



Phillips Carbon Black Limited

Report Junction

Report & Accounts
2005-2006

www.phillips-carbon-black.com



Phillips Carbon Black Limited

Mr R P Goenka
Chairman Emeritus

Board of Directors

Mr Sanjiv Goenka
Chairman

Mr B M Khaitan

Mr C R Paul

Dr Ram S Tarneja

Mr K S B Sanyal

Mr Paras K Chowdhary

Mr O P Malhotra

Mr S K Bajoria

Mr S Sahgal

Managing Director

Company Secretary

Mr Kaushik Mukherjee

Banks

Bank of Baroda

Allahabad Bank

Canara Bank

Citibank, N. A.

ICICI Bank Limited

Indian Overseas Bank

State Bank of Bikaner & Jaipur

State Bank of India

State Bank of Travancore

Syndicate Bank

The Federal Bank of India

Union Bank of India

Auditors

Price Waterhouse

Chartered Accountants

Solicitors

Khaitan & Co.

Registered Office

31 Netaji Subhas Road
Kolkata 700 001

Contents

	Page
Notice	1
Directors' Report and Management Discussion and Analysis	6
Corporate Governance Report	11
Auditors' Report	17
Balance Sheet	20
Profit & Loss Account	21
Schedules to the Accounts	22
Cash Flow Statement	34
Financial Summary	36

Cover :

The PCBL plant at Baroda, recently expanded, now has an annual capacity of 95000 MT.

Notice

Notice is hereby given that the Forty-fifth Annual General Meeting of the Members of Phillips Carbon Black Limited will be held at "Uttam Mancha", 10/1/1 Monoharpukur Road, Kolkata 700 026 on Friday, the 21st day of July, 2006 at 10.30 a.m. to transact the following business :

1. To receive, consider and adopt the Profit and Loss Account for the year ended 31st March, 2006, the Balance Sheet as at that date, and the Reports of the Directors and Auditors.
2. To appoint a Director in place of Mr. Sanjiv Goenka who retires by rotation and, being eligible, offers himself for re-appointment.
3. To appoint a Director in place of Mr. B. M. Khaitan who retires by rotation and, being eligible, offers himself for re-appointment.
4. To appoint a Director in place of Mr. C. R. Paul who retires by rotation and, being eligible, offers himself for re-appointment.
5. To appoint Auditors and to authorise the Board to fix their remuneration.

AS SPECIAL BUSINESS :

To consider, and if thought fit, to pass with or without modification(s) the following resolutions :

6. (As a Special Resolution)

"Resolved that pursuant to the provisions of Sections 198, 269, 309, 310 of the Companies Act, 1956 read with Schedule XIII thereto and other applicable provisions if any, and subject to the approval of the Central Government, if necessary, the Company hereby approves the variation in terms of remuneration of Mr. Sudhir Sahgal as Managing Director of the Company from 1st July, 2005 to 31st December, 2005 as set out in the Explanatory Statement attached to this Notice."
7. (As a Special Resolution)

"Resolved that in accordance with the provisions of Sections 198, 269, 309, 310 of the Companies Act, 1956 read with Schedule XIII thereto and other applicable provisions if any, and any amendment or modification thereof, and subject to the approval of the Central Government, if necessary, and/or such other approvals as may be necessary, the Company hereby approves the re-appointment of Mr. Sudhir Sahgal as Managing Director of the Company for a further period of one year from 1st January, 2006 to 31st December, 2006 on the terms and conditions and remuneration as set out in the Agreement, to be executed by the Company with Mr. Sudhir Sahgal, a draft of which initialled by the Chairman for the purpose of identification is placed before the meeting as also set out in the Explanatory Statement attached to this Notice."

