

SESHASAYEE PAPER AND BOARDS LIMITED

NOTICE

Notice is hereby given that the Forty Sixth Annual General Meeting of the Members of the Company will be held at the Community Centre, SPB Colony, Erode 638 010, on Saturday, the July 29, 2006, at 11.00 AM, to transact the following business :

ORDINARY BUSINESS

- 1 To consider and adopt the Balance Sheet as at 31st March 2006, the Profit and Loss Account for the year ended on that date and the Reports of the Board of Directors and Auditors thereon.
- 2 To declare a dividend.
- 3 Sri M R B Punja retires by rotation at this meeting and does not seek re-election.
- 4 To appoint Auditors to hold office from the conclusion of this Annual General Meeting until the conclusion of the next Annual General Meeting and fix their remuneration. Messrs Suri & Co., Chennai and Messrs S Viswanathan, Chennai, the retiring Auditors are eligible for reappointment.

SPECIAL BUSINESS

- 5 To consider and, if thought fit, to pass with or without modifications, the following as an ORDINARY RESOLUTION :

"RESOLVED THAT in accordance with the provisions of Sections 269, 309, 198, Schedule XIII and other applicable provisions, if any, of the Companies Act, 1956, and subject to such approvals, as may be necessary, approval of the Members of the Company be and is hereby accorded to the re-appointment of Sri N Gopalratnam as Chairman and Managing Director of the Company for a period of three years, with effect from April 1, 2006 and upto March 31, 2009, to exercise all the powers of management, subject to the supervision and

control of the Board of Directors, on the terms and conditions set out below :

SALARY :

Rs 1 50 000/- (Rupees one lakh fifty thousands only) per month.

COMMISSION :

Equivalent to 1% of the net profits of the Company, subject to a ceiling of an amount equal to annual salary.

PERQUISITES :

Perquisites shall be restricted to an amount equal to annual salary.

Contribution to Provident Fund, Superannuation Fund and Annuity Fund shall, however, be excluded in reckoning the said ceiling.

MINIMUM REMUNERATION :

In the event of loss or inadequacy of profits in any financial year, the Chairman and Managing Director shall be paid a Special Allowance not exceeding Rs 9 00 000 (Rupees nine lakhs only) per year, in addition to salary and perquisites as specified above. In any event, the total of salary, perquisites and special allowance will be within the overall ceiling as specified in Section II of Part II of Schedule XIII to the Companies Act, 1956. No commission is payable in such a year.

RESOLVED FURTHER THAT the Board of Directors be and are hereby authorised to revise the remuneration, including commission and perquisites, from time to time, within the limits prescribed in Schedule XIII to the Companies Act, 1956, or any amendment or any statutory modifications thereto".

- 6 To consider and, if thought fit, to pass with or without modifications, the following as a SPECIAL RESOLUTION:

"RESOLVED THAT approval be and is hereby given to:

- ◇ the Company, in terms of Section 149(2A) of the Companies Act, 1956, to

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commence the business of trading in all kinds of fuels, including petrol, diesel and other petroleum products and

- ◇ the Board of Directors to exercise all such powers incidental thereto."

(By Order of the Board)

For SESHASAYEE PAPER AND BOARDS LIMITED

(V PICHAI)

DIRECTOR (FINANCE) & SECRETARY

Chennai

June 10, 2006

NOTES :

- 1 The relative Explanatory Statement, pursuant to Section 173(2) of the Companies Act, 1956, in respect of Special Business set out under items 5 and 6, is annexed hereto.
- 2 For appointment of Chairman and Managing Director, disclosure, as required under Clause 49 of the Listing Agreement, is annexed hereto.
- 3 A Member, entitled to attend and vote at the meeting, is entitled to appoint one or more Proxies, to attend and vote on a poll, instead of himself and such Proxy need not be a Member of the Company.
- 4 Proxies, in order to be effective, must be filed with the Company not later than 48 hours before the meeting.
- 5 The Register of Members and Share Transfer Books will be closed from Tuesday, the July 18, 2006, to Saturday, the July 29, 2006 (both days inclusive).
- 6 Dividend, if declared, will be paid to the Members whose names appear on the Register of Members as on July 29, 2006 and in respect of shares held in Electronic Form, to the beneficial owners, as per list that will be furnished by National Securities Depository Limited / Central Depository Services (India) Limited, as on that date.
- 7 Members holding shares in physical form are requested to notify, promptly, any change in their address, to the Registrar and Share Transfer Agents of the Company, M/s Integrated Enterprises (India) Limited, Chennai, quoting their Membership Number, besides changes, if any, in the Dividend Mandates given by them and those holding shares in Electronic Form, may communicate the above information to their respective Depository Participants.
- 8 The amended provisions of the Companies Act, 1956, provide for Nomination facility to Members. Members are requested to write to the Registrar and Share Transfer Agents of the Company, M/s Integrated Enterprises (India) Limited, Chennai, for more information, if any needed, on Nomination facility and / or to get a copy of Nomination Form.
- 9 Pursuant to Section 205A of the Companies Act, 1956, all unclaimed dividends, upto the financial year ended March 31, 1995, have been transferred to the General Revenue Account of the Central Government. Members who have not encashed the dividend warrants for the said period are requested to claim the amount from the Registrar of Companies, Second Floor, Coimbatore Stock Exchange Building, Trichi Main Road, Singanallur, Coimbatore 641 005, Tamilnadu. In case any assistance is required in this regard, please write to the Registered Office of the Company.
- 10 As regards dividends pertaining to the financial year ended March 31, 1996 and thereafter, amounts remaining in the Unpaid Dividend Accounts of the Company have to be transferred to the Investor Education and Protection Fund, established by the Central Government, at the expiry of seven years from the date of transfer to the respective year's Unpaid Dividend Account. Thereafter, the Members shall have no claim against the Fund or the Company, in respect of his unpaid dividend. Such transfer has already been effected with regard to the unpaid dividend for the financial years 1995-96 to 1997-98. The

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unpaid dividend for the financial year 1998-99 will be transferred to the above Fund during August 2006. Members are, therefore, requested to lodge their claims for unpaid dividend, if any, immediately with the Company.

- 11 For Dematerialisation of Equity Shares, the Company has entered into a tripartite agreement with National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL). The Company's Equity Shares have been included in the list in which trading is compulsory for all the investors in dematerialised form, along with other scrips, from July 24, 2000. Hence, Members are requested to convert their physical share certificates into DEMAT form, through their Depository Participants.
- 12 So far, more than 75% of the total number of Shares in the Equity Capital of the Company

has been dematerialised. In view of the advantages of the Depository System and for easy trading of the shares, Members are requested to opt for Dematerialisation of the shares of the Company, through any of the Depository Participants of their choice.

- 13 Members holding shares in DEMAT form are requested to incorporate the DP ID Number and Client ID Number in the Attendance Slip / Proxy Form, for easy identification of attendance at the meeting.
- 14 For receiving Dividend through Electronic Clearing Service (ECS), in the notified Centres, Members are requested to forward the Form attached to the Circular letter, duly filled in, to the Registrar and Share Transfer Agents of the Company, M/s Integrated Enterprises (India) Limited, Chennai or to their respective Depository Participants.

EXPLANATORY STATEMENT

(As required under Section 173(2) of the Companies Act, 1956)

Item No. 5

Sri N Gopalaratnam was first appointed as the Managing Director of the Company in April 1988. He has completed his sixth term of three years as the Managing Director on March 31, 2006. On the passing away of Sri S Viswanathan, the Founder and the then Chairman in July 2001, he succeeded him as Chairman and Managing Director.

Sri Gopalaratnam assumed office as Managing Director when the Company's operations and financial position were not healthy. His able leadership, commitment and devotion brought back the Company to its good health.

Under his stewardship, the Company completed successfully, in June 2000, a major Expansion / Modernisation programme costing nearly Rs 190 crores, to increase the production capacity of the Mill from 60000 tonnes per annum to 115000 tonnes per annum, besides modernisation of some of the existing facilities. The Project was successfully implemented and commercial production commenced from July 1, 2000. The new Paper Machine stabilised early and is being operated in excess of the full capacity.

Further, under the stewardship of Sri Gopalaratnam, the Company established a 20 MW Captive Power Plant at a cost of Rs 65 crores, to achieve economies in energy front. The Project was completed on time in March 2005 and the Company is enjoying the fruits of the Project by substantial savings in energy costs. Currently, the Company is meeting nearly 75% of its Power requirements from the Captive Power Plant.

Sri Gopalaratnam pioneered in securing ISO 9001 and ISO 14001 accreditations to the Company. Achievement of "Golden Export House" and "Two Star Export House" status for

the Company is commendable. Further, with his vision, the Company has launched "World Class Manufacturing" Programme, a unique concept of achieving enterprise excellence.

The Company has recently embarked on a major Mill Development Plan, at an estimated cost of Rs 350 crores. The financial closure for the Project has already been achieved. Commercial Banks have committed Term Loan assistance of Rs 270 crores and the balance Rs 80 crores will be provided by the Company from its internal accruals. Contract has been entered into with a Mill in USA to source the used Pulp Mill Equipment at their site. Dismantling operations are underway in USA under the supervision of the Engineers from our Company. Tender documents for sourcing other major equipments are underway. The Project is expected to be completed by December 2007.

The continued leadership and services of Sri Gopalaratnam are considered essential for sustained growth of the Company.

Accordingly, the Board of Directors, at their meeting held on March 25, 2006, re-appointed Sri Gopalaratnam as Chairman and Managing Director for a further term of 3 years from April 1, 2006, on the terms and conditions set out in the Resolution.

The remuneration package is well within the overall limit prescribed under Schedule XIII to the Companies Act, 1956, which permits our Company to pay an overall remuneration, not exceeding 10% of the net profits in any year, to all its Directors.

In the event of loss or inadequacy of profits in any financial year, the Chairman and Managing Director shall be paid a Special Allowance not exceeding Rs 9 00 000 (Rupees nine lakhs only) per year, in addition to salary and perquisites as specified above. In any event, the total of salary, perquisites and special

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allowance will be within the overall ceiling as specified in Section II of Part II of Schedule XIII to the Companies Act, 1956. No commission is payable in such a year.

The Board of Directors will also be at liberty to alter, vary and revise the remuneration including, commission and the perquisites from time to time within the limits prescribed in Schedule XIII to the Companies Act, 1956 or any amendment or statutory modifications thereto.

In terms of Part III of Schedule XIII to the Companies Act, 1956, the appointment and remuneration as above shall be subject to the approval by Members of the Company in General Meeting and accordingly, the subject is placed before the Members for their approval.

A copy of the Board Resolution in this regard is available for inspection by the Members at the Registered Office of the Company during business hours on any working day prior to the date of the meeting.

No Director other than Sri N Gopalaratnam is concerned or interested in the said Resolution relating to his appointment as Chairman and Managing Director.

The foregoing may be treated as an abstract of the terms and conditions governing the appointment and remuneration and memorandum of interest pursuant to Section 302 of the Companies Act, 1956.

Item No. 6

For quite some time, the suppliers, contractors, customers, dealers and employees are requesting the Company to start a Petrol / Diesel outlet close to the Mill or Colony to enable them to fill up the trucks with fuel instead of going to other outlets, elsewhere. They have also

requested the Company that the value of the fuel bills can be deducted from their bills. They feel that the arrangement will ensure availability, quality fuel, time saving, easy payment facility, etc.

