



Looking back upon 2006; going forward in 2007

I am pleased to inform you that your Company has joined the Rs. 2000 crore club, registering revenue growth of 22% over 2005. In a year marked with an extremely difficult environment of high raw material cost, your Company maintained underlying performance while improving EBITDA (Earnings before interest, depreciation and tax). Cost of Goods (COGS) increased by 37% over 2005, coming on the heels of an 8% increase in 2005 over 2004. Most of this was neutralized through margin management by trading up consumers with new technology and product propositions. The continued patronage of our discerning customers to pay substantially enhanced prices for your Company's products demonstrates their confidence in our brand. It also proves the sustainability of our business model.

The performance was well rounded with growth in all focus segments. This result gives credence to your Company's ability to keep growing in our core lubricant business as we continuously update and respond to changes in consumer preferences and channel shifts.

The achievement of 2006 can be attributed to strength of our brands and strong, enduring customer relationships, backed by the commitment of the Castrol India Team. Our people have achieved these results in the face of fierce competition. Over the last twenty-four months, competition has continuously lagged in price increases required to neutralise escalating COGS. This has often led to price premium pressure with some volume impact on our business. Collaborative effort and effective cross functional engagement was the key to your Company's ability to combat cost and competitive challenges and manage risks proactively.

The Industrial business delivered a record performance in profit terms, a clear endorsement of the segmentation model adopted in previous years. New initiatives like Order To Cash and Pricing accelerator added value. Automotive lubricants segment reviewed its portfolio and took a bold step to exit several unprofitable Business to Business customers. In context of overall growth revival for Castrol India, Automotive lubricant segment refined its strategy and identified innovative market access approaches.

The game changing activity of the year was the rollout of Castrol BikeZone - the motorcycle servicing business. As yet, BikeZone is in early stages, but shows great promise. Going forward, we hope to build this business to a material part of Castrol India.

We ended 2006 on a high note in the last quarter, moving into the new year with improved margins and a more stable COGS outlook. With buoyant automotive and industrial sectors, the 2007 outlook for your Company is positive. Our challenge this year is to unfailingly interpret and respond to volatile market dynamics, making tradeoffs between margin and volume. This will also be a year of capturing greater value for lubricants and building new business options. We are confident that your Company will be able to achieve these twin goals because of our distinctive competitive advantage in brand, customer relationships, people and organization talent.

Looking to 2007 and beyond, we are ideally "poised for growth" and we have shared some of our plans on the next two cover pages (overleaf).

Yours faithfully,

Naveen Kshatriya
Managing Director



Customer Service Lounge



Globally, the Castrol brand is synonymous with world class lubricants for automobile, marine and industrial applications. The continuous innovations, leading edge marketing and technology, backed by customer centric business approach, have established Castrol as a global superbrand. It is therefore not surprising that the brand is over 100 years strong and growing younger!

In India, Castrol has an even stronger presence, occupying high ground in technology and customer relationships. Castrol India has an extraordinary position in the BP lubricants business worldwide because of its omnipresent salience, strong consumer preference and market share. The brand has the characteristics of a niche player with mainstream presence in market shares and materiality. However, brand Castrol has remained restricted to the arena of lubricants.

India is in a period of rapid transformation driven by strong economic growth. The benefits of this growth are evident from strong corporate results, accelerating

Why service?

The service sector share of GDP is over 50%. So that seems a good place to step out. Concurrently, the automotive and industrial sectors are booming. It is precisely here that we see our organization, with its deep understanding and relationships, having a position of strength. With automobile and manufacturing sectors on the clip, there is simultaneous growth in demand for reliable and high quality service for vehicles and equipment. Automobile owners are willing to pay a premium for such service for their valued possession. With its deep understanding of customer needs, whether vehicle owners, workshops or mechanics, Castrol is well placed to operate in this space.

