Essar Steel Limited

30th Annual Report 2005-2006

BOARD OF DIRECTORS

Shashi Ruia	*Chairman*
Ravi Ruia	*Vice-Chairman*
Prashant Ruia	*Managing Director*
Vikram Amin	*Director - Marketing*
V. G. Raghavan	*Director - Finance*
Jatinder Mehra	
S. V. Venkatesan	
Sanjeev Shriya	
Jitender Balakrishnan	*Nominee - IDBI (upto 27-3-06)*
G. A. Nayak	*Nominee - UTI (upto 20-6-06)*
G. D. Goswami	*Nominee - ICICI Bank Ltd.*
Narottam B. Vyas	*Company Secretary*

REGISTERED OFFICE

Post : Hazira Pin: 394 270
Dist : Surat
Gujarat
Tel. : 0261-6682 400
Fax : 0261-6682 796

CORPORATE OFFICE

Essar House,
11 Keshavrao Khadye Marg,
Mahalaxmi,
Mumbai - 400 034.
Tel. : 022-66601100
Fax : 022-66602748

CONTENTS

Board of Directors	2
Notice	3
Directors' Report	4
Corporate Governance Report	10
Auditors' Report	15
Balance Sheet	18
Profit & Loss Account	19
Schedules forming part of Accounts	20
Balance Sheet Abstract	37
Cash Flow Statement	38
Proxy	39

BANKERS

State Bank of India
Punjab National Bank
Bank of India
Allahabad Bank
IDBI Bank
State Bank of Patiala
State Bank of Mysore
Indian Bank
State Bank of Saurashtra
State Bank of Indore
State Bank of Bikaner & Jaipur

AUDITORS

M/s. S.R. Batliboi & Co.
Chartered Accountants,
6th Floor, Express Towers,
Nariman Point, Mumbai 400 021

SOLICITORS

M/s. Crawford Bayley & Co.
State Bank Buildings,
NGN Vaidya Marg, Fort,
Mumbai - 400 023.

TRANSFER AGENTS

Data Software Research Co. Pvt. Ltd.
Sree Sovereign Complex,
No. 22, 4th Cross Street,
Trustpuram, Kodambakkam,
Chennai - 600 024.
Tel. : 044-24834487/3738
Fax : 044-24834636
E-mail : dsrcmd@md3.vsnl.net.in

Visit us at our website

http://www.essar.com

Please send in your e-mail address to: webmaster@essar.com
to keep you informed about the progress of the Company.

NOTICE

NOTICE is hereby given that the Thirtieth Annual General Meeting of the Members of **Essar Steel Limited** will be held at the Registered Office of the Company at Post: Hazira, Pin: 394 270, Dist.: Surat, Gujarat on **Saturday, September 30, 2006 at 2.30 pm** to transact, the following business:

ORDINARY BUSINESS :

1. To consider and adopt the Audited Balance Sheet as at March 31, 2006 and the Profit and Loss Account for the year ended on that date and the Reports of the Directors and Auditors thereon.
2. To appoint a Director in the place of Shri. R N Ruia who retires by rotation and being eligible, offers himself for reappointment .
3. To appoint a Director in the place of Shri. S V Venkatesan who retires by rotation and being eligible, offers himself for reappointment.
4. To appoint M/s S R Batliboi & Co., Chartered Accountants, as Auditors of the Company and to fix their remuneration.

SPECIAL BUSINESS

5. To consider and if thought fit, to pass with or without modification(s), the following Resolution as Special Resolution:-

"**RESOLVED THAT** pursuant to the provisions of Sections 78, 100 to 104 and all other applicable provisions of the Companies Act, 1956 and enabling provisions in the Memorandum and Articles of Association of the Company, and subject to the confirmation of the jurisdictional High Court / Tribunal and / or any other regulatory authority as may be prescribed under the Companies Act, 1956 and subject to such conditions, modifications, as may be prescribed or imposed by any of the aforementioned authorities, while granting such approvals, permissions and sanctions, which may be agreed to by the Board of Directors of the Company, an amount not exceeding Rs. 191.43 crores net of tax out of the credit balance standing in Securities Premium Account of the Company as at March 31, 2006 be utilised for the adjustment against the debit balance of "Prepaid Power Charges" of Rs. 87.26 crores net of tax and "Recompense Charges" of Rs.104.17 crores net of tax w.e.f 31st March, 2006.

RESOLVED FURTHER THAT for the purposes of giving effect to the above Resolution and for removal of any difficulties or doubts, the Board of Directors (which term shall include any Committee thereof or any person / persons that the Board may have constituted / nominated or hereinafter constitute / nominate to exercise its powers including powers conferred under this Resolution) be and is hereby authorised to do all acts, deeds, matters and things as it may in its absolute discretion, deem necessary, expedient, usual or proper and to settle any question or difficulty that may arise with regard to utilisation / adjustment of the Securities Premium Account or carry out such modifications / directions as may be ordered by the jurisdictional High Court / Tribunal to implement the aforesaid resolution."

Notes:

1. The Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956 relating to the Special Business under Item No. 5 is annexed herewith.
2. A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT ONE OR MORE PROXIES TO ATTEND AND VOTE INSTEAD OF HIMSELF ON A POLL ONLY AND THE PROXY NEED NOT BE A MEMBER OF THE COMPANY. Proxy forms should be deposited at the Registered Office of the Company not less than 48 hours before the time fixed for the meeting.
3. Register of Members and Share Transfer Books of the Company will remain closed from **29th September, 2006 till 30th September, 2006 (Both days inclusive).**
4. The Chairman of the Audit Committee of Directors shall be present at the Annual General Meeting to answer queries of shareholders arising on the Accounts of the Company.
5. All the documents referred to in the accompanying notice and the explanatory statement are open for inspection at the Registered Office of the Company on all working days between 11.00 a.m. and 1.00 p.m. upto the date of the Annual General Meeting.
6. The Company's shares are listed with Bombay Stock Exchange Ltd. and National Stock Exchange of India Limited. The Company has paid the listing fees for the year 2006-07 to the aforesaid Stock Exchanges.
7. **Members are requested to intimate the Registrar and Share Transfer Agents of the Company-Data Software Research Co. Pvt. Ltd., Sree Sovereign Complex, No. 22, 4th Cross Street, Trustpuram, Kodambakkam, Chennai 600 024, immediately of any change in their address in respect of shares held in physical mode and to their Depository Participants (DPs) in respect of shares held in dematerialised form.**
8. Members/Proxies should bring the Attendance Slip duly filled in for attending the meeting. Corporate Members intending to send their authorised representatives to attend the meeting are requested to send a certified copy of the Board Resolution authorising their representative to attend and vote on their behalf at the Meeting.
9. Members who hold shares in physical form in multiple folios in identical names or joint accounts in the same order of names are requested to send the share certificates to the Company's Registrar and Transfer Agents, Data Software Research Co. Pvt. Ltd., for consolidation into a single folio.
10. Non – Resident Indian Members are requested to inform the Company's Registrars and Transfer Agents, Data Software Research Co. Pvt. Ltd., immediately of the change in their residential status.
11. Members desiring any information as regards the Accounts are requested to write to the Company at least 15 days before the date of the meeting, as to enable the management to keep the information ready.

By Order of the Board of Directors

Date : 10th July, 2006 — **Narottam B Vyas**
Place : Mumbai — *Company Secretary*

ANNEXURE TO NOTICE

EXPLANATORY STATEMENT

Pursuant to Section 173 (2) of the Companies Act, 1956 the following Explanatory Statement sets out the material facts relating to Item No. 5.

SPECIAL BUSINESS
Item No. 5

Adjustment of One-time Recompense Charges paid to CDR Lenders and Prepaid Power Charges against balance in Securities Premium account.

Recently the Company has pre-paid all the Lenders under the Corporate Debt Restructuring Scheme (CDR) and is now not subjected to CDR Scheme. As part of the above settlement, the Company had to make payment of one time recompense charges to the Lenders for accepting the pre-payment of financial facilities given by them under the CDR Scheme. Such charges paid till 31.03.2006 are Rs.106.89 crore and payable after 31.03.2006 are Rs.49.92 crore.

As these recompense charges are of one time, non-recurring, extra-ordinary and not revenue in nature, the Board is of the opinion that the same can be adjusted with capital reserves.

Prepaid Power Charges

The Company had entered into a Power Purchase Agreement (PPA) with Essar Power Limited ('EPOL') on 29.06.1996 for supply of Power to the extent of 215 MW for a period of 20 years. According to PPA the company is required to pay following Fixed Charges:

- Interest on Debt: Interest on Debt as per the Financing Plan approved by the Company including Lease Rentals.
- Operation and Maintenance Expenses: On the basis of weighted Price Index based on the wholesale price index and consumer price index in the ratio of 70:30 respectively or at the rate of 10% progressively every year, whichever is lower.
- Depreciation under Electricity Supply Act,
- Tax on income
- Return on Equity @ 16% p.a.
- Interest on working capital
- Any exchange fluctuation in repayment of Foreign Debt.

The company was paying the above amounts to EPOL and charging off the same to Profit and Loss Account from 1996-97 till 1999-00. During the year 2000-01, the company changed the policy of charging off the power charges and accordingly the depreciation and interest / lease rent components of fixed cost of power paid in the years 2000-01 & 2001-02 were hitherto apportioned prospectively over the term of PPA as the same were payable only up to 2007-08.

As this adjustment of pre-paid power charges is also of one time, non-recurring, extra-ordinary and not revenue in nature, the Board is of the opinion that the same can be adjusted with capital reserves.

Balance in capital reserves of the Company as at 31st March, 2006 are as follows.

Securities Premium Account - Rs.283.20 crores.

Capital Reserve - Rs.12.73 crores

Accordingly the Company has provisionally adjusted the entire debit balance in recompense charges of Rs.104.17 crores (net of tax) and also in prepaid power charges of Rs.87.26 crores (net of tax) aggregating to Rs.191.43 crores against credit balance lying in Securities Premium Account on 31st March, 2006.

The above adjustment requires the approval of the shareholders by way of a special resolution and confirmation by Court in accordance with the provisions of Section 78 and Section 100 to 104 of the Companies Act, 1956.

None of the Directors of your company is in any way concerned or interested in the proposed resolution.

Your Directors recommend the resolutions for your approval.

By Order of the Board of Directors

Date : 10th July, 2006 — **Narottam B Vyas**
Place : Mumbai — Company Secretary

DIRECTORSí REPORT

To the Members of **Essar Steel Limited**

Your Directors have pleasure in presenting the 30th Annual Report of your Company together with the Audited Statement of Accounts for the year ended 31st March, 2006.

FINANCIALS

(Rs. in crores)

Particulars	Year ended	
	31st, March 2006	31st, March 2005
Sales and other Income	**7058.59**	6537.81
Profit before Finance Cost (net), Depreciation, Charges pertaining to earlier years, Extra ordinary item and Taxation	**1689.11**	1936.75
Less: Finance Cost (Net)	**422.67**	550.73
Profit before Depreciation, Charges pertaining to earlier years, Extra ordinary items and Taxation	**1266.44**	1386.02
Less: Depreciation	**482.10**	394.29
Profit before charges pertaining to earlier years, extra ordinary item and taxation	**784.34**	991.73
Less / (Add) : charges pertaining to earlier years & extra ordinary item	**88.36**	197.63
Profit before Taxation	**695.98**	794.10
Less: Provision for Deferred tax	**152.35**	195.87
Less : Provision for Current tax	**8.35**	8.08
Less : Provision for Fringe benefit tax	**5.10**	—
Profit after taxation	**530.18**	590.15
Less: Balance brought forward from previous period	**(1203.82)**	(1474.68)
Add : Unpaid dividend written back on forfeiture of shares	**ó**	9.75
Add: Transfer from Securities premium account	**1356.30**	1356.30
Add: Transfer from Debenture Redemption Reserve	**340.64**	—
Less: Transfer to Debenture Redemption Reserve	**(15.00)**	(329.04)
Balance carried forward to next year	**1008.30**	152.48

DIVIDEND

Your Board of Directors does not recommend any dividend on equity shares and preference shares, in order to conserve the resources.

OPERATIONS AND PERFORMANCE HIGHLIGHTS

A. Operations

HR Coil production for the year ended March 31, 2006 grew by 10.8% to 2.58 million tonnes.

The Company introduced Cold Rolled Close Annealed products (CRCA) and Extra Deep Drawing (EDD) grade in a record time of five months after completion of successful trials. The development and successful introduction of dual phase steel has put your Company in the list of select few producers of this grade internationally. This grade finds growing application in the highly demanding automotive and auto component sectors.

B. Sales & Marketing

Total sales value for the year registered a growth of 8% at Rs.7058.59 crore as against Rs.6537.81 crore in 2004-05.

Sales volumes at 2,479,802 tonnes showed an increase of 9.45% over 2,265,599 tonnes in the corresponding period of the previous year. The Company's domestic sales volume at 1,788,120 tonnes registered an increase of 21.02% over 1,477,555 tonnes sold in the previous year. The strong domestic demand saw the Company's sales to domestic markets grow at the cost of export volumes which showed a reduction of 12.22% at 691,682 tonnes from a level of 788,044 tonnes in the previous year.

The Company's focus on increasing its share in high value, speciality segments resulted in the share of such products going up to 48% of total sales as compared to 37% in the previous year.

The Company received letters of appreciation from major auto and white goods manufacturers regarding the successful trial and introduction of CRCA and EDD grades of steel.

The "Sona" brand of products for the construction segment performed extremely well in the year under review with sales volumes going up from 30,000 tonnes to 57,000 tonnes.

Your Company's exports constitute approximately 27.89% of overall revenues and continue to be well balanced across several markets in Europe, Middle East, NAFTA countries, Africa, Australia and South East Asia.

Your Company received the top national and regional exporter's trophy from the Engineering Export Promotion Council. The Company's multi pronged strategy on focusing on speciality products and offering a diverse range in the value added segment in Cold Rolled as well as Hot Rolled products has yielded excellent results. The Company received its largest ever single order of USD 186 million for the supply of API grade steel to Iran. This product is a winner in the Middle East markets due to their requirements of high quality and speciality grades for the transportation of crude and finished petroleum products.

Essar Steel was the only Indian Steel company to successfully contest anti dumping action in the United States of America.

MANAGEMENT DISCUSSION AND ANALYSIS

Industry Outlook

The global steel industry continued to exhibit cyclicality and fragmented market shares and moved towards further consolidation and setting up manufacturing facilities in countries which have natural resources both in terms of raw material and energy.

The demand for steel products continued to be steady through the year, though the inventory reduction by steel industry consumers had an impact on prices as corrections took place both on the demand side and on the supply side. While the world crude steel production exceeded 1.1 billion tonnes, consumption was around 1.0 billion tonnes, indicating a comfortable demand and supply situation.

Consumption of steel is closely linked to the pace of economic growth of the region. Over the past decade global steel consumption has grown at a CAGR of 4.5%. Demand growth was aided by significant demand increase in China and other emerging economies like India. Asia accounts for 54% of global production in 2005 indicating a shift in the production base.

Consolidation in the global steel industry

The Steel Industry which was fragmented till now has witnessed some amount of consolidation in the recent years. There have been eight major acquisitions globally in the steel industry over the past five years. This is a positive development for the industry as this will instill a sense of producer discipline and make the industry less prone to cyclical variations. This will also have a positive impact on the ability of the industry to negotiate with suppliers of raw material.

China factor

The influence of China in world steel demand underscores the importance of the shift in balance in apparent demand. Chinese crude steel production increased to 350 milliion tonnes in 2005, a growth of 25% YOY from 2001. At the same time, per capita consumption of crude steel in China has gone up to 230 Kilograms in 2004 from 108 Kilograms in 2000, a growth of 25%.

The Indian Steel Industry:

2005-06 was in many ways a watermark year for the Indian steel industry. Domestic demand remained robust on the back of a growing economy and high consumer demand for durable goods. India's steel industry seems to have finally come of age with domestic and international major vying for space both on the manufacturing side and for large share in what is today acknowledged as one of the fastest growing markets in the world.

With a current capacity of just over 40 million tonnes, India ranks eighth among major steel producing nations in the world. India has been a net exporter over the last 5 years underlining the growing acceptability of Indian steel products in the global market.

A growth of between 4 and 5% over a two year period beginning 2004-05 augurs well for the industry. However, rising input costs such as raw material, power, intermediate metals, etc continue to present major challenges for the Indian steel industry.

The National Steel Policy announced by the Government of India last year envisages steel production to go up to 60 Million Tonnes by 2012 and 100 Million Tonnes by 2020.

The above growth target depends on policy measures to address critical issues facing the sector, such as;

- adequate investment and development of raw material sources particularly iron ore, coking coal etc.,
- streamlining of existing procedures in mining (a committee has been formed by Govt. of India for this purpose)

- Adequate infrastructure support like power, ports, roads, rail to move the additional raw material and steel that will be produced

Operations

The year under review has seen some significant developments at Essar Steel. Your Company implemented several measures to ensure long term growth, stability and profitability and protect it from the cyclicality that is inherent in the industry. The first and major achievement was making Essar Steel a totally integrated steel producer from iron ore to ready-to-market products, and ensure control at every stage in the manufacturing chain. Your Company completed the acquisition of Hy-Grade Pellets (HGPL) and Steel Corporation of Gujarat (SCGL). The Company also commissioned the 267-km pipeline, which transports the beneficiated iron ore slurry from Bailadilla in Chattisgarh to Visakhapatnam where the Company's pellet plant is located. At the other end of the manufacturing process, your Company commissioned the Cold Rolling Mill in September 2005. The commissioning of an additional 355 MW power capacity at Hazira by Essar's Power Group will meet the enhanced requirements of the steel plant for its expansion projects.

The capacity expansion to 4.6 million tonnes per annum is on track and we expect to complete this by the third quarter of this year.

During the year, the Company further strengthened its information technology platform and extended the implementation of SAP to several other areas of operations, including marketing, HR, logistics and distribution. This will improve the accuracy and timeliness of decision making and contribute to better efficiencies.

Your Company believes that these steps will yield considerable benefits of costs, seamlessness in operations, assurance of adequate raw material and infrastructure and most importantly value addition in the product range.

Marketing

Essar Steel's product portfolio now addresses the high value, discerning customer profile in the automotive, white goods, construction, general engineering and ship building industries. The Company has been able to move up the value chain and add an enviable portfolio of leading Indian and international customers.

The Company's ability to increase its proportion of value added products fulfills two objectives:

1. Strengthened presence at the top end of the user segment resulting in better price realization.
2. Catering to niche, technology and quality conscious customers with long term contracts and assured orders.

Essar Steel participated in several exhibitions and seminars in India and abroad, including the prestigious Auto Expo and AEC(Architects, Engineers and Constructions) show in order to showcase its products to specific customer segments.

Your Company's Research and Development team successfully introduced Extra Deep Drawing (EDD) grade steel in the Cold Rolled Close Annealed (CRCA) segment, as also Dual Phase steel which find critical application in the fast growing automobile sector.

The web based portal for retail customers www.clickforsteel.com is being complemented by a customer relationship program which will enable the Company to respond faster to technical and commercial enquiries.

The Indian steel industry is now fully integrated with the global industry and to that extent, your company's fortunes are closely linked to global market forces. The actions that we have taken over the last two years have been aimed at creating an enterprise that will position it in the league of high performing international steel companies.

Finance

The year has seen some significant developments on the financial front, the most important one being the repayment of the entire CDR debt. This, we believe offers your Company greater leeway in operational matters and positions the company in an advantageous position in financial markets for its future plans.

The Company's net worth has gone up from Rs.1725 crore to Rs.4032 crore and the Company's financial ratios have improved significantly.

The Company expects the full benefits of integration and expansion to accrue in the coming years.

The Company's ability to exit from the Corporate Restructuring Programme (CDR) has resulted in a reduction in the average cost of funds. The company has also brought in additional preference shares aggregating to Rs 1957.60 crore which was utilized towards acquisition of Stemcor's 51 % stake in Hy-Grade Pellets Ltd.(Pelletisation Plant) and 100 % stake in Steel Corporation of Gujarat Ltd (Cold Rolling Mill). Essar steel is today fully integrated with control at every stage of manufacture.

During the year, your Company raised and utilised Term facilities/ Debentures of over Rs 1000 crore to finance the capital expansion programme to increase the current capacity from 2.4 MPTA to 4.6 MTPA at Hazira.

Similarly, over Rs 350 Crore was raised and utilized during the year to part finance a beneficiation plant at Bailadilla, a slurry pipe line between Bailadila and Visakhapatnam and the second Pelletisation Plant of 4 MTPA capacity at Visakhapatnam. A further sum of over Rs 100 crore has been raised and utilized during the year for the expansion from 1.19 million tonnes per annum to 1.40 million tonnes per annum at the Cold Rolling Mill complex at Hazira.

