

NOTICE

NOTICE IS HEREBY GIVEN THAT THE TWENTY NINTH ANNUAL GENERAL MEETING OF NAGARJUNA FERTILIZERS AND CHEMICALS LIMITED WILL BE HELD AT 10.00 A.M ON SEPTEMBER 26, 2005 AT SRI SATYA SAI NIGAMAGAMAM, 8-3-987/2, SRINAGAR COLONY, HYDERABAD - 500 073, TO TRANSACT THE FOLLOWING BUSINESS :

ORDINARY BUSINESS :

1. To receive, consider and adopt the 29th Annual Report of the Directors, Balance Sheet as at March 31, 2005, the Profit and Loss Account for the financial year ended March 31, 2005, the Cash Flow Statement for the financial year ended March 31, 2005, and the Report of the Auditors thereon.
2. To declare a dividend on Preference Shares for the period October 9, 2004 to March 31, 2005.
3. To appoint a Director in the place of Shri Ashok Chopra, who retires by rotation and is eligible for re-appointment.
4. To appoint a Director in the place of Shri Chandra Pal Singh Yadav, who retires by rotation and is eligible for re-appointment.
5. To appoint a Director in the place of Shri S R Ramakrishnan, who retires by rotation and is eligible for re-appointment.
6. To consider and if thought fit, to pass with or without modification(s) the following resolution which will be proposed as a Special Resolution :

“RESOLVED THAT the retiring Auditors of the company, M/s. M Bhaskara Rao and Co., Chartered Accountants, Hyderabad, being eligible for reappointment be and are hereby re-appointed as Auditors of the company to hold office from the conclusion of the 29th Annual General Meeting up to the conclusion of the next Annual General Meeting on such terms and conditions as may be fixed by the Board of Directors of the company.”

SPECIAL BUSINESS

7. To consider and if thought fit, to pass with or without modification, the following resolution as a Special Resolution :

“RESOLVED THAT in part modification of resolution passed at the 28th Annual General Meeting of the company, appointing Shri K Rahul Raju as Director – Business Development and Strategic Planning for a period of five years, with effect from June 26, 2004, approval be and is hereby accorded for payment of the following remuneration to Shri K Rahul Raju, for a period of three years, with effect from April 01, 2005, subject to the provisions of Section 269, 198, 309, 310, 311 and Schedule XIII of the Companies Act, 1956:

1. Salary

Salary (including dearness and all other allowances) Rs.50,000/- per month

2. Commission - NIL

3. Perquisites :

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

i. Housing :

- a. The expenditure incurred by the company on hiring furnished accommodation will be subject to a ceiling of 60% of the salary; or
- b. In case the accommodation is owned by the company, ten per cent of the salary shall be deducted by the company; or
- c. In case no accommodation is provided by the company, Shri K Rahul Raju shall be entitled to house rent allowance subject to the ceiling laid down in clause (a).

Explanation: The expenditure incurred by the company on gas, electricity, water and furnishings shall be valued as per the Income-tax Rules, 1962, subject to a ceiling of ten per cent of the salary.

ii. Medical Reimbursement :

Reimbursement of the expenses incurred for self and family subject to a ceiling of one month's salary in a year or three months' salary over a period of three years.

iii. Leave Travel Concession :

Leave Travel Concession for self and family once in a year, incurred in accordance with the rules of the company.

Explanation : Family for (ii) and (iii) means the spouse, the dependant children and dependant parents.

iv. Club Fees :

Fees of clubs subject to a maximum of two clubs. No admission and life membership fee shall be paid.

v. Personal Accident Insurance

Personal accident insurance of an amount, the annual premium of which does not exceed Rs.10,000/- per annum.

- vi. a. company's contribution towards Provident Fund as per the rules of the company.
- b. Gratuity as per the rules of the company.
- c. company's contribution towards Superannuation Fund as per the rules of the company.

The aforesaid perquisites stated in (vi)(a), (vi)(b) and (vi) (c) shall not be included in the computation of minimum remuneration to the extent these either singly or put together are not taxable under the Income-Tax Act, 1961.

vii. Earned Leave:

On full pay and allowances and perquisites as per the rules of the company. Encashment of leave at the end of the tenure shall not be included in the computation of the minimum remuneration.

viii. Car for use on company's business and telephone at residence shall not be considered as perquisites”.

“RESOLVED FURTHER THAT the remuneration specified above for Shri K Rahul Raju as Director - Business Development and Strategic Planning be also paid to him as minimum remuneration, in the event of absence or inadequacy of profits during any financial year, during the currency of his tenure of office as Director - Business Development and Strategic Planning.”

“RESOLVED FURTHER THAT the remuneration specified above for Shri K Rahul Raju as Director - Business Development and Strategic Planning may, subject to overall ceiling specified above and subject to Schedule XIII of the Companies Act, 1956, be modified as may be agreed to by the company and Shri K Rahul Raju”.

“RESOLVED FURTHER THAT the perquisites mentioned above shall be interchangeable within the overall ceiling of the annual salary of Shri K Rahul Raju”.

8. To consider and, if thought fit, to pass with or without modification(s), the following resolution which will be proposed as a Special Resolution:

“RESOLVED THAT pursuant to Section 17 and other applicable provisions, if any of the Companies Act, 1956, “the other objects” of the Memorandum of Association of the company be and is hereby altered by inserting the following clause :

Clause 10

To undertake, promote, maintain, support, collaborate for research and development in fertilizers and their mixtures, formulations of all kinds, chemicals, source materials, ingredients, mixtures, derivatives and compounds thereof, agro chemicals of all kinds, pesticides, insecticides, seeds, chemicals, organic and inorganic chemicals, heavy chemicals, alkalies, acids, drugs, tannins, essence, fumigators, disinfectives, fats, dips, vermifides, research into agricultural crops either commercial or non commercial, fruit growing, horticulture gardening, vegetables, seeds, through conventional breeding or chemical engineering, genetic engineering, bio-chemistry, water management, agriculture implements, all areas of life sciences and more particularly in the fields of agricultural biotechnology, industrial and environment, medical, food and marine biotechnology through conventional, chemical and genetic engineering and biochemistry for biological control and improvement of plant, animal and human health and prevention of environment degradation in any manner and whatsoever nature and to develop products, processes, technologies, applications and solutions using conventional methods, processes and practices and to commercially exploit such products, processes, technologies (computational and genetic engineering techniques) and solutions through manufacturing, marketing, selling, licensing for improved agricultural, commercial, health and nutrition, industrial and environment applications.

By Order of the Board

New Delhi
April 21, 2005

M. Ramakanth
Secretary

NOTES

1. A member entitled to attend and vote at the Meeting is entitled to appoint a proxy to attend and vote instead of himself and such a proxy need not be a member of the company.
2. Instrument of proxies in order to be effective must be deposited at the company's registered office not less than 48 hours before the meeting.
3. Members are requested to notify immediately the change, if any, of the address registered with the company.
4. Members desiring to seek any information on the Annual Accounts are requested to write to the company at an early date to enable compilation of information.
5. The company has transferred unclaimed dividend for the year 1996 - 97 to the Investor Education and Protection Fund. The unclaimed dividend for the year 1997 - 98 shall be transferred to the Investor Education and Protection Fund during November '2005.
6. The Securities and Exchange Board of India has notified your company's equity shares for compulsory trading in the dematerialised form for Institutional Investors from June 26, 2000 and for other investors from August 20, 2000.
Shareholders may also avail of the facility of trading in the demat form and may contact the company in this regard.
7. The Register of Members and the Share Transfer Books will remain closed from September 1, 2005 to September 26, 2005 (both days inclusive).
8. The company's equity Shares are now traded only on the National Stock Exchange of India Limited (NSE) and The Stock Exchange, Mumbai (BSE).
9. The company has paid the Listing Fees for the year 2005 - 2006 to The Stock Exchange, Mumbai and The National Stock Exchange of India Limited, Mumbai, where the securities of the company continue to be listed.
10. Shareholders are requested to furnish their E-mail ID's to enable the company forward information in relation to the company.
11. All communication relating to shares are to be addressed to the company or the company's Share Transfer Agent, XL Softech Systems Limited, Plot No. 3, Road No. 2, Sagar Society, Banjara Hills, Hyderabad - 500 034.

Explanatory Statement under Section 173 (2) for Item Nos. 7 and 8 of the Notice for the 29th Annual General Meeting to be held on September 26, 2005

Item No. 7

Shri K. Rahul Raju was co-opted as Director on the Board of the company at the meeting of the Board of Directors held on February 24, 2001. The appointment of Shri K. Rahul Raju as Director was approved by the shareholders of the company at the 25th Annual General Meeting held on June 10, 2002.

Shri K. Rahul Raju was appointed as Whole-time Director of the company and designated as Director – Business Development and Strategic Planning by the Board at its meeting held on June 26, 2004. The appointment and remuneration payable to Shri K. Rahul Raju as Director – Business Development and Strategic Planning was approved by the Remuneration Committee, Board of Directors and members of the company for a period of five years with effect from June 26, 2004.

The remuneration payable to Shri K Rahul Raju is indicated below :

- a) Consolidated monthly salary of Rs.50,000/- effective June 26, 2004 till the appointment is approved by the Central Government under Section 269 and 314(1B) of the Companies Act, 1956.
- b) With effect from the approval of the Central Government under Section 269 and 314(1B) of the Companies Act, 1956, for a period of 3 years, monthly salary of Rs.50,000/- and perquisites not exceeding his annual salary.

The Central Government vide its letter dated November 30, 2004 approved the appointment of Shri K. Rahul Raju for a period of five years with effect from June 26, 2004 and payment of remuneration of Rs.50,000/- (all inclusive), for a period of three years effective June 26, 2004. The Central Government while approving the appointment also suggested passing of separate resolution for payment of salary of Rs.50,000/- and perquisites not exceeding his annual salary, under Section 269 of the Companies Act, 1956.

In view of the above, it is proposed that with effect from April 1, 2005, for a period of three years, Shri K. Rahul Raju be paid a monthly remuneration of Rs.50,000/- and perquisites not exceeding his annual salary.

The remuneration proposed to be paid to Shri K Rahul Raju, is the remuneration which the shareholders of the company had approved at the 28th Annual General Meeting for a period of three years effective the approval of the Central Government under Section 314 (1B) of the Companies Act, 1956.

The remuneration of Rs.50,000/- and perquisites not exceeding his annual salary proposed to be paid to Shri K. Rahul Raju had been approved earlier by the Financial Institutions.

As the remuneration proposed to be paid to Shri K Rahul Raju is within the limits specified under Sections 198, 309 and Schedule XIII of the Companies Act, 1956, as amended by notification No. GSR36 (E) dated January 16, 2002, the payment of remuneration does not require approval of the Central Government.

Your Directors commend the resolution for approval.

None of the Directors of the company except Shri K Rahul Raju and Shri K S Raju, Vice-Chairman and Managing Director may be deemed to be concerned or interested in this resolution.

Item No. 8

To give a major fillip to your company's mission to be global leaders in plant nutrition and to provide the farmer with quality agricultural inputs, your company is planning to take up research activity. This would be synergistic with the business of the company and long term benefits would accrue to the company.

In view of the above it is proposed to amend the Memorandum of Association of the company by inserting a new Clause No.10 under the 'Other objects' which would enable your company to undertake research activity as detailed in the said clause.

Your directors commend the resolution for approval.

None of the Directors of the company is, in any way, concerned or interested in the resolution.

Inspection of Documents

The documents pertaining to Special Business are available for inspection at the Registered Office of the company between 10.30 a.m. and 12.30 p.m. on any working day prior to the Meeting.

By Order of the Board

New Delhi
April 21, 2005

M. Ramakanth
Secretary

REPORT OF THE DIRECTORS

Your Directors have pleasure in presenting the 29th Annual Report together with the Audited Accounts of your company for the year ended March 31, 2005.

FINANCIAL RESULTS

Particulars	Rs. in Crores	
	2004-2005 current year	2003-2004 previous year
Net Sales / Income from Operations	1266.39	1072.62
Other Income	17.67	33.89
Remission of principal amount of loan	14.65	8.41
Total Expenditure		
a. (Increase) / decrease in Stock	(18.78)	117.69
b. Consumption of Raw Materials	376.26	231.35
c. Staff Cost	32.37	29.76
d. Purchases – Traded Products	101.53	30.57
e. Power and Fuel	282.03	187.13
f. Marketing, Operating, Administrative and other Expenses	205.90	159.28
Total	979.31	755.78
Interest	142.79	255.74
Depreciation	121.36	121.64
Profit before tax	55.25	(18.24)
Provision for tax	5.02	-
Deferred Tax	(20.70)	35.68
Profit/loss after Tax	29.53	17.44
Dividend – Preference Shares*	0.0018	-
Balance C/d to Balance Sheet	140.22	116.60
Paid Up Equity Share Capital (Face Value of Rs.10/- per share)	416.61	416.61
Reserves excluding revaluation reserve	385.64	359.02
Basic & Diluted Earning per share (annualised) – in Rs.	0.70	0.42

* proposed

DIVIDEND

Your Directors recommend 0.01% dividend to the Preference shareholders of the company on a pro-rata basis amounting to Rs.0.18 lakhs.

DEBT RESTRUCTURING

During the previous year, your company's debt had been restructured by the lenders consisting of Financial Institutions and Banks through a Corporate Debt Restructuring Scheme (CDR). This resulted in the interest rates being reduced and the repayments of the loans re-phased. The benefits of the re-structuring package have started accruing to your company as reflected in the Accounts for the Financial Year 2004-05.

Your company is presently complying with the schedule of repayments and meeting all the financial commitments and related compliances.

PLANT OPERATIONS

During the year, your company manufactured 13.93 lakh MTs of Urea as against 11.94 lakh MTs in the previous year, which was an all time high. The two Plants of your company continue to perform at high levels of efficiency and have achieved the best ever energy efficiency.

Your company has been operating at optimum efficiency levels and has exceeded its production and manufacturing capacity, keeping in line with good business practices.

The supply of natural gas and Naphtha was satisfactory throughout the year though, the availability of additional quantity of natural gas would have been beneficial to the company.

The British Safety Council conducted an audit of your company's plants at Kakinada and awarded Five Star Rating for the Plants. Your company during the year has registered cumulative accident free days of 388 days as on March 31, 2005. Your company also has set high standards of safety and has received commendation for the same.

Your company has taken various initiatives to reduce cost and overheads by streamlining its operations to achieve high efficiency levels. Your company is exploring plans to revamp its plants and increase its production capacity and/or diversify the product mix in future, while continuing to focus its attention on businesses like Specialty Fertilizers and Micro Irrigation.

During the year under review your company's plant received ISO 9001:2000 upgraded certification for Quality Management System and ISO 14001:1996 re-certification for Environmental Management System.

MARKETING**Straight Nutrition Business**

Your company, during the year, in view of favourable seasonal conditions and a well planned strategy to sell during the Rabi and Kharif crops registered an all time record annual Urea sale of 15.63 lakh MTs, as against the previous years Urea sale of 11.94 lakh MTs.

Your company during the year handled 2.01 lakh MTs. of imported Urea on behalf of the Government of India. This helped increase the market share of your company and resulted in substantial increase in contribution to the bottom line.

Your company during the year, was a leader with increased market share for Urea in Andhra Pradesh, West Bengal and a major market share in Orissa. Your company's market share has increased significantly in the state of West Bengal from 27% during the year 2003 to about 35% during the year 2004. The market share in the State of Andhra Pradesh has increased marginally from 51% during the previous year to about 53.5% during the current year. Your company continues to have a market share of 46% in the State of Orissa.

Your company always had considered the needs of farmers and in this direction aimed to provide better quality Urea. Your company is in the process of improving the Urea standard in areas of Prill quality, absorption of humidity, anti lumping and caking, etc.

Nutrition Solution Business

Your company, in line with its Vision Statement, for the ensuing year proposes to establish and strengthen the Plant Nutrition business and in this direction is increasing its presence in Specialty Fertilizers Sector.

Your company, with a view to educate the farmers and to build and promote the company brand, had during the year carried out various campaigns, including screening of crop technology films, promoting crop specific fertilizers for various crops like, sugarcane, tea and vegetable crops etc.,

Your company has been able to continue its area of operations and has been able to market specialty fertilizers in the states of Maharashtra, Gujarat and certain select markets. Your company has registered Rs.12.20 crores of turnover arising out of the sale of Specialty Fertilizers.

The impetus given to micro irrigation and the involvement of your company with the programmes initiated by the Government of Andhra Pradesh, Gujarat and other states helped achieve a higher turnover of Rs.11.54 crores during the year.

PUBLIC DEPOSITS

Your Directors take pride and places on record that the company has been repaying its public deposits on maturity without any delay. As on date, your company has no outstanding deposits apart from unclaimed deposits. The company has repaid all deposits from an all time high of about Rs.250 crores, in spite of experiencing severe financial crunch and liquidity problems.

ENVIRONMENT

Your company in its effort to maintain the ecological balance in and around the Plant, has developed and nurtured a Green Belt spreading over 740 Acres. The animal and the marine life in the water bodies in the green belt is fed with treated effluents from the Plant.

