

# DIRECTORS' REPORT

To,  
The Members,  
ESSEL PROPACK LIMITED

Your Directors have pleasure in presenting their Report on the business and operations of the Company for the year ended December 31, 2006.

## Results of Operations

### Consolidated Global Results

(Rupees in million)

	Year ended December 31, 2006	Year ended December 31, 2005
Total Revenue (excluding Excise Duty)	10,286	8,332
Operating Profit (EBIDT)	2,401	2,103
Profit Before Tax	1,300	1,217
Profit After Tax (PAT) & Minority Interest	985	902

## The year under review

The Total Revenue has increased from Rs.8,332 million in 2005 to Rs.10,286 million in 2006, an increase of 23.4%.

The PAT has increased by 9.2%. Your Company has performed consistently on a global basis.

## Financial highlights of Indian Operations

(Rupees in million)

Particulars	Year ended December 31, 2006	Year ended December 31, 2005
Total Revenue (excluding Excise Duty)	2,940	2,617
Total Expenditure	2,071	1,745
Operating Profit (EBIDT)	869	872
Interest (Net)	57	(21)
Depreciation	206	210
Profit Before Tax and Exceptional Items	606	683
Exceptional Items	12	-
Provision for Tax		
- Current / Earlier year	180	233
- Deferred Tax	(2)	(14)
Fringe Benefit Tax	6	4
Profit After Tax	410	460
<b>Appropriations:</b>		
Dividend (inclusive of tax)	357	786
Transfer to General Reserve	41	46

Your Company's revenue in India has grown from Rs.2,617 million to Rs.2,940 million in the year 2006, a growth of 12.3% for the year.

The operating profit has remained at last year's level. The year saw a high volatility in raw material prices. Despite all efforts to pass the increase in raw material prices to the customers, the high degree of volatility created a time lag effect.

The increase in staff and other operating cost is mainly due to the additional new facility in Himachal Pradesh. The new facility is in the process of ramping up and is yet to reach optimum capacity utilisation. The other important cost element has been the increase in energy costs due to increase in the oil prices.

Your Company's strategy to launch small dia tubes (Mini-tubes) based on exclusive new technology has met with encouraging response from customers.

Your Company identifies the changing needs of its customers, develops tube solutions and encourages conversion from conventional packaging. The above strategy has seen more product categories being launched in tube solutions format.

Your Company will continue to focus on efficiency improvement programmes and capacity utilization to improve the quality of earnings.

## Subsidiary Operations

As per Section 212 of the Companies Act, 1956, the Company is required to attach the Directors' Report, Balance Sheet and Profit & Loss Account of its subsidiaries. The Company had applied to the Government of India for an exemption from such attachment as the audited consolidated financial statements are presented in the Annual Report. Your Directors believe that the consolidated accounts present a full and fair picture of the state of affairs and financial condition and are accepted globally. The Government of India has granted exemption from complying with Section 212. Accordingly, the Annual Report does not contain the financial statements of these subsidiaries. The Company will make available the Audited Annual Accounts and related information of the subsidiary company, wherever applicable, upon request by any investor of the Company. These documents will also be available for inspection by any investor during business hours at the Company's Registered and Corporate Office.

## New Business:

During the year your Company further expanded its product range by acquiring two new businesses :

### 1. SPECIALITY PACKAGING BUSINESS

Your Company has acquired 100% shareholding of Packaging India Private Limited (PIPL) from its erstwhile promoters and made its entry into the business of Speciality Packaging. PIPL is an existing profit making company based at Pondicherry near Chennai, wherein they have their manufacturing facilities.

In line with your Company's strategy to "Go and Grow with the Customer", PIPL is setting up an additional factory in Uttaranchal, which is expected to be commissioned by end 2007.

### 2. MEDICAL DEVICES

Your Company has been continuously exploring new business opportunities which could be conveniently combined with the current business, for delivering consistent growth in Revenue and Profits. Pursuant to this strategy, your Company has entered the business of Medical Devices, and has through its wholly owned subsidiaries acquired Tacpro Inc., USA and Avalon Medical Services Pte Ltd., Singapore. These are existing profit making companies and shall be the vehicle of your Company for future growth and thrust in this business of Medical Devices.

## Dividend

Your Company paid an Interim Dividend @ 100 per cent (Rs.2/- per share of Rs.2/- each) for the year 2006. This shall be the total Dividend for the year 2006.

## Buy-back of Shares

The Board had in-principle approved a Buy-back of Shares upto 10% of the paid-up equity share capital and free reserves of the Company, at a price not exceeding Rs.390/- per share at a total outlay not exceeding Rs.575 million by the methodology of "Open Market Purchases through the Stock Exchanges". Since then the Board has not proceeded with the Buy-back programme. If there is any future proposal for Buy-back, wherever necessary, a fresh mandate will be sought from the Members under the applicable guidelines.

## Subdivision of Shares

As per the approval accorded by the Members at the last Annual General Meeting, the nominal face value of the Company's equity shares was subdivided from Rs.10/- per share to Rs.2/- per share with effect from June 15, 2006. This has increased the liquidity of the Company's equity shares and has brought down the unit market value of equity shares of the Company to make it more affordable to the investing public.

## Public Deposits

Your Company has not accepted any fixed deposits during the year 2006 and there are no outstanding fixed deposits from the public as on December 31, 2006.

## Awards & Laurels

Your Company has featured in the Forbes magazine in the "Forbes best under a Billion" category for the fourth time in a row.

The efforts made by the Technology and the Manufacturing groups have resulted in many laurels to your Company.

## Human Resources / Human Capital

Your Company has always proactively anticipated the changing trend and realigned itself to the market dynamics, to meet the organizational goals and aspirations. This was all the more important, consequent upon the Company's global foray into two new revenue streams namely Medical Devices and Specialty Packaging Material.

