tax, Custom Duty, Cess and any other material statutory dues, as applicable, with the appropriate authorities during the year. As explained to us, the provisions for Investor Education and Protection Fund, Employees' State Insurance Scheme, Wealth Tax and Excise Duty were not applicable to the Company during the year.  
There are no material undisputed amounts payable in respect of above statutory dues outstanding as at 31st March, 2011 for a period exceeding six months from the date they became payable.
  - b. According to information and explanations given to us, there were no dues pending to be deposited on account of any dispute in respect of Sales Tax, Income Tax, Customs Duty, Wealth Tax, Service Tax, Excise Duty and Cess as on 31st March, 2011.
  - c. Details of dues of Service Tax which have not been deposited as on 31st March, 2011 on account of disputes are given below:

Statute	Nature of dues	Forum where dispute is pending	Year	Amount involved (₹ in Crores)
Service Tax Act. 1994	Service tax	Commissioner of Service tax	2005-06 to 2009-10	52.01

8. The Company has no accumulated losses at the end of the financial year and it has not incurred cash losses in the current and immediately preceding financial year.

9. In our opinion, and according to the information and explanations given to us, the Company has not defaulted in repayment of dues to banks. The Company has not borrowed any sums from financial institutions or through debentures.
10. According to the information and explanations given to us and based on the documents and records produced to us, the Company has not granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities.
11. According to the information and explanations given to us, the Company has not given any guarantee for loans taken by others from bank or financial institutions.
12. To the best of our knowledge and belief and according to the information and explanations given to us, term loans availed by the Company were, prima facie, applied by the Company during the year for the purposes for which the loans were obtained, other than temporary deployment pending application.
13. According to the information and explanations given to us, and on an overall examination of the Balance sheet of the Company, we report that the funds raised on short-term basis have, prima facie, not been used during the year for long-term investment.
14. To the best of our knowledge and belief and according to the information and explanation given to us, no material fraud on or by the Company was noticed or reported during the year.
10. According to the information and explanations given to us and based on the documents and records produced to us, the Company has not granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities.
11. According to the information and explanations given to us, the Company has not given any guarantee for loans taken by others from bank or financial institutions.
12. To the best of our knowledge and belief and according to the information and explanations given to us, term loans availed by the Company were, prima facie, applied by the Company during the year for the purposes for which the loans were obtained, other than temporary deployment pending application.
13. According to the information and explanations given to us, and on an overall examination of the Balance sheet of the Company, we report that the funds raised on short-term basis have, prima facie, not been used during the year for long-term investment.
14. To the best of our knowledge and belief and according to the information and explanation given to us, no material fraud on or by the Company was noticed or reported during the year.

For **DELOITTE HASKINS & SELLS**  
*Chartered Accountants*  
(Registration No. 117366W)

Mumbai  
May 30, 2011

**Khurshed Pastakia**  
*Partner*  
(Membership No.31544)

BALANCE SHEET AS AT 31<sup>ST</sup> MARCH, 2011

Particulars	Schedule No	As at 31.03.2011 ₹ in crore	As at 31.03.2010 ₹ in crore
<b>I. SOURCES OF FUNDS</b>			
<b>Shareholders' funds:</b>			
Capital	1	73.00	73.00
Reserves and surplus	2	121.52	108.43
		<b>194.52</b>	<b>181.43</b>
<b>Loan funds:</b>			
Secured loans	3	196.22	206.06
<b>Deferred tax liability (net)</b> (Referred note B.10 of Schedule 13)		22.26	25.27
<b>Total</b>		<b>413.00</b>	<b>412.76</b>
<b>II. APPLICATION OF FUNDS</b>			
<b>Fixed assets:</b>	4		
Gross block		365.21	343.74
Less: Depreciation		150.34	114.26
Net block		214.87	229.48
Capital work in process (including capital advances)		4.91	15.00
		<b>219.78</b>	<b>244.48</b>
<b>Investment</b>	5	0.00	0.01
<b>Current assets, loans and advances:</b>	6		
Inventories		10.64	12.24
Sundry debtors		217.38	146.14
Cash and bank balances		127.02	98.30
Other current assets		3.56	2.91
Loans and advances		99.80	111.38
		<b>458.40</b>	<b>370.97</b>
<b>Less: Current liabilities and provisions</b>	7		
Liabilities		261.73	194.97
Provisions		3.45	7.73
		<b>265.18</b>	<b>202.70</b>
<b>Net current assets</b>		<b>193.22</b>	<b>168.27</b>
<b>Total</b>		<b>413.00</b>	<b>412.76</b>
<b>SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO FINANCIAL STATEMENTS</b>	13		

In terms of our report attached

For **Deloitte Haskins & Sells**  
Chartered Accountants**Khurshed Pastakia**  
PartnerMumbai  
May 30, 2011

For and on behalf of the Board

**A. K. Musaddy**  
Whole-time DirectorMumbai  
May 30, 2011**A. R. Ramakrishnan**  
Director

## STATEMENT OF PROFIT AND LOSS FOR THE YEAR ENDED 31<sup>ST</sup> MARCH, 2011

Particulars	Schedule No.	For the year ended 31.03.2011 ₹ in crore	For the year ended 31.03.2010 ₹ in crore
<b>Income</b>			
Operating income	8	1,267.89	1,070.10
Other income	9	18.76	10.73
		<b>1,286.65</b>	<b>1,080.83</b>
<b>Expenditure</b>			
Operating expenses	10	1,184.93	979.57
Establishment and other expenses	11	36.58	20.45
Loss in sale of fixed assets		—	0.15
		<b>1,221.51</b>	<b>1,000.17</b>
<b>Profit before interest, depreciation and tax</b>		<b>65.14</b>	80.66
Interest and finance expenses	12	10.60	10.18
<b>Profit before depreciation and tax</b>		<b>54.54</b>	70.48
Depreciation (refer note B (3) of schedule13)		36.08	33.44
<b>Profit before tax</b>		<b>18.46</b>	37.04
<b>Less: provision for taxation</b>			
— Current tax		8.26	17.28
— MAT credit utilised / (entitlement)		—	3.22
— Deferred tax liability		(3.01)	(7.24)
— Short / (excess) provisions for previous year		0.12	(0.04)
		<b>5.37</b>	13.22
<b>Profit after tax</b>		<b>13.09</b>	23.82
Balance brought forward from previous year		108.43	84.61
<b>Balance carried forward to balance sheet</b>		<b>121.52</b>	<b>108.43</b>
Earnings per share - basic and diluted ( ₹ )		1.79	3.26
(face value of ₹ 10/- per share)			
(refer note B(7) of schedule 13)			
<b>SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO FINANCIAL STATEMENTS</b>	13		

In terms of our report attached

For **Deloitte Haskins & Sells**  
Chartered Accountants

**Khurshed Pastakia**  
Partner

Mumbai  
May 30, 2011

For and on behalf of the Board

**A. K. Musaddy**  
Whole-time Director

Mumbai  
May 30, 2011

**A. R. Ramakrishnan**  
Director

## CASH FLOW STATEMENT FOR THE YEAR ENDED 31<sup>ST</sup> MARCH 2011

Particulars	Year ended 31.03.2011 (₹ in crore)	Year ended 31.03.2010 (₹ in crore)
<b>A. CASH FLOW FROM OPERATING ACTIVITIES</b>		
<b>Net profit before taxes</b>	<b>18.46</b>	37.04
Adjustments for :		
Depreciation	<b>36.08</b>	33.44
Provision for compensated absences	<b>0.88</b>	0.21
Interest and finance expenses	<b>10.60</b>	10.18
Provision for gratuity	<b>0.63</b>	(0.50)
Interest income	<b>(15.69)</b>	(9.27)
Loss on sale of assets (net)	<b>—</b>	0.15
(profit) / loss on sale of investments	<b>(0.02)</b>	—
Excess provision written back	<b>—</b>	(0.07)
<b>Operating profit before working capital changes</b>	<b>50.94</b>	71.18
Adjustments for :		
Trade and other receivables	<b>(62.50)</b>	(52.97)
Inventories	<b>1.58</b>	(2.46)
Trade payables	<b>61.01</b>	105.10
<b>Cash generated from operations</b>	<b>51.02</b>	120.85
Income taxes paid (net of refund)	<b>(6.07)</b>	(4.08)
<b>Net cash generated from operating activities</b>	<b>44.95</b>	<b>116.77</b>
<b>B. CASH FLOW FROM INVESTING ACTIVITIES</b>		
Purchase of fixed assets	<b>(9.78)</b>	(33.71)
Sale of fixed assets	<b>—</b>	0.20
Capital work in progress and capital advance	<b>(4.91)</b>	(15.00)
Purchase of investments	<b>(20.00)</b>	(0.05)
Issue of shares	<b>—</b>	0.04
Proceeds from sale of investments	<b>20.02</b>	—
Fixed deposit (placed) / encashed	<b>(28.55)</b>	(27.70)
Intercompany deposit (given) / repayment received	<b>8.75</b>	(81.00)
Interest received	<b>6.84</b>	8.69
<b>Net cash (used in) investing activities</b>	<b>(27.63)</b>	<b>(148.52)</b>
<b>C. CASH FLOW FROM FINANCING ACTIVITIES</b>		
Interest and finance expenses paid	<b>(10.65)</b>	(12.63)
Proceeds from unsecured loans	<b>—</b>	15.00
Proceeds from Lease loan	<b>—</b>	4.23
Proceeds from term loans	<b>5.40</b>	35.22
Repayments of lease loans	<b>(1.89)</b>	(1.60)
Repayment of term loans	<b>(10.40)</b>	(3.89)
Repayment of unsecured loans	<b>—</b>	(12.00)
Proceeds from cash credit	<b>0.39</b>	2.62
<b>Net cash generated from / (used in) financing activities</b>	<b>(17.15)</b>	<b>26.95</b>
<b>(DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>0.17</b>	(4.81)
Cash and cash equivalents as at beginning of the year	<b>7.60</b>	12.41
<b>Cash and cash equivalents as at end of the year</b>	<b>7.77</b>	<b>7.60</b>
<b>Notes :</b>	<b>As at 31.03.2011</b>	<b>As at 31.03.2010</b>
1. Cash and cash equivalents include :		
Cash on hand	<b>0.02</b>	0.01
Cheques on hand	<b>0.11</b>	—
<b>Balances with scheduled banks in current account</b>	<b>7.64</b>	7.59
<b>Total cash &amp; cash equivalents</b>	<b>7.77</b>	7.59
Balances in fixed deposits (having maturity period of more than 3 months)	<b>119.25</b>	90.70
<b>Cash and bank balances (refer schedule 6)</b>	<b>127.02</b>	98.29
2. Cash flow statement has been prepared under the indirect method as set out in the Accounting Standard (AS) - 3 'Cash flow statement' as notified under the Company's (Accounting Standard) Rules, 2006.		

In terms of our report attached

For **Deloitte Haskins & Sells**  
Chartered Accountants**Khurshed Pastakia**  
PartnerMumbai  
May 30, 2011

For and on behalf of the Board

**A. K. Musaddy**  
Whole-time DirectorMumbai  
May 30, 2011**A. R. Ramakrishnan**  
Director



## SCHEDULES ATTACHED TO AND FORMING PART OF THE BALANCE SHEET AS AT 31<sup>ST</sup> MARCH, 2011

Particulars	As at 31.03.2011 (₹ in crore)	As at 31.03.2010 (₹ in crore)
<b>SCHEDULE 1</b>		
<b>SHARE CAPITAL</b>		
<b>Authorised</b>		
75000000 Equity shares of ₹ 10/- each	<b>75.00</b>	75.00
<b>Issued, subscribed and paid up</b>		
73000000 Equity shares of ₹ 10/- each fully paid up (The above shares are being held by Essar Shipping Ports & Logistics Limited, the holding company & its nominees. Pursuant to a demerger of Essar Shipping Ports & Logistics Limited, the company is a subsidiary of Essar Shipping Limited w.e.f. 1st October 2010)	<b>73.00</b>	73.00
	<b>73.00</b>	<b>73.00</b>
<b>SCHEDULE 2</b>		
<b>RESERVES AND SURPLUS</b>		
Balance in Statement of Profit and Loss	<b>121.52</b>	108.43
	<b>121.52</b>	<b>108.43</b>
<b>SCHEDULE 3</b>		
<b>SECURED LOANS</b>		
<b>From banks</b>		
Foreign currency term loan, secured by first charge on vessels and floating cranes	<b>156.28</b>	159.53
Rupee term loan [converted into FCNR (B) facility] secured by first charge on barge unloader (principal amount falling due within one year ₹ 2.11 crore (previous year ₹ 2.16 crore))	<b>3.70</b>	5.94
Rupee term loan secured by first charge on cargo handling equipment (principal amount falling due within one year ₹ 2.85 crore (previous year ₹ 1.82 crore))	<b>30.73</b>	33.55
Interest accrued and due on foreign currency term loan	<b>—</b>	0.03
Cash credit facility from banks (first charge on current assets)	<b>3.01</b>	2.62
	<b>193.72</b>	201.67
<b>From others</b>		
Loan for purchase of vehicles under hire purchase agreement (principal amount falling due within one year ₹ 1.12 crore (previous year ₹ 1.89 crore))	<b>2.86</b>	5.19
Less: Unmatured interest charges (refer note B(2) of schedule 13)	<b>0.36</b>	0.80
	<b>2.50</b>	4.39
<b>Total</b>	<b>196.22</b>	<b>206.06</b>

# SCHEDULES ATTACHED TO AND FORMING PART OF THE BALANCE SHEET AS AT 31<sup>ST</sup> MARCH, 2011

## SCHEDULE 4 FIXED ASSETS

(₹ in crore)

Description	Gross block (at cost)				Depreciation				Net block	
	As at 01.04.2010	Addition during the year	Sale / deletion	As at 31.03.2011	Upto 01.04.2010	For the year	Adjust- ments	Upto 31.03.2011	As at 31.03.2011	As at 31.03.2010
Tangible fixed assets						A				
Furniture and fixtures	0.17	0.01	–	0.18	0.11	0.01	–	0.12	0.06	0.06
Plant and machinery - A	115.41	0.78	(0.87)	115.32	39.60	13.88	–	53.48	61.86	75.81
Office equipment	0.69	0.37	–	1.06	0.35	0.16	–	0.51	0.54	0.34
Vessels - A	208.18	–	(2.44)	205.74	67.53	17.05	–	84.58	121.16	140.65
Vehicles										
– owned	12.18	23.62	–	35.80	4.68	3.82	–	8.50	27.29	7.50
– leased - B	7.11	–	–	7.11	1.99	1.16	–	3.15	3.96	5.12
Total tangible fixed assets	343.74	24.78	(3.31)	365.21	114.26	36.08	–	150.34	214.87	229.48
Capital work in progress (including capital advances)	–	–	–	–	–	–	–	–	4.91	15.00
Grand total	343.74	24.78	(3.31)	365.21	114.26	36.08	–	150.34	219.78	244.48
As at 31.03.2010	332.02	33.71	(21.99)	343.74	80.95	33.44	(0.13)	114.26	244.48	

### Notes:

- A) Pursuant to the notification of Ministry of Company Affairs relating to the effects of changes in foreign exchange rates, the resultant gain of ₹ 3.31 crore for the current year (previous year gain ₹ 21.52 crore) arising on conversion / translation / settlement of long term foreign currency items has been adjusted in the current year deletion to plant and machinery and vessels. (refer note B(3) of schedule 13)
- B) Vehicles with gross book value of ₹ 7.11 crore (previous year ₹ 7.11 crore) have been taken under hire purchase agreement from India Securities Limited and are hypothecated to it.

## SCHEDULES ATTACHED TO AND FORMING PART OF THE BALANCE SHEET AS AT 31<sup>ST</sup> MARCH 2011

Particulars		As at 31.03.2011 ₹ in crore		As at 31.03.2010 ₹ in crore	
<b>SCHEDULE 5</b>					
<b>Long term investment (non trade)</b>					
Unquoted shares, fully paid up (at cost)					
4590 (previous year 9000) equity shares of ₹ 10/- each of Essar Bulk Terminal Paradip Limited		*0.00		0.01	
		0.00		0.01	
* Less than ₹ 1 lakh					
<b>Details of investments purchased and sold during the year</b>					
Sl. No. Description		During the year 2010-11		During the year 2009-10	
		No. of units	₹ in crore	No. of units	₹ in crore
1	LICMF Liquid fund	11,840,344.79	20.00	—	—
2	Essar Oilfield Services India Limited	—	—	50,000	0.05
3	Essar Bulk Terminal Paradip Limited	—	—	41,000	0.04
<b>SCHEDULE 6</b>					
<b>Current assets, loans and advances</b>					
<b>Current assets</b>					
Inventories (at cost or net realisable value, whichever is less)					
Fuel		1.47			2.10
Stores and spares (at cost)		9.17			10.14
			10.64		12.24
Sundry debtors (unsecured)					
Debts outstanding for period exceeding six months					
(a) Considered good		7.06			3.21
(b) Considered doubtful		0.51			0.51
		7.57			3.72
Less: provision for doubtful debts		0.51			0.51
			7.06		3.21
Other debts - considered good *			210.32		142.93
			217.38		146.14
*(refer note B(11) of schedule 13)					
Cash and bank balances					
Cash on hand			0.02		0.01
Cheques on hand			0.11		—
Balances with scheduled banks					
In current accounts			7.64		7.59
In deposits (including margin money and restricted deposits ₹ 118.26 crore (previous year ₹ 90.54 crore))			119.25		90.70
			127.02		98.30
Other current assets					
Interest accrued on bank deposits			3.56		2.91
<b>Loans and advances (unsecured, considered good)</b>					
Advances recoverable in cash or in kind or for value to be received			6.33		25.71
Advance tax and tax deducted at source (net of provision for tax)			8.82		1.81
Cenvat receivable			4.78		2.63
Inter-corporate deposit			69.25		78.00
Interest accrued but not due on ICD			10.28		2.08
Prepaid expenses			0.31		0.36
Insurance claims receivable			0.03		0.79
			99.80		111.38
<b>Total</b>			458.40		370.97

## SCHEDULES ATTACHED TO AND FORMING PART OF THE BALANCE SHEET AS AT 31<sup>ST</sup> MARCH, 2011

Particulars	As at 31.03.2011 ₹ in crore	As at 31.03.2010 ₹ in crore
<b>SCHEDULE 7</b>		
<b>Current liabilities and provisions</b>		
<b>Current liabilities</b>		
Sundry creditors		
– due to micro, small and medium enterprises (refer note B (13) of schedule 13)	–	–
– for expenses	242.17	184.20
– for capital expenses	8.23	–
Other liabilities	9.09	8.57
Interest accrued but not due	0.51	0.53
Deposits including security deposits	1.73	1.67
	<u>261.73</u>	<u>194.97</u>
<b>Provisions</b>		
Provision for gratuity	0.79	0.16
Provision for compensated absences	2.66	1.78
Provision for taxation (net of advance tax and tax deducted at source)	–	5.79
	<u>3.45</u>	<u>7.73</u>
<b>Total</b>	<u><u>265.18</u></u>	<u><u>202.70</u></u>

## SCHEDULES ATTACHED TO AND FORMING PART OF THE STATEMENT OF PROFIT AND LOSS FOR THE YEAR ENDED 31<sup>ST</sup> MARCH, 2011

Particulars	For the year ended 31.03.2011 ₹ in crore	For the year ended 31.03.2010 ₹ in crore
<b>SCHEDULE 8</b>		
<b>Operating income</b>		
Freight income	706.08	672.75
Charter hire income	24.55	7.54
Stevedoring and lighterage income	58.58	121.37
Cargo handling income	456.20	246.25
Management fees	14.00	17.07
Agency income	2.79	2.17
Demurrage income	5.69	2.95
	<u>1,267.89</u>	<u>1,070.10</u>
<b>SCHEDULE 9</b>		
<b>Other income</b>		
Interest income from bank (gross) (tax deducted at source ₹ 0.71 crore (previous year ₹ 0.60 crore))	7.15	6.14
Interest income from others (gross) (tax deducted at source ₹ 0.85 crore (previous year ₹ 0.34 crore))	8.54	3.14
Foreign exchange gain (net)	0.05	0.66
Provision for doubtful debt reversed	–	0.07
Profit on sale of investment	0.02	–
Miscellaneous income	3.00	0.72
	<u>18.76</u>	<u>10.73</u>

**SCHEDULES ATTACHED TO AND FORMING PART OF THE STATEMENT OF PROFIT AND LOSS FOR THE  
YEAR ENDED 31<sup>ST</sup> MARCH, 2011**

Particulars	For the year ended 31.03.2011 ₹ in crore	For the year ended 31.03.2010 ₹ in crore
<b>SCHEDULE 10</b>		
<b>Operating expenses</b>		
Direct voyage expenses	329.43	175.90
Manning charges on floating staff	11.02	12.62
Standing costs	2.01	1.24
Insurance, protection and indemnity club fees	2.24	1.83
Commission, brokerage and agency fees	0.07	0.48
Freight charges	656.15	624.45
Hire charges	29.14	31.37
Stevedoring expenses	0.28	1.54
Consumption of stores and spares	24.06	14.82
Consumption of fuel	13.51	26.44
Cargo handling expenses	91.26	61.57
Other operating expenses	—	1.92
Manning charges on shore staff	14.80	12.63
Repairs to machinery	10.96	12.76
	<b>1,184.93</b>	<b>979.57</b>
<b>SCHEDULE 11</b>		
<b>Establishment and other expenses</b>		
Salaries, wages and bonus	14.24	8.51
Contribution to staff provident fund and other funds (refer note B(12) of schedule 13)	1.44	0.42
Staff welfare expenses	0.93	0.81
Rent	1.00	0.84
Rates and taxes	0.26	0.75
Repairs and maintenance-others	0.15	0.06
Legal, professional fees, registrar's charges and service charges	1.49	0.71
Travelling and conveyance	1.27	1.57
Managerial support services	12.96	5.01
Auditors' remuneration (refer note B. 6(i) of schedule 13)	0.50	0.28
Bad debts written-off	—	0.07
Communication expenses	0.47	0.50
Miscellaneous expenses	1.87	0.92
	<b>36.58</b>	<b>20.45</b>
<b>SCHEDULE 12</b>		
<b>Interest and finance expenses</b>		
Interest and other financial charges	10.21	8.22
Loan arrangement expenses	—	0.28
Bank charges	0.39	1.68
	<b>10.60</b>	<b>10.18</b>

**SCHEDULE 13****SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31<sup>ST</sup> MARCH, 2011****A. SIGNIFICANT ACCOUNTING POLICIES****1. BASIS OF ACCOUNTING**

The financial statements are prepared under the historical cost convention, on accrual basis of accounting, and are in accordance with generally accepted accounting principles and in compliance with the applicable Accounting Standards (AS) referred to in sub-section (3C) of section 211 of the Companies Act, 1956.

**2. USE OF ESTIMATES**

The preparation of financial statements in conformity with the generally accepted accounting principles requires estimates and assumptions to be made that affect the reported balances of assets, liabilities and disclosures relating to contingent liabilities as at the reporting date and the reported amount of income and expenses during the reporting period. Differences between the actual results and estimates are recognised in the period in which the results are known / materialised.

**3. FIXED ASSETS**

- a) Fixed assets are recorded at cost of acquisition or at revalued amounts less accumulated depreciation and impairment loss, if any. Cost of acquisition of fleet includes brokerage; start up costs and major improvements / upgradations.
- b) Assets acquired on hire purchase, being in the nature of finance lease, are capitalized as fixed assets at fair value at inception of the lease and corresponding liability is recognized. The lease rental paid (excluding operating expenses) is bifurcated into principal and interest component by applying an implicit rate of return. The interest is charged against income as a period cost and the principal amount is adjusted against the liability recognized in respect of assets taken on finance lease.

**4. INTANGIBLE ASSETS**

Intangible assets are recognized only when it is probable that the future economic benefits that are attributable to the asset will flow to the Company and the cost of such assets can be measured reliably. Intangible assets are stated at cost less accumulated amortization and impairment loss, if any. All costs relating to the acquisition are capitalized. Intangible assets are amortised over the useful life of the asset.

**5. CAPITAL WORK-IN-PROGRESS**

Direct expenditure on assets under construction is shown under capital work in progress.

Expenditure incidental to the construction of an asset, incurred during the period till the asset is ready for its intended use is accumulated as expenditure during construction pending allocation to fixed assets and other accounts, as applicable, on completion of construction.

Advances on capital account include progress based payments made under the contracts for assets under construction and other capital advances until the same are allocated to fixed assets and other accounts, as applicable.

**6. DEPRECIATION**

- a) Depreciation on vessels is provided by using the straight-line method based on a technical evaluation of the economic useful life or at the rates as prescribed under Schedule XIV to the Companies Act, 1956, whichever is higher.
- b) Depreciation on cranes, forklifts and vehicles (excluding motor car and two wheelers) is provided by using the straight line method as per the rates prescribed under Schedule XIV to the Companies Act, 1956
- c) All other assets are depreciated by using the written down value method at the rates and in the manner prescribed in Schedule XIV to the Companies Act, 1956. Fixed assets costing less than ₹ 5,000 are depreciated at 100% in the year of acquisition.
- d) Depreciation on additions / deductions to fixed assets made during the year is provided on a pro-rata basis from / upto the date of such additions / deductions, as the case may be.

## 7. IMPAIRMENT OF ASSETS

The Company assesses on each balance sheet date whether there is any indication that an asset may be impaired. If any such indication exists, the Company estimates the recoverable amount of the asset. If such recoverable amount of the asset is less than its carrying amount, the carrying amount is reduced to its recoverable amount. The amount so reduced is treated as an impairment loss and is recognised in the Statement of Profit and Loss, except in case of revalued assets, where it is first adjusted against the related balance in fixed assets revaluation reserve. If at the balance sheet date, there is an indication that a previously assessed impairment loss no longer exists, the recoverable amount is reassessed and the asset is carried at the recoverable amount subject to a maximum of depreciated historical cost, except for revalued assets which are subject to a maximum of depreciated revalued cost.

## 8. BORROWING COST

Borrowing costs that are directly attributable to the acquisition, construction/development of qualifying asset are capitalized as a part of cost of such asset. A qualifying asset is one that necessary takes substantial period of time to get ready for the intended use.

Costs in connection with the borrowing of funds to the extent not directly related to the acquisition of fixed assets are amortised and charged to the Statement of Profit and Loss, over the tenure of the loan.

## 9. INVENTORY

Inventory is valued at lower of cost and net realisable value. Cost is determined on weighted average basis.

## 10. OPERATING INCOME

Operating income represents the value of charter hire income, sea freight income, road freight income, cargo handling income, stevedoring and lighterage income, management fee income, agency income and demurrage income and is accounted on accrual basis.

Sea freight income is recognized on a pro-rata basis for voyages in progress at balance sheet date after loading of the cargo is completed. Stevedoring and lighterage income is recognized on accrual basis to the extent of cargo loaded / unloaded as on the balance sheet date. Revenue and related expenses for voyages, stevedoring and lighterage where cargo has not been loaded as on the balance sheet date are deferred and recognized in the following year.

Other income is recognized on an accrual basis.

## 11. OPERATING EXPENSES

Operating expenses represents expenses relating to the operation of the fleet including crewing, insurance, stores, bunkers, dry docking, charter hire, special survey costs, expenses relating to road freight and inter-carting and other expenses and is accounted on accrual basis.

