Directors' Report

To
The Members

Your Directors have pleasure in presenting the Fourteenth Annual Report on the business and operations of the Company together with the Audited Accounts for the year ended 31st March, 2007.

CONSOLIDATED FINANCIAL RESULTS

Rs. in Million

	Year ended 31st March		
	2007	2006	Change (Times)
Operating Income	16,057.69	1,471.01	10.92
Other Income	415.79	12.92	32.18
Gross Revenue	16,473.48	1,483.93	11.10
Operating and Administration Expenses	11,859.65	1,303.77	9.10
Profit before Interest, Depreciation & Tax	4,613.82	180.16	25.61
Less:			
Interest & Finance Charges	828.64	36.28	22.84
Depreciation	655.64	18.91	34.67
Profit Before Tax	3,129.55	124.97	25.04
Provision for Tax	471.83	33.46	14.10
Net Profit after Taxation and before Minority Interest and Share of Profits of Associates	2,657.73	91.51	29.04
Less: Minority Interest	788.22	(0.03)	–
Add: Share of Profits of Associates (Net)	10.46	79.13	–
Net Profit after Taxation, Minority Interest and Share of Profits of Associates	1,879.97	170.67	11.02
Balance Brought forward	551.90	381.23	1.45
Profit available for appropriation	2,431.87	551.90	4.41
Transfer (from) / to Debenture Redemption Reserve	(17.99)	–	–
Transferred to General Reserve	101.41	–	–
Balance Carried to Consolidated Balance Sheet	2,348.45	551.90	4.26

STAND ALONE FINANCIAL RESULTS

Rs. in Million

	Year ended 31st March		
	2007	2006	Change (Times)
Operating Income	5,416.67	1,514.62	3.58
Other Income	117.32	12.76	9.19
Gross Revenue	5,533.99	1,527.38	3.62
Operating and Administration Expenses	4,275.84	1,341.22	3.19
Profit before Interest, Depreciation & Tax	1,258.15	186.16	6.76
Less:			
Interest & Finance Charges	211.73	36.26	5.84
Depreciation	36.93	18.91	1.95
Profit Before Tax	1,009.49	130.99	7.71
Provision for Tax	278.88	33.39	8.35
Profit after Tax	730.61	97.60	7.49
Balance Brought forward	472.77	418.07	1.13
Profit Carried to Balance Sheet	1,203.38	472.77	2.33

PERFORMANCE HIGHLIGHTS

Financial Performance

On a consolidated basis your company has reported gross revenues of Rs.16,473.48 million in comparison to Rs.1,483.93 million and Rs.1,879.97 million as net profit after tax after minority interest as compared to Rs.170.67 million in the previous year. A detailed discussion on the results of the operations and financial condition is included in Managements' Discussion and Analysis section placed at Annexure III to this report.

Initial Public Offering

Your company became a listed entity with the Initial Public Offering comprising of 44,472,381 equity shares for a price of Rs.240 per share including a premium of Rs.230. The issue was oversubscribed 10.66 times. It raised an amount of Rs.10,673 million through the issue of which an amount of Rs.7,839 million has been utilized for the purposes listed as the objects to the issue. The share holding pattern as on March 31, 2007 is included in the Report on Corporate Governance annexed to this report.

Re-organisation

During the year, your company has been reorganised. The reorganisation was undertaken in order to consolidate the power, construction and property development assets of the Promoter Group and the Lanco Group under the company. The process included acquisition of the promoters and others partners stakes in various subsidiaries and associates including 25.1% stake in Lanco Kondapalli and 13.3% in Aban Power Company. We have also acquired 74% stake in Nagarjuna Power Company. The reorganisation process is now over and the re-organised structure of the group companies as of March 31, 2007 is given elsewhere in the Annual Report.

After the reorganisation and consolidation your company is now structured as a holding cum operating company focussed in its role as an integrated infrastructure developer with majority investments in various Special Purpose Vehicles (SPVs) which are developing/operating power projects, other infrastructure projects such as roads and property development initiatives. The construction and the EPC division which is operating division of the holding company would play a key role in all infrastructure projects which are undertaken by the group. A schematic view of the company as it exists now is given below:

Lanco Infratech Limited

(Holding company cum Construction & EPC business)

Power projects (BOOT/BOO)	Roads & Infrastructure projects (BOT)	Property Development

SPVs

Some of the key developments in each business vertical during the year were as follows:

Infrastructure Development Business

Power Generation

Presently your company is operating power plants having capacities of 518 MW, of which 488 MW are gas based power plants and the balance are bio-mass based and wind based power projects. The operational performance of the power plants is summarised below:

	Capacity (MW)	Availability (%)	PLF %
Kondapalli Gas Power Plant	368	86.20	56.35
Aban Gas Power Plant	120	96.25	82.38
Rithwik (Bio-Mass)	6	77.33	78.73
Clarion (Bio-Mass)	12	73.81	69.79

The 368 MW gas based power project located at Kondapalli in Andhra Pradesh is operating at a low PLF due to non-availability of gas. However,

the plant can operate by using Naptha as a fuel if the customer requires. Under this power purchase agreement for the plant, the offtaker has agreed to purchase the entire electricity generated by the Kondapalli Power Plant and has guaranteed capacity payments for Cumulative Available Energy up to but not exceeding 80.0% PLF.

During the year, your company won, through a competitive bidding process, the mandate to develop the 1000 MW Anpara 'C' project in the state of Uttar Pradesh. Approvals from various governmental agencies have been obtained for the project and presently the project is being appraised by a financial institution as part of the financial closure process. We believe the financial closure of the project would be achieved soon and construction work would commence for the project during the course of this fiscal 2008.

Your company has acquired a 74% stake in the 1015 MW Nagarjuna Power Project located in the State of Karnataka and has been successful in achieving the financial closure for the project. 90% of the power generated from the project would be off-taken by the distribution companies in Karnataka while 10% of the power would go to Punjab Electricity Board. The power purchase agreement with these entities has a validity for 25 years. The EPC contract for the project has also been awarded for the project and construction work has commenced at the site. The work is progressing as per schedule. The power project is based on imported coal and the fuel supply for import of coal from Indonesia has been tied up.

Lanco Energy Private Limited in which your company will have 74% stake is developing the 500 MW Teesta VI hydro electric power project located in the state of Sikkim. During the year a 35 year Power Purchase Agreement for off take of power from the project was signed with Maharashtra State Electricity Distribution Company Limited (MSEDCL). Further to that loan documents have also been executed with a consortium of lenders and the first drawdown from the loan is likely to happen soon and major project activities would commence at the site thereafter.

Lanco Amarkantak Power Private Limited in which your company has a 75.16% stake is implementing the 2 x 300 MW Amarkantak project located in the state of Chatisgarh. Project activities are going on as per schedule and the first unit is likely to get commissioned in the first quarter of the financial year 2008-09. Recently the International Finance Corporation - the private sector arm of World Bank - had signed the subscription agreement for taking a 5.84% stake in the company. Earlier, DEG - the private sector arm of KFW Germany - had already committed to 9% equity stake in the company. We are happy that these multilateral agencies have reposed their confidence in our group by investing in this power project.

Lanco Green Power Private Limited in which your company will have 90% stake is implementing the 70 MW (2 x 35MW) run of the river hydroelectric power project across the Budhil Nallah in the state of Himachal Pradesh. Project activities are progressing and the units are expected to be commissioned in the financial year 2008-09.