Castrol BikeZone is our first attempt at entering this segment. The business model was developed and tested for about eighteen months before it was rolled out. The initial response is very encouraging. Customer satisfaction is high, with good loyalty as demonstrated

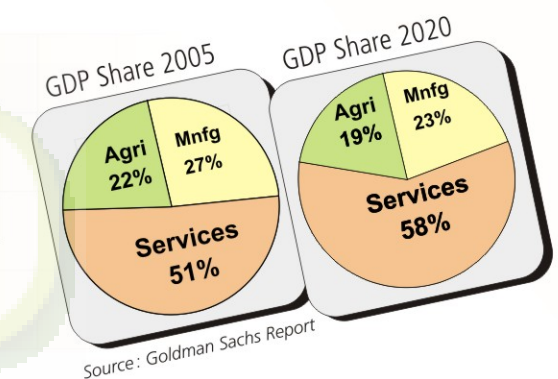
existing lubricant operations - example new Routes To Market, new ways of accessing consumers and more choices for customers and consumers with new, higher technology formulations. Some of these are already in play and more are being finalised.

Thus, with new initiatives like Castrol BikeZone, new offerings and radical innovations in the pipeline, Castrol India is in a new era of expansion. We aspire to create a stable, material business with top quartile returns. We are committed to Castrol India's shareholder and stakeholder growth.

Drawing inspiration from a very strong year end 2006 result, we start 2007 with great confidence and look beyond 2007, towards the future, with optimism and excitement - a future that is quite clearly "Poised for Growth".



poised for growth - going beyond



investments and capital flow. While Castrol India's earnings have grown in recent years, we would like this growth to be even stronger, in keeping with expectations from a brand like Castrol. Faster growth is an imperative for all stakeholders - investors, customers, suppliers and employees. Castrol India team has resolved to change the future of the business by powerfully leveraging our tangible and intangible assets: strong brand, wide distribution reach and lasting customer relationships. Our team has committed to 'Go Beyond' the limitations of 'projection of the past' to create a future which is Big and Audacious.

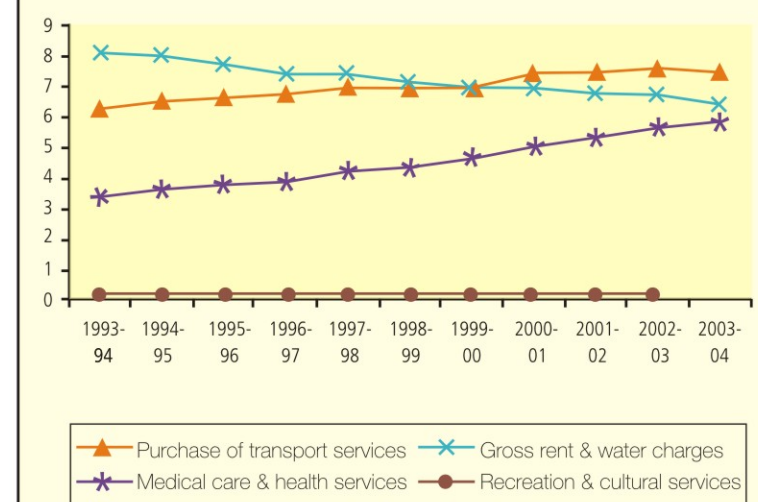
In 2005, we launched a new global positioning - "It's more than just oil. It's Liquid Engineering." We want to live up to this intent and extend our brand to adjacent areas of automotive and industrial service and more. We call these 'step outs' as we are stepping out of our core activity of marketing lubricants. But we will be careful and thoughtful about this.

by repeat customer visits. We are committed to grow the Castrol BikeZone business steadily and systematically. The year 2007 will be a year to consolidate processes, systems capability and building capacity to leapfrog to a truly material business in the years to come. With initial experience, we already feel confident and determined to go even beyond the longer term targets set for the project.

Our experience in Castrol BikeZone and engagements with OEM partners indicate that we can 'go beyond' into other segments and service activity as long as we create value for our very large consumer and customer base. As a brand, we touch a quarter of all automobile owners and almost all leading automobile manufacturers. During 2007, we aim to test some of the new ideas which underpin our growth plans. We will share more of this during the year.

We also see 'Going Beyond' as developing novel initiatives to expand volume and value share in our

Auto Sector - Leading Services Growth



Source: Central Statistical Organisation

Board of Directors**Non-Executive Directors****Chairman**

S. M. Datta

Directors

R. Gopalakrishnan

P. Hughes

A. K. Jhawar

D. S. Parekh

R. Elston-Green – *Alternate to P. Hughes*

Executive Directors**Chief Executive****& Managing Director**

N. K. Kshatriya

Directors

A. S. Ramchander

A. Ahmad

A. P. Mehta

Company Secretary & Head – Legal

A. H. Mody

Bankers

Deutsche Bank

HDFC Bank Ltd.