The Company considers that the request is genuine and is in the business interest of the Company. Hence, the Company proposes to set up a petrol / diesel outlet closer to the Employees' Colony in Kadachanallur Village in association with Indian Oil Corporation. The Board of Directors felt that the business of trading in all kinds of fuels, including petrol, diesel and other petroleum products can be undertaken advantageously and in the business interest of the Company with immediate effect.

While the Company is eligible to undertake the business of trading in all kinds of fuels, including petrol, diesel and other petroleum products, it has to obtain the approval of the Members of the Company for commencement of such new business by a Special Resolution as required under Section 149(2A) of the Companies Act, 1956. Hence, the proposal.

The Company's Memorandum of Association is open for inspection at the Registered Office of the Company between 10.30 AM and 4.30 PM on any working day prior to the date of the meeting.

None of the Directors is interested or concerned in the Resolution.

(By Order of the Board)
For SESHASAYEE PAPER AND BOARDS LIMITED

(V PICHAI)
DIRECTOR (FINANCE) & SECRETARY

Chennai
June 10, 2006

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Appointment of Director :

Disclosure required under Clause 49 of the Listing Agreement in respect of Director seeking appointment / re-appointment at the Forty Sixth Annual General Meeting :

Sri N Gopalaratnam

Date of birth and age	:	15 04 1947 (59 years)
Date of appointment	:	26 12 1987 as a Director 01 04 1988 as Managing Director
Expertise in specific functional areas	:	Mechanical Engineer with nearly 35 years of specialisation in design, operation and management of Pulp and Paper Industry.
Qualification	:	B.Sc., B.E. (Mech)
Number of shares held in the Equity Capital of the Company	:	8841
Directorships in other companies	:	Ponni Sugars (Erode) Limited High Energy Batteries (India) Limited SPB Projects and Consultancy Limited Esvi International (Engineers & Exporters) Limited Time Square Investments Private Limited
Committee / executive positions held in other companies	:	Ponni Sugars (Erode) Limited - Securities Transaction cum Investor Grievance Committee - Chairman High Energy Batteries (India) Limited - Shareholders / Investors Grievance Committee - Chairman

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DIRECTORS' REPORT

7 The Directors hereby present their Forty Sixth Annual Report and the Audited Accounts for the year ended 31st March, 2006:

WORKING RESULTS

	2005-06 (Actuals) (in tonnes)	2004-05 (Actuals) (in tonnes)
Production	122003	118854
Sales	121332	118264
	(Rs lakhs)	(Rs lakhs)
Gross Sales	46925	43212
Other Income	95	47
Less: Excise Duty and Excise Cess	5008	4656
Sales and other income (net of Excise Duty)	42012	38603
Profit before interest, depreciation and tax	4800	2954
Interest	625	666
Depreciation	1452	1128
Profit before tax	2723	1160
Provision for Current Tax	87	90
Transfer to Deferred Tax	818	412
Provision for Fringe Benefit Tax	27	--
Net Profit	1791	658

DIVIDEND

The Directors recommend a dividend of Rs 2.50 per share, absorbing a sum of Rs 281 lakhs. As per the provisions of the Income tax Act, 1961, no tax will be deducted at source on dividends distributed. However, the Company will bear the tax on the dividend distributed, amounting to Rs 39 lakhs.

APPROPRIATIONS

Your Directors propose the following appropriations:

	2005-06 (Rs lakhs)
Net profit for the year	1791
<i>Add:</i>	
Surplus brought forward from the previous year	743
	<u>2534</u>
<i>Less:</i>	
Transfer to General Reserve	1500
Proposed dividend and tax thereon	320
	<u>1820</u>
Balance carried forward	<u>714</u>

OPERATIONS

During the year, the Company achieved a production of 122003 tonnes, at an overall average basis weight of 75 gsm, compared to 118854 tonnes in the previous year. The production of 122003 tonnes is the highest achieved by the Company, so far.

The gross turnover was Rs 46925 lakhs, for the year 2005-06, compared to Rs 43212 lakhs, during the previous year. The turnover achieved, during the year, the highest so far, exceeded the previous year's by 8.6%.

The Profit before interest, depreciation and tax was Rs 4800 lakhs, as compared to Rs 2954 lakhs, in the previous year.

Major factors that contributed to better profitability for the year, as compared to the previous year are :

- ◇ Increase in contribution due to increased production
- ◇ Increase in net sales realisation on account of better product mix and prices

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- ◇ Decrease in raw materials cost due to use of higher in-house pulp and reduced use of imported pulp
- ◇ Reduction in energy cost, mainly on account of higher captive generation of power consequent on implementation of Captive Power Project
- ◇ Reduction in interest and financing charges.

However, the benefits were partially neutralised by:

- ◇ Steep increase in prices of both forest raw materials and imported pulp
- ◇ Increase in Employee Cost on account of lump sum payments made to employees retired under Voluntary Retirement Scheme
- ◇ Increase in Repairs and Maintenance Expenses
- ◇ Increase in Depreciation charges on account of addition of Captive Power Plant Assets
- ◇ Higher prices and usage of chemicals and consumables.

After absorbing interest and financing charges and depreciation of Rs 625 lakhs and Rs 1452 lakhs, respectively, the profit before tax was Rs 2723 lakhs, as compared to Rs 1160 lakhs, in the previous year.

A sum of Rs 87 lakhs has been provided for liability towards Current tax after netting off MAT Credit Entitlement of Rs 138 lakhs, as against Rs 90 lakhs in the previous year.

Section 115JAA to the Income tax Act, 1961 provides that where a company is liable to pay Minimum Alternate Tax (MAT) for the assessment year 2006-07 and any subsequent assessment year, then the said company is entitled to take credit of MAT paid. The credit to be allowed shall be the difference of the tax under MAT and the amount of tax payable by the assessee on his total income computed in

accordance with the other provisions of the Act. The tax credit so determined shall be carried forward and set-off not beyond the seventh assessment year immediately succeeding the assessment year in which tax credit becomes allowable. The tax credit shall be allowed set-off in a year when tax becomes payable on the total income computed in accordance with the provisions of the Act, other than provisions relating to MAT. The set-off in respect of brought forward tax credit shall be allowed for any assessment year to the extent of the difference between the tax on the total income and the tax payable under MAT for that assessment year.

Under the above provisions, the Company is entitled for a MAT Credit of Rs 138 lakhs for the year 2005-06, to be set-off in the financial year 2006-07 or thereafter. As per the guidance note of the Institute of Chartered Accountants of India, the said MAT Credit Entitlement is netted to MAT liability for the year and correspondingly shown as a separate item under Loans and Advances in Schedule "I" to the Balance Sheet.

As per the Accounting Standard AS-22 of the Institute of Chartered Accountants of India, a sum of Rs 818 lakhs has been transferred to Deferred Tax from Profit and Loss Account, as against Rs 412 lakhs in the previous year.

A sum of Rs 27 lakhs has been provided towards Fringe Benefit Tax.

In the result, profit after tax for the year was Rs 1791 lakhs, as compared to Rs 656 lakhs, in the previous year.

FINANCE

During the year, the Company reached financial closure for the ongoing Mill Development Plan. A consortium of five Banks, consisting of State Bank of India, UCO Bank, Syndicate Bank, Central Bank of India and Canara Bank, has sanctioned term loan assistance totaling Rs 270 crores for the Project.

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The Company paid the instalments of the Term Loans and the interest dues on Term Loans and Working Capital Limits, on or before the respective due dates.

INTEREST FREE SALES TAX DEFERRAL SCHEME

During the year 2005-06, the Company availed Rs 724 lakhs under the Scheme and the cumulative amount availed upto March 31, 2006 was Rs 2040 lakhs.

MARKET CONDITIONS

Throughout the year under review, the sentiments in the paper market witnessed steady trends. The favourable market conditions enabled the Company to effect price increases for its products, both in the domestic as well as export markets. The Company could sell all its production during year, achieving Zero stock at the end of the year, for the ninth time in the last twelve years.

It was reported in last year's Directors' Report that Government of India had amended Notification No. 6/2002 CE, dated 01 03 2002, by issuing a Notification No. 48/2004 CE, dated 10 09 2004, which inter-alia provided that paper manufactured with not less than 75% unconventional raw material will be eligible for a concessional rate of excise duty of 12%, provided they are manufactured in the mills which do not have a plant attached thereto for making bamboo or wood pulp.

By the above Notification dated 10 09 2004, large integrated paper mills, having facilities for making wood and bamboo pulp, became ineligible for the concessional rate of excise duty of 12%, even though they manufactured large quantities of pulp with unconventional raw materials and produced paper with not less than 75% unconventional raw material in the final furnish.

Both the Company and the Indian Paper Manufacturers Association made representations to the Finance Minister and

Commerce and Industry Minister for extending the concessional rate of Excise Duty of 12% to all paper mills irrespective of whether they have plant to produce wood and bamboo pulp or not.

In response to the above appeals, in the Budget proposal for the year 2006-07, the Central Government has reduced the rate of duty for Paper and Boards from 16% to 12%, with effect from March 1, 2006.

The Company places on record its sincere appreciation and thanks to the Government of India, especially Ministry of Finance and Ministry of Commerce and Industry for their understanding and gesture.

EXPORT PERFORMANCE

The Company exported 21359 tonnes of paper and paper boards during the year, as compared to 21993 tonnes, during 2004-05. The exports accounted for 18% of total production.

The export proceeds amounted to US \$ 17 104 564, equivalent to Rs 7601 lakhs, as compared to Rs 7255 lakhs, during the previous year. The Company's products are now being exported to over 15 countries.

Besides the above, the Company also sold 4341 tonnes, under deemed exports whose proceeds amounted to Rs 1466 lakhs.

CONTRACT TREE FARMING

It was reported last year that in order to augment the availability of forest raw materials and bring down their prices, the Company proposed to initiate steps to develop its own source of plantations, instead of depending on Government and other Agencies, following the footsteps of many of the Paper Mills in other States who have already taken pro-active steps during the last 5-8 years, by distributing large quantities of seedlings and saplings of Eucalyptus Hybrid, Subabul, etc. varieties to interested growers and landholders.

During the year 2005-06, the Company entered into agreements with farmers holding

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over 3000 acres of land and planted Eucalyptus Hybrid / Casuarina varieties. For needy farmers, financial assistance has also been arranged through nationalised banks. Nurseries were raised to supply quality seedlings to the farmers covered under the Scheme.

The area under the Scheme will be increased progressively year after year.

Our Company, for this purpose, has undertaken a Collaborative Research Project with the Department of Tree Breeding of Forest College and Research Institute, Mettupalayam, (FC&RI) attached to Tamilnadu Agricultural University, Coimbatore.

ISO 9001 / ISO 14001 ACCREDITATION

Company's quality systems continue to be covered by the "ISO 9001" accreditation. Company's Environmental Management System, continues to enjoy "ISO 14001", accreditation.

AWARDS

Exports

Export house status

- ◇ The Company continues to enjoy "Two Star Export House" Status, awarded by the Government of India, Ministry of Commerce, Directorate General of Foreign Trade, in recognition of its export performance.