Lanco Hydro Power Ventures Private Limited in which your company holds 91.14% stake is developing 20 MW (4 x 5 MW) in the state of Himachal Pradesh. Project activities at these locations are progressing and these units are expected to be commissioned during the financial year 2008-09. The company is in the process of finalising Detailed Project Report for developing hydro power projects in the state of Uttaranchal with cumulative capacity of 70 MW or more. These projects were awarded to the company through a competitive bidding process.

During the year your company has also signed Memorandum of Understanding with the Governments of Madhya Pradesh, Orissa and Jharkhand for developing power projects having capacities of 1200 MW, 1320 MW and 2640 MW respectively. Your company is in the process of making various assessments and obtaining approvals for undertaking development of these projects.

Power Trading

Lanco Electric Utility Limited - the power trading arm of your company performed well during the year and traded 740 mus of power with a turnover of Rs.321 crore. The trading company has also won a bid through a competitive process for procuring 50 MW of power from Damodar Valley Corporation with an option to trade upto 200 MW. The trading company also achieved the distinction of operating in all the five power regions of the country, covering 19 utilities spread across 15 States. It has also begun banking of power, the first trader in the private sector to do so. It has so far tied up banking arrangement with Punjab, Andhra Pradesh, Karnataka and Maharashtra, involving a total capacity of 300 MW to help these States to meet their respective load demands.

Clean Development Mechanism

Your company is also committed to development of power projects using non-conventional sources of energy such as bio-mass and wind projects. The projects planned in future also include a number of hydro electric projects which are small to medium size in capacities. We believe that India has a huge potential in the hydro power projects of these sizes which also have minimal displacement rehabilitation and resettlement issues attached to them. The development of these non-conventional energy projects as well as small and medium hydro power projects give us the advantage of earning carbon credits. Recently four of our small hydro projects of 5 MW have been registered as Clean Development Mechanism (CDM) projects with the United Nations Framework Convention on Climate Change (UNFCCC). Also, the 120 MW gas based Aban Power Project located in the state of Tamil Nadu has also been registered with the UNFCCC. This is the first gas based power project to be registered as a CDM project in the world.

Construction and EPC business

The Construction and EPC business of your company has performed well during the year. The EPC contract for the supply, erection and commissioning of the 1015 MW Nagarjuna Power Project located at Mangalore was won by the construction and EPC division. It also won a number of construction contracts from external parties such as the upgradation of public health centres in the state of Karnatka, supply and laying of water pipelines for Chennai Metro Water Supply and Sewerage Board. As of date the Construction and EPC division has an order book worth Rs. 5200 crore. These includes 2 x 300 MW Amarkantak Power Projcect, 2 x 507.5 MW Nagarjuna Power Project, 4 x 5 MW hydro power projects in the states of Uttaranchal and Himachal Pradesh, 70 MW Budhil Hydro Power Project. Third party contracts which are presently under execution include construction of roads in Bihar, buildings in Rajasthan, Assam and Karnataka. With the possibility of winning more construction and EPC contracts for some of the power, road projects, construction work in the property development which are likely to be awarded in the near future and various other external projects which the division is bidding it is expected that the order book position of the division would being showing an aggressive growth.

Property Development business

Your company is developing through its subsidiary, Lanco Hills Technology Park Private Limited an Information Technology Park in Hyderabad. This is the flagship property development initiative of the group. As per the construction plans, 30 million square feet of usable space would be developed in the 100 acres of land. Out of this 27 acres have been notified by government as a Special Economic Zone (SEZ). The whole area is being developed as an integrated township and would include high-rise residential apartments, commercial space, entertainment space, malls and hotels. Residential space would be sold and the bookings for the same have already commenced .Commercial space would be leased out and we have already appointed marketing agents to undertake the work of tying up with prospective clients. Discussions are also at an advanced stage for tying up with internationally reputed hotel chains for a five star and a four star hotel being planned at the location.

The high rise buildings would be constructed using state-of-the-art technology and it is expected that the overall development of the property should be completed in the next four years.

Recently your company has entered into an agreement for development of 47.58 acres of land located near SIPCOT Industrial Estate, Siruseri on Old Mahabalipuram Road, Chennai, Tamil Nadu. The initiative would be in the form of a joint development model in which we will not be owners of the property but will only develop and the owners will be given a share of the sales. We plan to develop a built-up space of 4 million square feet in this property initiative.

Your company also owns 22 acres of land in the outskirts of Hyderabad in close proximity to Lanco Hills property and near the Outer Ring Road which is under construction. We are drawing up plans to develop a premium residential project in this land.

Roads

During the year your company participated in a number of bids for development of road projects on BOT basis and has been awarded a 20 year toll concession for developing by National Highways Authority of India (NHAI) in the state of Karnataka for constructing and operating an 80 Km stretch on the Bangalore-Hoskote-Mudbagal highway. The construction is to be completed within a period of 30 months. The cost of the projects is expected to be around Rs. 500 crores The outcome of the other bids are awaited.

DIRECTORS

Mr. G. Venkatesh Babu was elevated and appointed as Managing Director in the Board Meeting held on 24th June, 2006.

In accordance with the Provisions of the Companies Act, 1956 and the Articles of Association of the Company Mr. G. Bhaskara Rao and Mr. G. Venkatesh Babu, Directors, retire by rotation and being eligible offer themselves for re- Appointment.

Dr. P. Kotaiah, Mr. P. Abraham, Dr. Uddesh Kumar Kohli, Mr. H.N. Sinor and Mr. P. Narasimharamulu were appointed as Additional Directors in the Meeting of Board of Directors held on 16th June, 2006, and Dr. B. Vasanthan was appointed as Additional Director in the Meeting of Board of Directors held on 26th June, 2007, as such the said Directors hold office up to the date of the 14th Annual General Meeting. In accordance with the requirements of Section 257 of the Companies Act, 1956, Notices were received along with prescribed amounts of Deposit proposing the candidatures of the said Directors for appointment as Directors liable to retire by rotation.

Mr. S. C. Duggal and Mr. H. N. Sinor resigned as Directors. The Board of Directors places on record its appreciation of the contributions made by Mr. S.C. Duggal and Mr. H. N. Sinor during their tenure as Directors of the Company.

Mr. D.V. Rao was appointed as Joint Managing Director with effect from 12th May, 2007. Notice was received along with prescribed amount of Deposit proposing the candidature of Mr. D.V. Rao for appointment as Director liable to retire by rotation. Further, the appointment of Mr. D.V. Rao as Joint Managing Director is being put up to the Members for approval.

DEPOSITS

Your Company has not accepted deposits falling within the provisions of Section 58A of the Companies Act, 1956 read with Companies (Acceptance of the Deposits) Rules, 1975 during the year under review.

AUDITORS

M/s. Price Waterhouse, Chartered Accountants, Auditors of the Company will retire at the conclusion of the Annual General Meeting and are eligible for re-appointment. They have conveyed their willingness to accept re-appointment and confirmed their eligibility under Section 224(1-B) of the Companies Act, 1956.

PARTICULARS REGARDING CONSERVATION OF ENERGY, RESEARCH & DEVELOPMENT, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE EARNINGS AND OUTGO

Information pursuant to Section 217(1)(e) of the Companies Act, 1956, read with Companies (Disclosure of particulars in the Report of Board of Directors) Rules, 1988, are as follows:

CONSERVATION OF ENERGY

The Company uses electric energy for general lighting, air-conditioning, computer terminals and utilities in the office premises. As an ongoing process measures are undertaken to conserve energy.