The Hongkong & Shanghai Banking Corporation Ltd.

Solicitors & Advocates

Crawford Bayley & Co.

Dhru & Co.

Auditors

S. R. Batliboi & Co.

Registered Office

Technopolis Knowledge Park

Mahakali Caves Road, Andheri (East)

Mumbai 400 093.

Share Department

TSR Darashaw Limited

(formerly known as Tata Share Registry Limited)

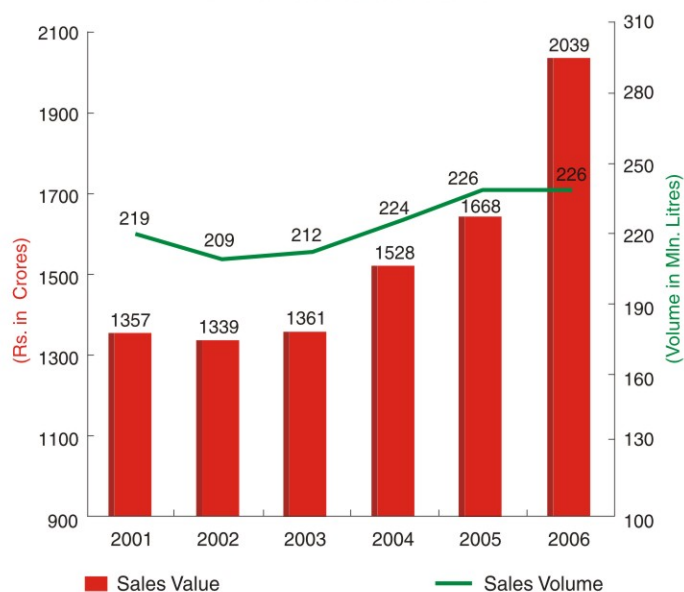
6-10, Haji Moosa Patrawala Industrial Estate,

20, Dr. E. Moses Road,

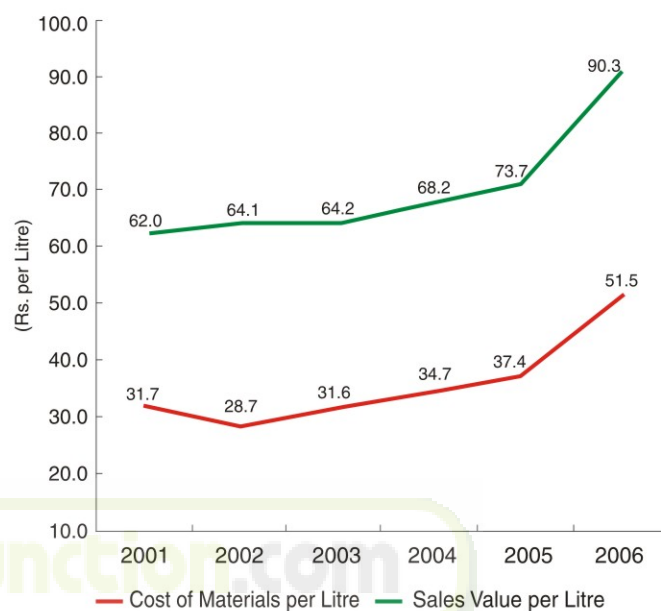
Mahalaxmi,

Mumbai 400 011.