Special Export Award

- ◇ The Company received a Special Export Award from Chemicals and Allied Products Export Promotion Council (CAPEXIL), in recognition of its outstanding export performance during the year 2004-05, in respect of Paper and Paper Boards.

DEPOSITORY SYSTEM

As on March 31, 2006, 4868 Members are holding their shares in demat form and 84 73 238 Equity shares, representing 75.32% of the total Paid up Equity Share Capital of the Company, have been dematerialised.

CURRENT YEAR (2006-07)

Production during April - May 2006, was 20279 tonnes as compared to 20269 tonnes, produced during April - May 2005. Sales realisation (net of Excise Duty and Cess) during April - May 2006 amounted to Rs 6488 lakhs (17935 tonnes), as compared to Rs 5654 lakhs (17199 tonnes) during April - May 2005.

During April - May 2006, 2464 tonnes of paper and boards, valued at US \$ 2 054 905 (equivalent to Rs 935 lakhs) were exported.

Market conditions were favourable during the two month period.

ENVIRONMENTAL PROTECTION

The Company continues to provide utmost attention to the conservation and improvement of the environment. The Power Boilers and Recovery Boilers are equipped with Electro Static Precipitators, to arrest dust emissions. The Company has installed and operates an Anaerobic Lagoon, for high BOD liquid effluents and a Secondary Treatment System, for total Mill effluent. These facilities are operating efficiently, enabling the Company to comply with the pollution control norms, prescribed by the Pollution Control Authorities, on a sustained basis. The treated effluent water continues to be utilised for irrigating nearby sugar cane fields.

MILL DEVELOPMENT PLAN

The Company is already complying with major requirements under the Charter on Corporate Responsibility for Environmental Protection (CREP), by implementing various effective Pollution Abatement Measures over a period of time. However, the existing Wood Pulping Equipment of the Mill is more than 30 years old and requires total replacement to sustain compliance under CREP and improve further.

To address the above issue, the Company has drawn up a Mill Development Plan (MDP) at an estimated cost of Rs 350 crores. The Project envisages replacement of the existing

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Pulp Mill for which the Company had entered into an agreement for procurement of a 350 tonnes per day used Pulp mill in USA, equipped with advanced technological features like RDH Pulping. Besides this, a new modern Chemical Recovery Boiler (in the place of existing two Chemical Recovery Boilers), a Black Liquor Evaporation Plant, a Lime Re-burning Kiln and a Turbo Alternator Set will also be installed.

The dismantling and shipment of the Pulp Mill from USA to our Mill Site is underway. Letters of Intent have been issued for supply, erection and commissioning of Chemical Recovery Boiler with Electrostatic Precipitator and Auxiliaries, Black Liquor Evaporation Plant and the Lime Mud Re-burning Kiln. Discussions are underway for placement of orders for other equipments and civil works.

SPB Projects and Consultancy Limited is retained as the Project Consultants for rendering Project Engineering, Procurement Assistance and Project Management Services.

The Project is being funded by Term Loans of Rs 270 crores from commercial Banks and the balance out of internal accruals.

The implementation of the Project is expected to be completed by December 2007.

With the installation of all the above equipment, incorporating the advanced technological features, the Mill will enhance its Environmental Performance and Compliance and would rank foremost among the large Integrated Pulp and Paper Mills in the Country.

AUDIT COMMITTEE

The Audit Committee of the Board consists of four Non-Whole time Directors, viz., Sri M R B Punja, Sri R V Gupta, Sri N Ravindranathan and Sri Bimal Kumar Poddar, all of whom are independent Directors.

Sri M R B Punja is the Chairman of the Audit Committee.

DIRECTORS' RESPONSIBILITY STATEMENT

While preparing the annual financial statements, the Company has adhered to the following:

- ◇ In the preparation of the said financial statements, the Company has followed the applicable Accounting Standards referred to in Section 211(3-C) of the Companies Act, 1956
- ◇ The Company has followed the said Accounting Standards and has been applying them consistently and has made judgements and estimates that are reasonable, prudent and are in the interest of the Company's business so as to give a true and fair view of the state of affairs of the Company as at March 31, 2006 and of the profit of the Company for the said period.
- ◇ 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.
- ◇ The Directors have prepared the financial statements on a going concern basis.

CORPORATE GOVERNANCE

The Report on Management's Discussion and Analysis and Report on Corporate Governance are forming part of Directors' Report and are annexed as Annexure - III and Annexure - IV.

As required by the Listing Agreement, an Auditors' Report on Corporate Governance and a Declaration by the Chairman and Managing Director with regard to Code of Conduct are attached to the said Report.

Further, as required by Clause 49 of the Listing Agreement, a Certificate, duly signed by

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the Chairman and Managing Director and Director (Finance) & Secretary, was submitted to the Board of Directors on the financial statements and cash flow statement of the Company for the year ended March 31, 2006 at the meeting held on June 10, 2006.

CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE EARNINGS AND OUTGO

The information relating to Conservation of Energy, Technology Absorption and Foreign Exchange Earnings and Outgo, as required under Section 217(1)(e) of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988, is given in Annexure - I and forms part of this Report.

PARTICULARS OF EMPLOYEES

The statement of employees, referred to in Section 217(2A) of the Companies Act, 1956, read with Companies (Particulars of Employees) Rules, 1975, is given in Annexure - II and forms part of this Report. The employee shown therein is not a relative of any Director of the Company.

CASH FLOW STATEMENT

As required under Clause 32 of the Listing Agreement with the Stock Exchanges, a Cash Flow Statement is attached to the Balance Sheet, along with Auditors' Certificate.

LABOUR

During the year the Company introduced two Voluntary Retirement Schemes, one with a benefit of lump sum payment and another Heirship Scheme. In total, 105 employees opted to retire under both the Schemes.

Relations between the Management and the labour were cordial throughout the year under review.

DIRECTORS

Dr G Rangaswami retired from the Board at the conclusion of the Forty Fifth Annual General Meeting, held on July 30, 2005. Your Directors place on record the invaluable services rendered by Dr G Rangaswami, during his tenure as Director of the Company.

Directors regret to inform that Dr G Rangaswami passed away subsequently in a road accident.

Sri M R B Punja, Director, retires by rotation, under Article 104 of the Articles of Association of the Company at the conclusion of the ensuing Forty Sixth Annual General Meeting. He does not seek re-election.

AUDITORS

Messrs Suri & Co., Chennai and Messrs S Viswanathan, Chennai, Auditors of the Company, retire at the conclusion of the ensuing Annual General Meeting and are eligible for re-appointment. Necessary resolution for their appointment is proposed at the ensuing Annual General Meeting.

COST AUDIT

Pursuant to Section 233-B of the Companies Act, 1956, the Central Government has ordered that the Company carries out an audit of cost accounts relating to paper every year. Sri M B Kannan, Cost Accountant, was appointed as Cost Auditor for the year 2005-06. The Cost Audit Report for the year 2005-06 will be submitted to the Central Government before the due date.

Sri M B Kannan has expressed his desire to demit the role as Cost Auditor on completion of current term owing to his advanced age. Accordingly, M/s S Mahadevan & Co., Cost Accountants were appointed as Cost Auditors for the year 2006-07, with the approval of the Central Government.

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ACKNOWLEDGEMENT

The Directors place on record their great appreciation of the tireless efforts of all Executives and Employees of the Company which was instrumental in achieving improved profitable financial results in a difficult year. The Directors also express their sincere thanks to the Government of India, Government of Tamilnadu and Commercial Banks, for their

understanding, guidance and assistance, at all times.

On behalf of the Board

N GOPALARATNAM
Chairman and Managing Director

Chennai
June 10, 2006

ANNEXURE - I

INFORMATION UNDER SECTION 217(1)(e) OF THE COMPANIES ACT, 1956, READ WITH THE COMPANIES (DISCLOSURE OF PARTICULARS IN THE REPORT OF BOARD OF DIRECTORS) RULES, 1988

A. CONSERVATION OF ENERGY

a) Measures taken for conservation of energy:

- ◇ Conversion of existing 150 # steam as 50 # steam for Caustic Heater Mixer (in wood and bagasse street in Bleach Plant) and Chlorine Gassifier (in Hypo Plant).
- ◇ Maximisation of Bio-fuel / Pith usage in IBIL and WIL Boilers at Ponni end.
- ◇ Installation of Energy Efficient Pump for MF-I Paper Machine White Water Pump and Hood Fans for MG Paper Machine - Pre and after Dryers.
- ◇ GL&V Centricleaner System for Pulp Mill, MG Paper Machine and 4th and 5th Stage Cleaners for MF-III Paper Machine.
- ◇ Dosing Pumps (3) for Hydrogen Peroxide Dosing System - Double EP Bleaching in Pulp Mill.

b) Additional investments and proposals, if any:

- ◇ Johnson Rotary Joints for MG Paper Machine First Group Dryers.
- ◇ New Pandia Blow Heat Recovery System.
- ◇ Diversion of Filter House Waste Water to Primary Clarifier.
- ◇ Double Stage cooking in Stationery Digester # 1.

c) Impact of the above measures on consumption of energy:

The above measures have resulted in reduced consumption of energy, reduction in cost of production, reduced machines downtime, etc.

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d) Total energy consumption and energy consumption per unit of production as per Form - A:

FORM - A

	Year ended		Year ended	
	31-3-2006	31-3-2005	31-3-2006	31-3-2005
A POWER AND FUEL CONSUMPTION				
1 Electricity				
a) Purchased				
Unit - lakh kWh	385.64	1085.62		
Energy charges				
- Rs lakhs	1397.43	3950.41		
MD and other charges	586.10	631.59		
Total charges	1983.53	4582.00		
Rate/unit - Rs	3.6237	3.6388		
(excluding MD and other charges)				
b) Own generation				
Through Steam Turbine				
Units - lakh kWh	1418.90	535.40		
Units per kg of fuel	--	--		
Cost/unit - (Variable) - Rs	1.67	1.96		
2 Coal				
Quantity - tonnes	152937	89182		
Total cost Rs lakhs	4342.40	2559.63		
Average rate - Rs/tonne	2839	2870		
3 Lignite				
Quantity - tonnes	--	12839		
Total cost - Rs lakhs	--	80.93		
Average rate - Rs/tonne	--	1409		
4 Others				
Quantity - tonnes	--	12777		
Total cost - Rs lakhs	--	180.39		
Rate/Unit - Rs per tonne	--	1412		
5 Furnace oil				
Quantity - Kilo litres	906	574		
Total cost - Rs lakhs	135.32	66.57		
Average rate - Rs per kilo litre	14936	11598		
B CONSUMPTION PER UNIT OF PRODUCTION				
Electricity - kWh	1479	1364		
Coal - tonne	1.254	0.750		
Lignite - tonne	-	0.108		
Others - tonne	-	0.108		
Furnace oil - Kilo litre	0.007	0.005		

B. TECHNOLOGY ABSORPTION

e) Efforts made in technology absorption as per Form - B:

FORM - B

RESEARCH AND DEVELOPMENT (R & D)

