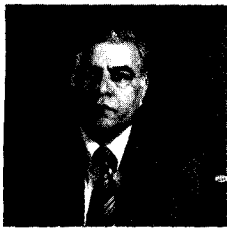




56th ANNUAL REPORT

2005 - 2006



Dear Shareholder,

Growing competition and lack of financial resources did not deter your Company from achieving a 26% increase in sales at Rs. 1749 Cr during 2005-06 over that of the previous year. This performance represents a 40% jump over the 2003-04 turnover when ITI faced

the brunt of steep crash in equipment prices. ITI's losses during the year stood at Rs.429 Cr, down by Rs. 204 Cr when compared excluding the Government's revival package received earlier.

Your Company saw a spurt in its manufacturing activities during the year with supplies of GSM (Global System for Mobile) mobile infrastructure equipment manufactured indigenously at its two new facilities at Mankapur and Rae Bareilly yielding Rs.500 Cr against an order of 3 million lines worth Rs. 900 Cr for the West Zone. So far, entire supplies have been delivered for this order. With all equipment in place and about two million lines RF capacity already generated, BSNL(Bharat Sanchar Nigam Limited) has released around 2.2 million lines to subscribers. Subsequently, an order for 2 million lines has also been received which your Company hopes to complete during the ensuing year. This is in addition to an order for 750 KL received from MTNL (Mahanagar Telephone Nigam Limited) for Mumbai. ITI would also receive orders worth more than Rs.300 Cr for 2.5 million lines of CDMA-WLL (Code Division Multiple Access Wireless in Local Loop) won in a recent tender for Rs. 539 Cr floated by BSNL. In a fitting testimony, your Company continues to hold the *numero uno* position as India's top telecom turnkey solutions provider, having received the 7th Annual Voice & Data 100 Award 2006 for the third time, which is regarded as the most prestigious recognition in Indian telecom industry.

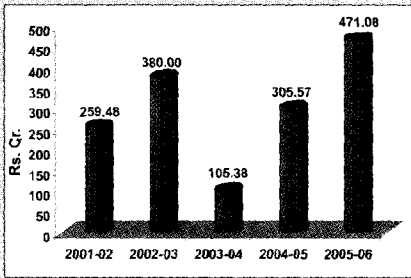
In a first major initiative in the country to manufacture and service GSM equipment for export markets, ITI has secured an LOI from Alcatel for two million lines. Under this, an initial order for supply of 600 BTS (Base Transceiver System) and 900 TRX (Transceiver) has been received.

The year proved significant for ITI by virtue of its rapid strides in technology acquisition. Your Company has geared itself up to meet requirements of emerging markets with turnkey solutions for GSM networks, WLL-CDMA, CDMA-IFWT (Integrated Fixed Wireless Terminals) and Defence projects. The successful completion of the mammoth ASCON Phase III (Army Static Communication Network) network for the Indian Army which was recently inaugurated, underlines ITI's ability in standing up to the challenge of making critical communication possible by means of efficient project management. On the anvil are projects such as ADSL(Asymmetric Digital Subscriber Line) networks, NGN(New Generation Networks) known as *soft switch*, broadband networks, WiMAX (Worldwide Interoperability of Microwave Access), antenna and microwave equipment for GSM, GPON (Gigabit Passive Optical Networks), e-governance for which technologies have already been inducted. These include smart cards and your Company has bagged a trial order for a pilot project on National ID Cards. The manufacture of the aforesaid products will lead to substantial increase in value addition and effective utilization of manpower.

With confirmed orders on hand worth Rs. 1710 Cr and further APOs (Advance Purchase Orders) of Rs.257 Cr, your Company is eyeing a target of Rs. 3009 Cr turnover for FY 2006-07. In pursuit of this achievement, we continue to be inspired by your abiding faith and goodwill.