## 12. EMPLOYEE BENEFITS

- a) Contribution to recognised provident fund, which is a fixed percentage of eligible employees' salary is charged to the Statement of Profit and Loss.
- b) The liability for gratuity is actuarially determined at year end and funded to Life Insurance Corporation of India to the extent demanded by them and balance taken to provisions.
- c) The contribution towards superannuation, funded by payment to Life Insurance Corporation of India, is a fixed percentage of the salary of eligible employees under a defined contribution plan and is charged to Statement of Profit and Loss.
- d) Provision for all accumulated compensated absences of eligible employees is based on an independent actuarial valuation.

## 13. FOREIGN CURRENCY TRANSACTIONS

Transactions denominated in foreign currencies are recorded at standard exchange rates determined fortnightly which approximates the actual rate on the date of the transaction. The difference between the standard rate and the actual rate of settlement is accounted in the Statement of Profit and Loss.

Monetary items denominated in foreign currency are translated at the rate prevailing at the end of the year. Gains/ losses on conversion/ translation/settlement of foreign currency transactions are recognized in the Statement of Profit



and Loss, except gains / losses on conversion / translation / settlement / in respect of long term foreign currency monetary item related to acquisition of a depreciable asset is adjusted to the carrying amount to those depreciable assets.

Gain/losses on conversion / translation / settlement of long term foreign currency monetary items relates to other than an acquisition of depreciable assets are accumulated in a "Foreign currency monetary item translation difference account" and amortised over the balance period of such long term foreign currency monetary item but not beyond March 31, 2011.

#### 14. INSURANCE CLAIMS

Insurance claims are recognized based on reasonable certainty of their settlement.

#### 15. TAXATION

Current tax and fringe benefit tax are provided as per the provisions of the Income tax Act, 1961.

The tax effect of timing differences resulting between taxable income and accounting income and are capable of reversal in one or more subsequent periods are recorded as a deferred tax asset or deferred tax liability. They are measured using the substantively enacted tax rates and tax regulations as at the balance sheet date.

Deferred tax assets arising on account of brought forward losses and unabsorbed depreciation under tax laws are recognized, only if there is virtual certainty of its realization, supported by convincing evidence. Deferred tax assets on account of other timing differences are recognized only to the extent there is reasonable certainty of its realization.

#### 16. PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

Provisions are recognized for present obligations arising out of past events if it is probable that an outflow of economic resources, the amount of which can be reliably estimated, will be required to settle the obligation.

Contingent liabilities are disclosed in respect of possible obligations that arise from past events, the existence of which will be confirmed by the occurrence or non occurrence of one or more uncertain future events not wholly within the control of the Company, or a present obligation that is not recognized because a reliable estimate of the liability cannot be made, or the likelihood of an outflow of economic resources is remote.

Contingent assets are not recognized in the financial statements.

#### 17. SEGMENT ACCOUNTING POLICIES

##### a) Segment assets and segment liabilities:

Segment assets include all operating assets used by the segment and consist principally of fixed assets, inventories, sundry debtors, cash and bank balances. Segment assets and liabilities do not include share capital, reserves and surplus, income tax (both current and deferred) and unallocable assets and liabilities.

##### b) Segment revenue and segment expenses:

Segment revenue and expenses have been identified to its segment on the basis of relationship to its operating activities. It does not include interest income on investment, inter corporate deposits, interest expense and provision for taxes.

### B. NOTES TO FINANCIAL STATEMENTS

#### 1. Contingent liabilities and capital commitment

##### a) Contingent liability

(₹ in crore)

Particulars	As at 31.03.2011	As at 31.03.2010
i) Bills discounted with banks / non-banking financial institutions	86.00	94.56
ii) Guarantees given by banks	0.00*	0.61
iii) Disputed service tax demand	52.01	0.00

##### b) Capital commitment

(₹ in crore)

Particulars	As at 31.03.2011	As at 31.03.2010
i) Outstanding capital commitment (net of advance paid ₹ 4.91 crore (previous year ₹ 15 crore))	10.92	10.00

\* Amount is less than ₹ 1 lakh.

## 2. Finance leases

The Company has acquired vehicles under hire purchase arrangement which is in the nature of finance lease. The minimum lease rentals outstanding at year end are as under:

(₹ in crore)

Particulars	31 <sup>st</sup> March, 2011			31 <sup>st</sup> March, 2010		
	Minimum lease payments	Interest	Present value of minimum lease payments	Minimum lease payments	Interest	Present value of minimum lease payments
<b>Future lease rental obligation payable:</b>						
– Not later than one year	1.37	0.25	1.12	2.34	0.45	1.89
– Later than one year but not later than five years	1.48	0.10	1.38	2.85	0.35	2.50
– Later than five years	–	–	–	–	–	–
<b>Total</b>	<b>2.85</b>	<b>0.35</b>	<b>2.50</b>	<b>5.19</b>	<b>0.80</b>	<b>4.39</b>

The Company has the option of purchasing the hired assets at any time during the currency of the hire purchase arrangement by paying in one lump sum the entire balance due including the finance charges due under the agreement. The said arrangement provides for revision of hire purchase installments in the event of a change occurring in the lending rate charged to the lessor.

- Pursuant to notification dated March 31, 2009 issued by Central Government under Companies (Accounting Standard) Amendment Rules, 2009; the Company has chosen an option with effect from April 1, 2007 to adjust the gains/losses arising on conversion / translation / settlement of long term foreign currency monetary items into the corresponding carrying value of fixed assets to the extent it is related to acquisition of depreciable fixed assets and the balance gains / losses (if any) has been accumulated in "Foreign currency monetary items translation difference account", consequently gain of ₹ 3.31 crore (previous year gain of ₹ 21.52 crore) has been adjusted into costs of corresponding fixed assets.

The cumulative effect of this treatment has resulted in decrease in profit for the year by an amount of ₹ 4.84 crore (previous year decrease in profit of ₹ 24.69 crore) (net of depreciation ₹ 1.53 crore (previous year ₹ 3.17 crore)).

## 4. Segment reporting

### a) Business segment

The reportable segments are described below:

Surface segment includes logistics services rendered through road logistics and intercarting movements.

Sea segment includes logistics services rendered through hired mother vessels and mini bulk carriers. It also includes agency services, forklift services, stevedoring and lighterage services provided by the Company.

(₹ in crore)

Particulars	Year ended 31.03.2011	Year ended 31.03.2010
<b>Segment revenue</b>		
Surface	854.69	737.46
Sea	416.24	334.10
Unallocated	15.72	9.27
<b>Total</b>	<b>1286.65</b>	<b>1080.83</b>
<b>Segments results</b>		
Surface	10.45	16.78
Sea	2.90	21.17
Unallocated	15.71	9.27
<b>Profit from operation before interest and tax</b>	<b>29.06</b>	<b>47.22</b>
Less: Unallocable interest and finance charges	10.60	10.18
<b>Profit before tax</b>	<b>18.46</b>	<b>37.04</b>
Less: Income tax	5.37	13.22
<b>Profit after tax</b>	<b>13.09</b>	<b>23.82</b>
<b>Segment assets</b>		
Surface	253.24	162.53
Sea	317.37	243.23
Unallocated	107.58	209.69
<b>Total</b>	<b>678.19</b>	<b>615.45</b>
<b>Segment liabilities :</b>		
Surface	234.37	135.30
Sea	18.00	51.09
Unallocated	217.30	222.36
<b>Total</b>	<b>469.67</b>	<b>408.75</b>
<b>Fixed assets acquired/constructed during the year:</b>		
Surface	24.78	33.55
Sea	—	0.16
<b>Total</b>	<b>24.78</b>	<b>33.71</b>
<b>Depreciation</b>		
Surface	7.89	3.36
Sea	28.19	30.08
<b>Total</b>	<b>36.08</b>	<b>33.44</b>

\* Refer note B(3) of Schedule 13.

**b) Geographical segment**

Services to major customers have been rendered in India only. Hence there is no distinguishable geographical segment for providing secondary segment information.

## 5. Remuneration to whole time director

(₹ in crore)

Particulars	Year ended	
	31.03.2011	31.03.2010
Basic salary	0.45	0.33
Allowances, other benefits and perquisites	0.53	0.47
Contribution to provident fund	0.05	0.09
<b>Total</b>	<b>1.03</b>	<b>0.89</b>

**Note:** The above does not include the amount payable towards gratuity and compensated absences by the Company to the whole time director as the same is calculated for the Company as a whole on actuarial basis.

## 6. Additional information pursuant to the provisions of Paragraph 3, 4B and 4D Part II of Schedule VI to the Companies Act, 1956 to the extent applicable is given below:

(₹ in crore)

Particulars	Year ended	
	31.03.2011	31.03.2010
<b>i) Auditor's remuneration</b>		
Audit fees	0.16	0.16
Other assurance services*	0.28	0.10
Out of pocket expenses**	0.01	0.00
Service Tax on above	0.05	0.02
<b>Total</b>	<b>0.50</b>	<b>0.28</b>
* Includes ₹ 0.16 crore for previous years		
** Amount is less than ₹ 1.00 lakh		
<b>ii) Expenditure in foreign currency (on accrual basis)</b>		
Freight charges	193.19	98.79
Brokerage and commission	0.05	0.04
Professional charges	0.54	0.16
Communication expenses	0.05	0.08
Insurance – ships and vessels	0.41	0.43
Cargo handling expenses	1.73	0.20
Ship hire charges	4.63	15.35
Fuel charges	1.29	2.45
Interest	5.16	3.68
Travelling	0.04	0.06
Others	0.69	2.29
<b>Total</b>	<b>207.77</b>	<b>123.53</b>
<b>iii) Earnings in foreign currency (on accrual basis)</b>		
Sea freight	0.29	0.30
Other income	0.02	0.20
<b>Total</b>	<b>0.31</b>	<b>0.50</b>
<b>iv) C. I. F. value of imports :</b>		
Components and spare parts	2.78	3.62
Capital goods	0.59	15.43
<b>Total</b>	<b>3.37</b>	<b>19.05</b>

## v) Consumption of imported and indigenous component and spare parts

Particulars	Year ended 31.03.2011		Year ended 31.03.2010	
	Amount	% of Total	Amount	% of Total
Imported	3.86	15.98%	2.74	18.49%
Indigenous	20.20	84.02%	12.08	81.51%
<b>Total</b>	<b>24.06</b>	<b>100.00%</b>	<b>14.82</b>	<b>100.00%</b>

## 7. Earnings per share:

Earnings per share are calculated based on the following data:

Particulars	Year ended 31.03.2011	Year ended 31.03.2010
Earnings for the purpose of earnings per share (net profit for the year) (₹ in crore)	13.09	23.82
Equity shares at the beginning and end of the year (nos.)	73,000,000	73,000,000
Weighted average number of equity shares outstanding during the year (nos.)	73,000,000	73,000,000
Earnings per share – basic and diluted (₹)	1.79	3.26
Face value per share (₹)	10	10

## 8. Foreign currency exposure

- There were no forward / options contracts entered in to by the Company during the financial year to hedge its foreign currency exposures.
- The year-end currency exposures that have not been hedged by a derivative instrument or otherwise are given below.

Amount receivable in foreign currency on account of the following

Particulars	₹ in crore		Currency	Amount in foreign currency (in million)	
	2010-11	2009-10		2010-11	2009-10
Services rendered	0.01	*0.00	USD	*0.00	*0.00
Advances to vendors	0.21 0.64 *0.00 0.02 0.09	0.51 0.94 *0.00 0.02 0.02	EURO USD SGD AED GBP	0.03 0.14 *0.00 0.01 0.01	0.09 0.21 *0.00 0.01 *0.00

Amount payable in foreign currency on account of the following

Particulars	₹ in crore		Currency	Amount in foreign currency (in million)	
	2010-11	2009-10		2010-11	2009-10
Import of goods and services	*0.00 0.66 4.02 0.07 0.70	0.00 0.24 1.40 0.00 0.00	EURO JPY USD SAR AED	*0.00 12.27 0.90 0.06 0.58	0.00 4.83 0.31 0.00 0.00
Secured loan	160.20	165.70	USD	35.88	36.35
Advance from customers	0.70	0.83	USD	0.16	0.18

\* amount is less than ₹ 1 lakh.

## 9. Related party transactions

### 1. Holding companies

- i) Essar Global Limited, Cayman Island (ultimate holding company)
- ii) Essar Shipping & Logistics Limited, Cyprus
- iii) Essar Ports Limited (formerly known as Essar Shipping Ports & Logistics Limited), immediate holding company (upto 30<sup>th</sup> September, 2010)
- iv) Essar Shipping Limited, immediate holding company, earlier known as Essar Ports & Terminals Limited (w.e.f. 1<sup>st</sup> October, 2010)

### 2. Other related parties /where there have been transactions:

#### (a) Other related parties / affiliates.

- i. Essar Steel Limited
- ii. Vadinar Oil Terminal Limited
- iii. Essar Bulk Terminal Limited
- iv. Essar Shipping & Logistics (Panama) Inc.
- v. Essar Oil Limited
- vi. Essar Projects (India) Limited
- vii. Futura Travels Limited
- viii. Essar Information Technology Limited
- ix. India Securities Limited
- x. Essar SEZ Hazira Limited
- xi. Essar Ports & Terminals Limited
- xii. Essar House Services Limited
- xiii. Essar Agrotech Limited
- xiv. Essar Investments Limited
- xv. Essar Telecom Retail Limited
- xvi. Essar Power M.P. Limited
- xvii. Essar Power Gujarat Limited
- xviii. Essar Power Limited
- xix. Essar Ports Limited
- xx. Vadinar Power Company Limited
- xxi. Essar House Limited
- xxii. Essar Engineering Services Limited
- xxiii. Essar Infrastructure Services Limited
- xxiv. Essar Bulk Terminal Paradip Limited
- xxv. Essar Dredging Limited
- xxvi. Essar Offshore Sub Sea Limited
- xxvii. Essar Bulk Terminal (Salaya) Limited
- xxviii. Essar Oilfields Service Limited
- xxix. Essar Power Jharkhand Limited
- xxx. Essar Windpower Private Limited
- xxxi. Vadinar Ports & Terminal Limited
- xxxii. Essar Oilfields Services Limited
- xxxiii. Essar Oilfields Services (India) Limited
- xxxiv. Essar International Limited (upto 30<sup>th</sup> September 2010)
- xxxv. Energy II Limited
- xxxvi. Energy Transportation International Limited

#### (b) Key management personnel

Mr. A.K. Musaddy (Whole time director and Chief Executive Officer)

**The details of transactions with related parties:**

(₹ in crore)

Nature of Transactions	Holding companies		Key management personnel		Other related parties		Total	
	Mar-11	Mar-10	Mar-11	Mar-10	Mar-11	Mar-10	Mar-11	Mar-10
<b>INCOME</b>								
<b>Operating Income</b>								
Essar Steel Limited	–	–	–	–	693.63	761.12	693.63	761.12
Essar Ports Limited	0.25	0.46	–	–	–	–	0.25	0.46
Essar Shipping Limited	0.32	–	–	–	–	–	0.32	–
Essar Oil Limited	–	–	–	–	178.30	42.60	178.30	42.60
Essar Bulk Terminal Limited	–	–	–	–	33.06	0.77	33.06	0.77
Essar Project (India) Limited	–	–	–	–	80.31	30.56	80.31	30.56
Essar Oilfield Services India Limited	–	–	–	–	–	0.25	–	0.25
Essar Oilfield Services Limited	–	–	–	–	–	10.14	–	10.14
Essar Power Gujarat Limited	–	–	–	–	51.81	41.91	51.81	41.91
Essar Power M.P. Limited	–	–	–	–	93.81	40.41	93.81	40.41
Essar Shipping & Logistics (Panama) Inc.	–	–	–	–	0.46	0.16	0.46	0.16
Vadinar Power Company Limited	–	–	–	–	5.87	0.07	5.87	0.07
Vadinar Oil Terminal Limited	–	–	–	–	0.13	0.01	0.13	0.01
Essar Power Limited	–	–	–	–	0.43	0.04	0.43	0.04
Essar Bulk Terminal (Salaya) Limited	–	–	–	–	5.14	–	5.14	–
Others	–	–	–	–	10.32	0.86	10.32	0.86
<b>Total</b>	<b>0.57</b>	<b>0.46</b>	<b>–</b>	<b>–</b>	<b>1,153.27</b>	<b>928.90</b>	<b>1,153.84</b>	<b>929.36</b>
<b>Interest Income</b>								
Essar Bulk Terminal Limited	–	–	–	–	0.13	0.67	0.13	0.67
Essar Investment Limited	–	–	–	–	6.95	2.46	6.95	2.46
Essar Oilfield Services India Limited	–	–	–	–	1.46	–	1.46	–
<b>Total</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>8.54</b>	<b>3.13</b>	<b>8.54</b>	<b>3.13</b>
<b>EXPENSES</b>								
<b>Freight charges</b>								
Essar Ports Limited	6.06	–	–	–	–	–	6.06	–
Essar Shipping Limited	25.28	–	–	–	–	–	25.28	–
Essar Shipping & Logistics (Panama) Inc.	–	–	–	–	4.78	4.98	4.78	4.98
Essar Bulk Terminal Limited	–	–	–	–	0.36	–	0.36	–
<b>Hire / demurrage charges</b>								
Essar Ports Limited	1.55	15.35	–	–	–	–	1.55	15.35
Essar Shipping & Logistics (Panama) Inc.	–	–	–	–	2.56	5.71	2.56	5.71
Essar Project (India) Limited	–	–	–	–	1.99	3.44	1.99	3.44
Futura Travels Limited	–	–	–	–	1.19	–	1.19	–
Essar Shipping Limited	3.48	–	–	–	0.08	–	3.56	–
<b>Rent</b>								
Essar Steel Limited	–	–	–	–	0.14	0.16	0.14	0.16
Essar House Limited	–	–	–	–	0.91	0.84	0.91	0.84
<b>Fuel charges</b>								
Essar Oil Limited	–	–	–	–	15.95	19.54	15.95	19.54
<b>Repair &amp; maintenance</b>								
Essar Steel Limited	–	–	–	–	0.08	0.12	0.08	0.12
Essar Project (India) Limited	–	–	–	–	2.51	3.68	2.51	3.68
Essar Information Technology Limited	–	–	–	–	0.56	0.25	0.56	0.25
Essar Engineering Services Limited	–	–	–	–	0.01	0.07	0.01	0.07
Essar Bulk Terminal Limited	–	–	–	–	0.09	–	0.09	–



(₹ in crore)

Nature of Transactions	Holding companies		Key management personnel		Other related parties		Total	
	Mar-11	Mar-10	Mar-11	Mar-10	Mar-11	Mar-10	Mar-11	Mar-10
<b>Management fees</b>								
Essar Investment Limited	–	–	–	–	12.96	5.01	12.96	5.01
<b>Port expenses</b>								
Essar Bulk Terminal Limited	–	–	–	–	0.86	–	0.86	–
<b>Lodging &amp; boarding</b>								
Essar Steel Limited	–	–	–	–	0.02	0.03	0.02	0.03
Essar Oil Limited	–	–	–	–	–	0.00	–	0.00
Essar Investments Limited	–	–	–	–	0.03	–	0.03	–
Essar Infrastructure Services Limited	–	–	–	–	0.00	–	0.00	–
<b>Remuneration</b>								
A. K. Musaddy	–	–	1.03	0.89	–	–	1.03	0.89
<b>Travelling expenses</b>								
Futura Travels Limited	–	–	–	–	0.15	0.14	0.15	0.14
<b>Manning charges</b>								
Essar Information Technology Limited	–	–	–	–	0.17	0.06	0.17	0.06
<b>Cargo handling expenses</b>								
Essar Bulk Terminal Limited	–	–	–	–	16.27	8.22	16.27	8.22
Essar Project (India) Limited	–	–	–	–	14.40	4.64	14.40	4.64
<b>Business center fees</b>								
Essar Infrastructure Services Limited	–	–	–	–	2.99	2.76	2.99	2.76
Essar Agrotech Limited	–	–	–	–	0.04	–	0.04	–
<b>Interest expenses</b>								
IndiaSecurities Limited	–	–	–	–	0.43	0.62	0.43	0.62
Essar Investment Limited	–	–	–	–	–	0.80	–	0.80
<b>Professional fees</b>								
Aegis Limited	–	–	–	–	0.68	–	0.68	–
<b>Survey fees</b>								
Essar Bulk Terminal Limited	–	–	–	–	0.20	–	0.20	–
<b>Total</b>	<b>36.37</b>	<b>15.35</b>	<b>1.03</b>	<b>0.89</b>	<b>80.41</b>	<b>61.07</b>	<b>117.80</b>	<b>77.31</b>
<b>Fixed Assets including capital advances</b>								
Essar Telecom Retail Limited.	–	–	–	–	0.04	0.00	0.04	0.00
<b>Purchase of stores &amp; spares</b>								
Essar Project (India) Limited	–	–	–	–	0.04	0.37	0.04	0.37
Essar Steel Limited	–	–	–	–	3.69	0.99	3.69	0.99
<b>Total</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>3.77</b>	<b>1.36</b>	<b>3.77</b>	<b>1.36</b>
<b>Reimbursement of expenses</b>								
Essar Ports Limited	0.33	0.33	–	–	–	–	36.89	0.33
Essar Bulk Terminal Limited	–	–	–	–	3.40	0.01	3.40	0.01
Essar Shipping & Logistics (Panama) Inc.	–	–	–	–	1.17	6.49	1.17	6.49
Essar Steel Limited	–	–	–	–	76.97	35.54	76.97	35.54
Essar Shipping Limited	36.56	–	–	–	0.21	–	36.77	–
Essar Project(India) Limited	–	–	–	–	1.54	1.68	1.54	1.68
Essar Oil Limited	–	–	–	–	3.04	1.03	3.04	1.03
Essar Power Gujarat Limited	–	–	–	–	1.44	1.48	1.44	1.48
Essar Power MP Limited	–	–	–	–	0.74	–	0.74	–
Essar Oilfield Services Limited	–	–	–	–	–	1.12	–	1.12
Others	–	–	–	–	0.52	2.66	0.52	2.66
<b>Total</b>	<b>0.33</b>	<b>0.33</b>	<b>–</b>	<b>–</b>	<b>125.59</b>	<b>50.01</b>	<b>125.92</b>	<b>50.34</b>

(₹ in crore)

Nature of Transactions	Holding companies		Key management personnel		Other related parties		Total	
	Mar-11	Mar-10	Mar-11	Mar-10	Mar-11	Mar-10	Mar-11	Mar-10
<b>Loans &amp; advances including deposits received</b>								
India Securities Limited	–	–	–	–	1.50	4.23	1.50	4.23
Essar Investment Limited	–	–	–	–	–	15.00	–	15.00
<b>Total</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>1.50</b>	<b>19.23</b>	<b>1.50</b>	<b>19.23</b>
<b>Loans &amp; advances including deposits given</b>								
Essar Bulk Terminal Limited	–	–	–	–	–	6.06	–	6.06
Essar Oilfield Services India Limited	–	–	–	–	24.00	–	24.00	–
Essar Investments Limited	–	–	–	–	–	75.00	–	75.00
<b>Total</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>24.00</b>	<b>81.06</b>	<b>24.00</b>	<b>81.06</b>
<b>Purchase of shares</b>								
Essar Investment Limited	–	–	–	–	–	0.05	–	0.05
<b>Sale of shares</b>								
Essar Steel Limited	–	–	–	–	–	0.00	–	0.00
Essar Bulk Terminal Limited	–	–	–	–	–	0.01	–	0.01
Essar Steel Orissa Limited	–	–	–	–	–	0.03	–	0.03
Essar Ports Limited	0.00	0.05	–	–	–	–	0.00	0.05
<b>Share subscription</b>								
Essar Bulk Terminal Paradip Limited	–	–	–	–	–	0.05	–	0.05
<b>Sale of store &amp; spares</b>								
Essar Bulk Terminal Limited	–	–	–	–	–	0.03	–	0.03
Essar Shipping & Logistics (Panama) Inc.	–	–	–	–	1.76	0.27	1.76	0.27
<b>Total</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>1.76</b>	<b>0.30</b>	<b>1.76</b>	<b>0.30</b>

**Outstanding balance as on 31st March 2011**

(₹ in crore)

Nature of Balance	Holding companies		Key management personnel		Other related parties		Total	
	Mar-11	Mar-10	Mar-11	Mar-10	Mar-11	Mar-10	Mar-11	Mar-10
<b>Sundry Debtors</b>								
Essar Steel Limited	–	–	–	–	56.10	12.95	56.10	12.95
Essar Oil Limited	–	–	–	–	13.24	4.23	13.24	4.23
Essar Project (India) Limited	–	–	–	–	27.45	10.46	27.45	10.46
Essar Bulk Terminal Limited	–	–	–	–	9.57	–	9.57	–
Vadinar Oil Terminal Limited	–	–	–	–	0.08	–	0.08	–
Essar Bulk Terminal (Salaya) Limited	–	–	–	–	0.33	–	0.33	–
Essar Power Gujarat Limited	–	–	–	–	7.51	8.33	7.51	8.33
Essar Oilfield Services India Limited	–	–	–	–	–	0.25	–	0.25
Essar Off Shore Subsea Limited	–	–	–	–	0.74	–	0.74	–
Essar Shipping & Logistics (Panama) Inc	–	–	–	–	1.36	–	1.36	–
Essar Power Jharkhand Limited	–	–	–	–	1.74	–	1.74	–
Essar Power MP Limited	–	–	–	–	6.59	9.47	6.59	9.47
Essar Oilfield Services Limited	–	–	–	–	0.00	2.53	0.00	2.53
Vadinar Power Company Limited	–	–	–	–	0.26	–	0.26	–
Others	–	–	–	–	0.03	0.17	0.03	0.17
<b>Total</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>125.00</b>	<b>48.39</b>	<b>125.00</b>	<b>48.39</b>
<b>Loans &amp; advances including deposits given</b>								
Essar Bulk Terminal Limited	–	–	–	–	–	6.58	–	6.58
Essar Telecom Retail Limited	–	–	–	–	0.01	–	0.01	–
Essar Oilfield Services India Limited	–	–	–	–	18.57	–	18.57	–
Essar Investment Limited	–	–	–	–	55.03	73.50	55.03	73.50

(₹ in crore)

Nature of Transactions	Holding companies		Key management personnel		Other related parties		Total	
	Mar-11	Mar-10	Mar-11	Mar-10	Mar-11	Mar-10	Mar-11	Mar-10
Essar Shipping Ports & Logistics Limited	–	18.93	–	–	–	–	–	18.93
<b>Total</b>	<b>–</b>	<b>18.93</b>	<b>–</b>	<b>–</b>	<b>69.91</b>	<b>64.98</b>	<b>69.11</b>	<b>83.91</b>
<b>Loans &amp; advances including deposits received</b>								
Essar Steel Limited	–	–	–	–	5.00	–	5.00	–
Essar International Limited	–	–	–	–	0.01	–	0.01	–
India Securities Limited	–	–	–	–	4.00	4.41	4.00	4.41
<b>Total</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>9.01</b>	<b>4.41</b>	<b>9.01</b>	<b>4.41</b>
<b>Sundry Creditors</b>								
Essar Ports Limited	–	–	–	–	–	–	–	–
Essar Infrastructure Limited	–	–	–	–	0.57	–	0.57	–
Essar Shipping Limited	13.13	–	–	–	–	–	13.13	–
Essar Investment Limited	–	–	–	–	3.82	0.42	3.82	0.42
Futura Travels Limited	–	–	–	–	1.17	–	1.17	–
Essar Information Technology Limited	–	–	–	–	0.02	–	0.02	–
Essar Bulk Terminal Limited	–	–	–	–	–	0.82	–	0.82
Essar Shipping & Logistics (Panama) Inc	–	–	–	–	–	0.81	–	0.81
Others	–	–	–	–	0.19	0.01	0.19	0.01
<b>Total</b>	<b>13.13</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>17.23</b>	<b>2.06</b>	<b>18.90</b>	<b>2.06</b>

#### 10. Deferred tax liability

The components of deferred tax liability are as follows:

(₹ in crore)

Particulars	As at 31 <sup>st</sup> March, 2011	As at 31 <sup>st</sup> March, 2010
<b>Deferred tax liability</b>		
Depreciation on fixed assets	23.38	26.55
<b>(A)</b>	<b>23.38</b>	<b>26.55</b>
<b>Deferred tax assets</b>		
Disallowance u/s 40(a)	0.35	0.62
Employee benefits liability	0.77	0.66
<b>(B)</b>	<b>1.12</b>	<b>1.28</b>
<b>Net deferred tax liability (A-B)</b>	<b>22.26</b>	<b>25.27</b>

#### 11. a) Details of amount due towards loans and advances under the same management within the meaning of Section 370(1B)

(₹ in crore)

Name of companies	As at 31.03.2011	Maximum amount outstanding during 2010-11	As at 31.03.2010	Maximum amount outstanding during 2009-10
Essar Oilfield Services Limited	18.57	24.78	2.53	11.25

#### b) Details of amount due towards loans and advances under the same management within the meaning of Section 370(1B).