Share Capital

During the year your Company reorganised the equity share capital pursuant to the CDR scheme and the approval from the Hon'ble High Court of Gujarat by reducing the equity share capital of Rs.507.31 crore by 40% and allotting 0.01% Cumulative Redeemable Preference Shares in lieu thereof. Pursuant to the directions of CDR Cell, your Company also converted 5,52,22,000 0.01% Optionally Convertible Preference Shares into 27,61,10,000 equity shares of Rs.10 each Further the Company has also allotted 5,59,31,364 7% Compulsorily Convertible Preference Shares of Rs.350/- each, proceeds of which have been utilised to acquire the balance equity stake in Hy-Grade Pellets Ltd. and 100% equity stake in Steel Corporation of Gujarat Ltd. Your company, pursuant to the CDR package has also allotted 4,35,98,951 10% Cumulative Redeemable Preference Shares of Rs. 10/- each to Banks / Institutions for an amount aggregating to Rs.43.60 crore. Pursuant to the Scheme of Arrangement in the nature of Scheme of Amalgamation of Hy-Grade Pellets Limited and Steel Corporation of Gujarat Limited with the Company alongwith Scheme of Reconstruction of Capital of the Company approved by the Hon'ble High Court of Gujarat and Andhra Pradesh on 17th June, 2006 and 3rd May, 2006 respectively, the aforesaid 5,59,31,364 7% Compulsorily Convertible Preference Shares have been converted into Equity Shares w.e.f 10th July, 2006. With the above the Equity Capital of the Company has increased from Rs.507.31 crore to Rs.1139.81 crore.

Amalgamation of Hy-Grade Pellets Limited and Steel Corporation of Gujarat Limited with the Company

During the year, the Honorable High Courts of Andhra Pradesh and Gujarat approved the Scheme of Arrangement in the nature of Scheme of Amalgamation of Hy-Grade Pellets Limited and Steel Corporation of Gujarat Limited with your Company. The Amalgamation entails increase in the fixed assets including capital work-in-progress of the Company by an amount of Rs.3708.53 crore. The Scheme of Arrangement will result in benefits from operational synergies as the businesses of these companies are closely interlinked with that of your Company. The consolidation will result in economies of scale, lower operating costs structure, a single umbrella for product offerings in domestic and global markets with higher value addition and price realisation.

Subsidiaries

Consequent to the Scheme of Arrangement in the nature of Scheme of Amalgamation of Hy-Grade Pellets Ltd with the Company, Essar Steel Jharkhand Ltd. (ESJL) and Essar Steel Chattisgarh Ltd.,(ESCL) subsidiaries of Hy-Grade Pellets Ltd., have become subsidiaries of the Company. The Company's control over these two subsidiaries has been only for two days during the financial year 2005-06.

Further, the control over these two subsidiaries is temporary and the Company does not intend to continue with them as subsidiaries beyond March 31, 2007. As such the accounts of these subsidiaries are not consolidated with that of the Company in view of specific exemptions provided in the Accounting Standards 21 issued by Institute of Chartered Accountants of India relating to Consolidation of Financial Statements.

The first accounting year of the subdiaries ends on 30th September, 2006, accordingly these Annual Report will be annexed to Balance Sheet of this Company as at 31st March, 2007 in accordance with section 212 of the Companies. Act 1956.

A statement pursuant to section 212 of the Companies Act., 1956 relating to subsidiary Companies is annexed to this report.

DIRECTORS

Shri R N Ruia and Shri S V Venkatesan retire by rotation at the ensuing Annual General Meeting and, being eligible, offers themselves for reappointment. The Board recommends their reappointment.

Shri Jitender Balakrishnan, Nominee of IDBI and Shri G A Nayak, Nominee of UTI have tendered their resignations from the Board, effective March 27, 2006 and June 20, 2006 respectively. The Board places on record its appreciation of the significant contributions made by them during their tenure.

DIRECTORSí RESPONSIBILITY STATEMENT

Pursuant to the requirements under Section 217(2AA) of the Companies Act, 1956, the Board of Directors of the Company hereby state and confirm that

i. In the preparation of the Annual Accounts, applicable accounting standards have been followed along with proper explanation relating to material departures.

ii. The Directors have selected accounting policies and applied them consistently and made judgements 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 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 Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities.

iv. The Directors have arranged preparation of the accounts for the year ended March 31, 2006 on a "going concern" basis.

AUDITORS

Your Company's auditors, M/s. S R Batliboi & Co, Chartered Accountants, will retire at the conclusion of the ensuing Annual General Meeting. The Company has received a letter informing it of their acceptance to get re-appointed as Auditors of the Company.

Information and explanation on reservations / qualifications / adverse remarks in the Audit Report.

1. As regards Auditors' disclaimer with respect to recognition of Deferred Tax Asset it is clarified that the Company has recognised Deffered Tax Asset on the following grounds;
   - i. The Company has been consistently making profits in the last 4 years.
   - ii. The Company by amalgamation of Hy-Grade Pelelts Ltd., and Steel Corporation of Gujarat Ltd., has put up fully integrated operation commencing from iron ore (cost USD 20 Per Ton) to finished steel (selling price over USD 900 Per Ton).
   - iii. With the consolidation, global Steel Industry is witnessing upward trend in their realisation.
   - iv. Strong growth in domestic demand for steel following higher investment in infrastructure.
   - v. The Company's recent expansion programme increasing capacity from 2.4 MTPA to 4.6 MTPA is nearing completion and the fact that the Company has achieved financial results which are in excess of the projections made earlier and the Company has been able to utilize the Net Deferred Tax Asset in the past.
2. In respect of Auditors' observation on provisional adjustment of certain dues towards prepaid power charges and recompense charges it has also been clarified that the said charges being of one time, non-recurring and not revenue in nature, the Board has decided to adjust the same against credit balance in the securities premium account. Accordingly a Special Resolution for approval of the same from members wef 31.03.2006 has been proposed at the forthcoming Annual General Meeting.
3. As regards observations in clause vi (c) of the Auditors' Report, please refer note given below Schedule 2. The Company has already passed final adjustment entry in the Current year.

Human Resources

The Company continues to nurture talent by systematic training programs aimed at knowledge enhancement, improvement of skills, leadership and team building. The Essar Learning Centre and the Manufacturing Excellence program have imparted on-job and academic training at different levels in the organization. The company conducted an employee satisfaction survey and the Human Resources team will address issues arising out of the findings. The Company's employee strength was 2732 and it is a matter of satisfaction that productivity per employee at Essar Steel is among the highest in this industry.

Corporate Governance

Your company believes that adhering to global standards of Corporate Governance is essential to enhance shareholder 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 conducts periodic review of business plans, monitors performance and compliance to regulatory requirements.

Social Responsibility

In keeping with its philosophy of concentrating on social responsibility programs that are relevant and useful to the communities in and around its manufacturing facilities, your Company continued its activities aimed at improving their environment and life style. Besides running a school and a hospital, it conducts regular health camps and blood donation drives, equip community centres with computers and other knowledge tools. Our major contribution has been in the form of direct and indirect employment to qualified youth in the vicinity and creation of self employment opportunities.

PERSONNEL

As required by the provisions of Section 217(2A) of the Companies Act, 1956 read with Companies (Particulars of Employees) Rules, 1975, as amended the names and other particulars of the employees are set out in the Annexure to the Directors' Report. However, as per the provisions of section 219 (1) (b) (iv) of the Companies Act, 1956, the Report and Accounts are being sent to all shareholders of the Company excluding the aforesaid information. Any shareholder interested in obtaining a copy of the particulars may write to the Company Secretary at the Registered Office of the Company.

ENERGY, TECHNOLOGY & FOREIGN EXCHANGE

Details of energy conservation and research and development activities undertaken by the Company along with the information in accordance with the provisions of section 217(1) (e) of the Companies Act, 1956 read with the Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules, 1988, are given in the Annexure, forming part of this report.

ACKNOWLEDGEMENT

Your Directors would like to express their grateful appreciation for the assistance and cooperation received from the Financial Institutions, Banks, Government Authorities and Shareholders during the year under review. Your Directors wish to place on record their deep sense of appreciation to all the employees for their commendable teamwork, exemplary professionalism and enthusiastic contribution during the year.

For and on behalf of the Board

S.N. Ruia
Chairman

Mumbai, July 10, 2006

"Persons constituting 'group' coming within the definition of group as defined in the Monopolies Restrictive Trade Practies Act, 1969 for the purpose of interse transfer of shares of the Company under regulation 3(1)(e)(i) of SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 1997".

Sr. No.	Name of the Company
1.	EssarGlobal Limited, Cayman Islands
2.	Essar Infrastructure Holdings Limited, Mauritius
3.	Essar Steel Holdings Limited, Mauritius
4.	Essar Energy Holdings Limited, Mauritius
5.	Essar Logistics Holdings Limited, Mauritius
6.	Asia Pacific Markets Limited, Mauritius
7.	Asia Pacific Corporation Limited, Mauritius
8.	Asia Pacific Enterprises Limited, Mauritius
9.	Asia Far East Limited, Mauritius
10.	Essar Sisco Ship Management Limited, India
11.	Essar Power Limited, India
12.	Essar Power Holdings Limited, Mauritius
13.	Essar Investments Limied, India
14.	Tetech Investments (India) Limited
15.	ETHL Global Capital Limited
16.	Hazira Steel 2, Mauritius

ANNEXURE TO DIRECTORSí REPORT

Particulars required under the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988

A. **CONSERVATION OF ENERGY:**

a) **Energy Conservation measures taken**:

1. Hot DRI charging: 1.33 million MT of HBI plant product was discharged in form of Hot DRI during the FY 2005-06. The power saving due to Hot DRI charging is observed about **100 kWh** for each ton of Hot DRI charged at EAF.
2. New design of PG mists Eliminator at Module 1 to reduce pressure drop and hence less specific power consumption.
3. At Module 1 & 2, Partial oxidation injection system commissioned to improve gas quality for higher production, thereby decreasing specific power consumption.
4. At Module 1&2, PG Compressor discharge block valve replaced with greater diameter (1000 mm) to reduce pressure drop and hence less specific power consumption.
5. Metallic blades of three cooling tower fans replaced with FRP blades. Power saving of about 42500 units per fan per year.
6. New generation supersonic lances and modified fume exhaust system to reduce the fugitive level was commissioned in EAF 2 and EAF 1 on May 05 and Oct 05 respectively. On stream lining of the process, it will reduce the furnace power from existing level to 480- 500 kwh/ Ton.
7. Spray water system modification as well as additional segment placement in Caster 1 in May 05 has resulted in increased productivity and improved quality thereby increasing hot charging volume.
8. Dynamic stoichiometric air fuel balance model started in Lime Kiln resulted in improved lime quality and higher productivity.
9. Modification in the ladle working lining thickness has led to higher tap weight with unaltered free board height thereby reduction in net power consumption.
10. Conversion of two trunion HDRI vessel to four trunion vessel thereby reducing logistical bottleneck for higher DRI usage at the furnace.
11. Development of optimized Carbon Oxygen balance profile which has helped in increasing yield thereby leading to energy conservation.
12. We have been able to increase production level from 2.32 to 2.58 MT pa. This has helped in reducing the power consumption per ton by 2.8% at Hot Strip Mill.
13. Static VAR compensation introduced at MSS to compensate for 5th, 7th and 11th Harmonic. This has helped us in improving our power factor from about 0.6 to near unity. This will result in the annual saving of about Rs. 8.80 lacs annually.
14. Slip ring motors replaced with induction motor and VVVF drive. This has helped us in minimizing the loss in the huge resistance boxes where the mechanical energy was being dissipated. Now the same is being sent back to the mains helping us in saving energy. This has helped us in saving about Rs 0.36 lacs annually.
15. Damper control provided for Fume exhaust in CRM1 to regulate the flow during each pass. This is done by loading one of the dampers to only 30% opening instead of 100%.
16. Lighting transformer with servo voltage stabilizer provided to control the supply voltage to 230V. Present power saving is about Rs. 7.22 lacs per annum.
17. Electrical Energy Conservers were installed on all the Plant Lighting Circuits and it has been found that there is a substantial saving of energy on account of Plant lighting. Monthly net savings from lighting alone was in the range of 15000 KWH units in the Financial Year 2005–06.

b) **Additional Investments and proposals being implemented for reduction in consumption of energy:**

1. Metallic blades of six cooling tower fans will be replaced with FRP blades. Power saving of about 42500 units per fan per year.
2. Water system up-gradation: Counter current flow cooling towers with RCC structure and splash bar modification to run the plant at optimum load.
3. Feasibility study of fluid coupling for Dust collection fan to run at no-load when briquetting is off.
4. New design of PG mists Eliminator at Module 2 to reduce pressure drop and hence less specific power consumption.
5. Replacement of over capacity pumps of quench tank.
6. Roll shifting mechanism installed at finishing mill, which is expected to reduce roll change delays by 2-3%.
7. Roll coolant motors being provided with VVVF drive. This will help us save about Rs.17 lacs per annum.

c) **Impact of measures at (a) and (b) above for reduction of energy conservation and on the cost of production of goods:**

As mentioned in (a) & (b) above

B. **TECHNOLOGY ABSORPTION:**

The Company has fully absorbed the MIDREX technology obtained from Voest Alpine, Austria for the production of HBI. It has also absorbed technology supplied by METCHEM for HRC plant including DC-Electric Arc Furnace (s), Continuous Casters and the Hot Strip Mill. The Company has emerged as the largest user of HBI in DC EAF and developed satisfactory technology for the same.

- Technical Tie-up with M/s Thyssen Krup Consultancy to improve Hot Strip Mill plant performance.
  Benefits derived: Absorption of best manufacturing practice from one of the leading & technologically advanced steel producers in the world.

- Installed on line profile and flatness gauge. Automatic shape set-up models, automatic profile and flatness control software supplier by TMEIC-GE were commissioned.
  Benefits derived: The gauges provide on line feedback of the strip quality thereby facilitating faster decision making and control of the strip quality. The automation is helping is providing more consistent product quality.

- Installed automatic width control system
  Benefits derived: Better strip width control leading to higher customer satisfaction.

C. **FOREIGN EXCHANGE EARNINGS AND OUTGO:**

I) Activities relating to exports, initiatives to increase exports, developments of new export markets for products and services and export plan.

"During FY 05-06, Exports has been to the tune of app. 692,000 tons. Essar Steel exported its full basket of steel products from HRC, Plates/Sheets, Pickled & Oiled, Cold Rolled Full hard and Galvanized.

The company continued with its policy of maintaining a global presence with supplies to markets ranging from USA, EU, Korea, Middle East, China, South East Asia and neighboring countries and also developed new countries like Australia, Latvia, Trinidad, Reunion Islands, etc. Essar is the only Indian mill to supply bulk quantities to the Australian market.

The company focus on value added segments continued with 56% share of the total sales. Also the company is focusing itself into doing direct business thereby entering into long term contracts / MOU's with direct customers.

The focus for the forthcoming year will be on high end auto application, niche segments like EDDS in galvanized and CRCA besides continuity in the current product ranges."

II) Total Foreign exchange used and earned (Rs. in Crores)

a)	Foreign exchange directly earned through export	1,682.75
b)	Others	91.93
	Total foreign exchange earned (a + b)	1,774.68
c)	Total foreign exchange used	
i)	For import of plant and machinery/ technical know-how	429.07
ii)	Others including raw materials and interest	1,375.10
	Total foreign exchange used (c)	1,804.17

Particulars with respect to Conservation of Energy:

FORM A

A. Power and Fuel Consumption

Sr. No.	Particulars	Current year	Previous year
1.	Electricity		
	a) Purchased		
	Unit (Lakhs)	**2,191.12**	107.80
	Total Amount (Rs. in crores)	**110.48**	16.71
	Rate/Unit (Rs.)	**5.04**	15.50
	b) Own generation		
	i) Through diesel generator		
	Unit	**ó**	—
	Units per ltr. of diesel oil	**ó**	—
	Cost/Unit (Rs.)	**N.A.**	N.A.
	ii) Through gas turbine / generator		
	Unit (Lakhs)	**2,581.50**	2,551.92
	Units / SM3 of gas	**3.54**	3.72
	Cost of fuel/Unit (Rs.)	**2.37**	1.69
	iii) Through third party on conversion basis		
	Unit (Lakhs)	**22,947.28**	18,179.26
	Units / Ltr of NGL/HSD/NG	**4.07**	4.16
	Cost of fuel/Unit (Rs.)	**1.96**	2.02
2.	Coal (specify quality and where used)		
	Quantity (tones)	**ó**	—
	Total Cost	**ó**	—
	Average Rate	**N.A.**	—
3.	Furnace Oil		
	Quantity(k. ltrs)	**50,885**	—
	Total Cost (Rs. crs)	**70.47**	—
	Average Rate (Net of Modvat)	**13,849**	N.A.
4.	Others		
	Quantity.(NGL) – MT	**536.896**	195.689
	Total Cost (Rs. Crs)	**1.51**	0.37
	Rate/Unit	**28,173**	19,068
	Quantity. (NG) - '000 SM3	**128,481.24**	115,166.23
	Total Cost (Rs. Crs)	**84.15**	66.16
	Rate/Unit	**6.55**	5.73

B. Consumption per unit of Production

Particulars	Standard (If any)	Current Year	Previous Year
Product: Hot Briquetted Iron	Unit Per MT	**Unit Per MT**	Unit Per MT
Electricity	125	**122**	125
Furnace Oil	—	**ó**	—
Coal (specify quality)	—	**ó**	—
Diesel Oil	—	**ó**	—
Others - Natural Gas (SM3)	325	**310**	304
Others - Naptha (Kg)	—	**ó**	—
Product: Hot Rolled Coils & Cold Roll/Galvanizing	Unit Per MT	**Unit Per MT**	Unit Per MT
Electricity	—	**865**	855
Furnace Oil	—	—	—
Coal (specify quality)	—	—	—
Diesel Oil	—	—	—
Others – NGL (Ltr)	—	**29**	29
Other – NG (SM3)	—	**50**	50
Product: Iron Oxide Pellets	Unit Per MT	**Unit Per MT**	Unit Per MT
Electricity (Kwh)	36.00	**50.52**	N.A.
Furnace Oil / LSHS (Ltrs)	15.00	**16.27**	N.A.
Coal (Specify quality)	N.A.	**N.A.**	N.A.
Others (Specify)	N.A.	**N.A.**	N.A.

FORM B

RESEARCH AND DEVELOPMENT (R & D):

The Company has well equipped Laboratory facilities with a highly qualified team of engineers and technologists who are conducting developmental work continuously.

1. **Specific areas in which R & D carried by the Company and benefits derived**
   (a) Oxide Analysis: Started study of relationship between relative reducibility v/s porosity of oxide feed.
   (b) Introduced transition zone natural gas to improve product carbon.
   (c) Development of processing of new grade BQS 26 in house (less than 20 ppm oxygen) as an import substitution.
   (d) Improvement in lance cooling for reducing failures of lances, jackets, copper blocks at furnaces thereby obtaining higher life of the equipments.
   (e) Nitrogen curtain for VWM motor for avoiding width change delays thereby improving productivity.
   (f) Development of software of Virtual simulation for knowing machine response at Caster thereby improving productivity.
   (g) **Line pipe grades (API):**
      (1) Development of API 5L X-70 for higher thickness (15.13mm) with DWTT guarantee at sub-zero temperatures.
      (2) Development of API 5L X-60 for Sour service application.
      (3) Development of API 5L X-80 for thk less than 12 mm.
   (h) **Shipbuilding Grades:**
      Developed DMR249A for Indian Navy for war shipbuilding application.
      Pressure vessel: Pressure vessel grade for sour service application is developed which is a import substitution.
   (i) **CRCA:** CQ, CRCA in microalloyed condition, Electrical Steel, Spheroidized steels, DDQ, EDDQ and IF steel.
   (j) **Galvanizing:** IF steel (zero spangle, DX57D).
   (k) **Characterization** of Iron ore pellets Various studies done with SEM.
   (l) **Mathematical modeling** for process improvement..
   (m) Addition of Rolling Mill Scale from Hazira was tried mixing with normal iron ore fines resulting in Solid Waste Conversion Benefit for the Steel Complex.
   (n) Additional Cooling System was introduced in the process flow sheet for enhancing the capacity. This makes us the second plant in the world operating with after cooler system resulting in the increase in the production capacity has been established.

2. **Future Plan of action**.
   (a) Progress gas after cooler: To improve product carbon and process performance.
   (b) Feasibility study of waste heat recovery unit to improve heat recovery at Module 1, 2 and 3.
   (c) Feasibility study for provision of Power Generation using the waste heat from flue gas stack of all four modules.
   (d) Feasibility study for LPG extraction from Natural gas.
   (e) Feasibility study Cooling of DRI with more product carbon.
   (f) Installation of Continuously Variable Crown (CVC) mechanism at Finishing Mill and new roll grinding machines to grind CVC rolls
   (g) Change of work rolls to better quality rolls.
   (h) HR PRODUCTS
      (1) API 5L X-80 up to 12.7 mm thickness through hot strip mill route.
      (2) API 5L X-70 in thickness above 16 mm with performance guarantee in DWTT test at sub-zero temperatures.
      (3) Essar intends to extend its product range by developing API 5L X-65 up to 12 mm thickness for sour service applications
      (4) Grade DMR 249A (ABA grade as per Russian Specifications) development of this grade up to 16 mm thickness and in bulb bar section.
      (5) Develop grades like 550 to 690 MC & higher, which demand a combination of high strength and fatigue properties. R&D and Product development is planning to develop QST 380 and QST 420 for laser cutting applications.
      (6) R&D and Product development is planning to develop a high strength steel conforming to grade 590, for M/s Volvo for applications in long and cross members.
   (i) CRCA PRODUCTS R&D and product development has successfully developed the steels starting from D quality to IF quality for deep drawing applications in auto industries. In the current financial year the department intends to develop and commercialize the following grades through batch annealing route.
      (1) Development of high strength interstitial free steel (IFHS) or dent resistant steel for auto applications.
      (2) Development of deep drawing quality steel (DD) for white good applications in the thickness range of 0.40 to 0.60mm.
      (3) Development of structural steel conforming to H260LA to H420LA.
      (4) Development of Bake Hardening (BH180) steel.
      (5) Development of re-phosphorized steel for auto applications.
      (6) Development of Corten steel for railway wagons in CRCA conditions.