AMALGAMATION

During the year, the Board of Directors of your company had approved a Scheme of Amalgamation of Nagarjuna Palma India Limited (NPIL), an unlisted subsidiary of your company with your company. Consequent to the Amalgamation, the whole of the business and undertaking of NPIL has been merged with your company.

Your Directors consider the amalgamation beneficial to your company, in view of both your company and NPIL catering to common markets, the impetus given to micro irrigation based on the recommendations of the National Task Force constituted by the Government of India, the fillip given by the various State Governments and the growing need for better water management practices. The financial strength, marketing capabilities, excellent sales network built by your company shall benefit the growing micro irrigation business.

Your Directors carried out a revaluation of the Plant and Machinery forming part of the manufacturing facilities at Kakinada by engaging the services of a reputed valuer and an independent agency conducted a comprehensive review of the Sundry Debtors, Loans and Advances.

Accordingly, the manufacturing facilities at Kakinada have been revalued at Rs.243350.02 lakhs against Rs.102401.15 lakhs showing an increase in the value of the Fixed Assets by Rs.140948.87 lakhs. The Sundry Debtors, Loans and Advances (including FICC dues) based on the Opinion furnished by an independent agency have been restated. FICC's dues have been restated in view of the rejection of the company's representations and claims by FICC, consequent to the decision of the Honourable High Court of Andhra Pradesh in the Writ Petition filed by the company against FICC and also FICC holding the view that no dues are payable.

CORPORATE GOVERNANCE

Your company has been proactive in the area of Corporate Governance and continues to pursue the same vigorously. A detailed Report appears in the Annexure to the Directors' Report.

DIRECTORS

In accordance with the Articles of Association of the company, Shri Ashok Chopra, Shri Chandra Pal Singh Yadav and Shri S R Ramakrishnan retire at the forthcoming Annual General Meeting and being eligible, offer themselves for re-appointment.

Shri Jaiinder Singh, I.A.S., ceased to be a Director of the company. The Board placed on record its appreciation of the services rendered by him during his tenure of office.

The Central Government has approved the appointment of Shri P P Singh, Director (Technical), Shri R S Nanda, Director

and Chief Operating Officer and Shri K Rahul Raju as Director – Business Development and Strategic Planning. The Central Government while approving the appointment of Shri Rahul Raju also suggested passing of separate resolution for payment of salary of Rs.50,000/- and perquisites not exceeding his annual salary, under Section 269 of the Companies Act, 1956. The proposal for payment of Remuneration to Shri K Rahul Raju of Rs.50,000/- per month and perquisites not exceeding his annual salary is being placed before the shareholders of the company at the ensuing Annual General Meeting.

AUDITORS AND AUDIT REPORT

M/s. M Bhaskara Rao & Co., Chartered Accountants, Hyderabad, the company's Auditors retire at the conclusion of the ensuing Annual General Meeting. They have signified their willingness to accept re-appointment and have further confirmed their eligibility under Section 224 (1B) of the Companies Act, 1956.

In relation to the matters dealt with by the Auditors in the Audit Report, we have to state :

- a. Accounting for Investments - the Directors do not consider it appropriate to make any provisioning towards diminution in the value of investments made in subsidiary companies as they perceive that substantial returns are expected from the subsidiary companies in future.

The investments made in the equity shares including Share Application Money in subsidiary companies are long term investments meant to be held permanently, as these investments have been made in projects of long gestation period. Your Directors perceive that such diminution in value is of temporary nature which occurs during the setting up of every project. The change in the nature of the diminution would stand reversed on the projects becoming operational.

- b. Pursuant to Clause 8.4 of the Scheme of Amalgamation approved by the High Court of Andhra Pradesh, your Directors engaged a reputed valuer to revalue the Plant and Machinery forming part of the manufacturing facilities at Kakinada as at March 31, 2005 and engaged an independent agency to review the Sundry Debtors and Loans and Advances.

In accordance with the scheme sanctioned by the Hon'ble High Court of Andhra Pradesh, the adjustment being the effect of such restatement has been adjusted in the Revaluation Reserve.

This was to reflect a fair value of the assets and liabilities of the company by giving necessary credit to Revaluation Reserve and also restating the value of Sundry Debtors and Loans and Advances.

Your Directors have made appropriate disclosures in the Notes on Accounts on the matter.

COST AUDIT

Shri A Ramachandra Rao, Cost Accountant, resigned as the Cost Auditor of the company.

Shri Dantu Mitra, Cost Accountant, has been appointed as Cost Auditor of the company for the year 2005 – 06.

ISSUE OF SHARES AND DEBENTURES

Pursuant to the compliance of the Corporate Debt Restructuring scheme, your company had during the year, issued 37,20,372 0.01% Coupon Optionally Cumulative Convertible Redeemable Preference Shares of Rs.100/- each to certain of the company's lenders and 33,49,36,238 Zero Coupon Debentures of Re.1/- each to certain other lenders. The Preferential Issue of preference shares had been made in accordance with the Securities and Exchange Board of India (SEBI) Guidelines on Preferential Issues.

Your company during the ensuing year shall issue and allot 1,11,61,228 equity shares of Rs.10/- each, to the equity shareholders of Nagarjuna Palma India Limited (NPIL),

pursuant to the Scheme of Amalgamation between NPIL and your company. Out of the above mentioned equity shares, 79,30,252 equity shares shall be issued and allotted in favour of Nagarjuna Employees Welfare Foundation, a Section 25 company, registered under the Companies Act, 1956, towards the shares that were held by your company.

DISCLOSURES

Disclosure in terms of Companies (Particulars of Employees) Rules, 1975 and Companies (Disclosure of particulars in the Report of the Board of Directors) Rules, 1988 in respect of Conservation of Energy, Technology Absorption, Earnings and Outgo of Foreign Exchange are attached and forms part of this Report.

SUBSIDIARY COMPANIES

A statement of the holding company's interest in the Subsidiary Companies i.e., Jaiprakash Engineering and Steel Company Limited (JESCO), Nagarjuna Power Corporation Limited (NPCL) and Nagarjuna Oil Corporation Limited (NOCL), is enclosed in accordance with Section 212 (2) (a) of the Companies Act, 1956.

Nagarjuna Palma India Limited (NPIL), that became a subsidiary of your company during the year was amalgamated with the company with effect from October 01, 2004 pursuant to the Order of the High Court of Andhra Pradesh, and accordingly information relating to NPIL is not required to be provided and incorporated into the accounts from the effective date on October 1, 2004.

In accordance with the approval granted by the Central Government, the Balance Sheet and Profit and Loss Account, Report of the Directors' and Auditors Report of subsidiary companies i.e., Nagarjuna Oil Corporation Limited, Nagarjuna Power Corporation Limited and Jaiprakash Engineering and Steel Company Limited are exempted from being appended to the Annual Report. Any shareholder seeking information may write to the company to enable the same to be forwarded.

PROJECTS

Nagarjuna Oil Corporation Limited (NOCL) the wholly owned subsidiary of your company is involved in implementing the Refinery Project at Cuddalore in Tamil Nadu. NOCL has obtained necessary approvals for the implementation of the Project and is in the process of tying up the balance of equity for achieving financial closure. NOCL has entered into a Memorandum of Understanding with a leading Consultancy company for Project Management, operations and maintenance management etc, and with an established oil company for domestic marketing of the products on commissioning.

The Government of Tamil Nadu, besides participating in the equity of the company to the extent of 5%, has also approved various incentives. Your company in view of its commitment to the Project has invested over 51% of the equity of the Project as on March 31, 2005.

Nagarjuna Power Corporation Limited (NPCL), a subsidiary of your company, is implementing the 1015 MW Power Plant at Mangalore in Karnataka. NPCL is in the process of signing a revised Power Purchase Agreement with the Karnataka Power Transmission Corporation Limited to be in line with new Tariff guidelines of Ministry of Power/ Central Electricity Regulatory Commission. Your company invested around Rs.67.86 crores in the Power Project as on March 31, 2005.

Your company has made substantial investments in its subsidiaries which are yet to yield dividend. These projects being long gestation projects are expected to show results only in the long run.

SOCIAL RESPONSIBILITY

The KVK Raju Krishi Vignana Kendram (KVK Kendram) at Kakinada was set up by your company in the year 1995 with an objective to improve farm productivity through

Technology Transfer by imparting Best Agricultural Practices, Integrated Pest Management and Integrated Nutrition Management. The Kendram is well equipped with Library, reading room, Museum, a classroom with all audio visual aids in addition to the residential accommodation facility for 40 trainee farmers.

The KVK Kendram within a short span has made its presence felt among farming community through extensive off-campus and intensive on-campus training programs. The efforts of KVK Kendram are well appreciated by Agricultural Universities / Research Bodies / Government and thousands of farmers who have benefitted from the training programmes.

During the year 2004 -05, the KVK Kendram has provided training for over 500 farmers. An exclusive training program was also conducted for 40 Women farmers selected from Krishna District.

Your company has always made contribution towards community development. In furtherance of its commitment to the society, your company is continuing to support various social causes by providing potable water, basic medical facilities, minimum education to people in the adjoining villages. Your company continues its efforts towards 'Green Kakinada' by developing and upkeep of parks and avenue plantation in the town. Your company continues to fully support, financially, the 'Early Intervention Project' undertaken by a Non-Government Organisation, Uma Manovikasa Kendram for imparting training to physically and mentally challenged children, below the age of six, to enable them to attend to their own basic needs.

DIRECTORS RESPONSIBILITY STATEMENT

Pursuant to the Companies (Amendment) Act, 2000, the Directors' Responsibility Statement is included in this report.

Your Directors hereby report:

- that in the preparation of Annual Accounts for the year ended March 31, 2005, the applicable accounting standards have been followed alongwith proper explanation relating to material departures, if any.
- that the Directors have selected such accounting policies and applied them consistently and made judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the company as at March 31, 2005 and of profit and loss account for the period ended March 31, 2005.
- 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.
- that the Directors have prepared the Annual Accounts on a 'going concern basis'.

ACKNOWLEDGEMENT

Your Directors place on record their appreciation of the continued assistance and co-operation extended to your company by the Government of India, Government of Andhra Pradesh, Government of Karnataka, Government of Tamilnadu, Industrial Development Bank of India, other participating Financial and Investment Institutions, State Bank of India and other participating commercial banks, Gas Authority of India Limited, Hindustan Petrochemicals Corporation Limited, Snamprogetti, S.p.A., Italy, Haldor Topsoe A/S, Denmark, Projects and Development of India Limited, Krishak Bharati Co-operative Limited, Tamilnadu Industrial Development Corporation, Krupp Uhde GmbH, financial institutions and banks, the large family of shareholders and depositors of your company, the dedicated employees and all others who are continuing to assist your company.

New Delhi
April 21, 2005

On Behalf of the Board
Field Marshal Sam Manekshaw, M.C
Chairman

I. Urea FORM - A				
Form for disclosure of particulars with respect to conservation of energy				
PARTICULARS	Unit	Year ended		
		31.03.2005	31.03.2004	
Power & Fuel Consumption				
1. Electricity				
a) Purchased				
Unit	1000 KWH	2836.4068	3030.224	
Total Amount	Rs. Lakhs	217.61	233.56	
Rate/ KWH	Rs./KWH	7.67 *	7.71 *	
b) Own Generation				
Through Gas Turbine Units	1000 KWH	210771.8	178917.173	
KWH per SM ³ of Gas		5.249**	4.691	
Cost of gas per Unit of Power generated	Rs./KWH	0.817	0.892	
2. Fuel (Including Ammonia-fuel, steam & power)				
Quantity - Natural Gas	1000 SM ³	298604.75	287394.69	
NG LHV	KCal/SM ³	8817.849	8765.155	
Total Cost	Rs. Lakhs	12799.92	12028.86	
Rate per Unit of Natural Gas	Rs./1000 SM ³	4286.58	4185.49	
Quantity - Naphtha	MT	67907.33	41766.792	
Naphtha LHV	KCal/kg	10504.4	10500.000	
Total Cost	Rs. Lakhs	13157.72	6141.95	
Rate per Unit of Naphtha	Rs./MT	19376.00	14705.35	
Quantity - LSHS	MT	10461.514	Nil	
LSHS LHV	KCal/kg	9583.170	-	
Total Cost	Rs. Lakhs	1481.64	-	
Rate per Unit of LSHS	Rs./MT	14162.73	-	
3. Consumption per MT of Urea Production (including Ammonia - fuel, steam & power)				
Particulars	Unit	Standard	Year ended	
			31.03.2005	31.03.2004
Electricity (Incl. Internal Generation)	KWH	132.8	153.39	152.39
Naphtha at 10500KCal/kg	Kg	64.5	48.78	34.98
LSHS at 9583.17 KCal/kg	Kg	Nil	7.513	Nil
Natural Gas (Fuel)*** at 8168 KCal/SM ³	SM ³	251	231.492	258.31

* This amount is paid towards purchased power to APTRANSCO.

** Efficiency is more because of higher power and steam generation *** 8168 KCal per SM³ is as per design norms.

Against the design of running the units in steam intensive mode, the units are being run in electric power intensive mode to optimise these networks and lower the specific energy. This is reflected in high specific power consumption and lower specific steam consumption. Achieved specific energy consumption of 5.718 GCal/MT urea compared to 5.756 GCal/MT urea in 2003-04.

II. Micro Irrigation

Particulars	Unit	Year ended 31.03.2005	
Electricity			
a) Purchased Unit	1000 KWH		329.443
Total Amount	Rs. In Lakhs		14.75
Rate/KWH	Rs./KWH		4.47
b) Own Generation			
Diesel	1000 KWH		42.850
Total cost in lakhs	Rs. In Lakhs		2.19
Rate per unit (KWH)	Cost of diesel per unit of power generation		5.11
Fuel	NA	NA	
Consumption per meter of Lateral			
Particulars	Unit	Standard	Year ended 31.03.2005
Electricity (incl. Internal Generation)	KWH	-	0.0479

Data for Micro Irrigation provided separately in view of the merger of NPIL with NFCL with effect from 1-10-2004.

FORM-B**Form for disclosure of particulars with respect to technology absorption for the year 2004-05.****A. Research and Development (R & D):****1. Specific areas in which R & D was carried out by the company:**

R&D activities are more in application research than in the basic research area. However, the engineers engaged in Process, Production, General Engineering and Maintenance departments undertake activities, which are aimed at improvements in following areas:

- Energy Conservation
- Capacity Utilization
- Environmental Protection
- Improvement in Safety
- Reliability of the plant and on-stream availability.

2. Benefits derived as a result of the above efforts :

- Better capacity utilization and cost reduction.
- Overall specific energy consumption of Urea reduced and treated effluent generation and discharge has been reduced.
- Specific energy consumption during 2004-05 is 5.718 Gcal/MT, which is the lowest ever achieved in our plants.
- Raw water consumption has come down to 6.04 M³/MT urea from 6.256 M³/MT of urea previously.

3. Future Plan of Action:

A number of schemes have been identified for implementation during the next financial year.

Expenditure on R & D:

The company had incurred an expenditure of Rs.38.87 lakhs on R&D work carried out through NARDI, a group company. A new R&D department is being set up during the next year to carryout R&D internally.

B. Technology Absorption, Adaptation and Innovation:**1. Efforts, in brief, made towards technology absorption, adaptation and Innovation:**

- Comprehensive energy audit was conducted by CII (Confederation of Indian Industry) and many

energy conservation schemes have been identified.

- Gas Turbine -B frequency was reduced from 50 Hz to 49 Hz to conserve energy as an in house effort.
- CO₂ removal section optimized by modifying process conditions as an in house effort.
- Low-pressure steam system was interconnected between the two units for optimum utilization of steam.
- Primary reformer burner on line repair has been done successfully
- PL machinery has been converted to produce micro tubes also.
- Process waste is being used to manufacture micro tubes.

2. Benefits derived as a result of the above efforts eg. Product Improvement, Cost Reduction, Product Development Import Substitution etc.

Benefits realized are mentioned under item A.2 above.

3. In case of import technology (imported during the last five years reckoned from the beginning of the financial year), following information may be furnished: -Not Applicable-**FORM - C****Particulars of Foreign Exchange Earnings and Outgo for the year 2004 - 05**

A. Activities relating to exports, initiatives taken to increase exports, development of new export markets for products and services, export plans.

B. 1. Foreign Exchange Outgo	Rs.Lakhs
a. Technical Know-how (Net of Tax)	Nil
b. Interest	Nil
c. Dividend	
- Equity	Nil
- Preference	Nil
d. Others	118.48
2. Foreign Exchange Earnings	Nil

Statement of particulars of Employees Pursuant to the Provisions of Section 217(2A) of the Companies Act, 1956 and forming part of the Directors Report for the year ended 31st March, 2005.