(₹ in crore)

Name of companies	As at 31.03.2011	Maximum amount outstanding during 2010-11	As at 31.03.2010	Maximum amount outstanding during 2009-10
Essar International Limited	0.01	0.12	–	0.04

**12. Employee benefits:**

The Company has various employee benefits as under:

**I. Defined contribution plans**

- a. Provident fund
- b. Superannuation fund
- c. Group accident policy cover

During the year, the Company has recognized the following amounts in the Statement of Profit and Loss:

(₹ in crore)

Particulars	Year ended	
	31.03.2011	31.03.2010
– Employer's contribution to provident fund	0.55	0.45
– Employer's contribution to superannuation fund	0.12	0.10
– Group accident policy cover	0.02	0.01

The above amounts are included in contribution to staff provident and other funds (Schedule 11).

**II. Defined benefit plans**

- a. Contribution to gratuity fund
- b. Provision for compensated absences (CA)

In accordance with Accounting Standard-15 (Revised 2005), relevant disclosures are as under:

**(A) Changes in present value of defined benefit obligation**

(₹ in crore)

Particulars	Gratuity (funded) year ended		CA (non funded) year ended	
	31.03.11	31.03.10	31.03.11	31.03.10
Present value of defined benefit obligation at the beginning of the year	0.89	1.08	0.77	0.76
Current service cost	0.16	0.12	0.12	0.14
Interest cost	0.07	0.08	0.06	0.06
Planned Amendment	0.35	0.00	0.00	0.00
Benefits paid	0.00	(0.05)	(0.03)	(0.04)
Actuarial (gain)/loss on obligations	0.20	(0.34)	0.14	(0.15)
<b>Present value of defined benefit obligation at the end of the year</b>	<b>1.67</b>	<b>0.89</b>	<b>1.06</b>	<b>0.77</b>

**(B) Changes in the fair value of plan assets**

(₹ in crore)

Particulars	Gratuity (funded) year ended		CA (non funded) year ended	
	31.03.11	31.03.10	31.03.11	31.03.10
Fair value of plan assets at the beginning of the year	0.73	0.42	0.00	0.00
Expected return on plan assets	0.06	0.05	0.00	0.00
Actuarial gains / (losses) *	0.00	0.00	0.00	0.00
Contributions by the employer	0.08	0.31	0.03	0.04
Benefits paid	0.00	(0.05)	(0.03)	(0.04)
<b>Fair value of plan assets at the end of the year</b>	<b>0.87</b>	<b>0.73</b>	<b>0.00</b>	<b>0.00</b>

\* Amount is less than ₹ 1 lakh.

**(C) Amount recognized in the Balance Sheet**

(₹ in crore)

Particulars	Gratuity (funded) As at		CA (non funded) As at	
	31.03.11	31.03.10	31.03.11	31.03.10
Present value of defined benefit obligation at the end of the year	1.67	0.89	1.06	0.77
Fair value of plan assets at the end of the year	0.87	0.73	0.00	0.00
Unrecognised past service cost	*0.00	0.00	0.00	0.00
<b>Liability/(asset) recognized in the balance sheet</b> (Included in current liabilities and provisions schedule 7)	<b>0.79</b>	<b>0.16</b>	<b>1.06</b>	<b>0.77</b>

\* less than ₹ 1 lakh.

**(D) Expenses recognized in the Statement of Profit and Loss**

(₹ in crore)

Particulars	Gratuity (funded) year ended		CA (non funded) year ended	
	31.03.11	31.03.10	31.03.11	31.03.10
Current service cost	0.16	0.12	0.12	0.14
Interest cost	0.07	0.08	0.06	0.06
Expected return on plan assets	(0.07)	(0.05)	0.00	0.00
Past service cost	0.35	0.00	0.00	0.00
Net actuarial (gain)/loss recognized in the period	0.20	(0.34)	0.14	(0.15)
One year renewable term assurance (OYRTA) premium	0.00	0.00	0.00	0.00
<b>Total expenses recognized in the Statement of Profit and Loss</b> Included in contribution to provident and other funds (schedule 11)	<b>0.71</b>	<b>(0.19)</b>	<b>0.32</b>	<b>0.05</b>

**(E) Experience history**

(₹ in crore)

Particulars	Gratuity (funded) As at			
	31.03.11	31.03.10	31.03.09	31.03.08
Defined Benefit Obligation at the end of the period	(1.67)	(0.89)	(1.08)	NA
Plan assets at the end of the year	0.87	0.73	0.42	NA
Funded Status	(0.80)	(0.16)	(0.66)	NA
Experience Gain/(Loss) adjustments on plan liabilities	(0.23)	0.25	0.27	NA
Experience Gain/(Loss) adjustments on plan assets	0.00	0.00	0.01	NA
Actuarial Gain/(Loss) due to change on Assumptions	0.03	0.09	0.00	NA

(₹ in crore)

Particulars	CA (non funded) As at			
	31.03.11	31.03.10	31.03.09	31.03.08
Defined Benefit Obligation at the end of the period	(1.05)	(0.77)	0.77	NA
Plan assets at the end of the year	0.00	0.00	0.00	NA
Funded Status	(1.05)	(0.77)	(0.77)	NA
Experience Gain/(Loss) adjustments on plan liabilities	(0.16)	0.16	(0.23)	NA
Experience Gain/(Loss) adjustments on plan assets	0.00	0.00	0.00	NA
Actuarial Gain/(Loss) due to change on Assumptions	0.02	0.00	0.00	NA

**(F) Category of plan assets**

The Company's plan assets in respect of gratuity are funded through the group gratuity scheme administered by the Life Insurance Corporation of India.

**(G) Actuarial assumptions**

In accordance with Accounting Standard (AS)15 (Revised), actuarial valuation as at the year end was done in respect of the aforesaid defined benefit plans based on the following assumptions:

**i) General assumptions**

(₹ in crore)

Particulars	Gratuity (funded) year ended		CA (non funded) year ended	
	31.03.11	31.03.10	31.03.11	31.03.10
Discount rate (per annum)	8.00%	7.80%	8.00%	7.80%
Rate of return on plan assets (for funded scheme)	8.50%	8.50%	N.A.	N.A.
Expected retirement age of employees (years)	58	58	58	58
Withdrawal rate of employees	5.00%	16.00%	5.00%	16.00%
Rate of increase in compensation	9.00%	9.00%	9.00%	9.00%

ii) Mortality rates considered are as per the published rates in the Life Insurance Corporation (1994-96) Mortality table.

iii) Leave availment pattern

- Sick leave balance as at the valuation date and each subsequent year following the valuation date will be availed by the employee against future sick leave. The unavailed sick leave can be accumulated to the maximum of 6 days per annum. The sick leave balance is not available for encashment.
- Leave balance as at the valuation date and each subsequent year following the valuation date to the extent not availed by the employee (maximum to the extent of 120 days) is available for encashment on separation from the Company.

iv) As this is the fourth year of implementation of Accounting Standard (AS) –15 (Revised 2005), only corresponding previous three year figure have been furnished.

13. The Company has not received any intimation from the suppliers regarding their status under Micro, Small and Medium Enterprises Development Act, 2006 (the Act) and hence the disclosures required by the Act have not been made. The Company is making efforts to get confirmations from the suppliers as regards their status under the Act.

**14. Change in holding company**

During the year Essar Shipping Ports & Logistics Limited ("the Holding Company") filed for a scheme of arrangement with the Honourable High Court of Gujarat under section 391 to 394 of the Companies Act, 1956. The scheme provided for the merger of two of the Holding Company's wholly owned subsidiaries namely Essar International Limited and Essar Ports & Terminals Limited both incorporated in Mauritius in to the Holding Company ("the merger") with effect from September 30, 2010 and the demerger of its Shipping, Logistics and Oilfield Drilling Business into its wholly owned subsidiary, Essar Shipping Limited [previously known as Essar Ports & Terminals Limited (India)] (the "demerger") with effect from October 1, 2010. The Company has received approval from the Honourable High court of Gujarat and the Honourable Supreme Court of Mauritius. In terms of the Order of the Honourable Supreme Court of Mauritius, the merger becomes effective upon filing of its Order by the Holding Company with the Registrar of Companies, Mauritius. The Holding Company has filed the Order with the Registrar of Companies, Mauritius and the scheme is effective on 9<sup>th</sup> May 2011.

15. Previous year figures have been regrouped / reclassified, wherever necessary, to conform to figures of the current year.

For and on behalf of the Board

**A. K. Musaddy**  
Whole-time Director

**A. R. Ramakrishnan**  
Director

Mumbai  
May 30, 2011





## ESSAR OILFIELDS SERVICES LIMITED

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### BOARD OF DIRECTORS

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Uday Kumar Gujadhur  
**Director**

Sanjay Mehta  
**Director**

Sonia Lutchmiah  
**Director**

Mithilesh Lallah  
**Director**

#### ADMINISTRATOR & SECRETARY

Multiconsult Limited  
Rogers House, 5,  
President John Kennedy Street  
Port Louis, Mauritius

#### REGISTERED OFFICE

10, Frere Felix de Valois Street  
Port Louis  
Mauritius

#### AUDITORS

Deloitte  
7<sup>th</sup> Floor, Raffles Tower  
19 Cybercity  
Ebène  
Mauritius

#### BANKERS

Standard Chartered Bank (Mauritius) Limited  
6<sup>th</sup> Floor, Raffles Tower  
Cybercity, Ebène, Mauritius  
State Bank of India  
City Office, 15, Kings Street,  
London

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### COMMENTARY OF THE DIRECTORS

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The Directors present their Annual Report, together with the audited financial statements of Essar Oilfields Services Limited, ("the Company") for the year ended 31 March, 2011.

#### PRINCIPAL ACTIVITY

The Company was incorporated on 19<sup>th</sup> May, 2005 and its main activity consists of offshore and onshore drilling and oilfield services.

#### RESULTS AND DIVIDENDS

The results for the year are shown in the statement of comprehensive income on page 7 of financial statements.

The Directors do not recommend payment of any dividend for the year under review (2010 : Nil)

#### DIRECTORS

The Directors in office during the year were as stated on page 1.

#### DIRECTOR'S RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The Company's Directors are responsible for the preparation and fair presentation of the financial statement, comprising the Company's statement of financial position at 31 March, 2011 and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended and notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards ("IFRS") and Mauritius Companies Act 2001 in so far as applicable to the Category 1 Global Business Licence Company.

The Directors' responsibility include: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of these financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### AUDITORS

The Auditors, Deloitte, have indicated their willingness to continue in office.

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## CERTIFICATE FROM THE SECRETARY

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We certify that, to the best of our knowledge and belief, ESSAR OILFIELDS SERVICES LIMITED has filed with the Registrar of Companies, all such returns as are required under the Companies Act 2001, for the year ended 31 March 2011.

**Multiconsult Limited**

**Company Secretary**

Date : June 20, 2011

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## INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF ESSAR OILFIELDS SERVICES LIMITED

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This report is made solely to the Company's shareholders, as a body, in accordance with section 205 of the Mauritius Companies Act, 2001. Our audit work has been undertaken so that we might state to the Company's shareholders those matters we are required to state to the shareholders in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

### **Report on the Financial Statements**

We have audited the financial statements of Essar Oilfields Services Limited on pages 6 to 38 which comprise the statement of financial position 31 March, 2011 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

### **Directors' responsibilities for the financial statements**

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in compliance with the requirements of the Mauritius Companies Act 2001 in so far as applicable to Category 1 Global Business License Companies. They are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

As audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error, in making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentations of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the financial statements on pages 6 to 38 give a true and fair view of the financial position of **Essar Oilfields Services Limited** as at 31 March, 2011 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and comply with the requirements of the Mauritius Companies Act 2001 in so far as applicable to Category 1 Global Business License Companies.

### **Report on other legal requirements**

In accordance with the requirements of the Mauritius Companies Act 2001, we report as follows:

- we have no relationships with, or interests in, the Company other than in our capacity as auditors;
- we have obtained all information and explanations that we have required; and
- in our opinion, proper accounting records have been kept by the Company as far as appears from our examination of those records.

**Deloitte**  
Chartered Accountants

**Twaleb Butonkee, FCA**  
Signing Partner

STATEMENT OF FINANCIAL POSITION AS AT 31<sup>ST</sup> MARCH, 2011

	Notes	2011 USD	2010 USD
<b>ASSETS</b>			
<b>Non-current assets</b>			
Plant and equipment	6	398,029,693	427,471,588
Capital work in progress	7	–	–
Expenditure during the project	8	–	–
Investments in subsidiaries	9(i)	140,346,180	140,346,180
<b>Total non-current assets</b>		<b>538,375,873</b>	<b>567,817,768</b>
<b>Current assets</b>			
Investments held for sale	9(ii)	–	248,533
Inventories, at cost	11	21,850,697	24,562,226
Trade and other receivables	10	88,750,463	46,991,777
Cash and cash equivalents	12	3,347,680	5,334,890
<b>Total current assets</b>		<b>113,948,840</b>	<b>77,137,426</b>
<b>Total assets</b>		<b>652,324,713</b>	<b>644,955,194</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and reserves</b>			
Stated capital	13	200,000,001	100,000,001
Share application money		10,100,007	–
Retained earnings		8,900,046	16,910,883
<b>Total equity</b>		<b>219,000,054</b>	<b>116,910,884</b>
<b>Non-current liabilities</b>			
Loans – due after one year	14	373,557,302	393,665,856
Employee benefits	21	–	29,790
<b>Total non-current liabilities</b>		<b>373,557,302</b>	<b>393,695,646</b>
<b>Current liabilities</b>			
Loans – due within one year	14	18,868,877	80,851,073
Trade and other payables	15	25,718,664	37,656,698
Current tax liabilities	20	274,138	935,215
Provisions	22	14,905,678	14,905,678
<b>Total current liabilities</b>		<b>59,767,357</b>	<b>134,348,664</b>
<b>Total liabilities</b>		<b>433,324,659</b>	<b>528,044,310</b>
<b>Total equity and liabilities</b>		<b>652,324,713</b>	<b>644,955,194</b>

Notes 1 to 26 annexed hereto form an integral part of these financial statements.

These financial statements were approved and authorised by the Board of Directors on June 20, 2011 and signed on its behalf by:

**Uday Kumar Gujadhur**  
Director

**Sonia Lutchmiah**  
Director

## STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31<sup>ST</sup> MARCH, 2011

	Notes	2011 USD	2010 USD
<b>REVENUE</b>			
Operating revenue		68,527,876	102,356,441
Profit on sale of plant and equipment / capital work in progress		–	4,552,798
Other income		913,856	501,478
<b>TOTAL</b>		<b>69,441,732</b>	<b>107,410,717</b>
<b>EXPENSES</b>			
Operating expenses		25,110,214	30,634,124
Depreciation	6	29,441,895	29,329,969
General and administration expenses		2,745,244	3,556,862
Bad debts		–	3,882,331
Finance cost	17	20,099,104	21,034,669
Currency exchange difference		(40,543)	5,705,007
Impairment on investment in subsidiary		–	23,947
Loss on sale of available for sale investments		–	402,854
<b>TOTAL</b>		<b>77,355,914</b>	<b>94,569,763</b>
<b>(LOSS) / PROFIT BEFORE TAX</b>		<b>(7,914,182)</b>	<b>12,840,954</b>
<b>TAXATION</b>	20	<b>(96,655)</b>	<b>(3,847,836)</b>
<b>(LOSS) / PROFIT FOR THE YEAR</b>		<b>(8,010,837)</b>	<b>8,993,118</b>
<b>OTHER COMPREHENSIVE INCOME</b>			
Reversal of investment reserve		–	593,034
<b>TOTAL COMPREHENSIVE (LOSS) / INCOME FOR THE YEAR</b>		<b>(8,010,837)</b>	<b>9,586,152</b>

Notes 1 to 26 annexed hereto form an integral part of these financial statements.

## STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31<sup>ST</sup> MARCH, 2011

	Stated capital USD	Share application money USD	Retained earnings USD	Total USD
<b>Balance at 1 April 2009</b>	<b>100,000,001</b>	<b>24,875,682</b>	<b>7,324,731</b>	<b>132,200,414</b>
Profit for the year	–	–	8,993,118	8,993,118
Other comprehensive income	–	–	593,034	593,034
Share application money refunded	–	(7,217,832)	–	(7,217,832)
Issue of preference shares	–	(17,657,850)	–	(17,657,850)
<b>Balance at 31 March, 2010</b>	<b>100,000,001</b>	<b>–</b>	<b>16,910,883</b>	<b>116,910,884</b>
<b>Balance at 1 April 2010</b>	<b>100,000,001</b>	<b>–</b>	<b>16,910,883</b>	<b>116,910,884</b>
Loss for the year	–	–	(8,010,837)	(8,010,837)
Available for sale of investments	–	–	–	–
Share application money received	–	10,100,007	–	10,100,007
Conversion of preference shares into equity shares	100,000,000*	–	–	100,000,000
<b>Balance at 31 March, 2011</b>	<b>200,000,001</b>	<b>10,100,007</b>	<b>8,900,046</b>	<b>219,000,054</b>

\* During the year 2010-11, the Company has converted preference shares amounting to USD 100,000,000 to equity shares issued to Essar Shipping Limited, India (refer to Note 14).

Notes 1 to 26 annexed hereto form an integral part of these financial statements.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31<sup>ST</sup> MARCH, 2011

	2011 USD	2010 USD
<b>Cash flows from operating activities</b>		
(Loss) / profit before taxation	(7,914,182)	12,840,954
<b>Adjustments to reconcile (loss) / profit before taxation to net cash generated from operating activities</b>		
Depreciation of non-current assets	29,441,895	29,329,969
Finance cost	20,099,104	21,034,669
Impairment on investment in subsidiary	—	23,947
Loss on sale of available for sale investments	—	402,854
Profit on sale of plant and equipment/ cwip	—	(4,552,798)
Interest income	(349,496)	(88,208)
Bad debts	—	3,882,331
Unrealized exchange gain	(275,173)	(188,951)
Exchange loss on repayment of loan	—	4,874,083
	<b>41,002,148</b>	<b>67,558,850</b>
<b>Working capital changes</b>		
Decrease / (increase) in inventory	2,711,529	(936,400)
Decrease / (increase) in trade and other receivables	3,572,235	(3,812,405)
Decrease in trade and other payables	(12,546,528)	(2,967,668)
<b>Cash generated from operations</b>	<b>34,739,384</b>	<b>59,842,377</b>
Income taxes paid	(754,615)	(4,407,788)
<b>Net cash generated from operating activities</b>	<b>33,984,769</b>	<b>55,434,589</b>
<b>Cash flows from investing activities</b>		
Payments for plant and equipment	—	(153,016)
Sale of plant and equipment	—	41,290,000
Expenditure in capital work in progress	—	(5,718,673)
Sale of capital work in progress	—	44,911,235
Expenditure during project under construction	—	(342,318)
Interest received	150,761	67,751
Sale of AFS investments	—	2,097,146
Advance given for equity shares	(30,850,000)	—
Advance refunded for equity shares	28,000,000	—
Investment in subsidiary Company	—	(130,017,647)
Received from subsidiary Company on liquidation	6,426	—
<b>Net cash used in investing activities</b>	<b>(2,692,813)</b>	<b>(47,865,522)</b>
<b>Cash flows from financing activities</b>		
Proceeds of borrowings	481,369,470	549,511,073
Repayment of borrowings	(463,582,323)	(524,600,143)
Upfront fees paid	(3,762,500)	(5,848,608)
Interest paid	(14,922,900)	(17,306,599)
Refund of share application money	(11,500,000)	(7,217,832)
Share application money received	21,600,007	—
Advances given to group Company	(50,480,920)	—
Advances received from group Company	8,000,000	—
<b>Net cash used in financing activities</b>	<b>(33,279,166)</b>	<b>(5,462,109)</b>
<b>Net (decrease) / increase in cash and cash equivalents</b>	<b>(1,987,210)</b>	<b>2,106,958</b>
<b>Net movement in cash and cash equivalents</b>		
Cash and cash equivalents at the beginning of the year	5,334,890	3,227,932
Net movement in cash and cash equivalents	(1,987,210)	2,106,958
<b>Cash and cash equivalents at the end of the year</b>	<b>3,347,680</b>	<b>5,334,890</b>

Notes 1 to 26 annexed hereto form an integral part of these financial statements

**Non cash transactions:**

1. During the year 2010-11, the Company has converted preference shares amounting to USD 100,000,000 to equity shares issued to Essar Shipping Limited, India (refer note 25).
2. During the year 2009-10, the Company made investments in Essar Oilfield Services India Limited (EOSIL) amounting to USD 10,328,534 against transfer of capital work in progress of USD 10,328,534.
3. During the year 2009-10, the Company has issued preference shares amounting to USD 17,657,850 to Essar Shipping & Logistics Limited, Cyprus against the share application money received in advance in previous year.
4. During the year 2009-10, the Company has made provision amounting to USD 14,905,678 which has been capitalized during the year.

## NOTES TO THE FINANCIAL STATEMENT FOR THE YEAR ENDED 31<sup>ST</sup> MARCH, 2011

### 1. CORPORATE INFORMATION

- (a) Essar Oilfields Services Limited (the "Company") was incorporated in Mauritius on May 19, 2005 and is primarily engaged in onshore and offshore drilling and oilfield services. The registered office of the Company is located at 10, Frère Félix de Valois Street, Port Louis, Mauritius and its place of business is situated at Emaar Business Park 4, Sheikh Zayed Ali Road, Dubai, UAE.

For the purpose of facilitating the refurbishment and operation of Essar wild-cat rig, the Company established a "project office" in India (Indian operations) on June 15, 2007. In addition to carrying out the refurbishment / operation of the wild-cat rig, the Indian operations also undertakes taking rigs on charter hire basis and giving them on hire basis.

### (b) STATEMENT OF COMPLIANCE

The aforesaid financial statements are separate financial statements of the Company and have been prepared in accordance with the International Financial Reporting Standards (IFRS).

### 2. BASIS OF PREPARATION

The financial statements are prepared under historical cost convention and in accordance with the international Financial Reporting Standards ("IFRS").

### 3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

In the application of the Company's accounting policies, which are described in note 4, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

However, there are no key assumptions required to be made in these financial statements concerning the future and other key sources of estimation uncertainty at the reporting date, which have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in the future periods.

### 4. SIGNIFICANT ACCOUNTING POLICIES

#### (i) Financial instruments

Financial assets, financial liabilities and equity instruments are recognized when the Company has become a party to the contractual provisions of the instrument.

#### Other receivables

Other receivables do not carry any interest and are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts, if any.

#### Financial liabilities and equity instruments

#### Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

#### Borrowings and bills payable

Interest-bearing loans, commercial paper, overdrafts and bills payable are recorded at the proceeds received or funds raised, net of direct issue / transaction costs, if any. Finance charges, including premium payable on settlement or redemption and direct issue costs, are accounted for on an accrual basis in the statement of comprehensive income using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

#### Other payables

Other payables are stated at their nominal values.

### **Equity instruments**

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

### **Financial assets**

Investments are recognized and derecognized on a trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs except for those financial assets classified as at fair value through profit or loss (FVTPL), which are initially measured at fair value.

Financial assets are classified into following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held-to-maturity investments' (HTM), 'available-for-sale' (AFS) financial assets, and loans and receivables. The classification depends on the nature and purpose of the financial assets. When financial assets are recognized initially, they are measured at fair value. These investments/assets do not generally contain embedded derivatives when the Company first becomes party to it.

The Company determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year end.

### **AFS financial assets**

AFS financial assets are those non-derivative financial assets that are designated as available-for-sale investments and are not classified in any of the other categories. After initial recognition, these investments are subsequently measured at fair values with unrecognized gains or losses being recognized in other comprehensive income, until the investments are disposed of or are determined to be impaired, at which time the cumulative gain or loss previously recognized in other comprehensive income is recognized in the statement of comprehensive income.

### **Fair value**

The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business on the reporting date. For investments in units of mutual funds, fair value is determined with reference to the net asset value or the repurchase price of the units as declared by the mutual funds as at reporting date. For investments where there is no active market, fair value is determined using valuation techniques. Such valuation techniques include recent arm's length market transactions, reference to the current market value of another instrument which is substantially the same, discounted estimated future cash flow and other valuation models.

The Company assesses at each reporting date whether a financial asset is to be impaired.

### ***Impairment of financial assets***

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each reporting date.

Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account.

When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity securities, any increase in fair value subsequent to an impairment loss is recognised directly in equity.

### ***Effective interest method***

The effective interest method is a method of calculating the amortised cost of a financial asset/ liability and of allocating interest income/ expense over the relevant period. The effective interest rate is the rate that exactly



discounts estimated future cash receipts through the expected life of the financial asset/liability, or, where appropriate, a shorter period.

Income/expense is recognised on an effective interest basis for debt instruments other than those financial assets / liabilities designated as at FVTPL.

**(ii) Investment in subsidiaries**

A subsidiary is an entity over which the Company has the power to govern operating and financial policies generally accompanied by shareholdings of more than one half of voting rights.

The investments in subsidiaries that are not accounted for as held for sale are accounted for at cost.

**(iii) Revenue recognition**

Revenue is recognised when:

- (a) It is probable that the economic benefits associated with the transaction will flow to the entity; and
- (b) The amount of the revenue can be measured reliably.

***Interest income***

Interest income is accrued on a time proportion basis, by reference to the principal outstanding and at the effective interest rate applicable.

**(iv) Borrowing costs**

Borrowing costs (including foreign exchange differences) directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of the assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from borrowing costs eligible for capitalisation.

All other borrowing costs are charged to the statement of comprehensive income in the period in which they are incurred.

**(v) Foreign currencies**

These financial statements have been expressed in United States Dollars (USD), the functional currency of the Company.

Foreign currency transactions are recorded at the standard exchange rates determined monthly which approximates the actual rate on the date of transaction. At each reporting date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the reporting date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined.

Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period in which they arise except for:

- exchange differences which relate to assets under construction for future productive use, which are included in the cost of those assets where they are regarded as an adjustment to interest costs on foreign currency borrowings;
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur, which form part of the net investment in a foreign operation, and which are recognised in the foreign currency translation reserve and recognised in profit or loss on disposal of the net investment.

**(vi) Cash and cash equivalents**

Cash comprises cash on hand and demand deposits.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Margin deposits with maturity period less than 90 days are included in cash and cash equivalents.

**(vii) Provisions**

A provision is recognised when:

- (a) The Company has a present obligation (legal or constructive) as a result of a past event;
- (b) It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- (c) A reliable estimate can be made of the amount of the obligation. Provisions are measured at the management's best estimate of the expenditure required to settle that obligation at the reporting date.