Registered Office :
 31, Netaji Subhas Road
 Kolkata-700 001
 23rd June, 2006

By Order of the Board
 Kaushik Mukherjee
 Company Secretary

NOTES :

1. An Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956 relating to Special Business to be transacted at the Annual General Meeting is attached.
2. A Member entitled to attend and vote is entitled to appoint a proxy to attend and vote instead of himself and the proxy need not be a Member.
3. The instrument appointing the proxy should, however, be deposited at the Registered Office of the Company not less than 48 hours before the commencement of the Meeting.
4. The Register of Members of the Company shall remain closed from 11th July, 2006 to 21st July, 2006 (both days inclusive).
5. The Company has transferred all unclaimed or unpaid Dividend declared upto the Financial Year ended 30th September, 1998 to the Investor Education and Protection Fund (IEPF) of the Central Government pursuant to Section 205A(5) of the Companies Act, 1956.
6. Dividends for the Financial Year ended 30th September, 1999 and thereafter, which remain unclaimed or unpaid for a period of seven years will be transferred to the IEPF under Section 205A(5) of the Act. Members who have not encashed the dividend warrant(s) so far for the Financial Year ended 30th September, 1999 or any subsequent Financial Years are requested to make their claims to the Registered Office of the Company. It may also be noted that once the unclaimed dividend is transferred to IEPF as stated above, no further claim shall lie in respect thereof. The dividend for the Financial Year ended 30th September, 1999 is due to be transferred to the aforesaid Fund immediately after 22nd April, 2007.
7. Members can avail of the nomination facility, under Section 109A of the Companies Act, 1956 by submitting Form No. 2B of the Companies (Central Government's) General Rules and Forms, 1956 with the Company. Blank forms will be made available on request.
8. Members are requested to notify immediately any change of address :
 - i) To their Depository Participant (DPs) in respect of the electronic shares accounts, and
 - ii) To the Registrars and Share Transfer Agent/ Share Department of the Company in respect of physical share accounts.

In case the mailing address mentioned on the Attendance Slip is without the PINCODE, Members are requested to kindly inform the PINCODE immediately.
9. Brief Profile of Directors seeking re-appointment at the Annual General Meeting is annexed to this Notice.

EXPLANATORY STATEMENT PURSUANT TO SECTION 173(2) OF THE COMPANIES ACT, 1956

Item No. 6

The Members at their Annual General Meeting held on 29th July, 2005 had approved the re-appointment of Mr. Sudhir Sahgal as Managing Director of the Company for a period of one year, from 1st January, 2005 to 31st December, 2005 and payment of his remuneration. Subsequently, the Board of

Phillips Carbon Black Limited

Directors of the Company, at its meeting held on 31st October, 2005, subject to the approval of the Members, approved an increase in the remuneration to Mr. Sudhir Sahgal with effect from 1st July, 2005 as under :

Basic Salary	: Rs. 1,37,810/- per month
Management Supplement	: Rs. 1,37,810/- per month
Additional Annual Allowance	: Rs. 6,18,000/-

All other terms and conditions as approved by the Members shall remain unchanged.

In the event of absence or inadequacy of profits in any financial year, the remuneration mentioned above shall be the minimum remuneration payable to Mr. Sudhir Sahgal.

The said remuneration has been approved by the Remuneration Committee of the Board.

The terms and conditions of increase in the remuneration of Mr. Sudhir Sahgal is available for inspection by the Members at the Registered Office of the Company between 10 a.m. to 12 noon on any working day of the Company and will also be available at the Meeting.

The approval of Members is being sought for payment of the above remuneration as set out in item No. 6 of the Notice.

The Directors recommend that the Resolution set out in item No. 6 of the Notice be passed in the interest of the Company.

None of the Directors other than Mr. Sudhir Sahgal are interested in the Resolution.

Item No. 7

The Board of Directors of the Company at its meeting held on 31st October, 2005, re-appointed Mr. Sudhir Sahgal as Managing Director of the Company for a further period of one year from 1st January, 2006 to 31st December, 2006 on the existing remuneration as under :

Basic Salary	: Rs. 1,37,810/- per month
Management Supplement	: Rs. 1,37,810/- per month
Additional Annual Allowance	: Rs. 6,18,000/-

Perquisites :

- (i) Furnished accommodation, group life insurance, personal accident insurance, medical reimbursement for self and family, encashment of leave at the end of the tenure of service, club fees, medical insurance, leave travel allowance and privilege leave on full pay and allowance etc. in accordance with the rules of the Company.
- (ii) Valuation of perquisites shall be done as per the Income Tax Rules, wherever applicable. In absence of any such Rule, the perquisites shall be evaluated at actual cost.
- (iii) Company's contribution to the Provident Fund and Superannuation Fund shall not be included in the computation of the ceiling on perquisites to the extent these either singly or put together are not taxable under the provisions of Income Tax Act.