RESEARCH & DEVELOPMENT AND TECHNOLOGY ABSORPTION

The Company basically being an infrastructure company, there is no much scope for research & development.

FOREIGN EXCHANGE EARNINGS AND OUTGO

Foreign Exchange Earnings	:	Rs. NIL
Foreign Exchange outgo	:	Rs.1,679.90 Millions

DISCLOSURE ON COMPANY'S EMPLOYEES STOCK OPTION PLAN 2006

The Employee Stock Option Plan-2006 was approved by a Special Resolution passed by the Shareholders in the Extraordinary General Meeting held on 7th June, 2006.

The required information relating to the said scheme pursuant to Clause 12 of the SEBI (ESOS / ESPS) Guidelines 1999 is enclosed as an **Annexure-I.**

Ratification of Employee Stock Option Plan-2006

Being a Pre-IPO ESOP-Scheme, as required under Clause 22.2A(a) of the SEBI (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999, the same has been put up to the Members for ratification through Postal Ballot for enabling further Grants of Options to Employees. The result of the Postal Ballot will be announced on 28th June, 2007.

PARTICULARS OF EMPLOYEES

The information required to be furnished under the provisions of Section 217(2A) of the Companies Act, 1956 read with Companies (Particulars of Employees) Rules, 1975 as amended is enclosed as **Annexure-II.**

MANAGEMENT DISCUSSION AND ANALYSIS

The Management Discussion and Analysis as required under Clause-49 (IV)(F) is enclosed as **Annexure-III.**

CORPORATE GOVERNANCE

The Report on Corporate Governance is given separately in this Annual Report. The Auditors' Certificate on compliance in this regard is annexed to this report.

NOTE ON PARTICULARS REQUIRED AS PER SECTION 212 OF THE COMPANIES ACT, 1956

As per Section 212 of the Companies Act, 1956, we are required to attach the directors' report, balance sheet, and profit and loss account of the subsidiaries. We had applied to the Government of India for an exemption from such attachment as we present the audited consolidated financial statements in the annual report. We believe that the consolidated accounts present a full and fair picture of the state of affairs and the financial condition and is accepted globally. The Government of India has granted exemption from complying with Section 212. Accordingly, the annual report does not contain the financial statements of these subsidiaries. The Annual Accounts of the Subsidiary Companies and the related detailed information will be made available to the Holding and Subsidiary Companies' investors seeking such information at any point of time. The Annual Accounts of the Subsidiary Companies will also be kept for inspection by any investor at our Registered Office and that of Subsidiary Companies concerned.

DIRECTORS' RESPONSIBILITY STATEMENT

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

i. that in preparation of annual accounts containing financial statements for the year ended 31st March, 2007 the applicable accounting standards have been followed except as disclosed in note no.4(xvi) & 4(xvii) in Schedule-19 of the consolidated financial statements.

ii. that the accounting policies are consistently followed and your Directors have applied them to give a true and fair view of the state of affairs of the Company and the profit/loss for that period.

iii. that the Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956, for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities.

iv. the annual accounts have been prepared on a going concern basis.

INFORMATION ON AUDITORS' OBSERVATIONS

The Auditors have made certain observations, at Item-4 of the Auditors' Report on the Consolidated Financial Statements dated 12th May, 2007, the management's response to the same is given below:

4 (a). The Company has made an application to the Institute of Chartered Accountants of India (ICAI) seeking expert advisory opinion on the treatment of non-elimination of intra-group revenues and profits arising out of construction of projects under Build Operate Own and Transfer basis in line with the interpretation-12 issued by the International Financial Reporting Interpretation Committee on Service Concession Arrangements. Pending such clarification, the Company has not eliminated the said revenues and un-realized profits.

4 (b). The reorganization process initiated by the Company culminated with the acquisition of additional 25.10% shares of Lanco Kondapalli Power Private Limited (LKPPL) on November 15, 2006, thereby making LKPPL its 59% subsidiary from such date of acquisition. Considering the management structure of LKPPL that is in place and the non declaration of any dividends by LKPPL during the period, the company has presented its Consolidated Financial Statement considering LKPPL as a Subsidiary from April 01, 2006.

ACKNOWLEDGEMENT AND APPRECIATION:

The Directors take this opportunity to thank the Shareholders, Financial Institutions, Banks, Customers, Suppliers and Regulatory & Governmental Authorities for their continued support to the Company. Further, the Directors wish to place on record their appreciation of Employees at all levels for their hard work, dedication and commitment.

FOR AND ON BEHALF OF THE BOARD

L. Madhusudhan Rao	**G. Venkatesh Babu**
Executive Chairman	Managing Director

Place : Hyderabad,
Date : 26.06.2007.

Annexure-I to the Directors' Report

Details of Stock Options Pursuant to SEBI Guidelines on Stock Options

S. No.	Description	Plan 2006
1	Number of Options available under the Scheme	1,11,18,096
2	Total Number of Options granted during the year	1,49,400
3	Pricing Formula	The options issued by the ESOP Trust shall be at Par Value subject to the adjustments for corporate actions such as Bonus, Consolidation and Split
4	Options vested during FY 2006-07	Nil
5	Options Exercised during FY 2006-07	Nil
6	The total number of shares arising as a result of exercise of option	1,49,400
7	Options lapsed during FY 2006-07 which are subject to re-issue	24,300
8	Variation of Terms of options	Nil
9	Money realised by exercised of Options	Nil
10	Grant Price (The Grant Price arrived after due consideration of Corporate Actions taken by the company like bonus, split and consolidation of Shares)	2.43
11	Total Number of options in force as on 31st March, 2007	1,25,100
12	Grant details of members of Senior Management Team during the year 2006-07	11,250

Name of the Person	No. of Options Granted
Mr. G. Venkatesh Babu	450
Mr. D.V. Rao	450
Mr. J. Suresh Kumar	450
Mr. K.K.V. Nagaprasad	450
Mr. S. Pochendar	450
Mr. K. Raja Gopal	450
Dr. Govind Sachdev	450
Mr. P. Panduranga Rao	450
Mr. B.K. Sharada	450
Mr. Murali Subramanian	450
Mr. V. Ravindran	450
Mr. Pattabhi Raman A	450
Mr. Shishir kant	450
Mr. Brijendra Sharma	450
Mr. V. Srinivas	450
Mr. M.N. Ravi Shankar	450
Mr. T. Viswanaath	450
Mr. T. Adibabu	450
Mr. R. Parthasarathy	450
Mr. A. Xavier	450
Mr. D.V. Prasad	450
Mr. K.E. Prasad	450
Mr. Ch. Chalapati Roy	450
Mr. C. Krishnakumar	450
Mr. A. Narsimhan	450