- | | |
|---|---|
| 1. Specific areas in which R & D was carried out by the Company | <ul style="list-style-type: none">- Modification of bleaching sequence for bagasse pulp bleaching- Implementation of neutral sizing process in MF-II Paper Machine- Implementation of neutral sizing process in MG Paper Machine for white and coloured varieties (except yellow and orange) products.- Introduction of micro-particle system in MF-III Paper Machine paper making process.- Laboratory scale enzymatic conversion of native starch.- Plant trials on enzymatic pre-bleaching of hard wood pulp to reduce Chlorine consumption during bleaching.- Introduction of alternate clay and binder in coating chemical preparation.- Introduction of new products like high bright MGRK (Natural shade) and MF Maplitho (Natural shade), MG Plain Poster (UV Negative) paper- Implementation of alternate process for manufacturing MGRK.- Improvement in quality of high substance MG / Bristol variety board with respect to elimination of cracking. |
| 2. Benefits derived as a result of the above R & D | <ul style="list-style-type: none">- Reduction in Chlorine consumption by the implementation of modified bleaching process.- Reduction in Alum consumption and cost of sizing by introducing neutral sizing process.- Introduction of new grades of paper.- Improvements in quality of existing products. |
| 3. Future plan of action | <ul style="list-style-type: none">- Plant scale study on Enzymatic conversion of native starch.- Implementation of Enzymatic pre-bleaching process for hardwood pulp in plant on regular basis.- New products development as per market requirements.- Cost reduction measures by introducing alternate / new chemicals. |

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4. Expenditure on R & D	-	The R & D work is carried out in the Central Laboratory attached to the Mill.
(a) Capital	-	-
(b) Recurring	-	Rs 16.64 lakhs
(c) Total	-	Rs 16.64 lakhs
(d) Total R & D expenditure as a percentage of total turnover	-	0.04%

C. FOREIGN EXCHANGE EARNINGS AND OUTGO

f) During the year under review the Company exported 21 359 tonnes of Paper and Boards valued at US \$ 17 104 564, equivalent to Rs 7601 lakhs.

g) Total Foreign Exchange earned and used:

(i) Earnings	-	Rs	7601 lakhs
(ii) Outgo:			
Raw Materials	-	Rs	9029 lakhs
Components, Spare Parts & Chemicals	-	Rs	3453 lakhs
Capital Goods	-	Rs	548 lakhs
Others	-	Rs	235 lakhs
Total	-	Rs	13265 lakhs

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ANNEXURE - II

STATEMENT REQUIRED TO BE FURNISHED UNDER SECTION 217(2A) OF THE COMPANIES ACT, 1956, AS AMENDED BY THE COMPANIES (AMENDMENT) ACT, 1988 AND READ WITH COMPANIES (PARTICULARS OF EMPLOYEES) RULES, 1975 AND FORMING PART OF THE DIRECTORS' REPORT FOR THE YEAR ENDED 31 3 2006 :

- I Employees of the Company who were employed throughout the financial year and in receipt of remuneration for the year which in the aggregate was not less than Rs 24 00 000/-.

1	Name of employee	:	Sri N Gopalaratnam
2	Designation / Nature of duties	:	Chairman and Managing Director
3	Remuneration received	:	Rs 29 09 000
4	Qualification	:	B.Sc., B.E. (Mech.)
5	Experience of employee (yrs)	:	37
6	Date of commencement of employment	:	01 04 1988
7	Last employment held designation / organisation	:	Project Specialist, SPB Projects and Consultancy Limited
8	Age (yrs)	:	59

- II Employees of the Company who were employed for part of the financial year and in receipt of remuneration at a rate, which in the aggregate was not less than Rs 2 00 000 per month.

Nil

Notes :

1. Sri N Gopalaratnam is not a relative of any Director.
2. Remuneration includes Salary, Commission, Allowances and contribution to Provident Fund, Superannuation Fund and Gratuity Fund.
3. The employment of Sri N Gopalaratnam is contractual.

REPORT ON MANAGEMENT'S DISCUSSION AND ANALYSIS

(i) Industry structure and developments

Though the Indian Paper Industry ranks 15th globally, in respect of production, it is highly fragmented. As per estimates, there are more than 1000 paper mills in the country. There are three segments in the entire industry, other than newsprint segment, viz., (i) large integrated mills using bamboo and hardwood and large mills using waste paper / recycled fibre, (ii) medium mills using agricultural residues and (iii) small / medium mills using waste paper / recycled fibres. All the three sectors contribute equally to the total production of paper and paper board in the country. The installed capacities of these mills range from 1000 tonnes per annum to 300000 tonnes per annum.

The paper industry is an important industrial sector having a bearing on the socio-economic development of the country. The Industry mirrors the country's economic growth. It creates economic wealth in the hands of the poor, by generating rural employment. Indian Paper Industry is an important vehicle to drive the Government's National Literacy Mission. It is an important contributor to greening India through Social Forestry Programmes. The Indian Paper Industry is a rural based industry with linkage to Agriculture and Agro Forestry.

The Industry's current annual output is estimated at 6 million tonnes and the annual turnover is more than Rs 17000 crores. Its annual contribution to the National Exchequer is in excess of Rs 2500 crores. The industry provides direct employment to more than 5 lakhs people, besides indirect employment to over 11 lakhs rural poor. The Industry is growing at a CAGR of 5.5% over the last three years. Its export performance is witnessing a steady growth, though far below its potential.

According to Industry sources the estimated production of paper in the country (excluding Newsprint), during the year 2005-06 was 6.2 million tonnes while the demand was slightly lower at 6.1 million tonnes. Exports and imports

were estimated at 0.3 million tonnes and 0.2 million tonnes, respectively.

The per capita consumption of paper and paper board is considered as a yardstick of development of any country. India's paper consumption of just 6 kg per capita, one of the lowest in the world, is a matter of concern. An increase in consumption by 1 kg per capita will lead to an increase in demand of one million tonnes.

Over the years, the industry has made steady progress and in the coming years also the growth potential is high in view of increased demand of paper due to industrialisation and economic reforms.

(ii) Opportunities and threats

The competitive strengths of Indian Paper Industry are :

- ◇ its large and growing domestic paper market
- ◇ qualified technical manpower with capability to manage world scale pulp and paper mills
- ◇ relatively low employee cost
- ◇ well established Research and Development (R & D) facilities / activities encouraging innovation
- ◇ fast growing contemporary printing sector.

While so, the competitive weaknesses are :

- ◇ inadequate availability of virgin fibre
- ◇ resultant high cost of fibrous raw materials
- ◇ small and fragmented industry structure
- ◇ many non competitive mills
- ◇ inconsistent multi-tiered quality of products

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- ◇ environmental problems of most of the small pulp mills and also some big mills
- ◇ high energy consumption and costs
- ◇ poor infrastructure.

The competitive opportunities that present themselves before the industry are :

- ◇ India's growing domestic and export market potential
- ◇ continued availability of trained manpower at reasonably low costs
- ◇ Government's thrust for improving literacy in the country
- ◇ growing export potential for Indian made goods
- ◇ potential for growth of forest plantation.

The competitive threats include possible :

- ◇ delay in creation of sustainable raw material base through industrial plantations
- ◇ decline in capacity due to poor competitiveness in certain segments on account of cost and quality
- ◇ likely closures owing to increasingly stringent environmental regulations
- ◇ above all, numerous Regional Trade Agreements (RTAs) / Free Trade Agreements (FTAs) without adequate safeguards.

The major players, alive to the fast emerging international threats, have been aggressively pursuing quality improvement programmes, coupled with cost management and capacity additions. Increasingly, more up-to-date technologies are sought to be implemented, with added focus on environmental regulations.

International Competitiveness is the key issue that is confronting the paper industry today, especially in the context of Government's resolve to bring down import tariff every year and RTAs / FTAs proposed to be entered into

with ASEAN / SAARC countries, including China. The report of Jaakko Poyry Consulting of Finland, an internationally reputed consulting firm, assessing the competitiveness of the Indian paper Industry and suggesting ways to improve the same to global levels is with the Government of India for quite some time now and Government initiative is expected on this report shortly.

To achieve an ambitious GDP growth of above 8%, growth importance of the Manufacturing Sector is well recognised in the policy initiatives of the Government in recent times. In its pursuit to achieve over-all economic growth of the Country and the need for enhancing the productivity, competitiveness and employment generation, the Government of India has set up a inter-disciplinary, high level body, called the National Manufacturing Competitiveness Council (NMCC), to evolve sector specific strategies for enhancing competitiveness. Paper Industry is one of the identified sectors. The Industry and Industry Associations had discussions with the NMCC to identify strategies that will enable the Indian paper industry to survive global threats and achieve global competitiveness.

The Industry Association has put forward a string of policy initiatives required to bolster the sagging strength of the industry, to face flood of imports and reach levels of quality and cost to become a significant exporter, over a period of time. In the next two decades, India can become a key player in the region of pulp and paper industry. Competitiveness can increase sharply with :

- ◇ availability of wood through:
 - major thrust for development of degraded forest lands
 - evaluation of the status of current plantations and their potential / accessibility for pulp, paper and newsprint industry
 - setting aside 2 million hectares of land for industrial plantations to

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meet the paper industry's wood demand. India has large tracts of waste land, including 32 million hectares of degraded forest lands, small part of which could be allocated for pulp wood plantations.

- suitable amendments to the Forest Conservation Act, 1980 and state level land use laws to enable public-private partnership in reforestation of degraded lands. A one time approval mechanism at the Central Government level would convert non-productive assets of the country into productive assets.
 - improving access to cost effective financing for agro-forestry through long term loans from the banking sector on similar terms as that of priority sector lending for agriculture.
- ◇ On the waste paper and agro-residue front the Government must :
- intervene to encourage segregation at source and increase recycling to minimize landfill and attendant environmental hazards.
 - supplement the depleting raw material resources, paper industry should have first charge on sugarcane bagasse.
- ◇ On the issue specific enabling policies, the NMCC was appraised that:
- the Excise Duty should be scaled down to 8%
 - Government should not show undue haste in lowering basic Customs Duty from the current rate
 - utmost care should be taken by Government to safeguard the interest of organised and unorganised sector of the industry

while entering into RTAs / FTAs, since they include items related to paper and paper products.

- applicable duty on paper and paper boards should be at par with agricultural products.
- paper imports in the guise of newsprint / LWC should be plugged.
- industry should have access to inexpensive funds required for huge investments to meet environmental norms outlined in the Charter for Corporate Responsibility for Environmental Protection.
- above all Technology / Environmental Upgradation Fund is required to be created at the earliest, on the lines of Textile Industry. Once operational, it would go a long way to remove obsolescence and modernise the industry.

Though the Government's efforts to enter into RTAs / FTAs to provide Indian Corporates increased access to overseas markets and attract investments from overseas to hasten economic activities in India and succeed in improving job opportunities is a welcome move, the paper industry is concerned with the undue haste with which the Government provides access to the Indian market, at considerably reduced tariff levels, to countries in ASEAN Group and China. These countries are low cost producers of pulp and paper and throwing open the Indian market without safeguards would threaten the very survival of the Indian Industry. All-out efforts have been taken by the industry to bring this potential danger to the notice of Policy Makers and hopefully, the industry's just pleas may be heeded by the Government.

Paper Industry is capital intensive and yields poor returns on investments. The issues that require the urgent attention of the Government

are, creation of robust raw material base, fiscal incentives for assimilation of eco-friendly technologies, etc.