Gratuity	: One half of a month's salary for each completed year of service in accordance with the rules of the Company.
----------	--

Minimum Remuneration : In the event of absence or inadequacy of profits, Mr. Sudhir Sahgal will be entitled to draw the same remuneration as stated above as minimum remuneration.

General Exemption : Company's contribution to Provident Fund and Superannuation Fund or Annuity Fund, Gratuity payable and leave encashment at the end of the tenure shall not be included in the computation of the ceiling on remuneration under Schedule XIII of the Companies Act, 1956.

Provisions of cars with driver for use on Company's business and telephone will not be considered as perquisites. Personal long distance calls and use of cars for private purpose shall however be billed by the Company.

The said remuneration has been approved by the Remuneration Committee of the Board.

The remuneration and the terms and conditions of reappointment as set out in the draft Agreement to be executed by the Company with Mr. Sudhir Sahgal are available for inspection by the Members at the Registered Office of the Company between 10.00 a.m. to 12.00 noon on any working day of the Company and will also be available at the Meeting.

The approval of Members is being sought for re-appointment of Mr. Sudhir Sahgal as per item No. 7 of the Notice.

The Directors recommended that the Resolution set out in item No. 7 of the Notice be passed in the interest of the Company.

None of the Directors other than Mr. Sudhir Sahgal are interested in the Resolution.

Information required under Clause (iv) of provision to paragraph 1(B) of Section II of Part II of Schedule XIII to the Companies Act, 1956 for item Nos. 6 and 7

I. General Information :

1. Nature of Industry :

The Company is primarily engaged in the manufacture and sale of carbon black which is used by the rubber industry. The Company also produces and sells excess electric power generated from the low calorific value off gas which is generated in the process of manufacture of carbon black.

2. Date of commencement of commercial production :

5th December, 1962.

3. In case of new Companies, expected date of commencement of activities :

Not applicable.

Phillips Carbon Black Limited

4. Financial performance based on given indicators :

Key financials for last three years are as given below :

(Rs. in lakhs)

	Year ended 31.03.2006	Period ended 31.03.2005 (18 months)	Year ended 30.09.2003
Sales (Gross)	82,550.92	1,03,172.89	54,313.46
Profit/(Loss) before tax	(1,869.61)	1,823.16	2,433.78
Profit/(Loss) after tax	(1,507.24)	1,236.16	1,859.88
Paid up share capital	1,775.15	1,774.82	1,774.79
Rate of dividend (%)	NIL	15%	25%

5. Export performance and net foreign exchange collaborations :

Earnings in foreign exchange on account of Export sales (F.O.B. value) during last three years :

(Rs. in lakhs)

Year ended 31.03.2006	Period ended 31.03.2005 (18 months)	Year ended 30.09.2003
12,961.10	18,832.40	5,339.91

6. Foreign investments or collaborators, if any :

None

II. Information about the Appointee :

1. Background Details :

Mr. Sudhir Sahgal is a Mechanical Engineer having around 40 years of experience in the rubber industry. His initial 25 years were spent in DUNLOP where he was in the Industrial Rubber Products Division. He was involved in product design, manufacture, marketing, after sales service of this range of products both in the domestic and international markets. In the last 15 years he has been in the carbon black industry and now heads Phillips Carbon Black Limited.

Mr. Sahgal has done his Advanced Management Program from Kellogg i.e. North Western University in Chicago. He is Director of Great Wholesale Club Limited.

2. Past remuneration :

For the 18 months period ended 31 March 2005, Mr. Sahgal's total remuneration was Rs. 63.18 lakhs.

3. Recognition or awards/job profile and his suitability :

Please see (1) above.

4. Remuneration proposed :

The remuneration proposed to Mr. Sahgal is as set out in the Notice.