Name	Age	Qualifications	Designation	Date of Commencement of Employment	Years of Experience	Remuneration Received (Rs)	Previous Employment before joining the company
Employed for the year :							
Raju K S	55	B.E (Mech)	Vice Chairman and Managing Director	01-07-1987	30	5672477	Managing Director Nagarjuna Finance Ltd
Singh P P	64	FIE	Director (Technical)	24-02-2001	40	3330996	Managing Director M/s. KRIBHCO
Shri Mahalingam J	51	B.A., ACA	Vice President(Finance)	01-10-1990	26	2828503	DGM (Finance) Andhra Cement Company Limited
Employed for the part of the year :							
Nanda R S	61	B.Sc. Engg.(Mech.)	Director & COO	26-06-2004	38	3136507	President & Managing Director Coromandel Fertilisers Ltd.
Stalin S	55	B.E. (Chem.)	Executive Director	13-05-2004	33	2503317	President Chambal Fertilizers & Chemicals Limited

- Notes : 1. All the above employees are regular employees of the company governed by the normal rules and regulations of the company applicable to them from time to time.
2. Remuneration includes Salary, Perquisites and company's contribution to Provident Fund, Gratuity and Superannuation Fund.
3. None of the above employees holds 2% or more of the equity shares of the company within the meaning of sub-clause (iii) of sub-section (2A) of Section 217 of the Companies Act 1956.

Statement pursuant to Section 212 of the Companies Act, 1956 relating to company's interest in Subsidiary Companies as at 31st March, 2005

Sl. No.	Particulars	Name of the Subsidiary Company		
		Jaiprakash Engineering and Steel Company Limited	Nagarjuna Oil Corporation Limited	Nagarjuna Power Corporation Limited
1	The financial year of the subsidiary Companies ended on	31st March, 2005	31st March, 2005	31st March, 2005
2	a) Number of shares held by Nagarjuna Fertilizers and Chemicals Ltd with its nominees in the subsidiaries at the end of financial year of the Subsidiary Companies each fully paid up	225,61,693 Equity Shares of face value of Rs. 10/- each fully paid-up	57,70,00,000 Equity shares of face value of Rs. 10/- Rs. 10/- each fully paid-up	6,40,00,000 Equity shares of face value of
3.	b) Extent of interest of holding company at the end of the financial year of the Subsidiary Companies	99.84%	100.00%	96.90%
	The net aggregate amount of the subsidiary companies Profit/Loss so far as it concerns the members of the holding company.			
	a) Not dealt with in the holding company's accounts			
	i) For the financial year ended 31st March, 2005	----	----	----
	ii) For the previous financial years of the subsidiary companies since they became the holding company's subsidiaries	----	----	----
	b) Dealt with in the holding company's accounts			
	i) For the financial year ended 31st March, 2005	----	----	----
	ii) For the previous financial years of the subsidiary companies since they became the holding company's subsidiaries.	----	----	----

Particulars of Subsidiaries as at 31st March, 2005 in terms of approval obtained by the company under Section 212 (8) of the Companies Act, 1956

Rs. Lakhs

S.No.	Particulars	Name of the Subsidiary Company		
		Nagarjuna Oil Corporation Limited	Nagarjuna Power Corporation Limited	Jaiprakash Engineering and Steel Company Limited
a.	Capital (including share application money)	59,000.00	6,629.40	5,771.90
b.	Reserves	1.07	-	2.85
c.	Total Assets			
	Fixed Assets (incl. CWIP)	68,066.88	5.73	28.83
	Expenditure Pending Allocation	22,700.85	2,893.31	3,846.27
	Current Assets, Loans & Advances	118.94	568.99	1,942.39
	Miscellaneous Expenditure (to the extent not written off or adjusted)	3,230.71	* 3,527.47	-
d.	Total Liabilities			
	Loans Secured / Unsecured	15,326.92	-	42.56
	Others	19,789.40	366.10	0.18
e.	Details of Investment (except in case of investment in subsidiaries)	-	-	-
f.	Turnover	-	-	-
g.	Profit before taxation	-	-	-
h.	Provision for taxation (on Miscellaneous Income)	-	-	@ 0.07
i.	Profit after taxation	-	-	-
j.	Proposed dividend	-	-	-

Note: No Profit and Loss A/c has been prepared as the projects are under implementation. However a statement on expenditure during construction pending allocation has been prepared in accordance with Schedule VI to the Companies Act, 1956.

* includes Rs. 3,522.34 lakhs value of investments in a company under liquidation which is a subsidiary of NPCL.

@ excludes contingent liability of Rs. 94.66 Lakhs.

Checked and found correct

M Bhaskara Rao & Co.

Chartered Accountants

for Nagarjuna Fertilizers and Chemicals Limited

Hyderabad
April 30, 2005

M Ramakanth
Secretary

CORPORATE GOVERNANCE REPORT FOR THE PERIOD APRIL 1, 2004 TO MARCH 31, 2005

Annexure D to the Directors' Report

A. COMPANY'S PHILOSOPHY

At Nagarjuna we believe in philosophy of **SERVING SOCIETY THROUGH INDUSTRY**, with the Nagarjuna Culture being 'We live every moment of life in harmony with nature to create value for ourselves, our stakeholders and the society'.

This philosophy is backed by principles of concern, commitment, ethics, excellence and learning in all its acts and relationships with stakeholders, customers, associates and community at large which has always propelled the Group towards higher horizons.

Owing to the changing business environment in which the company today operates, your company has drawn up a Vision 'To be global leaders in plant nutrition' with a Mission 'We shall pioneer transformation in plant nutrition, deliver wholesome plant nutrition solutions to the farmers and be the most preferred organization to be associated with'.

At Nagarjuna we continue to strive to transform the business environment we operate in. We are committed to continuously evoke customer delight through constant review, monitoring and delivering proactive value added solutions. We are also committed to strive for satisfaction of all stakeholders in a balanced manner through sustainable growth and profitability. We also aim to create an environment where work becomes enjoyable experience so as to align individual goals with organizational goals, share knowledge and information, be pro-active and responsible, pursue excellence and be committed so as to transform the society around. Our aim is to create an environment which enhances opportunities for all the good things, better health, education and overall quality of living that life has to offer.

At Nagarjuna, we believe that it is not the latest technology or management practice (as important as they are) that makes an organization successful as it ought to be. However, what makes it an enterprise worthy of emulation is that it shapes up the environment in which it grows. And to achieve this, we strive to be a learning organisation where creativity, innovation, entrepreneurship and knowledge sharing are encouraged and fostered actively.

We believe in the principles of trusteeship, fair play and transparency in all our dealings. We endeavour to have a work culture, which is performance driven and conducive to improving discipline, accountability, depth of character, team spirit and honesty in all our personal and professional relationships.

We also believe that mutual care and concern among the employees and the organisation, shall be a guiding principle. The company views Corporate Governance under the following major parameters

1. Transparency in relation to appointments, remuneration, meetings of the Directors on the Board of the company, Responsibility and Accountability of the Board of Directors.
2. Providing maximum possible information to the shareholders regarding the functioning and performance of the company pertaining to financial and other non-financial matters.
3. Internal and External Controls and Audits.

B. LOCATION OF PLANT

The Company has two Plants, both located at Beach Road, Kakinada, East Godavari District, Andhra Pradesh

C. Registered Office is located at

Nagarjuna Hills, Punjagutta, Hyderabad - 500 082.

D. BOARD OF DIRECTORS

(i) Pecuniary Relationship
Non-executive Directors do not have any pecuniary relationship with the Company except as stated in Clause G of the Report.

(ii) Composition
As at March 31, 2005, the strength of the Board of Directors was fifteen, of which, eleven were non-executive, one Vice Chairman & Managing Director and three Whole-time Directors and the present strength of the Board of Directors is fourteen, of which 10 are Non-executive Directors, one Vice Chairman & Managing Director and three Whole-time Directors.

The Board members include nominees of Industrial Development Bank of India Limited (IDBI), IFCI Limited, ICICI Bank Limited, State Bank of India, our co-promoters Krishak Bharathi Co-operative Limited and Snamprogetti and Nominees of Core Promoter Companies.

The Government of Andhra Pradesh is yet to nominate their nominee in place of Shri Jainder Singh.

During the period under review, meetings of the Board of Directors were held on :

- * June 26, 2004
- * July 24, 2004
- * September 22, 2004
- * October 9, 2004
- * January 29, 2005

The details of the composition of the existing **Board of Directors** is given below:

Name of the Director	Designation	Executive / Non-executive / Independent	No. of other directorships held		Membership held in Committees of other companies	No. of Board Meetings attended	Attendance at last AGM held Y/N
			Public	Private			
Field Marshal Sam Manekshaw	Chairman	Non-Executive	12	-		4	Y
Shri Ashok Chopra	Director	Independent & Non Executive	-	-		1	Y
Shri Chandra Pal Singh Yadav	Director	Independent & Non-Executive	6	-		5	Y
Shri R K Chavali	Director	Independent & Non-Executive	3	1		4	Y
Nominee of IFCI Limited *	Director	Independent & Non-Executive	-	-		-	N
Shri Jainder Singh ***	Director	Independent & Non-Executive	3	3		5	Y
Govt. of AP Nominee	Director	Independent & Non-Executive	4	-		3	N
Shri K M Jaya Rao	Director	Independent & Non- Executive	-	1		5	Y
Nominee of ICICI	Director	Independent & Non-Executive	3	-		4	Y
Dr. N C B Nath	Director	Independent & Non-Executive	4	-	3	1	N
Shri M P Radhakrishnan	Director	Independent & Non-Executive	1	-	1	3	Y
SBI Nominee	Director	Independent & Non-Executive	1	-	1	3	Y
Shri V N Rai	Director	Independent & Non-Executive	3	1	5	5	Y
Alternate to Shri Chandra Pal Singh Yadav	Director	Independent & Non-Executive	1	-	1	3	Y
Shri S R Ramakrishnan	Director	Independent & Non-Executive	1	-	1	3	Y
Shri R Sathyamurthi	Director	Independent & Non- Executive	3	1	5	5	Y
Nominee of IDBI	Director	Independent & Non- Executive	1	-	1	3	Y
Shri P P Singh	Director (Technical)	Independent & Executive	1	-	-	5	Y
Shri R S Nanda **	Director & Chief Operating Officer	Independent & Executive	5	4	1	5	Y
Shri K Rahul Raju	Director - Business Development & Strategic Planning	Executive	9	8	7	5	Y
Shri K S Raju	Vice Chairman & Managing Director	Executive					

* joined the Board on June 8, 2004, ** joined the Board on June 26, 2004
*** ceased to be a Director with effect from April 21, 2005

E. INFORMATION TO THE BOARD

During the year, the Board of Directors of the company had been furnished information (including, but not limited to the following) to enable the Directors contribute in the decision making process :

- Quarterly results of the company.
- Annual operating plans, budgets, capital budgets, updates and all variances.
- Contracts in which directors are deemed to be interested.
- Materially important show cause notice, demand, prosecutions or other legal notices.
- Materially relevant default in financial obligations to and by the company.
- Significant labour matters.
- Compliance of any regulatory, statutory nature or listing requirements.
- Reports on public deposits, repayment status.
- Minutes of the meetings of the Board of Directors and Committees of the Board of Directors.
- Status of Subsidiary Companies.

F. COMMITTEES OF THE BOARD

The Board of Directors have constituted the following committees with adequate delegation of powers to discharge day-to-day affairs of the company as well as to meet the exigencies of the business of the company.

The Committees constituted by the Board as on date are:

1. Shares and Debentures Committee**Members are:**

- | | | |
|--------------------|---|----------|
| a. Shri K S Raju | - | Chairman |
| b. Shri R Krishnan | - | Member |
| c. Shri P P Singh | - | Member |

The quorum is two members present.

Terms of reference:

Allotment of Shares, Accept calls in advance, and / or Share capital not called up, approve / reject or otherwise deal with applications for transfer, transmission, transposition and mutation of shares and debentures, issue share and debenture certificates including duplicate, split, sub-divide or consolidated certificates and to deal with all related matters.

2. Management Committee**Members are:**

- | | | |
|---------------------------|---|----------|
| a. Shri K S Raju | - | Chairman |
| b. Shri Jainder Singh * | - | Member |
| c. Shri M P Radhakrishnan | - | Member |
| d. Shri K M Jaya Rao | - | Member |
| e. Shri R Sathyamurthi | - | Member |

The quorum is two members present.

* ceased to be a Member with effect from April 21, 2005.

Terms of reference:

1. To review the operations of the company from time to time and also formulate and review corporate objectives and strategies including long range plans for expansion / diversification of the company's activities.
2. To formulate annual budgets / business plans for the company.

3. To approve capital expenditure other than proposals for expansion, diversification, modernization and de-bottlenecking, including investment in immovable property, up to Rs.5 Crores per proposal, excluding the authority already delegated to M.D. or Internal Management, as the case may be, as per Delegation of Authority.
4. To make donations / contributions to charitable and other funds other than to any political party or for political purposes up to an aggregate amount of Rs.10 lakhs in any financial year.
5. To lay down and review from time to time company's employment policy.
6. To approve revenue expenditure up to Rs.1 Crore in case of procurements on a single tender basis and otherwise up to Rs.5 Crores, per transaction excluding the authority already delegated to M.D. or Internal Management, as the case may be, as per Delegation of Authority.

3. Audit Committee**Members are:**

- | | | |
|--------------------------|---|----------|
| a. Dr. N C B Nath | - | Chairman |
| b. Shri S R Ramakrishnan | - | Member |
| c. Shri K M Jaya Rao | - | Member |
| d. Shri K S Raju | - | Member |
| e. Shri Jainder Singh * | - | Member |
| f. Shri R Sathyamurthi | - | Member |

The Secretary of the company also acts as Secretary to the Committee.

The quorum is two independent members present.

* ceased to be a Member with effect from April 21, 2005.

Terms of reference:

1. Oversee the company's financial reporting process and the disclosure of its financial information to ensure that the financial statement is correct, sufficient and credible.
2. Recommending to the Board, the appointment, re-appointment and, if required, the replacement or removal of the statutory auditor and the fixation of audit fees.
3. Approval of payment to statutory auditors for any other services rendered by the statutory auditors.
4. Reviewing, with the management, the annual financial statements before submission to the board for approval, with particular reference to:
 - a) Matters required to be included in the Director's Responsibility statement to be included in the Board's report in terms of clause (2AA) of section 217 of the Companies Act, 1956.
 - b) Changes, if any, in accounting policies and practices and reasons for the same.
 - c) Major accounting entries involving estimates based on the exercise of judgement by management.
 - d) Significant adjustments made in the financial statements arising out of audit findings.
 - e) Compliance with listing and other legal requirements relating to financial statements.
 - f) Disclosure of any related party transactions.

- g) Qualifications in the draft audit report.
 h) Review regarding the going concern assumption and compliance with the accounting standards.
5. Reviewing with the management, the quarterly financial statements before submission to the Board for approval.
 6. Reviewing with the management, performance of statutory and internal auditors, adequacy of the internal control systems.
 7. Reviewing the adequacy of internal audit function, if any, including the structure of the internal audit department, staffing and seniority of the official heading the department, reporting structure coverage and frequency of internal audit.
 8. Discussion with internal auditors any significant findings and follow up thereon.
 9. Reviewing the findings of any internal investigations by the internal auditors into matters where there is suspected fraud or irregularity of a failure of internal control systems of a material nature and reporting the matter to the Board.
 10. Discussion with statutory auditors before the audit commences, about the nature and scope of audit as well as post-audit discussion to ascertain any area of concern.
 11. To look into the reasons for substantial defaults in the payment to the depositors, debenture holders, shareholders (in case of non payment of declared dividends) and creditors.
 12. To review the functioning of the Whistle Blower mechanism, in case the same is existing.
 13. Carrying out any other function as is mentioned in the terms of reference of the Audit Committee.
 14. To review the company's financial and risk management policies.

The Statutory Auditors, the Cost auditor and the Head Internal Audit were present as invitees for the meetings of the Audit Committee.

The Audit Committee of Directors had met six times during the period under review and the meetings were held on June 9, 2004, June 25, 2004, July 24, 2004, October 9, 2004, December 4, 2004 and January 29, 2005. The details of attendance of members of the Audit Committee are as follows:

Name of the Member	Status	No. of meetings attended
Dr. N C B Nath	Chairman	6
Shri R Sathyamurthi	Member	4
Shri S R Ramakrishnan	Member	4
Shri K S Raju	Member	6
Shri Jainder Singh *	Member	0
Shri K M Jaya Rao	Member	3

* ceased to be a Member with effect from April 21, 2005.

4. Banking Committee

Members are:

- | | | |
|--------------------|---|----------|
| a. Shri K S Raju | - | Chairman |
| b. Shri R Krishnan | - | Member |
| c. Shri P P Singh | - | Member |

The quorum is two members present.

Terms of reference:

Availment of fund based and non-fund based credit facilities by the company from Financial Institutions and Banks.

5. Investment Committee

Members are:

- | | | |
|-----------------------|---|----------|
| a. Shri K S Raju | - | Chairman |
| b. Shri P P Singh | - | Member |
| c. Shri R Satyamurthi | - | Member |

The quorum is two members present.

Terms of reference:

Investment of surplus funds in units, discounting of LC backed bills, clean bill discounting, inter-corporate deposits and investment in shares.