S. No.	Description	Plan 2006
13	Number of other employee who receives a grant in any one year of option amounting to 5% or more of option granted during that year.	Nil
14	Number of employees who were granted option, during any one year, equal to or exceeding 1% of the issued capital (excluding outstanding warrants and conversions) of the company at the time of grant	Nil
15	Diluted Earnings Per Share (EPS) pursuant to issue of shares on exercise of option calculated in accordance with Accounting Standard (AS) 20 'Earnings Per Share.	3.28
16 i)	Method of Calculation of Employee Compensation Cost	The company has calculated the employee compensation cost using the Intrinsic Value of the stock options.
ii)	Difference between the employee compensation cost so computed at (i) above and the Employee Compensation Cost that shall have been recognised if it had used the fair value of the options	3,22,248
iii)	The impact of the difference on profits and on EPS of the Company	(Rs. in Million) PAT 730.61 Less: Additional Cost Based on Fair Value 0.32 Adjusted PAT 730.29 Adjusted EPS (Rs.) 3.28
iv)	Weighted average exercise price and fair value of stock options granted : Stock options granted on Weighted Average Exercise Price (in Rs.) Weighted average Fair Value (in Rs.) Closing Market price at BSE on the date of Grant (in Rs.)	24th June 2006 2.43 118.06 Nil (since, the shares were not listed)
v)	Description of the Method and significant assumptions used during the year to estimate the fair value of the options, including the following weighted average information	The Black Scholes option-pricing model was developed for estimating fair value of traded options that have no vesting restrictions and are fully transferable. Since, option-pricing models require use of substantive assumptions; changes therein can materially affect the fair value of options. The option-pricing models do not necessarily provide a reliable measure of the fair value of options.
vi)	The main assumptions used in the Black Scholes option-pricing model during the year were as follows: Risk-free interest rate Expected Life of options from the date (s) of grant Expected volatility Dividend yield	 8% 7 years 1.40% Nil

Note:

1. The company had established the ESOS Trust in 2001. It was established with the intention of creating an Employee Stock Option Plan. On 7th June 2006, the shareholders approved that the ESOS to be implemented through the ESOP Trust. Consequent to the Corporate Actions the ESOS Trust now holds 11,118,096 equity shares and 1,49,400 option thereof stand granted by the ESOP Trust which entitles the said employees to acquire the Equity Shares. The shares were issued to ESOP Trust at par. The trust re-issued the options to the employees at par, subject to, however to the adjustments made on Corporate Actions like Bonus, Consolidation and split.
2. Since, the shares were not listed as on the date of grant date, the value of the shares of the company was taken based on the value given by the independent Valuer.
3. For the purpose of calculating Fair Value used in the Black Shoes Option Pricing Model, Volatility was arrived at considering a similar Company's Market Price variation.

Annexure-II to the Directors' Report

Statement of particulars of Employees under the Provisions of Section 217(2A) of the Companies Act, 1956 read with Companies (Particulars of Employees) Rules, 1975 for the Year 2006-07

S. No.	Name of the Employee	Designation	Remuneration (Rs. in lakhs)	Date of Commencement of Employment	Qualifications	Age-years	Last Employment	Total Experience in Years
1	Mr. L. Madhusudhan Rao	Executive Chairman	72.00	1-Apr-06	M.Tech., MS (Industrial Engg)	41		18
2	Mr. G.Bhaskara Rao	Executive Vice-Chairman	72.00	1-Apr-06	M.E.	52		26
3	Mr. J.Suresh Kumar	Chief Financial Officer	50.00	1-Apr-06	ACA	38	JM Morgan Stanley	13
4	Mr. T.Adi Babu	Vice President (Finance)	24.60	23-Jun-05	FICWA	48	Fenoplast Limited	20
5	Mr. D.N.Reddy	Director (Operations)	30.00	1-Jul-95	B.Tech(Civil)	47	NDDB	25
6	Mr. S.P.Mathai	Director (Projects)	24.00	1-Aug-06	BE- Electrical	63	Zelan Project Pvt. Limited	32
7	Mr. S.C.Manocha	Chief Executive Officer	10.00	7-Feb-07	BE	56	Reliance Energy Limited	35
8	Mr. Sanjay Divakar Joshi	Executive Director (Infrastructure)	5.87	3-Jan-07	Master in Civil Engg.	41	Reliance Energy Limited	19
9	Mr. CP Sastry	Vice President (Project Finance)	1.44	7-Feb-07	MBA	36	SBI Capital Market Ltd	12
10	Mr. L.Yugandhar Babu	Executive Director (Finance)	19.80	1-Jul-06	ACA	50	Lanco Kondapalli Power (P) Limited	26
11	Dr.Govind Sachdev	Chief Executive Officer	47.66	16-Jun-06	BE, PGDBM, Master in contract Mgmt	59	Essar Group	38

Annexure-III to the Directors' Report

Management's Discussion and Analysis

In this section, any reference to "we", "us" or "our" refers to Lanco Infratech Limited along with its subsidiary companies. The discussion of our financial condition and results of operations included in this section should be read in conjunction with the consolidated financial statements of LITL and its Subsidiaries.

A. Industry Overview, developments and opportunities

Opportunities in the infrastructure sector are being fuelled by the rapid growth of the Indian Economy. According to the latest estimates of GDP released by the Government for the year 2006-07, the economy grew at an estimated rate of 9.4 per cent[1]. The government is targeting an average growth rate of 9% during the 11th Plan (2007-2012)[2]. The Government has been emphasizing on the need for adequate and efficient infrastructure services to realize the full potential of the growth impulses surging through the economy. The government estimates that an investment of Rs.14,50,000 crore or about US$ 360 billion would be required in the infrastructure sector during the Eleventh Five Year Plan i.e. fiscal 2008-2012 and it is targeting to achieve such investments through a combination of public investment, public-private-partnerships (PPPs) and exclusive private investments[3].

In order to overcome shortages in the power supplies and to meet the growing demand for power, the government has set very aggressive targets of 78 GW and 85 GW for the 11th Plan (2007-12) and 12th Plan (2012-17) respectively. Increase in generation capacities require a commensurate increase in transmission capacities. The government is targeting an additional inter-regional capacity of 23,600 MW during the 11th Plan. Also an additional 1,00,000 ckt km of transmission system is being targeted for development during this period[4]. A number of these transmission lines are being planned to be constructed by private players on BOT basis. These developments along with the operationalisation of power exchange is expected to play a key role in the exponential growth of power trading.

The government has been giving substantial impetus for the transportation infrastructure segments specifically Roads, Ports and Airports. As far as the road development potential is concerned the government estimates an investment requirement of more than Rs. 2,20,000 crore for modernisation and upgradation of roads. The government has decided that all the sub-projects in National Highhways Development Program (Phase-III to Phase-VII) would be taken up on the basis of Public Private Participation (PPP) on Build Operate and Transfer (BOT) mode[3]. The private sector participation envisaged in Phase-II of NHDP has also been increased. To modernise and build new ports the government estimates an investment requirement of over Rs. 50,000 crore under the National Maritime Development Program which aims at doubling the existing capacity at major ports, increase shipping tonnage, and increase share of coastal and inland waterways in inland transportation of cargo. Depending on the nature of facility/service, private operators can enter into a service contract, a management contract, a concession agreement or a divestiture to operate port services. Areas that have been opened up to the private sector on a BOT basis include construction of cargo handling berths and dry-docks, container terminals and warehousing facilities and ship repair facilities. Policy initiatives of the government in the recent past have had a marked impact upon airline traffic. The government has therefore initiated policies to upgrade and create new airport facilities. Airports Authority of India (AAI) has decided to develop and modernize 35 non-metro airports in the country: State Governments are encouraged to set up green-field airports with private sector participation.

Opportunities in the urban infrastructure space are also opening up. Urban infrastructure consists of drinking water, sanitation, sewage systems, electricity and gas distribution, urban transport, primary health services and environmental regulation. The process of urbanization has gathered considerable momentum in recent times and this has put urban infrastructure and services under severe strain. Considering the urgency of the development of these facilities governments have been undertaking the route of Public Private Partnership models to invite participation of private sector particularly for creating urban transport facilities in a number of cities.