(iii) Segment-wise or product-wise performance

The Company is a single product Company and hence segment wise or product wise performance is not provided.

(iv) Outlook

The long-term out look for the Indian paper industry is indeed bright. The domestic demand for paper is expected to grow at a CAGR of 6.3%. On the other hand supply is expected to increase at a CAGR of 3%. Strict enforcement of environmental norms is expected to restrict supply, as huge capital investments would be required to meet these norms, resulting in fewer capacity additions, especially by smaller players who will be constrained by the lack of adequate capital. With demand outplaying supply, the demand supply gap is expected to widen over the next few years leading to the operating rates, in all probability, reaching the full levels. All major units are taking urgent steps to improve the operating rates, besides drawing up plans to expand / add new capacities. The improvement in demand and supply scenario in the domestic market and firm trends in the international paper prices, due to increase in costs, is likely to witness increase in domestic paper prices. Consequently, the operating profits of the units in the industry are expected to improve, but not dramatically due to cost constraints.

With India becoming a member of the World Trade Organisation, it has become important for the paper industry also to evolve strategies to become globally competitive. The Indian paper Industry, however, is expected to face challenges, namely, shortage of fibrous raw-materials, escalating cost of wood, stringent pollution control norms, lack of resources for technology up-gradation and infrastructural bottlenecks. The CPPRI commissioned Jaakko Poyry Consulting of Finland, in its report has clearly identified that lack of technology up-gradation is one of the main reasons for the

Indian Paper Industry's inability to be globally competitive. The need of the hour is for the government to formulate a user (industry) friendly industrial plantation policy which will permit the Indian industry to invest in industrial plantations in degraded forest lands, besides setting up a Technology Up-gradation Fund for exclusive utilisation by Indian Pulp and Paper Industry. This alone will enable the industry to reduce cost and be in a position to invest in technology up-gradations and capacity additions.

(v) Risks and concerns

- ◇ Failure of Monsoon and absence of water flow in the River Cauvery, from where the Company draws its water requirements, had created anxious moments to the Company in the past. Such contingencies can recur in the future. Further, inter-state sharing of River Cauvery water has become a political / legal issue in recent times. The Company has, however, taken all steps to curtail quantum of water used in the process, substantially.
- ◇ Though there has been some improvement in the availability of wood from within the State, there has been no letup in the price which witnessed a 30% increase over last year price which will impact the margins.
- ◇ Any undue spurt in price of imported coal will affect the operating margins of the Company, since the Company depends on 100% of imported coal for operating its Captive Power Plant.
- ◇ Price movement of imported pulp, influenced by the global demand / supply equilibrium, is always a matter of concern. Recently, China has been a major buyer of pulp and has been impacting the prices of pulp in international markets. Volatility in the pulp market, resulting in surge in prices, will impact the margins of the Company, significantly.

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- ◇ Stated policy of the Government of India is to reduce, progressively, the peak import tariffs by 10% every year. Import of paper currently attracts duty at 12.5%. Further reduction will expose the industry to flood of imports and will significantly alter the fortunes of the industry and the Company.
- ◇ Undue haste in reducing tariffs, for import from countries covered by Government of India's RTAs / FTAs will likewise expose the industry to inexpensive imports from low cost producers of paper.

(vi) Internal control systems and their adequacy

The Company is having an efficient and well established internal control system commensurate with the size and level of operations of the Company.

(vii) Discussion on financial performance with respect to operational performance

During the year, the Company produced 122003 tonnes, compared to the installed capacity of 115000 tonnes per annum, thus achieving a capacity utilization of 106%. The production of 122003 tonnes is the highest achieved by the Company, so far.

The Company sold 121332 tonnes, during the year, as against 118264 tonnes, in the previous year, including 20 tonnes of paper bought and sold. The Company achieved Zero Stock of Finished Goods inventory, as at the end of the financial year, for the ninth time in the last twelve years.

The turnover had moved up to Rs 46925 lakhs, as against Rs 43212 lakhs, in the previous year, registering an increase of 8.6%, over the previous year.

Throughout the year under review, the sentiments in the paper market witnessed steady trends, enabling the Company effect

price revisions for its end products in line with other players in the industry.

It was reported in last year's Directors' Report that Government of India had amended Notification No. 6/2002 CE, dated 01 03 2002, by issuing a Notification No. 48/2004 CE, dated 10 09 2004, which inter-alia provided that paper manufactured with not less than 75% unconventional raw material will be eligible for a concessional rate of excise duty of 12%, provided they are manufactured in the mills which do not have a plant attached thereto for making bamboo or wood pulp.

By the above Notification dated 10 09 2004, large integrated paper mills, having facilities for making wood and bamboo pulp, became ineligible for the concessional rate of excise duty of 12%, even though they manufactured large quantities of pulp with unconventional raw materials and produced paper with not less than 75% unconventional raw material in the final furnish.

Both the Company and the Indian Paper Manufacturers Association made representations to the Finance Minister and Commerce and Industry Minister for extending the concessional rate of Excise Duty of 12% to all paper mills irrespective of whether they have plant to produce wood and bamboo pulp or not.

In response to the above appeals, in the Budget proposal for the year 2006-07, the Central Government has reduced the rate of duty for Paper and Boards from 16% to 12%, with effect from March 1, 2006.

During the year, the Company exported 21359 tonnes of paper and paper boards, as compared to 21993 tonnes, during 2004-05. The proceeds amounted to US \$ 17 104 564, equivalent to Rs 7601 lakhs, as compared to Rs 7255 lakhs, during the previous year. The exports accounted for 18% of the Production. The Company's products are exported to over 15 countries.

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Besides the above, the Company also sold 4341 tonnes, under deemed exports whose proceeds amounted to Rs 1466 lakhs.

The Company's imports, consisting of coal, pulp and capital goods were Rs 13030 lakhs, as compared to Rs 9597 lakhs, in the previous year. Consequently, the net foreign exchange outgo was Rs 5664 lakhs, compared to Rs 2695 lakhs, during 2004-05.

The Company continues to enjoy the "Two Star Export House" Status, accorded by Government of India, Ministry of Commerce, Directorate General of Foreign Trade, in recognition of its export performance. Further, a Special Award was given by CAPEXIL, in recognition of the Company's Outstanding Export Performance, in respect of Paper and Paper Boards, for the year 2004-05.

During the year 2005-06, the Company availed Interest Free Sales Tax Deferral of Rs 724 lakhs and the cumulative amount availed upto March 31, 2006 was Rs 2040 lakhs.

The Profit before interest, depreciation and tax, for the year under review, was Rs 4800 lakhs, as compared to Rs 2954 lakhs, in the previous year. Though increase in contribution due to increased production, increase in net sales realisation on account of price increases and better product mix, decrease in raw materials cost due to use of higher in-house pulp and reduced use of imported pulp, reduction in energy cost, mainly on account of implementation of Captive Power Project and reduction in interest and financing charges contributed to better profitability for the year, as compared to the previous year, the factors such as steep increase in prices of raw materials, both forest raw materials and imported pulp, increase in Employee Cost, mainly on account of lump sum payments made to employees retired under Voluntary Retirement Scheme, increase in Repairs and Maintenance Expenses due to ageing of machines and the need to keep them in good repair, increase in Depreciation charges on account of addition of Captive Power Plant

Assets and increased prices and usage of chemicals and consumables neutralised, partially, the said benefits.

After absorbing interest and financing charges and depreciation of Rs 625 lakhs and Rs 1452 lakhs, respectively, the profit before tax was Rs 2723 lakhs, as compared to Rs 1160 lakhs, in the previous year.

A sum of Rs 87 lakhs has been provided for liability towards Current tax after netting off MAT Credit Entitlement of Rs 138 lakhs, as against Rs 90 lakhs in the previous year.

Section 115JAA to the Income tax Act, 1961 provides that where a company is liable to pay Minimum Alternate Tax (MAT) for the assessment year 2006-07 and any subsequent assessment year, then the said company is entitled to take credit of MAT paid. The credit to be allowed shall be the difference of the tax under MAT and the amount of tax payable by the assessee on his total income computed in accordance with the other provisions of the Act. The tax credit so determined shall be carried forward and set-off not beyond the seventh assessment year immediately succeeding the assessment year in which tax credit becomes allowable. The tax credit shall be allowed set-off in a year when tax becomes payable on the total income computed in accordance with the provisions of the Act, other than provisions relating to MAT. The set-off in respect of brought forward tax credit shall be allowed for any assessment year to the extent of the difference between the tax on the total income and the tax payable under MAT for that assessment year.

Under the above provisions, the Company is entitled for a MAT Credit of Rs 138 lakhs for the year 2005-06, to be set-off in the financial year 2006-07 or thereafter. As per the guidance note of the Institute of Chartered Accountants of India, the said MAT Credit Entitlement is netted to MAT liability for the year and correspondingly shown as a separate item under Loans and Advances in Schedule "I" to the Balance Sheet.

As per the Accounting Standard AS-22 of the Institute of Chartered Accountants of India, a sum of Rs 818 lakhs has been transferred to Deferred Tax from Profit and Loss Account, as against Rs 412 lakhs in the previous year.

A sum of Rs 27 lakhs has been provided towards Fringe Benefit Tax.

In the result, profit after tax for the year was Rs 1791 lakhs, as compared to Rs 656 lakhs, in the previous year.

Cash generation during the year was at Rs 4061 lakhs, compared to Rs 2198 lakhs, in the previous year.

(viii) Material developments in Human Resources / Industrial Relations front, including number of people employed.

During May 2005 a Voluntary Retirement (lump sum) Scheme was announced for the benefit of the employees who desired to retire ahead of their attainment of the age of superannuation. Employees, who opted to retire under this Voluntary Retirement Scheme, were entitled to get a lump sum payment. The lump sum was calculated at 40% of the monthly salary, multiplied by the balance number of months to retire from service, subject to a ceiling of Rs 3.50 lakhs per employee. The above benefit under the Scheme was in addition to

Gratuity and Provident Fund, as per Rules, till the date of Voluntary Retirement. 39 employees opted for retirement under the Scheme.

During December 2005, another Voluntary Retirement Scheme (Heirship Scheme), was announced for the benefit of the employees who desired to retire ahead of their attainment of the age of superannuation, by sponsoring either his son or son-in-law who were in the age group of 18 to 30 with a minimum educational qualification of X Standard or hold ITI Certificate (Government recognized) in any Trade. To be eligible for participating in the Scheme, employees should have put in a minimum period of 20 years of continuous service and must have a minimum remnant service of two years for retirement under superannuation. The selected candidates would be engaged as Apprentices for a period of three years before being placed in the appropriate grades depending upon their educational qualifications, successful completion of training period with satisfactory performance, attendance, etc. 66 employees opted for retirement under the Scheme.

Relations between the Management and the labour were cordial, throughout the year under review.

Currently, the Company has 1371 employees, of all ranks, on its rolls.