**(viii) Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that the future taxable profits will be available against which deductible temporary differences can be utilised.

**(ix) Plant and equipment**

Plant and equipment are stated at cost less accumulated depreciation and any impairment loss where the recoverable amount of the asset is estimated to be lower than its carrying amount. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition for its intended use.

The Company depreciates plant and machinery using straight line method (SLM) and all the other assets using the written down value method (WDV), so as to systematically depreciate the cost of such assets over their estimated useful lives.

The useful lives from the year of built of an asset / rates of depreciation are estimated as follows:

Class of asset	Basis	Useful life / rates of depreciation
Plant and equipment	SLM	10 - 15 years
Office equipment	WDV	10% to 40%
Furniture and fixtures	WDV	10% to 40%

When assets are disposed or retired, their cost and accumulated depreciation are removed from the financial statements. The gain or loss arising on the disposal or retirement of an asset is determined as the difference between sales proceeds and the carrying amount of the asset and is recognised in the statement of comprehensive income for the relevant period.

**(xi) Plant and equipment under construction**

Properties in the course of construction are carried at cost, less any recognised impairment loss. Cost includes direct costs, borrowing cost and administrative and other overheads directly attributable to construction of qualifying assets. Depreciation of these assets commences when the assets are ready for intended use.

Capital work in progress includes cost of equipments, advances towards progress payments for supply of material and labour and project management consultancy / technical advisory fees.

**(xii) Impairment of assets**

At each reporting date, the Company reviews the carrying amount of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indications exist, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Recoverable amount is the greater of net selling price (fair value less costs to sell) and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre – tax discount rate that reflects current market assessments of the time value of money and the risks specified to the asset. Impairment losses are recognised as

an expense in the statement of comprehensive income for an amount by which the carrying amount of the asset exceeds its recoverable amount.

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

#### **(xiii) Operating leases**

Company as lessor:

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

Company as lessee:

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

#### **(xiv) Employee benefits**

- (a) Contribution to recognised provident fund, which is a fixed percentage of eligible employees' salary, is charged to statement of comprehensive income.
- (b) Provision for all accumulated compensated absences and gratuity of eligible employees is based on an independent actuarial valuation.

#### **(xv) Inventories**

Inventories mainly comprise of stores and spares. Inventories are stated at the lower of cost and net realisable value. Costs are assigned to the inventories on first-in-first-out basis. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

### **5. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs)**

In the current year, the Company has applied all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC") of the IASB that are relevant to its operations and effective for accounting periods beginning on 1 April 2010.

#### **5.1 New and revised IFRSs applied with no material effect on financial statements**

The following relevant new and revised Standards and the Interpretations have been adopted in these financial statements. Their application has not had any material impact on the amounts reported for the current and prior periods but may affect the accounting for future transactions or arrangements.

IAS 1	Presentation of financial statements – Amendments resulting from April 2009 Annual Improvements to IFRSs
IAS 7	Statement of Cash Flows – Amendments resulting from April 2009 Annual Improvements to IFRSs
IAS 27	Consolidated and Separate – Consequential amendments arising from amendments in IFRS 3
IAS 32	Financial Instruments: Presentation – Amendments relating to classification of rights issues
IAS 36	Impairment of Assets – Amendments resulting from April 2009 Annual Improvements to IFRSs
IAS 39	Financial Instruments: Recognition and Measurement – Amendments resulting from April 2009 Annual Improvements to IFRSs
IAS 39	Financial Instruments: Recognition and Measurement – Amendments for eligible hedged items

#### **5.2 New and revised IFRSs in issue but not yet effective**

At the date of authorisation of these financial statements, the following relevant Standards and Interpretations were in issue but effective on annual periods beginning on or after the respective dates as indicated:

IAS 1	Presentation of Financial Statements – Amendments resulting from May 2010 Annual Improvements to IFRSs (effective 1 January 2011)
IAS 12	Income Taxes – Limited scope amendment (recovery of underlying assets) (1 January 2012)
IAS 24	Related Party Disclosures – Revised definition of related parties (effective 1 January 2011)
IAS 27	Consolidated and Separate Financial Statements – Amendments resulting from May 2010 Annual Improvements to IFRSs (effective 1 July 2010)
IAS 27	Consolidated and Separate Financial Statements – Reissued as IAS 27 Separate Financial Statements (as amended in 2011) (effective 1 January 2013)
IFRS 3	Business Combinations – Amendments resulting from May 2010 Annual Improvements to IFRSs (effective 1 July 2010)
IFRS 7	Financial Instruments Disclosures – Amendments resulting from May 2010 Annual Improvements to IFRSs (effective 1 January 2011)
IFRS 7	Financial Instruments Disclosures – Amendment to IFRS 7 on enhancing disclosures about transfers of financial assets (effective 1 July 2011)
IFRS 9	Financial Instruments – Classification and measurement (effective 1 January 2013)
IFRS 10	Consolidated financial statements (effective date 1 January 2013)
IFRS 12	Disclosure of interest in other entities (effective date 1 January 2013)
IFRS 13	Fair value measurements (effective date 1 January 2013)
IFRIC 19	Extinguishing Financial Liability with Equity Instruments (effective 1 July 2010)

The directors anticipate that these standards and interpretations will be applied in the financial statements on the above effective dates in future periods. The directors have not yet had an opportunity to consider the potential impact of the adoption of these amendments.

## 6. PLANT AND EQUIPMENT

Cost:	Plant and equipment	Office equipment	Furniture and fixtures	Total
<b>Balance at 1 April 2009</b>	<b>484,706,587</b>	<b>176,051</b>	<b>245,589</b>	<b>485,128,227</b>
Additions during the year	20,755,108	21,291	968	20,777,367
Disposal during the year	(43,039,040)	–	–	(43,039,040)
<b>Balance at 31 March, 2010 and 31 March, 2011</b>	<b>462,422,655</b>	<b>197,342</b>	<b>246,557</b>	<b>462,866,554</b>
<b>Depreciation</b>				
<b>Balance at 1 April 2009</b>	<b>11,102,615</b>	<b>56,392</b>	<b>33,853</b>	<b>11,192,860</b>
Depreciation for the year	29,260,107	32,022	37,840	29,329,969
Disposal during the year	(5,127,863)	–	–	(5,127,863)
<b>Balance at 31 March, 2010</b>	<b>35,234,859</b>	<b>88,414</b>	<b>71,693</b>	<b>35,394,966</b>
Depreciation for the year	29,386,097	24,637	31,161	29,441,895
<b>Balance at 31 March, 2011</b>	<b>64,620,956</b>	<b>113,051</b>	<b>102,854</b>	<b>64,836,861</b>
<b>Carrying amount:</b>				
<b>At 31 March, 2010</b>	<b>427,187,796</b>	<b>108,928</b>	<b>174,864</b>	<b>427,471,588</b>
<b>At 31 March, 2011</b>	<b>397,801,699</b>	<b>84,291</b>	<b>143,703</b>	<b>398,029,693</b>

**Notes:**

- Plant and machinery includes wildcat rig having gross amount of USD 462,222,390 (previous year USD 462,222,390) is charged by the Company as security against the syndicated term loan of USD 165,000,000 (previous year USD 186,031,250) and also carries second preferred mortgage against the the loan availed by Essar Shipping & Logistics Limited amounting to USD 150,000,000 (previous year USD Nil).

**7. CAPITAL WORK IN PROGRESS**

	2011 USD	2010 USD
Balance as on 1 April,	–	52,052,254
Add : Additions during the year	–	20,624,351
Add : Transfer from expenditure during project	–	2,013,540
Less : Spare equipments transferred to inventory (refer note 11)	–	–
Less : Capitalised during the year	–	(20,624,351)
Less : Transferred to Essar Oilfield Services India Limited	–	(54,065,794)
<b>Balance as on 31 March</b>	<b>–</b>	<b>–</b>

**8. EXPENDITURE DURING THE PROJECT**

	2011 USD	2010 USD
Balance at 1 April,	–	1,671,222
Add: Additions during the year	–	342,318
Add: Transferred to capital work in progress	–	(2,013,540)
<b>Balance as on 31 March</b>	<b>–</b>	<b>–</b>

**9. (I) INVESTMENTS IN SUBSIDIARIES**

	2011 USD	2010 USD
At 1 April	<b>140,346,180</b>	272,480
Additions	–	140,346,180
Impairment (Refer note (a) below)	–	(23,947)
Transfer to investments held for sale (Note 9(ii))	–	(248,533)
<b>Total</b>	<b>140,346,180</b>	<b>140,346,180</b>

Details of the Equity investments held are as follows

Name of the investee Company	Country of incorporation	Nature of activity	No of shares		% Holding	
			2011	2010	2011	2010
Essar Oilfield Services India Limited, (657,986,865 equity share of ₹ 10 each)	India	Oilfields services activities	<b>140,346,180</b>	140,346,180	<b>100%</b>	100%

9. (II) INVESTMENTS HELD FOR SALE

	2011 USD	2010 USD
<b>Unquoted equity investments (at cost)</b>		
At 1 April	248,533	–
Transfer to investments held for sale (Note 9(i))	–	248,533
Disposal	(248,533)	–
<b>Total</b>	<b>–</b>	<b>248,533</b>

Details of the Equity investment held are as follows

Name of the investee Company	Country of incorporation	Nature of activity	No of shares		% Holding	
			2011	2010	2011	2010
Essar Oilfields Services (FZE) (1 equity share of USD 272,480)	Dubai	Ship operating and management activities	–	248,533	–	100%

Note:

- Essar Oilfields Services FZE, 100% subsidiary of the Company has been liquidated with effect from 14th April 2010. Hence, the management had recognised the impairment of USD 23,947 in investments in the previous year and the fair value of the investments has been shown as Investments classified as held for sale.
- 147,187,869 equity shares in Essar Oilfield Services India Limited ("EOSIL"), India has been pledged by the Company to the lenders of EOSIL for availment of term loan.

10. TRADE AND OTHER RECEIVABLES

	2011 USD	2010 USD
Trade receivables	31,866,256	33,931,271
Trade receivables from related parties	–	4,276,768
Other receivables from related parties	45,371,557	798,631
Advance given to suppliers *	1,089,878	125,761
Advance given to employees *	76,216	62,240
Prepaid expenses	229,700	209,700
Service tax receivables	468,689	1,581,523
Other deposits	100,262	99,850
Interest on deposits	–	20,457
Margin money with banks	9,547,905	5,885,576
<b>Total</b>	<b>88,750,463</b>	<b>46,991,777</b>

\* Advances given by the Company to suppliers and employees are unsecured and interest free.

The average credit period for trade receivables is 30-90 days. The carrying amount of trade and other receivables approximates to their fair value.

In respect of balances outstanding from few related parties, the management does not consider them as a credit risk as these parties have sound financial track record. Further, considering the past experiences, there is no indication of inability to discharge the debts by these related parties.

Before accepting any new customer, Company assesses credit rating of the potential customer's credit quality and defines credit limits by customer. Limit and credit rating attributed to customers are reviewed every year by the Company.

Included in the trade and other receivables balance are financial assets with a carrying amount of USD 25,989,537 (previous year 30,397,466) which are past due as at the reporting date for which the Company has not provided as there has not been a significant change in the credit quality and the amounts are still receivable. The Company does not hold any collateral over these balances.

Margin money with banks is for more than 180 days.

#### Ageing of past due but not impaired:

As at March 31,	2011 USD	2010 USD
1-90 days	9,035,246	8,903,286
91-180 days	59	1,570,998
181-360 days	1,000,810	1,731,491
361 days and beyond	15,953,422	18,191,691
<b>Total</b>	<b>25,989,537</b>	<b>30,397,466</b>

#### 11. INVENTORIES, AT COST

The inventory balance mainly comprises of store and spares. During the previous year, inventories amounting to USD 20,000,000 had been transferred from Capital work in progress which was expected to be recovered after more than twelve months.

The cost of inventories recognized as expenses during the year was USD 3,872,156 (previous year USD 4,843,823).

#### 12. CASH AND CASH EQUIVALENTS

	2011 USD	2010 USD
Cash and bank balances	3,347,680	5,334,890
<b>Total</b>	<b>3,347,680</b>	<b>5,334,890</b>

#### 13. STATED CAPITAL

	2011 Number	2010 Number	2011 USD	2010 USD
Issued and fully paid:				
Ordinary shares of USD 1 each	200,000,001	100,000,001	200,000,001	100,000,001

The Company has one class of ordinary shares viz. equity shares which carry a right to vote but no right to fixed income by the way of dividend and are repayable only on winding up of the Company. The ordinary share capital of the Company comprising of 200,000,001 ordinary shares of US\$1 each are held by the holding Company, Essar Shipping Limited. (refer note 25)

#### 14. BORROWINGS

	2011 USD	2010 USD
Secured loans: (at amortised cost)		
– Syndicated term loan (i)	161,498,859	182,682,016
– Short term loan from bank (i)	–	14,725,990
	<b>161,498,859</b>	<b>197,408,006</b>
Unsecured loan: (at amortised cost)		
– from related party	–	1,451,073
– Cumulative redeemable preferential shares issued to related party (iii) (refer table below)	230,927,320	275,657,850
<b>Total borrowings</b>	<b>392,426,179</b>	<b>474,516,929</b>
<i>Less : Due within one year</i>	<b>18,868,877</b>	80,851,073
<b>Due after one year</b>	<b>373,557,302</b>	<b>393,665,856</b>

#### Movement schedule of preference shares

	2011 USD	2010 USD
At 1 April	275,657,850	85,000,000
Addition	313,269,470	190,675,850
Redemption	(258,000,000)	–
Conversion into equity shares	(100,000,000)	–
<b>At 31 March</b>	<b>230,927,320</b>	<b>275,675,850</b>

#### Summary of borrowing arrangements:

- (i) The borrowing of the Company from banks is secured by charge on Essar Wildcat rig and inventory and also secured by corporate guarantees from Essar Shipping & Logistics Limited and Essar Shipping Limited (refer note 25), the holding companies.
- (ii) The rate of interest on the above borrowings from banks ranges from 5.5% to 6% per annum (previous year 5.5% to 6%). In case of unsecured borrowings, the interest rate ranges from 6% to 13.5% (previous year 6% to 13.5%).
- (iii) 23,094,532 (previous year 259,765,785) 2% Redeemable cumulative preference shares of USD 10 each having maturity period of ten years been issued to Essar Shipping Limited (refer note 25). The Company is having an option to redeem the preference shares at the end of three years from the date of issue (i.e. 31<sup>st</sup> March, 2010 and 24<sup>th</sup> November 2010 respectively) of such shares.

#### 15. TRADE AND OTHER PAYABLES

	2011 USD	2010 USD
Trade payables	11,635,502	14,523,380
Other payables	261,598	199,813
Provision for purchase / expenses	4,104,377	8,327,590
Payable to related parties	5,494,696	8,546,056
Service tax payable	1,428,188	4,027,232
Interest accrual	2,794,303	2,032,627
<b>Total</b>	<b>25,718,664</b>	<b>37,656,698</b>



**Notes:**

1. Trade and other payables principally comprise amounts outstanding for trade purchases and operating costs. The average credit period taken for the trade payables is 30-90 days. The carrying amount of trade payables approximates to their fair values.
2. Payables to related parties are unsecured, interest free and payable on demand.

**16. STAFF COST**

	2011 USD	2010 USD
Salary, wages and bonus	8,610,278	12,149,118
Allowances and perquisites	139,237	91,902
Defined contribution plan (refer note 21(I))	–	59,307
Defined benefit plan (refer note 21(II)(D))	–	(26,947)
Others	47,666	100,040
<b>Total staff cost</b>	<b>8,797,181</b>	<b>12,373,420</b>
Included in:		
Operating expenses	8,797,181	11,724,811
General and administration expenses	–	648,609
<b>Total</b>	<b>8,797,181</b>	<b>12,373,420</b>

**17. FINANCE COST**

	2011 USD	2010 USD
Interest expense	15,815,288	18,685,918
Loan arrangement fees	4,032,227	2,225,364
Others	251,589	123,387
<b>Total finance cost</b>	<b>20,099,104</b>	<b>21,034,669</b>

**18. RELATED PARTY TRANSACTIONS**
**Details of related parties**

- (I) Holding companies:
  - (a) Essar Shipping Ports & Logistics Limited, India (w.e.f. April 1, 2008 till September 30, 2010)
  - (b) Essar Shipping Limited (w.e.f. 1, October 2010) (refer note 25)
  - (c) India Shipping Limited, Mauritius (w.e.f. February 08, 2008 till March 31, 2008)
  - (d) Essar Shipping & Logistics Limited, Cyprus
  - (e) Essar Global Limited, Cayman Islands
- (II) Subsidiary companies:
  - Direct subsidiaries
    - (a) Essar Oilfields Services FZE, Dubai
    - (b) Essar Oilfield Services India Limited
- (III) Enterprises commonly controlled or influenced by major shareholders/ directors/ or close members of families of such individuals with whom the Company has transactions during the year ("Affiliates"):
  - (a) Essar Engineering Services Limited, India
  - (b) Essar Exploration & Production Limited, Dubai
  - (c) Essar Infrastructure Holdings Limited, Mauritius

- (d) Essar Gulf FZE, Dubai
- (e) Essar Oil Limited, India
- (f) Essar Steel Sharjah FZE, Dubai
- (g) Futura Travels Limited, India
- (h) Essar Constructions (India) Limited, India
- (i) Essar Exploration & Production India Limited, India
- (j) Essar Steel Limited, India
- (k) Essar Logistics Limited, India
- (l) Essar Shipping & Logistics (Panama) Inc., Panama
- (m) Essar Telecom Limited, India
- (n) Essar Investments Limited, India
- (o) Paprika Properties Dubai Limited
- (p) Essar Infrastructure Services Limited, India
- (q) Essar Ports & Terminals Limited, Mauritius (till 30 September 2010)
- (r) Essar Information Technology Limited, India
- (s) Aegis Limited, India
- (t) Essar House Limited, India

During the year ended 31 March, 2011, the Company transacted with related parties. The nature, volume and type of transactions and balances with the parties are as follows:

Nature of transactions	Holding companies	Other related parties	Key management personnel	Total
Operating revenue	— (-)	— (1,438,122)	— (-)	— (1,438,122)
Finance cost	725,629 (2,749,168)	— (43,930)	— (-)	725,629 (2,793,098)
Rent expenses	— (-)	— (701,569)	— (-)	— (701,569)
Travelling expenses	864 (-)	1,091,482 (620,634)	— (-)	1,092,346 (620,634)
Hire charges - plant and machinery	— (-)	— (1,187,226)	— (-)	— (1,187,226)
Clearing and forwarding expenses	— (-)	— (1,403,981)	— (-)	— (1,403,981)
Consultancy services and professional charges	— (-)	1,560,297 (2,092,746)	— (-)	1,560,297 (2,092,746)
Repairs and maintenance	— (-)	9,605 (47,736)	— (-)	9,605 (47,736)
Lodging and boarding	— (-)	— (3,049)	— (-)	— (3,049)
Reimbursement of expenses	5,486 (25,233)	13,430 (52,551)	— (-)	18,916 (77,784)

Nature of transactions	Holding companies	Other related parties	Key management personnel	Total
Purchase of property and equipment	— (-)	— (864)	— (-)	— (864)
Sale of property and equipment	— (-)	— (96,528,534)	— (-)	— (96,528,534)
Advance against share application money	— (-)	30,850,000 (130,992,500)	— (-)	30,850,000 (130,992,500)
Assignment of payable to the Company	— (-)	— (27,742,667)	— (-)	— (27,742,667)
Settlement of payables through assignment	— (-)	— (27,742,667)	— (-)	— (27,742,667)
Loans received	4,100,000 (98,360,000)	709,966 (-)	— (-)	4,809,966 (98,360,000)
Advances received	— (160,416,319)	— (65,575,873)	— (-)	— (225,992,192)
Loans and advances given	50,480,920 (-)	— (657,800)	— (-)	50,480,920 (657,800)
Share application money received	10,100,000 (-)	— (-)	— (-)	10,100,000 (-)
Issue of preference share capital	313,269,470 (190,657,850)	— (-)	— (-)	313,269,470 (190,657,850)
Conversion of preferences shares in equity shares	100,000,000 (-)	— (-)	— (-)	100,000,000 (-)
Redemption of preference share capital	258,000,000 (-)	— (-)	— (-)	258,000,000 (-)
Investment in subsidiary	— (10,207)	— (140,335,974)	— (-)	— (140,346,181)
Dividend Paid	3,917,111 (-)	— (-)	— (-)	3,917,111 (-)
<b>Related party balances</b>				
Trade and other receivables	41,665,596 (77,417)	855,961 (4,997,983)	— (-)	42,521,557 (5,075,400)
Share application money paid	— (-)	2,850,000 (-)	— (-)	2,850,000 (-)
Share application money received	10,100,007 (-)	— (-)	— (-)	10,100,007 (-)
Trade and other payables	— (1,046,551)	4,462,204 (7,499,504)	— (-)	4,462,204 (8,546,055)
Loan received	1,032,492 (1,451,073)	— (-)	— (-)	1,032,492 (1,451,073)
Guarantees issued for the Company	— (-)	— (-)	— (-)	— (-)

\* Figures of previous year have been shown in brackets.

## 19. FINANCIAL INSTRUMENTS

### (i) Capital market risk:

The Company is in a capital intensive industry; wherein it needs significant amount of funds to finance the acquisition and refurbishment of rigs before it goes into operations. The Company has financed its capital requirements through share capital invested by its holding Company and mainly through borrowings which is backed by the charge on the assets. The Company has a capital gearing ratio of 177.66% (previous year 401.32%) as disclosed below; however, the ratio would come down gradually as the Company makes repayment of the said debt from funds generated from operations.

The capital structure of the Company consists of net debt (borrowings as detailed in note 14 offset by cash and bank balances) and equity of the Company (comprising stated capital, share application money and retained earnings)

The gearing ratio for the period ended was as follows:

	2011 USD	2010 USD
Debt (i)	392,426,179	474,516,929
Cash and cash equivalents	(3,347,680)	(5,334,890)
Net debt	389,078,499	469,182,039
Equity (including share application money)	219,000,054	116,910,884
Net debt to equity ratio	177.66%	401.32%

(i) Debt is defined as long and short term borrowings as detailed in note 14.

(ii) Equity includes capital and reserve of the Company.

### (ii) Significant accounting policies:

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 4 to the financial statements.

### (iii) Categories of financial instruments:

	2011 USD	2010 USD
<b>Financial assets</b>		
Loans and receivables (including cash and cash equivalents)*	90,309,876	50,409,683
	90,309,876	50,409,683
<b>Financial liabilities</b>		
Amortised cost	416,716,655	508,146,395
	416,716,655	508,146,395

\* Prepayments, advances to suppliers and service tax receivables amounting to USD 2,320,411 (Previous year - USD 1,916,983) have not been included in financial assets and service tax payable amounting to USD 1,428,188 (Previous year USD 4,027,232) has not been included in financial liabilities.

(iv) **Currency profile:**

The currency profile of Company's financial assets and liabilities is summarized as follows:

Particulars	Financial assets 2011 USD	Financial liabilities 2011 USD	Financial assets 2010 USD	Financial liabilities 2010 USD
United states dollars (USD)	88,531,096	410,967,182	46,510,175	487,363,787
Indian rupees (INR)	1,778,780	2,525,521	3,899,508	11,061,741
Dhirams (AED)	—	366,775	—	5,017,227
British pounds (GBP)	—	66,429	—	1,561,933
Norwegian krone (NOK)	—	971	—	58,208
European Union currency (EURO)	—	97,470	—	70,306
South African rand (ZAR)	—	—	—	485
Singapore dollars (SGD)	—	1,086,906	—	1,288,965
Omani rial (OMR)	—	1,605,401	—	1,723,524
Others	—	—	—	219
	<b>90,309,876</b>	<b>416,716,655</b>	<b>50,409,683</b>	<b>508,146,395</b>

(v) **Fair value risk:**

The carrying values of trade and other receivables and trade and other payables approximate to their fair values.

(vi) **Currency risk:**

The Company undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise. The Company has not entered in to any forward foreign exchange contracts to cover specific foreign currency exposures.

The carrying amounts of the Company's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	2011 USD	2010 USD
<b>Assets</b>		
<b>Trade and other receivables:</b>		
in INR	1,558,623	3,841,128
<b>Cash and bank balances</b>		
in INR	220,157	58,380
<b>Total</b>	<b>1,778,780</b>	<b>3,899,508</b>
<b>Liabilities</b>		
<b>Trade and other payables</b>		
in INR	2,525,521	11,061,741
in AED	366,775	5,017,227
in EURO	97,470	70,306
in GBP	66,429	1,561,933
in NOK	971	58,208
in OMR	1,605,401	1,723,524
in SGD	1,086,906	1,288,965
in Others	—	219
in ZAR	—	485
<b>Total</b>	<b>5,749,473</b>	<b>20,782,608</b>

The following table details the Company's sensitivity to a 10% increase and decrease in the USD against the relevant foreign currencies. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. The sensitivity analysis includes loans to foreign operations within the Company where the denomination of the loan is in a currency other than the currency of the Company.

A positive number below indicates an increase in profit where the USD strengthens 10% against the relevant currency. For a 10% weakening of the USD against the relevant currency, there would be an equal and opposite impact on the profit, and the balances below would be negative. There is reverse impact on the expenditure during construction, 10% strengthening of USD leads to reduction in Expenditure during construction as shown below and 10% weakening of USD leads to opposite impact of increase in expenditure during construction.

Currency impacts	Impact on profit and loss	
	2011 USD	2010 USD
<b>Assets:</b>		
INR impact	177,878	389,951
<b>Total asset impact</b>	<b>177,878</b>	<b>389,951</b>
<b>Liabilities:</b>		
INR impact	252,552	1,106,174
AED impact	36,677	501,723
EURO impact	9,747	7,031
GBP impact	6,643	156,193
NOK impact	97	5,821
OMR impact	160,540	172,352
SGD impact	108,691	128,897
Others impact	—	22
ZAR impact	—	49
<b>Total liabilities impact</b>	<b>574,947</b>	<b>2,078,262</b>

(vii) **Interest rate risk:**

The Company is exposed to interest rate risk as it has borrowed funds bearing floating interest rates. The interest rate risk is managed by monitoring the Company's level of borrowings periodically and structuring its borrowings varying maturity and interest rate terms. The Company's exposure to interest rates on financial assets and financial liabilities are detailed in liquidity risk management section of this note.

The sensitivity analysis below has been determined based on the exposure to interest rates for instruments at the reporting date. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the reporting date was outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Company's Expenditure during project for the period ended March 31, 2011 would increase/ decrease by USD Nil (previous year USD Nil) and profit and loss would decrease / increase by USD 825,000 (previous year USD 987,040). This is mainly attributable to the Company's exposure to interest rates on its variable rate borrowings.

The Company has not entered in to interest rate swap contracts and / or forward interest contracts to manage its interest rate risk.

(viii) **Credit risk:**

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company has majority of its receivables from group companies; hence, credit risk is minimum. In case of trade receivables from outsiders, management does not perceive any significant credit risk.

(ix) **Liquidity risk:**

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of the Company's short, medium and long-term funding and liquidity management requirements. The Company manages liquidity risk by maintaining banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Additional undrawn facilities that the Company has at its disposal also reduce liquidity risk.