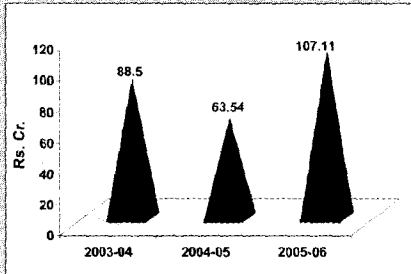
YK Pandey
Chairman & Managing Director

ITI'S STRIDES IN NEW TECHNOLOGY

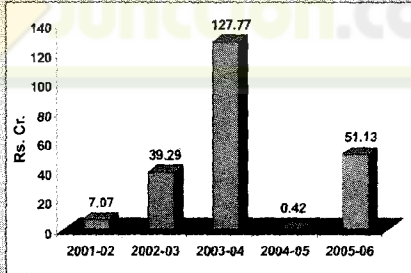


GSM - INFRA

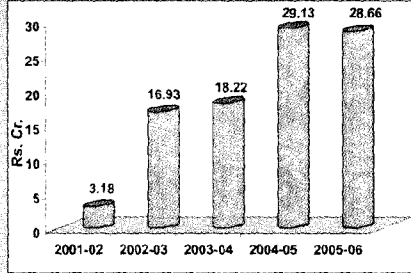
CDMA-WLL-IFWT/HANDSETS



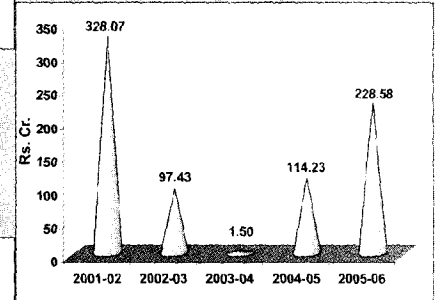
MLLN



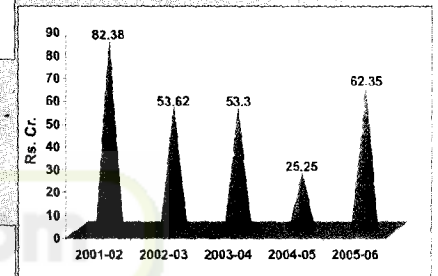
SIM CARDS



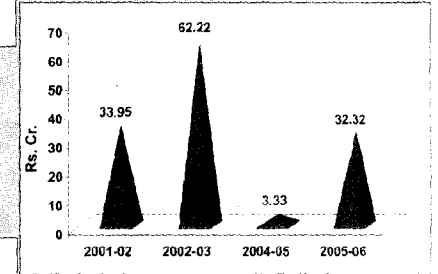
WLL-CDMA INFRA



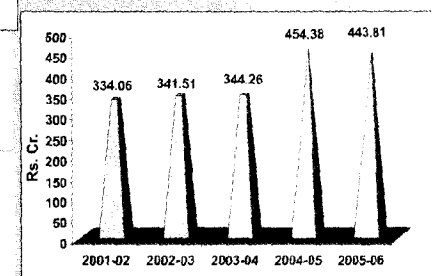
STMs OPTIC EQPT



DWDM



OTHER TURNKEY PROJECTS





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BOARD OF DIRECTORS

Shri Y. K. Pandey

Chairman & Managing Director

Shri Pritam Singh

Director – Marketing

Shri S.K.Chatterjee

Director – Human Resources

Shri Mathew George

Director- Finance (from 08.05.2006)

Shri Ravi Agarwal

Director-Production (from 31.10.2006)

Shri Y.S.Bhave, IAS

Shri Pankaj Agrawala, IAS

Shri N.P. Singh

Director (from 08.03.2006)

Shri J.K. Verma

Director – Production (upto 31.07.2006)

Shri Vijoy Kumar

Director (Upto 08.03.2006)

Lt. Gen Davinder Kumar, PVSM, VSM Bar, ADC

Director (upto 30.09.2006)