6. Investor Grievances Committee

Members are:

- | | | |
|--------------------------------|---|----------|
| a. Field Marshal Sam Manekshaw | - | Chairman |
| b. Shri P P Singh | - | Member |
| c. Shri K M Jaya Rao | - | Member |

The quorum is two members present.

Terms of reference:

To look into and redress shareholders / investors grievances relating to

- a. transfer of shares
- b. non-receipt of declared dividends
- c. non-receipt of Balance Sheet and
- d. all such complaints directly concerning the shareholders / investors as stakeholders of the company.
- e. and such other matters that may be considered necessary in relation to shareholders, debenture holders and investors of the company.

The company has about 4,89,547 investors.

The company during April 1, 2004 to March 31, 2005 received 16,066 letters / complaints from the investors, out of which 16,031 letters were attended and resolved and the balance letters / complaints were resolved subsequently. 10,678 requests for transfer of shares and 44,585 requests for dematerialisation / rematerialisation of shares were received and the shares dematerialised / rematerialised.

7. Remuneration Committee

Members are:

- | | | |
|--------------------------|---|----------|
| a. Dr. N C B Nath | - | Chairman |
| b. Shri S R Ramakrishnan | - | Member |
| c. Shri R Sathyamurthi | - | Member |

The quorum is two members present.

Terms of reference:

To fix the remuneration payable to Managerial Personnel from time to time.

8. Warrants Committee**Members are:**

- a. Dr. N C B Nath - Member
b. Shri R Krishnan - Member

The quorum is two members present.

Terms of Reference:

Allotment of warrants and conversion of warrants into shares.

9. Asset Sale Management Committee**Members are:**

- a. Dr. N C B Nath - Chairman
b. Shri R Sathyamurthi - Member
c. Shri M P Radhakrishnan - Member
d. Shri K M Jaya Rao - Member
e. Shri S R Ramakrishnan - Member
f. Shri R K Chavali - Member
g. Shri K S Raju - Member

The quorum is three members present including two Institutional Nominees present.

Terms of Reference:

The Board of Directors at their Meeting held on March 27, 2004 have constituted a Committee, namely Asset Sale Management Committee, pursuant to the terms of the approval granted by the Corporate Debt Restructuring Cell (CDR) at Industrial Development Bank of India.

The primary objective is to sell the various assets, which the

company considers as non-performing or surplus.

G. Remuneration to Directors:

The Non-executive Directors of the company are paid sitting fees for attending the Meetings of the Board of Directors / Committees of Board of Directors.

The details of sitting fees paid to the Non-executive Directors of the company during the year April 1, 2004 to March 31, 2005 is given below:

Name of the Director	Sitting Fees paid for attending meetings of the Board of Directors / Committees of Directors
Field Marshal Sam Manekshaw	Rs. 25,000/-
Shri Ashok Chopra	Rs. 5,000/-
Shri Jainder Singh @	-
Shri R Krishnan	Rs. 25,000/-
Dr. N C B Nath	Rs. 65,000/-
Shri M P Radhakrishnan	Rs. 35,000/-
Shri R Sathyamurthi *	Rs. 35,000/-
Shri R.K. Chavali *	Rs. 30,000/-
Shri S R Ramakrishnan	Rs. 35,000/-
Shri K M Jaya Rao *	Rs. 50,000/-
Shri Chandra Pal Singh Yadav	Rs. 15,000/-
Shri V N Rai	Rs. 5,000/-

* paid to IDBI / IFCI / ICICI.

@ ceased to be a Director with effect from April 21, 2005

The details of the remuneration paid to Shri K S Raju, Vice Chairman & Managing Director, Shri P P Singh, Director (Technical), Shri R S Nanda, Director & Chief Operating Officer and Shri K Rahul Raju, Director – Business Development and Strategic Planning, during the period under review is given below:

Name	Salary	Perquisites	Performance Linked Bonus
Shri K S Raju Vice Chairman & Managing Director	Rs.2.00 lakhs p.m.	*Perquisites shall be restricted to an amount equal to the annual salary	To be paid based on assessment of Board of Directors as applicable to Managerial Personnel.
Shri P P Singh Director (Technical)	Rs.1.5 lakhs p.m.	as above	N. A.
Shri R S Nanda @ Director & Chief Operating Officer	Rs.1.75 lakhs p.m.	as above	N. A.
Shri K Rahul Raju @@ Director – Business Development and Strategic Planning	Rs 50,000/- p.m. benefits as per company rules	Nil	N.A.

* Perquisites include Housing, Medical Reimbursement, Leave Travel Concession, Club Fees, Personal Accident Insurance, Gratuity, Provident Fund, Superannuation Fund, Earned Leave and Car etc.

@ Joined the Board as Director and Chief Operating Officer with effect from June 26, 2004

@@appointed as Director – Business Development and Strategic Planning with effect from June 26, 2004.

There is no additional payment being made towards performance of Managerial Personnel.

The company has not entered into any contract with the Managerial Personnel and the notice period is governed by the rules of the company and no severance fees is payable.

The company does not have any stock option scheme for the Managerial Personnel.

H. RE-APPOINTMENT / REMUNERATION OF THE DIRECTORS
(A) Information about the Directors retiring by rotation:

Name of Director	Shri S R Ramakrishnan	Shri Chandra Pal Singh Yadav	Shri Ashok Chopra
Date of Birth	February 4, 1935	March 19, 1959	September 1, 1960
Date of Appointment	September 18, 1995	December 23, 2002	June 28, 2001
Experience in specific functional areas	Former MD, Bokaro Steel Plant, SAIL Former Director, Raw Materials, SAIL Former Director, Commercial, SAIL	16 years of experience	Country Manager for Snamprogetti S.p.A. 18 years of work experience covering various assignments in marketing of basic chemicals followed by marketing and implementation of engineering, contracting and technology services in the oil & gas, fertilizer, petrochemical and refining sectors.
Qualifications	B.E (Mech.) Hons.	M.Sc, B.Ed. LLB	B.Tech, MBA
List of other Directorships held as on March 31, 2005	Sesa Industries Limited, Panaji, Goa	<ul style="list-style-type: none"> ●Krishak Bharati Co-op Ltd. ●IFFCO – TOKIO General Insurance Limited ●Indian Farmers Fert. Co-op. Ltd. ●Kisan Bahudesiya Vipananshe. Samiti Ltd. ●Gujarat State Energy Generation Limited ●NAFED 	-NIL-

(B) Information pertaining to Whole -time Director :

Name of Director	Shri K Rahul Raju
Date of Birth	August 31, 1976
Date of Appointment	June 26, 2004
Experience in specific functional areas	Heading Bijam Bio-Sciences Private Limited
Qualifications	B. Com (Hons.)
List of other Directorships held as on March 31, 2005	Nagarjuna Oil Corporation Limited Nagarjuna Corporation Limited Ikisan Limited, Nagarjuna Agrichem Limited Nagarjuna Foundation, Bijam Bio-sciences Private Limited Biz Softcom Solutions Private Limited Bijam Private Limited, Bijam Investments Private Ltd.
Chairman / Member of the Committees of the Boards of the other companies on which he is a Director as on March 31, 2005.	-NIL-

I. SHAREHOLDER INFORMATION

The company has 4,89,547 shareholders.

The company during April 1, 2004 to March 31, 2005 received 16,066 letters / complaints from the investors, out of which 16,031 letters were attended and resolved and the balance letters / complaints were resolved subsequently. 10,678 requests for transfer of shares and 44,585 requests for dematerialisation / rematerialisation of shares were received and the shares dematerialised / rematerialised.

J. SHAREHOLDER / DEPOSITORS QUERIES RECEIVED – REPLIED DURING THE YEAR

Nature of Letters	Opening Balance	Replied	Received	* Closing Balance
Change of address	0	2674	2674	0
Revalidation of dividend warrants	0	377	377	0
Share transfers	0	10678	10678	0
Demat/Remat of Shares	0	44585	44585	0
Issue of duplicate certificates	23	171	159	35
Transmission of shares	0	570	570	0
Deposit complaints	0	535	535	0
General queries	0	11716	11716	0

* The queries of the Shareholders / Depositors mentioned above have since been attended and resolved.

K. SHARE TRANSFER AGENT

The Company's Share Transfer Agent is XL Softech Systems Limited located at Plot No. 3, Sagar Society, Road No. 2, Banjara Hills, Hyderabad – 500 034.

L. SHARE TRANSFER SYSTEM

The company's transfer of shares activity is (other than demat shares) fully computerised.

The Shares and Debentures Committee of the Board of Directors are authorised to approve transfer of shares, transmission of shares, transposition of names, consolidation of share certificates, consolidation of folios, Issue of duplicate share certificates in lieu of misplaced / lost share certificates, renewal of share certificates, dematerialisation of shares and rematerialisation of shares.

The Shares and Debentures Committee of the Board of Directors meet twice a month, to consider and approve all share related matters.

The dematerialized shares are directly transferred to the beneficiaries by the depositories.

M. DEMATERIALISATION OF SHARES AND LIQUIDITY

The shares of the company are under the category of compulsory delivery in dematerialised mode by all categories of investors.

The company has signed agreements with both the depositories i.e., National Securities Depository Limited and Central Depository Services (India) Limited. As on March 31, 2005, over 79.43% of the shares of the company are already dematerialised.

The status on the dematerialisation of the equity shares of the company is furnished below :

Total No. of Equity Shares : **41,70,20,593**

Total No. of Shareholders : **4,89,547**

Mode of Shareholding	No. of Shares	% to Total Equity Shares	No. of Shareholders	% to Total Shareholders
Physical Form	85791938	20.57	3,36,973	68.83
Electronic Mode	331228655	79.43	1,52,574	31.17

N. MEANS OF COMMUNICATION

The quarterly / half-yearly / annual / unaudited / audited financial results of the company are sent to the Stock Exchanges immediately after they are approved by the Board of Directors.

The results are published in the Hyderabad Edition of widely circulated English and Telugu daily.

The results for the quarter ended June 30, 2004, September 30, 2004 and December 31, 2004 were posted on the company's website and the financial results for the year ended March 31, 2005 would be posted on the company's website at www.nagarjunafertilizers.com

Website: www.nagarjunafertilizers.com All official press releases, quarterly / half-yearly un-audited financial results and the audited annual results of the company are posted on the company's website.

O. DISTRIBUTION OF SHAREHOLDING

1. The distribution of shareholding as on March 31, 2005 was as follows:

Share Holding	Share Holders		Share Holding	
	Number	% to Total	Value in Rupees	% to Total
Upto 5000	430483	87.93	796139260	19.09
5001 - 10000	36847	7.53	316881150	7.60
10001 - 20000	12590	2.57	199725580	4.79
20001 - 30000	3479	0.71	91542830	2.20
30001 - 40000	1420	0.29	52061310	1.25
40001 - 50000	1578	0.32	76328750	1.83
50001 - 100000	1783	0.36	135685220	3.25
100001 and Above	1367	0.28	2501841830	59.99
TOTAL	489547	100.00	4170205930	100.00

II. Distribution of Shareholding as on March 31, 2005

Category	No. of Shares held	Percentage of Shareholding
A. Promoters' Holding	15,08,88,308	36.18
B. Non-Promoters Holding		
I. Institutional Investors		
a. Mutual Funds and UTI	4,54,350	0.10
b. Banks, Financial Institutions, Insurance companies (Central / State Govt. Institutions/ Non-Govt. Institutions)	3,38,63,609	8.12
c. Foreign Institutional Investors	4,95,098	0.11
II. Others		
a. Private Corporate Bodies	4,39,75,890	10.55
b. Indian Public	18,29,14,299	43.86
c. NRE / OCB	44,29,039	1.06
d. Any other (please specify)	-	-
GRAND TOTAL	41,70,20,593	100.00

SHARES HELD BY NON – EXECUTIVE DIRECTORS

Name of the Director	No. of shares held
Field Marshal Sam Manekshaw	13,000
Shri R Krishnan	2,600

P. DIVIDEND HISTORY FOR THE LAST 5 YEARS

2003 – 2004	Nil
2002 - 2003	Nil
2001 - 2002	Nil
2000 - 2001	Nil
1999 - 2000	10 %

Q. Market Price Data - the High / Low price of shares of the company traded during each month for the year April 1, 2004 to March 31, 2005 on the Stock Exchange, Mumbai are as follows :

Month	High Rate	Low Rate	No. of Shares
April 2004	9.45	7.03	33,91,613
May 2004	9.48	6.60	57,83,146
June 2004	9.00	7.38	18,52,008
July 2004	9.79	7.51	41,11,059
August 2004	9.84	7.88	71,44,225
September 2004	10.80	9.26	2,38,61,897
October 2004	11.25	8.90	1,01,08,300
November 2004	15.70	8.80	2,98,55,901
December 2004	16.50	12.41	2,74,80,871
January 2005	16.15	13.30	2,05,07,535
February 2005	17.70	14.50	4,41,27,626
March 2005	15.65	11.50	2,60,88,896

R. GENERAL BODY MEETINGS

The last three Annual General Meetings were held as under:

Financial Year	Date	Time	Place
2001 – 2002	23.12.2002	10.00 a.m.	Hari Hara Kala Bhavan, Sardar Patel Road, Sec'bad - 500 003
2002 – 2003	28.07.2003	10.00 a.m.	Sri Satya Sai Nigamagmam, 8-3-987/2, Srinagar Colony Hyd. - 500 073
2003 – 2004	22.9.2004	10.00 a.m.	Sri Satya Sai Nigamagmam 8-3-987/2 Srinagar Colony Hyderabad-73
2004 – 2005	23.12.2004	10.30 a.m.	Sri Satya Sai Nigamagmam 8-3-987/2 Srinagar Colony Hyderabad-73

The 28th Annual General Meeting of the company was attended by approximately 2,996 shareholders including nominees of the Government of Andhra Pradesh, Krishak Bharathi Co-operative Limited and Promoter Companies and proxies.

Field Marshal Sam Manekshaw chaired the Meeting and the Chairman of the Audit Committee, Dr. N C B Nath was present at the Annual General Meeting.

There was no occasion to pass Special Resolutions through postal ballot on any of the matters specified under Clause 49 of the Listing Agreement.

Further such proposal is proposed to be placed for the shareholders approval in the forthcoming Annual General Meeting.

S. FIXED DEPOSITS

During the year under review the company had repaid all outstanding deposits and interest on deposits and has not defaulted on any repayments. The company is current in payment of principal and interest on public deposits. As on March 31, 2005 an amount of Rs.68.51 lakhs remained outstanding, which included Rs.68.36 lakhs which was unclaimed.

The company as a proactive measure as a service to the depositors has informed the depositors of having not claimed their interest and principal.

T. MONEYS REMAINING UNCLAIMED WITH THE COMPANY:

The company as a service to shareholders / debenture holders and depositors informs them of their not claiming of dividends / interest on debentures or deposits etc., atleast one month before the amounts remaining unclaimed is transferred to the Investor Education and Protection Fund to enable them claim the same from the company.

The details of the amount unclaimed under various categories is furnished below:

i. Unclaimed Dividends

Pursuant to Section 205A of the Companies Act, 1956, unclaimed dividends up to and including the financial year 1994 – 1995 have been transferred to the General Revenue Account of the Central Government.

In accordance with the provisions of Section 205-C of Companies Act, 1956, the unclaimed dividends for the financial year 1995 – 1996 and 1996-1997 have been transferred to the Investor Education and Protection Fund (Awareness & Protection of Investors) after the completion of 7 years from the due date.

The details of transfer of the unclaimed dividend for the year 1996 - 97 to the Investor Education and Protection Fund is given below:

Name of the Bank	Amount transferred
State Bank of Patiala	- Rs.21,93,386.00
State Bank of Hyderabad	- Rs.33,00,682.00
Punjab National Bank	- Rs.60,98,845.03

The dividends remaining unclaimed for seven years will be transferred to Investor Education and Protection Fund established by the Central Government under Section 205C of the Companies Act, 1956.

The details of the due dates of transfer of the unclaimed dividend to the Investor Education and Protection Fund is given below:

Financial year	Date of declaration	Due date for transfer
1997 - 1998	September 21, 1998	November ' 2005
1998 - 1999	September 20, 1999	November ' 2006
1999 - 2000	September 28, 2000	November ' 2007

ii. Unclaimed Debentures / Debenture Interest

Unclaimed debentures / unclaimed interest on debentures transferred to Investor Education and Protection Fund up to the year ended March 31, 2005:

Amount transferred
Upto March 31, 2005 - Rs.11,10,968.31 ps.

iii. Unclaimed Deposits and Interest on Deposits

Unclaimed deposits / unclaimed interest on deposits transferred to Investor Education and Protection Fund upto the year ended March 31, 2005:

Amount transferred
Upto March 31, 2005 - Rs.17,74,711.56 ps.

Share holders, debenture holders and deposit holders who have not claimed their dividends, debenture redemption amount, debenture interest, deposit maturity amount or interest on deposits are requested to do so before the due dates for transfer to the Investor Education and Protection Fund.