Requirements of developed property for housing as well as for organized retail and commercial space is continuing to increase at a rapid pace. The National Building Organisation has estimated unmet housing demand for the country at 20 million units. For the 10th plan period the government had estimated shortage of dwelling units at 22 million units. Affordability for houses of the middle class is also increasing with increasing levels of disposable income as well increase in the workforce. The growth in the services sectors and in particular the Information Technology and Information Technology Enabled Services sector and also organized retail trading has fuelled a need for quality commercial space in various cities. Further the influx of business travellers has also been fuelling the demand for more space for hospitality service providers. Government's initiatives on Special Economic Zones have increased the demand for space creation for SEZ manifold. There is also a growing need for developing world class integrated townships which provide space for commercial, entertainment, hospitality and residential space in a single location.

B. Our Strategies for growth

Given the opportunities in the infrastructure projects, we are focused on creating value by investing our cash flows into high return yielding infrastructure projects. The government is targeting an additional power capacity of 78 GW during the 11th Plan Period (2007-2012). Presently we have a cumulative installed generation power capacity of 518 MW. We have already finalized plans to add another 7235 MW by the year 2012. We are also in the process of identifying other power projects which we may take up for development.

The government has identified 14 transmission projects to be developed by the private sector through tariff-based competitive bidding and we are keen in bidding for some of these.

The National Highway Authority of India (NHAI) which is implementing the National Highways Development Project (NHDP) has been allowing private sector participation in development of various phases of the NHDP through BOT mode. We have also been bidding for some of these road projects and have been awarded an 80 Km road project by NHAI in the state of Karnataka.

Given the increasing need for quality residential and commercial space in growing cities, we are keen on developing property at such locations. Construction work has already commenced on our maiden property initiative in Hyderbad which envisages creation of almost 30 million square feet of space for residential, commercial, entertainment, hospitality.

C. Implementation Strategies

Financing Strategy

The projects which we have undertaken for development and the projects we are likely to get, together envisage large capex requirements over the next 5 years. We would finance most of these requirements with a debt to equity mix of 80:20. Debt component for most of these projects have been tied-up as financial closures have already been achieved except Anpara which is under appraisal. We believe that our share of the presently estimated equity requirements would be met from internal accruals and the IPO proceeds.

1. Central Statistical Organisation, Ministry of statistics and Program Implementation, Government of India
2. An approach paper to Eleventh Five Year Plan - Planning Commission Of India
3. Economic Survey 2006-07, Ministry of Finance, Government of India
4. Central Electricity Authority, Ministry of Power, Government of India

Project Implementation Strategy

Infrastructure projects are highly capital intensive and also have a long gestation period. We believe that the key to ensuring competitiveness in the infrastructure space is dependent on reducing project cost and execution periods while at the same time ensuring efficiency in the operation of these infrastructure projects so that operation and maintenance costs are within base case assumptions. To enable this we have established relations with equipment suppliers for power plants which we believe have the technology and the manufacturing capacity for faster delivery at a very competitive price. The company works in close co-ordination with the equipment suppliers to ensure that the design parameters are suited to meet the operational requirements.

In the construction space, the company believes that large-scale mechanisation and adoption of the latest technologies therein can enhance productivity and competitiveness. In the case of property development the company is striving to bring in contractors who have proven abilities of building high rise structures elsewhere in the world with very tight construction schedules.

HR Strategy

We understand that timely execution of all the projects is key to growth of the company. This in turns hinges on superior managerial and technical skills of personnel at all levels. The company has put it in place a human resource strategy to attract and retain experienced manpower. The number of employees on the rolls of the group have been strengthened to 1218 at the end of the current year. The company is targeting to double the number of employees in the next 2 years and reach a level of 3500 by the year 2012. The augmentation of human resources have particularly been focussed on Construction, EPC and power divisions which are the key areas for the current growth plans. Compensation packages have been drawn to match the best in the industry. Employee Stock Option Schemes have also been revised to ensure a higher retention level. The human resource strategy also includes increased focus on continuous skill upgradation for all levels of employees through various training interventions.

IT Strategy

The company recognises the need to strengthen the IT infrastructure within the company to match the increased scale of activities. The company is in the process of implementing an ERP package of SAP. With the going live of ERP, initially at the corporate level and subsequently across all locations, and the adoption of best practices in all the processes in finance, human resources, project implementation and operations it is expected that there would be an increased efficiency leading to better productivity.

D. Key Risks and Mitigants

Execution Risks

Non-availability of experienced personnel capable of ensuring implementation of projects as per schedule can result in delays:

Our strategy for growth hinges on efficient operations by our Construction and EPC group in executing the infrastructure projects awarded to it within the time schedules agreed upon and also without cost overruns. It is also critically important that the Special Purpose Vehicle (SPV) which we form for implementing various infrastructure projects commissions and completes those projects within the time period planned. However, we believe that our Construction and EPC division and our execution teams at the projects have the requisite project implementation and monitoring capabilities to execute these projects in time. We have been strengthening and reinforcing our project implementation teams to enable them to meet the targets.

Unexpected events may cause delays in execution of projects:

Infrastructure projects by nature have long gestation periods. While project implementation is planned after taking into consideration all possible factors, unexpected events may still cause delays. For instance in the case of Hydro Power Projects which we are developing there may be geological surprises during the execution of the project which may cause the projects to be delayed.

Operational Risks

Non-availability of fuel may affect the operations of power plants

A majority of the power projects which we have developed or which are being developed are thermal power plants which depend on either Coal or Gas for their operations. While we have taken care to enter into long term fuel supply contracts for ensuring adequate fuel supplies for these projects, there may be a possibility of these plants not being able to operate to their optimum capacities due to non-availability of fuel. We however take all possible measures to ensure availability of fuel from alternative sources.

Non-performance of plant and machinery as per design specifications may affect the operations of the plants

The Boiler and Turbine equipments which we are procuring for some of the projects which we are presently executing are being supplied by power equipment suppliers from outside the country. We have reasons to believe that the performance of these equipments under Indian conditions should not pose any major problem as we have ensured modifications in design specifications so that these equipments perform satisfactorily in India.

Financing Risks

Non-availability of financial resources may delay project implementation

The projects which we have envisaged for development over the next five years entail large investments. We are planning to execute most of these projects with a debt to equity ratio of 80:20. Delay in achieving financial closures for these projects may affect the execution of these projects. We are planning to meet our equity commitments for these projects from our internal accruals and IPO funds. If our internal resource generation does not accrue as planned affecting our equity investments in these projects it may delay the execution of these projects. However, we believe that we will be able to meet our equity commitments from our internal accruals and IPO funds. The debt component for many of these projects have been tied up while for some the financial closure process is on. We believe debt for these projects would be tied up in due course.

Interest Rate Risks

Increase in interest rates may impact the returns from these projects

We take long term borrowings for our infrastructure projects. In some of the projects the off-take agreements do not provide for pass-through of interest costs. In such projects we are therefore exposed to the risk of reduction in the returns as envisaged at the time of taking up of the project if the interest rate on the loans which we borrow go up. However, it is our strategy to have term loans which have reset / refinancing clauses so that we are not locked into interest rates for the entire life cycle of a project.