5. Comparative remuneration profile with respect to industry, size of the Company, profile of the position and person :

The remuneration proposed for Mr. Sahgal, is reasonably in

line with the remuneration in similar sized companies in the same segment of business.

6. Pecuniary relationship directly or indirectly with the Company or relationship with managerial personnel, if any:

Mr. Sahgal does not have any pecuniary relationship directly or indirectly, with the Company and its managerial personnel that may have potential conflict with the interest of the Company at large.

III. Other information :

1. Main reasons of loss or inadequate profits :

PCBL suffered a loss for the first time in its journey of 45 years primarily because of the following reasons.

Carbon Black is manufactured primarily using only one raw material – Carbon Black Feedstock (CBFS). Prices of feedstock are linked to crude oil prices and these have shot up to all time high levels. CBFS prices have also been very volatile along with high sea-freight costs. The Company could only partially pass on the increased costs to customers and as a result profitability was severely eroded.

2. Steps taken or proposed to be taken for improvement :

- Your Company has been able to put through price increase consistently in all market segments and this activity is receiving full attention. Further increases are planned to catch up with the increase in feedstock price.
- Your Company also generates power from a low calorific value off gas, which is generated in the process of production of Carbon Black. Efforts are in progress to maximize sale of excess power from the Baroda plant. This will improve overall profitability.
- Review of policy on forex exposure to reduce impact due to the volatility.

3. Expected increase in productivity and profits :

In view of the sharp rise in the prices of imported carbon black feed stock, the main raw material for carbon black as well as the astronomical increase in sea-freight rates, the Company has taken all out measures to reduce costs as well as improve operational efficiency and above all increase the price of carbon black to the extent possible considering the market scenario both domestic and international. Despite the odds, the Company has been maintaining a steady growth and is expected to turnaround sooner than later.

IV. Disclosures :

The required disclosures as to remuneration package, etc. have been appropriately provided in the Report on Corporate Governance, forming a part of this Annual Report which may be referred to.

Profile of Directors seeking re-appointment at the Annual General Meeting

Mr. Sanjiv Goenka

Date of Birth	29th January, 1961.
Expertise in Specific Functional Areas	<p>Mr. Sanjiv Goenka is Vice Chairman, RPG Enterprises, one of India's top Industrial houses. The Group's core activities include power, tyre, retail, entertainment and technology. A former President of CII, Mr. Goenka is currently Chairman, Board of Governors, Indian Institute of Technology, Kharagpur, and Honorary Consul of Canada in Kolkata. He is also Member of India-China Eminent Persons' Group, Indo-French Forum and National Integration Council.</p> <p>Mr. Goenka is Chairman of Spencer & Co. Limited and Harrisons Malayalam Limited. He is Vice Chairman of CESC Limited and Saregama India Limited.</p>
Qualification	B. Com.
Directorship held in other Companies	RPG Enterprises Ltd., CESC Ltd., Saregama India Ltd., Spencer & Co. Ltd., Spencer International Hotels Ltd., Harrisons Malayalam Ltd., Graphite India Ltd., Spencers Travel Services Ltd., Noida Power Co. Ltd., Great Wholesale Club Ltd., Eveready Industries India Ltd., Woodlands Medical Centre Ltd.
Committee Membership	Mr. Sanjiv Goenka is Member of Audit Committee, Member and Chairman of Investor Grievance Committee and Member of Finance & Forex Committee of CESC Limited, Chairman of Shareholders Grievance Committee of Saregama India Ltd., Member of Audit Committee and Remuneration Committee of Eveready Industries India Ltd.
Shareholdings in the Company	Mr. Sanjiv Goenka does not hold any shares in the Company.