U. Listing on Stock Exchanges and Stock Codes.

The company's equity shares are listed on the following Stock Exchanges.

S.No.	Name of Stock Exchange	Stock Code
1	National Stock Exchange of India Ltd., Exchange Plaza, 5 th Floor, Plot No.C/1, G Block, Bandra – Kurla Complex, Bandra (E), Mumbai - 400 051	NAGARFERT
2	The Stock Exchange, Mumbai Corporate Relationship Dept. 1 st Floor, New Trading Ring Routunda Building, P J Towers, Dalal Street, Fort, Mumbai - 400 001	500075

V. DISCLOSURES

- There are no significant transactions with the related parties namely promoters, directors or the management, other subsidiaries or relatives etc that may have a conflicting / potential conflict with the interest of the company.
 - There were no penalties, strictures imposed on the company by Stock Exchanges or Securities and Exchange Board of India (SEBI) or any Statutory Authority on any matter related to Capital Markets during the last three years.
 - The company has complied with the mandatory requirements and is also in process of complying the non –mandatory requirements of clause 49 of the listing agreement.
- W.**
- The company has not issued any GDRs / ADRs and there are no Warrants.
 - Pursuant to the terms and conditions of letter No. BY.CDR(AG)/No. /2003-04 dated March 16, 2004 of the Corporate Debt Restructuring Cell (CDR Cell) at Industrial Development Bank of India, 37,20,372 0.01% Coupon Optionally Cumulative Convertible Redeemable Preference Shares were allotted on October 9, 2004 to Financial Institutions, who had opted for such preference shares. The said preference shares are convertible into equity shares after the entire debt liabilities are repaid by the company i.e., after March 31, 2016.
 - 334,936,238 Zero Coupon debentures of Re.1/- each were allotted to Financial Institutions and Banks which are redeemable after the entire debt liabilities of the company are repaid.

X. RELATED PARTY TRANSACTIONS

In accordance with the Accounting Standard 18 issued by the Institute of Chartered Accountants of India, the company has identified the following companies as Related Parties:

- K V K Raju International Leadership Academy
- Jaiprakash Engineering and Steel company Limited
- Ikisan Limited
- Nagarjuna Foundation
- Nagarjuna Oil Corporation Limited
- Nagarjuna Agricultural Research and Development Institute
- Nagarjuna Power Corporation Limited
- Nagarjuna Corporation Limited

Y. Calendar for the year

- a. Date of Book Closure**
September 1, 2005 to September 26, 2005 (both days inclusive)
- b. 29th Annual General Meeting**
Venue : Sri Satya Sai Nigamagamam, Srinagar Colony, Hyderabad
Time : 10.00 A.M.
Date : September 26, 2005

- c. Tentative dates for considering Financial Results**
- | | |
|---|----------------------------------|
| For the quarter ending June 30, 2005 | 3 rd Week of July '05 |
| For the quarter ending September 30, 2005 | 3 rd Week of Oct '05 |
| For the quarter ending December 31, 2005 | 3 rd Week of Jan '06 |
| For the year ending March 31, 2006 | 1 st Week of May '06 |
| 30 th Annual General Meeting | 4 th week of July '06 |

Z. Name and designation of the Compliance Officer.

Shri M Ramakanth, Secretary
Telephone No. : 23355317
Fax No. : 23350247
Email id. : RamakanthM@nagarjunagroup.com

MANAGEMENT DISCUSSION AND ANALYSIS

1. INDUSTRY SCENARIO AND DEVELOPMENT

Agriculture plays a dominant role in the Indian economy and ¼ of our GDP comes from this sector. The critical role of agriculture in the growth of Indian economy has been well established. The fortunes of the fertilizer industry are linked to the agriculture sector and good quality fertilizers plays an important role in increasing production and productivity.

The need of the day is to call for a second green revolution to bring about further jump in the quantum of production of agricultural products in the country to meet the ever growing demand of the masses.

Your company has significantly contributed in this area and is gearing up to meet the demands of the second green revolution. Your company's Urea Plants located at Kakinada meet more than half the demand of Urea for the state of Andhra Pradesh, a major share for West Bengal and Orissa and part demand for Chattisgarh.

The year saw an increase in the demand of fertilizers as compared to the previous years and this demand was met by the increased production by various fertilizer companies in the country. This was in view of additional capacity not having been set up during the previous years as investment in the fertilizer industry was not yielding attractive returns. Your company also met the increased demand by increasing its production while at the same time marketing imported urea to maintain its market presence in the various states.

During the year 2003-2004, against a demand of 214.08 Lakh Tonne of urea availability stood at 223.68 Lakh Tonne. The cumulative production of Urea during 2004-05 was 202.63 Lakh Tonne against the target of 193.69 Lakh Tonne. The sale of urea during Rabi 2004-05 was 107.67 Lakh Tonne, higher by about 5% compared to the sale of 102.59 Lakh Tonne in the corresponding period of the previous year and was the highest sale during any Rabi season. The cumulative import of urea up to March 2005 has been 6.41 Lakh Tonne on all India basis.

The annual installed capacity of 205.12 Lakh MT of urea in India coupled with imports from Oman Indian Fertilizers project having production capacity of 16.52 Lakh MT per annum of urea will be sufficient to meet the demand in the country, in the near future. The Department of Fertilizers had decided to continue with 50% distribution decontrol of total urea production during the FY 2004-05 as the department did not see any likely hood of shortages in any pocket of the country.

The identification of several new gas finds is set to improve domestic availability of feedstock and with infrastructure for import of LNG getting ready, feedstock availability would improve in the near future.

The Industry nevertheless continued to face the twin problems arising out of the Policies of the Government in relation to under recovery of costs and sharing of profit as well as non availability of adequate quantity

of natural gas to produce low cost Urea. The gas based units are being forced to use costlier feed stock in the form of Naphtha to maintain their production levels.

The recently announced policies concerning new and expansion projects and investment in debottlenecking and switch over to LNG suffer from various anomalies. These anomalies need to be overcome to give a fillip to the existing industries to increase production while at the same time invite fresh investment into the sector. The subsidy outflow of the Government continues to rise and its effort to find ways and means to reduce the subsidy without correcting the farmgate price is resulting in severe strain on the profitability and cash flow of the existing companies.

A Committee formed under Dr. Y. K. Alagh is contemplating a new urea pricing policy for stage –III, scheduled to commence from April 2006. The sub-committee is deliberating upon making urea available to farmers at reasonably affordable prices and reduce expenditure on subsidy to urea manufacturers. The report by Alagh committee will make the policy directions clear on the issues of - availability of feedstock, feedstock costs, farm gate prices, and subsidy to domestic players. The fertilizer industry has been representing to be deshackled from the subsidy regime and be made to compete on global terms.

2. ORGANIZATION CHANGE INITIATIVES – ACHIEVING BUSINESS EXCELLENCE THROUGH PEOPLE, STRUCTURE, PROCESSES AND TECHNOLOGY

The company proposes implementation of People and Organization Structure related policies in the current year. The logical extension of revamping of People and Structure related policies and practices are to assess the functional capabilities, identify gaps and develop a roadmap to fill those gaps.

The company also proposes to institutionalise and re-engineer the business processes, right from Strategic Planning to Customer Relationship Management (CRM) in order to have a lean, responsive system and meet Quality, Speed, Reliability, Cost Effectiveness and Flexibility criteria. Collectively, the People, Structure, Processes and Technology related initiatives would build an agile, efficient, responsive organization with adequate transparency, empowerment and accountability. This is an effort to build overall Organizational capabilities to proactively handle the emerging business challenges – both at macro and micro level.

3. COMPANY'S STRENGTHS

Your company's Plants are amongst the most energy efficient plants in the world. Your company also achieved one of the lowest energy levels during the current financial year. Your company is taking adequate steps in achieving high levels of production during the year in view of the increased demand for Urea as also gear up its marketing and distribution to distribute additional Urea. Your company has taken

steps to reduce its logistics costs through systematic planning. Your company proposes to constantly refurbish the Plant so as to maintain it in good operating condition.

The discovery of natural gas reserves in Andhra Pradesh by various agencies is encouraging news for your company which help your company being able to fully operate on natural gas and maximise its operations more efficiently.

4. RISKS AND CONCERNS

Frequent changes in Government Policy aimed at tightening margins, efficiency norms, under recoveries and introduction of the concept of mopping up a large portion of profits from extra production is continuing to be detrimental to your company's operations.

Your company perceives the shortfall in the availability of natural gas as a major concern.

5. COMPANY'S SUBSIDIARIES

Nagarjuna Palma India Limited (NPIL), that became a subsidiary of your company during the year was amalgamated with the company with effect from October 01, 2004 pursuant to the Order of the High Court of Andhra Pradesh.

Your company has made substantial investments in its subsidiaries which investments are yet to yield dividend. These projects being long gestation projects are expected to yield results only in the long run.

6. FUTURE STRATEGIC DIRECTIONS

Your company is evaluating options for higher returns through either capacity expansion or diversify the product mix. Urea, the main stay business of your company continues to be heavily regulated stifling returns. Hence, in the long-term interest it is proposed to manage business risk through a diversified business portfolio.

Your company also plans to leverage its soft assets, and provide consultancy and development services in areas of fertilizer operations and supply chain management. These initiatives shall utilize the company's soft assets significantly and add new streams of revenue.

7. INTERNAL CONTROL

Your company has adequate internal control systems, commensurate with its size of operations and works in a highly-automated environment.

8. HUMAN RESOURCES / INDUSTRIAL RELATIONS :

Your company continues to enjoy cordial relations with employees at all levels.

Your company, with a view to attract and retain the best of talent and to have state-of-art people management practices, comparable with the best in the industry, had hired the services of a global consulting firm to evolve a good people management policy, to redefine the organisation structure with clear focus on staffing, retention, performance orientation, succession planning etc, so as to make your company, a preferred organisation to be associated with.

CERTIFICATE ON CORPORATE GOVERNANCE

To the Members of

NAGARJUNA FERTILIZERS AND CHEMICALS LIMITED

We have examined the compliance of conditions of Corporate Governance by NAGARJUNA FERTILIZERS AND CHEMICALS LIMITED for the year ended on 31st March, 2005, as stipulated in Clause 49 of the Listing Agreement of the said company with Stock Exchange.

The Compliance of conditions of Corporate Governance is the responsibility of the management. Our examination has been in the manner described in the Guidance Note on Certification of Corporate Governance issued by the Chartered Accountants of India and has been limited to a review of the procedures and implementation thereof adopted by the company for ensuring compliance with the conditions of Corporate Governance as stipulated in the said Clause. 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, and based on our reliance upon the representations made by the management there were no transactions of material nature with the management or by relatives that may have potential conflict with the Interest of the company at large, as stated under Serial No.X of the company's report on Corporate Governance.

The Share Transfer Agent of the company has certified the number of complaints received from the investors and the number of complaints resolved during the financial year and that there are no complaints pending as at the year end as stated under serial No.I and J of the company's report on Corporate Governance.

We certify that the company has complied in all material respects with the conditions of Corporate Governance as stipulated in the above mentioned Listing Agreement.

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 M. BHASKARA RAO & CO.,
CHARTERED ACCOUNTANTS

Hyderabad
April 21, 2005

Anilkumar Mehta
Partner

AUDITOR'S REPORT

The Members of

NAGARJUNA FERTILIZERS AND CHEMICALS LIMITED

1. We have audited the attached balance sheet of NAGARJUNA FERTILIZERS AND CHEMICALS LIMITED as at 31st March, 2005, the profit and loss account and also the cash flow statement for the year ended on that date annexed thereto. 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.
 2. We conducted our audit in accordance with the 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.
 3. As required by the Companies (Auditor's Report) Order, 2003 as amended by the Companies (Auditor's Report) Order, (Amendment) 2004 issued by the Central Government in terms of sub-section (4A) of Section 227 of the Companies Act, 1956, we enclose in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.
 4. Further to our comments in the Annexure referred to above, we report that:
 - i) 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;
 - ii) 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;
 - iii) The balance sheet, profit and loss account and cash flow statement dealt with by this report are in agreement with the books of account;
 - iv) In our opinion, the balance sheet, profit and loss account and cash flow statement dealt with by this report comply with the applicable accounting standards referred to in sub-section (3C) of Section 211 of the Companies Act, 1956 **subject to our remarks in paragraph (vi)(i) below.**
 - v) On the basis of written representations received from the directors, as on 31st March, 2005 and taken on record by the Board of Directors, we report that none of the directors is disqualified as on 31st March, 2005 from being appointed as a director in terms of clause (g) of sub-section (l) of Section 274 of the Companies Act, 1956;
- vi) Reference is invited to the following notes on accounts under Schedule 13:**
- i) **Note No.10, regarding shortfall in the available book value of unquoted investments in subsidiaries as compared to the cost, which is not considered permanent diminution for reasons stated in referred note.**
- Owing to non-compliance of AS-13 -Accounting for Investments, non provisioning towards diminution in the carrying value of Investments, we are unable to form an opinion on the above matter and its impact on the financial statements and Profit for the year and consequential effect on reserves.**

ii) Note No.4(v), regarding adjustment of Rs.46638.27 Lakhs being irrecoverable sundry debtors (including other receivables) and Loans and Advances against Revaluation Reserve.

- vii) Subject to our remarks at Paragraph (vi)(i) above,** in our opinion and to the best of our information and according to the explanations given to us, the said accounts read with Note 13 Re: Group Concession Scheme -Subsidy; and "Significant Accounting Policies" together with other 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 affairs of the company as at 31st March, 2005;
 - ii) in the case of the profit and loss account, of the profit for the year ended on that date; and
 - iii) in the case of the cash flow statement, of the cash flows for the year ended on that date.

for M. BHASKARA RAO & CO.,
CHARTERED ACCOUNTANTS

Anilkumar Mehta
Partner

Membership Number : 14284

Hyderabad
April 21, 2005

ANNEXURE :

Referred to in paragraph 3 of our report of even date.

- i) a) The company has maintained proper records showing full particulars including quantitative details and situation of fixed assets.
- b) According to the information and explanations given to us, the fixed assets (other than assets given on lease) have been physically verified by the management during the year in a phased programme which, in our opinion is reasonable having regard to the size of the company and the nature of the assets. No material discrepancies were noticed on such verification.
- c) According to the information and explanations given to us the company has not -disposed off substantial part of fixed assets hence, reporting on the going concern status in this regard does not arise.
- ii) a) Physical verification of inventories excluding materials in transit has been conducted at reasonable intervals by the management during the year.
- b) In our opinion and according to the information and explanations given to us, the procedures of physical verification of inventories followed by the Management , are reasonable and adequate in relation to the size of the company and nature of its business.
- c) In our opinion, the company is maintaining proper records of inventories and based on the information and explanations given to us, discrepancies noticed on physical verification were not material in relation to the operations of the company and the same have been properly dealt with in the books of account.
- iii) a) The company has not granted any loan, secured or unsecured to companies, firms or other parties covered in the register maintained under Section 301 of the Companies Act, 1956. Accordingly, sub clauses (b), (c) and (d) of clause (iii) of this Order are not applicable.
- e) The company has not taken any loan, secured or unsecured from companies, firms or other parties covered in the register maintained under Section 301 of the Companies Act, 1956. Accordingly, sub clauses (f) and (g) of clause (iii) of this Order are not applicable.