REPORT ON CORPORATE GOVERNANCE

1 A brief statement on Company’s philosophy on code of governance

Corporate Governance has several claimants, viz., Shareholders, and other stakeholders which include suppliers, customers, creditors, bankers, the employees of the Company, the Government and the society at large. The three key aspects of Corporate Governance are accountability, transparency and equality of treatment for all stakeholders. The fundamental objective of Corporate Governance is the "enhancement of Shareholder value, keeping in view the interest of other stakeholders". In the above context, the Company’s Philosophy on Corporate Governance is:

- ◇ to have systems in place which will allow sufficient freedom to the Board of Directors and Management to take decision towards the progress of the Company and to innovate

while remaining within a framework of effective accountability

- ◇ to provide transparent corporate disclosures and adopt high quality accounting practices
- ◇ timely and proper dissemination of material price sensitive information and ensure insiders do not transact in securities of the Company till such information is made public
- ◇ to adopt good Corporate Governance policies that will contribute to the efficiency of the enterprise, creation of wealth for the Shareholders and Country’s economy.

2 Board of Directors

The Board of Directors, as on date, consists of nine Directors, of whom six Directors are Non Executive Directors of the Company. The Chairman and Managing Director, Director (Operations) and Director (Finance) & Secretary are the other three Directors who are in whole time employment of the Company.

The details are furnished hereunder:

SI No.	Names of the Directors	No.of Shares held	Executive / Non Executive Director	Promoter / Independent / Nominee Director
1	Sri N Gopalaratnam	8841	Chairman and Managing Director - Executive Director	Promoter Director
2	Sri R V Gupta	Nil	Non Executive Director	Nominee of IDBI as lender - Independent Director
3	Sri Bimal Kumar Poddar	Nil	Non Executive Director	Independent Director
4	Sri M R B Punja	638	Non Executive Director	Independent Director
5	Sri N Ravindranathan	600	Non Executive Director	Independent Director
6	Mrs D Sabitha, I A S	Nil	Non Executive Director	Nominee of TIIC as Equity Investor, Independent Director
7	Sri Surjit K Chaudhary, I A S	Nil	Non Executive Director	Nominee of Tamilnadu Government, Independent Director
8	Sri K S Kasi Viswanathan	492	Director (Operations) - Executive Director	Whole time Director - Non Independent Director
9	Sri V Pichai	8449	Director (Finance) & Secretary - Executive Director	Whole time Director - Non Independent Director

Board Meetings:

During the year 2005-06, five Board Meetings were held on June 11, 2005, July 30, 2005, October 29, 2005,

January 21, 2006, and March 25, 2006. The Annual General Meeting was held on July 30, 2005.

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Attendance of each Director, at the Board Meetings held during the financial year 2005-06 and at the last Annual General Meeting, is furnished hereunder:

SI No.	Names of the Directors	Board Meetings		Last Annual General Meeting	
		Held	Attended	Attended	Not attended
1	Sri N Gopalaratnam	5	5	Yes	--
2	Sri R V Gupta	5	4	Yes	--
3	Sri Bimal Kumar Poddar	5	5	Yes	--
4	Sri M R B Punja	5	5	Yes	--
5	Dr G Rangaswami *	5	2	Yes	-
6	Sri N Ravindranathan	5	5	Yes	--
7	Mrs D Sabitha, I A S	5	--	--	Yes
8	Sri Surjit K Chaudhary, I A S	5	2	--	Yes
9	Sri K S Kasi Viswanathan	5	5	Yes	--
10	Sri V Pichai	5	5	Yes	--

* Ceased to be a Director from July 30, 2005.

Number of other Company Boards or Board Committees in which each of the Directors of the Company is a Member or Chairperson, as on March 31, 2006:

SI No.	Names of the Directors	Other Boards		Other Board Committees	
		Number	Member/Chairperson	Number	Member/Chairperson
1	Sri N Gopalaratnam	5 [@]	5 - Chairman	2	2 - Chairman
2	Sri R V Gupta	6	6 - Member	5	3 - Chairman 2 - Member
3	Sri Bimal Kumar Poddar	16 [#]	5 - Chairman 11 - Member	3	3 - Member
4	Sri M R B Punja	9 [*]	3 - Chairman 6 - Member	5	2 - Chairman 3 - Member
5	Sri N Ravindranathan	3 [@]	3 - Member	1	1 - Member
6	Mrs D Sabitha, I A S	6	6 - Member	2	1 - Chairman 1 - Member
7	Sri Surjit K Chaudhary, I A S	5	1 - Chairman 4 - Member	--	--
8	Sri K S Kasi Viswanathan	--	--	--	--
9	Sri V Pichai	3 ⁺	3 - Member	--	--

[@] Includes 1 Private Limited Company.

[#] Includes 5 Private Limited Companies.

^{*} Includes one Private Limited Company and one Private Limited Company which is a subsidiary of a Public Limited Company.

⁺ All the three are Private Limited Companies.

3 Audit Committee

Audit Committee of the Board was constituted in 1986 itself and is functioning effectively, without interruption. The terms of reference of the Audit Committee are:

To undertake periodical review of Company's operations and more particularly in the following areas:

- ◇ Financial performance of the Company
- ◇ Payment of dues to Institutions, both interest and principal
- ◇ Payment of Government dues, such as customs duties, excise duties, sales tax, income tax, etc.
- ◇ Inter Corporate Investments
- ◇ Policies relating to award of contracts, purchase and sale of raw materials, finished goods, etc.
- ◇ Overview of different items of expenditure incurred by the Company, with particular reference to whether they are extravagant or lavish and whether any diversion of funds, not directly relating to the affairs of the Company, has taken place and
- ◇ To do such other acts, deeds or things, as may be necessary from time to time, to fulfil the objectives aforementioned.

The Audit Committee consists of four Independent Non Executive Directors. Attendance of each Member Director, at the Audit Committee Meetings held during the financial year 2005-06, is furnished hereunder:

SI No.	Names of the Directors	Position	Audit Committee Meetings	
			Held	Attended
1	Sri M R B Punja	Chairman	5	5
2	Sri Bimal Kumar Poddar	Member	5	5
3	Sri R V Gupta	Member	5	4
4	Sri N Ravindranathan	Member	5	5

Sri M R B Punja is the Chairman of the Audit Committee. Sri V Pichai, Director (Finance) & Secretary acts as the Secretary to the Committee.

4 Remuneration Committee

The Company has constituted a Remuneration Committee of the Board which currently consists of the following Independent Directors:

- ◇ Sri M R B Punja, *Chairman*
- ◇ Sri R V Gupta and
- ◇ Sri Bimal Kumar Poddar.

One meeting of the Remuneration Committee was held during the year 2005-06.

Remuneration to Non Whole time Directors:

Remuneration to Non Whole time Directors is paid, with the approval of the Board of Directors, Members of the Company in General Meeting and the Government of India, effective from the financial year 1994-95 onwards.

Currently, the Non Whole time Directors are paid the following remuneration:

- ◇ Restricted to a maximum of 1% of the net profits of the Company, computed in the manner laid down in Sections 349 and 350 of the Companies Act, 1956, for all of them together.
- ◇ The above shall be shared amongst the Non Whole time Directors equally.
- ◇ The above shall be subject to a further ceiling of Rs 50 000 per financial year, for each Director.
- ◇ In case any Director has held the office of Director only for a part of the financial year, then the remuneration shall be paid only proportionately, in proportion to the period for which he was a Director during that financial year.

Besides the above, the Non Whole time Directors are paid Sitting Fee for attending the Board / Committee Meetings of the Board of

SESHASAYEE PAPER AND BOARDS LIMITED

Directors, in accordance with the provisions of Articles of Association of the Company.

During the financial year 2005-06 a sum of Rs 2 60 000 was paid as Sitting Fee to all the Non Whole time Directors. Further, a sum of Rs 3 16 667 is payable, as Commission on Net Profits, for the financial year 2005-06. Details are furnished hereunder:

Sl No.	Name of the Non Whole time Director	Sitting Fee paid		Commission payable for 2005-06
		Board Meetings	Committee Meetings	
		Rs	Rs	Rs
1	Sri R V Gupta	20000	25000	50000 *
2	Sri Bimal Kumar Poddar	25000	30000	50000
3	Sri M R B Punja	25000	30000	50000
4	Dr G Rangaswami	10000	10000	16667 +
5	Sri N Ravindranathan	25000	50000	50000
6	Mrs D Sabitha, I A S	--	--	50000 @
7	Sri Surjit K Chaudhary, I A S	10000	--	50000 #
Total		115000	145000	316667

* Payable to Industrial Development Bank of India Limited.

+ Ceased to be a Director from July 30, 2005 and hence paid proportionately for part of the year.

@ Payable to Tamilnadu Industrial Investment Corporation Limited

Payable to Government of Tamilnadu.

Remuneration to Chairman and Managing Director / Whole time Directors :

Remuneration to Chairman and Managing Director / Whole time Directors is approved by the Board of Directors within the ceiling prescribed under Schedule XIII to the Companies Act, 1956. The same is also approved by the Members of the Company in General Meeting.

No Sitting Fee is paid to the Chairman and Managing Director / Whole time Directors.

Remuneration to Chairman and Managing Director / Whole time Directors, for the financial year 2005-06 is as under:

	Sri N Gopalaratnam	Sri K S Kasi Viswanathan	Sri V Pichai
	Rs	Rs	Rs
Salary	12 00 000	7 20 000	7 20 000
Commission	12 00 000	7 20 000	7 20 000
Contribution to:			
(i) Provident Fund	1 44 000	86 400	86 400
(ii) Superannuation Fund	1 80 000	1 08 000	1 08 000
(iii) Gratuity Fund	1 80 000	1 08 000	1 08 000
Other Perquisites	5 000	98 771	1 13 418
Total	29 09 000	18 41 171	18 55 818

5 Share Transfer and Shareholders / Investors Grievance Committee

Name of Non-executive Director heading the Committee	:	Sri N Ravindranathan
Name and designation of Compliance Officer	:	Sri V Pichai Director (Finance) & Secretary
Number of shareholders' complaints received during 2005-06	:	2
Number of complaints not solved to the satisfaction of Shareholders	:	Nil
Number of pending compliants as on March 31, 2006	:	Nil

6 General Body Meetings

Last three Annual General Meetings were held at 10.15 AM on July 25, 2003, at 11 AM on July 24, 2004 and at 11 AM on July 30, 2005, at the "Community Centre", SPB Colony, Erode 638 010.

In the meetings held on July 25, 2003 and July 24, 2004, there were Special Resolutions relating to either appointment of Auditors or Voluntary De-listing of Equity Shares of the Company from the three Stock Exchanges, namely, Madras Stock Exchange Limited, The Calcutta Stock Exchange Association Limited and Bangalore Stock Exchange Limited.

An Extraordinary General Meeting was conducted on December 24, 2005, seeking the approval of the Members of the Company for increasing the Borrowing Powers of the Board of Directors to Rs 600 crores and authorising Board of Directors to create mortgage or charge on the properties of the Company for the Term Loan assistance of Rs 270 crores provided by Commercial Banks.

The system of voting, by Postal Ballot, was introduced by the Companies (Amendment) Act, 2000, through the insertion of a new Section 192A to the Companies Act, 1956. The new provision has come into effect from May 10, 2001. Government of India has also notified, items of business that require voting through Postal Ballot. After the notified date, none of the items of business mentioned in the Notification, requiring voting by Postal Ballot, has been included in the Agenda of the General Body Meetings of the Company.