SALES VALUE AND VOLUME

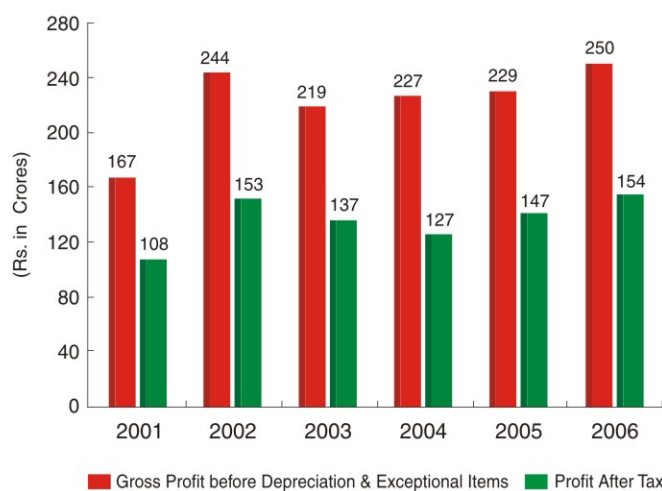


COST OF MATERIALS AND SALES VALUE PER LITRE

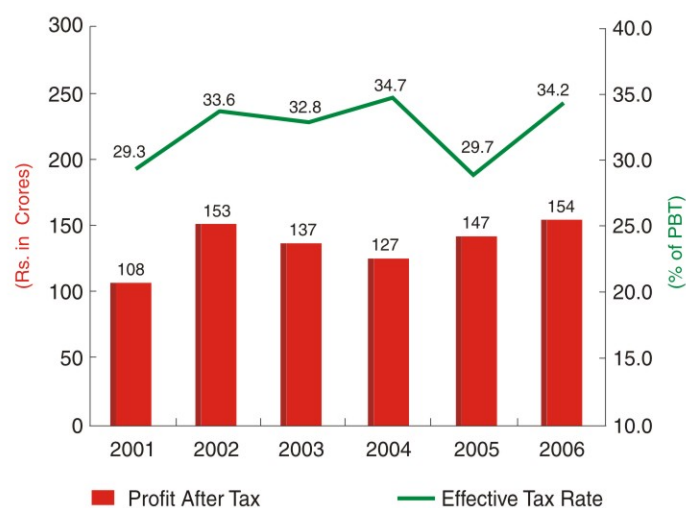


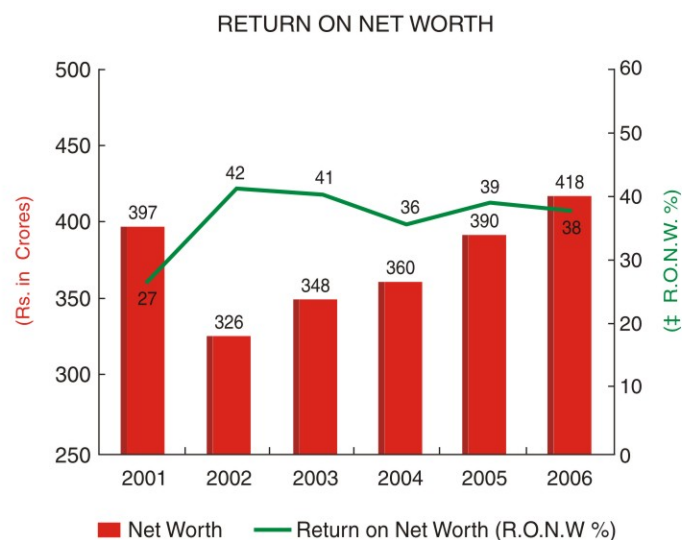
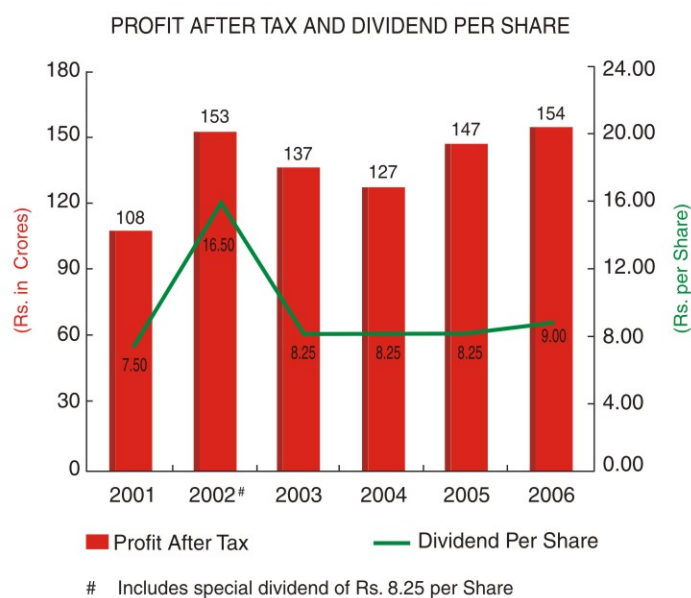
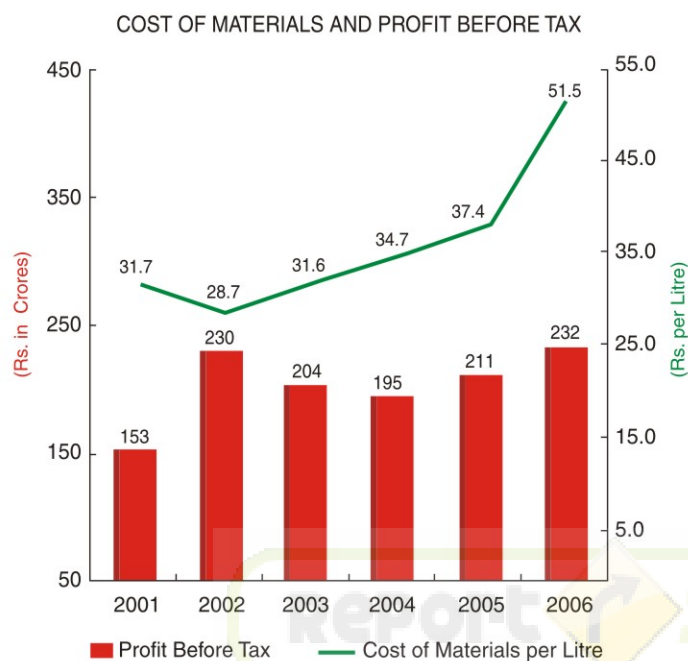
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PROFIT