- iv) In our opinion and according to the information and explanations given to us, there are internal control systems commensurate with the size of the company and the nature of its business with regard to purchase of inventory and fixed assets and for the sale of goods and services. During the course of our audit the company has reviewed and initiated steps to improve the existing systems in order to meet the needs of changes in the business environment of the company. We have not observed any continuing failure to correct major weaknesses in internal control system.
- v) a) In our opinion and according to the information and explanations given to us, and based on the representations by the management, there are no contracts or arrangements that need to be entered in the register maintained under Section 301 of the Act. Accordingly sub clause (b) of clause (v) of this Order is not applicable to the company for the current year.
- vi) In our opinion and according to the information and explanations given to us, the company has complied with the directives issued by Reserve Bank of India and provisions of Section 58A and 58AA or any other relevant provisions of the Act and the Companies (Acceptance of Deposits) Rules 1975 with regard to deposits accepted from the public. According to the information and explanations given to us, the company has complied with the orders passed by the Company Law Board or National Company Law Tribunal or Reserve Bank of India or any Court or any other Tribunal on the Company in respect of the aforesaid deposits.
- vii) The internal audit of the company has been conducted by internal audit department. In our opinion, the scope and coverage of internal audit is commensurate with the size of the company and nature of its business.
- viii) We have broadly reviewed the books of account maintained by the company pursuant to the Rules made by the Central Government for maintenance of cost records prescribed under Section 209(1)(d) of the Companies Act, 1956, and are of the opinion that prima facie, the prescribed accounts and records have been made and maintained.
- ix) a) According to the information and explanations given to us, 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 other applicable statutory dues with the appropriate authorities. There are no arrears of statutory dues as at 31st March, 2005 which are outstanding for a period of more than six months from the date they became payable.
 b) According to the information and explanations given to us, there are no dues of Sales Tax / Income Tax / Custom Tax / Wealth Tax / Service Tax / Excise Duty / Cess which have not been deposited on account of any dispute except following :
- x) The company has no accumulated losses as at 31st March, 2005. The company has not incurred any cash losses in the financial year under report and in the immediately preceding financial year.
- xi) The company has not defaulted in repayment of dues to Financial Institutions, Banks and Debenture Holders except, default in repayment of installments towards redemption of debentures aggregating to Rs. 2303.70 Lakhs and debenture interest amounting to Rs.348.05 Lakhs held by Unit Trust of India. (Refer Note 6(i) (a) and 6(ii) of Schedule 13)
- xii) According to the information and explanations given to us, the company has not granted any loans and advances on the basis of security by way of pledge of shares, debentures and other securities.
- xiii) The company is not a Chit Fund / Nidhi / Mutual Benefit Fund / Society. Therefore the provisions of clause 4(xiii) of this Order are not applicable to the company.
- xiv) The company is not dealing or trading in shares, securities, debentures and other investments. Accordingly the provisions of clause 4(xiv) of the Order are not applicable to the company.
- xv) The company has given a corporate guarantee to the bankers of Nagarjuna Oil Corporation Limited, a wholly owned subsidiary for loans availed by the said company. The terms and conditions whereof, in accordance with the information and explanations furnished to us, are not, prima facie, prejudicial to the interest of the company.
- xvi) The company has not obtained any term loans during the year. However pursuant to Scheme of Amalgamation (Refer Note No.4 of Schedule 13) the borrowings of the transferor company (Nagarjuna Palma India Limited) stand transferred to the company.
- xvii) According to the information and explanations given to us and on an overall examination of the Balance Sheet of the company, we report that no funds raised on short term basis have been used for long term investment by the company.
- xviii) The company has not made any preferential allotment of shares during the year to parties and companies covered in the register maintained under Section 301 of the Companies Act, 1956.
- xix) According to the information and explanations given to us, the company has not created securities for the debentures to the extent of Rs.9371.60 Lakhs issued in the previous years for the reasons stated in Note No.6 of Schedule 13. Further, during the period covered by our report the company has issued 33,49,36,238 debentures of Rs.1/- each and has not created security in respect of the said debentures due to non receipt of no objection from the existing charge holders.
- xx) The company has not raised any money by public issue during the year.
- xxi) In accordance with the information and explanations given to us and, on our examination of books and records, no fraud on or by the company has been noticed or reported during the year.

for M. BHASKARA RAO & CO.,
 CHARTERED ACCOUNTANTS

Anilkumar Mehta
Partner

Hyderabad
 April 21, 2005

Membership Number : 14284

Statute	Nature	Amount Involved (Rs.Lakhs)	Period	Forum where dispute is pending
Sales Tax Laws of different states	Demand of CST on Branch Transfers	3.53	1997-1998	Appellate Commissioner, Chennai
	Demand for payment of tax due to dispute in taxable turnover	1.30	1999-2000	Joint Commissioner Patna
	Ex-party order on sales tax assessment	3.20	2000-2001	Joint Commissioner Patna
			2001-2002	
Penalty for non endorsement of way bills and tax on trade margin	19.85	2001-2002	Deputy Commissioner Corporate Division (AW) Kolkata	

Balance Sheet as at 31st March, 2005

Rs. Lakhs

Particulars	Schedule	31-03-2005		31-03-2004	
SOURCES OF FUNDS					
Shareholders' Funds					
Share Capital	1	46,497.44		41,660.79	
Reserves and Surplus	2	140,199.82		44,228.48	
			186,697.26		85,889.27
Loan Funds					
Secured Loans	3	144,924.29		162,491.01	
Unsecured Loans		4,469.63	149,393.92	3,920.78	166,411.79
Deferred Tax Liability			31,082.61		33,420.67
Total			367,173.79		285,721.73
APPLICATION OF FUNDS					
Fixed Assets					
Gross Block	4	383,080.54		239,551.10	
Depreciation		(116,934.57)		(104,584.08)	
Lease adjustment		(5,221.70)		(5,742.08)	
Net Block			260,924.27		129,224.94
Investments					
	5		66,443.89		53,723.72
Current Assets, Loans and Advances					
	6				
Inventories		7,620.13		6,157.47	
Sundry Debtors		22,170.64		35,383.91	
Cash and Bank Balances		1,922.16		1,463.99	
Loans and Advances		18,163.62		62,111.27	
		49,876.55		105,116.64	
Current Liabilities and Provisions					
	7				
Current Liabilities		(9,375.69)		(7,558.30)	
Provisions		(695.23)		(224.21)	
Net Current Assets			39,805.63		97,334.13
Deferred Tax Asset			-		4,408.35
Deferred Revenue Expenditure			-		1,030.59
Total			367,173.79		285,721.73
Accounting Policies & Notes to accounts	13				

As per our report attached
for **M. Bhaskara Rao & Co.**
Chartered Accountants

For and on behalf of the Board.
Field Marshal Sam Manekshaw, M.C.
Chairman

N C B Nath
S R Ramakrishnan
Directors

K S Raju
Vice Chairman & Managing Director

P P Singh
Director (Technical)

Anilkumar Mehta
Partner

M Ramakanth
Secretary

R S Nanda
Director & Chief Operating Officer

Hyderabad
April 21, 2005

New Delhi
April 21, 2005

K Rahul Raju
Director - Business Development &
Strategic Planning

Profit and Loss Account for the year ended 31st March, 2005

Rs. Lakhs

Particulars	Schedule	31-03-2005		31-03-2004	
Income					
Sales, Subsidy and Equated Freight			126,638.97		107,262.11
(Net of taxes, duties, margins and discounts)					
Other Income	8		1,767.37		3,389.11
Remission of principal amount of loan			1,464.70		841.01
TOTAL			129,871.04		111,492.23
Expenditure					
Purchases - traded products			10,153.50		3,056.70
Raw Material consumed			37,625.90		23,134.77
Power and Fuel			28,203.36		18,712.80
Catalysts Charge			1,030.59		67.31
Chemicals and Consumables			426.63		357.85
Salaries, Wages and benefits	9		3,236.57		2,976.07
(Increase)/Decrease in Stock	10		(1,878.40)		11,769.20
Packing Material consumed			4,233.23		2,689.36
Transport and Handling charges			9,289.39		8,366.32
Distribution Expenses			364.96		754.65
Other Expenses	11		5,245.23		3,693.30
Depreciation	4	12,159.10		12,163.82	
Less: Transfer from Revaluation Reserve		22.72	12,136.38	-	12,163.82
Interest and Financing Charges	12		14,278.63		25,573.81
TOTAL			124,345.97		113,315.96
Profit / (Loss) Before Tax			5,525.07		(1,823.73)
Provision for Tax - Current year			502.08		-
Deferred Tax credit / (debit)			(2,070.29)		3,567.55
Profit / (Loss) After Tax			2,952.70		1,743.82
Balance brought forward			11,660.34		9,916.52
Less: Debit Balance on a/c of amalgamation			(590.03)		-
			14,023.01		11,660.34
Appropriations					
Preference Dividend			0.18		-
Dividend Tax			0.02		-
Balance Carried to Balance Sheet			14,022.81		11,660.34
			14,023.01		11,660.34
Earnings per Share (Annualised)	13.B.20		0.70		0.42
Accounting Policies & Notes to Accounts	13				

As per our report attached the Balance Sheet for **M. Bhaskara Rao & Co.** Chartered Accountants

Anilkumar Mehta
Partner

Hyderabad
April 21, 2005

For and on behalf of the Board.

Field Marshal Sam Manekshaw, M.C.
Chairman

K S Raju
Vice Chairman & Managing Director

M Ramakanth
Secretary

New Delhi
April 21, 2005

N C B Nath
S R Ramakrishnan
Directors

P P Singh
Director (Technical)

R S Nanda
Director & Chief Operating Officer

K Rahul Raju
Director - Business Development & Strategic Planning

Nagarjuna Fertilizers and Chemicals Limited
Cash Flow Statement for the year ended 31st March, 2005 Rs. Lakhs

	31.03.2005		31.03.2004	
A. Cash Flow from Operating Activities				
Net Profit / (Loss) before Extraordinary item and Tax		5,525.07		(1,823.73)
Adjustments for :				
Add : Depreciation	12,136.38		12,163.82	
Deferred revenue expenses written off	1,030.59		67.31	
Lease equalisation	(520.38)		(523.04)	
Interest	14,278.63	26,925.22	25,573.81	37,281.90
		32,450.29		35,458.17
Less : Dividend received	10.07		46.58	
Profit /(Loss) on sale of assets (net)	203.45		117.97	
Profit on sale of investment (net)	6.65		1,250.43	
Remission of liability	1,464.70		841.01	
		1,684.87		2,255.99
Operating Profit before working capital changes		30,765.42		33,202.18
Adjustments for :				
Less : Trade and other receivables	★ (9,865.31)		(857.99)	
Inventories	1,462.66	(8,402.65)	(12,185.22)	(13,043.21)
		39,168.07		46,245.39
Add: Trade and other payables		2,683.69		(11,396.05)
Cash generated from operations		41,851.76		34,849.34
Interest paid		14,028.30		31,009.69
Direct taxes		314.65		(279.16)
Remission of liability		1,464.70		841.01
Cash flow after extraordinary items		28,973.51		4,959.81
Net cash from operating activities		28,973.51		4,959.81
B. Cash Flow from Investing activities				
Purchase of fixed assets ****	3,982.81		****1,646.76	
Investment in subsidiaries	12,736.97		1,170.68	
Purchase of Investments	-	16,719.78	-	2,817.44
Sale of fixed assets	1,471.51		149.78	
Sale of investments	17.31		2,891.05	
Proceeds from Amalgamation (net)	34.56		-	
Dividend received	10.07	1,533.45	46.58	3,087.41
Net cash used in investing activities		15,186.33		(269.97)
C. Cash flow from financing activities				
Share capital - (including premium)	4,836.74	*	0.02	
Proceeds from Sales Tax Deferral	674.85		-	
Proceeds from long term borrowings	-	5,511.59	* 7,075.77	7,075.79
Repayment of short term loans / FD	126.00		8,459.77	
Repayment of long term loans	18,581.10	**	4,197.26	
Dividend Paid ***	133.50	18,840.60	116.93	12,773.96
Net cash used in financing activities		13,329.01		5,698.17
Net Increase/(decrease) in cash and Cash equivalents		458.17		(468.39)
Cash and cash equivalents as at 01.04.2004		1,463.99		1,932.37
Cash and cash equivalents as at 31-03-2005 @ @		1,922.16		1,463.99

* Conversion of differential interest (previous year Rs. Nil)

** includes conversion of differential interest into OCCRPS Rs. 3720.37 Lakhs (Previous year Rs Nil)

*** relating to earlier years (including transfer to Investor Education and Protection Fund Rs 115.93 lakhs previous year Rs. 89.88 lakhs).

**** includes capitalisation of machinery spares Rs Nil (previous year Rs. 1461.50 lakhs) and deferred revenue expenditure Rs Nil (previous year Rs.1065.37 lakhs)

★ Net of reduction in value of Rs. 46,638.27 Lakhs in trade & other receivables adjusted against revaluation reserve (Refer Note 4(v) Schedule 13)
 @ @ includes unclaimed dividend of Rs 441.83 lakhs (previous year Rs. 575.33 lakhs)

As per our report attached
 for **M. Bhaskara Rao & Co.**
 Chartered Accountants

For and on behalf of the Board.
Field Marshal Sam Manekshaw, M.C.
 Chairman

N C B Nath
S R Ramakrishnan
 Directors

K S Raju
 Vice Chairman & Managing Director

P P Singh
 Director (Technical)

Anilkumar Mehta
 Partner

M Ramakanth
 Secretary

R S Nanda
 Director & Chief Operating Officer

Hyderabad
 April 21, 2005

New Delhi
 April 21, 2005

K Rahul Raju
 Director - Business Development &
 Strategic Planning

Schedules forming part of the Balance Sheet as at 31st March, 2005

Schedule 1-Share Capital		Rs. Lakhs	
Particulars	31.03.2005	31.03.2004	
Authorised			
60,00,00,000 Equity Shares of Rs.10/-each	60,000.00	60,000.00	
2,00,00,000 Preference Shares of Rs 100/- each	20,000.00	20,000.00	
TOTAL	80,000.00	80,000.00	
Issued			
41,97,25,062 Equity Shares of Rs.10/- each	41,972.51	41,972.51	
37,20,372 0.01% Optionally Convertible Cumulative Redeemable Preference Shares of Rs. 100/- each	3,720.37	-	
TOTAL	45,692.88	41,972.51	
Subscribed and Paid Up			
41,70,20,593 Equity Shares of Rs. 10/- each fully called up	41,702.06	41,702.06	
Of the above 18,33,333 Shares were allotted as fully Paid pursuant to the approved Scheme of amalgamation without payments being received in cash			
Calls in arrears - Others	(41.11)	(41.27)	
37,20,372 0.01% Optionally Convertible Cumulative Redeemable Preference Shares of Rs. 100/- each fully paid up (previous year Nil) (refer Note 5A of schedule 13)	3,720.37	0.00	
Equity Share Capital pending allotment			
1,11,61,228 Equity Shares of Rs. 10/- each (previous year Nil) pending allotment to shareholders of Nagarjuna Palma India Limited (NPIL) consequent to amalgamation of NPIL as per the Scheme of amalgamation. (refer Note 5B of Schedule 13)	1,116.12	-	
TOTAL	46,497.44	41,660.79	

Schedule 2-Reserves and Surplus		Rs. Lakhs	
Particulars	31.03.2005	31.03.2004	
Capital Reserve			
As per last Balance Sheet	301.10	301.10	
Add: Capital reserve on amalgamation	279.03	-	
Capital Subsidy			
(refer Note 14 of schedule 13)		-	
Revaluation Reserve			
As per last Balance Sheet	8,326.61	8,326.61	
Addition during the year (net) (refer Note no 4(v) of schedule 13)	93,332.47	-	
	101,659.08	8,326.61	
Less: Transfer to Profit & Loss A/c	22.72	-	
Share Premium			
As per last Balance Sheet	9,243.93	9,243.92	
Receipts during the Year	0.09	0.01	
	9,244.02	9,243.93	
Debenture Redemption Reserve			
As per last Balance Sheet	9,582.50	9,582.50	
General Reserve			
As per last Balance Sheet	5,114.00	5,114.00	
Profit and Loss Account - Balance			
As per last Balance Sheet	11,660.34	9,916.52	
Less: Debit balance on amalgamation	590.03	-	
Add: Profit for the year	2,952.51	1,743.82	
TOTAL	140,199.82	44,228.48	

Schedules forming part of the Balance Sheet as at 31st March, 2005

Schedule 3-Loan Funds

Rs. Lakhs

Particulars	31.03.2005	31.03.2004
Secured Loans		
(Refer Note no 6 of schedule 13)		
A. Debentures - unquoted		
i) 75,00,000 14.5% Secured Redeemable Non-convertible Debentures of Rs.100 each	7,500.00	7,500.00
ii) 6,71,602 14.5% Secured Redeemable Non-convertible Debentures of Rs.100 each	503.70	503.70
iii) 80,00,000 15 % Secured Redeemable Non-convertible Debentures of Rs.100 each	2,933.50	2,933.50
iv) 1,53,30,000 15 % Secured Redeemable Non-convertible Debentures of Rs.100 each	15,330.00	15,330.00
v) 25,00,000 15 % Secured Redeemable Non-convertible Debentures of Rs.100 each	2,500.00	2,500.00
vi) 30,00,000 13.25% Secured Redeemable Non-convertible Debentures of Rs.100 each	3,000.00	3,000.00
vii) 32,00,000 12.50 % Secured Redeemable Non-convertible Debentures of Rs.100 each	1,800.00	2,577.98
viii) 33,49,36,238 0 % Secured Redeemable Non-convertible Debentures of Rs. 1/- each	3,349.36	-
ix) Interest accrued and due	344.86	60.21
	37,261.42	34,405.39
B. From Institutions - Term Loans		
i) in Rupees	78,657.94	80,709.59
ii) in Foreign currency	5,377.77	10,953.93
iii) Differential Interest	-	5,161.12
iv) Interest accrued and due	8.82	26.94
C. From Banks		
i) Working Capital Demand Loans / Cash Credit	13,018.85	12,226.76
ii) Term Loans	10,546.70	16,995.61
iii) Differential Interest	-	1,914.65
iv) Interest accrued and due	52.79	97.02
TOTAL	144,924.29	162,491.01
Unsecured Loans		
Fixed Deposits	0.15	50.85
Sales Tax Deferral - Loan	4,362.68	3,687.83
HDFC Loan	106.80	182.10
TOTAL	4,469.63	3,920.78