(7) Development of TMBP (Tin Mill Black Plate) for three pieces cans applications.

(8) Development of Electrical Steel with silicon up to 0.6%, for fan, inverter, refrigerator compressor pumps and mixer etc. conforming to grades 890DS, 660D and 560E of IS specifications.

(j) GALVANISED PRODUCTS

In the galvanized product category, R&D and Product development intends to accomplish the following projects.

(1) Development of S550 GD in galvanized conditions for purlin applications.

(2) Development of EDD and IF steels in galvanized and skin passed condition, conforming to DX54 & 56, for auto and colour coating applications.

(k) Beneficiation Process, further recovery of Fe units from Tailings by adopting Column Flotation Process.

TECHNOLOGY ABSORPTION, ADAPTATION AND INNOVATION:

1. Efforts, In brief made towards technology absorption, adaptation and Innovation

(a) The Company has fully absorbed the MIDREX technology obtained from Voest Alpine, Austria for the Production of HBI.

(b) The Company has fully absorbed the METCHEM technology obtained from METCHEM Inc. Canada for the production of HRC.

(c) The unit has fully absorbed the LURGI GmbH technology for manufacture of Iron Oxide Pellets.

(d) Required plant modifications have been carried out to produce pellets using Organic Binder.

2. Imported technology

Product	Technology from	Year of import	Status of absorption/ adaptation
HBI (Sponge Iron)	MIDREX Corpn. U.S.A./Voest. Alpine, Austria	1989-90	Fully absorbed
HRC	METCHEM Inc. Canada	1991-94	Fully absorbed
Pellets	Lurgi Travelling Grate Process	1993	Fully absorbed

STATEMENT PURSUANT TO SECTION 212 OF THE COMPANIES ACT, 1956 RELATING TO SUBSIDIARY COMPANIES

(Amount in Rs.)

SR. NO.	PARTICULARS	Essar Steel (Jharkhand) Ltd.	Essar Steel (Chattisgarh) Ltd.
1	The relevant financial year of the subsidiaries company ended on	The first financial year ends on 30-9-06	The first financial year ends on 30-9-06
2	No. of Shares in the subsidiary Company held by Essar Steel Ltd	49,940 equity shares of Rs.10 each	49,940 equity shares of Rs.10 each
3	Extent of holding by Essar Steel Ltd as at the end of the financial period	99.88%	99.88%
4	The net aggregate amount of the Subsidiary Companies Profit / (Loss) so far as it concerns the members of the Holding Company	—	—
	a) Not dealt with in the Holding Company's Accounts : i) For the financial year ended 31st March, 2006 ii) For the previous Financial years of the Subsidiary Companies since they became the Holding Company's subsidiaries	—	—
	b) Dealt with in the Holding Company's Accounts : i) For the financial year ended 31st March, 2006 ii) For the previous Financial years of the Subsidiary Companies since they became the Holding Company's subsidiaries	NA*	NA*
5	Change of interest of Essar Steel Ltd in the subsidiary between the end of the financial year of subsidiary and that of Essar Steel Ltd	Nil*	Nil*
6	Material changes between the end of the financial year of the subsidiary and the end of the financial year of Essar Steel Ltd in respect of subsidiary's fixed assets, investments, monies lent and borrowed.		
	a) Fixed Assets b) Investments c) Money lent by the subsidiary d) Money borrowed by the subsidiary company other for meeting current liabilities (Net)		

* Since the financial year of the subsidiary companies do not coincide with the financial year of Essar Steel Ltd

For and on behalf of the Board

S.N. Ruia
Chairman

Mumbai, July 10, 2006

CORPORATE GOVERNANCE REPORT

1. COMPANYíS PHILOSOPHY ON CORPORATE GOVERNANCE.

Essar Steel Limited believes that good Corporate Governance is essential to achieve long term corporate goals and to enhance stakeholders' value. The Company's philosophy on Corporate Governance envisages attainment of high level transparency, accountability and integrity in the functioning of the Company and the conduct of its business, its relationship with employees, stakeholders, creditors, customers and institutional and other lenders. The company places due emphasis on regulatory compliance.

The Company has complied with all the mandatory requirements mentioned under Annexure 2 of the Code of Corporate Governance except for proceedings of the meetings of Investors Grievance Committee. The reasons for the same are mentioned under details pertaining to Shareholder Committee forming part of this report. In respect of Non Mandatory requirements mention under Annexure 3 the Company has partially complied with the same. (Refer point no. 16 B of this report)

2. BOARD OF DIRECTORS / BOARD PROCEDURE

The Company has a non-executive Chairman and the number of Independent Directors is more than one-third of the total number of Directors. The number of Non-Executive Directors is more than 50% of the total number of Directors.

The Board / Committee meetings are conducted as per well defined procedures and systems. The information placed before the Board includes Annual operating plans, capital budgets and any updates on the same, Quarterly results of the Company, notings of the proceeding of the meetings of audit Committee and other Committees of the Board, sale of material nature, of investments, subsidiaries, assets which are not in normal course of business and other items as mentioned under Clause 49 of Listing Agreement.

During the year four Board Meetings were held and the gap between two meetings did not exceed four months. The Board Meetings were held on April 13, 2005, July 27, 2005, October 28, 2005 and January 30, 2006.

None of the Directors on the Board is a Member of more than 10 Committees and Chairman of more than 5 Committees across all the companies in which he is a Director.

The names and categories of the Directors on the Board, their attendance at Board Meetings during the year and at the last Annual General Meeting, and also the number of Directorships and Committee Memberships / Chairmanships held by them in other companies are given below:

Name	Category	Attendance		No. of Directorships and Other Committee Memberships / Other Chairmanships		
		Board Meetings	Last AGM	Other Directorships*	Other Committee Memberships **	Other Committee Chairmanships **
Shri Shashi Ruia	Promoter Non Independent Non-Executive	4	Yes	9	1	-
Shri Ravi Ruia	Promoter Non Independent Non-Executive	1	No	9	1	-
Shri Prashant Ruia	Promoter Non Independent Executive	3	Yes	9	2	-
Shri Sanjeev Shriya	Independent Non Executive	0	No	7	-	-
Shri Vikram Amin	Non Independent Executive	4	Yes	1	-	-
Shri S V Venkatesan	Independent Non Executive	3	No	7	4	2
Shri Jatinder Mehra	Non Independent Non Executive	2	No	9	-	
Shri V G Raghavan	Non Independent Executive	4	Yes	11	2	-
Shri G D Goswami	Independent Non Executive Nominee of ICICI	4	Yes	9	4	-
Shri Jitender Balakrishnan***	Independent Non Executive Nominee of IDBI	3	No	5	1	1
Shri G A Nayak***	Independent Non Executive Nominee of UTi	3	No.	-	-	-

*The Directorships held by Directors as mentioned above, do not include Alternate Directorships and Directorships of Foreign Companies, Section 25 Companies and Private Limited Companies.

** In accordance with Clause 49 of the listing agreement, Memberships / Chairmanships of only Audit Committee and Shareholders / Investors' Grievance Committees of all Public Limited Companies have been considered.

***Shri Jitender Balakrishnan ceased to be Director (Nominee of IDBI) with effect from March 27, 2006. Shri G A Nayak ceased to be Director (Nominee of UTI) with effect from June 20, 2006.

Details of Directors seeking appointment/reappointment in the Thirtieth Annual General Meeting (in pursuance of Clause 49 of the Listing Agreement)

Name of the Director	Mr S V Venkatesan	Mr. Ravikant Ruia
Date of Birth	1st October, 1939	22nd April, 1949
Qualifications	B.Com Gold Medalist	Engg. Course
Date of appointment	28th November, 1991	25th June, 1986
Experience/Expertise in specific functional areas	Mr. Venkatesan is a gold medalist in Commerce from Madras University. In 1986, Mr. Venkatesan joined the Essar Group as Group Financial Controller after 24 years with the State Bank of India. He subsequently became the Group Director (Finance). Mr. Venkatesan spearheaded the finance function for the entire Group and was largely responsible for the resource mobilisation through Capital Markets and Institutions to fund the large capital intensive projects of the Group between 1986-2000. In 2001, he gave up executive responsibilities. Presently, Mr. Venkatesan is on the Board of the major operating companies of the Group and continues to be associated with the Group as Advisor. At leisure, Mr. Venkatesan loves to listen to classical music and read non-fiction.	Mr. Ravi Ruia, Vice Chairman, Essar Group, belongs to the generation of industrialists who have played a significant role in strengthening India's industrial renaissance. An engineer by training, his entrepreneurial abilities have enabled the Essar Group to be one of the leading corporate houses of India, that now has an asset base of Rs. 23,000 crore. Mr. Ravi Ruia began his career in his family business in 1969 and has since then worked along with his elder brother Mr. Shashi Ruia to steer the Essar Group to its current position. The Group's current interests span the crore sector industries of Steel, Oil & Gas, Power, Telecom, Information Technology, Shipping & Logistics and Construction. Mr. Ravi Ruia has been the mastermind behind the consolidation of Essar's businesses through backward and forward integration. He was responsible for setting up the overseas ventures of the Group. He is connected with several industry and trade associations both at the national and bilateral level.
List of other Companies in which Directorship held	1. Essar Investments Ltd 2. India Securities Ltd 3. Essar Teleholdings Ltd 4. Essar Constructions Ltd 5. Essar Power Ltd 6. Bhander Power Ltd 7. Essar Information Technology Ltd	1. Essar Shipping Ltd 2. Essar Investments Ltd 3. Essar Oil Limited 4. India Securities Limited 5. Hutchison Essar Ltd. 6. Essar Power Limited 7. Hazira Plate Ltd. 8. Hazira Steel Limited 9. Essar Steel (Hazira) Ltd.
Chairman/Member of the Committees of the Board of Directors of other Companies in which he is a Director	Chairman – 2 Committees Member – 4 Committees	Member - 1 Committee
Details of Shareholding (both own or held by/ for other persons on a beneficial basis), if any, in the Company	1317 Equity Shares 878 0.01% Cumulative Redeemable Preference Shares	Nil

3. AUDIT COMMITTEE.

The Company has an Audit Committee with scope of activities as set out in the amended clause 49 of the Listing Agreement with the Stock Exchanges read with Section 292A of the Companies Act, 1956. The broad terms of reference of the Audit Committee are as under:

a) To hold periodic discussions with the Statutory Auditors and Internal Auditors of the Company concerning the accounts of the Company, internal control systems, scope of audit and observations of the Auditors/Internal Auditors;

b) To review the quarterly, half-yearly and annual financial results of the Company before submission to the Board;

c) To make recommendations to the Board on any matter relating to the financial management of the Company, including the Audit Report;

d) Overseeing the Company's financial process and disclosure of financial information to ensure that the financial statement is correct.

e) Recommending the appointment and removal of external auditor, fixation of audit fee and approval for payment of any services.

f) Approval of payment to statutory auditors for any other services rendered by the statutory auditors.

g) Reviewing with the management performance of statutory and internal auditors, and adequacy of internal control system.

h) Reviewing the adequacy of internal audit function

i) Discussing with internal auditors any significant finding and follow up on such issues.

j) Reviewing the findings of any internal investigations by the internal auditors into matters where there is suspected fraud or irregularity or a failure of internal control system of a material nature and reporting the matter to the Board.

k) Discussing with external auditors before the audit commences on the nature and scope of audit, as well as having post-audit discussion to ascertain any area of concern.

l) Reviewing the Company's financial and risk management policies; and

m) Examining reasons for substantial default in the payment to depositors, debenture holders, shareholders and creditors, if any.

The Audit Committee is presently comprised of three directors out of which two are independent. The Director (Finance), General Manager (Corporate Accounts), Statutory Auditors and Internal Auditors of the Company attend the meetings. The Company Secretary is the Secretary of the Committee.

The Committee met 6 times during the year on the following dates viz. April 13, 2005, July 27, 2005, October 28, 2005, November 22, 2005, January 30, 2006 and March 27, 2006. The attendance of the members at the meetings is stated below:

Name of Director	Category	No. of meetings attended during the year 2005-06
Shri S V Venkatesan Chairman	Independent Non Executive	5
Shri. Jatinder Mehra	Not Independent Non Executive	3
Dr G D Goswami	Independent Non Executive Nominee of ICICI	6
Shri Jitender Balakrishnan***	Independent Non Executive Nominee of IDBI	4
Shri G A Nayak***	Independent Non Executive Nominee of UTi	5

***Shri Jitender Balakrishnan ceased to be Director (Nominee of IDBI) with effect from March 27, 2006. Shri G A Nayak ceased to be Director (Nominee of UTI) with effect from June 20, 2006.

The Chairman of the Committee Shri G D Goswami was present at the Annual General Meeting held on September 17, 2005.

4. REMUNERATION COMMITTEE.

The Company has a Committee of Directors (Remuneration) with broad terms of reference covering all the key executives including Executive Directors, Non Executive Directors & other employees to deal with:

a) Succession Plans, Appointments, Placements and Major proposals
b) Remuneration in general, market trends
c) Employees Stock Option Plan (ESOP)
d) Personnel Policies, including training and human resources development

The Committee comprises of three non-executive Directors viz Shri S V Venkatesan, Chairman, Dr G D Goswami and Shri Jatinder Mehra. Shri Narottam B Vyas, Company Secretary is the Secretary of the Committee.

Chairman of the Committee of Directors (Remuneration) could not be present at the Annual General Meeting held on September 17, 2005.

No meetings were held during the year as there was no revision in the remuneration policy of the Company.

The Company while formulating policy for deciding the remuneration package of the senior management personnel takes into consideration the following :

a) Employment scenario.
b) Remuneration levels prevalent in the industry
c) Remuneration levels prevalent in the company.

Details of remuneration paid to all Directors for 2005-06**.**

Executive Directors.

Name	Salary Rs. Lakhs	Perquisites & Allowance Rs. Lakhs	Performance Bonus Rs. Lakhs	Contract Notice Period and Severance fee	Stock Options
Shri Prashant Ruia Managing Director	NIL	NIL	NIL	3 years from October 29, 2003, 3 months and Nil	NIL
Shri Vikram Amin Director (Marketing)	10.75	41.10	NIL	3 years from November 01, 2004, 3 months and Nil	NIL
Shri V G Raghavan Director (Finance)	25.31	20.46	NIL	3 years from October 29, 2003, 3 months and Nil	NIL

Non-Executive Directors.

The Company pays sitting fees of Rs.7500/- for each Board Meeting and Rs.5000/- for each Committee Meeting attended by its Non-Executive Directors.

Details of Shares held by Non-Executive Directors as on March 31, 2006.

Name(s)	No. of Shares held	
	Equity Shares of Rs. 10 each	**0.01% Cumulative Redeemable Preference Shares of Rs. 10 each**
Shri S.V. Venkatesan	1317	878
Shri Shashi Ruia	Nil	Nil
Shri Ravi Ruia	Nil	Nil
Shri Sanjeev Shriya	Nil	Nil
Shri Jatinder Mehra	Nil	Nil
Shri G D Goswami	Nil	Nil
Shri Jitender Balakrishnan	Nil	Nil
Shri G A Nayak	Nil	Nil

5. SHAREHOLDERS COMMITTEE

The Company has an Investors' Grievances Committee to specifically look into the redressing of shareholders and investors complaints, non receipt of Balance Sheet etc..

The Investors' Grievance Committee comprises of Shri S V Venkatesan, Shri P S Ruia, Shri J Mehra, Shri V G Raghavan and Shri Vikram Amin.

The Company Secretary, Shri Narottam B Vyas is Compliance Officer of the Company.

As regards Auditors' qualification it is clarified that in terms of Clause 49 of the listing Agreement with the Stock Exchanges the Investors Grievance Committee has to be chaired by a Non-executive Director. However for the meetings Shri S.V. Venkatesan Chairman of the Committee was granted leave of absence from attending Committee Meetings and in his place the meetings had to be chaired by Shri Vikram Amin, Director (Marketing).

Details of Shareholders complaints received, solved, not solved and pending share transfers :

During the year, the total number of complaints received and attended to the satisfaction of shareholders were 8426. There were no complaints outstanding as on March 31, 2006. All the valid share transfer requests received during the year were duly attended to and processed in time. There were no valid requests pending for share transfers as on March 31, 2006.

6. GENERAL BODY MEETINGS

a) Location and time where last three Annual General Meetings (AGMs) were held;
The last three AGMs were held on – **July 19, 2003, August 07, 2004 and September 17, 2005.**
All the Annual General Meetings were held at Nandniketan School, Hazira, Dist Surat. at 2.30 p.m.

b) No Special Resolution was put through postal ballot during the previous year.

c) No Special Resolution is proposed to be passed through postal ballot in the current year.

Special Resolutions passed during the last three Annual General Meetings

AGM held on	Particulars of Special Resolutions passed
July 19, 2003	1. Issue of Equity Shares to Essar Investments Ltd. and / or Associate Companies pursuant to CDR package. 2. Reduction of Equity Capital by 40% and Issue of 0.01% Cumulative Redeemable Preference Shares in its stead 3. Issue of Equity Shares to Financial Institutions 4. Issue of 10% Cumulative Redeemable Preference Shares to Financial Institutions and / or Banks
August 07, 2004	1. Issue of Securities for an amount not exceeding USD 200 million 2. Issue of 0.01% Cumulative Convertible Preference Shares for an amount not exceeding Rs.38 crs to Essar Investments Ltd./ Chandrakaunsh Traders Pvt. Ltd. 3. Issue of 0.01% Cumulative Convertible Preference Shares for an amount not exceeding Rs.459 crs to Essar Power Ltd. 4. Voluntarily Delisting of Equity Shares from Stock Exchanges 5. Appointment of Shri Vikram Amin as Whole-time Director for a period of 3 years. 6. Appointment of Shri V G Raghavan as Whole-time Director for a period of 3 years 7. Appointment of Shri P S Ruia as Managing Director for a period of 3 years
Sept. 17, 2005	1. Alteration in the terms of the issue of 5.59 crore 8% Cumulative Compulsorily Convertible Preference Shares. 2. Increase in FII Limits to 74% of the issued and paid up equity share capital of the Company. 3. Setting up of 3 subsidiaries outside India. 4. To make investment in Clickforsteel Services Limited.

7. DISCLOSURES

a) Disclosures of Related party transactions as required by Accounting Standard –18 have been given in Note no:8 of Schedule no. 23 forming part of the Accounts. There are no materially significant transactions with its Promoters, Directors or the Management, the Subsidiaries or Relatives etc. that may have potential conflict with the interests of the Company at large.

b) There is no non-compliance by the Company, or no penalties, no strictures imposed on the Company by Stock Exchange or SEBI or any statutory authority, on any matter related to capital markets, during the last three years.

8. RISK MANAGEMENT AND COMPLIANCE WITH LAWS AND REGULATIONS

In accordance with revised guidelines under clause 49 of the listing agreement with the Stock Exchanges, the Company has formulated a Risk Management Policy. The Company has also complied wtih all applicable Laws and Regulations.

9. MEANS OF COMMUNICATION

Half-yearly report sent to each household of shareholders- Quarterly Results- which newspapers normally published in -	No Indian Express & Gujarat Mitra
Whether any presentations were made to institutional investors or to analysts	No
Any Website, where displayed -	www.essar.com www.sebiedifar.nic.in
Whether it also displays official news releases, and the presentations made to institutional investors or to analysts	No
Whether Management Discussion & Analysis is a part of annual report or not	Yes

10. GENERAL SHAREHOLDER INFORMATION

AGM – Date, time and venue -		Sep. 30, 2006, 2.30 pm. Nandniketan School, Hazira – 394 270
Financial Calendar	Approval of results for quarter ending June 30, 2006; September 30, 2006; and December 31, 2006.	In following months of the quarter ending.
	Annual Audited results for year ended March 31, 2007.	Before June, 30 2007.
Date of Book closure	Sep. 29, 2006 to Sep. 30, 2006 (both) days inclusive)	
Dividend Payment Date	N A	

11. LISTING ON STOCK EXCHANGES

The Company's securities are listed on the following Stock Exchanges :

a) National Stock Exchange of India Ltd.

b) Bombay Stock Exchange Ltd, Mumbai

Stock Code	Equity	0.01% Cumulative Redeemable Preference Shares
a) National Stock Exchange of India Ltd	ESTL - EQ	ESTL – P1
b) Bombay Stock Exchange Ltd	500627	700098
c) ISIN No- Demat Form	INE127A01021	INE12704017

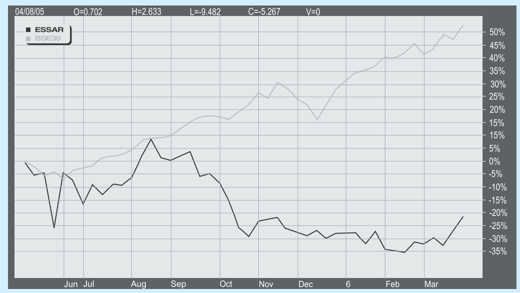
STOCK MARKET DATA

High / Low of market price and Average Daily Volume of the Company's shares traded on Bombay Stock Exchange Ltd during each month in the last financial year ended March 31, 2006 is as under:

Month	High (Rs.)	Low (Rs.)	Liquidity Average Daily Volume
April 2005	62.35	39.95	5641357
May 2005	-	-	-
June 2005	70.00	44.75	2113158
July 2005	55.80	44.00	877684
August 2005	63.60	49.40	1105869
September 2005	63.70	52.10	755097
October 2005	56.90	39.90	358452
November 2005	46.35	41.25	186072
December 2005	44.15	32.95	299785
January 2006	42.90	33.95	300746
February 2006	40.80	36.40	596039
March 2006	47.00	38.05	946637

High / Low of market price and Average Daily Volume of the Company's shares traded on National Stock Exchange India Limited, during each month in the last financial year ended March 31, 2006 is as under:

Month	High (Rs.)	Low (Rs.)	Liquidity Average Daily Volume
April 2005	62.50	39.85	13789338
May 2005	-	-	-
June 2005	66.90	44.60	3283097
July 2005	56.00	44.10	1610873
August 2005	63.50	48.40	2338011
September 2005	63.20	50.00	1537033
October 2005	56.45	37.60	658795
November 2005	52.75	41.50	408307
December 2005	44.15	39.50	710984
January 2006	43.00	38.00	488513
February 2006	40.80	36.00	800143
March 2006	47.40	38.00	1631418



Performance of Share Price in Comparison to BSE Sensex

12. 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 the prescribed nomination form.