**LEGAL ADVISERS**

M/s. Raj & Reddy, Advocates, Bangalore
M/s. Holla & Holla, Advocates, Bangalore
M/s. AZB Partners, Advocates, Bangalore
M/s. Rao & Joshi & Associates, Advocates, Bangalore

AUDITORS

M/s. John Joseph & Mathew, Bangalore
M/s. Habibullah & Co., Gorakhpur
M/s. Garg Goyal & Co., Rae Bareilly
M/s. Santosh Kumar & Co., Naini
M/s. Ramachandran & Ramachandran, Palakkad
M/s. J.S.V.P & CO., Srinagar

BANKERS

State Bank of India
State Bank of Patiala
State Bank of Bikaner & Jaipur
State Bank of Mysore
State Bank of Hyderabad
State Bank of Travancore
Bank of Baroda
Central Bank of India
Punjab National Bank
Development Credit Bank Limited
Indus Ind Bank Limited
UTI Bank Limited
Vijaya Bank
Indian Bank
Canara Bank



ANNUAL REPORT 2005 - 2006

MANAGEMENT

CORPORATE OFFICE

Shri. Y.K. Pandey

Chairman & Managing Director

Shri Pritam Singh

Director - Marketing

Shri S.K. Chatterjee

Director - HR

Shri Mathew George

Director - Finance

Shri Ravi Agarwal

Director - Production

Shri P.B.O. Warjri, IAS

Chief Vigilance Officer

Shri R.K. Tikoo

General Manager - Marketing

Shri B.P. Gupta

General Manager - Finance

PLANTS / UNITS

Bangalore Plant

Shri P.K. Bose

General - Manager

Naini Plant

A.K. Mehrotra

General Manager

Mankapur Plant

Shri S.P. Tripathi

General Manager

Palakkad Plant

Shri Kasi Viswanathan

General Manager

Rae Bareli Plant

Shri Tejbir Singh

General Manager

Srinagar (J & K) Plant

Shri I.A. Khan

Deputy Manager

Network Systems

Shri D. Shekar Kumar

General Manager

Research & Development

Shri S.S. Choudhary

General Manager (R & D)

Business Co-ordination Office, New Delhi

Shri Rajni K. Agarwal

Addl. General Manager



NOTICE

NOTICE is hereby given that the FIFTY SIXTH Annual General Meeting of ITI Limited will be held on Friday, the 15th December, 2006 at 10.30 a.m. at Gurunanak Bhavan, Jasma Bhavan Road, Bangalore – 560 052 to transact the following business:

ORDINARY BUSINESS :

1. To receive, consider and adopt the Directors' Report, the Balance Sheet as at 31st March 2006, the Profit & Loss Account for the year ended on that date and the Auditors' Report thereon.
2. To appoint a Director in place of Shri Pankaj Agrawala who retires by rotation and being eligible offers himself for re-appointment.
3. To appoint a Director in place of Shri Pritam Singh who retires by rotation and being eligible offers himself for re-appointment.
4. To consider and, if thought fit, to pass with or without modifications, the following as an Ordinary Resolution:

“RESOLVED to authorise the Board of Directors of ITI Limited to fix the remuneration, reimburse travelling allowance and out of pocket expenses of Statutory and Branch auditors of the Company to be appointed by Comptroller and Auditor General of India for the financial year 2006-2007.

SPECIAL BUSINESS:

5. To consider and, if thought fit, to pass with or without modifications, the following as an Ordinary Resolution:

“RESOLVED that Shri Mathew George, who was appointed with effect from 8th May 2006 as Director – Finance of the Company by the Board of Directors and who holds office upto the date of this Annual General Meeting under Section 260 of the Companies Act, 1956, and in respect of whom the Company has received a notice in writing from a Member proposing his candidature for the office of Director, be and is hereby appointed as Director of the Company”.