Schedule 4 - Fixed Assets

Rs. Lakhs

Particulars	Gross Block at Cost					Depreciation					Net Block	
	As at 31.03.2004	Additions during the year	Additions on amal-gamation	Deductions/ Adjustments during the year	As at 31.03.2005	upto 31.03.2004	Additions on amal-gamation	For the year	Deductions/ Adjustments	Upto 31.03.2005	As at 31.03.2005	As at 31.03.2004
Land (Refer foot note 3)	10,749.43	7.79	276.66	283.47	10,750.41	-	-	-	-	-	10,750.41	10,749.43
Buildings	9,592.22	6,346.57	112.07	141.73	15,909.13	2,700.92	22.59	268.19	16.98	2,974.72	12,934.41	6,891.30
Roads, Drains & Culverts	1,120.14	3,100.27	-	-	4,220.41	195.49	-	18.76	-	214.25	4,006.16	924.65
Railway Siding	1,352.62	125.60	-	-	1,478.22	619.46	-	64.28	-	683.74	794.48	733.16
Plant & Machinery	198,970.16	132,671.12	527.24	809.86	331,358.66	92,875.33	261.24	10,821.31	0.98	103,956.91	227,401.75	106,094.83
Furniture, Fixtures & Office Equipment	2,574.64	149.54	59.38	155.80	2,627.76	1,741.83	37.92	177.50	107.87	1,849.38	778.38	832.81
Vehicles	161.57	30.77	14.89	11.38	195.85	96.96	3.82	15.49	8.35	107.91	87.94	64.61
Leased assets:												
Plant & Machinery												
A - Ongoing leases	11,399.97	-	-	-	11,399.97	4,722.98	-	601.92	-	5,324.90	6,075.07	6,676.99
B - Run off leases ***	3,630.00	-	-	-	3,630.00	1,631.11	-	191.65	-	1,822.76	1,807.24	1,998.89
Lease Terminal adjustment											(5,221.70)	(5,742.08)
Capital work in progress:												
Buildings	0.35	77.80	-	-	78.15	-	-	-	-	-	78.15	-
Plant & Machinery	0.00	1,431.98	-	-	1,431.98	-	-	-	-	-	1,431.98	-
	239,551.10	@143,941.44	990.24	@ 1,402.24	383,080.54	104,584.08	325.57	12,159.10	134.18	116,934.57	*260,924.27	*129,224.59
Previous Year	239,034.86	580.72	-	64.83	239,550.75	92,453.27	-	12,163.82	33.02	104,584.08	*129,224.59	-

- Additions to Plant & Machinery include:
 - Rs. 43.29 lakhs (Debit) on account of exchange rate variation (previous year Rs.940.56 lakhs (credit)) and
 - Rs. Nil (previous year Rs. 1461.50 lakhs) on account of capitalisation of machinery spares as required under Accounting Standard 10 - Accounting for Fixed Assets issued by Institute of Chartered Accountants of India.
- * Net of lease Terminal adjustment.
- The company has re-valued its free hold land as on 31.03.2003 admeasuring 1040.28 acres, situated at Kakinada (plant site), on the basis of reports of approved valuer on *present market value basis (Standard Indices) method".
Accordingly, Rs.8842.38 lakhs, being re-valued amount stands substituted for the historical cost in the gross block of fixed assets.
- @ Includes Rs. 6346.57 lakhs, Rs. 3100.27 lakhs, Rs. 125.60 lakhs, Rs. 132185.30 lakhs respectively in Buildings, Roads Drains Culverts, Railway sidings and Plant & Machinery representing increase in value pursuant to report of approved valuer on revaluation of manufacturing facilities at Kakinada and Rs. 808.89 lakhs is decrease in respect of certain assets (refer Note 8 of schedule 13)
- Land and buildings include Rs. 317.00 lakhs and Rs. 730.00 lakhs respectively, paid as advance, pending registration since the title deeds are yet to be received from the transferor company.
- *** Represents leases where lease period is over, and release of equipment to lessee is pending.

Schedules forming part of the Balance Sheet as at 31st March, 2005

Schedule 5 - Investments (at cost)

Particulars	Face Value Rupees	31.03.2005		31.03.2004	
		Numbers	Rs. lakhs	Numbers	Rs. lakhs
LONGTERM INVESTMENTS:					
I. Equity Shares - Unquoted					
a) Equity Shares (Fully Paid)					
Nagarjuna Palma (India) Ltd.	10	-	-	192,815	6.14
Nagarjuna Agricultural Research and Development Institute	10	25,020	2.50	25,020	2.50
KVK Raju International Leadership Academy	10	150,000	15.00	150,000	15.00
			17.50		23.64
b) Shares in Subsidiary companies-Unquoted					
Nagarjuna Oil Corporation Limited	10	577,000,000	57,700.00	530,000,000	53,000.00
Jaiprakash Engg. & Steel Co. Ltd	10	22,561,693	2,256.17	6,191,993	619.20
Nagarjuna Power Corporation Limited	10	64,000,000	6,400.00	-	-
			66,356.17		53,619.20
II. Equity Shares - Quoted (Fully paid - other than trade)					
Essar Oil Ltd.	10	-	-	5,749	2.54
IFCI Ltd	10	-	-	100,000	10.00
Sri Saritha Software and Industries Ltd.	10	391,275	36.53	391,275	36.53
State Bank of Bikaner and Jaipur	100	3,670	19.37	3,670	19.37
State Bank of Travancore	100	8,540	50.47	8,540	50.47
Times Guarantee Financials Ltd.	10	7,900	10.92	7,900	10.92
			117.29		129.83
			66,490.96		53,772.67
Less: Provision for diminution in value of Quoted investments			47.07		48.95
TOTAL			66,443.89		53,723.72
Aggregate cost of Quoted Shares			117.29		129.83
Aggregate Market Value of Quoted Shares			260.68		206.32

1. Shares held in subsidiary companies are under pledge with Banks/Financial Institutions as security for the loans availed by the Company

2. During the year under report Nagarjuna Power Corporation Ltd. and Nagarjuna Plama India Ltd. became subsidiaries of the Company pursuant to allotment of shares by the respective Companies. Further Nagarjuna Palma India Limited was merged with the company pursuant to the Scheme of amalgamation (refer Note 4 of schedule 13)

Schedules forming part of the Balance Sheet as at 31st March, 2005

Schedule 6 - Current Assets, Loans and Advances

Rs. Lakhs

Particulars	31.03.2005		31.03.2004	
A. Current Assets				
1. Inventories (as valued and certified by Management)				
Traded products	421.35		33.55	
Manufactured products	2,880.03		1,238.92	
Raw materials	602.62		987.04	
Work in process	304.03		214.70	
Packing materials	92.03		261.14	
Stores and Spares	3,308.87		3,411.45	
Loose tools	11.20	7,620.13	10.67	6,157.47
2. Sundry Debtors (Unsecured)				
Debts outstanding over six months				
Considered good	1,476.38		19,136.47	
Considered doubtful	280.41		332.12	
Other debts considered good	20,694.26		16,247.44	
	22,451.05		35,716.03	
Provision for doubtful debts	(280.41)	22,170.64	(332.12)	35,383.91
3. Cash and Bank balances				
Cash on hand	0.22		-	
Balances with Scheduled Banks:				
Current Accounts	1,512.08		1,274.96	
Deposit Accounts	409.86	1,922.16	189.03	1,463.99
B. Loans and Advances				
Secured (considered good):				
Loans to Employees **	147.79		199.60	
Unsecured (considered good):				
Loans to employees **	1.93		3.25	
Advances recoverable in cash or in kind or for value to be received @	17,455.75		61,419.17	
Balance with Customs Authorities	36.96		2.24	
Deposits with others	519.68		484.85	
Claims receivable	1.51		2.16	
		18,163.62		62,111.27
TOTAL		49,876.55		105,116.64

** Includes amounts due from Directors / Officer Rs 8.77 Lakhs (Pr. Yr. Rs.12.02 Lakhs) and Maximum amount due Rs 12.02 lakhs (Pr. Yr. Rs.15.28 Lakhs).

@ Includes advance to Subsidiaries - Nagarjuna Oil Corporation Ltd, Rs 1486.34 Lakhs (Pr. Yr. Rs. 199.69 Lakhs) and share application money Rs.1300.00 lakhs (Pr. Yr. Rs. 4500.00 lakhs), Nagarjuna Power Corporation Limited Rs.362.43 lakhs (Pr. Yr. Rs.12.81 lakhs) and share application money Rs. 24.29 lakhs (Pr .Yr. Rs. 6424.29 lakhs), Jaiprakash Engg. & Steel Co.Ltd share application money Rs.3512.18 lakhs (Pr. Yr. Rs. 5398.15 lakhs) and advance tax of Rs 732.83 Lakhs(Pr. Yr. Rs. 419.74 lakhs).

Schedules forming part of the Balance Sheet as at 31st March, 2005

Schedule 7 - Current Liabilities and provisions

Rs. Lakhs

Particulars	31.03.2005	31.03.2004
Current Liabilities:		
Sundry Creditors		
Small Scale Industrial Undertakings	40.41	2.91
Others	7,086.42	4,867.78
Unclaimed Dividend	441.83	575.33
Unclaimed Fixed Deposits	59.98	139.05
Unclaimed matured Debentures	359.15	365.20
Interest accrued on above	30.86	54.80
Deposits	898.39	807.21
Other Liabilities	195.78	511.18
Interest accrued but not due on Loans/Deposits	262.87	234.84
TOTAL	9,375.69	7,558.30
Provisions :		
Provision for Taxation	502.08	-
Proposed Dividend	0.18	-
Provision for Dividend Tax	0.02	-
Provision for Leave Encashment	186.19	224.21
Provision for Gratuity	6.76	-
TOTAL	695.23	224.21

There are no amounts due to be transferred to Investor Education and Protection Fund.

Schedules forming part of the Profit and Loss Account for the year ended 31st March, 2005

Rs. Lakhs

Particulars	31.03.2005		31.03.2004	
Schedule 8 - Other Income				
Interest (TDS Rs. 9.03 lacs , Pr. Yr. Rs 12.28 lacs)		290.75		897.46
Dividends (TDS Rs. Nil , Pr. Yr. Rs. Nil)		10.07		46.58
Liabilities /Provisions no longer required written back		281.74		88.85
Miscellaneous Income		358.92		369.37
Profit on Sale of investments (net)		6.65		1,250.43
Profit on Sale of assets (net)		203.45		117.97
Lease Rentals	95.41		95.41	
Lease Equalisation	520.38	615.79	523.04	618.45
TOTAL		1,767.37		3,389.11
Schedule 9 - Salaries, Wages and Benefits				
Salaries & Wages		2,642.45		2,435.61
Contribution to Provident and Other Funds		216.50		178.59
Staff Welfare Expenses		377.62		361.87
TOTAL		3,236.57		2,976.07
Schedule 10 - (Increase)/Decrease in Stock				
Traded Products				
Opening Stock *	121.40		670.23	
Closing Stock	(421.35)	(299.95)	(33.55)	636.68
Manufactured products				
Opening Stock @	1,390.91		12,017.71	
Closing Stock	(2,880.03)	(1,489.12)	(1,238.92)	10,778.79
Work in Process				
Opening Stock	214.70		568.43	
Closing Stock	(304.03)	(89.33)	(214.70)	353.73
(Increase)/Decrease in stock		(1,878.40)		11,769.20

* includes Rs. 87.85 lakhs of Micro Irrigation division as at 01.10.04 pursuant to amalgamation

@ includes Rs. 151.99 lakhs of Micro Irrigation division as at 01.10.04 pursuant to amalgamation

Schedules forming part of the Profit and Loss Account for the year ended 31st March, 2005

Rs. Lakhs

Particulars	31.03.2005		31.03.2004	
Schedule 11 - Other expenses				
Rent		122.27		94.58
Rates and Taxes		231.06		63.56
Electricity and Water		68.40		53.06
Stores and Spares Consumed		580.73		301.58
Repairs and Maintenance				
Buildings	37.60		21.06	
Plant & Machinery	163.47		351.60	
Others	302.79	503.86	187.15	559.81
Insurance		691.76		602.03
Printing and Stationery		72.01		46.26
Postage, Telephone and Telex		200.61		158.12
Travelling and Conveyance		423.68		393.67
Advertisement and Publicity		309.37		276.03
Employee Recruitment and Training		40.44		10.24
Legal, Secretarial and Professional Charges		674.04		618.59
Share Registry expenses		40.39		69.87
Directors' Sitting Fees		3.25		3.70
Research & Development - Grant		18.97		38.87
Auditors' remuneration		43.07		27.75
Donations		0.10		-
Provision for doubtful debts / claims		-		3.97
Bad Debts/Advances written off	128.11		138.00	
Less: Provision for doubtful debts/advances	51.72	76.39	-	138.00
Provision for depletion in value of stores		889.11		-
CFG project expenditure		-		39.68
Miscellaneous Expenses		255.72		193.93
TOTAL		5,245.23		3,693.30
Schedule 12 - Interest and Financing charges				
Term Loans		8,206.24		12,799.29
Debentures		3,798.91		5,922.44
Others		2,273.48		6,852.08
TOTAL		14,278.63		25,573.81

SCHEDULE 13 - Accounting Policies and Notes to Accounts**A. SIGNIFICANT ACCOUNTING POLICIES :**

1. **General:** The company follows accrual system of accounting and recognises income and expenditure on accrual basis unless otherwise stated. The Accounts are prepared on historical cost convention, unless otherwise stated.
2. **Fixed Assets:**
 - a. Fixed assets are stated at cost, unless stated otherwise. Cost comprises the purchase price and other attributable expenses.
 - b. Revaluation : The net increase in the value of the assets is credited to the Revaluation Reserve.
 - c. Impairment of Assets : Impairment of an asset is reviewed and recognised in the event changes and circumstances indicate that the carrying amount of an asset is not recoverable. Difference between the carrying amount of an asset and the recoverable value is recognised as impairment loss in the statement of profit and loss in the year of impairment.

3. Depreciation on Fixed Assets:

- a) Depreciation on fixed assets other than the assets given on lease, is provided on straight-line method at the rates and in the manner prescribed in Schedule XIV of the Companies Act, 1956.
- b) Depreciation charge for each year is net of additional depreciation on incremental values arising out of revaluation met out of revaluation reserve.
- c) In respect of Assets given on lease, depreciation is provided on straight line method at the rates and in the manner prescribed in Schedule XIV of the Companies Act, 1956. Further, in respect of ongoing leases, the guidance note on accounting of leases issued by the Institute of Chartered Accountants of India (ICAI) is followed.

4. Investments :

Investments are stated at cost less any diminution in their value, which is other than temporary.

5. Foreign currency transactions:

The transactions in foreign currencies remaining outstanding at the end of the year, are translated at the exchange rates prevailing on the date of Balance Sheet or at the rate of exchange fixed under contractual arrangements. Exchange gain/loss on transactions relating to liabilities incurred to acquire fixed assets is treated as an adjustment to the cost of fixed assets. Exchange gains and losses on foreign exchange transactions other than those relating to fixed assets are adjusted in the profit and loss account.

6. Revenue recognition:

- a) Credit under Group Concession Scheme (GCS) and Equated Freight is considered on despatch of finished goods from the factory in accordance with the procedure prescribed by the Government of India – Fertiliser Industry Co-ordination Committee.
- b) Lease rental income is recognised in accordance with the guidance note on accounting for leases issued by ICAI.

7. Warranty claims in respect of Micro Irrigation business raised by parties regarding free replacements etc. covered under warranties are accounted in the year in which the claims are finally settled.

8. Deferred Revenue/Preliminary Expenditure:

Expenditure on catalyst is treated as deferred revenue expenditure and amortised on the basis of estimated life as technically assessed.

Preliminary expenses are written off over a period of 10 years in equal instalments.

9. Inventories:

The method of valuation of various categories of inventories is as follows:

a. Manufactured Products :

- i. Finished goods - at lower of cost and net realisable value.
- ii. Work in process - at cost.

Cost - includes material cost, labour, factory overheads and depreciation but excludes interest on borrowings. Net realisable value in the case of Urea - the Group Concession Price notified by the Govt. of India in respect of finished goods lying at the factory, and the net sale price in respect of finished goods lying in the warehouses outside the factory.

b. Traded products - at lower of cost and net realisable value.

c. Other finished goods, work-in-process, raw materials, stores, spares, packing material and loose tools - at weighted average cost, less provision for depletion in value, if any.

10. Retirement Benefits:

The company's liability towards gratuity and superannuation benefits of eligible employees is covered by a policy with LIC and the annual contributions are paid/provided in accordance therewith. Leave encashment is provided on the basis of valuation by independent actuaries, as at date of the Balance Sheet. The Company's contribution towards provident fund and pension fund is administered and managed by an approved trust and are charged to revenue.

11. Taxes on Income:

Current tax is determined as the amount of tax payable in respect of taxable income for the period. Deferred tax is recognised subject to the consideration of prudence, on timing differences, being the difference between taxable income and accounting income that originate in one period and is capable of reversal in one or more subsequent periods.

12. Contingencies:

Loss contingencies arising from claims, litigation, assessments, fines, penalties, after sales warranties, right to recompense etc., are provided for when it is probable that a liability may be incurred, and the amount can be reasonably estimated.