Mr. B. M. Khaitan

Date of Birth	14th August, 1927.
Expertise in Specific Functional Areas	<p>Mr. B. M. Khaitan is a renowned Industrialist having interest in Tea, Batteries and Engineering. Mr. Khaitan has great contributions to the Tea Industry with which he has been associated for over four decades. He is the Chairman of Williamson Magor & Co. Limited, Eveready Industries India Limited, Mcleod Russel India Limited and Williamson Tea Assam Limited. Mr. Khaitan has also been associated with various leading Chambers of Commerce and Trade Associations.</p>
Qualification	Bachelor of Commerce from Calcutta University.
Directorship held in other Companies (excluding Foreign Companies)	Williamson Magor & Company Ltd., Eveready Industries India Ltd., Mcleod Russel India Ltd., CESC Ltd., Jayshree Tea and Industries Ltd., The Moran Tea Company (India) Ltd., Babcock Borsig Ltd., Flender Ltd., Doorn Dooma Tea Company Ltd., Williamson Tea Assam Ltd.
Committee Membership	Chairman of Remuneration Committee of Jayshree Tea and Industries Limited.
Shareholdings in the Company	Mr. Khaitan does not hold any shares in the Company.

Mr. C. R. Paul

Date of Birth	1st June, 1927.
Expertise in Specific Functional Areas	Mr. C. R. Paul is a noted Corporate adviser of RPG Group, one of India's top industrial houses and Ex-Managing Director of Calcutta Electric Supply Corporation having interest in Electrical and Thermal Power. He was also associated with Govt. of India, Environment Appraisal Committee for Thermal Power Projects as a Member.
Qualification	M. Sc.
Directorship held in other Companies	Kilburn Office Automation Ltd.
Committee Membership	Chairman of Shareholders/Investors Grievance Committee of Phillips Carbon Black Limited and Member of Audit Committee and Remuneration Committee of Kilburn Office Automation Ltd. & Phillips Carbon Black Limited.
Shareholdings in the Company	Mr. C. R. Paul does not hold any shares in the Company.

Mr. Sudhir Sahgal

Date of Birth	27th December, 1945.
Expertise in Specific Functional Areas	Mr. Sudhir Sahgal is a Mechanical Engineer and has done his Advanced Management Program from Kellogg i.e North Western University in Chicago. He has 40 years of experience in manufacturing, engineering, marketing and general management functions.
Qualification	B. Sc. (Mech. Engg.).
Directorship held in other Companies	Great Wholesale Club Limited.
Committee Membership	Member of Audit Committee of Great Wholesale Club Limited.
Shareholdings in the Company	Mr. Sudhir Sahgal does not hold any shares in the Company.

Directors' Report and Management Discussion and Analysis

Your Directors present the Forty-fifth Report and Accounts of Phillips Carbon Black Limited for the year ended 31st March, 2006.

Financial Highlights

	(Rs. in crores)	
	Year ended 31.03.06 (12 months)	Period ended 31.03.05 (18 months)
Turnover		
Carbon Black	817.25	1,031.72
Power	8.26	0.01
PBDIT	32.43	69.87
Less : Interest	30.65	26.11
PBDT	1.78	43.76
Less : Depreciation	20.48	25.53
PBT	(18.70)	18.23
Provision for tax :		
Current tax	—	6.62
Deferred tax (Release)	(4.59)	(0.75)
Fringe Benefit Tax	0.96	—
PAT	(15.07)	12.36
Surplus brought forward	35.06	28.26
Transfer to Debenture Redemption Reserve	—	1.87
Profit available for Appropriation	19.99	38.75
Proposed Dividend (previous year – Rs. 1.50 per equity share)	—	2.66
Tax on proposed dividend	—	0.38
Transfer to General Reserve	—	0.65
Balance carried forward to next year	19.99	35.06

Dividend

In view of the absence of profits during the year under review, your Directors are unable to recommend any dividend for the financial year ended 31st March, 2006.

Industry Structure and Development

The Asia/Pacific region of the world accounts for nearly 3.8 Million Tons out of 8.5 Million Tons of global capacity of carbon black. It is also the fastest growing region with growth of 7.2% versus the global demand growth of 3.6%. India, with a capacity of 0.55 Million Tons is the 3rd largest producer in Asia, after China and Japan. India is also the largest exporter of Carbon Black in Asia.

Domestic demand grew by 13% during the year. Most of the industry capacity is modern and product quality

matches international standards. As a result, Indian capacity utilization is running over 90% level. Consequent to the increase in demand, prices have shown positive trend in recent months.