EFFECTIVE TAX RATE





‡ Computed on average Net Worth for each year

FINANCIAL HIGHLIGHTS

Year	2006	2005	2004	2003	2002	2001
Rupees in Crores						
Sales	2038.59	1668.39	1528.25	1360.51	1338.95	1357.36
Less: Excise Duty	286.18	238.01	218.09	189.36	187.15	194.91
Net Sales	1752.41	1430.38	1310.16	1171.15	1151.80	1162.45
Other Income	34.38	20.07	22.73	19.14	13.40	13.50
Cost of Materials	1163.14	847.97	777.02	669.72	600.59	693.72
Operating and Other Expenses	369.29	370.73	325.56	299.33	313.45	308.11
Interest	4.11	3.01	2.87	2.57	7.45	7.46
Gross Profit (Before Depreciation and Exceptional Items)	250.25	228.74	227.44	218.67	243.71	166.66
Depreciation	18.01	18.93	24.88	14.31	13.40	13.24
Profit Before Taxation and Exceptional Items	232.24	209.81	202.56	204.36	230.31	153.42
(Add)/Less: Exceptional Items:						
Write (Back)/Off of Voluntary Retirement Scheme Expenses – Plant closure	—	(0.49)	3.72	—	—	—
Write (Back)/Off of Impairment of Fixed Assets – Plant closure	—	(0.33)	3.55	—	—	—
Profit Before Taxation	232.24	210.63	195.29	204.36	230.31	153.42
Current Taxation	85.24	68.16	68.73	63.35	79.90	43.45
Deferred Taxation	(5.72)	(5.56)	(0.90)	3.63	(2.51)	1.57
Fringe Benefit Tax	3.62	5.09	—	—	—	—
Excess Income Tax Provision for earlier years written back (Net)	(5.39)	(3.87)	—	—	—	—
Profit After Taxation	154.49	146.81	127.46	137.38	152.92	108.40
Dividend	111.28	102.01	102.01	102.01	204.01 ‡	92.73
Gross Fixed Assets	251.62	254.58	254.45	250.83	255.61	243.95
Net Fixed Assets	129.68	138.33	149.77	171.01	182.64	180.63
Investments	42.52	108.14	128.91	84.79	220.29	119.90
Net Current Assets/(Liabilities)	254.38	158.23	102.52	114.79	(57.41)	135.89
Net Assets	426.58	404.70	381.20	370.59	345.52	436.42
Share Capital	123.64	123.64	123.64	123.64	123.64	123.64
Reserves & Surplus	294.02	266.42	236.43	224.44	202.14	273.03
Net Worth	417.66	390.06	360.07	348.08	325.78	396.67
Loan Funds	2.79	2.79	3.72	4.20	5.06	22.56
Deferred Tax Liability	6.13	11.85	17.41	18.31	14.68	17.19
Rupees						
Earning per Share	12.50	11.87	10.31	11.11	12.37	8.77
Dividend per Share	9.00	8.25	8.25	8.25	16.50 ‡	7.50
Book Value per Share	33.78	31.55	29.12	28.15	26.35	32.08
Debt Equity Ratio	0.02:1	0.02:1	0.03:1	0.03:1	0.04:1	0.18:1

‡ Includes Special Dividend of Rs. 8.25 per Share in 2002.