Human Resources Risk

We are presently undertaking development of infrastructure projects on a scale which we have not executed in the past. We may not be having experienced personnel to ensure timely implementation of these projects. However, we are in the process of acquiring experienced manpower for execution of these projects and have put in place a human resource strategy to attract suitable personnel and also to retain key managerial personnel. The strategy includes providing an attractive compensation package including Employee Stock Option Scheme. As of March 2007 we had 1,218 employees.

E. Risk Management Framework

In order to regularly assess, evaluate and prioritize risks and to take corrective action wherever required we have put in place a Risk Management Framework. Under the framework a four tier hierarchy for risk assessment and evaluation has been created with a Group Risk Management Steering Committee at the apex level, a separate Risk Management Steering committee for Power, Infrastructure and Construction, Reality and Corporate Function. For each of the business groups a Risk owner as well as a Risk Champion has also been identified. The apex steering committee would be assisted by a Chief Risk Officer who would facilitate the functioning of the steering committee and ensure quarterly review of the risk reports from the various risk owners. The steering committee would also prepare a Risk Charter and a Risk Policy which would lay down the guidelines for the risk owners and champions in their risk evaluation process.

F. Internal Control Systems and their adequacy

We have a separate Internal Audit Division to undertake audit on a regular basis at all our locations. The Audit Committee of the Board also reviews the adequacy of the internal audit function and also holds discussions with the internal auditors regarding their significant findings. The CEO / CFO certification annexed to this report discusses the adequacy of the internal control systems.

G. Financial Condition

During the financial year ended March 31, 2007 the Company had consolidated certain group entities engaged in the business of Power, Construction and Property Development under its management. Consequently, these companies have become its subsidiaries/associate. Hence, the consolidated results for the current period are not fully comparable with those of the corresponding period of the previous year.

Sources of Funds

1. Share Capital

Our authorised share capital as of March 31, 2007 stood at Rs. 2500 million divided into 250 million equity shares of Rs. 10 each. As of March 31, 2006 the authorised share capital was Rs. 750 million. The authorised share capital was increased with the approval of the shareholders in order to issue fresh equity shares to the public through IPO which was done in November 2006. The issued and subscribed share capital of the company stood at Rs. 2223.62 million comprising of 222,361,905 equity shares of Rs . 10 each. The issued, subscribed and paid-up share capital was Rs. 307.69 million at the end of the previous year. The details of the change in the capital is detailed below:

Particulars		Number of shares
Total No of equity shares outstanding at the beginning of the year		30,768,888
Issued during the year		
1:2 Bonus issue	24-Apr-06	15,384,444
Issued for cash - Lanco Group Ltd	07-Jun-06	10,637,144
Issued for cash - LCL Foundation	16-Jun-06	2,506,032
2:1 Bonus issue	30-Jul-06	118,593,016
Issued for cash - Public Issue	27-Nov-06	44,472,381
No. of Equity Shares at the end of the year		**222,361,905**

2. Reserves and Surplus

A summary of the reserves and surplus is given below:

Rs in Million

Particulars	31-Mar-07	31-Mar-06
Securities Premium	10,337	35
General Reserve	118	17
Capital Reserve	43	43
Debenture Redemption Reserve	60	–
Profit & Loss Account	2349	552
Total	**12,907**	**647**

The main reason for the increase in the reserves surplus has been the increase in securities premium on account of issue of shares to the public at a premium of Rs. 230 per share. The increase in the profit and loss account balance has been because of the various subsidiary companies which have now been consolidated pursuant to re-organisation / consolidation.

3. Minority interest

Minority interest in the consolidated balance sheet of the company as on March 31, 2007 was Rs. 3,763 million as against Rs. 138 million in the previous year. The main reason for the change being the restructuring of the group companies resulting in a number of associate companies becoming subsidiaries.

4. Loan Funds

On a consolidated basis the company had a total loan fund of Rs. 17,099 million as against Rs. 1,397 million at the end of the previous year. Of this Rs. 16,949 million were on account of secured loans while Rs. 150 million is by way of unsecured loans. Break-up of the secured loan is tabulated below.

Rs in Million

Particulars	31-Mar-07	31-Mar-06
Debentures	241	–
Term Loans		
Rupee Loans		
Financial Institutions	5,207	–
Banks	7,883	725
Foreign Currency Loans		
Financial Institutions	1,141	–
Banks	1,759	–
Short Term Loans	24	3
Vehicle Loans	6	2
Cash Credits and Working Capital Loans	688	50
Total	**16,949**	**781**

A broad break-up of the loans as of March 31, 2007 across various companies of the group is as follows:

Rs in Million

Particulars	Amount
Lanco Amarkantak Power Private Limited	5,747
Lanco Kondapalli Power Private Limited	3,825
Aban Power Company Limited	2,678
Lanco Hills Technology Park Private Limited	2,066
Lanco Infratech Limited	1,245
Lanco Green Power Private Limited (Developing 70 Mw Hydro Power Project in Himachal Pradesh)	598
Lanco Hydro Power Ventures Private Limited (Developing 20 Mw hydro electric power projects in Himachal and Uttaranchal)	425
Clarion Power Corporation Limited	237
Rithwik Energy Systems Limited	127
Total	**16,949**

Application of Funds

1. **Fixed Assets**

Details of the fixed assets as on March 31, 2007 in comparison to the previous year is given below:

Rs in Million

Particulars	31-Mar-07	31-Mar-06
Gross Block	19,186	235
Less : Depreciation	5,754	86
Net Block	13,432	149
Capital Works in Progress (including capital advances)	9,443	119
Expenses during construction pending allocation (net)	1,515	141
Total	**24,390**	**409**

A break up of the gross block with details of changes during the year is given below: Rs in Million

Particulars	As at April 1 2006	Additions	Addition on inclusion of subsidiaries	Withdrawals	As at March 31, 2007
Goodwill	10	675	–	–	685
Leasehold Land	–	–	146	–	146
Freehold Land	–	1,345	286	–	1,631
Buildings	25	38	1,568	–	1,630
Plant and Machinery	150	600	14,126	–	14,876
Office equipment	10	25	31	*	66
Furniture and Fittings	19	18	17	–	54
Vehicles	20	42	35	**	97
Total	**235**	**2,743**	**16,209**	**1**	**19,186**

* Rs. 0.18 Million ** Rs. 0.80 Million

2. **Investments**

On a consolidated basis the investments made amounted to Rs. 6,029 million as against Rs. 1,015 million at the end of the previous year. Out of these Rs. 5,047 million represent investments in shares of associate companies including Rs. 5,016 million in Nagarjuna Power Company Limited. Out of the balance, Rs. 952 million is in current investments and Rs. 30 million is in long term investments.

The investments by Lanco Infratech Limited on a stand alone basis as on March 31, 2007 was Rs. 13,426 million comprising mainly of Rs. 12,471 million invested in various subsidiary and associate companies.

3. **Current Assets, Loans and Advances**

Current assets including loans and advances amounted to Rs. 17,064 million as on March 31, 2007 as compared to Rs. 2,678 million at the end of the previous year. A break-up of the Current Assets is given below:

Rs in Million

Particulars	31-Mar-07	31-Mar-06
Inventories	4,896	164
Sundry Debtors	2,694	381
Cash and Bank	5,050	414
Other Current Assets	12	2
Loans and Advances	4,412	1,718
Total	**17,064**	**2,678**

Inventories mainly comprised of construction / development work in progress amounting to Rs. 3,861 million at our Lanco Hills and other construction sites, input fuel stock used at our operating power plants amounting to Rs. 368 million and stores and spares amounting to Rs. 667 million.