7 Disclosures

(i) (a) Ponni Sugars (Erode) Limited (PEL):

Our Company's investment in Ponni Sugars (Erode) Limited is as under:

Nature of Investment	No. of Shares	% of Share holding
Equity Capital	13 85 260	16.90%
Preference Capital	20 00 000	100.00%

Three of our Directors, viz., Sri N Gopalaratnam, Sri N Ravindranathan and Sri Bimal Kumar Poddar are also the Directors of Ponni Sugars (Erode) Limited. Sri N Gopalaratnam, our Chairman and Managing Director is also the Chairman of Ponni Sugars (Erode) Limited.

PEL holds 12 00 000 Shares of Rs 10 each, representing 10.67%, in the Equity Capital of our Company.

Our Company has entered into a long term arrangement, with Ponni Sugars (Erode) Limited, for procurement of entire bagasse produced by them, in their unit at Erode. The arrangement includes procurement and supply of fuels to them, provision and maintenance of infrastructure facilities, like Boilers and Turbo Alternator Sets, supply of water, etc.

Our Company has also entered into a tripartite arrangement, with Ponni Sugars (Erode) Limited and three Lift Irrigation Societies, for supply of treated effluent water, free of cost, to the Members of the Lift Irrigation Societies, for growing sugar cane in their fields and in turn, supply the sugar cane so grown to Ponni Sugars (Erode) Limited. The running and maintenance cost of the Pump Houses, for distribution of the treated effluent water to the fields of the farmers, is shared, equally, between our Company and Ponni Sugars (Erode) Limited.

(b) SPB Projects and Consultancy Limited (SPB-PC):

SPB Projects and Consultancy Limited (SPB-PC) is a renowned consultancy company, in pulp and paper. Their services were enlisted as Project Consultants for the last Expansion / Modernisation Project and for implementation of the 20 MW Captive Power Project. Their services are currently being utilised for providing consultancy services with regard to the implementation of the Mill Development Plan. Sri N Gopalaratnam, our Company's Chairman and Managing Director, is on the Board of SPB-PC and he is also the Chairman of SPB-PC. Our Company has invested Rs 5 lakhs, in the Equity Share Capital of SPB-PC, representing 22.22% of the total Equity Capital of SPB-PC.

(c) High Energy Batteries (India) Limited (HEB)

High Energy Batteries (India) Limited (HEB) was established in 1979-80, at the instance of Directorate of Technical Development and Production (DTD &P) Air, to initially develop and manufacture high energy specialised batteries for use by the Air force in MIG Aircrafts, in substitution of batteries that were then being imported from USSR.

Their current production range includes batteries for Commercial and Military Aircrafts, Underwater Propulsion (Torpedo), Remote Sensing and Telemetry, Power Sources for Satellite Launch Vehicles, Missile Guidance Power Source, NiCd / NiMh rechargeable batteries, Fuel Cells, Cuprous Chloride batteries, etc.

The National Awards for the R & D efforts in industry for the year 1990-91 and 2004 were given to HEB in recognition of their outstanding work in the battery technology field. In recognition of the successful indigenisation of the primary battery for SUT Torpedo, HEB received an award for indigenisation during the year 1998-99. Again in 2004, HEB received the Defence Technology Absorption Award from Defence Research & Development Organisation, Ministry of Defence, along with a Cash Prize. The Award was presented by the Hon'ble Prime Minister of India.

Sri N Gopalaratnam, our Company's Chairman and Managing Director, is on the Board of HEB and he is also the Chairman of HEB. SPB is holding 72646 Equity Shares of Rs 10 each, in the Equity Capital of HEB, constituting 8.10% of the total Equity Share Capital of HEB.

HEB holds 10329 Shares of Rs 10 each, representing 0.09%, in the Equity Capital of our Company.

(d) Esvin Advanced Technologies Limited (Esvin Tech):

Esvin Advanced Technologies Limited (Esvin Tech) is a company which was promoted for

undertaking basic research in Energy Conservation / Pollution Abatement (Chemical Energy Recovery from Pulp / Sugar Mill Waste Liquor and Sludge), Membrane Technology (Ultra Filtration, Reverse Osmosis and Electro Dialysis, for purification / concentration of sugar cane juice) and Bio-technology (Bio-Pulping and Bio-Bleaching). Though, Esvin Tech successfully developed a TCCR System, it could not be commercialised, due to uneconomical operating costs and high capital cost of the System. Our Company is holding 4100 Equity Shares of Rs 10 each in the Equity Capital of Esvin Tech, constituting 25.81% of the total Equity Share Capital of Esvin Tech.

(e) Time Square Investments Private Limited (TSI) :

TSI is an investment company belonging to the promoter group. TSI holds 11 72 225 Shares of Rs 10 each, representing 10.42% in the Equity Capital of our Company. Sri N Gopalaratnam, our Company's Chairman and Managing Director and Sri V Pichai, our Company's Director (Finance) & Secretary are on the Board of TSI.

(ii) The Company has complied with all the Regulations of the Securities Exchange Board of India (SEBI) and Stock Exchanges. Hence, no penalties or strictures were imposed on the Company, by any Stock Exchange or SEBI or any Statutory Authority, on any matter related to capital markets, during the last three years.

8 Compliance with Mandatory and Non-mandatory requirements

The Company complies with all mandatory requirements of Corporate Governance contained in SEBI Guidelines and Listing Agreement.

The Company is in the regime of unqualified financial statements.

Though non-mandatory, Remuneration Committee has been constituted to comply with Schedule XIII to the Companies Act, 1956. Other Non-mandatory requirements, in the opinion of

SESHASAYEE PAPER AND BOARDS LIMITED

the Board, have no material bearing on the current standard of Corporate Governance by the Company and hence will be addressed as appropriate in future.

9 Means of communication

Currently, the Un-audited Quarterly Financial Results are published not only in news papers, but are also sent to each Shareholder, by post. The Results are generally published in 'The Hindu Business Line', in English and in 'Dinamalar', in Tamil. The Results are also placed on the Company's Web Site, www.spbltd.com. As per the directives of Securities and Exchange Board of India, information relating to shareholding pattern, quarterly results, etc., are also placed on the official web site of SEBI (www.sebi.gov.in) under the Electronic Data Information Filing And Retrieval System (EDIFAR).

10 Management's Discussion and Analysis Report

Management's Discussion and Analysis Report is made a part of the Annual Report and attached to the Directors' Report to Shareholders.

11 CEO / CFO Certification

CEO / CFO certification by Sri N Gopalaratnam, Chairman and Managing Director and Sri V Pichai, Director (Finance) & Secretary, as stipulated by Clause 49 of the Listing Agreement was placed before the Board of Directors at its meeting held on June 10, 2006.

12 Code of Conduct

The Board has laid down a Code of Conduct for all Board Members and Senior Management Executives of the Company. The said Code of

Conduct has been posted on the website of the Company, viz., www.spbltd.com

CEO Declaration:

DECLARATION

I, N Gopalaratnam, Chairman and Managing Director of Seshasayee Paper and Boards Limited hereby declare that Board Members and Senior Management Executives, other than Nominee Directors of Tamilnadu Government and Tamilnadu Industrial Investment Corporation Limited, have affirmed compliance with the Code of Conduct laid down by the Board of Directors.

Sd/

(N GOPALARATNAM)

Chennai
June 10, 2006

Chairman and
Managing Director

13 Compliance Certificate of the Auditors

Certificate of Statutory Auditors has been obtained on the compliance of conditions of Corporate Governance in deference to Clause 49 of the Listing Agreement and the same is annexed. Copy of the Certificate is furnished to the Stock Exchanges, as required.

14 Secretarial Audit Reports

Quarterly Secretarial Audit Reports, on reconciliation of the total admitted capital with NSDL / CDSL and the total issued and listed capital, were furnished to the Stock Exchanges on the following dates:

For the Quarter ended	Furnished on
30 06 2005	16 07 2005
30 09 2005	20 10 2005
31 12 2005	13 01 2006
31 03 2006	24 04 2006

SESHASAYEE PAPER AND BOARDS LIMITED

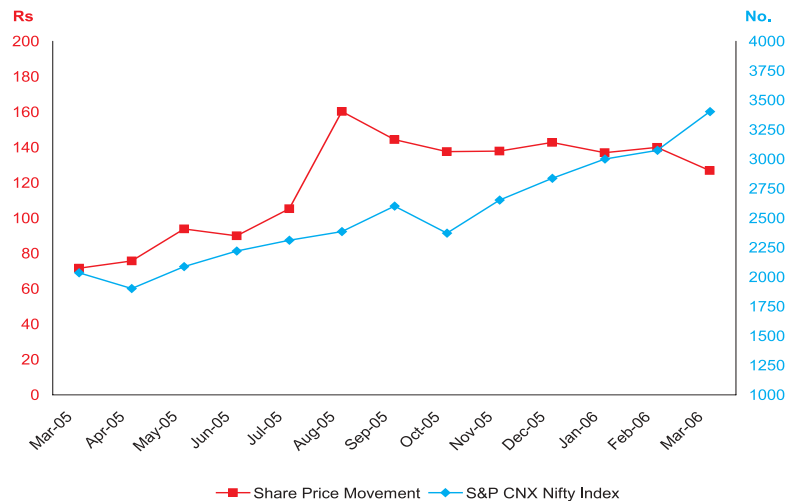
15 General Shareholder information

AGM : Date, time and venue	:	11.00 AM Saturday, July 29, 2006 "Community Centre", SPB Colony ERODE 638 010 Tamilnadu																						
Financial Calendar (tentative and subject to change)	:	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 15%;">June</td> <td style="width: 15%;">2006</td> <td style="width: 15%;">Audited Results for 2005-06</td> </tr> <tr> <td>July</td> <td>2006</td> <td>Annual General Meeting and First Quarter Results for 2006-07</td> </tr> <tr> <td>October</td> <td>2006</td> <td>Second Quarter Results</td> </tr> <tr> <td>January</td> <td>2007</td> <td>Third Quarter Results</td> </tr> <tr> <td>March</td> <td>2007</td> <td>Review of Performance</td> </tr> <tr> <td>June</td> <td>2007</td> <td>Audited Results for 2006-07</td> </tr> <tr> <td>July</td> <td>2007</td> <td>Annual General Meeting and First Quarter Results for 2007-08.</td> </tr> </table>	June	2006	Audited Results for 2005-06	July	2006	Annual General Meeting and First Quarter Results for 2006-07	October	2006	Second Quarter Results	January	2007	Third Quarter Results	March	2007	Review of Performance	June	2007	Audited Results for 2006-07	July	2007	Annual General Meeting and First Quarter Results for 2007-08.	
June	2006	Audited Results for 2005-06																						
July	2006	Annual General Meeting and First Quarter Results for 2006-07																						
October	2006	Second Quarter Results																						
January	2007	Third Quarter Results																						
March	2007	Review of Performance																						
June	2007	Audited Results for 2006-07																						
July	2007	Annual General Meeting and First Quarter Results for 2007-08.																						
Date of Book closure	:	July 18, 2006 to July 29, 2006 (both days inclusive).																						
Dividend Payment Date	:	On or after July 29, 2006, but before the statutory time limit of 30 days, from the date of declaration.																						
Listing on Stock Exchanges	:	<p>1 Bombay Stock Exchange Limited Phiroze Jeejeebhoy Towers, Dalal Street Mumbai 400 001 Ph: (91)(22) 2272 1233 - 1234 (General) 2272 1121 - 1122, 2272 2375 (Corporate Relations Department)</p> <p>Web Site: www.bseindia.com E-mail: isc@bseindia.com Fax: (91)(22)2272 1919, 2272 3027 (General) 2272 3719, 2272 2039, 2272 2061 2272 3121, 2272 2037, 2272 2041 (Corporate Relations Department)</p> <p>2 National Stock Exchange of India Limited "Exchange Plaza", Bandra - Kurla Complex Bandra (East), Mumbai 400 051 Ph: (91)(22)2659 8100- 8114 Web Site: www.nseindia.com E-mail: cmlist@nse.co.in Fax: (91)(22)2659 8237 - 8238</p>																						
Payment of Annual Listing Fees to the Stock Exchanges	:	Listing Fee has been paid to the above two Stock Exchanges, in which the Company's Equity Shares are listed, upto March 31, 2007.																						