In respect of term loan and other financial liabilities, the Company is exposed to liquidity risk. The maturity analysis of the said financial liabilities on gross basis is as under:

	2011 USD	2010 USD
– Within 90 days	30,668,664	102,386,164
– After 90 days but before 180 days	4,950,000	16,100,000
– After 180 days but before 360 days	9,900,000	33,651,073
– After 1 year but before 3 years	39,600,000	121,631,250
– After 3 years but before 5 years	39,600,000	–
– 5 years and beyond	296,927,320	275,657,850
<b>Total</b>	<b>421,645,984</b>	<b>549,426,337</b>
Less : Unamortized loan arrangement fees adjusted	3,501,141	3,623,244
<b>Total</b>	<b>418,144,843</b>	<b>545,803,093</b>

The Company expects to meet its other obligations from operating cash flows and proceeds of maturing financial assets.

(x) **Other price risk:**

The Company is exposed to equity price risk arising from equity investment. Equity investments are held for strategic rather than trading purposes. The Company does not actively trade this investment.

**Equity price sensitivity analysis:**

The sensitivity analyses below have been determined based on the exposure to equity price risks at the reporting date.

**If the price had been 5% higher / lower:**

Net profit for the year ended March 31, 2011 would have been unaffected as equity investments are classified as available for sale and no investments were disposed off or impaired and other equity reserves would increase / decrease by USD Nil (previous year USD Nil) for the Company as a result of change in fair value of Available for sale investments.

(x) **Fair value of financial instruments:**

All financial assets are initially recognized at fair value of consideration paid. Subsequently, financial assets are carried at fair value or amortized cost less impairment. Where non-derivative financial assets are carried at fair value, gains and losses on remeasurement are directly recognized in equity unless the financial assets have been designated as being held at fair value through profit or loss, in which case the gains and losses are recognized directly in the Statement of comprehensive income. Financial assets are designated as being held at fair value through profit or loss when it is necessary to reduce measurement inconsistency for related assets and liabilities. All financial liabilities other than derivatives are initially recognized fair value of consideration received net of transaction costs as appropriate (initial cost) and subsequently carried at amortized cost.

## 20. TAXATION

The Company has been established as Category 1 Global Business Company for the purpose of the Financial Service Development Act 2007. The profit of the Company, as adjusted for tax purpose, is subject to income tax at the rate of 15%. It is, however, entitled to tax credit equivalent to the higher of the foreign taxes paid and 80% of the Mauritius tax on its foreign source income under Double Taxation Avoidance Agreement (DTAA). Interest income from call and deposit accounts held with any bank under Banking Act, 2004 are exempt from tax and there is no tax on capital gains in Mauritius.

The directors, in accordance with the Company's accounting policy, have not recognized deferred tax asset on the tax losses suffered by the Company in Mauritius operations.

The Company's profit from Indian operations are liable to tax on the higher of profits determined as per the special provision for the business of exploration under section 44BB or book profit calculated under section 115JB of the Indian Income tax Act, 1961. However, this will not result in any temporary differences requiring creation of a deferred tax asset / liability.

### Effective tax reconciliation

A reconciliation of income tax expense applicable to accounting profit before taxation at the statutory income tax rate to income tax expense at the Company's effective income tax rate for the year ended 31 March, 2011 and 31 March, 2010 are as follows:

	2011 USD	2010 USD
<b>(Loss) / profit before tax</b>	<b>(7,914,182)</b>	<b>12,840,954</b>
<b>Income tax</b>		
Statutory income tax rate of 15%	1,187,127	1,926,143
Non-taxable (income) / non-deductible expense	(1,187,127)	—
Effect of presumptive tax rate charged	96,655	1,921,693
<b>Income tax recognised in the statement of comprehensive income</b>	<b>96,655</b>	<b>3,847,836</b>

Current tax liability as appearing in the statement of financial position:

	Provision for tax	Advance tax	Net
Opening balance	(7,095,112)	6,159,897	(935,215)
Provision for the year	(96,655)	—	(96,655)
Advance tax	—	754,615	754,615
Exchange difference	(79,855)	82,972	3,117
	<b>(7,271,622)</b>	<b>6,997,484</b>	<b>(274,138)</b>

## 21. PROVISION FOR EMPLOYEE BENEFITS

### (I) Defined contributions plans

During the previous year, the payroll structure of employees in India have been restructured and they have become members of a state – managed retirement benefit plan namely provident fund operated by the Government of India. In case of provident fund the Company is required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Company with respect to these retirement benefit plans is to make specified contributions. In the current year, no employee covers under either defined contribution plan or defined benefit plan.

During the previous, the Company has recognized the following amounts in the Statement of comprehensive income.

	2011 USD	2010 USD
Employer's contribution to provident fund	—	54,953
Employee accident policy cover	—	4,355
<b>Total</b>	<b>—</b>	<b>59,308</b>

The above amounts are included in "Staff costs" – Refer note 16.



## (II) Defined benefit plans

The Company operates non-funded defined benefit gratuity plan for its qualifying employees. Under the plan the employees are entitled to retirement benefits depending upon the number of years of service rendered by them subject to minimum years of service. No other post retirement benefits are provided to these employees.

The actuarial valuation of plan assets and the present value of defined benefit obligation were carried out as at March 31, 2010 by the certified actuarial valuer. The present value of defined benefit obligation, related current service cost and past service cost were measured using the projected unit credit method.

### (A) Movement in present value of defined benefit obligation

	Compensated absences (non-funded)		Gratuity (non-funded scheme)		Total	
	2011 USD	2010 USD	2011 USD	2010 USD	2011 USD	2010 USD
Present value of defined benefit obligation as at the beginning of the year	12,490	18,464	17,300	33,014	29,790	51,478
Current service cost	(12,490)	11,462	(17,300)	17,164	(29,790)	28,626
Interest cost	–	1,507	–	2,695	–	4,202
Actuarial gain / (loss) on obligation	–	(20,917)	–	(38,858)	–	(59,775)
Exchange fluctuation	–	1,973	–	3,285	–	5,259
<b>Present value of defined benefit obligation as at the end of the year</b>	<b>–</b>	<b>12,490</b>	<b>–</b>	<b>17,300</b>	<b>–</b>	<b>29,790</b>

### (B) Amount recognized in statement of financial position

	Compensated absences (non-funded)		Gratuity (non-funded scheme)		Total	
	2011 USD	2010 USD	2011 USD	2010 USD	2011 USD	2010 USD
Present value of defined benefit obligations as at the end of the year	–	12,490	–	17,300	–	29,790
Fair value of plan assets as at the end of the year	–	–	–	–	–	–
<b>Liability recognized in statement of financial position</b>	<b>–</b>	<b>12,490</b>	<b>–</b>	<b>17,300</b>	<b>–</b>	<b>29,790</b>

(Included in employee benefits)

### (C) Amount recognized in Statement of comprehensive income

	Compensated absences (non-funded)		Gratuity (non-funded scheme)		Total	
	2011 USD	2010 USD	2011 USD	2010 USD	2011 USD	2010 USD
Current service cost	(12,490)	11,462	(17,300)	17,164	(29,790)	28,626
Interest cost	–	1,507	–	2,695	–	4,202
Net actuarial (gain) / loss recognized in the period	–	(20,917)	–	(38,858)	–	(59,775)
<b>Total income recognized in Statement of comprehensive income</b>	<b>(12,490)</b>	<b>(7,948)</b>	<b>(17,300)</b>	<b>(18,999)</b>	<b>(29,790)</b>	<b>(26,947)</b>

(Included in staff cost – Refer note 16)

**(D) Actuarial assumptions**

Actuarial valuation as at the year end was done in respect of the aforesaid defined benefit plans based on the following assumptions:

**(i) General assumptions:**

	Compensated absences (non-funded)		Gratuity (non-funded scheme)	
	2011	2010	2011	2010
Discount rate (per annum)	–	7.80%	–	7.80%
Expected retirement age of employees (years)	–	58	–	58
Withdrawal rate of employees	–	12%	–	12%
Rate of increase in compensation	–	9%	–	9%
	–	–	–	–

(ii) Mortality rates considered are as per the published rates in the Life Insurance Corporation of India (1994-96) mortality table.

**(E) Experience History**

	Gratuity			Compensated absences		
	2011 USD	2010 USD	2009 USD	2011 USD	2010 USD	2009 USD
Defined benefit obligation at the end of the year	–	(12,490)	(18,464)	–	(17,300)	(33,014)
Funded status	–	(12,490)	(18,464)	–	(17,300)	(33,014)
Experience gain/ (loss) adjustment on plan liabilities	12,490	20,443	–	17,300	29,174	–
Actuarial gain/ (loss) due to change in assumptions	–	–	472	–	9,685	–

**22. PROVISIONS**

The Company is disputing the claim of US\$ 14,905,678 (previous year USD 14,905,678) towards supply of equipments and other support services during the trial run period of rig. However pending settlement, during the year, Company has made provision for the entire claim towards cost of rig. The Company is expecting the settlement in near future.

**23. PRESENTATION AND FUNCTIONAL CURRENCY**

The financial statements are presented in United States Dollars which also represents the currency of the primary economic environment in which the Company operates.

**24. CONTINGENT LIABILITIES**

**(I) Guarantee**

- Performance guarantees issued by banks on behalf of the Company : USD 2,000,000 (previous year USD 4,100,000)
- Guarantee issued by banks on behalf of the Company to third party : USD 10,385,927 (previous year USD 10,385,927)
- Guarantee issued by the Company to Essar Oilfield Services India Limited : USD 270,996,641 (previous year USD 268,054,940)

**25. CHANGE IN HOLDING COMPANY**

During the year Essar Shipping Ports & Logistics Limited ("the Holding Company") filed for a scheme of arrangement with the Honorable High Court of Gujarat under section 391 to 394 of the Companies Act, 1956. The scheme provided for the

merger of two of the Holding Company's wholly owned subsidiaries namely Essar International Limited and Essar Ports & Terminals Limited both incorporated in Mauritius into the Holding Company ("the merger") with effect from September 30, 2010 and the demerger of its Shipping, Logistics and Oilfield Drilling Business into its wholly owned subsidiary, Essar Shipping Limited [previously known as Essar Ports & Terminals Limited (India)] (the "demerger") with effect from October 1, 2010. The Company has received approval from the Honorable High court of Gujarat and the Honorable Supreme Court of Mauritius. In terms of the Order of the Honorable Supreme Court of Mauritius, the merger becomes effective upon filing of its Order by the Holding Company with the Registrar of Companies, Mauritius. The Holding Company has filed the Order with the Registrar of Companies, Mauritius and the scheme is effective on 9<sup>th</sup> May 2011.

## **26. SEPARATE FINANCIAL STATEMENTS**

The Company's investment in Essar Oilfields Services FZE, Dubai and Essar Oilfield Services India Limited are not consolidated and exemption from consolidation has been used as the intermediate parent, Essar Shipping & Logistics Limited, Cyprus will prepare consolidated financial statements for the year ended 31 March, 2011 as per International Financial Reporting Standards and will be available for public use at Riga Feraiou, 4, Omega Court, 1<sup>st</sup> floor, P.C. 3095, Limassol, Cyprus.

# ESSAR OILFIELD SERVICES INDIA LIMITED

## BOARD OF DIRECTORS

A. R. Ramakrishnan  
**Director**

V. Ashok  
**Director**

R. N. Bansal  
**Independent Director**

Rajiv Agarwal  
**Director**

Shailesh Sawa  
**Director**

Ankur Gupta  
**Whole-time Director**

### Audit Committee

R. N. Bansal  
A.R. Ramakrishnan  
Ankur Gupta

### Auditors

Deloitte Haskins & Sells

### REGISTERED & CORPORATE OFFICE

Essar House  
11, K. K. Marg Mahalaxmi Mumbai 400 034

## DIRECTORS' REPORT

The Directors have pleasure in presenting the Fifth Annual Report together with the Audited Accounts of the Company for the year ended March 31, 2011.

### FINANCIAL RESULTS:

The summary of financial results of your Company for the year ended March 31, 2011 is furnished below:

(₹ in crore)

Particulars	For the Year ended March 31, 2011	For the Year ended March 31, 2010
Total Income	35.11	33.20
Total Expenditure	81.40	27.73
Profit / (Loss) Before Depreciation & Tax	(46.29)	5.47
Less: Depreciation	26.17	18.19
Less: Provision for tax	—	—
Profit / (Loss) After Tax	(72.46)	(12.72)
Add: Balance in the Profit and Loss Account as per last Balance Sheet.	—	—
Balance Carried forward to Balance Sheet	(85.19)	(12.72)

### INDUSTRY OUTLOOK:

The improving economic scene — both in the U.S. as well as worldwide — and the continued unrest in producing countries had been the main driver of the oil rally that saw the commodity zoom past the US\$110 per barrel level last month.

But far too many factors weigh on oil prices — from OPEC decisions and geostrategic tensions to the value of the U.S. dollar and seasonal variables — to definitively size up each one of them for their respective impact on prices.

As per the latest release by the Energy Information Administration (EIA), crude supplies are higher than the year-earlier level and are above the upper limit of the average for this time of the year. This has led to demand concerns against a backdrop of persistently slow job growth. At the same time, global oil consumption is expected to grow at a healthy rate this year, buoyed by the continued demand strength in the major emerging market economies.

As such, crude oil's near-term fundamentals remain patchy, to say the least. The long-term outlook for oil, however, remains favorable given the commodity's constrained supply picture.

According to the EIA, world crude consumption grew by an estimated 2.2 million barrels per day in 2010, to 86.6 million barrels per day, which more than made up for the losses of the previous 2 years and surpassed the 2007 level of 86.3 million barrels per day (reached prior to the economic downturn).

The agency added that average global consumption growth over the next 2 years is likely to return to rates seen before the onset of the global downturn in 2008. EIA, in its Short-Term Energy Outlook, said that it expects the current economic recovery to contribute towards global oil demand growth of 1.4 million barrels per day in 2011 and 1.6 million barrels per day in 2012. However, the EIA's most recent demand growth forecast for 2011 is 120,000 barrels per day lower than in the earlier version, as the agency sees high crude prices cutting into consumption.

Recently, the Paris-based International Energy Agency (IEA), the energy-monitoring body of 28 industrialized countries, also trimmed its 2011 world oil demand outlook, citing the impact of persistent high prices and weaker economic growth for developed economies. IEA predicts that global oil demand would increase by 1.5% (or 1.3 million barrels per day) annually, reaching 89.2 million barrels a day in 2011 from last year's 87.9 million barrels a day. The energy agency's current estimate for 2011 is lower by 190,000 barrels a day from its last report, issued in April 2011.

However, the third major energy consultative body, the Organization of the Petroleum Exporting Countries (OPEC) — the oil cartel that supplies around 40% of the world's crude — forecasted marginally stronger-than-previously-anticipated global oil demand in 2011. In its latest monthly oil report, OPEC said it expects world oil demand to grow by 1.4 million barrels per day in 2011, reflecting an upward revision of 20,000 barrels a day over the previous assessment. The organization maintained that oil supplies remain balanced despite the political crisis in the North African and Arab countries, as its members and other producers pump more crude.

We expect crude oil to trade in the US\$100-110 per barrel range in the near future, supported by the continued tightening of world oil markets. But this does not mean that we will not see any short-term pullbacks. On the whole, we expect oil prices in 2011 to be higher than 2010 levels, but remain significantly below 2008 peak levels.

According to recent various analysis, total onshore drilling demand may reach a requirement for more than 7,300 active rigs drilling by 2015, with 52% of the demand coming from regions outside North America. In China, for example, the count is now greater than those in Canada and Russia. The global development of unconventional gas outside of North America will also have a profound effect on the global rig fleet toward the end of this decade. To meet the forecast production figures for European shale gas, for example, high-HP rig construction in the region would need to increase by over 1,000%.

### **Strong Demand Growth in International Market**

Internationally, with strong demand growth expected over the next five years and beyond. Various analysis estimates that growth in rig demand will average in excess of 5% per annum over the next five years, with strong growth set to occur within key markets on each continent.

Mexico will become an increased focus within Latin America, due primarily to increased expenditure by Pemex on exploratory activities. Although the mature environments of Libya and Egypt may witness a flat profile, other key MENA countries – including Saudi Arabia, UAE and most notably Iraq – are all expected to see substantial growth in the volume of rigs. In countries such as Algeria and Libya, the majority of this rig demand will be seen for horizontal and deviated drilling. Companies will seek to maintain production in maturing oil fields, and over 80% of newbuild demand will be for high HP rigs.

The analysis concludes that, by 2015, total onshore drilling demand may require more than 7,300 active rigs, and 52% of that demand will come from outside North America.

Growth of such scale inevitably requires an increased volume of rig construction – to increase the number of rigs currently available in international markets and to repair and replace existing fleets, which have suffered from a lack of investment over the last few decades.

Competition between manufacturers of rig components in frontier and international markets is strong. More than 100 companies now provide drawworks worldwide, with many of these also providing mud pumps and top drives. Development outside North America arguably provides more opportunities for oilfield service companies than producers, due to the number of NOCs within frontier markets.

### **Fleet Age, Reserve Maturity**

Future demand within the rig market and the requirement to construct new fleet will be driven primarily by the age of rigs. The existing fleet is aging rapidly, the average rig being 20 years old. The maintenance and replacement of this fleet is necessary in order to ensure suitability for continued and, in many cases, accelerated drilling programs.

Older rigs are likely to continue to be used for the drilling of in-fill wells. Equally, the complexity and depth of wells is increasing on a global basis. The depth of wells is increasing in key operating environments, such as Russia and MENA, while the use of deviated drilling is increasing, particularly within prolific gas-producing basins. Between 2010 and 2015, the global fleet of higher-HP rigs is set to increase by 46%, compared with only 27% for lower-HP rigs over the same period.

Newbuild activity has resumed in order to satisfy increased demand and to replace the aging fleet. Rig manufacturing capacity was put under pressure, and firms across the world prospered.

Recent activity has remained strong. While economic turmoil has put downward pressure on the number of rigs required to be working, this downturn has impacted to a lesser extent to previous cycles, and demand remains, relatively speaking, high.

### **DIRECTORS:**

During the year under review, Shri Sanjay Mehta has resigned from the Board with effect from August 2, 2010. Your Board places on record their appreciation for the valuable contribution made by Shri Sanjay Mehta in the progress of the Company. Further Mr. R. N. Bansal was appointed as Additional Director with effect from March 1, 2011 and Mr. Ankur Gupta was appointed as a Whole-time Director designated as Chief Executive Officer of the Company with effect from May 23, 2011. In accordance with the provisions of the Companies Act, 1956 and the Articles of Association of the Company, Shri A. R. Ramakrishnan retire at the ensuing Annual General Meeting of the Company and being eligible, offer themselves for re-appointment.

### **AUDIT COMMITTEE:**

During the year, the Board has re-constituted Audit Committee. The Audit Committee comprises of the following Directors:

1. Shri. R. N. Bansal
2. Shri. A. R. Ramakrishnan
3. Shri. Ankur Gupta

### **AUDITORS:**

Your Company's Auditors, Messrs. Deloitte Haskins & Sells, Chartered Accountants, Mumbai retire at the ensuing Annual General Meeting and have expressed their inability to be appointed as Statutory Auditors. It is proposed to appoint Messrs. Deloitte Haskins & Sells, Chartered Accountants, Ahmedabad as the Auditors of the Company from the conclusion of this Annual General Meeting until the conclusion of the next Annual General Meeting. The Company has received a notice from a member proposing the name of Messrs. Deloitte Haskins & Sells, Ahmedabad as Statutory Auditors.

### **HOLDING COMPANY:**

Your Company continues to be the 100% subsidiary of Essar Oilfield Services Limited, Mauritius.

### **CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE EARNING AND OUTGO:**

The provisions of Section 217(1)(e) of the Companies Act, 1956 read with Companies (Disclosure of Particulars in the Report of Board of Directors), Rules 1988, relating to Energy Conservation and Technology Absorption are not applicable to your Company.

The foreign exchange earnings and outgo position (on accrual basis) is as under:

Earned	:	Rs. 12.81 crore
Used	:	Rs. 11.49 crore

### **PARTICULARS OF EMPLOYEES:**

Information required in accordance with the provisions of Section 217(2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975 as amended is annexed and forms part of this report.

**DIRECTORS' RESPONSIBILITY STATEMENT:**

Pursuant to the requirement of Section 217(2AA) of the Companies Act, 1956 the Board of Directors hereby state that:

- (i) in preparation of the annual accounts, the applicable accounting standards had been followed (along with proper explanation relating to material departures) and that there were no material departures;
- (ii) the Directors have selected the accounting policies and applied them consistently and made judgments and estimates that were reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit or loss of the Company for the year under review;
- (iii) the Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Act, for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities; and
- (i) the Directors have prepared the accounts on a going concern basis.

**APPRECIATION AND ACKNOWLEDGEMENTS:**

Your Directors express their sincere thanks and appreciation to all the employees for their commendable teamwork and contribution to the growth of the Company.

Your Directors also thank its bankers and other business associates for their continued support and co-operation during the year.

For and on behalf of the Board

Mumbai  
May 23, 2011

**Ankur Gupta**  
Whole-time Director

**A. R. Ramakrishnan**  
Director

## AUDITORS' REPORT

TO THE MEMBERS OF

### ESSAR OILFIELD SERVICES INDIA LIMITED

1. We have audited the attached Balance Sheet of **ESSAR OILFIELD SERVICES INDIA LIMITED** ("the Company") as at 31st March, 2011, the Statement of Profit and Loss and the Cash Flow Statement of the Company for the year ended on that date, both annexed thereto. These financial statements are the responsibility of the Company's Management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with the auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and the disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by the Management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. As required by the Companies (Auditor's Report) Order, 2003 (CARO) issued by the Central Government in terms of Section 227(4A) of the Companies Act, 1956, we give in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.
4. Further to our comments in the Annexure referred to in paragraph 3 above, we report that:
  - (i) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;
  - (ii) in our opinion, proper books of account as required by law have been kept by the Company so far as it appears from our examination of those books;
  - (iii) the Balance Sheet, the Statement of Profit and Loss and the Cash Flow Statement dealt with by this report are in agreement with the books of account;
  - (iv) in our opinion, the Balance Sheet, the Statement of Profit and Loss and the Cash Flow Statement dealt with by this report are in compliance with the Accounting Standards referred to in Section 211(3C) of the Companies Act, 1956;
  - (v) in our opinion and to the best of our information and according to the explanations given to us, the said accounts give the information required by the Companies Act, 1956 in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:
    - (a) in the case of the Balance Sheet, of the state of affairs of the Company as at 31st March, 2011;
    - (b) in the case of the Statement of Profit and Loss, of the loss of the Company for the year ended on that date and
    - (c) in the case of the Cash Flow Statement, of the cash flows of the Company for the year ended on that date.
5. On the basis of the written representations received from the Directors as on 31st March, 2011 taken on record by the Board of Directors, we report that none of the Directors is disqualified as on 31st March, 2011 from being appointed as a director in terms of Section 274(1) (g) of the Companies Act, 1956.

For **Deloitte Haskins & Sells**  
**Chartered Accountants**  
 (Registration No. 117366W)

**Khurshed Pastakia**  
 Partner  
 (Membership No.31544)

Mumbai  
 May 23, 2011

### Annexure to the Auditor's Report to the members of Essar Oilfield Services India Limited

(referred to in paragraph 3 of our report of even date)

In our opinion and according to the information and explanations given to us, the nature of the Company's business/activities during the year are such that clauses (vi), (viii), (xiii), (xiv), (xviii), (xix) and (xx) of Para 4 of the Order are not applicable to the Company.

#### 1. In respect of fixed assets:

- a. The Company has maintained proper records showing full particulars, including quantitative details and situation of its fixed assets.
- b. The fixed assets of the Company are physically verified by the management according to a phased programme designed to cover all the items over a period of three years, which in our opinion, is largely reasonable having regard to the size of the Company and the nature of its assets. As per the information given to us by the management, no material discrepancies as compared to book records were noticed in respect of fixed assets verified during the year.



- c. In our opinion and according to the information and explanations given to us, the Company has not made substantial disposals of fixed assets during the year and the going concern status of the Company is not affected.

**2. In respect of inventories:**

- a. As explained to us, inventories were physically verified by the management during the year at reasonable intervals.
- b. In our opinion and according to the information and explanations given to us, the procedures of physical verification of inventories followed by the management were reasonable and adequate in relation to the size of the Company and nature of its business.
- c. In our opinion and according to the information and explanations given to us, the Company has maintained proper records of its inventories. No material discrepancies were noticed on physical verification as compared to book records.
3. In our opinion and according to the information and explanations given to us, there are no companies, firms or parties required to be entered into the register maintained under section 301 of the Companies Act, 1956. Accordingly, paragraphs 4(iii) (a) to (g) of the Order are not applicable to the Company.
4. In our opinion and according to the information and explanations given to us, there is an adequate internal control system commensurate with the size of the Company and the nature of its business for purchase of inventory and fixed assets and for sale of services. During the course of our audit, we have not observed any continuing failure to correct major weaknesses in such internal controls. The nature of the Company's business does not involve sale of goods.
5. In our opinion and according to the information and explanations given to us, there are no contracts or arrangements that need to be entered into the register maintained in pursuance of Section 301 of the Companies Act, 1956.
6. In our opinion, the company does not have an internal audit system.
7. According to the information and explanations given to us, in respect of statutory dues:
- a. Except for delay in depositing tax deducted at source in few cases, the Company has been generally regular in depositing undisputed statutory dues, including Provident Fund, Income Tax, Sales Tax, Value Added Tax, Service Tax, Custom Duty, Cess and any other material statutory dues, as applicable, with the appropriate authorities during the year. As explained to us, the provisions for Investor Education and Protection Fund, Employees' State Insurance Scheme, Wealth Tax and Excise Duty were not applicable to the Company during the year.
- There are no material undisputed amounts payable in respect of above statutory dues outstanding as at 31st March, 2011 for a period exceeding six months from the date they became payable.
- b. According to information and explanations given to us, there were no dues pending to be deposited on account of any dispute in respect of Sales Tax, Income Tax, Customs Duty, Wealth Tax, Service Tax, Excise Duty and Cess as on 31st March, 2011.
8. The Company has been registered for a period of less than five years and hence we are not required to comment on whether or not the accumulated losses at the end of the financial year is fifty per cent or more of its net worth and whether it has incurred cash losses in such financial year and in the immediately preceding financial year.
9. In our opinion, and according to the information and explanations given to us, the Company has not defaulted in repayment of dues to banks, financial institution or debenture holders.
10. According to the information and explanations given to us and based on the documents and records produced to us, the Company has not granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities.
11. According to the information and explanations given to us, the Company has not given any guarantee for loans taken by others from bank or financial institutions.
12. To the best of our knowledge and belief and according to the information and explanations given to us, term loans availed by the Company were, prima facie, applied by the Company during the year for the purposes for which the loans were obtained, other than temporary deployment pending application.
13. According to the information and explanations given to us, and on an overall examination of the Balance sheet of the Company, we report that the company has used funds raised on short-term basis for long-term investment. The company has accepted intercompany deposits amounting to Rs 38.10 crore, which would fall due for repayment on demand by the lenders. The company has invested the money in the construction of long term assets.
14. To the best of our knowledge and belief and according to the information and explanation given to us, no material fraud on or by the Company was noticed or reported during the year.