Sundry debtors comprise mainly of the amounts due from the customers - the state electricity boards in the case of the operating power companies and clients for construction and EPC work. Of the total amount of Rs. 2,694 million of sundry debtors, Rs. 780 million has been outstanding for more than 6 months. A major portion of this amount pertains to dues pending from Andhra Pradesh Power Coordination Committee (APPCC) to Kondapalli Power Plant which is the amount APPCC has adjusted unilaterally against certain claims raised by them which have not been accepted by the company. The mater is pending in court.

Cash and Bank balances stood at Rs. 5,050 million as on March 31, 2007 as against Rs. 414 million in the previous year of which Rs. 4,591 million is kept in term deposit accounts with scheduled commercial banks.

Loans and advances mainly comprised of advances to sub-contractors amounting to Rs. 2,658 million, advance for operation and maintenance services amounting to Rs. 343 million, advances for share application money amounting to Rs. 429 million, deposits with clients amounting to Rs. 120 million and various other advances for works and services amounting to Rs. 851 million.

4. **Current Liabilities and Provisions**

Current Liabilities and provisions as on March 31, 2007 were Rs. 11,424 million as against Rs. 1,581 million at the end of the previous year. This mainly comprised of sundry creditors amounting to Rs. 5,823 million and Rs. 5,204 million received as advance from customers for construction and EPC orders.

H. Results of operations

Rs in Million

Particulars	Financial Year 2006-07	% of Sales	Financial Year 2005-06	% of Sales
Sales and Operating Income	16,058	100%	1,471	100%
Less :				
Construction and Operating Expenses	11,220	69.9%	1,258	85.5%
Administration and other expenses	639	4.0%	45	3.1%
EBITDA	**4,198**	**26.1%**	**168**	**11.4%**
Depreciation	656	4.1%	19	1.3%
EBIT	**3,543**	**22.1%**	**149**	**10.1%**
Interest and Finance charges	829	5.2%	36	2.5%
Operating Profit after Interest & Depreciation	**2,714**	**16.9%**	**113**	**7.6%**
Other Income	416	2.6%	13	0.9%
EBT	**3,130**	**19.5%**	**126**	**8.5%**
Provision for Taxation	472	2.9%	33	2.3%
Profit after Taxation	**2,658**	**16.6%**	**92**	**6.3%**
Less : Minority interest	788	4.9%	–	–
Add: Share of profits in associates	10	0.1%	79	5.4%
PAT after Minority Interest	**1,880**	**11.7%**	**171**	**11.6%**

1. Sales and Operating Income

Presently, our sales and operating income are generated mainly from the sale of power to bulk electricity consumers based on long term power purchase agreements, trading in power and the construction and EPC revenues which we earn from undertaking various construction and EPC contracts mainly of infrastructure projects. The break-up of the consolidated revenues accounted for the current year based on the principles of consolidation adopted is as follows:

Rs in Million

Particulars	Operating business	Amount
Power Companies		
Kondapalli Power	368 MW Gas Power Project	5,400
Lanco Electric Utility	Power Trading	3,214
Aban Power Company Limited	120 MW Gas based Power Project	1,572
Clarion Power	12 MW Bio Mass Power Project	291
Rithwik Energy Systems	6 MW Bio Mass based power project	192
Sub total		**10,669**
Lanco Infratech (stand alone)	Construction, EPC and others	5,417
Others		2
Total		**16,088**
Less: Elimination of Inter company revenues		**29**
Net		**16,058**

The operating performance of the power plants and the units of power sold is as follows:

Particulars	Availability (%)	PLF (%)	Electricity Sold (MUs)
Kondapalli Power	86.20%	53.65%	1,644
Aban Power Company Limited	96.25%	82.38%	817
Clarion Power	73.81%	69.79%	66
Rithwik Energy Systems	77.33%	78.73%	36

Lanco Electric Utility, the power trading arm traded 741 MUs of power during the year. Of the Rs. 5,417 million revenues generated by Lanco Infratech Limited on a stand alone basis, Rs. 5,270 million was on account of its construction and EPC business while the balance was from wind farms and other investments. The project-wise break-up of the revenues booked by the construction and EPC division is as follows:

Rs in Million

Particulars	Amount
Projects for the Group	
Coal Power projects (Amarkantak, Nagarjuna)	3,369
Hydro Power Projects (Himachal, Uttaranchal)	930
Sub-total for internal projects	**4,299**
Projects for third parties	
Roads, Bihar	144
Buildings, Assam	129
Residential Building, Rajasthan	116
Buildings for Healthcare, Karnatka	103
Others	480
Sub-total for external projects	**971**
Total	**5,270**

2. Expenditure

On a consolidated basis the total expenditure incurred for the year amounted to Rs. 11,859 million mainly on account of the expenditure on fuel for the operating power plants, operating and maintenance expenses, employee cost, expenditure incurred on execution of construction orders in the case of the construction division and expenditure on purchase of power by the trading arm. A break-up of the total expenditure incurred is given below:

Rs in Million

Particulars	Amount
Construction expenditure	
Opening Work in progress	164
Add: Construction material consumed	5,287
Less: Closing work in progress	(3,862)
Add: Sub contracting cost	2,376
	3,965
Cost of purchase of Power for trading (less rebate)	3,169
Fuel for operating power plants	3,523
Consumption of Stores and spares	217
Operations and maintenance cost	294
Repairs and maintenance	60
Employee Cost	236
Insurance	122
Consultancy, Professional Charges, Managerial	
Remuneration	116
Traveling and Conveyance expenses	54
Communication expenses	12
Rent, Hire etc.	97
Office Maintenance, Printing and Stationery	12
Others	60
Total	**11,937**
Less: Transferred to Development cost	**(77)**
Net expenditure charged to P&L	**11,860**

3. Depreciation

Depreciation on a consolidated basis was Rs. 656 million. Depreciation in respect of power sector subsidiaries has been uniformly considered based on the rates as prescribed under Schedule XIV to the Companies Act, 1956, with effect from the date of acquisition of respective subsidiaries. Depreciation on assets of power sector subsidiaries is charged in individual entities on different bases following accounting policies which are considered appropriate in each case and continue to follow the same.

4. Interest and Finance Charges

Interest and finance charges on a consolidated basis amounted to Rs. 829 million. The average cost of borrowings for existing operating assets is around 10%. For the projects which are under implementation, we are aware of the impact rising interest rates may have on our returns. However, we believe the impact would be minimal. In the case of 1015 MW Nagarjuna Power Project the Power Purchase Agreement is so structured that the interest cost is a pass-through in the tariff. In the case of other projects where we have bid for a tariff based on a certain assumption for interest rates, our strategies are to assume a conservative rate at the time of bidding and then to contract loans with a three year reset clause so that we can have the benefit of a favourable movement in the interest rate. Any foreign exchange rate exposures on such loans are hedged so as to minimise risks on that account.

5. Tax

The tax provided on a consolidated basis amounted to Rs. 472 million. On an earnings before tax of Rs. 3,130 million the effective tax rate works out to 15%. We have been able to achieve a optimum tax rate because of the Section 80IA benefits at the SPV level for the power projects which are under operation and also the wind farms which we have on our portfolio which allow us to enjoy higher depreciation rates for tax purposes. We have not been availing benefits of tax holiday provided under Section 80 IA of Indian Income Tax laws for our construction revenues for the infrastructure projects which we are developing. We would be awaiting for a clarity on the issue before we decide on the matter.