Registrar and Transfer Agents	Data Software Research Co Pvt Ltd. Sree Sovereign Complex, No 22, 4th Cross Street Trustpuram, Kodambakkam, Chennai 600 024 Tel. Nos. 044 24834487 / 3738 Fax no – 044 24834636
Share Transfer System	Share Transfer in physical form can be lodged with Data Software Research Co Pvt Ltd at the above mentioned address. The Transfers are normally processed within 15 - 20 days from the date of receipt, if the documents are complete in all respects.

13. DISTRIBUTION OF SHAREHOLDING AS ON MARCH 31, 2006

Shareholding Nominal value of	Number of Shareholders	Percentage of Shareholders	Total number of shares	Percentage of holding
Upto 5,000	464127	99.69	69886368	12.04
5,001 - 10,000	729	0.16	5195825	0.90
10001 - 20,000	346	0.07	4885792	0.84
20,001 - 30,000	120	0.03	3017193	0.52
30,001 - 40,000	57	0.01	2013110	0.35
40,001 - 50,000	50	0.01	2301581	0.40
50,001 - 1,00,000	67	0.01	4779070	0.82
1,00,001 & above	71	0.02	488418309	84.13
Total	465567	100.00	580497248	100.00

SHAREHOLDING PATTERN AS ON MARCH 31, 2006

CATEGORY	NO.OF SHARES	% TO THE TOTAL
Promoters & Associates	433273201	74.64
Fin. Institutions/ Banks/ Mutual Funds	10100376	1.74
Other Companies	35104029	6.04
Non Domestic Companies	309114	0.05
Foreign Institutional Investors	13963817	2.41
Non Resident Individuals	2649451	0.46
Public	85097260	14.66
TOTAL	580497248	100.00

14. DEMATERIALISATION OF SHARES AS ON 31ST MARCH 2006 AND LIQUIDITY

The Company's shares are compulsory traded in dematerialised form and are available for trading on both the Depositories in India- National Securities Depository Limited (NSDL) and Central Depository Services (India) Ltd (CDSL). 39,72,15,319 Equity Shares of the Company representing 68.43% of the Company's share capital are dematerialised as on March 31, 2006. The Company's shares are regularly traded on Bombay Stock Exchange Ltd and National Stock Exchange of India Limited as is seen from the volume of shares indicated in the Tables containing Stock Market Data.

There are no Outstanding GDRs / ADRs/Warrants or any Convertible Instruments which may have likely impact on equity.

15. SECRETARIAL AUDIT.

A qualified practicing Company Secretary carried out a 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 dematerialized shares held with NSDL and CDSL.

16. ADOPTION OF MANDATORY/NON-MANDATORY REQUIREMENTS:

a. Mandatory requirements

The Company has complied with all the mandatory requirements mentioned under Annexure 2 of the Code of Corporate Governance except for proceedings of the meetings of Investors Grievance Committee. The reasons for the same are mentioned under details pertaining to Shareholder Committee forming part of this report.

The Company has complied with all the mandatory requirements.

b. Non Mandatory requirements

1. The Board : The Company has complied with this requirement and the expenses incurred by non executive chairman are reimbursed by the company.
2. Remuneration Committee: The Company has constituted a Remuneration Committee with terms of reference outlined in point no. 4 of this report.
3. Shareholders right: The Company has not sent the half yearly results to the household of each shareholder but the same are posted on the website of the company i.e. www.essar.com.
4. Audit qualifications: Covered in Directors' Report.
5. Training of Board members: The Company is in the process of complying with this requirement.
6. Mechanism for evaluating non executive Board Members: the Company has not complied with this requirement.
7. Whistle Blower policy: The company has not established whistle blower policy. However, no personnel have been denied access to the Audit Committee for the same.

Plant Locations	**27 KM. Surat Hazira Road,**
Addresses for correspondence	**Surat - 394270**
Registered Office Essar Steel Ltd. 27 KM, Surat Hazira Road, Hazira, Dist. : Surat – 394270 Tel : 0261-6682400 Fax: 0261-6682796	Corporate Office Essar Steel Ltd. Essar House, 11, Keshavrao Khadye Marg Mahalaxmi Mumbai 400 034 Tel : 022-66601100 Fax: 022-24954327

Declaration on Compliance of the Companyís Code of Conduct

To the Members of Essar Steel Limited

The Company has framed a specific code of conduct for the members of the Board or Directors 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 pratices 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, 2006.

Place : Mumbai
Date : July 10, 2006

P.S. Ruia
Managing Director

CEO/CFO CERTIFICATE

To,
The Board of Directors,
Essar Steel Limited
Essar House
Mahalaxmi
Mumbai 400 034

We hereby certify that

a) We have reviewed the profit and loss statement, the cash flow statement of Essar Steel Limited ('The Company') for the year ended March 31, 2006 and the balance sheet of the Company as at March 31, 2006, and to the best of our knowledge and belief:
   I. these statements do not contain any materially untrue statement or omit any material fact or contain statements that might be misleading;
   II. these statements together present a true and fair view of the Company's affairs and are in compliance with existing accounting standards, applicable laws and regulations.

b) There are, to the best of our knowledge and belief, no transactions entered into by the Company during the year which are fraudulent, illegal or violate the Company's code of conduct.

c) We accept responsibility for establishing and maintaining internal controls for financial reporting at the Company. We have established a process for ongoing evaluation of the effectiveness of the Company's internal controls over financial reporting. As part of this process, we have also instituted a process for disclosing to the auditors and the Audit Committee, at regular intervals, any significant deficiencies in the design or operation of such internal controls, if any, of which we have (or will) become aware as a result this evaluation process and the steps taken or proposed for remediation of these deficiencies.

d) We also certify that we have indicated to the auditors and the audit committee.
   (i) All significant chages which took place during the year in internal controls over financial reporting.
   (ii) All significant changes in acounting policies which took place during the year. These changes have also been disclosed in the notes to accounts to the financial statements.
   (iii) All instances of significant fraud which we became aware of during the year (including disclosure of involvement, if any, of any employee of the Company in such fraud).

Signed	Signed
P.S. Ruia Managing Director/CEO Dated: 10th July 2006	V.G. Raghavan Director-Finance Dated 10th July 2006

AUDITORíS CERTIFICATE

To

The Members of Essar Steel Limited

1. We have examined the compliance of conditions of corporate governance by Essar Steel Limited, for the year ended on March 31 2006, as stipulated in clause 49 of the Listing Agreement of the said Company with stock exchanges.
2. The compliance of conditions of corporate governance is the responsibility of the management. Our examination was limited to 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.
3. *During the year, all the Investor Grievance Committee meetings were chaired by an executive director as against the requirement of Clause 49 that such meetings be chaired by a non executive director.*
4. *Subject to our comments in paragraph 3 above*, 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.
5. 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 **S. R. Batliboi & Co.**
Chartered Accountants

Per Hemal Shah
Partner
Membership No.: 42650
Mumbai
July 10, 2006

ESSAR

Auditorsí Report to the Members of Essar Steel Limited

1. We have audited the attached Balance Sheet of Essar Steel Limited as at March 31, 2006 and also the Profit and Loss account and the Cash Flow statement for the year ended on that date 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 (as amended) ('the Order') issued by the Central Government of India in terms of sub-section (4A) of Section 227 of the Companies Act, 1956, we enclose 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 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, profit and loss account and cash flow statement dealt with by this report are in agreement with the books of account;

   iv. In our opinion, the balance sheet, profit and loss account and cash flow statement dealt with by this report comply, s*ubject to disclaimer regarding deferred tax assets as stated in paragraph vi(a) below,* with the accounting standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956*;*

   v. On the basis of the written representations received from the directors, as on March 31, 2006, and taken on record by the Board of Directors, we report that none of the directors is disqualified as on March 31, 2006 from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Companies Act, 1956;

   vi. *We further report that:*

      a. *As on March 31, 2005, the Company had net deferred tax asset of Rs 480.96 crores on unabsorbed losses and depreciation. As on March 31, 2006 net deferred tax asset is Rs. 425.75 crores. The Company has recognised the above deferred tax asset based on the fact that it has achieved profitability projections made earlier and other factors as described in Note 5 of Schedule 23. Such recognition is based also on future profitability projections. Hence, we are unable to comment whether such basis of recognition complies with the definition of virtual certainty, as required by Accounting Standard 22 on 'Taxes on income', and on the appropriateness of such recognition.*

      b. *The Company has provisionally adjusted certain balances under deferred power charges pertaining to earlier years and recompense finance charges aggregating to Rs. 191.43 crores (net of taxes) against 'Securities Premium Account' for which requisite approvals of shareholders and the Honorable High Court at Gujarat, as required vide sections 78 and 100 of the Companies Act 1956, are yet to be obtained. In the absence of such requisite approvals, the profit after tax has been overstated by Rs. 191.43 crores and 'Securities Premium Account' has been understated by the same amount.*

      c. *The final adjustment entry to give effect to the High Court sanction for reduction of Share Capital of Rs.1,356.30 crores under Sections 78 and 100 of the Companies Act 1956, has been passed in the current year, with consequential impact on the balances of Securities Premium Account and Profit and Loss Account, as detailed in Note given below Schedule 2.*

   vii. 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, *subject to the disclaimer in paragraph vi(a) and our observations in paragraphs iv, vi(b) and vi(c)* above, 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, 2006;

      b. in the case of the profit and loss account, of the profit for the year ended on that date; and

      c. in the case of cash flow statement, of the cash flows for the year ended on that date.

For S. R. Batliboi & Co.
Chartered Accountants

Membership No.: 42650
Mumbai
July 10, 2006

Per Hemal Shah
Partner

Auditorsí Report to the Members of Essar Steel Limited

Annexure referred to in paragraph [3] of our report of even date

Re: Essar Steel Limited

(i) (a) The Company has maintained proper records showing full particulars, including quantitative details and situation of fixed assets.

(b) All fixed assets have not been physically verified by the management during the year but there is a regular program of verification which, in our opinion, is reasonable having regard to the size of the Company and the nature of its assets. As informed, no material discrepancies were noticed on such verification.

(c) There was no substantial disposal of fixed assets during the year.

(ii) (a) The management has conducted physical verification of inventory at reasonable intervals during the year.

(b) The procedures of physical verification of inventory followed by the management are reasonable and adequate in relation to the size of the Company and the nature of its business.

(c) The Company is maintaining proper records of inventory and no material discrepancies were noticed on physical verification carried out at the end of the year.

(iii) (a) As informed, the Company has not granted any loans, secured or unsecured to companies, firms or other parties covered in the register maintained under section 301 of the Companies Act, 1956 ('the Act') .

(b) As informed, the Company has not taken any loans, secured or unsecured from companies, firms or other parties covered in the register maintained under section 301 of the Act.

(iv) 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 goods and services. During the course of our audit, no major weakness has been noticed in the internal control system in respect of these areas.

(v) According to the information and explanations provided by the management, we are of the opinion that there are no contracts or arrangements referred to in section 301 of the Act that need to be entered into the register maintained under that section.

(vi) The Company has not accepted any deposits from the public.

(vii) In our opinion, the Company has an internal audit system commensurate with the size and nature of its business.

(viii) We have broadly reviewed the books of account maintained by the Company pursuant to the rules made by the Central Government for the maintenance of cost records under section 209(1)(d) of the Act, and are of the opinion that prima facie, the prescribed accounts and records have been made and maintained. We are, however, not required to make a detailed examination of the records with a view to determine whether they are accurate or complete.

(ix) (a) The Company is generally regular in depositing with appropriate authorities undisputed statutory dues including provident fund, investor education and protection fund, employees' state insurance, income-tax, sales-tax, wealth-tax, service tax, customs duty, excise duty, cess and other material statutory dues applicable to it.

(b) According to the information and explanations given to us, no undisputed amounts payable in respect of provident fund, investor education and protection fund, employees' state insurance, income-tax, wealth-tax, service tax, sales-tax, customs duty, excise duty, cess and other undisputed statutory dues were outstanding, at the year end, for a period of more than six months from the date they became payable.

(c) According to the records of the Company, the dues outstanding of income-tax, sales-tax, wealth-tax, service tax, customs duty, excise duty and cess on account of any dispute, are as follows:

Name of the statute	Nature of dues	Amount disputed (Rs. in Crores)	Amount deposited under protest (Rs. in Crores)	Period to which the amount relates	Forum where dispute is pending
The Custom Act, 1962	Duty on Technical Knowhow imported for HBI Embden plant	6.18	6.18	1991	Supreme Court
The Custom Act, 1962	Duty on barging charges	7.99	0.02	1994 to 2000	Supreme Court
The Custom Act, 1962	Custom duty for technical services availed from Metchem	66.81	Nil	1991	Supreme Court
The Gujarat Sales tax Act, The Orissa Sales tax Act, The Delhi Sales tax Act and The Central Sales tax Act	Sales tax payable as per assessment order for 94-95 & 97-98 & 98-99	14.29	1.25	1994-05 1997-98 1998-99	Assistant Commissioner of Sales tax, Deputy Commissioner of sales tax, Sales tax tribunal and sales tax officer
Sales tax	Sales tax, Interest, Penality payable as per order of Deputy Commissioner and Commissioner u/s 50 and 67	1384.12	75.00	1995 to 2004-05	High Court

Name of the statute	Nature of dues	Amount disputed (Rs. in Crores)	Amount deposited under protest (Rs. in Crores)	Period to which the amount relates	Forum where dispute is pending
The Customs Act, 1962	Custom duty on engineering fees	38.46	Nil	1998-99	Supreme Court
The Customs Act, 1962	Interest on Ware house goods	1.32	Nil	1996-97	Andhra Pradesh High court
Central Excise Act, 1944	Duty demand on iron ore chips	0.43 0.48	Nil Nil	2000 to 2002 2002 to 2004	CESTAT Commissioner (Appeals)
Andhra Pradesh State Sales Tax	Sales tax on deemed purchase of iron ore fines, interstate works contract & transfer of DEPB licenses	5.05	2.03	2000-01	Sales tax appellate tribunal
Andhra Pradesh State Sales Tax	VAT credit on opening stock	3.16	Nil	2005-06	Deputy Commissioner Appellate

(x) 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.

(xi) Based on our audit procedures and as per the information and explanations given by the management, we are of the opinion that the Company has not defaulted in repayment of dues to a financial institution, bank or debenture holders.

(xii) 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.

(xiii) In our opinion, the Company is not a chit fund or a nidhi / mutual benefit fund / society. Therefore, the provisions of clause 4(xiii) of the Order are not applicable to the Company.

(xiv) In our opinion, the Company is not dealing in or trading in shares, securities, debentures and other investments. Accordingly, the provisions of clause 4(xiv) of the Order, are not applicable to the Company.

(xv) According to the information and explanations given to us, the Company has given guarantee for loans taken by others from bank or financial institutions, the terms and conditions whereof in our opinion are not prima-facie prejudicial to the interest of the Company.

(xvi) Based on information and explanations given to us by the management, term loans were applied for the purpose for which the loans were obtained.

(xvii) According to the information and explanations given to us and on an overall examination of the balance sheet of the Company, we report that no funds raised on short-term basis have been used for long-term investment.

(xviii) The Company has not made any preferential allotment of shares to parties or companies covered in the register maintained under section 301 of the Companies Act, 1956.

(xix) According to the information and explanations given to us, during the period covered by our audit report, the Company had issued 3,000 Secured Redeemable Non Convertible Debentures of Rs. 1,000,000 each. The Company has created security in respect of debentures issued.

(xx) The Company has not raised money by public issue during the year.

(xxi) Based upon the audit procedures performed for the purpose of reporting the true and fair view of the financial statements and as per the information and explanations given by the management, we report that no fraud on or by the Company has been noticed or reported during the course of our audit.

For S. R. Batliboi & Co.
Chartered Accountants

Per Hemal Shah
Partner

Membership No.: 42650
Mumbai
July 10, 2006

Balance Sheet as at 31st March, 2006

	Schedule	As at 31st March, 2006 Rs. in crores	As at 31st March, 2006 Rs. in crores	As at 31st March, 2005 Rs. in crores	As at 31st March, 2005 Rs. in crores
Sources of Funds					
Shareholders' Funds					
Share Capital	1	**2,785.29**		1,004.98	
Subscription towards Cumulative Redeemable Preference Shares		**-**		33.27	
Reserves and Surplus	2	**1,246.18**		686.61	
			4,031.47		1,724.86
Loan Funds					
Secured Loans	3	**7,355.20**		4,043.28	
Unsecured Loans	4	**650.46**		684.27	
			8,005.66		4,727.55
Long-term advances from customer (Refer note 24 of schedule 23) (Amount payable within a year Rs. 6.31 Crores)			**179.44**		66.05
	Total		**12,216.57**		6,518.46
Application of Funds					
Fixed Assets	5				
Gross Block		**10,447.54**		6,940.24	
Less: Accumulated Depreciation		**4,049.09**		3,691.34	
Net Block		**6,398.45**		3,248.90	
Capital Work-in-Progress (including Capital Advances)		**2,887.36**		589.64	
(Refer note 23 of schedule 23)			**9,285.81**		3,838.54
Investments	6		**182.97**		768.38
Deferred Tax Asset (net)	7		**425.75**		480.96
Current Assets, Loans and Advances					
Interest Accrued On Investments		**4.51**		4.51	
Inventories	8	**1,485.34**		933.22	
Sundry Debtors	9	**540.16**		471.30	
Cash and Bank Balances	10	**725.79**		251.29	
Loans and Advances	11	**1,117.71**		735.36	
		3,873.51		2,395.68	
Less: Current Liabilities and Provisions					
Liabilities	12	**1,542.40**		958.03	
Provisions	13	**9.07**		7.07	
Net Current Assets			**2,322.04**		1,430.58
	Total		**12,216.57**		6,518.46
Notes to Accounts	23				

Schedules 1 to 13 and 23 referred to above form an integral part of the Balance Sheet.

For and on behalf of the Board of Directors of Essar Steel Limited

S. N. Ruia
Chairman

P. S. Ruia
Managing Director

V. G. Raghavan
Director Finance

Narottam B. Vyas
Company Secretary

Mumbai, July 10, 2006

As per our report of even date
For S.R. Batliboi & Co.
Chartered Accountants

per Hemal Shah
Partner
Membership No. 42650
Mumbai, July 10, 2006

ESSAR

Profit and Loss Account for the year ended 31st March, 2006

	Schedule	Year ended 31st March, 2006 Rs. in crores	Rs. in crores	Year ended 31st March, 2005 Rs. in crores	Rs. in crores
Income					
Income from Operations		**6,850.45**		6,533.25	
Less : Excise Duty		**667.87**		416.54	
Net Sales		**6,182.58**		6,116.71	
Other Income	14	**208.14**		4.56	
			6,390.72		6,121.27
Expenditure					
Materials Consumed	15	**3,725.28**		3,100.37	
Decrease/(Increase) in Stocks	16	**(89.74)**		(92.02)	
Personnel Expenses	17	**99.75**		76.09	
Manufacturing and Asset Maintenance	18	**601.33**		577.84	
Administrative Expenses	19	**130.66**		212.64	
Selling and Distribution Expenses	20	**234.33**		309.60	
			4,701.61		4,184.52
Profit before Finance Costs , Depreciation, Prior period & exceptional items and Taxation			**1,689.11**		1,936.75
Finance Costs (net)	21		**422.67**		550.73
Profit before Depreciation, Prior period & exceptional items and Taxation			**1,266.44**		1,386.02
Depreciation			**482.10**		394.29
Profit before Prior period & exceptional items and Taxation			**784.34**		991.73
Prior period & exceptional items	22		**88.36**		197.63
Profit before Taxation			**695.98**		794.10
Provision for Taxation					
Deferred Tax			**152.35**		195.87
Current Tax			**8.35**		8.08
Fringe Benefit Tax			**5.10**		-
Profit after Taxation transferred to Balance sheet			**530.18**		590.15
Earnings per share (in Rupees) before prior period and exceptional items (Refer Note 9 of schedule 23)					
Basic [Nominal value of Shares Rs. 10 each (previous Year Rs. 10 each)]			**12.33**		14.22
Diluted [Nominal value of Shares Rs. 10 each (previous Year Rs. 10 each)]			**7.08**		12.42
Earnings per share (in Rupees) after prior period and exceptional items (Refer Note 9 of schedule 23)					
Basic [Nominal value of Shares Rs. 10 each (previous Year Rs. 10 each)]			**10.75**		11.63
Diluted [Nominal value of Shares Rs. 10 each (previous Year Rs. 10 each)]			**6.38**		10.17
Notes to Accounts	23				

Schedules 14 to 23 referred to above form an integral part of the Profit and Loss Account.