Performance

Carbon Black

Sales volume on an annualized basis of your Company witnessed a robust growth of 11%. Sales value grew at an even more impressive 19% during the year on improved realizations. Your Company successfully maintained its market leadership position.

However, the increased price realization could not fully cover the sharp rise and continuous high volatility in Feedstock prices, which are linked to crude oil prices. Additionally, the quality of feedstock also dropped due to the adverse impact of hurricane in the U.S. Gulf Coast which affected the refineries supplying your Company's feedstock. Raw material cost rose from 60% to 70% of sales during the current year. Further, the exchange fluctuation during the year had adverse impact on the profitability of the Company.

Power

Power generation increased by 21% on an annualized basis. The 12 MW co-generation power plant at Baroda using off gas, stabilized during the year. Revenue from power sale to the Grid could have been higher but for the delay in execution of the Open Access Policy in Gujarat.

Manufacturing

Timely investment in capacity expansion and modernization helped your Company increase production by nearly 10% on annualized basis. Production at the newly expanded Baroda plant also stabilized during the year.

Research & Development

Significant R&D activities were instituted during the year resulting in development of a large number of specialized grades for customers to meet their stringent requirements.

Environment, Health & Safety

Efforts on Environment, Health and Safety continued unabated. The Cochin unit was ranked third among large industries in Kerala for its sustained and substantial effort in controlling pollution during 2004.

Your Company is actively engaged in providing voluntary social services to residents around the factories e.g. medical camps and tree plantations.

Human Resource Development

During the year, your Company focused on delivering distinctive people and organizational capabilities. The

Phillips Carbon Black Limited

objective is to inculcate a performance-driven dynamic organizational culture through job enrichment. Various initiatives have been taken across the Company's locations to upgrade competence and skills. Employee relations continued to be healthy.

Internal Control System and Adequacy

The Company has a well knit Internal Control System under which Management Reports on Key Performance Indicators and various analysis are made and acted upon with proper monitoring of activities. Moreover, the Company continuously upgrades these systems in line with the best available practices. Regular Management Committee Meetings are held where these reports and variance analysis vis-a-vis Budgets are discussed and action plan drawn for follow up action. Operational Reports are tabled at each Board Meetings after discussion at Audit Committee Meetings.

An independent Audit Committee of the Board reviews the adequacy of Internal Control.

Opportunities and Threats

Your Company is aware of the opportunities and threats that exist in the business and is fully geared to make the best of the opportunities while facing the threats.

Opportunities

- The domestic automobile industry is growing at a significant pace which should translate into higher demand for tyres and carbon black.
- India is emerging as an export hub for the automobile industry coupled with significant tyre export, resulting in an increased demand for carbon black.
- The global demand-supply situation is favourable to carbon black manufacturers.
- The Company can convert off gases (which are currently flared) to generate electricity and boost profitability.

Threats

- Unabated increase in cost of feedstock and the lag in revision in selling price of carbon black in the domestic market.
- Import duty on carbon black has been reduced to 10% from 15% during February, 2006 which induces demand for imported carbon black.
- Inadequate infrastructure at ports, resulting in detention of vessels and higher transportation cost.

Segmentwise Performance

The performance of Carbon Black and Power segment has been covered in this Report earlier.

Risks and Concern

The major raw material for the Company (carbon black feedstock) has close relationship with crude oil prices.

The Company is also exposed to risks from market fluctuations of foreign exchange, interest rate and stringent statutory regulations relating to environment.

Future Outlook

With the increasing emphasis of the Government of India on improving and expanding the nation's road network through the Golden Quadrilateral and other infrastructure projects, the Automobile industry is poised for a sharp growth. Similar developments are occurring in the Asia Pacific region. All these should trigger a spurt in demand for Carbon Black.

Simultaneously, capacity additions in Carbon Black manufacture has slowed down. Your Company, with its large installed capacity, three strategically located plants, long standing relationship with customers and feedstock suppliers is well poised to take advantage of the market opportunity.

The initiatives taken during 2005-06 should help the Company restore normalcy sooner than later.

Overall, the worst period for the Carbon Black industry is behind us. We are looking forward to a strong positive performance.