For **Deloitte Haskins & Sells**  
**Chartered Accountants**  
(Registration No. 117366W)

**Khurshed Pastakia**

Partner

(Membership No.31544)

Mumbai  
May 23, 2011

BALANCE SHEET AS AT 31<sup>ST</sup> MARCH, 2011

	Schedule No.	As at 31.03.2011 ( ₹ )	As at 31.03.2010 ( ₹ )
<b>I. SOURCES OF FUNDS</b>			
<b>Shareholders' funds:</b>			
Capital	1	6,579,868,650	6,579,868,650
Share application money		127,827,719	—
		<b>6,707,696,369</b>	<b>6,579,868,650</b>
<b>Loan funds:</b>			
Secured loans	2	10,705,000,355	7,555,000,000
Unsecured loans	3	381,000,000	84,000,000
		<b>11,086,000,355</b>	<b>7,639,000,000</b>
<b>Total</b>		<b>17,793,696,724</b>	<b>14,218,868,650</b>
<b>II. APPLICATION OF FUNDS</b>			
<b>Fixed assets:</b>	4		
Gross block		2,666,306,487	2,295,211,164
Less: Depreciation		443,608,078	181,919,178
Net block		2,222,698,410	2,113,291,986
Capital work in progress (including capital advances)	4A	13,715,308,575	11,702,871,354
Expenditure during construction	4B	1,005,760,400	268,131,985
		<b>16,943,767,386</b>	<b>14,084,295,325</b>
<b>Current assets, loans and advances:</b>	5		
Inventories		252,478	—
Sundry debtors		190,637,355	143,280,388
Cash and bank balances		153,474,713	15,255,098
Loans and advances		167,420,097	295,729,529
		<b>511,784,643</b>	<b>454,265,015</b>
<b>Less: Current liabilities and provisions:</b>	6		
Current liabilities		525,826,692	467,351,844
Provisions		6,162,225	2,750,495
		<b>531,988,917</b>	<b>470,102,339</b>
Net current liabilities		<b>(20,204,274)</b>	<b>(15,837,324)</b>
Debit balance of Statement of Profit and Loss		851,893,455	127,260,891
Miscellaneous expenditure (to the extent not written off)		18,240,158	23,149,758
<b>Total</b>		<b>17,793,696,724</b>	<b>14,218,868,650</b>
<b>SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO FINANCIAL STATEMENTS</b>	11		

In terms of our report attached

For **Deloitte Haskins & Sells**  
Chartered Accountants**Khurshed Pastakia**  
PartnerMumbai  
May 23, 2011

For and on behalf of the Board

**Ankur Gupta**  
Whole-time DirectorMumbai  
May 23, 2011**A. R. Ramakrishnan**  
Director

## STATEMENT OF PROFIT AND LOSS FOR THE YEAR ENDED 31<sup>ST</sup> MARCH, 2011

	Schedule No.	For the year ended 31.03.2011 ( ₹ )	For the year ended 31.03.2010 ( ₹ )
<b>INCOME</b>			
Rig operating and chartering earnings		242,374,729	295,627,782
Other income	7	108,697,744	36,406,381
		<b>351,072,473</b>	<b>332,034,163</b>
<b>EXPENDITURE</b>			
Operating expenses	8	291,681,548	42,842,542
Establishment and other expenses	9	211,080,772	39,222,517
		<b>502,762,320</b>	<b>82,065,059</b>
<b>PROFIT/(LOSS) BEFORE INTEREST, DEPRECIATION AND TAX</b>		<b>(151,689,847)</b>	<b>249,969,104</b>
Interest and finance expenses	10	311,253,818	195,268,461
<b>PROFIT/(LOSS) BEFORE DEPRECIATION AND TAX</b>		<b>(462,943,665)</b>	<b>54,700,643</b>
Depreciation	4	261,688,900	181,919,178
<b>LOSS BEFORE TAX</b>		<b>(724,632,564)</b>	<b>(127,218,535)</b>
Less: Provision for taxation			
– Current tax		–	–
		<b>(724,632,564)</b>	<b>(127,218,535)</b>
<b>LOSS AFTER TAX</b>		<b>(724,632,564)</b>	<b>(127,218,535)</b>
Balance brought forward from previous year		(127,260,891)	(42,356)
<b>BALANCE CARRIED FORWARD TO BALANCE SHEET</b>		<b>(851,893,455)</b>	<b>(127,260,891)</b>
Basic and diluted earnings per share ( ₹ )		<b>(1.10)</b>	(1.22)
(face value of ₹ 10/- per share)			
(Refer note B(5) of schedule 11)			
<b>SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO FINANCIAL STATEMENTS</b>	11		

In terms of our report attached

For **Deloitte Haskins & Sells**  
Chartered Accountants

**Khurshed Pastakia**  
Partner

Mumbai  
May 23, 2011

For and on behalf of the Board

**Ankur Gupta**  
Whole-time Director

Mumbai  
May 23, 2011

**A. R. Ramakrishnan**  
Director

**CASH FLOW STATEMENT FOR THE YEAR ENDED 31<sup>ST</sup> MARCH, 2011**

Particulars	For the year ended 31.03.2011	For the year ended 31.03.2010
<b>A. CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Loss before tax	(724,632,564)	(127,218,535)
Adjustment for :		
Depreciation	261,688,900	181,919,178
Finance cost	310,342,778	195,268,461
Upfront fee amortised	911,040	58,098
Share issue expenses written off	4,909,600	1,398,242
Exchange (gain)/ loss	(38,939,212)	229,278
Profit on sale of investments	—	(23,066)
Employee benefits - non funded	3,411,730	2,750,495
Interest income	(51,131)	—
<b>Operating (loss)/ profit before working capital changes</b>	<b>(182,358,861)</b>	<b>254,382,151</b>
Adjustments for :		
Inventories	(252,478)	—
Trade and other receivables	(29,047,534)	(149,994,675)
Trade and other payables	182,588,243	31,874,261
<b>Net cash flow from operating activities</b>	<b>(29,070,629)</b>	<b>136,261,737</b>
<b>B. CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Loans and advances given to holding and other body corporates	(115,200,000)	(271,681,137)
Loans and advances repaid by holding and other body corporates	225,200,000	101,089,053
Purchase of fixed assets	(1,325,835)	(2,152,668,225)
Expenditure for capital work in progress	(2,379,813,493)	(11,232,722,275)
Interest income received	51,131	—
Purchase of investments	—	(32,500,000)
Sale of investments	—	32,523,066
<b>Net cash used in investing activities</b>	<b>(2,271,088,198)</b>	<b>(13,555,959,518)</b>
<b>C. CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from borrowings	3,622,500,355	7,630,493,295
Repayment of borrowings	(175,500,000)	—
Upfront fees paid	—	(120,900,000)
Interest paid	(1,169,201,233)	(133,125,662)
Share application money received	2,372,634,409	—
Share application money refunded	(2,212,055,089)	—
Proceeds from issue of equity shares	—	6,083,025,505
Payment for share issue expenses	—	(24,548,000)
<b>Net cash generated from financing activities</b>	<b>2,438,378,442</b>	<b>13,434,945,138</b>
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>138,219,615</b>	<b>15,247,358</b>
<b>Cash and cash equivalents at beginning of the year</b>	<b>15,255,098</b>	<b>7,740</b>
<b>Cash and cash equivalents at end of the year (Refer schedule 5)</b>	<b>153,474,713</b>	<b>15,255,098</b>

**Notes:****1. Non cash transaction:**

During the 2009-10, the Company issued equity share capital of ₹ 496,343,140 against purchase of Fixed Assets/ CWIP from Essar Oilfields Services Limited

**2. Cash flow statement has been prepared under indirect method as set out in the Accounting Standard (AS) 3 'Cash flow statement' as notified under the Company's (Accounting Standards) Rules, 2006.**

In terms of our report attached

For **Deloitte Haskins & Sells**  
Chartered Accountants

**Khurshed Pastakia**  
Partner

Mumbai  
May 23, 2011

For and on behalf of the Board

**Ankur Gupta**  
Whole-time Director

Mumbai  
May 23, 2011

**A. R. Ramakrishnan**  
Director

## SCHEDULES ATTACHED TO AND FORMING PART OF THE BALANCE SHEET AS AT 31<sup>ST</sup> MARCH, 2011

	As at 31.03.2011 ( ₹ )	As at 31.03.2010 ( ₹ )
<b>SCHEDULE 1</b>		
<b>SHARE CAPITAL</b>		
<b>Authorised</b>		
140,00,00,000 (previous year 140,00,00,000) Equity shares of ₹ 10 each	14,000,000,000	14,000,000,000
	<u>14,000,000,000</u>	<u>14,000,000,000</u>
<b>Issued, subscribed and paid up</b>		
65,79,86,865 (previous year 65,79,86,865) equity shares of ₹ 10 each fully paid up	6,579,868,650	6,579,868,650
(The above shares are being held by Essar Oilfields Services Limited, the holding company and its nominees)		
(of the above 49,634,314 no of shares have been issued for consideration other than cash)		
	<u>6,579,868,650</u>	<u>6,579,868,650</u>
<b>SCHEDULE 2</b>		
<b>SECURED LOANS</b>		
<b>FROM BANKS AND FINANCIAL INSTITUTIONS</b>		
Rupee term loan from banks secured by charge on six land rigs and receivables thereon and corporate guarantee from Essar Shipping Limited (refer to note B (12) of schedule 13).	625,000,000	275,000,000
Rupee term loan from banks secured by charge on Jack Up rigs and receivables thereon and corporate guarantees from Essar Shipping Limited (refer to note B (12) of schedule 13) and Essar Oilfields Services Limited, immediate holding company	5,251,900,355	2,741,200,000
Rupee term loan from financial institutions secured by charge on Jack Up rigs and receivables thereon and corporate guarantees from Essar Shipping Limited (refer to note B (12) of schedule 13) and Essar Oilfields Services Limited, immediate holding company	648,100,000	358,800,000
<b>FROM OTHERS</b>		
Rupees term loan secured by charge on six land rigs	4,180,000,000	4,180,000,000
	<u>10,705,000,355</u>	<u>7,555,000,000</u>
<b>SCHEDULE 3</b>		
<b>UNSECURED LOAN</b>		
Loans and advances from others	381,000,000	84,000,000
	<u>381,000,000</u>	<u>84,000,000</u>

SCHEDULES ATTACHED TO AND FORMING PART OF THE BALANCE SHEET AS AT 31<sup>ST</sup> MARCH, 2011

SCHEDULE 4  
FIXED ASSETS

Details	GROSS BLOCK			DEPRECIATION			NET BLOCK	
	1-Apr-10	Addition	Deletion	31-Mar-11	1-Apr-10	Addition	Deletion	31-Mar-11
Rigs	2,295,211,164	369,769,488	-	2,664,980,652	181,919,178	261,411,374	-	2,221,650,100
Office Equipment	-	134,046	-	134,046	-	10,036	-	124,010
Computers	-	1,191,789	-	1,191,789	-	267,490	-	924,299
<b>Total</b>	<b>2,295,211,164</b>	<b>371,095,323</b>	<b>-</b>	<b>2,666,306,487</b>	<b>181,919,178</b>	<b>261,688,900</b>	<b>-</b>	<b>2,222,698,409</b>
<b>As at 31.03.2010</b>	<b>-</b>	<b>2,295,211,164</b>	<b>-</b>	<b>2,295,211,164</b>	<b>-</b>	<b>181,919,178</b>	<b>-</b>	<b>2,113,291,986</b>

## SCHEDULES ATTACHED TO AND FORMING PART OF THE BALANCE SHEET AS AT 31<sup>ST</sup> MARCH, 2011

	As at 31.03.2011 ( ₹ )	As at 31.03.2010 ( ₹ )
<b>SCHEDULE 4A</b>		
<b>CAPITAL WORK IN PROGRESS (INCLUDING CAPITAL ADVANCES)</b>		
Equipments/Materials	2,426,872,775	2,648,896,354
Capital advances	11,288,435,800	9,053,975,000
	<b>13,715,308,575</b>	<b>11,702,871,354</b>
<b>SCHEDULE 4B</b>		
<b>EXPENDITURE DURING CONSTRUCTION</b>		
Interest and finance cost	974,032,905	234,011,274
Port and hiring charges	11,469,597	33,242,654
Travelling expenses	3,065,493	300,526
Salary and related expenses	16,932,976	—
Others	259,429	577,531
	<b>1,005,760,400</b>	<b>268,131,985</b>
<b>SCHEDULE 5</b>		
<b>CURRENT ASSETS, LOANS AND ADVANCES</b>		
<b>CURRENT ASSETS</b>		
Inventories	252,478	—
Sundry debtors (unsecured, considered good)		
Debts outstanding for a period exceeding six months	—	—
Other debts	190,637,355	143,280,388
	<b>190,637,355</b>	<b>143,280,388</b>
Cash and bank balances		
Cash on hand	10	2,051
Balance with scheduled banks		
In current accounts	150,050,203	13,253,047
In margin deposits	3,424,500	2,000,000
	<b>153,474,713</b>	<b>15,255,098</b>
<b>Total (A)</b>	<b>344,364,546</b>	<b>158,535,486</b>
<b>LOANS AND ADVANCES (unsecured, considered good)</b>		
Advances recoverable in cash or in kind or for value to be received	33,406,175	175,583,014
CENVAT receivable	15,833,177	1,321,149
Advance tax and tax deducted at source (net of provision for tax)	6,699,559	2,625,151
Prepaid expenses	111,481,186	116,200,215
<b>Total (B)</b>	<b>167,420,097</b>	<b>295,729,529</b>
<b>Total (A)+(B)</b>	<b>511,784,643</b>	<b>454,265,015</b>

**SCHEDULES ATTACHED TO AND FORMING PART OF THE BALANCE SHEET AS AT 31<sup>ST</sup> MARCH, 2011**

	As at 31.03.2011 ( ₹ )	As at 31.03.2010 ( ₹ )
<b>SCHEDULE 6</b>		
<b>CURRENT LIABILITIES AND PROVISIONS</b>		
<b>CURRENT LIABILITIES</b>		
Sundry creditors		
– due to micro, small and medium enterprises (refer note B(10) of schedule 11)	–	–
– for capital goods	142,542,939	142,542,939
– for expenses	199,638,006	32,447,452
Other liabilities	16,813,413	7,603,335
Interest accrued but not due	166,832,334	284,758,118
	<b>525,826,692</b>	<b>467,351,844</b>
<b>PROVISIONS</b>		
Provision for gratuity	2,573,039	678,779
Provision for compensated absences	3,589,186	2,071,716
	<b>6,162,225</b>	<b>2,750,495</b>
<b>Total</b>	<b>531,988,917</b>	<b>470,102,339</b>

**SCHEDULES ATTACHED TO AND FORMING PART OF THE STATEMENT OF PROFIT AND LOSS FOR THE YEAR ENDED 31<sup>ST</sup> MARCH, 2011**

	For the year ended 31.03.2011 ( ₹ )	For the year ended 31.03.2010 ( ₹ )
<b>SCHEDULE 7</b>		
<b>OTHER INCOME</b>		
Management fees	69,677,400	–
Profit on sale of mutual fund	–	23,066
Interest income	51,131	–
Exchange gain	38,939,212	–
Other income	30,000	36,383,315
	<b>108,697,744</b>	<b>36,406,381</b>



## SCHEDULES ATTACHED TO AND FORMING PART OF THE STATEMENT OF PROFIT AND LOSS FOR THE YEAR ENDED 31<sup>ST</sup> MARCH, 2011

	For the year ended 31.03.2011 ( ₹ )	For the year ended 31.03.2010 ( ₹ )
<b>SCHEDULE 8</b>		
<b>RIG OPERATING EXPENSES</b>		
Equipment hire charges	30,419,432	3,508,742
Catering expenses	11,921,661	2,409,515
Salaries, wages, bonus and other expenses on floating staff		
Salaries, wages and bonus	36,274,171	16,415,408
Staff welfare and other expenses	951,942	832,926
Consumption of stores and spares (refer note B(4)(v) of schedule 11)	82,969,789	9,670,736
Repairs and maintenance expenses	26,069,822	3,464,947
Travelling expenses	8,603,085	4,052,986
Insurance expenses	7,700,666	1,040,222
Rig movement expenses	85,175,403	—
Other operating expenses	1,595,579	1,447,061
	<b>291,681,548</b>	<b>42,842,542</b>
<b>SCHEDULE 9</b>		
<b>ESTABLISHMENT AND OTHER EXPENSES</b>		
Salaries, wages and bonus	100,576,789	23,228,825
Contribution to staff provident fund and other funds (Refer note B(9) of schedule 11)	8,156,775	4,425,450
Staff welfare expenses	5,442,127	2,097,188
Rent	42,798,575	—
Professional fees, registrar's charges and service charges	30,226,708	1,467,975
Traveling and conveyance	9,240,334	1,968,464
Exchange loss	—	1,046,479
Auditors' remuneration ( refer note B (4)(i) of schedule 11 )	1,045,000	100,000
Miscellaneous expenditure written off	4,909,600	1,398,242
Miscellaneous expenses	8,684,864	3,489,894
	<b>211,080,772</b>	<b>39,222,517</b>
<b>SCHEDULE 10</b>		
<b>INTEREST AND FINANCE EXPENSES</b>		
Interest to banks	34,852,022	3,930,478
Interest to others	271,013,310	190,594,214
Guarantee fees and other bank charges	5,388,486	743,769
	<b>311,253,818</b>	<b>195,268,461</b>

## Schedule 11

### Significant accounting policies and notes to financial statements for the year ended 31st March 2011

#### A. SIGNIFICANT ACCOUNTING POLICIES

##### 1. BASIS OF ACCOUNTING

The financial statements are prepared under the historical cost convention, on accrual basis of accounting, and are in accordance with generally accepted accounting principles in India and in compliance with the Accounting Standards (AS) referred to in sub-section (3C) of section 211 of the Companies Act, 1956.

##### 2. USE OF ESTIMATES

The preparation of financial statements in conformity with the generally accepted accounting principles requires estimates and assumptions to be made that affect the reported balances of assets, liabilities and disclosures relating to contingent liabilities as at the reporting date and the reported amount of income and expenses during the reporting period. Differences between the actual results and estimates are recognized in the period in which the results are known / materialised.

##### 3. FIXED ASSETS

- a) Fixed assets are recorded at cost of acquisition or at revalued amounts less accumulated depreciation and impairment loss, if any. Cost of acquisition includes brokerage; start up costs and major improvements / upgradations.
- b) Assets acquired on hire purchase, being in the nature of finance lease, are capitalized as fixed assets at fair value at inception of the lease and corresponding liability is recognized. The lease rental paid (excluding operating expenses) is bifurcated into principal and interest component by applying an implicit rate of return. The interest is charged against income as a period cost and the principal amount is adjusted against the liability recognized in respect of assets taken on finance lease.

##### 4. INTANGIBLE ASSETS

Intangible assets are recognized only when it is probable that the future economic benefits that are attributable to the asset will flow to the Company and the cost of such assets can be measured reliably. Intangible assets are stated at cost less accumulated amortization and impairment loss, if any. All costs relating to the acquisition are capitalized. Intangible assets are amortized over the useful life of the asset.

##### 5. CAPITAL WORK-IN-PROGRESS

Direct expenditure on assets under construction is shown under capital work in progress.

Expenditure incidental to the construction of an asset, incurred during the period till the asset is ready for its intended use is accumulated as expenditure during construction pending allocation to fixed assets and other accounts, as applicable, on completion of construction.

Advances on capital account include progress based payments made under the contracts for assets under construction and other capital advances until the same are allocated to fixed assets and other accounts, as applicable.

##### 6. DEPRECIATION

- a) Depreciation on rigs is provided by using the straight-line method based on the economic useful life of 9 to 10 years or at rate prescribed under Schedule XIV to the Companies Act, 1956, whichever is higher.
- b) All other assets are depreciated by using the written down value method at the rates and in the manner prescribed in Schedule XIV to the Companies Act, 1956. Fixed assets costing less than ₹ 5,000 are depreciated at 100% in the year of acquisition.
- c) Depreciation on additions / deductions to fixed assets made during the year is provided on a pro-rata basis from / up to the date of such additions / deductions, as the case may be.

##### 7. IMPAIRMENT OF ASSETS

The Company assesses on each balance sheet date whether there is any indication that an asset may be impaired. If any such indication exists, the Company estimates the recoverable amount of the asset. If such recoverable amount of the asset is less than its carrying amount, the carrying amount is reduced to its recoverable amount. The amount

so reduced is treated as an impairment loss and is recognised in the Statement of Profit and Loss, except in case of revalued assets, where it is first adjusted against the related balance in fixed assets revaluation reserve. If at the balance sheet date, there is an indication that a previously assessed impairment loss no longer exists, the recoverable amount is reassessed and the asset is carried at the recoverable amount subject to a maximum of depreciated historical cost, except for revalued assets which are subject to a maximum of depreciated revalued cost.

## **8. BORROWING COST**

Borrowing costs that are directly attributable to the acquisition, construction/development of qualifying assets are capitalized as a part of cost of such assets. A qualifying asset is one that necessarily takes a substantial period of time to get ready for its intended use.

Costs in connection with the borrowing of funds to the extent not directly related to the acquisition of fixed assets are amortised and charged to the Statement of Profit and Loss, over the tenure of the loan.

## **9. INVENTORY**

Inventory is valued at lower of cost and net realizable value. Cost is determined on first in first out basis.

## **10. OPERATING INCOME**

Operating income represents the value of charter hire and is accounted on accrual basis.

Other income is recognized on an accrual basis.

## **11. OPERATING EXPENSES**

Operating expenses represents expenses relating to the operation of the rigs including crewing, insurance, stores, fuel, charter hire, special survey costs and other expenses and is accounted on accrual basis.

## **12. EMPLOYEE BENEFITS**

- a) Contribution to recognized provident fund, which is a fixed percentage of eligible employees' salary, is charged to the Statement of Profit and Loss.
- b) The liability for gratuity is provided based on independent actuarial valuation carried out at each balance sheet date using the Projected Unit Credit Method.
- c) Provision for all accumulated compensated absences of eligible employees is based on an independent actuarial valuation.

## **13. FOREIGN CURRENCY TRANSACTIONS**

Transactions denominated in foreign currencies are recorded at standard exchange rates determined monthly which approximates the actual rate on the date of the transaction. The difference between the standard rate and the actual rate of settlement is accounted in the Statement of Profit and Loss.

Monetary items denominated in foreign currency and outstanding at the year end are translated at the rate prevailing at the end of the year. Gains/ losses on conversion/ translation/settlement of foreign currency transactions are recognized in the Statement of Profit and Loss or Expenditure during construction, as applicable.

## **14. INSURANCE CLAIMS**

Insurance claims are recognized based on reasonable certainty of their settlement.

## **15. TAXATION**

Current tax is provided as per the provisions of the Income tax Act, 1961.

The tax effect of timing differences resulting between taxable income and accounting income and are capable of reversal in one or more subsequent periods are recorded as a deferred tax asset or deferred tax liability. They are measured using the substantively enacted tax rates and tax regulations as at the balance sheet date.

Deferred tax assets arising on account of brought forward losses and unabsorbed depreciation under tax laws are recognized, only if there is virtual certainty of its realization, supported by convincing evidence. Deferred tax assets on account of other timing differences are recognized only to the extent there is reasonable certainty of its realization.

**16. PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS**

Provisions are recognized for present obligations arising out of past events if it is probable that an outflow of economic resources, the amount of which can be reliably estimated, will be required to settle the obligation.

Contingent liabilities are disclosed in respect of possible obligations that arise from past events, the existence of which will be confirmed by the occurrence or non occurrence of one or more uncertain future events not wholly within the control of the Company, or a present obligation that is not recognized because a reliable estimate of the liability cannot be made, or the likelihood of an outflow of economic resources is remote.

Contingent assets are neither recognized nor disclosed in the financial statements.

**17. SEGMENT ACCOUNTING POLICIES****a) Segment assets and segment liabilities:**

Segment assets include all operating assets used by the segment and consist principally of fixed assets, inventories, sundry debtors, cash and bank balances. Segment liabilities assets and liabilities do not include share capital, reserves and surplus, income tax, and unallocable assets and liabilities.

**b) Segment revenue and segment expenses:**

Segment revenue and expenses have been identified to its segment on the basis of its operating activities. It does not include interest income on investment; inter corporate deposits, interest expenses and provision of taxes.

**B. NOTES TO FINANCIAL STATEMENTS****1. Contingent liabilities**

( ₹ )

Particulars	As on 31.03.2011	As on 31.03.2010
i) Guarantee given by banks	33,745,000	20,000,000

**2. Segmental reporting****a) Business segment**

The Company has one primary business segment of rig operations and chartering.

**b) Geographical segment**

The company operations are managed on a worldwide basis from India. Operating earnings are based on the geographical location of the customer.

( ₹ )

Earnings	Year ended	
	31.03.2011	31.03.2010
Brazil	58,407,030	176,627,230
India	183,967,699	119,000,552
<b>Total</b>	<b>242,374,729</b>	<b>295,627,782</b>

\* The main operating assets represent rigs, which are not identifiable to any geographical location.

**3. Capital commitments:**

Outstanding commitments for capital expenditure net of advances not provided for ₹ 11,056,172,200 (previous year ₹ 13,290,625,000).

4. Additional information pursuant to the provisions of Paragraph 3, 4B and 4D Part II of Schedule VI to the Companies Act, 1956 to the extent applicable is given below:

( ₹ )

Particulars	Year ended	
	31.03.2011	31.03.2010
<b>i) Auditors' remuneration</b>		
Audit fees	1,000,000*	100,000
Other services	35,000	—
Out of pocket expenses	10,000	—
<b>Total</b>	<b>1,045,000</b>	<b>100,000</b>
*(includes Rs 400,000 for previous year)		
<b>ii) Expenditure in foreign currency (on accrual basis)</b>		
Freight charges	50,468,852	981,380
Plant and machinery hire charges	92,28,348	6,739,029
Professional / manpower hire charges	1,273,703	808,489
Fuel charges	—	301,597
Travelling expenses	3,457,991	1,022,072
Components and spares	22,526,282	780,741
Insurance	5,313,934	—
Others	113,560	81,925
<b>Total</b>	<b>92,382,670</b>	<b>10,715,233</b>
<b>iii) Earnings in foreign currency (on accrual basis)</b>		
Charter hire	58,407,030	176,627,230
Other income	69,677,400	36,383,315
<b>Total</b>	<b>128,084,430</b>	<b>213,010,545</b>
<b>iv) C. I. F. value of imports :</b>		
Components and spare parts	22,526,282	780,741
<b>Total</b>	<b>22,526,282</b>	<b>7,80,741</b>

v) Consumption of imported and indigenous component and spare parts

Particulars	Year ended 31.03.2011		Year ended 31.03.2010	
	Amount ( ₹ )	% of Total	Amount ( ₹ )	% of Total
Imported	22,526,282	27.15%	780,741	8.07%
Indigenous	60,443,507	72.85%	8,889,995	91.93%
<b>Total</b>	<b>82,969,789</b>	<b>100.00%</b>	<b>9,670,736</b>	<b>100.00%</b>

## 5. Earnings per share:

Earnings per share are calculated based on the following data:

Particulars	Year ended 31.03.2011	Year ended 31.03.2010
Earnings for the purpose of earnings per share (net loss for the year) ( ₹ )	(724,632,564)	(127,218,535)
Equity shares at the beginning of the year (nos.)	657,986,865	50,000
Equity shares issued during the year (nos.)	–	657,936,865
Equity shares at the end of the year (nos.)	657,986,865	657,986,865
Weighted average equity shares outstanding during the year (nos.)	657,936,865	104,279,693
Earnings per share – basic and diluted ( ₹ )	(1.10)	(1.22)
Face value per share ( ₹ )	10	10

## 6. Foreign currency exposure

- There were no forward / option contracts entered in to by the Company during the financial year to hedge its foreign currency exposures.
- The year-end currency exposures that have not been hedged by a derivative instrument or otherwise are given below.