SESHASAYEE PAPER AND BOARDS LIMITED

15 General Shareholder information (Contd.)

Stock Code	:	Under Demat System the ISIN allotted to the Company's Equity Shares is: INE630A01016 . The Company's Stock Code is SESHAPAPER in the National Stock Exchange and 502450 in the Bombay Stock Exchange.			
Market Price Data: High, low and volume during each month in the last financial year (reported at the National Stock Exchange of India Limited)	:	Month	Highest	Lowest	Volume
			Rs	Rs	No. of Shares
		April 2005	83.00	71.50	3 07 742
		May	108.90	73.25	22 77 024
		June	101.00	81.10	4 12 776
		July	108.10	88.05	8 67 643
		August	160.50	104.10	20 74 353
		September	163.70	136.30	5 69 711
		October	153.00	124.00	1 83 763
		November	145.90	130.00	51 488
		December	167.70	134.00	1 57 317
		January 2006	167.35	126.00	2 68 628
		February	149.80	131.65	83 678
March	145.00	110.50	1 36 232		
	Total			73 90 355	
Performance, in comparison to broad-based indices, such as, BSE Sensex, CRISIL Index, etc.	:				



SESHASAYEE PAPER AND BOARDS LIMITED

15 General Shareholder information (Contd.)

Registrar and Transfer Agents both for shares held in physical form and in electronic mode	:	Integrated Enterprises (India) Limited 'Kences Towers', Second Floor, No.1, Ramakrishna Street, North Usman Road, T Nagar, Chennai 600 017 Ph : (91)(44)2814 0801 - 803 Fax : (91)(44)2814 2479 E-mail : yesbalu@iepindia.com				
Share Transfer System	:	Share transfers are registered and returned within the statutory time limit, if the documents are clear in all respects. While the Share Transfer and Shareholders / Investors Grievance Committee of the Board of Directors meets once in three months, the Director (Finance) & Secretary has been delegated with the powers to approve transfers, if the documents are in order.				
		Distribution	No. of Share holders	% of Share holders	No. of Shares	% of Share holding
Distribution of shareholding as on March 31, 2006	:	1 - 100	10661	72.52	505348	4.49
		101 - 200	2093	14.24	320863	2.85
		201 - 500	1246	8.46	409630	3.65
		501 - 1000	333	2.27	253915	2.26
		1001 - 5000	276	1.88	637003	5.66
		5001 - 10000	47	0.32	350192	3.11
		10001 and above	45	0.31	8773049	77.98
		Total	14701	100.00	11250000	100.00
		Category	No. of Share holders	Voting strength %	No. of Shares held	
Pattern of Shareholding as on March 31, 2006	:	Individuals	14339	30.08	3384357	
		Companies	266	31.50	3543732	
		FII's, NRIs, OCBs	70	14.05	1580703	
		Mutual Funds, Insurance Companies and Banks	20	3.08	346637	
		FIs	6	21.29	2394571	
		Total	14701	100.00	11250000	

SESHASAYEE PAPER AND BOARDS LIMITED

15 General Shareholder information (Contd.)

		SI No.	Names	No. of Shares	%
Top 10 Shareholders of the Company	:	1	Tamilnadu Industrial Investment Corporation Limited	1800000	16.00
		2	Synergy Investments Pte Ltd	1547695	13.76
		3	Ponni Sugars (Erode) Ltd	1200000	10.67
		4	Time Square Investments (P) Ltd	1172225	10.42
		5	Life Insurance Corporation of India	593271	5.27
		6	Dhanashree Investments (P) Ltd	524919	4.67
		7	Prudential ICICI Trust Ltd	247864	2.20
		8	Ultra Investments & Leasing Co (P) Ltd	174341	1.55
		9	Usha Devi Saraogi	125000	1.11
		10	Pushpa Devi Saraogi	124999	1.11
				Total	7510314
Dematerialisation of Shares and Liquidity	:	<p>For Dematerialisation of Equity Shares, the Company has entered into a tripartite agreement with National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL). The Company's Equity Shares have been included in the list in which trading is compulsory for all investors in dematerialised form, along with other scrips, from July 24, 2000.</p> <p>As on March 31, 2006, 4868 Shareholders are holding Shares in Demat form and 84 73 238 shares have been dematerialised, representing 75.32% of the total Equity Share Capital.</p>			
Outstanding GDRs / ADRs / Warrants or any Convertible instruments, conversion date and likely impact on equity	:	NIL			

SESHASAYEE PAPER AND BOARDS LIMITED

15 General Shareholder information (Contd.)

Plant Location	:	Pallipalayam Namakkal District, Cauvery RS PO ERODE 638 007 Tamilnadu
Address for correspondence	:	Seshasayee Paper and Boards Limited Pallipalayam Namakkal District, Cauvery RS PO ERODE 638 007 Tamilnadu Ph: (91)(4288)240 221-228 Fax: (91)(4288)240 229 E-mail: edoff@spbltd.com Web Site: www.spbltd.com

SURI & CO.
CHARTERED ACCOUNTANTS

M/s S VISWANATHAN
CHARTERED ACCOUNTANTS

CERTIFICATE OF THE AUDITORS TO THE SHAREHOLDERS OF M/s SESHASAYEE PAPER AND BOARDS LIMITED ON CORPORATE GOVERNANCE

We have examined the compliance of conditions of Corporate Governance by M/s Seshasayee Paper and Boards 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.

The compliance of conditions of Corporate Governance is the responsibility of the Management. Our examination was limited to procedures and implementations hereof, adopted by the Company for ensuring the compliance of the conditions of Corporate Governance. It is neither an audit nor an expression of opinion on the financial statements of the Company.

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.

We state that no investor grievance is pending for period exceeding one month against the Company, as per the records maintained by the Shareholders / Investors Grievance Committee.

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 SURI & CO.
S Swaminathan
Membership No.20583
Partner
Chartered Accountants

Chennai
June 10, 2006

For Messrs S VISWANATHAN
Chella K Srinivasan
Membership No.23305
Partner
Chartered Accountants

SESHASAYEE PAPER AND BOARDS LIMITED

SURI & CO.
CHARTERED ACCOUNTANTS

M/s S VISWANATHAN
CHARTERED ACCOUNTANTS

REPORT OF THE AUDITORS TO THE SHAREHOLDERS OF M/s SESHASAYEE PAPER AND BOARDS LIMITED

We have audited the attached Balance Sheet of M/s SESHASAYEE PAPER AND BOARDS LIMITED, as at 31st March 2006 and also the Profit and Loss Account for the year ended on that date annexed thereto and the Cash Flow Statement for the year ended on that date. 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.

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.

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.

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.

The Balance Sheet, Profit and Loss Account and the Cash Flow Statement, dealt with by this Report, are in agreement with the books of account.

In our opinion, the Balance Sheet, Profit and Loss Account and the Cash Flow Statement, dealt with by this Report, comply with the Accounting Standards, referred to in Section 211(3C) of the Companies Act, 1956, so far as applicable.

On the basis of declarations from the Directors of the Company, as at March 31, 2006, and taken

on record by the Board of Directors of the Company, no Director is disqualified as on March 31, 2006, from being appointed as a Director of the Company, in terms of Section 274(1)(g) of the Companies Act, 1956.

In our opinion and to the best of our information and according to the explanations given to us, the said accounts, read with the notes thereon, give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view in conformity with the accounting principles, generally accepted in India:

- (i) in the case of the Balance Sheet, of the state of the Company's affairs, as at March 31, 2006;
- (ii) in the case of Profit and Loss Account, of the PROFIT for the financial year ended on that date; and
- (iii) in the case of Cash Flow Statement, of the cash flows for the year ended on that date.

As required by the Companies (Auditors' Report) Order, 2003, as amended by the Companies (Auditors' Report) (Amendment) Order, 2004, issued by the Central Government under Section 227(4A) of the Companies Act, 1956, we state that:

- 1 (a) The Company has maintained proper records showing full particulars including quantitative details and situation of fixed assets.
 - (b) The fixed assets have been physically verified by the Management at reasonable intervals and no material discrepancies were noticed on such verification.
 - (c) Fixed assets of a substantial part, affecting the going concern, have not been disposed off during the year.
- 2 (a) The Management has carried out physical verification of inventory at reasonable intervals.

SESHASAYEE PAPER AND BOARDS LIMITED

- (b) The procedure of verification of inventory followed by the management is 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.
- 3 (a) 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.
- (b) 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 Companies Act, 1956.
- 4 There is an adequate internal control procedure 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 service and no major weakness has been noticed in the internal control system.
- 5 (a) The particulars of contracts or arrangements referred to in Section 301 of the Companies Act, 1956 have been entered in the register required to be maintained under that Section.
- (b) The transactions made in pursuance of such contracts or arrangements have been made at prices which are reasonable, having regard to the prevailing market prices at the relevant time.
- 6 The Company has not accepted any deposits from the public.
- 7 The Company has an internal audit system commensurate with its size and nature of its business.
- 8 Central Government has prescribed maintenance of Cost Records under Section 209(1)(d) of the Companies Act, 1956 and such accounts and records have been made and maintained.
- 9 (a) The company is regular in depositing undisputed statutory dues including Provident Fund, Investor Education and Protection Fund, Employees' State Insurance, Income tax, Sales tax, Wealth tax, Service tax, Custom Duty, Excise Duty, Cess and any other statutory dues with the appropriate authorities.
- (b) The Company has not deposited the disputed Excise Duty of Rs 4.56 lakhs on which appeal is pending before Central Excise and Service Tax Appellate Tribunal.
- 10 The Company has not defaulted in repayment of dues to financial institution or banks.
- 11 The Company has not granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities and hence maintenance of adequate documents and records for such cases does not arise.
- 12 The Company has not given any guarantee for loans taken by others from banks or financial institutions.
- 13 Term loans borrowed by the Company were applied for the purpose for which the loans were obtained.
- 14 Funds raised on short term basis have not been used for long term investments.
- 15 No fraud on or by the Company has been noticed or reported during the year.
- 16 The other paragraphs of Companies (Auditors' Report) Order 2003, as amended by the Companies (Auditors' Report) (Amendment) Order, 2004, not dealt with by this Report, are not applicable to the Company.

For SURI & CO.

S Swaminathan
Membership No.20583
Partner
Chartered Accountants

Chennai
June 10, 2006

For Messrs S VISWANATHAN

Chella K Srinivasan
Membership No.23305
Partner
Chartered Accountants