For and on behalf of the Board of Directors of Essar Steel Limited

S. N. Ruia
Chairman

P. S. Ruia
Managing Director

V. G. Raghavan
Director Finance

As per our report of even date
For S.R. Batliboi & Co.
Chartered Accountants

Narottam B. Vyas
Company Secretary

per Hemal Shah
Partner
Membership No. 42650
Mumbai, July 10, 2006

Mumbai, July 10, 2006

Schedules forming part of Balance Sheet as at 31st March, 2006

	As at 31st March, 2006		As at 31st March, 2005	
	Rs. in crores	Rs. in crores	Rs. in crores	Rs. in crores
Schedule 1				
Share Capital				
Authorised				
352,00,00,000 Equity Shares of Rs. 10 each		**3,520.00**		3,520.00
6,00,00,000 0.01% Cumulative Convertible Preference Shares of Rs.90 each		**540.00**		540.00
6,00,00,000 1% Cumulative Redeemable Preference Shares of Rs.90 each		**540.00**		540.00
10,00,00,000 10% Cumulative Redeemable Preference Shares of Rs. 10 each		**100.00**		100.00
30,00,00,000 0.01% Cumulative Redeemable Preference Shares of Rs. 10 each		**300.00**		300.00
6,50,00,000 7% Compulsory Convertible Preference Shares of Rs. 350 each		**2,275.00**		2,275.00
		7,275.00		7,275.00
Issued, Subscribed and Paid-up				
50,73,12,080 Equity Shares of Rs. 10 each		**507.31**		507.31
Add: 27,61,10,000 Equity Shares of Rs. 10 each issued during the year		**276.11**		
Less: 20,29,24,832 Reduction and conversion into 0.01% Cumulative Redeemable Preference Shares (Refer Note 28 of schedule 23)		**(202.92)**		-
Add : 45,20,703 share forfeited		**0.67**		0.67
		581.17		507.98
NIL (Previous year - 5,52,22,000)0.01% Cumulative Convertible Preference shares of Rs.90 each		**-**		497.00
20 29,24,832 (Previous year Nil) 0.01% Cumulative Redeemable Preference shares of Rs.10 each.(Refer Note 25(a) and 28 of schedule 23)		**202.92**		-
5,59,31,364 (Previous year Nil) 7% Compulsory Convertible Preference Shares of Rs.350 each.(Refer Note 25(b) of schedule 23)		**1,957.60**		-
4,35,98,951 (Previous year Nil) 10% Cumulative Redeemable Preference Shares of Rs.10 each.(Refer Note 25(c) of schedule 23)		**43.60**		-
		2,785.29		1,004.98

Of the above:

(a) 39,87,538 Equity Shares of Rs. 10 each were allotted as fully paid up Bonus Shares by capitalisation of General Reserve

(b) 1,50,000 Equity Shares of Rs. 10 each were allotted as fully paid up for consideration other than cash.

Schedule 2				
Reserves and Surplus				
Capital Reserve				
Balance as per last Balance Sheet		**12.73**		12.73
Asset Revaluation Reserve				
Balance as per last Balance Sheet	**0.07**		0.07	
Less: Amounts written back on sale of assets and as depreciation (* Rs. 35,507)	**(0.07)**		*	
		-		0.07
Securities Premium Account				
Balance as per Accounts	**1,418.61**		1,438.00	
Less: Unpaid Premium on forfeited shares	-		(19.39)	
Less : Adjustment as per contra with Profit & Loss Account Balance (Refer Note below)	**-**		(1,356.30)	
Less : Transfer to Profit and Loss Account (Refer Note below)	**(1,356.30)**		-	
	62.31		62.31	
Add: Additions during the year	**220.89**		-	
	283.20		62.31	
Less : Adjustments towards the following (Refer Note 27 of schedule 23)				
Recompense finance cost	**(104.17)**		-	
Deferred power charges	**(87.26)**		-	
	(191.43)		-	
		91.77		62.31
Debenture Redemption Reserve				
Balance as per last Balance Sheet	**340.64**		11.60	
Less: Transferred to Profit and Loss account on redemption of non convertible debentures	**(340.64)**		-	
Add: Transferred from Profit and Loss Account on issue/restoration of non convertible debentures	**15.00**		329.04	
		15.00		340.64
General Reserve				
Balance as per last Balance Sheet		**118.38**		118.38
Profit and Loss Account				
Balance as per Accounts	**(1,203.82)**		(1,474.68)	
Add : Adjustment as per contra with Securities Premium Account (Refer Note below)	**-**		1,356.30	
Add : Transfer from Securities Premium Account (Refer Note below)	**1,356.30**		-	
	152.48		(118.38)	
Add : Profit for the year transferred from Profit and Loss account	**530.18**		590.15	
Add : Transfer from Debenture Redemption Reserve	**340.64**		-	
Less : Transfer to Debenture Redemption Reserve	**(15.00)**		(329.04)	
Add : Unpaid dividend reversal	**-**		9.75	
		1,008.30		152.48
		1,246.18		686.61

Note :The company had as at 31.03.2005, in terms of a special resolution passed on 07.08.2004 and by virtue of the sanction granted by the High Court of Gujarat on 01.02.2005, reduced the Share Capital by utilising a sum of Rs. 1356.30 crores out of Rs. 1438.00 crores standing to the credit of securities premium account towards “Profit and Loss account”, representing accumulated losses incurred by the company till 01.04.2004. However, the impact of above court order was given as at 31.03.2005 through a contra entry adjustment only in the financial statements and the final adjustment entry thereof has been passed in the books of accounts as on 31.03.2006.

ESSAR

Schedules forming part of Balance Sheet as at 31st March, 2006

	As at 31st March, 2006		As at 31st March, 2005	
	Rs. in crores	Rs. in crores	Rs. in crores	Rs. in crores
Schedule 3				
Secured Loans				
Non-convertible Debentures		300.00		667.56
Term Loans				
From Banks				
Foreign Currency Loans	698.06		862.20	
Rupee Loans	3,703.66		1,328.47	
		4,401.72		2,190.67
From Financial Institutions & others				
Foreign Currency Loans	718.40		160.56	
Rupee Loans	310.57		493.31	
		1,028.97		653.87
Working Capital Loans from Banks		448.31		139.59
Buyers' credit for Operational use		108.36		-
Buyers' credit for Capex use		122.55		-
Letter of Credit Facilities from Banks - Capex		372.52		-
Letter of Credit Facilities from Banks - Operational use		572.77		391.59
		7,355.20		4,043.28

Notes:

1. Non-convertible Debentures are secured by movable and immovable fixed assets of the company to the extent of Rs. 300 crores (Previous year secured by first charge on all the assets excluding current assets Rs. 667.56 crores) consist of the following:

Particulars of Debentures	Redemption: Terms	Installments	From Calendar Year	First Installment	As at 31st March 2006 Rs. in crores	As at 31st March 2005 Rs. in crores
Nil (Previous Year 3,00,00,000 14% Debentures of Rs. 88.14 each)	At Par	Six	2002	8th year	-	264.42
Nil (Previous Year 32,00,000 14% Debentures of Rs.235 each)	At Par	Six	2002	9th year	-	75.21
Nil (Previous Year 31,99,607 14% Debentures of Rs. 29.38 each)	At 5% premium	Six	2002	12th year	-	9.40
Nil (Previous Year 25,00,000 14% Debentures of Rs. 29.40 each)	At Par	Six	2002	5th year		7.35
NIL (Previous Year Funded interest on Debentures by Unit Trust of India pending allotment)					-	311.18
160 14% Debentures of Rs.100 each (* Rs, 16000)	At 5% premium	Three	1998	8th year	*	*
3,000 (Previous Year Nil) 8% Secured Redeemable Non Convertible Debenture of Rs. 10,00,000 each)	At Par	Five	2007	2nd Year	300.00	-
					300.00	667.56

2. Details of securities for Term Loans are as under:

	2006	2005
From Banks		
Foreign Currency Loans		
Secured by pari passu first charge on the fixed assets and second charge on current assets of the Company.	507.29	670.25
Secured by pari passu first charge on movable fixed assets, mortgage of immovable properties and second charge on current assets of the Company.	-	75.99
Priority debts, secured by pari passu first charge on the fixed assets and second charge on the current assets of the Company.	34.73	-
Priority debts, secured by pari passu first charge on the fixed assets	156.04	115.96
	698.06	862.20
Rupee Loans		
Priority debts, secured by pari passu first charge on the fixed assets	120.22	208.15
Secured by pari passu first charge on the fixed assets and second charge on current assets of the company and pledge of 15,00,00,000 Equity Shares of Rs. 10 each of Essar Power Ltd.	17.75	591.22
Secured by pari passu first charge on the fixed assets and second charge on current assets of the company.	2,511.76	465.02
Secured by pari passu first charge on the assets other than book debts	1,035.93	-
Secured by pari passu first charge on the fixed assets and pledge of 2,65,517 Equity Shares of Rs.10 each, 1,77,012 0.01% cumulative redeemable preference shares of Rs. 10 each of Essar Steel Ltd and 1,13,04,503 Equity Shares of 10 each of Essar Shipping Ltd. held by Essar Investments Ltd.	18.00	-
Working Capital term loans secured by pari passu first charge on the movable fixed assets, mortgage on immovable properties and second charge on the current assets of the Company.	-	64.08
	3,703.66	1,328.47
From Financial Institutions & others		
Foreign Currency Loans		
Secured by pari passu first charge on the fixed assets and second charge on current assets	673.54	116.58
Secured by pari passu first charge on the movable fixed assets,mortgage on immovable properties and second charge on the current assets of the company	44.86	43.98
	718.40	160.56
Rupee Loans		
Secured by pari passu first charge on the fixed assets and second charge on current assets of the Company	310.57	493.31
	310.57	493.31

Schedules forming part of Balance Sheet as at 31st March, 2006

3. Working Capital Loans are secured by a first charge on the current assets and second charge on fixed assets of the company.
4. Letter of Credit Facilities and buyer's credit- operation amounting to Rs. 681.13 crores (previous year Rs.391.59 crores) have been classified under the head Secured Loans as relevant facilities are secured by first charge on the Current assets and second charge on Fixed assets of the company.
5. Letter of Credit Facilities,buyer's credit - capex and Long term Letter of Credit Facilities for capital project from UTI Bank amounting to Rs. 495.07 crores (previous year Rs. NIL) have been classified under the head Secured Loans as relevant facilities have a specific charge on the assets purchased under the said LC's and buyer's credit except in case of UTI bank in respect of which facilities are secured by paripassu charge on entire fixed assets of the company for which security creation is pending.
6. Letter of Credit Facilities,buyer's credit and Long term Letter of Credit Facilities for capital project from UTI Bank (shown in note no.4 & 5 above) are also secured by Term/Margin deposits of Rs. 618.06 crores(previous year Rs. 121.47 crores) pledged with the banks.

Schedule 4
Unsecured Loans

	As at 31st March, 2006 **Rs. in crores**	As at 31st March, 2005 Rs. in crores
Dollar / Rupee Notes (Due within one year Rs. 4.29 crs)	**307.35**	308.83
Foreign Currency Loans from Foreign Banks (Due within one year Rs. 8.97 crs)	**8.97**	175.92
Subscription to Debentures by Unit Trust of India pending allotment	**-**	149.87
Term Loan from a company (Due within one year Rs. NIL)	**34.28**	-
Bridge Loan from SBI (Due within one year Rs.275 crs)	**275.00**	-
Term Loan from Housing Development Finance Corporation Limited (Due within one year Rs. 0.28 crores)	**1.10**	1.34
Finance Lease obligation (Due within one year Rs. 1.97 crs)	**10.55**	-
Interest accrued and due	**13.21**	48.31
	650.46	684.27

Note:

1 Rupee Notes aggregating to Rs.164.68 crores (Previous year Rs.168.96 crores) is repayable up to March 31, 2018 carrying interest @ 8% pa payable semi-annually. Dollar Notes aggregating to Rs.141.67 Crores (Previous year Rs.138.89 crores) is repayable on March 31, 2018 carrying interest @ 0.25% pa payable semi-annually and balance amount of Rs. 1.00 Crores (Previous year Rs. 0.98 crores) is to be settled.

Schedule 5
Fixed Assets

Rs. in crores

Description	Gross Block					Depreciation				Net Block	
	As at 1.04.2005	Assets taken over on Amalgamation *	Additions	Deletions	As at 31.03.2006	As at 1.04.2005	For the Year	On deletions	As at 31.03.2006	As at 31.03.2006	As at 31.03.2005
Land	44.91	4.67	7.53	-	**57.11**	-	-	-	**-**	**57.11**	44.91
Buildings	510.12	36.83	352.47	1.32	**898.10**	281.95	30.31	0.78	**311.48**	**586.62**	228.17
Plant and Machinery	6,176.95	1,154.80	2,113.55	91.04	**9,354.26**	3,293.72	452.93	89.25	**3,657.40**	**5,696.86**	2,883.23
Furniture and Fixtures	18.50	0.90	4.97	0.24	**24.13**	16.11	1.37	0.23	**17.25**	**6.88**	2.39
Office Equipment	43.02	2.90	10.83	1.43	**55.32**	35.78	4.55	0.97	**39.36**	**15.96**	7.24
Vehicles	6.77	0.29	0.87	0.45	**7.48**	4.90	0.74	0.43	**5.21**	**2.27**	1.87
Ships and Vessels	109.06	-	20.41	129.01	**0.46**	43.48	8.22	51.41	**0.29**	**0.17**	65.58
Railway Sidings and Wagons	30.91	-	-	0.22	**30.69**	15.40	1.51	0.11	**16.80**	**13.89**	15.51
Aircraft (Refer note 7)	-	-	19.99	-	**19.99**	-	1.30	-	**1.30**	**18.69**	-
	6,940.24	1,200.39	2,530.62	223.71	**10,447.54**	3,691.34	500.93	143.18	**4,049.09**	**6,398.45**	3,248.90
Previous year	6,802.54	-	296.51	158.81	**6,940.24**	3,317.01	394.29	19.96	**3,691.34**	**3248.90**	

* Refer Note 26 of schedule 23

Notes:

1. Additions to fixed assets / capital work-in-progress include adjustments on account of foreign exchange fluctuations of Rs.23.29 crores (Previous year (gain) Rs. 3.35 crores).
2. Land and Buildings includes certain properties under possession of the Company in respect of which the registration formalities are being completed.
3. Plant and Machinery include the Company's share in the cost of Singanpur Weir and 220 KV Power Line amounting to Rs. 23.44 crores, which was amortised over a period of five years (Current WDV Rs nil, Previous Year WDV Rs nil).
4. Railway Sidings and Wagons include railway wagons (at cost) of Rs. 17.92 crores given on lease to Railway Authorities under 'Own your Wagon' scheme.
5. Plant and Machinery include Jetty of Rs. 108.35 crores (Cost) net book value Rs. 25.91 crores, the ownership of which has been claimed by Gujarat Maritime Board (GMB). The Company has disputed such claims.
6. Plant and Machinery include equipments at Retail outlet of Rs. 2.14 crores given on lease and its accumulated depreciation is Rs. 0.11 crores (Previous Year Rs.0.02 Crores). Depreciation on this has been debited to Profit & loss account Rs. 0.09 crores (Previous Year 0.02 crores)
7. Aircraft also includes an aircraft taken on finance lease :(Refer Note 7 of schedule 23)
   Gross Book Value Rs. 10.91 crs (Previous Year : Rs. NIL)
   Net Book Value Rs. 9.73 crs (Previous Year : Rs. NIL)
8. Details of Depreciation are as follows :

Rs. in crores

Particulars	**31.03.06**	31.03.05
Depreciation for the year as above	**500.93**	394.29
Less : Trial run depreciation capitalised	**(18.76)**	-
Less : Transferred from Asset Revaluation Reserve	**(0.07)**	-
Depreciation as per Profit and Loss Account	**482.10**	394.29

Schedules forming part of Balance Sheet as at 31st March, 2006

	As at 31st March, 2006		As at 31st March, 2005	
	Rs. in crores	**Rs. in crores**	Rs. in crores	Rs. in crores
Schedule 6				
Investments				
Current Investments				
Quoted				
Nil (Previous Year 8,100) Equity Shares of Rs. 10 each of Bank of India fully paid up	-		0.04	
Unquoted				
643 fully paid Units of US 1964 Scheme of Rs. 10 each of Unit Trust of India @ Rs. 8314	@		@	
		-		0.04
Investment in Subsidiary Company				
49,940 (Previous Year NIL) fully paid Equity Shares of Rs. 10 each of Essar Steel (Jharkhand) Limited	0.05		-	
49,940 (Previous Year NIL) fully paid Equity Shares of Rs. 10 each of Essar Steel (Chattisgarh) Limited	0.05		-	
		0.10		-
Long Term Investments				
Trade - Quoted				
Nil (Previous Year 909,810) fully paid Equity Shares of Rs. 10 each of Steelco Gujarat Limited	-		0.91	
1,63,500 (Previous Year 43,43,765) fully paid Equity Shares of Rs.10 each of Remi Metal Gujarat Limited	0.16		4.34	
Nil* (Previous Year 5,00,000) fully paid Equity Shares of Rs. 10 each of SJB Tubes Limited *Amount written off during the year	-		0.50	
Nil (Previous Year 6,00,000) fully paid Equity Shares of Rs. 10 each of Uttam Galva Steels Limited	-		1.08	
		0.16		6.83
Trade - Un Quoted				
2,50,000 fully paid Equity Shares of Rs. 10 each of Frontline Roll Forms Limited	0.25		0.25	
15,56,10,000 (Previous Year 21,70,00,000) fully paid Equity Shares of Rs. 10 each of Essar Power Limited	155.61		217.00	
NIL (Previous Year 3,12,00,000) fully paid Preference Shares of Rs. 100 each of Hy-Grade Pellets Limited	-		312.00	
NIL (Previous Year 17,60,00,007) fully paid Equity Shares of Rs. 10 each of Hy-Grade Pellets Limited	-		176.00	
NIL (Previous Year 29,41,000) Fully paid Zero Coupon Bond of Rs.100 Each of Marmagoa Steel Limited	-		29.41	
		155.86		734.66
Others - Quoted				
Nil (Previous Year 360) fully paid Equity Shares of Rs. 10 each of ICICI Bank Limited **Rs. 26,000	-		**	
32,63,000 fully paid Equity Shares of Rs. 10 each of Essar Oil Limited	13.97		13.97	
		13.97		13.97
Others - Unquoted				
12,26,300 fully paid 14% Secured Redeemable Non Convertible Debentures of Rs. 105 each of Essar Oil Limited	12.88		12.88	
20 fully paid Equity Shares of Rs. 10 each of Essar Commvision Limited # Rs.200	#		#	
		12.88		12.88
		182.97		768.38
Aggregate amount of Quoted Investments (Aggregate Market Value Rs.13.40 crores-Previous year Rs. 21.45 crore)		14.13		20.84
Aggregate amount of Unquoted Investments		168.84		747.54
		182.97		768.38

Note1: The following units were purchased and redeemed during the year.