Amount receivable in foreign currency on account of the following:

Particulars	Amount in ₹		Currency	Amount in foreign currency	
	2010-11	2009-10		2010-11	2009-10
Services rendered	74,235,360	14,647,930	USD	1,659,000	324,500

- Amount payable in foreign currency on account of the following:

Particulars	Amount in ₹		Currency	Amount in foreign currency	
	2010-11	2009-10		2010-11	2009-10
Import of goods and services	5,456,610	757,105	USD	121,816	16,148
	3,716,159	79,862,374	AED	306,100	778,259
	1,736,889	–	OMR	14,980	–
	122,988	95,754	SGD	3,487	2,726

## 7. Related party transactions

### 1. Holding companies

- Essar Global Limited, Cayman Island, ultimate holding company
- Essar Shipping & Logistics Limited, Cyprus
- Essar Shipping Ports & Logistics Limited, India (till 30th September 2010)
- Essar Shipping Limited (w.e.f. 1st October 2010)
- Essar Oilfields Services Limited, Mauritius, immediate holding company.

### 2. Other related parties where there have been transactions:

- Aegis Limited
- Essar Bulk Terminals Limited
- Essar Oil Limited
- Essar Projects (India) Limited
- Essar Investments Limited
- Essar Logistics Limited
- Essar Infrastructure Services Limited
- Essar Exploration & Production India Limited
- Essar Information & Technology Limited
- Essar House Limited
- Essar Agrotech Limited
- Futura Travels Limited
- The Mobile Store

( ₹ )

Nature of Transactions	Holding companies		Other related parties		Total	
	2010-11	2009-10	2010-11	2009-10	2010-11	2009-10
<b>Income</b>						
<b>Charter hire</b>						
Essar Oil Limited	–	–	64,637,104	131,257,609	64,637,104	131,257,609
<b>Miscellaneous income</b>						
Essar Oilfields Services Limited	69,677,400	–	–	–	69,677,400	–
<b>Total</b>	<b>69,677,400</b>	<b>–</b>	<b>64,637,104</b>	<b>131,257,609</b>	<b>134,314,504</b>	<b>131,257,609</b>
<b>Expenses</b>						
<b>Interest on loan</b>						
Essar Ports Limited	255,144,000	390,487,562	–	–	255,144,000	390,487,562
Essar Shipping Limited	258,404,712	–	–	–	258,404,712	–
Essar Logistics Limited	14,637,360	–	–	–	14,637,360	–
Essar Bulk Terminals Limited	2,452,398	–	–	2,777,262	2,452,398	2,777,262
<b>Lodging and boarding expenses</b>						
Essar Infrastructure Services Limited	–	–	13,000	5,500	13,000	5,500
<b>Manpower supply</b>						
Essar Exploration & Production India Limited	–	–	363,070	–	363,070	–
<b>IT support and maintenance</b>						
Essar Information & Technology Limited	–	–	5,007,477	–	5,007,477	–
<b>Freight charges</b>						
Essar Logistics Limited	–	–	–	2,505,131	–	2,505,131
<b>Business support services</b>						
Essar Infrastructure Services Limited	–	–	25,012,502	–	25,012,502	–
<b>Telephone and communication expenses</b>						
Aegis Limited	–	–	–	624,550	–	624,550
<b>Professional charges</b>						
Aegis Limited	–	–	4,893,673	120,780	4,893,673	120,780
Essar Investment Limited	–	–	24,126,845	–	24,126,845	–
<b>Management fees/ salaries etc.</b>						
Essar Investments Limited	–	–	106,191,546	15,208,677	106,191,546	15,208,677
<b>Office rent</b>						
Essar House Limited	–	–	7,612,504	–	7,612,504	–
<b>Travel expenses</b>						
Futura Travel Limited	–	–	21,581,540	1,595,163	21,581,540	1,595,163
<b>Purchase of assets</b>						
The Mobile Store	–	–	119,647	–	119,647	–
<b>Rig move and other expenses</b>						
Essar Oil Limited	–	–	2,309,309	–	2,309,309	–
<b>Total</b>	<b>530,638,470</b>	<b>390,487,562</b>	<b>197,231,113</b>	<b>22,837,063</b>	<b>727,869,583</b>	<b>413,324,625</b>

Nature of Transactions	Holding companies		Other related parties		Total	
	2010-11	2009-10	2010-11	2009-10	2010-11	2009-10
<b>Expenses incurred on behalf of the company</b>						
Essar Ports Limited	3,000,000	6,079	–	–	3,000,000	6,079
<b>Total</b>	<b>3,000,000</b>	<b>6,079</b>	<b>–</b>	<b>–</b>	<b>3,000,000</b>	<b>6,079</b>
<b>Loans and advances given</b>						
Essar Investments Limited	–	–	–	110,000,000	–	110,000,000
<b>Advance against purchase of asset</b>						
The Mobile Store	–	–	31,149	–	31,149	–
<b>Total</b>	<b>–</b>	<b>–</b>	<b>31,149</b>	<b>110,000,000</b>	<b>31,149</b>	<b>110,000,000</b>
<b>Issue of shares</b>						
Essar Oilfields Services Limited	–	6,579,368,650	–	–	–	6,579,368,650
<b>Advance against equity shares</b>						
Essar Oilfields Services Limited	1,437,135,719	–	–	–	1,437,135,719	–
<b>Advance against preference shares</b>						
Essar Shipping & Logistics Limited	935,498,690	–	–	–	935,648,690	–
<b>Advance against share application money refunded</b>						
Essar Oilfields Services Limited	1,276,632,750	–	–	–	1,276,632,750	–
<b>Secured loans</b>						
Essar Shipping Ports & Logistics Limited	–	4,231,000,000	–	–	–	4,231,000,000
<b>Unsecured loans</b>						
Essar Bulk Terminals Limited	–	–	–	78,000,000	–	78,000,000
Essar Ports Limited	157,500,000	–	–	–	157,500,000	–
Essar Logistics Limited	252,500,000	–	–	–	252,500,000	–
Essar Investments Limited	–	–	115,200,000	–	115,200,000	–
Essar Oilfields Services Limited	157,829,001	–	–	–	157,829,001	–
<b>Purchase of fixed assets capital work in progress</b>						
Essar Oilfields Services Limited	–	4,677,259,715	–	–	–	4,677,259,715
Essar Projects (India) Limited	–	–	–	292,542,939	–	292,542,939
<b>Loans and advances given</b>						
Essar Oilfields Services Limited	–	60,592,084	–	–	–	60,592,084
<b>Guarantees given by other companies</b>						
Essar Ports Limited	–	13,100,000,000	–	–	–	13,100,000,000



**Outstanding balance as on 31st March 2011**

( ₹ )

Nature of Balances	Holding companies		Other related parties		Total	
	2010-11	2009-10	2010-11	2009-10	2010-11	2009-10
<b>Sundry debtors</b>						
Essar Oil Limited	—	—	32,544,737	128,632,458	32,544,737	128,632,458
Essar Investments Limited	—	—	5,834,642	—	5,834,642	—
The Mobile stores	—	—	31,149	—	31,149	—
Essar Oilfields Services Limited	69,677,400	—	—	—	69,677,400	—
<b>Loans and advances given</b>						
Essar Oilfields Services Limited	—	60,592,084	—	—	—	60,592,084
Essar Investments Limited	—	—	—	110,000,000	—	110,000,000
<b>Total</b>	<b>69,677,400</b>	<b>60,592,084</b>	<b>38,410,528</b>	<b>238,632,458</b>	<b>108,087,928</b>	<b>299,224,542</b>
<b>Advance against share application money</b>						
Essar Oilfields Services Limited	127,827,719	—	—	—	127,827,719	—
<b>Secured loans</b>						
Essar Shipping Limited	4,323,500,666	—	—	—	4,323,500,666	—
Essar Ports Limited	—	4,513,390,624	—	—	—	4,513,390,624
<b>Unsecured loans</b>						
Essar Shipping Limited	218,658,989	—	—	—	218,658,989	—
Essar Logistics Limited	185,672,679	—	—	—	185,672,679	—
Essar Bulk Terminals Limited	—	—	—	35,367,494	—	35,367,494
<b>Sundry creditors</b>						
Aegis Limited	—	—	4,307,956	108,702	4,307,956	108,702
Essar Investment Limited	—	—	—	3,692,702	—	3,692,702
Futura Travel Limited	—	—	11,744,135	1,277,366	11,744,135	1,277,366
Essar Agrotech Limited	—	—	11,050	—	11,050	—
Essar Infrastructure Services Limited	—	—	9,861,250	5,500	9,861,250	5,500
Essar Projects (India) Limited	—	—	142,542,939	142,542,939	142,542,939	142,542,939
Essar Ports Limited	—	6,079	—	—	—	6,079
Essar Oil Limited	—	—	478,329	—	478,329	—
Essar Logistics Limited	—	—	—	2,505,131	—	2,505,131
Essar Information Technology Limited	—	—	1,961,572	—	1,961,572	—
Essar Investments Limited	—	—	1,626,000	29,494	1,626,000	29,494
<b>Total</b>	<b>4,855,660,053</b>	<b>4,513,396,703</b>	<b>172,533,231</b>	<b>185,529,328</b>	<b>5,028,193,284</b>	<b>4,698,926,031</b>
<b>Guarantees given by other companies</b>						
Essar Shipping Limited	13,100,000,000	—	—	—	13,100,000,000	—
Essar Ports Limited	—	13,100,000,000	—	—	—	13,100,000,000
<b>Total</b>	<b>13,100,000,000</b>	<b>13,100,000,000</b>	<b>—</b>	<b>—</b>	<b>13,100,000,000</b>	<b>13,100,000,000</b>

**8. Deferred tax liability**

The components of deferred tax liability are as follows:

( ₹ )

Particulars	As at 31.3.2011	As at 31.3.2010
<b>Deferred tax liability</b>		
Depreciation on fixed assets	63,865,714	55,187,013
<b>(A)</b>	63,865,714	55,187,013
<b>Deferred tax assets</b>		
Unabsorbed depreciation loss	61,866,072	54,252,119
Disallowance u/s 40(a)	1,999,642	934,894
<b>(B)</b>	63,865,714	55,187,013
<b>Net deferred tax liability (A-B)</b>	—	—

**9. Employee benefits:**

Accounting Standard (AS) -15 (Revised) 'Employee Benefits' has been adopted by the company effective from 1st April 2009. The company has classified the various benefits provided to employee as under.

**I. Defined contribution plans**

- a. Provident fund
- b. Group accident policy cover

During the year, the Company has recognized the following amounts in the Statement of Profit and Loss:

( ₹ )

Particulars	Year ended	
	31.03.2011	31.03.2010
– Employer's contribution to provident fund	5,685,586	1,630,091
– Group accident policy cover	387,597	3,645

The above amounts are included in contribution to staff provident and other funds (Schedule 9).

**II. Defined benefit plans**

- a. Gratuity fund
- b. Compensated absences (CA)

In accordance with Accounting Standard-15 (Revised), relevant disclosures are as under:

**(A) Changes in present value of defined benefit obligation**

( ₹ )

Particulars	Gratuity (non funded)		CA (non funded)	
	year ended		year ended	
	31.03.2011	31.03.2010	31.03.2011	31.03.2010
Present value of defined benefit obligation at the beginning of the year	678,779	1,200,520	2,071,716	3,406,204
Current service cost	721,346	186,339	914,408	430,916
Interest cost	52,945	38,517	130,776	109,282
Benefits paid	—	—	(790,203)	—
Plan amendments	86,874	—	—	—
Actuarial (gain)/loss on obligations	1,044,590	(746,597)	1,262,489	(1,874,686)
<b>Present value of defined benefit obligation at the end of the year</b>	<b>2,584,533</b>	<b>678,779</b>	<b>3,589,186</b>	<b>2,071,716</b>

**(B) Amount recognized in the Balance Sheet**

( ₹ )

Particulars	Gratuity (non funded)		CA (non funded)	
	as at		as at	
	31.03.2011	31.03.2010	31.03.2011	31.03.2010
Present value of defined benefit obligation at the end of the year	2,584,533	678,779	3,589,186	2,071,716
Fair value of plan assets at the end of the year	—	—	—	—
Unrecognised past service cost	(11,494)	—	—	—
<b>Liability recognized in the balance sheet (Included in current liabilities and provisions schedule 6)</b>	<b>2,573,039</b>	<b>678,779</b>	<b>3,589,186</b>	<b>2,071,716</b>

**(C) Expenses recognized in the Statement of Profit and Loss**

( ₹ )

Particulars	Gratuity (non funded)		CA (non funded)	
	year ended		year ended	
	31.03.2011	31.03.2010	31.03.2011	31.03.2010
Current service cost	721,346	186,339	914,408	430,916
Interest cost	52,945	38,517	130,776	109,282
Past service cost	75,380	—	—	—
Net actuarial (gain)/loss recognized in the period	1,044,590	(746,597)	1,262,489	(1,874,686)
<b>Total expenses recognized in the Statement of Profit and Loss included in contribution to provident and other funds (schedule 9)</b>	<b>1,894,260</b>	<b>(521,741)</b>	<b>2,307,673</b>	<b>(1,334,488)</b>

**(D) Experience history**

( ₹ )

Particulars	Gratuity (non funded)		CA (non funded)	
	year ended		year ended	
	31.03.2011	31.03.2010	31.03.2011	31.03.2010
Defined benefit obligation at end of the period	(2,584,533)	(678,779)	(3,589,186)	(1,071,716)
Plan assets at end of the period	—	—	—	—
Funded status	(2,584,533)	(678,779)	(3,589,186)	(1,071,716)
Experience gain/(loss) adjustment on plan liabilities	(1,081,305)	(156,481)	(1,304,258)	240,808
<b>Experience gain/(loss) adjustment on plan assets</b>	<b>36,715</b>	<b>903,078</b>	<b>41,769</b>	<b>1,633,878</b>

**(E) Actuarial assumptions**

In accordance with Accounting Standard (AS)15 (Revised), actuarial valuation as at the year end was done in respect of the aforesaid defined benefit plans based on the following assumptions:

( ₹ )

Particulars	Gratuity (non funded)		CA (non funded)	
	year ended		year ended	
	31.03.2011	31.03.2010	31.03.2011	31.03.2010
Discount rate (per annum)	8.00%	7.80%	8.00%	7.80%
Rate of return on plan assets (for funded scheme)	N/A	N/A	N/A	N/A
Expected retirement age of employees (years)	58 years	58 years	58 years	58 years
Withdrawal rate of employees	12%	12%	12%	12%
Rate of increase in compensation.	9%	9%	9%	9%

- i) Mortality rates considered are as per the published rates in the Life Insurance Corporation (1994-96) Mortality table.

ii) **Leave availment pattern**

Sick leave balance as at the valuation date and each subsequent year following the valuation date will be availed by the employee against future sick leave. The unavailed sick leave can be accumulated to the maximum of 6 days per annum. The sick leave balance is not available for encashment.

10. The Company has not received any intimation from the suppliers regarding their status under Micro, Small and Medium Enterprises Development Act, 2006 (the Act) and hence the disclosures required by the Act have not been made. The Company is making efforts to get confirmations from the suppliers as regards their status under the Act.

11. Details of current investments purchased and sold during the year 2009-10:

Sr. No.	Description	No. of Units	Purchase cost
1	ICICI Prudential MF Flexible Income Plan Premium-Growth.	191,264.452	32,500,000

12. During the year, Essar Shipping Ports & Logistics Limited ("the Holding Company") filed a Composite Scheme of Arrangement (the Scheme) with the Honourable High Court of Gujarat under Section 391 to 394 of the Companies Act, 1956. The Scheme provided for the amalgamation of two of the Holding Company's wholly owned subsidiaries namely Essar International Limited and Essar Ports & Terminals Limited both incorporated in Mauritius into the Holding Company ("the amalgamation") with effect from September 30, 2010 and the demerger of its Shipping & Logistics and Oilfield Drilling Business into its wholly owned subsidiary namely Essar Shipping Limited [previously known as Essar Ports & Terminals Limited (India)] (the "demerger") with effect from October 1, 2010. The Holding Company has received the approval from the Honourable High Court of Gujarat and the Honourable Supreme Court of Mauritius. In terms of the Order of the Honourable Supreme Court of Mauritius, the amalgamation becomes effective upon filing of its Order by the Holding Company with the Registrar of Companies, Mauritius. The Holding Company has filed the Order with the Registrar of Companies, Mauritius and the Scheme has become effective on 9th May 2011. However, the Scheme takes effect from the appointed date i.e. September 30, 2010 for the amalgamation and October 1, 2010 for the demerger. Therefore, effective October 1, 2010, the Company has become a wholly owned subsidiary of Essar Shipping Limited
13. Previous year's figures have been regrouped / reclassified wherever necessary to conform to the figures of the current year

For and on behalf of the Board

**Ankur Gupta**  
Whole-time Director

**A. R. Ramakrishnan**  
Director

Mumbai  
May 23, 2011

## BALANCE SHEET ABSTRACT AND COMPANY'S GENERAL BUSINESS PROFILE

(As per Schedule VI, part (iv) of the Companies Act, 1956)

### I Registration Details

Registration No.	<input type="text"/> <input type="text"/> <input type="text"/> 1 6 3 7 9 9	State Code	<input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> 0 4
Balance Sheet Date	<input type="text"/> 3 <input type="text"/> 1 <input type="text"/> 0 3 <input type="text"/> 2 0 1 1		
	Date Month Year		

### II Capital Raised During the year (Amounts ₹ in Thousands)

Public Issue	<input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> N I L	Right Issue	<input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> N I L
Bonus Issue	<input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> N I L	Private Placement	<input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> N I L

### III Position of Mobilisation and Deployment of Funds (Amount ₹ in Thousands))

Total Liabilities	<input type="text"/> 1 7 7 9 3 6 9 7	Total Assets	<input type="text"/> 1 7 7 9 3 6 9 7
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#### Source of Funds

Paid- up Capital	<input type="text"/> <input type="text"/> 6 5 7 9 8 6 9	Reserves & Surplus	<input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> N I L
Secured Loans	<input type="text"/> 1 0 7 0 5 0 0 0	Unsecured Loans	<input type="text"/> <input type="text"/> <input type="text"/> 3 8 1 0 0 0

#### Application of Funds

Net Fixed Assets	<input type="text"/> <input type="text"/> 2 2 2 2 6 9 8	Investments	<input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> N I L
Net Current Assets	<input type="text"/> (2 0 2 0 4 2 7 4)	Misc. Expenditure	<input type="text"/> <input type="text"/> <input type="text"/> 1 8 2 4 0
Other Assets*	<input type="text"/> 1 4 7 2 1 0 6 9	Accumulated Losses	<input type="text"/> <input type="text"/> <input type="text"/> 8 5 1 8 9 3

(includes capital work in progress, capital advance and Expenditure during construction)

### IV Performance of Company (Amount ₹ in Thousands)

Turnover	<input type="text"/> <input type="text"/> <input type="text"/> 3 5 1 0 7 2	Total Expenditure	<input type="text"/> <input type="text"/> 1 0 7 5 7 0 5
+ - Profit / (Loss) Before Tax	<input type="text"/> <input type="text"/> 7 2 4 6 3 3	+ - Profit / Loss After Tax	<input type="text"/> <input type="text"/> 7 2 4 6 3 3
+ - Earning Per Share in ₹	<input type="text"/> <input type="text"/> 1 . 1 0	Dividend Rate %	<input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> N I L

### V Generic Names of Three Principal Products/services of Company (as per monetary terms)\_Not applicable being Shipping Company

Item Code No. (ITC Code)	<input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> N A	Product Description	Ship Operation and Chartering
Item Code No. (ITC Code)	<input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> N A	Product Description	<input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> N A
Item Code No. (ITC Code)	<input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> N A	Product Description	<input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> N A
Item Code No. (ITC Code)	<input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> N A	Product Description	<input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> <input type="text"/> N A

**Note:** For ITC code of Products please refer to the publication "Indian Trade Classification" based on harmonized Commodity description and coding system by Ministry of Commerce, Directorate General of Commercial Intelligence & Statistics Calcutta-700 001.

For and on behalf of the Board

Mumbai  
May 23, 2011

**Ankur Gupta**  
Whole-time Director

**A. R. Ramakrishnan**  
Director

# ENERGY TRANSPORTATION INTERNATIONAL LIMITED

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## BOARD OF DIRECTORS

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**Sanjay Mehta**

Director

**Uday Kumar Gujadhur**

Director

**Company Secretary**

Ms. Susie Grant

Codan Services Limited

Bermuda

**AUDITORS**

Deloitte Haskins & Sells

**REGISTERED OFFICE**

Clarendon House

# 2, Church Street

Hamilton HM 11

Bermuda

## DIRECTORS' REPORT

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The Directors submit their report and the Audited Financial Statements for the financial year ended March 31, 2011. Pursuant to the composite Scheme of Arrangement of Essar Ports Limited (formerly known as "Essar Shipping Ports & Logistics Limited"), your Company has become wholly own subsidiary of Essar Shipping Limited, a Company incorporated in India under the Companies Act, 1956.

**PRINCIPAL ACTIVITIES**

The principal activities of the Company are ship owning , operating and chartering.

**REVIEW OF BUSINESS AND RESULTS**

The Company is in the business of providing crude oil transportation and crude oil transportation management services. The Company is exploring various opportunities for owning, operating and chartering vessels.

**DIRECTORS**

During the year, Mr. Somdatt Kurdikar has resigned from the Board of the

Company with effect from March 29, 2011. Your Board places on record the appreciation for the valuable contribution made by Shri Somdatt Kurdikar in the progress of the Company. Further Mr. Uday Kumar Gujadhur was appointed as Director of the Company with effect from March 29, 2011.

**AUDITORS**

Your Auditors M/s Deloitte Haskins & Sell, Chartered Accountants, retires at ensuing Annual General Meeting of the Company and are eligible for re-appointment. It is proposed to re-appoint M/s Deloitte Haskins & Sell, Chartered Accountants, as the Auditors of the Company until the conclusion of the next Annual General Meeting.

For and on behalf of the Board

**Uday Kumar Gujadhur**

Director

**Sanjay Mehta**

Director

July 1, 2011

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## AUDITORS' REPORT

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### TO THE MEMBERS OF ENERGY TRANSPORTATION INTERNATIONAL LIMITED

We have audited the attached Balance Sheet of Energy Transportation International Limited ("the Company"), a Company incorporated in the State of Bermuda, as at March 31, 2011, the Statement of Profit and Loss and the Cash Flow Statement for the year ended on that date both annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in India. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion and to the best of our information and according to the explanations given to us, the financial statements give a true and fair view in conformity with the accounting principles generally accepted in India:

- (a) in the case of the Balance Sheet, of the state of affairs of the Company as at March 31, 2011;
- (b) in the case of the Statement of Profit and Loss, of the profit of the Company for year ended on that date; and
- (c) in the case of the Cash Flow Statement, of the cash flows of the Company for the year ended on that date.

For **Deloitte Haskins & Sells**  
*Chartered Accountants*  
(Registration No. 117366W)

Mumbai  
July 4, 2011

**Khurshed Pastakia**  
*Partner*  
(Membership No. 31544)

BALANCE SHEET AS AT 31<sup>ST</sup> MARCH, 2011

Particulars	As at 31.03.2011 US\$	As at 31.03.2011 ₹	As at 31.03.2010 US\$	As at 31.03.2010 ₹
	(Refer Note B1)		(Refer Note B1)	
<b>SOURCES OF FUNDS</b>				
<b>Shareholders' funds</b>				
<b>Capital</b>				
<b>Authorised capital</b>				
14,000,000 equity shares of US\$ 1 each	14,000,000	625,100,000	14,000,000	638,120,000
<b>Issued, Subscribed and Paid up capital</b>				
1,952,000 equity shares of US\$ 1 each fully paid-up (The entire share capital was held by Essar International Ltd., till 30.09.10. As per the Scheme of amalgamation and demerger, the company has become a subsidiary of Essar Shipping Limited with effect from 01.10.10, refer note no. B (6) of schedule1)	1,952,000	87,156,800	1,952,000	88,972,160
<b>Reserves and surplus</b>				
Balance in Statement of Profit and Loss	179,739	8,025,346	73,884	3,367,633
<b>Finance lease obligation (refer Note no.B(5))</b>	54,683,998	2,441,640,511	—	—
<b>TOTAL</b>	56,815,737	2,536,822,657	2,025,884	92,339,793
<b>APPLICATION OF FUNDS</b>				
<b>Fixed assets</b>				
Gross block- Fleet	55,502,439	2,478,183,901	—	—
Less: depreciation	736,820	32,899,013	—	—
Net block	54,765,619	2,445,284,888	—	—
<b>Current assets, loans and advances</b>				
<b>Bank balances</b>				
In current account with scheduled bank	1,007,475	44,983,759	3,649	166,321
In current account with other bank — HSH Nordbank Hamburg.	2,607	116,403	42,609	1,942,118
[Maximum amount outstanding at any time during the year US\$ 42,609 - ₹ 19,02,492 (previous year US\$ 42,609 - ₹ 19,42,118)]				
<b>Loans and advances (unsecured, considered good)</b>				
Loan to body corporate (including interest accrued)	2,004,743	89,511,775	1,975,000	90,020,500
Advance recoverable in cash or in kind or value to be received	164,849	7,360,508	—	—
Prepaid expenses	41,894	1,870,567	9,466	431,460
	3,221,568	143,843,011	2,030,724	92,560,400
<b>Less: Current liabilities and provisions</b>				
Sundry creditors (amounts due to micro,small and medium enterprises nil, previous year nil)	434,790	19,413,374	4,840	220,607
Income received in advance	736,660	32,891,869	—	—
	1,171,450	52,305,243	4,840	220,607
<b>Net current assets</b>	2,050,118	91,537,769	2,025,884	92,339,793
<b>TOTAL</b>	56,815,737	2,536,822,657	2,025,884	92,339,793
<b>Significant accounting policies and notes to financial statement - Refer Schedule 1</b>				

In terms of our report attached

For **Deloitte Haskins & Sells**  
Chartered Accountants**Khurshed Pastakia**  
PartnerMumbai  
July 4, 2011

For and on behalf of the Board

**Sanjay Mehta**  
Director

July 1, 2011

**Uday Kumar Gujadhur**  
Director



## STATEMENT OF PROFIT AND LOSS FOR THE YEAR ENDED 31<sup>ST</sup> MARCH, 2011

Particulars	For the year ended 31.03.2011 US\$	For the year ended 31.03.2011 ₹	For the year ended 31.03.2010 US\$	For the year ended 31.03.2010 ₹
	(Refer Note B1)		(Refer Note B1)	
<b>INCOME</b>				
Fleet operating and chartering earnings	1,998,700	89,241,955	—	—
Interest income from others	39,743	1,774,525	—	—
<b>TOTAL INCOME</b>	<b>2,038,443</b>	<b>91,016,480</b>	<b>—</b>	<b>—</b>
<b>EXPENDITURE</b>				
<b>Fleet operating expenses</b>				
Brokerage commission	22,405	1,000,383	—	—
Port and other operating expenses	44,968	2,007,821	—	—
Consumption of spares and stores	144,454	6,449,871	—	—
Standing costs	73,746	3,292,759	—	—
Salaries and wages-Floating staff	164,003	7,322,734	—	—
Staff other expenses	33,801	1,509,215	—	—
	<b>483,377</b>	<b>21,582,783</b>	<b>—</b>	<b>—</b>
<b>Establishment and other expenses</b>				
Professional fees and other administrative expenses	17,197	767,846	17,195	783,748
Audit fees	5,000	223,250	4,840	220,607
	<b>22,197</b>	<b>991,096</b>	<b>22,035</b>	<b>1,004,355</b>
<b>TOTAL EXPENDITURE</b>	<b>505,574</b>	<b>22,573,879</b>	<b>22,035</b>	<b>1,004,355</b>
<b>Profit /(loss) before interest and depreciation</b>	<b>1,532,869</b>	<b>68,442,601</b>	(22,035)	(1,004,355)
Interest and finance expenses	690,194	30,817,162	267	12,170
<b>Profit /(loss) before depreciation</b>	<b>842,675</b>	<b>37,625,439</b>	(22,302)	(1,016,525)
Depreciation	736,820	32,899,013	—	—
<b>Profit /(loss) for the year</b>	<b>105,855</b>	<b>4,726,426</b>	(22,302)	(1,016,525)
Balance brought forward from last year	73,884	3,298,921	96,186	4,384,158
<b>BALANCE CARRIED FORWARD TO BALANCE SHEET</b>	<b>179,739</b>	<b>8,025,346</b>	<b>73,884</b>	<b>3,367,633</b>
Earnings per share - basic and diluted (face value US\$ 1 each) [Refer Note B(7)]	<b>0.05</b>	<b>2.42</b>	(0.01)	(0.52)
<b>Significant accounting policies and notes to financial statement - Refer Schedule 1</b>				

In terms of our report attached

For **Deloitte Haskins & Sells**  
Chartered Accountants

**Khurshed Pastakia**  
Partner

Mumbai  
July 4, 2011

For and on behalf of the Board

**Sanjay Mehta**  
Director

July 1, 2011

**Uday Kumar Gujadhur**  
Director

CASH FLOW STATEMENT FOR THE YEAR ENDED 31<sup>ST</sup> MARCH, 2011

	For the year ended 31.03.2011 US\$	For the year ended 31.03.2011 ₹	For the year ended 31.03.2010 US\$	For the year ended 31.03.2010 ₹
	(Refer Note B1)		(Refer Note B1)	
<b>A) Cash flow from operating activities</b>				
Net profit/(loss) as per Statement of Profit and Loss	105,855	4,726,424	(22,302)	(1,016,527)
Adjustments :				
Depreciation	736,820	32,899,013	—	—
Interest income	(39,743)	(1,774,525)	—	—
Interest and finance charges	690,194	30,817,162	267	12,170
Exchange fluctuation on translation	—	(43,018)	—	(230,903)
<b>Operating profit/(loss) before working capital changes</b>	<b>1,493,126</b>	<b>66,625,056</b>	<b>(22,035)</b>	<b>(1,235,259)</b>
Adjustments for:				
Trade and other receivables	(197,277)	(8,808,418)	(77)	(3,510)
Sundry creditors	1,166,610	52,089,137	638	29,080
<b>Net cash from/(used) operating activities</b>	<b>2,462,459</b>	<b>109,905,774</b>	<b>(21,474)</b>	<b>(1,209,689)</b>
<b>B) Cash flow from investing activities</b>				
Repayment of loan given to body corporate	1,980,000	88,407,000	—	—
Loan given to body corporate	(1,970,000)	(87,960,500)	25,000	1,139,500
<b>Net cash from investing activities</b>	<b>10,000</b>	<b>446,500</b>	<b>25,000</b>	<b>1,139,500</b>
<b>C) Cash flow from financing activities</b>				
Interest and other finance expenses paid	(690,194)	(30,817,162)	(267)	(12,170)
Repayment of finance lease obligation	(818,441)	(36,543,391)	—	—
<b>Net cash used in financing activities</b>	<b>(1,508,635)</b>	<b>(67,360,553)</b>	<b>(267)</b>	<b>(12,170)</b>
<b>Net increase in cash and cash equivalents (A+B+C)</b>	<b>963,824</b>	<b>42,991,722</b>	<b>3,259</b>	<b>(82,359)</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>46,258</b>	<b>2,108,440</b>	<b>42,999</b>	<b>2,190,799</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>1,010,082</b>	<b>45,100,161</b>	<b>46,258</b>	<b>2,108,440</b>

**Note:**

Cash flow statement has been prepared under the indirect method as set out in the Accounting Standard (AS) -3 'Cash flow statement' as notified by The Institute of Chartered Accountants of India.