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31ST DECEMBER, 2006

The Directors have pleasure in presenting their Report and Statement of Accounts for the year ended 31st December, 2006.

	For the year ended 31st December, 2006 (Rupees in Crores)	For the year ended 31st December, 2005 (Rupees in Crores)
FINANCIAL RESULTS		
Gross Profit before Depreciation, Exceptional Items & Tax	250.25	228.74
Deducting therefrom:		
Depreciation	18.01	18.93
(Add)/Less: Exceptional Items		
(i) Reversal of Voluntary Retirement Scheme expenses – Plant closure	—	(0.49)
(ii) Write (Back)/off of Impairment of Fixed Assets – Plant closure	—	(0.33)
Provision for Tax		
Current [Including Wealth Tax of Rs. 0.12 Crores (2005: Rs. 0.12 Crores)]	85.24	68.16
Deferred Taxation	(5.72)	(5.56)
Fringe Benefit Tax	3.62	5.09
Excess Income Tax provision for earlier years written back.	(5.39)	(3.87)
Profit after Tax	154.49	146.81
Adding thereto :		
Balance as per last Balance Sheet brought forward	30.69	16.70
Profit Available for Appropriation	185.18	163.51
The appropriations are :		
Dividend		
Interim	49.46	49.46
Final	61.82	52.55
Tax on Dividend		
Interim	6.94	6.94
Final	8.67	7.37
Final Dividend 2005	—	0.50
Transfer to General Reserve	18.00	16.00
Balance carried forward	40.29	30.69
	185.18	163.51

PERFORMANCE

Sales increased by 22.2% over previous year, to Rs. 2039 crores as a result of 22.5% increase in unit sales realizations over previous year.

Cost of materials increased by 37.2% over previous year, to Rs. 1163 crores due to substantial increase of 56% in cost of our main raw material, Base Oil and increase in cost of additives and packaging materials.

Other Income increased by Rs. 14.3 crores mainly on account of Profit on Sale of Premises.

Operating and other expenses reduced by 0.4% over previous year, despite inflation, due to reduction in advertisement and sales promotion expenses and initiatives taken to control costs.

Profit Before Tax increased by 10.3% over previous year, to Rs. 232.2 crores.

Tax rate for the current year has increased over previous year as a result of expiry of tax holiday for Silvassa plant under section 80 IB of the Income Tax Act on 31st March, 2006. During the year, the Company has written back excess provision for taxation of the earlier years (net) amounting to Rs. 5.4 crores as a result of crystallisation of liabilities of those years in proceedings at the appellate levels.

As a result Profit After Tax increased by 5.2% over previous year, to Rs. 154.5 crores.

CORPORATE GOVERNANCE

Pursuant to Clause 49 of the Listing Agreement, a Management Discussion and Analysis Report and a Report on Corporate Governance are given as Annexures 'A' and 'B' respectively to this Report.

A certificate from the Statutory Auditors of the Company regarding the Compliance by the Company of the conditions stipulated under clause 49 of the Listing Agreement is also attached to this Report.

The declaration by the Managing Director pursuant to clause 49(1) (ii) of the Listing Agreement stating that all the Board Members and Senior Management Personnel have affirmed their compliance with the said Code of Conduct for the year ended 31st December, 2006 is also attached to this Report and marked Annexure "C".

DIRECTORS' RESPONSIBILITY STATEMENT

As required under Section 217 (2AA) of the Companies Act, 1956 your Directors confirm that:

- (i) In the preparation of the annual accounts, the applicable accounting standards have been followed and no material departures have been made from the same.
- (ii) The Directors have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company as on 31st December, 2006 and of the profits of the Company for the year ended 31st December, 2006.
- (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 prepared the annual accounts on a going concern basis.

DIVIDEND

The Interim Dividend in respect of the year ended 31st December, 2006 of Rs 4.00 per share on 12,36,40,298 Equity Shares was paid to the Shareholders of the Company whose names appeared on the Register of Members on 10th August, 2006.

The Directors recommend a payment of final dividend of Rs. 5.00 per share on 12,36,40,298 Equity Shares.

FIXED DEPOSITS

There were no fixed deposits outstanding and unclaimed as on 31st December, 2006.