6. To consider and, if thought fit, to pass with or without modifications, the following as an Ordinary Resolution:

“RESOLVED that Shri Ravi Agarwal, who was appointed with effect from 31st October 2006 as Director-Production of the Company by the Board of Directors and who holds office upto the date of this Annual General Meeting under Section 260 of the Companies Act, 1956, and in respect of whom the Company has received a notice in writing from a Member of proposing his candidature for the office of Director, be and is hereby appointed as Director of the Company”.

Regd. & Corporate Office
ITI Bhavan, Doorvaninagar
Bangalore - 560 016.

By Order of the Board
For ITI LIMITED

Place : Bangalore
Date : 31.10.2006

Y.K. PANDEY
Chairman & Managing Director

**NOTES :**

1. A Member entitled to attend and vote at the meeting is entitled to appoint a Proxy to attend and vote instead of himself and the Proxy need not be a Member of the Company. Proxies in order to be effective must be received at the Company's Registered Office not less than 48 hours before the commencement of the Meeting.
2. The Register of Members and the Share Transfer Books will remain closed from 08.12.2006 to 15.12.2006 (both days inclusive).
3. Members are requested to advise the Share Transfer Agents, M/s. Alpha systems Pvt. Ltd, 30, Ramana Residency, 4th Cross, Sampige Road, Malleswaram, Bangalore - 560 003 and their respective Depository Participants immediately of any change in their address.
4. In accordance with the relevant provisions of the Companies Act, 1956, Shri Pankaj Agrawala, Director and Shri Pritam Singh, Director-Marketing of ITI will retire by rotation at this Annual General Meeting and being eligible, offers themselves for re-appointment.
5. Consequent to the amendment of Section 224 of the Companies Act, 1956, the remuneration of Auditors appointed by Comptroller and Auditor General of India under amended Section 619, shall be fixed by the Company in General Meeting or in such other manner as the Company may determine.

Accordingly, the Shareholders are requested to approve the Resolution at Item No.4 of the Notice.
6. Members requiring information on the Accounts are requested to write to the company atleast fifteen days before the date of the Meeting so that the required information could be kept ready.
7. Members/their Proxies/Representatives are advised to bring the Attendance Slip duly filled in and the Annual Report for attending the Meeting.
8. The relevant Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956 is annexed hereto. Documents relating to any of the items mentioned in the Notice and Explanatory Statement thereto are open for inspection at the Registered Office of the Company on any working day during business hours.

EXPLANATORY STATEMENT PURSUANT TO SECTION 173(2) OF THE COMPANIES ACT, 1956:**For Item No. 5 – Special Business**

Shri Mathew George was appointed as Director-Finance with effect from 8th May 2006 by the Board of Directors of the Company in pursuance of letter No.U-38014-5/2005-FAC dated 10th April 2006 issued by Department of Telecommunications. According to the provisions of Section 260 of the Companies Act, 1956, Shri Mathew George holds Office of Director upto the date of this Annual General Meeting. As required by Section 257 of the Companies Act, 1956, a notice has been received from a Member signifying his intention to propose the appointment of Shri Mathew George as Director. Hence, the relative Resolution is placed before the Meeting for Members approval.



Shri Mathew George is deemed to be interested in the proposed Resolution to the extent of his appointment as Director. None of the Directors is interested in the Resolution .

For Item No. 6 – Special Business

Shri Ravi Agarwal was appointed as Director-Production with effect from 31stth October 2006 by the Board of Directors of the Company in pursuance of letter No.U-38014-1/2006-FAC dated 31st October 2006 issued by Department of Telecommunications. According to the provisions of Section 260 of the Companies Act, 1956, Shri Ravi Agarwal holds Office of Director upto the date of this Annual General Meeting. As required by Section 257 of the Companies Act, 1956, a notice has been received from a Member signifying his intention to propose the appointment of Shri Ravi Agarwal as Director. Hence, the relative Resolution is placed before the Meeting for Members approval.

Shri Ravi Agarwal is deemed to be interested in the proposed Resolution to the extent of his appointment as Director. None of the Directors is interested in the Resolution .