I. Liquidity and Capital Resources

We operate in capital-intensive industries and have to finance the development of our projects and other capital expenditures through a combination of cash generated from operations and borrowings from banks and financial institutions. Our liquidity requirements relate to servicing our debt, funding investments in new projects, funding our working capital requirements. Our funding and treasury activities are conducted within corporate policies designed to enhance investment returns while maintaining appropriate liquidity for our requirements. We currently hold our cash and cash equivalents amounting to Rs. 5,050 million. Besides this we also have liquid current investments amounting to Rs. 952 million.

Our short-term liquidity requirements relate to servicing our debt and funding working capital requirements. Sources of short-term liquidity include cash balances and receipts from our operations.

Our long-term liquidity requirements include funding of our investments in new projects and repayment of long-term debt under our credit facilities. Sources of funding our long-term liquidity requirements include new loans, equity or debt issues.

Anticipated Expenditure

We anticipate that the capital expenditures in the next five years will increase significantly due to our commitment to develop and fund our on-going and further new infrastructure projects such as Amarkantak Power Project, Nagarjuna Power Project, Hydro Power Projects, Hyderabad Property Project, Road (BOT) projects.

Anticipated Sources of Funds

We finance most of our projects with a debt to equity ratio of 80:20. Our equity stake in large infrastructure projects would generally range from a minimum of 51% to 74%. We rely principally on our cash flow from operations and existing cash balances including that of IPO proceeds to finance our share equity requirements.

As far as the borrowings for the project are concerned, we strive to reach financial closure for all our projects before committing any investments. For most of our planned projects in the next five years we have attained financial closures or are close to achieving in the current year. We also believe that raising debt for large infrastructure projects which have well structured off-take agreements with built-in payment security mechanisms and which are based on competitive tariffs is not difficult.

Cash flows

Rs. in Million

Particulars	For the period ended March 31	
	2007	2006
Opening Cash	414	359
Net Cash from Operating Activities	4,046	(125)
Cash Used in Investing Activities	(31,385)	(525)
Cash Flow from Financing Activities	29,936	705
Net Increase in Cash	2,597	54
Closing Cash	3,010	414

Cash Flow from Operating Activities

Net cash used from operating activities for the year March 31, 2007 was Rs. 4,046 million which was primarily due to cash generated from operations amounting to Rs. 4,279 million and adjusted for an increase in current liabilities by Rs. 9,909 million, being offset by an increase in inventories of Rs. 4,732 million, an increase in trade and other receivables of Rs 5,017 million and direct taxes paid of Rs. 393 million.

Cash Flow used in Investing Activities

Net cash used in investing activities for the year ended March 31, 2007 was Rs. 31,385 million, primarily due to purchase of fixed assets (net) of Rs. 24,636 million, purchase of investments (net) of Rs. 7,043 million, profit on sale of investments of Rs.. 74 million and interest received of Rs. 221 million.

Cash Flow from Financing Activities

Net cash from financing activities for the year was Rs. 29,895 million. Of this an amount of Rs. 12,186 million was primarily due to proceeds received from inflows on account of issue of equity shares including Rs. 10,673 million received from the Initial Public Offering of equity shares. An amount of Rs. 2,837 million was the cash received from the issue of shares by the subsidiary companies during the year. Net proceeds from borrowings was Rs. 15,701 million which was partially offset by interest payments of Rs. 829 million.

J. Results of operations of some of the subsidiaries

Following is the summarised stand alone Profit & Loss account of our company and those of subsidiaries which have significant operating revenues.

Rs. in Million

Particulars Operating Business	Lanco Infratech Construction & EPC	Aban 120 MW	Kondapalli 368 MW	Clarion 12 MW	Rithwik 6 MW	Lanco Electric Utility Power Trading
Net Sales	5417	1848	5385	331	217	3209
Other Income	117	36	293	0	0	7
Total	**5534**	**1884**	**5677**	**331**	**217**	**3216**
Expenditure						
Operating expenses	3983	840	3141	158	111	3169
Administration and other expenses	293	105	167	42	27	16
Interest and Finance charges	212	262	383	28	14	
Depreciation	37	316	843	37	20	1
Total	**4525**	**1523**	**4534**	**265**	**172**	**3186**
EBITDA	1141	903	2076	132	79	24
EBITDA Margin	21.1%	48.9%	38.6%	39.7%	36.3%	0.8%
EBIT	1104	587	1234	95	59	23
EBIT Margin	20.4%	31.8%	22.9%	28.7%	27.1%	0.7%
PBT	1009	361	1143	67	45	30
PBT Margin	18.2%	19.2%	20.1%	20.1%	20.7%	0.9%
PAT	731	320	1014	59	40	20
PAT Margin	13.2%	17.0%	17.9%	17.8%	18.4%	0.6%
Return on Capital Employed*	14.5%	14.2%	17.4%	19.3%	21.3%	13.7%
Return on Net Worth*	10.0%	21.2%	22.6%	23.6%	28.4%	8.8%

* average capital employed and average networth for the year

CAUTIONARY STATEMENT

Statements in this Report, particularly those which relate to Managements' Discussion and Analysis, describing the Company's objectives, projections, estimates and expectations may constitute "forward looking statements" within the meaning of applicable laws and regulations. Actual results might differ materially from those either expressed or implied.

CHIEF EXECUTIVE OFFICER (CEO) AND CHIEF FINANCIAL OFFICER (CFO) CERTIFICATION

To
The Board of Directors of
LANCO INFRATECH LIMITED

We, the under signed, in our respective capacities as the Managing Director and Chief Financial Officer of Lanco Infratech Limited ("the company"), to the best of our knowledge and belief certify that:

(a). We have reviewed Financial Statements and the Cash Flow Statements for the Year Ended on 31st March, 2007 and based on our knowledge and belief:

(i). these statements do not contain any materially untrue statements or omit any material fact or contain statements that might be misleading;

(ii). these statements together present a true and fair view of the Company's affairs and are in compliance with the existing Accounting Standards except as disclosed in note no.4(xvi) & 4(xvii) in Schedule-19 of the Consolidated Financial Statements and are in compliance with applicable Laws and Regulations.

(b). We further state that to the best of our knowledge and belief, there are no transactions entered into by the Company during the year which are fraudulent, illegal or violative of the Company's Code of Conduct.

(c). We are responsible for establishing and maintaining internal controls and for evaluating the effectiveness of the same over the Financial Reporting of the Company and have disclosed to the Auditors and the Audit Committee, deficiencies in the design or operation of such internal controls, if any, of which they are aware and the steps we have taken or propose to take to rectify these deficiencies.

(d). We have indicated, based on our most recent valuation, wherever applicable, to the Auditors and Audit Committee :

(i). significant changes, if any, in internal control over financial reporting during the year;

(ii). significant changes, if any, in accounting policies made during the year and that the same have been disclosed in the notes to the financial statements; and

(iii). instances of significant fraud of which we have become aware and the involvement therein, if any, of the Management or an Employee having a significant role in the Company's internal control system over financial reporting.

For **LANCO INFRATECH LIMITED**

J. SURESH KUMAR	**G.VENKATESH BABU**
Chief Financial Officer	Managing Director

Place : Hyderabad
Date : May 12,2007