Rs. in crores

Name of Mutual Fund	Op. Balance		Purchases		Dividend reinvested		Redemption	
	Qty	Value	Qty	Value	Qty	Value	Qty	Value
HSBC Cash Plus Fund - Inst	-	-	5,747,071.39	6.00	6,702.43	0.01	5,753,773.82	6.01
HSBC Cash Plus Fund -Inst Plus	-	-	371,791,796.59	372.00	640,700.14	0.64	372,432,496.73	372.64
Nlfid Canliquid Fund -Inst	-	-	7,967,333.93	8.00	14,277.18	0.01	7,981,611.11	8.01
Birla Cash Fund - Institutional	-	-	107,789,809.87	108.00	12,865.78	0.01	107,802,675.65	108.01
HDFC Cash Management Fund	-	-	102,478,282.13	109.00	23,430.58	0.02	102,501,712.71	109.02
Principal Mutual Fund	-	-	94,993,350.47	95.00	81,292.44	0.08	95,074,642.90	95.08
SBI MF MIIF Saving	-	-	101,779,217.54	102.11	30,320.99	0.03	101,809,538.54	102.14

Note 2: During the year, the Company has acquired balance 18,31,83,688 equity shares representing 51% in Hy-grade Pellets Limited for an aggregate consideration of Rs. 1298.19 crores. Further, the Company has also acquired 25,26,21,698 equity shares representing 100% in Steel Corporation of Gujarat Limited for an aggegate consideration of Rs. 652.39 crores. Both the above, wholly owned subsidiaries have been amalgamated with the Company with effect from April 01, 2005 (Refer note 26 of Schedule 23)

Schedules forming part of Balance Sheet as at 31st March, 2006

	As at 31st March, 2006		As at 31st March, 2005	
	Rs. in crores	Rs. in crores	Rs. in crores	Rs. in crores
Schedule 7				
Deferred Tax Assets (Net)				
(Refer Note 5 of schedule 23)				
Deferred Tax Assets				
Unabsorbed depreciation and carry forward losses		**1,215.74**		892.97
Provision for doubtful debts		**8.52**		26.05
Provision for doubtful advance		**5.15**		6.42
Premium of Redemption of Debentures		**-**		1.78
Deferred Power Charges		**44.28**		-
Other timing differences (disallowances under section 43B of the Income tax Act, 1961)		**82.58**		366.90
		1,356.27		1,294.12
Less: Deferred Tax Liabilities				
Fixed Assets (excess of net block as per books over written down value as per the provisions of the Income tax Act, 1961)		**867.86**		788.80
Pre-Operative expenses included in capital work in progress		**45.82**		3.05
Prepaid lease rentals		**16.84**		21.31
		930.52		813.16
Deferred Tax Asset (Net)		**425.75**		480.96
Schedule 8				
Inventories				
Raw Materials (including stock in transit Rs.57.87 crores - Previous year Rs. 96.38 crores)		**651.87**		341.78
Finished Goods		**238.69**		194.28
Work-in-Progress		**93.47**		40.33
Production Consumables, Stores and Spares (including stock in transit Rs.66.85 crores - Previous year Rs. 71.62 crores)		**501.31**		356.83
		1,485.34		933.22
Schedule 9				
Sundry Debtors				
(Unsecured)				
Trade				
Debts outstanding for a period exceeding six months				
Considered Good	**93.47**		148.26	
Considered Doubtful	**24.93**		77.40	
Less: Provision for Doubtful Debts	**24.93**		77.40	
		93.47		148.26
Other debts - Considered Good		**174.06**		312.67
		267.53		460.93
Others				
Debts outstanding for a period exceeding six months				
Considered Good	**9.64**		7.59	
Considered Doubtful	**0.52**		0.03	
Less: Provision for Doubtful Debts	**0.52**		0.03	
		9.64		7.59
Other debts - Considered Good		**262.99**		2.78
		540.16		471.30
Schedule 10				
Cash and Bank Balances				
Cash on Hand		**0.05**		0.06
Balances with Scheduled Banks				
on Current Accounts	**14.96**		28.90	
on Margin Deposit Accounts	**19.53**		50.15	
on Term Deposit Accounts	**691.25**		161.99	
		725.74		241.04
Balances with other than Scheduled Banks - Barclays Bank maximum amount outstanding is Rs.10.19 crores (Previous year Rs. 10.19 crores)		**-**		10.19
		725.79		251.29

Note : Margin and term deposits aggregating to Rs. 618.06 Crores (Previous year - 121.47 Crores) have been pledged with banks as a security for opening Letters of Credit.

ESSAR

Schedules forming part of Balance Sheet as at 31st March, 2006

	As at 31st March, 2006		As at 31st March, 2005	
	Rs. in crores	Rs. in crores	Rs. in crores	Rs. in crores
Schedule 11				
Loans and Advances				
(Unsecured, Considered Good unless otherwise stated)				
Advances recoverable in cash or in kind or for value to be received				
Considered Good (Refer note 13 of schedule 23)	**544.32**		529.79	
Considered Doubtful	**15.97**		19.07	
	560.29		548.86	
Less: Provision for Doubtful Advances	**15.97**		19.07	
		544.32		529.79
Export Incentives		**244.22**		29.42
Balances with Excise and Customs Authorities	**143.50**		45.96	
Others				
Considered Good	**152.23**		121.72	
Considered Doubtful	**0.08**		0.08	
	295.81		167.76	
Less: Provision for Doubtful Deposits	**0.08**		0.08	
		295.73		167.68
Tax paid/deducted at source [net of provision of Rs. 13.80 crores (Previous year Rs. 9.54 crores)]		**33.44**		8.47
		1,117.71		735.36
Schedule 12				
Liabilities				
Acceptances				
for Capital Expenditure	**0.98**		0.20	
for Goods and Expenses	**87.68**		46.79	
		88.66		46.99
Sundry Creditors				
Small Scale Industrial Undertakings (Refer Note 11 of schedule 23)				
for Capital Expenditure	**1.05**		1.18	
for Goods and Expenses	**2.27**		1.11	
	3.32		2.29	
Others				
for Capital Expenditure	**200.82**		60.78	
for Goods and Expenses	**867.85**		562.34	
	1,068.67		623.12	
		1,071.99		625.41
Other Liabilities		**152.68**		123.36
Advance from Customers		**209.95**		60.38
Interest accrued but not due		**19.12**		101.89
		1,542.40		958.03
Schedule 13				
Provisions				
Provision for Leave Encashment		**5.22**		3.04
Provision for Gratuity		**3.52**		4.03
Provision for Fringe Benefit Tax (Net of payment of Rs. 4.77 crores)		**0.33**		-
		9.07		7.07

Schedules forming part of the Profit and Loss Account for the year ended 31st March, 2006

	Year Ended 31st March, 2006 Rs. in crores	Year Ended 31st March, 2006 Rs. in crores	Year Ended 31st March, 2005 Rs. in crores	Year Ended 31st March, 2005 Rs. in crores
Schedule 14				
Other Income				
Interest and Dividend				
on Current Investments * Rs. 27,000		**0.78**		*
(Tax deducted at source - Nil - Previous year Nil)				
Rent [including lease rentals of Rs.0.08 crores (Previous year Rs. 0.34 crores) on wagons leased to Railway authorities under "Own Your Wagon" scheme]		**0.35**		0.42
Profit on sale of Fixed Assets (net)		**178.39**		0.04
Profit on sale of Current Investments		**0.08**		-
Profit on sale of Long Term Investments		**16.58**		-
Liabilities no longer required written back		**0.05**		3.16
Miscellaneous Income		**11.91**		0.94
		208.14		4.56
Schedule 15				
Materials Consumed				
Opening Stock	**341.78**		318.22	
Add : Stock taken over on amalgamation	**8.88**		-	
Add : Purchases	**1,832.51**		1,502.04	
Less : Closing stock	**651.87**		341.78	
Raw Materials consumed		**1,531.30**		1,478.48
Production Consumables, Stores and Spares		**808.14**		619.21
Petroleum Products - Fuel		**1,371.92**		984.36
Excise Duty *		**13.92**		18.32
		3,725.28		3,100.37

* Represents differential excise duty in respect of closing stock and opening stock, excise duty on captive consumption etc.

	Year Ended 31st March, 2006 Rs. in crores	Year Ended 31st March, 2006 Rs. in crores	Year Ended 31st March, 2005 Rs. in crores	Year Ended 31st March, 2005 Rs. in crores
Schedule 16				
Decrease/(Increase) in Stocks				
Opening Stock				
Finished Goods	**194.28**		122.06	
Stock taken over on amalgamation	**7.81**		-	
Work-in-Progress	**40.33**		20.53	
	242.42		142.59	
Closing Stock				
Finished Goods	**238.69**		194.28	
Work-in-Progress	**93.47**		40.33	
	332.16		234.61	
		(89.74)		(92.02)
		(89.74)		(92.02)
Schedule 17				
Personnel Expenses				
Salaries, Wages and Bonus (including operating lease rent of Rs.3.89 Crores (Previous year Rs. 2.84 crores)		**80.05**		54.74
Contribution to Provident Fund and Other Funds		**5.93**		10.03
Staff Welfare Expenses		**12.89**		10.34
Director's Remuneration (Refer note 18 of schedule 23)		**0.88**		0.98
		99.75		76.09
Schedule 18				
Manufacturing and Asset Maintenance				
Power and Water Charges		**424.98**		369.25
Repairs and Maintenance				
Plant and Machinery	**66.36**		64.59	
Buildings	**28.19**		28.82	
Others	**4.14**		2.59	
		98.69		96.00
Plant and Equipment Hire Charges		**12.45**		15.78
Labour and Sub Contract Charges		**54.78**		87.52
Insurance		**10.43**		9.29
		601.33		577.84

ESSAR

Schedules forming part of the Profit and Loss Account for the year ended 31st March, 2006

	Year Ended 31st March, 2006 Rs. in crores	Rs. in crores	Year Ended 31st March, 2005 Rs. in crores	Rs. in crores
Schedule 19				
Administrative Expenses				
Travelling and Conveyance		**29.40**		18.23
Postage, Telephone and Fax		**6.19**		6.90
Printing and Stationery		**1.49**		1.07
Professional Fees		**41.72**		46.44
Operating Lease Rent		**0.59**		0.69
Rent, Rates and Taxes {(includes wealth tax provision Rs.0.14 crores (previous year Rs. 0.14 crores)}		**5.80**		3.78
Auditors' Remuneration (Refer note 19 of schedule 23)		**1.75**		0.75
Directors' Sitting Fees		**0.04**		0.03
Vehicle Hire and Maintenance Charges		**14.19**		9.30
Service charges		**2.55**		0.98
Write off for doubtful advances		**-**		106.21
Provision for doubtful advances		**0.56**		-
Write off for doubtful Investment		**0.50**		-
Loss on sale/revaluation of current investment # Rs. 165		**-**		#
Loss on sale / revaluation of long term investments		**0.88**		0.34
Miscellaneous Expenses		**25.00**		17.92
		130.66		212.64
Schedule 20				
Selling and Distribution Expenses				
Commission		**150.59**		192.82
Freight Outward		**79.45**		45.36
Discount		**1.83**		4.78
Other Selling Expenses		**3.03**		1.68
Bad Debts written off	**51.57**		31.24	
Provision for Doubtful Debts (net)	**(52.14)**	**(0.57)**	33.72	64.96
		234.33		309.60
Schedule 21				
Finance Cost (net)				
Interest				
on Term Loans	**274.80**		311.61	
on Debentures	**58.89**		74.05	
to Banks and Others	**112.79**		72.58	
		446.48		458.24
		446.48		458.24
Less:				
Interest on advances, deposits, customers' balances, income-tax refund, etc. - Gross (Tax deducted at source Rs. 2.70 crores - Previous year Rs. 0.62 crores)	**25.52**		3.43	
Gain on settlement of debts	**98.46**		-	
(Loss)/Gain on cancellation of Forward Exchange Contracts (Net of Premium paid)	**11.42**		11.64	
		135.40		15.07
Plant and Equipment Lease Rentals		**14.02**		12.91
Guarantee and Other Charges		**76.35**		86.29
Exchange Variation (net)		**21.22**		8.36
		422.67		550.73
Schedule 22				
Prior Period and Exceptional Items				
(A) Prior Period Items				
Finance Cost		**20.24**		0.78
Power Charges		**-**		60.30
Sales tax and interest thereon on sale & lease back transaction		**29.50**		-
Raw Material		**35.35**		-
Others		**3.27**		-
		88.36		61.08
(B) Exceptional Items				
Exchange variation		-		153.58
Depreciation on exchange variation		-		(17.03)
		-		136.55
		88.36		197.63

Schedules forming part of the Accounts for the year ended 31st March, 2006

Schedule 23

Notes to the Accounts

1. Nature of Operations

The Company has an integrated steel manufacturing unit of flat rolled products with port based facitilies. This brings in added advantages in raw material intake and finished goods despatch.

2. Statement of Significant Accounting Policies

(a) Basis of preparation

The financial statements have been prepared to comply in all material aspect with the mandatory Accounting Standards issued by the Institute of Chartered Accountants of India and the relevant provisions of the Companies Act, 1956. The financial statements have been prepared under the historical cost convention on an accrual basis. The accounting policies have been consistently applied by the Company and are consistent with those used in the previous year.

(b) Fixed Assets

Fixed assets are stated at cost (or revalued amounts, as the case may be), less accumulated depreciation and impairment losses if any. Cost comprises the purchase price and any attributable cost of bringing the asset to its working condition for its intended use. Borrowing costs relating to acquisition of fixed assets which takes substantial period of time to get ready for its intended use are also included to the extent they relate to the period till such assets are ready to be put to use.

(c) Capital Work-in-Progress

All expenditure, including advances given and interest cost during the project construction period, are accumulated and disclosed as capital work-in-progress until the assets are ready for commercial use. Assets under construction are not depreciated. Income earned from investments of surplus borrowed funds during the construction/trial run period is reduced from capital work-in-progress. Expenditure/income arising during trial run is added to/reduced from with capital work-in-progress.

(d) Expenditure on substantial expansion

All direct capital expenditure on expansion are capitalised. As regards indirect expenditure on expansion, only that portion is capitalised which represents the marginal increase in such expenditure involved as a result of capital expansion. Both direct and indirect expenditure are capitalised only if they increase the value of the asset beyond its original standard of performance.

(e) Depreciation

Fixed assets are depreciated at the rates and in the manner specified in Schedule XIV of the Companies Act, 1956 on written down value method, except for plant and machinery and railway sidings which are depreciated on a straight line basis. Depreciation in respect of revalued assets is recouped from revaluation reserve. Depreciation on additions to / deletions from fixed assets is provided on pro-rata basis from / up to the date of such addition / deletion as the case may be. Depreciation on additions to assets due to exchange variation, forward cover premium charges, etc. is provided over the remaining useful life of the assets.

(f) Impairment of Assets

(i) The carrying amounts of assets are reviewed at each balance sheet date if there is any indication of impairment based on internal/external factors. An impairment loss is recognized wherever the carrying amount of an asset exceed its recoverable amount. The recoverable amount is the greater of the assets net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value at the weighted average cost of capital.

(ii) After impairment, depreciation is provided on the revised carrying amount of the assets over its remaining useful life.

(g) Revenue Recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the company and the revenue can be reliably measured.

Sale of Goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer. Sales is disclosed net of quality claims and rebates. Excise Duty deducted from turnover (gross) is the amount that is included in the amount of turnover (gross).

Export Benefits

Export benefits under duty entitlement passbook scheme, target plus and duty free replenishment scheme is accrued whenever ascertainable

Interest

Revenue is recognised on a time proportion basis taking into account the amount outstanding and the rate applicable.

Dividends

Revenue is recognised when the shareholders' right to receive payment is established by the balance sheet date. Dividend from subsidiaries is recognised even if same are recognised after the balance sheet date but pertains to period on or before the date of balance sheet as per the requirement of schedule VI of the Companies Act, 1956.

(h) Taxes on Income

Tax expense comprises of current, deferred and fringe benefit tax. Current income tax and fringe benefit tax is measured at the amount expected to be paid to the tax authorities in accordance with the Indian Income Tax Act. Deferred income taxes reflects the impact of current year timing differences between taxable income and accounting income for the year and reversal of timing differences of earlier years.

Deferred tax is measured based on the tax rates and the tax laws enacted or substantively enacted at the balance sheet date. Deferred tax assets are recognised only to the extent that there is reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised. If the company has carry forward of unabsorbed depreciation and tax losses, deferred tax assets are recognised only if there is virtual certainty that such deferred tax assets can be realised against future taxable profits. Unrecognised deferred tax assets of earlier years are re-assessed and recognised to the extent that it has become reasonably certain that future taxable income will be available against which such deferred tax assets can be realised.

(i) Inventories

Raw Materials, Production Consumables, Stores and Spares is valued at lower of cost and net realizable value. However, materials other than items held for use in the production of inventories are not written down below cost if the finished products in which they will be incorporated are expected to be sold above cost. Cost is determined on a First in first out (FIFO) basis.Work -in-progress and finished goods is valued at lower of cost and net realisable value. Cost included direct material and labour and a proportion of manufacturing overheads based on normal capacity. Cost of finished goods also includes excise duty. Net realizable value is the estimated selling price in the ordinary course of business less estimated cost of completion and to make the sale.

(j) Investments

Investments that are readily realisable and intended to be held for not more than a year are classified as current investments. All other investments are classified as long-term investments. Current investments are carried at lower of cost and fair value determined on an individual investment basis. Long-term investments are carried at cost. However, provision for diminution in value is made to recognise a decline other than temporary in the value of the investments.

(k) Foreign Currency Transactions

Initial Recognition

Foreign currency transactions are recorded in the reporting currency, by applying to the foreign currency amount the exchange rate between the reporting currency and the foreign currency at the date of the transaction.

Conversion

Foreign currency monetary items are reported using the closing rate. Non-monetary items which are carried in terms of historical cost denominated in a foreign currency are reported using the exchange rate at the date of the transaction; and non-monetary items which are carried at fair value or other similar valuation denominated in a foreign currency are reported using the exchange rates that existed when the values were determined.

Exchange Difference

Exchange differences arising on the settlement of monetary items at rates different from those at which they were initially recorded during the year, or reported in previous financial statements, are recognised as income or as expenses in the year in which they arise. Exchange differences arising in respect

ESSAR

of fixed assets acquired from outside India are capitalised as a part of fixed asset. Exchange differences on liability relating to fixed assets acquired within India arising out of transactions entered on or before March 31, 2004 are added to the cost of such assets in line with Old Accounting Standard 11 (1994).

Forward Exchange Contracts not intended for trading or speculation purposes

The premium or discount arising at the inception of forward exchange contracts is amortised as expense or income over the life of the contract. Exchange differences on such contracts are recognised in the statement of profit and loss account in the year in which the exchange rates change. Any profit or loss arising on cancellation or renewal of forward exchange contract is recognised as income or as expense for the year.

(l) Earnings Per Share

Basic earnings per share are calculated by dividing the net profit or loss for the period attributable to equity shareholders (after deducting preference dividends and attributable taxes) by the weighted average number of equity shares outstanding during the period. Partly paid equity shares are treated as a fraction of an equity share to the extent that they were entitled to participate in dividends relative to a fully paid equity share during the reporting period. The weighted average number of equity shares outstanding during the period are adjusted for events of bonus issue; bonus element in a rights issue to existing shareholders; share split; and reverse share split (consolidation of shares).

For the purpose of calculating diluted earnings per share, the net profit or loss for the period attributable to equity shareholders and the weighted average number of shares outstanding during the period are adjusted for the effects of all dilutive potential equity shares.

(m) Provisions

A provision is recognised when an enterprise has a present obligation as a result of past event; it is probable that an outflow of resources will be required to settle the obligation, in respect of which a reliable estimate can be made. Provisions are not discounted to its present value and are determined based on best estimate required to settle the obligation at the balance sheet date. These are reviewed at each balance sheet date and adjusted to reflect the current best estimates.

(n) Cash and Cash equivalents

Cash and cash equivalents in the balance sheet comprise cash in hand and at bank in current account. Margin deposit and term deposit are considered as cash equivalent.

(o) Derivative Instruments

The Company uses derivative financial instruments such as forward exchange contracts and interest rate swaps to hedge its risks associated with foreign currency fluctuations and interest rate. Accounting policy for forward exchange contracts is given in note (k).

(p) Retirement and other employee benefits

Retirement benefits in the form of Provident Fund and Superannuation Schemes are charged to the Profit and Loss Account of the year when the contributions to the respective funds are due. Thre are no other obligations other than the contribution payable to the respective trusts. Superannuation is funded by payments to Life Insurance Corporation of India (LIC).

Gratuity liability under the Payment of Gratuity Act and provision for leave encashment is accrued and provided for on the basis of an actuarial valuation made at the end of each financial year. Gratuity is funded by payments to Life Insurance Corporation of India (LIC).

(q) Central Value Added Tax (CENVAT)

CENVAT claimed on capital goods is reduced from the cost of plant and machinery/capital work-in-progress. CENVAT claimed on purchases of raw and other materials is reduced from the cost of such materials.

(r) Leases

Lease rentals in respect of finance lease arrangements entered up to 31st March, 2001 are segregated into cost of the asset and interest components by applying an implicit internal rate of return. The cost component is amortised over the useful life of the asset and the interest component is recognised in the Profit and Loss Account. Lease payments in excess of the charge for the year are treated as prepaid lease rentals wherever agreement is existing and in other cases it has been added to the carrying cost of the fixed assets.

Finance leases entered on or after 1st April, 2001, which effectively transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the lower of the fair value and present value of the minimum lease payments at the inception of the lease term and disclosed as leased assets. Lease payments are apportioned between the finance charges and reduction of the lease liability based on the implicit rate of return. Finance charges are charged directly against income. Lease management fees, legal charges and other initial direct costs are capitalised.

If there is no reasonable certainty that the Company will obtain the ownership by the end of the lease term, capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Leases where the lessor effectively retains substantially all the risks and benefits of ownership of the leased term, are classified as operating leases. Operating lease payments are recognised as an expense in the Profit and Loss account on a straight-line basis over the lease term.