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

A statement giving details of conservation of energy, technology absorption, foreign exchange earnings and outgo as required under Section 217(1)(e) of the Companies Act, 1956 read with Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules, 1988 is annexed. This forms an integral part of this Report.

Public Deposits

The Company does not have any Fixed Deposit Scheme and repaid all Fixed Deposits that have matured and claimed by the depositors under the earlier Fixed Deposit Schemes. An amount of Rs. 100.03 lakhs remains outstanding as on 31st March, 2006. Out of the above deposit, an amount of Rs. 12.35 lakhs has matured but remained unclaimed as on 31st March, 2006. Reminders have been sent to depositors, who did not claim repayment of their matured deposits.

Out of the unclaimed deposit of Rs. 12.35 lakhs, an amount of Rs. 2.15 lakhs has been paid till the date of this Report.

Notes on Accounts

Regarding the Auditors' comments on remuneration to Managing Director, the Directors draw your attention to

Phillips Carbon Black Limited

Note 3.2 of Schedule 17 forming part of Accounts. The observations made by auditors should be read together with the note referred to, which is self-explanatory.

Particulars of Employees

The Particulars of Employees required to be furnished under Section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975, as amended, form a part of this Report.

Corporate Governance

Under Clause 49 of the Listing Agreement with the Stock Exchanges, a section on Corporate Governance together with a certificate from the Company's Auditors confirming compliance is set out in the Annexure forming part of this Annual Report.

Voluntary Delisting of Company's Equity Shares From Saurashtra Kutch Stock Exchange Limited

Pursuant to the approval of the Members at the Forty-third Annual General Meeting held on 4 March 2004, the shares of your Company were voluntarily delisted from the Saurashtra Kutch Stock Exchange Limited. As reported last year, the Company's shares were also delisted from Stock Exchanges at Ahmedabad, Jaipur and Delhi.

The Company's shares continue to remain listed on National Stock Exchange of India Limited, Bombay Stock Exchange Limited, and The Calcutta Stock Exchange Association Limited.

Directors' Responsibility Statement

Pursuant to Section 217(2AA) of the Companies Act, 1956, the Directors to the best of their knowledge and belief confirm that :

- i) in the preparation of the annual accounts, the applicable accounting standards have been followed, and that there are no material departures;
- ii) appropriate accounting policies have been selected 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 financial year and of profit or loss of the Company for the period;
- iii) proper and sufficient care has been taken, for the maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- iv) the annual accounts have been prepared on a going concern basis.

Auditors

The Auditors, Messrs Price Waterhouse, retire at the ensuing Annual General Meeting and being eligible offer themselves for re-appointment.

Cost Audit

The Central Government had directed an audit of the cost accounts maintained by the Company in respect of carbon black. The Central Government has approved the appointment of M/s. Shome & Banerjee, Cost Accountants, for conducting the cost audit for the financial year ended 31st March, 2006.

M/s. Shome & Banerjee, Cost Accountants, have been re-appointed by the Board of Directors, subject to the approval of the Central Government, for conducting the audit of the cost accounts for the financial year ending 31st March, 2007.

Directors

The Board deeply mourns the untimely demise of Mr. Amiya Gooptu on 18th January, 2006 and places on record its appreciation for the services rendered by him as a Director.

Mr. Sanjiv Goenka, Mr. B. M. Khaitan and Mr. C. R. Paul retire by rotation and being eligible offer themselves for re-appointment.

Forward-Looking Statement

This Report contains forward-looking statements that involve risks and uncertainties. Actual results, performance or achievements could differ materially from those expressed or implied in such forward-looking statements. Significant factors that could make a difference to the Company's operations include domestic and international economic conditions affecting demand, supply and price conditions, foreign exchange fluctuations, changes in government regulations, tax regimes and other statutes.

Acknowledgement

Your Directors record their grateful appreciation of the encouragement, assistance and co-operation received from shareholders, Government authorities, financial institutions, bankers and customers. They thank them for the trust reposed in the Management during a difficult year. The Directors also thank all employees for their commitment and service.

For and on behalf of the Board

Kolkata
23rd June, 2006

S. Sahgal
Managing Director

K. S. B. Sanyal
Director