DIRECTORS

At the Board Meeting held on 22nd January, 2007, Mr. N. K. Kshatriya was re-appointed with effect from 1st May, 2007 as a wholetime Director of the Company designated as Managing Director for a period of 5 years or the normal date of retirement as in force whichever is earlier.

Mr. D. S. Parekh and Mr. R. Gopalakrishnan retire by rotation and are eligible for re-appointment.

The information on the particulars of Directors seeking appointment/re-appointment as required under Clause 49 of the Listing Agreement executed with the Bombay Stock Exchange Limited, has been furnished under Corporate Governance (Annexure 'B') of this Report.

CONSERVATION OF ENERGY

(a) Energy conservation measures taken:

Energy conservation during the financial year has accrued as a result of the following steps taken at the various factories of the Company:

Patalganga:

1. Solar street lights were installed across the plant.
2. Installation of new Condensate Pumps has helped to achieve higher recovery of condensate and reduce Blend cycle time.
3. Replacement of old pumps by energy efficient pumps.
4. Installation of energy efficient tubelights.

5. Modification of condensate transfer lines.
6. Rationalization of oil transfer lines to reduce losses.
7. Reduction of plant connected load by eliminating 60 hp capacity motors in blending process.

Silvassa:

1. Installation of variable frequency drive for cooling tower pump.
2. Timer based control for cooling tower fans.
3. Cyclic timer for streetlight switching systems.
4. Replacement of 1000 watt halogen lamps with 250 Watt metal halide lamps.
5. Rationalization of air conditioning system in administrative office and supply and distribution office.
6. Effective utilization of plant lighting during out of office hours.
7. Installation of new energy efficient screw compressor.

Tondiarpet:

1. Installed and commissioned solar street lights.
2. Replacement of conventional tubelights by energy efficient tubelights.
3. Back pressure control Valves installed in lieu of pumps for energy conservation and process safety.
4. VFD System installed in lieu of pumps for energy conservation and process safety.
5. Auto operated damper at exhaust flue gas duct of boiler to prevent heat loss due to induced draft.
6. Solar hot water system for canteen.

Your Company has won the National Energy Conservation Awards 2006, Certificate of Merit, in the Petrochemical Sector.

Paharpur:

1. Street lights in boundary wall side by solar energy system.
2. Water heating arrangement for "food tubs" at lunch room by Solar heating system.
3. Energy efficient tube lights at production area.

(b) Additional investments and proposals, if any, being implemented for reduction of consumption of energy:

None in particular.

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

The measures mentioned in (a) above have led to reduction in fuel and electricity consumption as well as improvement in the productivity.

TECHNOLOGY ABSORPTION

1. During the year, in line with BP's policies, emphasis was placed on implementing best practices on Health, Safety, Security and Environmental management. Support from GLT Global Health, Safety, Security and Environmental Manager was taken to further improve our efforts in this direction.
2. Your Company's ISO : 14001 environment management systems certification was re-validated.
3. Technology made large strides in developing a "Pandemic Response Plan" to enable us to continue our business critical activities even in case of unforeseen adversities.
4. Your Company has further extended its focus on Quality Assurance in design and operation by extending its goal to reach for TS 16949 in 2007.
5. Global Product Integrity Standards were rolled out in India to all stakeholders in order to bring it in the forefront of all our activities. Some plant audits were conducted to further improve the product integrity standards and Quality Assurance. This process would be rolled out to the remaining plants through 2007.
6. As part of your Company's initiatives to improve environment, your Company installed Solar Yard Lighting at the Technology Centre. It also obtained registration to "Mumbai Waste Management" programme and disposed off all its waste used oil and solvent in an environmental friendly way.
7. Formulation optimization initiatives by R&D in a tough environment has been a focal activity and in year formulation efficiencies were realised to the order of Rs. 9 crores through appropriate product re-engineering. This covered a range of products across all market spaces.
8. The year saw significant upgrades in product portfolio in the fast growing Automotive segment, through the introduction of Global HD grades like Tecton global and Tecton J Max meeting latest API specifications. Another key feature of 2006 was the upgrade of existing products like Castrol CRB Plus from API CF to API CF4 to meet the rising engine oil requirements of Engine manufacturers.
9. Technology centre restructuring was consolidated through the year and skills in performance demonstration specific to the local market were developed and grown in house.