Regd. & Corporate Office
ITI Bhavan, Doorvaninagar
Bangalore - 560 016.

By Order of the Board
For ITI LIMITED

Place : Bangalore
Date : 31.10.2006

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Y.K. PANDEY
Chairman & Managing Director



ANNUAL REPORT 2005 - 2006

TEN YEAR DIGEST

Rs. in Crores

OPERATING RESULTS	2005-06	2004-05	2003-04	2002-03	2001-02	2000-01	1999-2000	1998-99	1997-98	1996-97
Sales including services	1749	1389	1257	1795	2317	2144	2085	1539	1263	1021
Accretion/(Decretion) to Stock	(142)	(27)	(184)	(105)	142	45	97	142	4	(3)
Value of Production	1607	1362	1073	1690	2459	2189	2182	1681	1267	1018
Other Income	139	505	6	67	182	151	95	87	155	183
Direct Materials	1140	1086	792	1074	1458	1174	1157	950	677	595
Charges on Installation & Maintenance	75	61	120	157	116	108	77	40	22	26
Employees Cost	382	337	368	389	404	398	347	331	322	268
Depreciation	36	32	42	45	45	44	42	36	27	30
Finance Expenses	225	207	179	156	171	161	153	148	151	187
Other Expenses less Charges on Installation & Maintenance	314	440	262	310	421	425	481	231	206	160
Profit for the year	(426)	(296)	(684)	(374)	26	30	20	32	17	(65)
Prior Period Adjustments	(2)	(14)	(22)	(3)	(2)	(2)	26	(5)	(6)	(23)
Profit Before Tax	(428)	(310)	(706)	(377)	24	28	46	27	11	(88)
Provision for Tax / Deferred Tax / FBT	1	-	-	(2)	2	-	-	-	-	-
Add : Provision for tax of earlier years no longer required	-	-	-	-	-	-	-	-	4	37
Profit after Tax	(429)	(310)	(706)	(375)	22	28	46	27	15	(51)
Dividend	-	-	-	-	4	4	5	5	-	-

From 1999-2000 onwards Sales, Production and Other Expenses include Excise duty.

FINANCIAL POSITION	2005-06	2004-05	2003-04	2002-03	2001-02	2000-01	1999-2000	1998-99	1997-98	1996-97
Equity	288	288	88	88	88	88	88	88	88	88
Preference Shares	300	300	300	100	0	0	0	0	0	0
Preference Shares - Application Money Received Pending Allotment	0	0	0	200	100	0	0	0	0	0
Reserves & Surplus	64	64	64	64	97	80	56	38	20	143
Revaluation Reserves	2654	-	-	-	-	-	-	-	-	-
Miscellaneous expenditure not written off	8	33	245	148	104	50	6	1	1	11
Profit and Loss Account-(Debit)	1787	1358	1048	343	-	-	-	21	24	162
Shareholders' Funds with Revaluation Reserve	1511	(739)	(841)	(39)	181	118	138	104	83	58
Shareholders' Funds without considering DRE not written off and Revaluation Reserve	(1135)	(706)	(596)	109	285	168	144	105	84	69
Grant-in-aid	127	155	69	93	113	116	120	118	138	113
Bonds	409	573	344	304	322	272	272	272	178	146
Other borrowings and deferred credit	1572	1057	1414	1121	972	908	788	623	729	811
Gross Block	3631	932	1009	1006	986	955	928	885	736	717
Depreciation	768	735	767	747	709	665	627	587	552	527
Net Block	2863	197	242	259	277	290	301	298	184	190
Capital work-in-progress	5	4	1	6	12	10	20	17	123	112
Current Assets, Loans and Advances :										
Inventory	412	553	638	871	1048	867	850	733	518	552
Debtors	1662	1420	1189	1405	1273	1027	989	867	760	614
Others	522	448	267	347	356	187	189	195	224	177
Total Current Assets	2596	2421	2094	2623	2677	2081	2028	1795	1502	1343