**Non Cash Transactions:**

During the year the company has acquired a vessel under finance lease for an amount of US\$ 55,502,439

In terms of our report attached

For **Deloitte Haskins & Sells**  
Chartered Accountants

**Khurshed Pastakia**  
Partner

Mumbai  
July 4, 2011

For and on behalf of the Board

**Sanjay Mehta**  
Director

July 1, 2011

**Uday Kumar Gujadhur**  
Director

# SCHEDULE ANNEXED TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31<sup>ST</sup> MARCH, 2011

## SCHEDULE 1

### SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO FINANCIAL STATEMENTS

#### A SIGNIFICANT ACCOUNTING POLICIES

##### 1. Basis of accounting

The financial statements are prepared in United States Dollar (US\$) under historical cost convention and on accrual basis of accounting and in accordance with Generally Accepted Accounting Principles in India. The figures in rupees have been converted following the exchange rate as mentioned in note B(1) below for presentation purpose only.

##### 2. Use of estimates

The preparation of financial statements requires estimates and assumptions to be made that affect the reported amount of assets and liabilities on the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Differences between the actual results and estimates are recognised in the period in which results are known / materialise.

##### 3. Translation of foreign currency items

Transactions in foreign currency are accounted at the rate prevailing on the transaction date. Monetary items in foreign currency are translated at the closing rate. Gains / losses on conversion/translation / settlement are recognised in the Profit and Loss account.

##### 4. Fixed assets

Fixed assets are recorded at cost of acquisition or at revalued amounts less accumulated depreciation and impairment loss, if any. Cost of acquisition of fleet includes brokerage, start up costs and cost of major improvements /upgradations.

Assets acquired under finance leases are capitalised as fixed assets at lower of fair value at inception of the lease and the present value of minimum lease payments and a corresponding liability is recognised. The lease rentals paid (excluding operating expenses) are bifurcated into principal and interest components by applying an implicit rate of return. The interest is charged against income as a period cost and the principal amount is adjusted against the liability recognised in respect of assets taken on finance lease.

##### 5. Depreciation

Depreciation on fleet, including second hand fleet, is provided by using the straight-line method based on the economic useful life of the vessel.

##### 7. Fleet operating earnings

Fleet operating earnings represent the value of charter hire earnings, demurrage, freight earnings, and are accounted on accrual basis.

##### 8. Fleet operating expenses

All expenses relating to the operation of the fleet including crewing, insurance, stores, bunkers, dry docking, charter hire and special survey costs, are expensed under fleet operating expenses on accrual basis.

#### B. NOTES TO FINANCIAL STATEMENTS

##### 1. Convenience translation

The reporting currency of the Company is United States Dollars (US\$). The Central Government of India, vide order no. 47/65/2011-CL-III dated 9th February 2011, has directed Essar Shipping Ports & Logistics Limited, the ultimate holding company, to present the financial statements of the Company alongwith the Indian Rupees ( ₹ ) equivalent of the US\$ amounts appearing in the financial statements for the year ended 31st March 2011 translated at the exchange rate as on 31st March 2011. Accordingly the figures in US\$ for the year ended 31st March 2011 have been translated at US\$ 1 = ₹ 44.65 being the exchange rate as on 31st March 2011. The figures in US\$ for the Previous year ended 31st March 2010 have been translated at US\$ 1 = ₹ 45.58 being the exchange rate as on 31st March 2010.

2. The Company was incorporated in Bermuda in 2001 under the local corporate laws of the State of Bermuda.
3. The Company has only one business segment of Ship operating and chartering.
4. The Company has no tax liability as per the taxation laws of its domicile country.
5. Finance lease obligation
  - a) On 25th January, 2011, the company has taken a very large crude carrier (VLCC) M.T. Ashna on time charter for the period upto 31st December, 2016 consisting of a basic period upto 31st December, 2011 and extension of three years from 31st December, 2011 and further two years from 31st December, 2014 respectively at the option of the lessor. If the lessor does not extend the time charter at the aforementioned dates, the company has a right to buy the vessel at the amounts specified for those dates, as the right to purchase arises at the end of the time charter at the amount specified for that date.
  - b) The minimum lease rentals outstanding at the year -end is as under

Particulars	Minimum lease payments		Interest		Present value of minimum lease payment	
	US\$	₹	US\$	₹	US\$	₹
- Not less than one year	8,950,200	399,626,430	3,920,433	175,047,344	5,029,767	224,579,086
- Later than one year but but not later than five years	33,507,000	1,496,087,550	11,726,741	523,599,007	21,780,259	972,488,543
- Later than five years	29,330,875	1,309,623,569	1,456,902	65,050,693	27,873,973	1,244,572,875
	<b>71,788,075</b>	<b>3,205,337,549</b>	<b>17,104,077</b>	<b>763,697,045</b>	<b>54,683,998</b>	<b>2,441,640,504</b>

6. The Company was a wholly owned subsidiary of Essar International Limited. Pursuant to a Composite Scheme of Arrangement between Essar Ports & Terminals Limited (EPTL), Essar International Limited (EIL), Essar Shipping Ports & Logistics Limited (ESPL) and Essar Shipping Limited (ESL), Essar International Limited have got amalgamated with ESPL and consequently the shipping and logistics business and oilfields drilling business of ESPL has got demerged and vested with ESL, the Resulting Company. With the Scheme becoming effective, this Company has become a wholly owned subsidiary of ESL with effect from 1st October, 2010.

## 7. Related party transactions

### a) Holding companies

Essar Global Limited, Cayman Island, ultimate holding company  
 Essar Shipping & Logistics Limited, Cyprus, intermediate holding company  
 Essar International Limited, Guernsey (the immediate holding company till 30.09.10)  
 Essar Shipping Limited, India - immediate holding company effective 01.10.10.

### b) Other related party where there have been transactions

Energy II Limited

### c) Individuals having significant influence over the Company

Somdatt Kurdikar (resigned w.e.f. 29.03.11)  
 Sanjay Mehta  
 Uday Kumar Gujadhur (appointed w.e.f 29.03.11).

### d) The details of transactions with related parties

Nature of Transactions	for the year ended 31.03.2011		for the year ended 31.03.2010	
	US\$	₹ in crore	US\$	₹ in crore
<b>Interest income</b>				
Essar Shipping & Logistics Limited, Cyprus	39,743	1,774,525	—	—
<b>Reimbursement of expenses</b>				
Energy II Limited, Bermuda	53,496	2,388,596	—	—
<b>Loans and advances given</b>				
Essar Shipping & Logistics Limited, Cyprus	1,970,000	87,960,500	—	—

e) The details of outstanding balance as on 31.03.2011

Nature of Balances	As at 31.03.2011 US\$	As at 31.03.2011 ₹ in crore	As at 31.03.2010 US\$	As at 31.03.2010 ₹ in crore
<b>Loans and advances given including interest accrued</b>				
Essar International Limited, Guernsey	—	—	1,975,000	90,020,500
Essar Shipping & Logistics Limited, Cyprus	2,004,743	89,511,775	—	—

8. Earning per share

Particulars	As at 31.03.2011 US\$	As at 31.03.2011 ₹ in crore	As at 31.03.2010 US\$	As at 31.03.2010 ₹ in crore
Net (Loss) /Profit for the year attributable to equity shareholders	105,855	4,726,426	(22,302)	(1,016,525)
Average number of equity shares during the year	1,952,000	1,952,000	1,952,000	1,952,000
Basic and diluted earning per share	0.05	2.42	(0.01)	(0.52)

9. Previous year's figures have been regrouped / reclassified wherever necessary.

For and on behalf of the Board

**Sanjay Mehta**  
Director

**Uday Kumar Gujadhur**  
Director

July 1, 2011

## ENERGY II LIMITED

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### BOARD OF DIRECTORS

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**Sanjay Mehta**

Director

**Uday Kumar Gujadhur**

Director

**Company Secretary**

Ms. Susie Grant

Codan Services Limited

Bermuda

**AUDITORS**

Deloitte Haskins &amp; Sells

**REGISTERED OFFICE**

Clarendon House

# 2, Church Street

Hamilton HM 11

Bermuda

### DIRECTORS' REPORT

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The Directors submit their report and the Audited Financial Statements for the financial year ended March 31, 2011. During the year, pursuant to the Composite Scheme of Arrangement of Essar Ports Limited (*formerly known as "Essar Shipping Ports & Logistics Limited"*), your Company has become wholly own subsidiary of Essar Shipping Limited, a Company incorporated in India under the Companies Act, 1956.

**PRINCIPAL ACTIVITIES**

The principal activities of the Company is to provide Ship Management Services.

**REVIEW OF BUSINESS AND RESULTS**

The Company was incorporated to own and operate Crude Oil Tankers and provide Ship Management Services. The Company is constantly exploring opportunities to provide Ship Management Services and commercial management services to international oil majors and ship owners.

**DIRECTORS**

During the year, Mr. Somdatt Kurdikar has resigned from the Board of the

Company with effect from March 29, 2011. Your Board places on record the appreciation for the valuable contribution made by Shri Somdatt Kurdikar in the progress of the Company. Further Mr. Uday Kumar Gujadhur was appointed as Director of the Company with effect from March 29, 2011.

**AUDITORS**

Your Auditors M/s Deloitte Haskins & Sell, Chartered Accountants, retires at ensuing Annual General Meeting of the Company and are eligible for re-appointment. It is proposed to re-appoint M/s Deloitte Haskins & Sell, Chartered Accountants, as the Auditors of the Company until the conclusion of the next Annual General Meeting.

For and on behalf of the Board

**Sanjay Mehta**

Director

July 1, 2011

**Uday Kumar Gujadhur**

Director

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## AUDITORS' REPORT

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### TO THE MEMBERS OF ENERGY II LIMITED

We have audited the attached Balance Sheet of Energy II Limited ("the Company"), a Company incorporated in the State of Bermuda, as at March 31, 2011, the Statement of Profit and Loss and the Cash Flow Statement for the year ended on that date both annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in India. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion and to the best of our information and according to the explanations given to us, the financial statements give a true and fair view in conformity with the accounting principles generally accepted in India:

- (a) in the case of the Balance Sheet, of the state of affairs of the Company as at March 31, 2011;
- (b) in the case of the Statement of Profit and Loss, of the profit of the Company for year ended on that date; and
- (c) in the case of the Cash Flow Statement, of the cash flows of the Company for the year ended on that date.

For **Deloitte Haskins & Sells**  
*Chartered Accountants*  
(Registration No. 117366W)

Mumbai  
July 4, 2011

**Khurshed Pastakia**  
*Partner*  
(Membership No. 31544)

BALANCE SHEET AS AT 31<sup>ST</sup> MARCH, 2011

Particulars	As at 31.03.2011 US\$	As at 31.03.2011 ₹	As at 31.03.2010 US\$	As at 31.03.2010 ₹
	(Refer Note B1)		(Refer Note B1)	
<b>Sources of funds</b>				
<b>Shareholders' funds:</b>				
<b>Capital</b>				
<b>Authorised capital</b>				
53,000,000 equity shares of US\$ 1 each.	53,000,000	2,366,450,000	12,000	546,960
<b>Issued, subscribed and paid up capital</b>				
12,000 equity shares of US\$ 1 each fully paid-up. (The entire share capital was held by Essar International Ltd., till 30.09.10. As per the Scheme of amalgamation and demerger, the company has become a subsidiary of Essar Shipping Limited with effect from 01.10.10, refer note B (5) of schedule1)	12,000	535,800	12,000	546,960
Share application money	52,524,660	2,345,226,069	—	—
<b>Reserves and surplus</b>				
Balance in Statement of Profit and Loss	1,050,310	46,896,342	(9,549)	(435,243)
<b>TOTAL</b>	<b>53,586,970</b>	<b>2,392,658,211</b>	<b>2,451</b>	<b>111,717</b>
<b>Application of funds</b>				
<b>Current assets, loans and advances</b>				
<b>Current assets</b>				
<b>Bank balances</b>				
In current account with scheduled bank				
— State Bank of India, London	1,570	70,101	1,960	89,337
In current accounts with other banks				
— Berenberg Bank, Hamburg US\$ current account [Maximum amount outstanding at any time during the year US\$ 376,892.63 - ₹ 1,68,28,255 (previous year US\$ 486,791 - ₹ 2,17,44,969)]	122,278	5,459,713	3,492	159,165
— Berenberg Bank, Hamburg Euro Current Account [Maximum amount outstanding at any time during the year US\$ 108,452.69 - ₹ 48,42,412 (Previous year US\$ 31,595 - ₹ 14,11,328)]	8,084	360,951	1,209	55,106
<b>Loans and advances (unsecured, considered good)</b>				
Loan to body corporate including interest accrued	53,569,664	2,391,885,498	—	—
Advance recoverable in cash or in kind or for value to be received	22,856	1,020,520	40,749	1,857,339
Prepaid expenses	4,904	218,964	4,746	216,323
	<b>53,729,356</b>	<b>2,399,015,745</b>	<b>52,156</b>	<b>2,377,270</b>
<b>Less: Current liabilities and provisions</b>				
Sundry creditors (amounts due to micro, small and medium enterprises nil, previous year nil)	142,386	6,357,535	49,705	2,265,554
	<b>142,386</b>	<b>6,357,535</b>	<b>49,705</b>	<b>2,265,554</b>
<b>Net current assets</b>	<b>53,586,970</b>	<b>2,392,658,211</b>	<b>2,451</b>	<b>111,717</b>
<b>TOTAL</b>	<b>53,586,970</b>	<b>2,392,658,211</b>	<b>2,451</b>	<b>111,717</b>
<b>Significant accounting policies and notes to financial statement - Refer Schedule 1</b>				

In terms of our report attached

For **Deloitte Haskins & Sells**  
Chartered Accountants**Khurshed Pastakia**  
PartnerMumbai  
July 4, 2011

For and on behalf of the Board

**Sanjay Mehta**  
Director**Uday Kumar Gujadhur**  
Director

July 1, 2011



## STATEMENT OF PROFIT AND LOSS FOR THE YEAR ENDED 31<sup>ST</sup> MARCH, 2011

Particulars	For the year ended 31.03.2011 US\$	For the year ended 31.03.2011 ₹	For the year ended 31.03.2011 US\$	For the year ended 31.03.2011 ₹
	(Refer Note B1)		(Refer Note B1)	
<b>INCOME</b>				
Management fees	170,350	7,606,128	166,335	7,581,549
Interest income	1,044,664	46,644,248	—	—
	<u>1,215,014</u>	<u>54,250,375</u>	<u>166,335</u>	<u>7,581,549</u>
<b>EXPENDITURE</b>				
Management charges and other expenses	150,105	6,702,188	175,151	7,983,383
Audit fees	5,000	223,250	4,840	220,607
	<u>155,105</u>	<u>6,925,438</u>	<u>179,991</u>	<u>8,203,990</u>
<b>PROFIT/ (LOSS) BEFORE FINANCE CHARGES</b>	<b>1,059,909</b>	<b>47,324,937</b>	<b>(13,656)</b>	<b>(622,440)</b>
Bank charges	50	2,233	117	5,333
<b>NET PROFIT/ (LOSS) FOR THE YEAR</b>	<b>1,059,859</b>	<b>47,322,704</b>	<b>(13,773)</b>	<b>(627,773)</b>
Balance brought forward from last year	(9,549)	(426,363)	4,224	192,530
<b>BALANCE CARRIED FORWARD TO BALANCE SHEET</b>	<b>1,050,310</b>	<b>46,896,342</b>	<b>(9,549)</b>	<b>(435,243)</b>
Earnings per share - basic & diluted (face value US\$ 1 each) (refer note B (7) of Schedule1)	0.04	1.80	(1.15)	(52.31)
<b>Significant accounting policies and notes to financial statement - Refer Schedule 1</b>				

In terms of our report attached  
For **Deloitte Haskins & Sells**  
Chartered Accountants  
**Khurshed Pastakia**  
Partner  
Mumbai  
July 4, 2011

For and on behalf of the Board

**Sanjay Mehta**  
Director

**Uday Kumar Gujadhur**  
Director

July 1, 2011

## CASH FLOW STATEMENT FOR THE YEAR ENDED 31<sup>ST</sup> MARCH, 2011

Particulars	For the year ended 31.03.2011 US\$	For the year ended 31.03.2011 ₹	For the year ended 31.03.2010 US\$	For the year ended 31.03.2010 ₹
	(Refer Note B1)		(Refer Note B1)	
<b>A. CASH FLOW FROM OPERATING ACTIVITIES</b>				
Net profit/(loss) as per Statement of Profit and Loss	1,059,859	47,322,704	(13,773)	(627,773)
Adjustments :				
Interest and finance expenses	50	2,233	117	5,333
Interest income	(1,044,664)	(46,644,248)	—	—
Exchange fluctuation on convenience translation	—	(6,195)	—	(13,640)
<b>Operating profit/(loss) before working capital changes</b>	<b>15,245</b>	<b>674,495</b>	<b>(13,656)</b>	<b>(636,080)</b>
Adjustments for:				
Trade and other receivables	17,735	791,868	21,782	992,824
Trade payables	92,681	4,138,207	(3,888)	(177,215)
Net cash from operating activities	<b>125,661</b>	<b>5,604,569</b>	<b>4,238</b>	<b>179,528</b>
<b>B. CASH FLOW FROM INVESTING ACTIVITIES</b>				
Loans and advances given to body corporate	(52,525,000)	(2,345,241,250)	—	—
<b>Net cash used in investing activities</b>	<b>(52,525,000)</b>	<b>(2,345,241,250)</b>	<b>—</b>	<b>—</b>
<b>C. CASH FLOW FROM FINANCING ACTIVITIES</b>				
Share application money received	52,524,660	2,345,226,069	—	—
Bank charges paid	(50)	(2,233)	(117)	(5,333)
<b>Net cash from / (used) in financing activities</b>	<b>52,524,610</b>	<b>2,345,223,837</b>	<b>(117)</b>	<b>(5,333)</b>
<b>Net increase / (decrease) in cash and cash equivalents (A+B+C)</b>	<b>125,271</b>	<b>5,587,155</b>	<b>4,121</b>	<b>174,195</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>6,661</b>	<b>303,608</b>	<b>2,540</b>	<b>129,413</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>131,932</b>	<b>5,890,764</b>	<b>6,661</b>	<b>303,608</b>
	—	0	—	—

**Note:** Cash flow statement has been prepared under the indirect method as set out in the Accounting Standard (AS) - 3 'Cash flow statement' as notified by The Institute of Chartered Accountants of India.

In terms of our report attached  
For **Deloitte Haskins & Sells**  
Chartered Accountants  
**Khurshed Pastakia**  
Partner  
Mumbai  
July 4, 2011

For and on behalf of the Board

**Sanjay Mehta**  
Director

**Uday Kumar Gujadhur**  
Director

July 1, 2011

## SCHEDULES ATTACHED TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31<sup>ST</sup> MARCH, 2011

### SCHEDULE 1

#### SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO FINANCIAL STATEMENTS

##### A. SIGNIFICANT ACCOUNTING POLICIES

###### 1. Basis of accounting

The financial statements are prepared in United States Dollar (US\$) under historical cost convention and on accrual basis of accounting and in accordance with Generally Accepted Accounting Principles in India. The figures in rupees have been converted following the exchange rate as mentioned in note B(1) below for presentation purpose only.

###### 2. Use of estimates

The preparation of financial statements requires estimates and assumptions to be made that affect the reported amount of assets and liabilities on the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Differences between the actual results and estimates are recognised in the period in which results are known/ materialise.

###### 3. Revenue recognition

Management fees are recognised on accrual basis.

###### 4. Interest income

Interest income is recognised on an accrual basis.

###### 5. Translation of foreign currency items

Transactions in foreign currency are accounted at the rate prevailing on the transaction date. Monetary items in foreign currency are translated at the closing rate. Gains / losses on conversion/translation / settlement are recognised in the Statement of Profit and Loss.

##### B. NOTES TO FINANCIAL STATEMENTS

###### 1. Convenience translation

The reporting currency of the Company is United States Dollars (US\$). The Central Government of India, vide order no. 47/65/2011-CL-III dated 9th February 2011, has directed Essar Shipping Ports & Logistics Limited, the ultimate holding company, to present the financial statements of the Company alongwith the Indian Rupees ( ₹ ) equivalent of the US\$ amounts appearing in the financial statements for the year ended 31st March 2011 translated at the exchange rate as on 31st March 2011. Accordingly the figures in US\$ for the year ended 31st March 2011 have been translated at US\$ 1 = ₹ 44.65 being the exchange rate as on 31st March 2011. The figures in US\$ for the previous year ended 31st March 2010 have been translated at US\$ 1 = ₹ 45.58 being the exchange rate as on 31st March 2010.

2. The Company was incorporated in Bermuda in 2001 under the local corporate laws of the State of Bermuda.

3. The Company has only one business segment of Ship Management activities and one Geographical segment.

4. The Company has no tax liability as per the taxation laws of its domicile country.

5. The Company was a wholly owned subsidiary of Essar International Limited (EIL). Pursuant to a Composite Scheme of Arrangement between Essar Ports & Terminals Limited (EPTL), EIL, Essar Shipping Ports & Logistics Limited (ESPLL) and Essar Shipping Limited (ESL), EIL got amalgamated with ESPLL and consequently the shipping and logistics business and oilfields drilling business of ESPLL has got demerged and vested with ESL, the Resulting Company. With the Scheme becoming effective, this Company has become a wholly owned subsidiary of ESL with effect from 1st October, 2010.

###### 6 Related party transactions

###### a. Holding companies

Essar Global Limited, Cayman Island, ultimate holding company

Essar Shipping & Logistics Limited, Cyprus, intermediate holding company

Essar International Limited, Guernsey (the immediate holding company till 30.09.10)

Essar Shipping Limited, India - immediate holding company effective 01.10.10.

**b. Other related party where there have been transactions**

Energy Transportation International Limited

**c. Individuals having significant influence over the company**

Sondatt Kurdikar (resigned on 29.03.11)

Sanjay Mehta

Uday Kumar Gujadhur (appointed on 29.03.11)

**d. The details of transactions with related parties**

Nature of transactions	for the year ended 31.03.2011		for the year ended 31.03.2010	
	US\$	₹	US\$	₹
<b>Interest income</b>				
Essar Shipping & Logistics Limited	1,044,664	46,644,248	—	—
<b>Reimbursement of expenses</b>				
Energy Transportation International Limited	53,551	2,391,056	—	—
Essar Shipping Limited	339,455	15,156,643		
<b>Loans &amp; advances given</b>				
Essar Shipping & Logistics Limited	52,525,000	2,345,241,250	—	—

**e. The details of outstanding balances as on 31.03.2011**

Nature of balances	As at 31.03.2011 US\$	As at 31.03.2011 ₹	As at 31.03.2010 US\$	As at 31.03.2010 ₹
<b>Loans &amp; advances given including interest accrued</b>				
Essar Shipping & Logistics Limited	53,569,664	2,391,885,498	—	—
<b>Advance recoverable in cash or in kind</b>				
Essar Shipping Limited	22,856	1,020,520	40,749	1,857,339
<b>Share application money received</b>				
Essar Shipping Limited	52,524,660	2,345,226,069	—	—

**7. Earning per share**

Particulars	As at 31.03.2011 US\$	As at 31.03.2011 ₹	As at 31.03.2010 US\$	As at 31.03.2010 ₹
Net profit /(loss) for the year attributable to equity shareholders	1,059,859	47,322,704	(13,773)	(627,773)
Average number of equity shares during the year	12,000	12,000	12,000	12,000
Basic earning per share	88.32	3,943.56	(1.15)	(52.31)
Potential equity shares (nos)	52,524,660	52,524,660	—	—
Diluted earning per share	0.04	1.80	(1.15)	(52.31)

**8** Previous year's figures have been regrouped / reclassified wherever necessary.

For and on behalf of the Board

**Sanjay Mehta**  
Director**Uday Kumar Gujadhur**  
Director

July 1, 2011