The Company has taken initiative in this regard which has been expressed in detail in the Management Discussion and Analysis Report.

The information on employees' remuneration as per Section 217 (2A) of the Companies Act, 1956 ('Act') read with the Companies (Particulars of Employees) Rules, 1975, as amended till date, forms part of this Report. However, as per provisions of Section 219 (1) (b) (iv) of the Companies Act, 1956, the Report and Accounts are being sent to all the Members excluding the statement containing the particulars of Employees to be provided under Section 217(2A)

# DIRECTORS' REPORT

of the Act. Any Member interested in obtaining such particulars may inspect the same at the Company's Registered and Corporate Office between 11.00 a.m. to 1.00 p.m. on all working days till the date of the 24th Annual General Meeting. Further, those seeking a copy of the said statement may write to the Company Secretary at the Corporate Office.

## Directors

During the year, Mr. Andreas Schwyn, Non-Executive Non-Independent Director, who was on the Company's Board since 2002, resigned with effect from October 18, 2006. Your Directors place on record their sincere appreciation of the services rendered and the contribution made by Mr. Andreas Schwyn during his tenure as a Director of the Company.

The following Directors seek re-appointment :

Mr. Tapan Mitra and Mr. K.V. Krishnamurthy, Directors, retire by rotation and being eligible, offer themselves for re-appointment.

The brief resume of Mr. Tapan Mitra and Mr. K.V. Krishnamurthy, Directors, as required by Clause 49 of the Listing Agreement with the Stock Exchanges, is annexed to the Notice convening the 24th Annual General Meeting of the Company.

## Directors' Responsibility Statement

Pursuant to Section 217(2AA) of the Companies Act, 1956, as amended by the Companies (Amendment) Act, 2000, the Directors confirm that:

1. In the preparation of the Annual Accounts, the applicable Accounting Standards have been followed and no material departures have been made from the same;
2. Appropriate Accounting Policies have been selected and applied consistently and have made judgment and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company as at December 31, 2006, and of the profit for the period from January 1, 2006, to December 31, 2006;
3. Proper and sufficient care has been taken 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 frauds and other irregularities;
4. The Annual Accounts have been prepared on a "going concern" basis.

## Auditors

M/s. MGB & Co., Statutory Auditors of the Company, retire at the forthcoming Annual General Meeting and being eligible, offer themselves for re-appointment.

## Corporate Social Responsibility

Your Company being aware of its social responsibilities, makes conscious efforts as a responsible corporate citizen. During the year, your Company made contribution to charitable societies and trusts formed for providing access and opportunities of quality education to the needy and to those for initiating and supporting non-formal one-teacher schools all over the country which would help eradicate illiteracy from rural and tribal areas in India.

The Company has laid down a Corporate Social Responsibility Policy during the year, a copy of the policy is annexed to this Report.

## Corporate Governance

Your Company has complied with the Corporate Governance requirements as per the revised Clause 49 of the Listing Agreement with the Stock Exchanges. A separate report on Corporate Governance along with a Certificate of Compliance from the Auditors, forms a part of this Report.

## Management Discussion and Analysis Report

The Management Discussion and Analysis Report on the operations of the Company is provided in a separate section and forms a part of this Report.

## Conservation of Energy, Technology Absorption, Foreign Exchange Earnings and Outgo

The information as prescribed under 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, is given in a separate annexure, which forms a part of this Report.

## Appreciation

Your Directors wish to place on record their appreciation for co-operation and support received from the banks and financial institutions, customers, suppliers, members and employees to the continued growth and prosperity of your Company and look forward to their continued support.

For and on behalf of the Board of Directors  
ESSEL PROPACK LIMITED

Ashok Kumar Goel  
Mumbai, March 14, 2007 Vice Chairman & Managing Director

# ANNEXURE TO DIRECTORS' REPORT

Additional information given as required under the Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules, 1988:

## I. Conservation of Energy

The following actions have been taken by the Company to reduce the consumption of power in plants:

- The chiller compressor speed increased by 16% in Vasind enhancing the operating capacities and reducing the specific power consumption from 1.03 KW/TR to 0.96 KW/TR.
- The specific fuel consumption in the Diesel Generating Sets used for back up power reduced by 11%.
- The Laminator and Blown film operating window enhanced the specific power consumption per kg of processed product.

## II. Technology Absorption - Innovation

Creativity & Innovation (C&I) team in the Company has been continually working on the innovative equipments and processes that can process new generation polymers and its compounds. End result is to discover a packaging material that is best suited for a specific product or product group.

In this reference:

- C&I has developed a unique all plastic laminated Tube structure for Hair care products. Laminate comes with range of beautiful Pearl colours.
- C&I has also developed Clear range of Laminate for Hair care products. This clear web comes with Ultra

Violet (UV) inhibitor that Blocks harmful UV rays, keeping the product colour and texture intact.

- C&I has invested on state of the art FTIR spectroscopy that can detect minute presence of any unwanted impurities in the polymer, thus assuring a cleaner packaging material to the customers.

## III. Expenditure on R&D

(Rupees in million)

a) Capital	7.85
b) Recurring	10.83
c) Total expenditure	18.68

Total Expenditure as a % of total Turnover 0.66%

## IV. Foreign Exchange Earnings and Outgo

(Rupees in million)

a) Foreign exchange earned (excluding deemed export)	299.22
b) Foreign exchange used	761.83

For and on behalf of the Board of Directors  
**ESSEL PROPACK LIMITED**

**Ashok Kumar Goel**  
Vice Chairman & Managing Director

Mumbai, March 14, 2007