				As at 31st March, 2006 Rs. in crores	As at 31st March, 2005 Rs. in crores
3.	Contingent Liabilities not provided for				
	(i)	(a)	Bills discounted	**135.69**	181.42
		(b)	Claims against the company not acknowledged as debts [including amount already paid Rs 247.86 crores (Previous year Rs. 193.07 crores) of which Rs. 210.02 crores (Previous year Rs. 155.23 crores) has been disclosed under Loans and Advances after adjusting the credit balances of Rs 37.84 crores (Previous year Rs.37.84 crores)]	**646.08**	597.36
		(c)	Disputed Sales tax matters	**1,420.32**	27.74
		(d)	Disputed Income tax matters	**-**	8.41
		(e)	Guarantees given to various banks, financial institutions, finance companies, etc. on behalf of others [Balance outstanding as on 31.03.06 is Rs. 957.46 crores (previous year Rs. 614.95 crores)]	**1,136.65**	1,184.55
	(ii)		Proposed dividend liability on Cumulative Preference Shares	**129.90**	8.35
4.		(a)	Estimated amount of contracts remaining to be executed on capital account and not provided for	**996.68**	572.09
		(b)	Guarantees given by banks on behalf of the company in the normal course of business against which the company has not received any claims from the beneficiaries	**372.42**	267.64

5. The Company is of the view that Net Deferred Tax Assets of Rs. 425.75 crores will be fully utilised in the years to come based on all relevant facts such as uptrend in global and domestic steel industry, increased production capacity, backward and forward integration by acquisition and subsequent amalgamation of Hy Grade Pellets Limited (HGPL) and Steel Corporation of Gujarat Limited (SCGL) with the company, past results exceeding the projections made, improved margins, consistent profits made in the last four years etc.

6. Segment Information

Primary Business Segment

The Company is primarily engaged in a single business segment of manufacture and sale of steel, and accordingly, this is the only primary reportable segment.

Geographical Segments

Secondary segmental reporting is based on the geographical location of customers. The geographical segments have been disclosed based on revenues within India (sales to customers within India) and revenues outside India (sales to customers located outside India). Secondary segment assets and liabilities are based on the location of such asset/liability.

Information about Secondary Geographical Segments

Rs. in crores

Segment information	Year Ended 31st March, 2006			Year Ended 31st March, 2005		
	India	**Outside India**	**Total**	India	Outside India	Total
Revenue (Income from operation)	**4,921.77**	**1,928.68**	**6,850.45**	4,402.93	2,130.32	6,533.25
Carrying amount of segment assets	**13,590.84**	**177.20**	**13,768.04**	7,229.64	253.92	7,483.56
Carrying amount ofsegment liabilities	**9,033.49**	**703.08**	**9,736.57**	5,251.12	507.58	5,758.70
Additions to fixed assets (including assets taken over on amalgamation)	**3,731.01**	**-**	**3,731.01**	296.51	-	296.51

7. Leases

Finance lease

Aircraft is obtained on finance lease. The lease term is for 5 years and renewable for further period after which the legal title is passed to the lessee. There is no escalation clause in the lease agreement. There are no restrictions imposed by lease arrangements. There are no subleases.

Operating lease

Residential Houses for staff accomodation are obtained on operating lease. Lease rent is payable as per the lease term. The lease term is generally for 11 months and renewable for a further period at the option of the Company. There is no escalation clause in the lease agreement. There are no restrictions imposed by lease arrangements. There are no subleases.

		Year Ended 31st March, 2006 Rs. in crores		Year Ended 31st March, 2005 Rs. in crores	
		Finance lease	**Operating lease**	Finance lease	Operating lease
(i)	Assets taken on finance/operating lease on or after 01.04.2001				
	Total minimum lease payments at the year end	**12.41**	**-**	-	-
	Less : amount representing finance charges	**2.33**	**-**	-	-
	Present value of minimum lease payments (Rate of interest : 9.50% p.a.)	**10.08**	**-**	-	-
	Lease payments for the year	**1.43**	**4.48**	-	3.53
	Contingent rent recognised in Profit and Loss Account	**-**	**-**	-	-
	Minimum Lease Payments :	**-**	**-**	-	-
	Not later than one year [For finance lease:Present value Rs.1.97 crores as on 31.03.06]	**2.87**	**-**	-	-
	Later than one year but not later than five years [For finance lease: Present value Rs.8.12 crores as on 31.03.06]	**9.54**	**-**	-	-
	Later than five years [For finance lease : Present value Rs. NIL as on 31.03.2006]	**-**	**-**	-	-
(ii)	Future lease obligation for Assets taken on finance leases prior to 01.04.2001	**13.46**	**-**	20.80	-

8. Disclosure of Related Party Transactions as required by Accounting Standard - 18 Related Party Disclosures:

(a) Associates

1 Essar Power Limited. (EPOL)

Note - Hy-Grade Pellets Limited (HGPL) & P T Essar Indonesia (PTEI) were associates in the previous year

(b) Subsidiary

1 Essar steel (Chattisgarh) Limited

2 Essar steel (Jharkhand) Limited

(c) Enterprises commonly controlled or influenced by major shareholders/directors/Key management personnels of the company

1 Click For Steel Services Ltd (CFS)
2 Essar Agrotech Ltd. (EAL)
3 Essar Constructions Ltd (ECL)
4 Essar House Ltd. (EHL)
5 Essar Information Technology Ltd. (EITL)
6 Essar Investment Ltd. (EIL)
7 Essar Oil Ltd. (EOL)
8 Essar Projects Ltd. (EPL)
9 Essar Logistics Ltd. (ELL)
10 Essar Steel Holdings Ltd. (ESHL)
11 Essar Sisco Ship Management Co. Ltd.
12 Essar Properties Ltd. (EPRL)
13 Essar Shipping Ltd. (ESL)
14 Essar Teleholdings Ltd. (ETL)
15 Futura Travels Ltd. (FTL)
16 India Securities Ltd. (ISL)
17 Bhander Power Ltd. (BPOL)
18 Essar World Trade Ltd. (EWTL)
19 Aegis BPO Service Ltd. (AEGIS)
20 PT Essar Indonesia (PTEI)
21 S.G. Chemicals & Dyes Trading Ltd
22 Imperial Consultants Pvt Ltd. (ICPL)
23 Essar Spacetel Pvt. Ltd. (ESPL)
24 Essar Steel (Hazira) Ltd.
25 ETHL Global Capital Ltd. (EGCL)

(d) Key Management Personnel

1 Mr. Prashant S Ruia, Managing Director
2 Mr.Vikram Amin, Director (Marketing) (VA)
3 Mr.V.G.Raghavan, Director (Finance) (VGR)

(e) Individuals owning, directly or indirectly, an interest in the voting power that gives them control or significant influence

1 Mr. Shashi Ruia, Chairman
2 Mr. Ravi Ruia, Vice Chairman
3 Mr. Prashant S Ruia, Managing Director

During the year following transactions were carried out with some of the related parties in the ordinary course of business: (excluding reimbursement)

	Associates	Subsidiary	Enterprises commonly controlled or influenced by major shareholders /directors of the company	Key Management Personnel	directly orindirectly, an interest in the voting power that givesthem control or significant influence
	Rs. in crores	Rs. in crores	Rs. in crores	Rs. in crores	Rs. in crores
(a) Sale of Goods	0.29	-	716.47	-	-
	(17.88)	-	(670.58)	-	-
(b) Income - Lease Rentals/Rent building	-	-	0.20	-	-
	-	-	(0.03)	-	-
(c) Interest Income-Others	-	-	3.99	-	-
	-	-	-	-	-
(d) Miscellaneous Income	-	-	5.71	-	-
	-	-	-	-	-
(e) Profit on sale of Invesment/fixed assets	-	-	0.02	-	-
	-	-	-	-	-
(f) Conversion charges/ Raw Materials and Freight	-	-	336.68	-	-
	(406.02)	-	(161.87)	-	-
(g) Purchases of Stores and Spares (CFS)	-	-	3.32	-	-
	-	-	(19.65)	-	-
(h) Purchases of Petroleum Products - Fuel/GAS (EOL)	0.00	-	1.98	-	-
	(-10.90)	-	(32.68)	-	-
(i) Power Processing Charges (EPOL & BPOL)	205.34	-	37.46	-	-
	(320.81)	-	-	-	-
(j) Water Charges (EPOL)	(2.70)	-	-	-	-
	(-3.77)	-	-	-	-
(k) Repairs and Maintenance	-	-	7.81	-	-
	-	-	(17.22)	-	-
(l) Plant and Equipment Hire Charges (ECL)	-	-	6.77	-	-
	-	-	(11.16)	-	-
(m) Labour Sub Contract Charges (ECL)	-	-	24.66	-	-
	-	-	(22.57)	-	-
(n) Travelling and Conveyance (FTL & EOL)	-	-	22.19	-	-
	-	-	(8.47)	(0.11)	-
(o) Vehicle Hire & Maintenance Charges (FTL)	-	-	-	-	-
	-	-	(1.18)	-	-
(p) Professional Fees (EITL & AEGIS)	-	-	8.55	-	-
	-	-	(14.72)	-	-
(q) Sales Commission (EWTL)	-	-	2.48	-	-
	-	-	(3.04)	-	-
(r) Freight Outwards (Net) (ESL)	-	-	125.39	-	-
	-	-	(33.73)	-	-
(s) Interest on Rupee Term Loan (EIL)	-	-	0.12	-	-
	-	-	(0.83)	-	-
(t) Interest to Banks & Others	0.04	-	5.91	-	-
	-	-	(1.07)	-	-
(u) Lease Rentals - Plant and Equipments	-	-	9.07	-	-
	-	-	(7.87)	-	-
(v) Miscellaneous Expenses	-	-	0.05	-	-
	-	-	(0.61)	-	-
(w) Staff recuritment & Joining expenses	-	-	0.01	-	-
	-	-	-	-	-
(x) Directors Remuneration (Including perquisites)	-	-	-	0.96	-
	-	-	-	(1.02)	-
(y) Directors Sitting Fees * Rs.30,000/-	-	-	-	-	*
** Rs.27,000/-	-	-	-	-	**
(z) Capital Contract (ECL)	-	-	603.21	-	-
	-	-	(31.57)	-	-
(aa) Purchase of Investment	-	0.10	-	-	-
	-	-	-	-	-
(ab) Sale of Investment (EGCL)	-	-	76.12	-	-
	-	-	-	-	-
(ac) Purchase of Fixed assets	0.01	-	9.83	-	-
	-	-	-	-	-
(ad) Sales of Fixed assets (ELL)	-	-	260.30	-	-
	-	-	-	-	-
(ae) Issue of Share capital (ESHL)	-	-	1,957.60	-	-
	-	-	-	-	-
(af) Loans given (EIL)	-	-	341.60	-	-
	-	-	-	-	-
(ag) Loans repaid (EIL)	-	-	348.60	-	-
	-	-	-	-	-
Long Term Investments	155.61	-	26.85	-	-
	(705.00)	-	(26.85)	-	-
Sundry Debtors	-	-	302.42	-	-
	-	-	(125.16)	-	-
Loan & Advances	-	-	-	-	-
Deposit	-	-	95.11	-	-
	-	-	(67.69)	-	-
Other Advance	-	-	42.17	-	-
	-	-	(35.73)	-	-
Capital Advances (Capital Work in Progress)	0.25	-	176.20	-	-
	-	-	(79.25)	-	-
Sundry Creditors (Including Acceptances)	-88.97	-	-169.57	-	-
	(-55.33)	-	(-109.45)	-	-
Advance from Customers	-0.08	-	-66.04	-	-
Interest accrued on Investment and ICD	-	-	4.49	-	-
	-	-	(4.49)	-	-
Guarantees Given to various bank, financial institutions, finance companies, etc. on behalf of others [Facilities outstanding Rs. 957.46 Crores (Previous year Rs.614.95 crores)]	347.00	-	789.65	-	-
	(802.00)	-	(382.55)	-	-

Essar Steel Limited

The Enterprises Commonly controlled or influenced by major shareholders/directors of the company having the following material related party transactions:

Rs. in crores

Nature of Transaction	Name of Related Party																	
	CFS	ECL	ESL	EHL	ISL	EITL	EIL	EOL	FTL	PTEI	BPOL	ESPL	ELL	AEGIS	EWTL	ICPL	VA	VGR
(a) Sale of Goods	317.44	182.65								190.44	-	-	-	-	-	-	-	-
	(619.12)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(b) Income - Lease Rentals/Rent building	-	-	-	-	-	-	-	0.06	-	-	0.14	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	(0.03)	-	-	-	-	-	-	-	-	-	-
(c) Interest Income -Others	-	2.36					1.63	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(d) Miscellaneous Income	-	-	-	-	-	-	-	-	-	-	-	5.56	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(f) Conversion charges/ Raw Materials and Freight	-	-	333.01	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	(19.10)	-	(161.65)	-	-	-	-		-	-	-							
(g) Purchases of Stores and Spares and Freight	2.32	-	0.74	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(k) Repairs and Maintenance	-	0.22	-	7.60	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	(2.37)	-	(14.16)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(i) Plant and Equipment Hire Charges	-	6.05	-	-	-	-	-	-	-	-	-	-	0.68	-	-	-	-	-
	-	(11.16)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(m) Labour Sub Contract Charges	-	22.64	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	(22.57)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(n) Travelling and Conveyance	-	-	-	-	-	-	-	-	21.92	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	(8.47)	-	-	-	-	-	-	-	-	-
(p) Professional Fees	-	-	-	-	-	1.06	-	-	-	-	-	-	-	6.86	-	-	-	-
	-	-	-	-	(10.53)	(3.45)	-	-	-	-	-	-	-	-	-	-	-	-
(q) Sales Commission	1.39	-	-	-	-	-	-	-	-	-	-	-	-	-	1.08	-	-	-
	(3.04)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(r) Freight Outwords paid	-	-	57.35	-	-	-	-	-	-	-	-	-	81.04	-	-	-	-	-
	-	-	(35.65)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(t) Interest to bank & others	-	3.05	2.50	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	(1.04)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(u) Lease Rentals Plant and Equipments	-	-		-	-	-	-	-	0.91	-	-	-	-	-	-	6.09	-	-
	-	-	(1.45)	-	-	-	-	(1.00)	-	-	-	-	-	-	-	-	-	-
(x) Directors Remuneration incl.perquisites	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0.50	0.46
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(0.49)	(0.53)
(ac) Purchase of fixed assets	-	-	-	-	-	-	-	-	9..08	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Note: Previous year's figures are mentioned in the brackets below the current year's figures

9. Basic earnings per share has been calculated by dividing Profit for the year attributable to equity shareholders, by the weighted average number of equity shares outstanding during the year. Weighted average number of equity shares outstanding during the year has been calculated as under:

	As at 31st March, 2006		As at 31st March, 2005	
Earning for the purpose of basic and diluted earning per shares	**Rs. in Crores**	**530.18**	Rs. in Crores	590.15
Earning for the purpose of basic and diluted earning per shares (before exceptional & prior period item)	**Rs. in Crores**	**588.79**	Rs. in Crores	721.26
Number of shares outstanding at the beginning of the year		**507,312,080**		511,832,783
Number of shares issued during the Year		**276,110,000**		-
Number of shares forfeited during the Year		**-**		4,520,703
Reduction in share capital persuant to court order		**(202,924,832)**		
Number of shares at the end of the Year		**580,497,248**		507,312,080
Weighted average number of shares for the purpose of calculating earning per share		**372,215,788**		507,312,080
Pending conversion into equity		**459,262,684**		276,111,000
Reduction in share capital persuant to court order				(202,924,832)
Earning per share after exceptional and prior period item				
Basic earning per Equity share of Rs. 10 each (in Rupee)		10.75		11.63
Diluted earning per Equity share of Rs. 10 each (in Rupee)		6.38		10.17
Earning per share before exceptional and prior period item				
Basic earning per Equity share of Rs. 10 each (in Rupee)		12.33		14.22
Diluted earning per Equity share of Rs. 10 each (in Rupee)		7.08		12.42

10. Derivative Instruments and Unhedged Foreign Currency Exposure

(a) Derivative Instruments

Sr. No.	Type of Transaction	Amount	Currency	Purpose
1	Coupon Only Swaps (USD / INR)	300,000,000	USD	To reduce the interest cost on LT RTL
2	Rupee Indexed Interest Rate Swaps (OIS)	5,000,000,000	INR	To reduce the interest cost on LT RTL
3	Cross Currency Swaps (USD / CHF)	31,000,000	USD	To reduce the interest cost on FCLs. The principal amount is protected through Options.
4	Cross Currency Swaps (USD / JPY)	10,000,000	USD	To reduce the interest cost on FCLs. The principal amount is protected through Options.
5	Currency Swap (INR / JPY)	1,255,160,551	JPY	To reduce the interest cost on FCLs. The principal amount is protected through Options.
6	Interest Rate Swap	30,000,000	USD	To reduce the interest cost on FCLs.

(b) Unhedged Foreign Currency Exposure

Sr. No.	Particulars of transactions	Amount	Currency
1	Advance from Customers	(56,016,916) (32,387)	USD EURO
2	Sundry Creditors	(6,117,618) (1,045) (3,400,000) (602,500) (10,949,000) (69,233) (6,921,831) (35,822)	USD SGD SEK NOK JPY GBP EURO CHF
3	Sundry Debtors	35,684,404 1,366,081	USD EURO
4	Loans	(326,633,918) (6,913) (217,317,965) (2,647,081) (21,777,544)	USD SEK JPY GBP EURO
5	Others	(1,050,818) (43,343)	USD EURO

11. The names of Small Scale Industrial Undertakings, to whom the company owes a sum which is outstanding for more than 30 days at the Balance Sheet date, are Lechler (India) Pvt. Ltd., Hyd.Air Engineer Works, Metro steel, Industrial Engineering works, Nobel Refractories, Insap Engineering Pvt Ltd., Lunar Engineering Pvt Ltd, Minwool Rock Fibers Ltd, Fantasy Graphics, Metropolitian Eqpts & Cons . These dues aggregate to Rs 0.40 crores . This information and that given in Schedule 12 - 'Liabilities' regarding Small Scale Industrial Undertakings has been determined to the extent such parties have been identified on the basis of information available with the company. This has been relied upon by the auditors.

12. (a) Investments (Trade - Unquoted) include 15,00,00,000 equity shares of Rs. 10 each of Essar Power Limited (EPOL) amounting to Rs. 150 crores, pledged with ICICI Bank Limited as security for the various loans availed by the company from ICICI.

(b) 17,60,00,007 equity shares of Rs. 10 each of erstwhile Hy-Grade Pellets Limited (HGPL) amounting to Rs. 176 crores have been pledged with Industrial Development Bank of India (IDBI) as collateral to the term loan granted by IDBI to erstwhile HGPL and 7,183,674 equity shares of Rs. 10 each amounting to Rs. 71.84 crores with Exim Bank for and on behalf of lenders of erstwhile HGPL. As a result of amalgamation, the above shares stand cancelled.

(c) Investments (Others - Quoted) include 2,10,400 equity shares of Rs. 10 each of Essar Oil Limited (EOL) amounting to Rs. 1 crore, pledged with ICICI Bank Limited as collateral to various loans granted by ICICI Bank Limited to EOL.

13. Loans and Advances include due from directors / officers Rs. 91,467(Previous year Rs. 85,850). Maximum amount due from directors / officers during the year Rs. 2,56,934 (previous year Rs. 3,14,838).

	Unit	**Year Ended 31st March, 2006**	Year Ended 31st March, 2005
		Quantity	Quantity
14. Capacity and Production			
(a) Capacity			
Licensed Capacity		*	*
Installed Capacity (as certified by the management)	@		
Iron Ore Pellet Plant	MT	**4,000,000**	-
Hot Briquette Iron Plant	MT	**3,400,000**	3,400,000
Hot Rolled Coil/Sheet Plant	MT	**3,000,000**	2,400,000
Cold Rolled Coil Plant	MT	**1,200,000**	-

		Unit	Year Ended 31st March, 2006 Quantity	Year Ended 31st March, 2005 Quantity
(b)	Production			
	Iron Ore Pellet	MT	**3,128,430**	-
	Hot Briquette Iron	MT	**3,153,176**	2,809,284
	Hot Rolled Coils/Sheets/Cold Rolled Coils	MT	**2,577,214**	2,324,362
(c)	Captive Consumption			
	Iron Ore Pellet	MT	**3,092,431**	-
	Hot Briquette Iron	MT	**3,030,288**	2,739,387
	Hot Rolled Coils/Sheets/Cold Rolled Coils	MT	**73,843**	19,803
	Change in WIP Coils-Increase/(Decrease)	MT	**24,366**	12,033

* Not applicable in terms of Government of India's Notification No. S.O.477(E) dated 25th July, 1991.

@ Per annum

		Unit	Year Ended 31st March, 2006 Quantity	Rs. in crores	Year Ended 31st March, 2005 Quantity	Rs. in crores
15.	Sales, Opening Stock and Closing Stock					
(a)	Sales					
	Iron Ore pellet #	MT	**36,370**	**18.67**	-	-
	Hot Briquette Iron	MT	**105,864**	**53.30**	62,510	37.20
	Coils/Sheets/Cold Rolled Coil #	MT	**2,479,802**	**6,734.59**	2,265,599	6,478.68
	Others			**43.89**		17.37
				6,850.45		6,533.25
	# Includes export benefits			**246.20**		53.73
(b)	Opening Stock					
	Iron Ore pellet (Taken over on amalgamation)	MT	**51,009**	**7.81**	-	-
	Hot Briquette Iron	MT	**17,392**	**10.92**	10,005	5.06
	Coils/Sheets	MT	**93,997**	**183.36**	67,070	116.09
				202.09		121.15
(c)	Closing Stock					
	Iron Ore pellet	MT	**50,638**	**13.04**	-	-
	Hot Briquette Iron	MT	**34,416**	**23.85**	17,392	10.92
	Coils/Sheets	MT	**93,200**	**201.80**	93,997	183.36
				238.69		194.28
16.	Consumption of Raw Materials					
	Fines/pellet	MT	**3,759,082**	**742.31**	2,777,997	863.20
	Iron Ore	MT	**1,341,794**	**408.43**	1,439,905	341.81
	Cast Slabs	MT	**148,401**	**317.47**	39,640	100.45
	Cost of fines sold			**20.88**	-	-
	Others			**42.21**	-	173.02
				1,531.30	-	1,478.48

	Year Ended 31st March, 2006 Rs. in crores	% of total	Year Ended 31st March, 2005 Rs. in crores	% of total
Imported (including purchased from canalising agency)	**500.71**	**33**	421.27	28
Indigenous	**1,030.59**	**67**	1,057.21	72
	1,531.30	**100**	1,478.48	100
17. Consumption of Production Consumables, Stores and Spares				
Imported	**434.66**	**54**	322.82	52
Indigenous	**373.48**	**46**	296.39	48
	808.14	**100**	619.21	100

	Year Ended 31st March, 2006 Rs. in crores	Year Ended 31st March, 2005 Rs. in crores
18. Directors' Remuneration		
Salary and Allowances	**0.84**	0.87
Contribution to Provident Fund	**0.04**	0.11
Other Perquisites*	**0.08**	0.04
	0.96	1.02

* The perquisites value is calculated based on the provisions of the Income Tax Act, 1961.

		Year Ended 31st March, 2006 Rs. in crores		Year Ended 31st March, 2005 Rs. in crores
19. Auditors' Remuneration (excluding service tax)				
Current Auditors				
Audit Fees		**1.05**		0.40
Other Services		**0.27**		0.32
Reimbursement of Expenses		**0.02**		0.03
		1.34		0.75
Previous Auditors				
Audit Fees		**0.12**		-
Other Services		**0.26**		-
Reimbursement of Expenses		**0.03**		-
		0.41		-
20. Value of Imports calculated on CIF basis				
Raw Materials		**496.53**		346.92
Production Consumables, Stores and Spares		**538.90**		364.22
Capital Goods		**429.07**		26.22
21. Expenditure in Foreign Currency (on accrual basis)				
Interest		**164.91**		90.27
Commission		**140.38**		190.94
Professional Fees		**15.41**		8.48
Others		**18.97**		15.87
22. Earnings in Foreign Exchange				
(a) FOB Value of Exports				
Direct Export		**1,682.75**		2,071.97
Others		**-**		3.42
(b) Others				
Freight recovered		**91.93**		98.73
23. Capital Work-in-Progress including expenditure during construction period				
(a) Land and Buildings		**70.13**		21.73
(b) Plant and Machinery including technical know-how, supervision and other capital expenditure		**2,236.44**		287.01
(c) Advances to suppliers for capital expenditure		**422.80**		271.84
(d) Expenditure during construction period				
Personnel Expenses				
Salaries, Wages and Bonus	**14.91**		-	
Contribution to Provident Fund and Other Funds	**1.16**		-	
Staff Welfare Expenses	**3.16**		-	
Manufacturing and Asset Maintenance				
Power Charges	**2.35**		-	
Repair & Maintenance	**7.72**		-	
Administrative Expenses				
Travelling and Conveyance Expenses	**2.90**		-	
Postage, Telephone and Fax	**1.92**		-	
Printing and Stationery	**0.32**		-	
Professional Fees	**12.72**		-	
Operating Lease Rent	**0.15**		-	
Rates and Taxes	**2.74**		-	
Vehicle Hire and Maintenance Charges	**1.69**		-	
Miscellaneous Expenses	**3.11**		-	
Service charges	**0.01**		-	
Finance Cost				
Term Loan Interest	**72.64**		6.86	
Capex LC Charges	**6.44**		-	
Forward cover cancellation (gain)/loss	**(0.52)**	**133.42**	(0.41)	6.45
(e) Trial run expenses				
Consumption of stores & spares	**8.23**		-	
Salaries, Wages and Bonus	**6.41**		-	
Repair & Maintenance	**1.70**		-	
Miscellaneous Expenses	**3.00**		-	
Depreciation	**18.76**		-	
Term Loan Interest	**25.09**		-	
Prior period items	**(1.64)**		-	
Service & other Income	**(19.08)**	**42.47**	-	-
		175.89		6.45
Add: Balance brought forward from previous Year		**9.06**		13.67
		184.95		20.12
Less: Allocated/transferred during the period/Year		**26.96**		11.06
Balance carried forward to next period/year		**157.99**		9.06
Total Capital Work-in-Progress [(a)+(b)+(c)+(d)+(e)]		**2,887.36**		589.64

24. Long term advance from customer is secured by a guarantee from a financial Institution which in turn has first paripassu charge on fixed assets and second charge on current assets of the company.

25. (a) The company has issued 20,29,24,832 0.01% Cumulative redeemable preference shares (CRPS) of Rs. 10 each. Each 0.01 % CRPS will be redeemable in four quarterly equal installments commencing from October 01, 2017

(b) The company has issued 5,59,31,364 7% Compulsory convertible preference shares (CCPS) of Rs. 350/- each. Each such CCPS are convertible into 10 equity shares of Rs. 10/- each at a premium of Rs. 25 per share on or before December 5, 2006. These CCPS were issued exclusively to finance acquisition of the HGPL and SCGL. Accordingly, the company shall, upon sanction of, and pursuant to the scheme of amalgamtion, allot 55,93,13,640 equity shares of Rs. 10 each as fully paid up at a premium of Rs. 25 per share to holders of CCPS.

(c) The company has issued 4,35,98,951 10% CRPS of Rs. 10 each. Each CRPS will be redeemable at par in 12 equal monthly installments commencing from October 01, 2017 to September 01, 2018. The Company shall have option to redeem the CRPS at par in one or more tranches from any or all of the existing holders, anytime after the date of allotment together with arrears of dividend if any and the Board shall give one month's notice for any such redemption to the registered holders of the CRPS.

26. Amalgamation of Hy-Grade Pellets Limited (HGPL) and Steel Corporation of Gujarat Limited (SCGL) with the Company

(a) Pursuant to the scheme of arrangement in the nature of scheme of amalgamation and Scheme of reconstruction of capital (the Scheme) of the erstwhile HGPL and SCGL with the Company, as approved by the members at a court convened meeting held on January 21, 2006 and subsequently sanctioned by the Honourable High Court of Judicature at Andhra Pradesh and Gujarat vide its order dated 25.04.2006 and 17.06.2006 respectively, the assets and liabilities of HGPL & SCGL (except for creditors and equivalent cash/bank balance for Rs. 17.92 crores & Rs. 0.93 crores respectively) have been transferrred to and vested in the Company with retrospective effect from April 01, 2005 (the Appointed date). The Scheme has accordingly been given effect to in these accounts. The effective date of amalgamation is 07.07.2006 in accordance with the above scheme.

(b) HGPL is engaged in manufacture of pellets which are used as inputs in maufacturing of Hot Briquetted Iron (HBI), while SCGL is engaged in manufacture of Cold rolled coils (CRC).

(c) The amalgamation has been accounted for under the "Purchase Method", as prescribed by Accounting Standard (AS-14) on 'Accounting for Amalgamations' issued by The Institute of Chartered Accountants of India. Accordingly, all assets, debts, liabilities, duties and obligations as on the appointed date have been taken over and incorporated in the books at their fair values except for Rs. 17.92 crores and Rs. 0.93 crores payable to certain creditors of HGPL and SCGL respectively and equivalent cash / bank balance which are not taken over. The fair values have been ascertained as follows:

The fair value of all liabilities except for certain creditors, as mentioned above and all assets other than fixed assets and certain cash and bank balances as stated above, have been considered at their respective book values as at the Appointed date. The fair values of fixed assets have been determined in the following manner:

The liabilities taken over have been added to the cost of acquisition and the assets other than fixed assets have been deducted to arrive at the composit value of respective fixed assets of HGPL and SCGL. The respective composite value arrived at have been apportioned amongst the respective components of the fixed assets proportionately to respective corresponding book values in the books of accounts of HGPL and SCGL as at the Appointed date. The book values of HGPL and SCGL as at the Appointed date are based on audited accounts for the year ended March 31, 2005.

The following table summarises the values of assets and liabilities taken over as per the terms of the Scheme mentioned above:

Rs. in crores

Particular	**HGPL**		**SCGL**	
Fixed Assets(including Capital Work in Progress) at fair values		2,775.24		933.29
Current assets (including capital advances)	422.22		169.88	
Less: Current liabilities and provisions	(121.04)	301.18	(182.17)	(12.29)
Total Assets		3,076.42		921.00
Less:				
Loans		1,281.79		268.61
Net Assets		**1,794.63**		**652.39**

Rs. in crores

Cost of Acquisition / Purchase Consideration	**HGPL**	**SCGL**
Cost of acquiring 3,12,00,000 fully paid preference shares in prior years	312.00	-
Cost of acquiring 49% equity shares in prior years	176.00	-
Cost of acquiring balance 51%	1,298.19	-
Share application money	8.44	-
Cost of acquiring 100% equity shares	-	652.39
Total	**1,794.63**	**652.39**

(d) The profit or income accrued to HGPL and SCGL or expenditure or losses incurred by HGPL and SCGL during the year April 01, 2005 to March 31, 2006 have been incorporated in these accounts. During the period between the Appointed date and the Effective date as both the Companies carried on the existing business in "trust" on behalf of the Company, all vouchers, documents etc. for the period are in the name of repective Companies. As per the Scheme, the title deeds for leasehold land, building, residential flats, licences, agreements, loan documents etc, shall upon the coming into effect of this scheme, without any further act, instrument or deed will be transferred to and vested in the Company.

(e) All the employees of HGPL and SCGL in service on the effective date will become the employees of the Company on such date as if they were in continuos service without any break or interuption in service on the terms and conditions as to remuneration not less favourable than those subsisting with reference to HGPL and SCGL as at the effective date. For the purpose of payment of any compensation, gratuity and other terminal benefits, the past service of such employees with HGPL and SCGL shall also be taken into account and the Company shall pay the same to such employees as and when due and payable.

27. The Company has provisionally adjusted as at the year end Rs 87.26 crore (net of tax of Rs 44.28 crores) representing deferred power charges and Rs 104.17 crore (net of tax of Rs 52.86 crores) representing recompense amount for exiting CDR mechanism with balance in Securities Premium Account. This is subject to the approval of Hon'ble High Court of Gujarat as required under sections 78 and 100 of the Companies Act, 1956. The Company will approach the Hon'ble High Court after obtaining shareholders' approval at the forthcoming Annual General Meeting for the said adjustment.

28. The Company had made a petition to the Honourable High Court, Gujarat seeking confirmation of special resolution passed by the members at the 27th Annual General Meeting of the Company held on July, 19th 2003 pursuant to the requirement of Corporate Debt Restructuring Cell (CDR) formed by Reserve Bank of India for reduction of Equity Share Capital by 40% representing 20,29,24,832 equity shares of Rs. 10 each aggregating Rs. 202.92 crores and issue of 20,29,24,832 0.01% Cumulative Redeemable Preference shares of Rs. 10 each in lieu thereof. This was confirmed by the Honourable High Court, Gujarat by its order dated 28th February, 2005 received by the company on 11th April 2005. During the year the Company has implemented the above Order of Honourable High Court, Gujarat.

29. The Company has computed Provision for Taxation (Deferred Tax and Minimum Alternate Tax) for the current year based on past tax assessments and appeals, tax returns and legal / expert opinions.

30. Previous year's figures have been regrouped where necessary to conform to this year's classification. Further, in view of the amalgamation, of HGPL and SCGL with the company, the figures for the current year are not comparable with those of the previous year.

For and on behalf of the Board of Directors of Essar Steel Limited

S. N. Ruia
Chairman

P. S. Ruia
Managing Director

V. G. Raghavan
Director Finance

Narottam B. Vyas
Company Secretary

Mumbai, July 10, 2006

As per our report of even date
For S.R. Batliboi & Co.
Chartered Accountants

per Hemal Shah
Partner
Membership No. 42650
Mumbai, July 10, 2006

ESSAR

31. Balance Sheet Abstract and Companyís General Business Profile

I. Registration Details

Registration No. 13787 State Code 04

Balance Sheet 31 03 06
Date Month Year

II. Capital raised during period (Account in Rs. Thousands)

Public Issue	Rights Issue
NIL	NIL
Bonus Issue	**Private Placement (Preferential Allotment)**
NIL	22773067

III. Posit of Mobilisation and Deployment of Funds (Amount in Rs. Thaousand)

Total Liabilities*	Total Assets**
122165728	122165728

Sources of Funds

Paid-up Capital	Reserves & Surplus
27852886	12461847
Secured Loans	**Unsecured Loans**
7355197 5	6504620

* Total Liabilities include Long term advance from Customer Rs. 1,794,400 thousands.

Application of Fund

Net Fixed Assets	Investments
92858080	18297 38
Net Current Assets	**Misc. Expenditure**
23220410	- -
Accumlated Losses	
NIL	

** Total assets include Deferred Taxation (net) of Rs. 4,257,500 thousands

IV. Performance of Company (Amount in Rs. Thousands)

Turnover	Total Expenditure
63907281	56947438
+ - Profit/Loss before tax	**+ - Profit/Loss after tax**
✓ 6959843	✓ 5301772

(Please tick Appropriate box + Profit-for Loss)

Earning Per Share in Rs.	Dividend rate %
10.75	-

V. Generic Names of Three Principal Products/Services of Company (as per monetary terms)

Item Code No. (ITC Code) 2601

Product: IRON ORES AND CONCERNTR

Description: ATES OTHER THAN ROASTED IRON PYRITES

Item Code No. (ITC Code) 7203

Product: FERROUS PRODUCTS

Description: OBTAINED BY DIRECT REDUCTION OF IRON ORE AND OTHER SPONGY FERROUS PRODUCTS, IN LUMPS, PELLETS OR SIMILAR FORMS

Item Code No. (ITC Code) 7208

Product: FLAT ROLLED PRODUCTS

Description: OF IRON OR NON ALLOY STEEL OF A WIDTH OF 600MM OR MORE HOT ROLLED, NOT CLAD, PLATED OR COATED

Item Code No. (ITC Code) 7210

Product: FLAT ROLLED PRODUCTS

Description: OF IRON OR NON ALLOY STEEL OF A WIDTH OF LESS THEN 600 MM CLAD PLATED OR COATED WITH ZINC

Item Code No. (ITC Code) 7211

Product: FLAT ROLLED PRODUCTS

Description: OF IRON OR NON ALLOY STEEL OF A WIDTH OF LESS THEN 600 MM HOT ROLLED, NOT CLAD, PLATED OR COATED

Signatures to Schedules 1 to 23

For and on behalf of the Board of Directors of Essar Steel Limited

S. N. Ruia
Chairman

P. S. Ruia
Managing Director

V. G. Raghavan
Director Finance

Narottam B. Vyas
Company Secretary

Mumbai, July 10, 2006

Cash flow statement for the year 1st April, 2005 to 31st March, 2006

		Year ended 31st March, 2006		Year ended 31st March, 2005	
		Rs. in crores	Rs. in crores	Rs. in crores	Rs. in crores
A.	**Cash flow from operating activities**				
	Net Profit before taxation, and extraordinary items		695.98		794.10
	Adjustments for -				
	Depreciation	482.10		394.29	
	Profit on sale of fixed assets (net)	(178.39)		(0.04)	
	Profit on change in carrying amount of Current Investment	(0.08)		-	
	(Profit)/Loss on sale of long term investment including write-off	(15.70)		0.34	
	Dividend/Interest income	(0.78)		-	
	Finance Cost (net)	422.67		550.73	
	Provision & write off for bad & doubtful debts (net)	(0.57)		64.96	
	Other Provisions	-		106.21	
	Prior Period & Execptional items (net)	88.36		197.63	
			797.61		1,314.12
	Operating profit before working capital changes		1,493.59		2,108.22
	Movements in working capital:				
	Decrease/(Increase) in sundry debtors	197.73		(149.22)	
	Decrease/(Increase) in inventories	(516.22)		(238.94)	
	Decrease/(Increase) in loans & advances	(420.95)		(33.28)	
	Decrease/(Increase) in current liabilities	421.96		(136.91)	
			(317.48)		(558.35)
	Cash generated from operations		1,176.11		1,549.87
	Direct taxes paid(net of refund)		(25.75)		(0.65)
	Net cash from operating activities		1,150.36		1,549.22
B.	**Cash flow from investing activities**				
	Purchase of fixed assets	(1,750.39)		(601.93)	
	Assets Taken over on amalgamation (Refer Note 26 of Schedule 23)	(1,959.02)		-	
	Proceeds from sale of fixed assets	0.52		2.33	
	Sale of investments	810.19		33.37	
	Purchase of investments	(800.21)		-	
	Interest and gain (Loss) on cancellation Forward Exchange Contract	32.96		14.57	
	Dividend/Interest income	(0.02)		-	
	Net cash from/(used in) investing activities		(3,665.97)		(551.66)
C.	**Cash flow from financing activities**				
	Proceeds from issuance of share capital / Application money (refer note 26 of Sch 23)	1,957.60		-	
	Call in Arrear-equity Received	-		0.01	
	Calls in Arrear- Premium Received	-		0.05	
	Proceeds from borrowings	5,179.99		410.94	
	Proceeds from Long term advances	-		65.67	
	Repayment of borrowings	(3,471.13)		(789.50)	
	Repayment of Long-term Advances from Customer	-		(39.68)	
	Finance cost paid	(786.63)		(480.73)	
	Repayment of finance Lease liabilities	(7.03)		(5.65)	
	Unclaimed Dividend paid	-		(3.01)	
	Net cash used in financing activities		2,872.80		(841.90)
	Net increase in cash and cash equivalents		357.19		155.66
	Cash and cash equivalents at the beginning of the year		251.29		95.63
	Add: cash & cash equivalent taken over consequent to amalgamation		117.31		-
	Cash and cash equivalents at the end of the year		725.79		251.29
	Net increase in cash and cash equivalents		357.19		155.66

Notes:

1 The above cash flow statement has been prepared under the 'Indirect Method' as set out in the Accounting Standard – 3 on Cash Flow Statements, issued by the Institute of Chartered Accountants of India.

2 Previous year's figures have been regrouped where necessary to conform to this year's classification. Further, in view of the amalgamation,the figures for the current year are not comparable with those of the previous year.

For and on behalf of the Board of Directors of Essar Steel Limited

S. N. Ruia Chairman

P. S. Ruia Managing Director

V. G. Raghavan Director Finance

Narottam B. Vyas
Company Secretary

Mumbai, July 10, 2006

As per our report of even date
For S.R. Batliboi & Co.
Chartered Accountants

per Hemal Shah
Partner
Membership No. 42650
Mumbai, July 10, 2006

ESSAR

ESSAR STEEL LIMITED

Regd. Office : Post : Hazira, Pin : 394 270, Dist : Surat

ENTRANCE PASS

(to be presented at the entrance)

Client ID ____________________

DP ID ____________________

** Ledger Folio No. ____________

30th Annual General Meeting of the Company to be held on 30th September, 2006 at 2.30 p.m. at the Registered Office : Post : Hazira, Pin 394 270, Dist : Surat

Name ______________________________________ No. of shares held _______________

Signature____________

Only Members/Proxies are allowed to attend the meeting.

— — — — — — — — — — — Tear Here — — — — — — — — — — —

ESSAR STEEL LIMITED

Regd. Office : Post : Hazira, Pin : 394 270, Dist : Surat

Client ID ____________________

DP ID ____________________

** Ledger Folio No. ____________

PROXY FORM

I/We ________________________ of ______________________ in the district of __________ being a member(s) of the above named Company, hereby appoint Shri _____________________________ of __________________________ in the district of ___________________________ or failing him Shri ________________________________ of _______________ in the district of __________ as my/our proxy to attend and vote for me/us and on my/our behalf at the THIRTIETH ANNUAL GENERAL MEETING of the Company to be held on 30th September, 2006 at 2.30 p.m. at the Registered Office of the Company, Post Hazira, Pin 394 270, Dist : Surat

Signed this________________ date of _______________ 2006

One Rupee Revenue Stamp

** Applicable only in case of Investors holding shares in electronic form.

Regd. Folio No. _________________

No. of shares held _______________

THE COMPANIES ACT, 1956 LAYS DOWN THAT AN INSTRUMENT APPOINTING A PROXY SHALL BE DEPOSITED AT THE REGISTERED OFFICE OF THE COMPANY NOT LESS THAN 48 HOURS BEFORE THE TIME OF HOLDING THE MEETING.

Book-Post

If undelivered, please return to :

Data Software Research Company Pvt. Limited
Unit : Essar Steel Limited
"Sree Sovereign Complex", No. 22,
4th Cross Street, Trustpuram,
Kodambakkam, Chennai - 600 024

Design & Printed at Shruti Art