B. NOTES TO ACCOUNTS:

- 1 Estimated amount of contracts remaining to be executed on capital account and not provided for (net of advance)
 - i) In respect of Capital and Service Orders Rs. 231.98 lakhs (Previous year Rs.84.00 lakhs)
 - ii) In respect of 33 acres land in possession, compensation for which is not ascertained.
- 2 A. Contingent Liabilities:
 - i) Counter guarantees given to Bankers in respect of Bank guarantees Rs.712.82 Lakhs (Previous year Rs.146.27 Lakhs)
 - ii) Corporate guarantees given to banks on behalf of Nagarjuna Oil Corporation Ltd., a subsidiary company Rs.15323.00 Lakhs (Previous year Rs. 15043.48 lakhs)
 - iii) Taxation matters under appeals Rs.111.69 lakhs (Previous Year Rs. 490.60 lakhs).
- B. Claims against the company not acknowledged as debts Rs. 1401.98 lakhs (Previous year Rs. 675.83 lakhs).
 - i) Demand for payment under AP Non Agricultural Land Assessment Act (NALA) Rs. 159.45 lakhs (Previous year Rs.159.45 lakhs)
 - ii) Property tax – Kakinada Municipality Rs. Nil (Previous year Rs. 142.10 lakhs)
 - iii) Property Tax – Indrapalem Panchayat Rs.11.48 Lakhs (Previous year Rs. 11.48 lakhs)
 - iv) Compensation for Land acquisition Rs.228.45 Lakhs (Previous Year Rs. 263.34 lakhs).
 - v) Water Tariff (PHE Dept) Rs. 89.58 lakhs (Previous Year Rs. Nil)
 - vi) Water Charges (Irrigation) Rs. 131.52 lakhs (Previous Year Rs. Nil)
 - vii) Corporate - Legal Cases Rs. 33.85 lakhs (Previous Year Rs. 8.37 Lakhs)
 - viii) Marketing - Legal Cases Rs. 747.65 lakhs (Previous Year Rs. 91.09 Lakhs)

3. Corporate Debt Restructuring:

The company was sanctioned a Debt Restructuring Package (including working capital) under Corporate Debt Restructuring (CDR) Scheme on 20.02.2004 effective from 1st April 2003 vide letter no BY.CDR (AG)/ No.307/2003-04, dated 16th March 2004. All the lenders have approved and implemented the Package, except UTI AMC Pvt. Ltd. The benefits accrued under the package have been given effect in the Accounts except in the case of UTI AMC Pvt. Ltd. The restructuring inter-alia envisages:

- Ø Reduction of interest from 1st April 2004
- Ø Issue of 0.01% Coupon Optionally Convertible Cumulative Redeemable Preference Shares (OCCRPS)/Zero Coupon Debentures (ZCD) to compensate the differential interest for the year 2003-04
- Ø Deferment/rescheduling in repayment of principal
- Ø The Company to divest its equity investments/loans and advances lend to subsidiary/group companies to the extent and in the manner envisaged
- Ø Remission of principal outstanding in certain cases

The Accounts for the year ended 31st March 2005, have been drawn up after giving effect to the CDR Package, except in respect of outstandings of UTI AMC Pvt. Ltd.

The lenders reserve the right to recompense the sacrifices being made in case the profitability and cash flow position of the Company so warrants in future.

The lenders have the right to reset the interest rates after every three years.

The lenders shall have the right to convert 20% of their outstanding debt after financial year 31.03.2011 into equity and, in the event of any default in servicing the debt, the lenders shall also have the right to convert the defaulted amounts into equity (at par) or any other instruments. The promoters shall be given the first right of refusal, if the converted shares/instruments are decided to be sold by the lenders.

4. Amalgamation of Nagarjuna Palma India Limited (NPIL) and reorganization of the Company under Sections 391 – 394 of the Companies Act, 1956

- i) In terms of the Scheme of Amalgamation ("the Scheme") approved by the members at the meeting convened by the Hon'ble High Court of Andhra Pradesh held on 23rd December, 2004, and subsequently sanctioned by the Hon'ble High Court, Nagarjuna Palma India Limited (NPIL) a subsidiary Company engaged in the business of manufacture and marketing of micro irrigation systems was amalgamated with the Company with effect from 1st October, 2004.
- ii) The salient features of the Scheme are:
 - a. With effect from the Transfer Date, i.e. 1st October, 2004, the Undertaking of NPIL shall stand vested in the Company.
 - b. With effect from the Effective date i.e., the date the Transferee Company files the certified copy of the Order of the Hon'ble High Court of Andhra Pradesh with the Registrar of Companies, Andhra Pradesh, Hyderabad,

under Section 391(3) of the Act, in consideration of the vesting of the Undertaking of NPIL, the Company shall issue and allot four equity shares of Rs.10/- each fully paid up at par in exchange for five equity shares of Rs.10/- each fully paid up at par of the transferor Company.

- c. In respect of 99,12,815 equity shares of Rs. 10/- each held by the Company in NPIL, the Company shall issue and allot 79,30,252 equity shares of Rs. 10/- each in favour of Nagarjuna Employee Welfare Foundation, a company incorporated under Section 25 of the Companies Act, 1956 for the welfare of the employees of the Company.
- d. Upon amalgamation and vesting of the Undertaking in the Company, the Company shall draw up a Balance Sheet reflecting therein the values of the Assets and Liabilities of the Transferor Company and also the values of the Assets and Liabilities of the Transferee Company subject to restatement, revaluation / revision of such assets by credit to Revaluation Reserve as are in the opinion of the Board of Directors appropriate having regard to the fair value of such assets so as to reflect a true and fair view of the assets and liabilities in the Balance Sheet of the Transferee Company.
- iii) The amalgamation has been accounted under the "Pooling of Interest" method as laid down in Accounting Standard – 14 issued by the Institute of Chartered Accountants of India. Accordingly, the assets, liabilities and reserves of the Transferor Company as on 1st October 2004 have been taken over at their book values subject to adjustments made for differences in the accounting policies between the Transferor and Transferee Company as specified in the Scheme.
- iv) The Shares issued on the amalgamation and the difference between the consideration and the value of the net identifiable assets vested with the Transferee company as on 1st October, 2004 is summarized below:

	Rs. Lakhs
Assets of NPIL taken over	1592.71
Liabilities of NPIL taken over	768.04
Net assets / (liabilities)	824.67
Shares of the Company to be issued –1,11,61,228 nos.	1116.12
	<hr/>
Excess of shares issued over net assets /liabilities taken over	(291.45)
	<hr/>
Accounted for as under:	
Capital Subsidy	20.00
Capital Reserve	279.03
Profit and Loss Account debit balance	(590.03)
Preliminary Expenses not written off	(0.45)
	<hr/>
	(291.45)
	<hr/>

- v) In terms of paragraph 8.4 of the Scheme and in accordance with Section 391 and Section 394 of the Companies Act, 1956, the Board of Directors of the Company carried out:
- a) revaluation of the Plant and Machinery forming part of the Manufacturing facilities at Kakinada as on 31.03.2005 by engaging the services of a Reputed Valuer; and
- b) restatement of the value of Sundry Debtors (including other receivables) and Loans and Advances as on 31.03.2005.

Based on the report of the valuer, the value of the manufacturing facilities at Kakinada have been re-valued at Rs.243350.02 lakhs as against the present book value of Rs. 102401.15 lakhs which resulted in an increase in the value of the fixed assets by Rs. 140948.87 lakhs. The said amount of Rs. 140948.87 lakhs was transferred to revaluation reserve and a sum of Rs. 46638.27 lakhs as detailed in Note no 11 representing irrecoverable Sundry Debtors (including other receivables) and Loans & Advances as assessed by an independent agency and other adjustments relating to the Scheme of amalgamation amounting to Rs.978.14 lakhs, has been adjusted against the revaluation reserve and the net amount of Rs. 93332.47 lakhs reflected as addition to Revaluation Reserve under "Reserves and Surplus" Schedule 2 of the Balance Sheet.

5. Share Capital:

- A. Optionally Convertible Cumulative Redeemable Preference Shares – (OCCRPS) of Rs. 3720.37 lakhs (Previous year - Nil) represent shares allotted on 9th October 2004 to IDBI, IFCI and LIC as fully paid, as per the CDR scheme, being the interest differential between the contracted rates and CDR approved rates for the FY 2003-04. These are redeemable/convertible after the entire debt liabilities are fully repaid.

B. Shares to NPIL pending allotment

"Equity Share Capital pending allotment" included under Share Capital of Schedule 1 represent 1,11,61,228 equity

shares of Rs. 10/- each to be issued and allotted to the shareholders of erstwhile Nagarjuna Palma India Ltd pursuant to the scheme of Amalgamation.

6. Secured Loans:

A - DEBENTURES

- i 75,00,000, 14.50% Secured Redeemable Non-Convertible Debentures (NCD) of Rs.100/- each are redeemable as follows
 - (a) 45,00,000 issued to UTI in six half yearly instalments commencing from July 2003 as per reschedulment. The first four instalments of Rs. 450 lakhs each, due on 20th July 2003, 20th January 2004, 20th July 2004 and 20th January 2005, aggregating to Rs.1800 lakhs are overdue.
 - (b) 30,00,000 issued to LIC in 41 structured quarterly instalments commencing from 31st March 2006 as per reschedulment in line with the CDR Package.
- ii 6,71,602, 14.50% Secured Redeemable Non-Convertible Debentures (NCD) of Rs.100/- each issued to UTI are redeemable in 24 monthly instalments commencing from October 2002 as per reschedulment. The balance outstanding is Rs.503.70 lakhs (Previous year Rs. 503.70 lakhs). The entire outstanding of Rs. 503.70 lakhs is overdue.
- iii 80,00,000, 15.00% Secured Redeemable Non-Convertible Debentures (NCD) of Rs.100/- each issued to IFCI redeemable in 41 quarterly instalments commencing from 31st March 2006 as per reschedulment in line with the CDR Package. The balance outstanding is Rs.2,933.50 lakhs (previous year Rs. 2,933.50 lakhs).
- iv 1,53,30,000, 15.00% Secured Redeemable Non-Convertible Debentures (NCD) of Rs.100/- each issued to ICICI redeemable in 41 quarterly instalments commencing from 31st March 2006 as per reschedulment in line with the CDR Package.
- v 25,00,000, 15.00% Secured Redeemable Non-Convertible Debentures (NCD) of Rs.100/- each issued to IFCI redeemable in 41 quarterly instalments commencing from 31st March 2006 as per reschedulment in line with the CDR Package.
- vi 30,00,000, 13.25% Secured Redeemable Non-Convertible Debentures (NCD) of Rs.100/- each issued to LIC redeemable in 41 structured quarterly instalments commencing from 31st March 2006 as per reschedulment in line with the CDR Package.

The interest rates stand revised to 10.50% w.e.f. 01.04.2004 in respect of Debentures stated at i (b), iii, iv, v, and vi as per CDR package sanctioned on 20th February 2004.

- vii 32,00,000 12.50% Secured Redeemable Non-Convertible Debentures (NCD) of Rs.100/- each issued to SBI redeemable in 20 equal quarterly instalments commencing from 31st March 2005 as per reschedulment in line with the CDR Package. The balance outstanding is Rs.1800.00 lakhs (previous year Rs. 2,577.98 lakhs).

The interest rates stand revised to 7.00% w.e.f. 01.04.2004 in respect of Debentures stated above as per CDR package sanctioned on 20th February 2004.

The above debentures (excluding Rs.4300.00 lakhs, relating to assets given on lease, issued to ICICI), together with accrued interest, remuneration and other expenses thereof are secured by a registered mortgage and an exclusive charge on the Company's immovable property situated at Ahmedabad and an equitable mortgage and a charge on the other immovable and movable properties of the Company in favour of the debenture trustees, save and except stock in trade, book debts given as security to banks for obtaining working capital facilities and assets given on lease with exclusive charge in favour of the funding institution. Charge creation in respect of Rs. 9371.60 lakhs is pending, for which specific approvals from the lenders (as per CDR package) is awaited.

Out of Rs.15,330.00 lakhs 15% Non-Convertible Debentures issued to ICICI Bank, Rs.4300.00 lakhs are secured by exclusive mortgage of assets given on lease.

- viii 33,49,36,238 0% Secured Redeemable Non-Convertible Debentures of Rs.1/- each issued to various lenders viz. State Bank of India, State Bank of Hyderabad, State Bank of Bikaner and Jaipur, State Bank of Patiala, State Bank of Travancore, State Bank of Saurashtra, Bank of India, Bank of Baroda, Canara Bank, Indian Overseas Bank, Punjab National Bank, UCO Bank, Union Bank of India, The Bank of Rajasthan Ltd., SICOM, Oriental Bank of Commerce, Rabo India Finance (Pvt) Ltd., Karur Vysya Bank, Karnataka Bank, IndusInd Bank, and ICICI Bank, as envisaged in the CDR Package. The debentures are redeemable after the entire debt liabilities are fully repaid.

The above debentures are secured by way of second charge on the fixed assets of the Company ranking pari-passu with the working capital banks. This is subject to receiving NOCs from the second charge holders which is still awaited.

B – LONG TERM LOANS :

The Long Term Loans from Institutions are secured by way of a charge created through an equitable mortgage of immovable properties by deposit of title deeds and hypothecation of movable properties of the Company including movable plant and machinery, spares, tools and other movables, present and future, save and except stock in trade, book debts, and stores & spares, given as security to banks for obtaining working capital facilities and assets given on lease with exclusive charge in favour of the funding institution. They are further secured by way of a second

charge on the current assets of the company.

The interest rates stand revised to 10.50% w.e.f. 01.04.2003 in respect of Long Term Loans stated above as per CDR package sanctioned on 20th February 2004.

In respect of Micro irrigation business Term Loan from IDBI of Rs. 330 lakhs is secured by way of first mortgage of immovable properties and further by a first charge by way of hypothecation of movables including movable machinery, machinery spares, tools and accessories, subject to prior charge created/to be created on the stocks of raw materials, semi-finished and finished goods, consumable stores and such other movables, of erstwhile Nagarjuna Palma India Ltd. The Term Loan was restructured effective 30.03.2001.

The Company is taking steps to modify the mortgages and other charges in respect of borrowings of Micro irrigation business with the lenders of the Company.

C – MEDIUM TERM LOANS :

The medium term loans from banks and others, aggregating to Rs.14241.07 lakhs together-with interest accrued thereon, are secured by way of a first charge on the fixed assets of the company ranking pari-passu with the financial institutions, and a second charge (sub-ordinate to the financial institutions) on the monthly subsidy. These charges are subject to the approval of respective Banks and Institutions, holders of first charge, which are still awaited.

The interest rates stand revised to 7% w.e.f. 01.04.2003 in respect of Medium Term Loans stated above as per CDR package sanctioned on 20th February 2004.

The mortgage and charges in favour of the trustees for Debenture holders, Institutions & Banks, referred to above rank pari-passu first charge inter se and further secured by a second charge on current assets of the company, except in the case of 0% Secured Redeemable Non-Convertible Debentures.

D – WORKING CAPITAL :

Working Capital Demand loan, Cash Credit and Non Fund based limits of LCs and BGs from banks are secured by hypothecation of stock in trade, book debts and stores & spares, present and future and second charge on the fixed assets of the company.

The interest rates stand revised to 8.50% w.e.f. 01.04.2003 in respect of Working Capital loans stated above as per CDR package sanctioned on 20th February 2004.

All the secured loans are additionally secured by the pledge of shares held by the Company in Jaiprakash Engineering and Steel Company Ltd, Nagarjuna Power Corporation Limited, except the loan availed by erstwhile NPIL from IDBI (Rs. 330 lakhs).

All the Term Loans and Debentures from Institutions and Banks, counter guarantees, working capital demand loan / cash credit from banks are personally guaranteed by Shri K.S.Raju, Vice Chairman and Managing Director of the Company.

7. Unsecured Loans:

a) Fixed Deposits:

There are no matured deposits which are claimed but unpaid as on the date of the Balance Sheet. The balance outstanding as on 31.03.2005 is Rs.60.13 lakhs (previous year Rs. 189.90 lakhs) out of which Rs.59.98 lakhs remain unclaimed (previous year Rs.139.05 lakhs).

b) Sales Tax Deferral:

The Govt. of Andhra Pradesh has extended to the Company, the incentive of sales tax deferral scheme pursuant to which the sales tax attributable to the sales effected out of production from Plant I and Plant II is deferred (interest-free) for a period of 5 years from 04.07.1994 in the case of Plant I and 14 years from 19.03.1998 in the case of Plant II. The deferred sales tax of each year is repayable after the expiry of the period deferred. The deferred Sales Tax in respect of Plant I was fully repaid by 10.09.2003. In respect of Plant II the sales tax so deferred aggregates to Rs. 4362.68 lakhs, based on the Sales Tax Returns (previous year Rs. 3687.83 lakhs) in respect of which payments commence after 19.03.2012.

8. Revaluation of Fixed Assets:

The Company has re-valued the manufacturing facilities located at Kakinada as on 31st March 2005 on the basis of report of an independent approved valuer. The Valuation has been done on the basis of Depreciated Replacement Cost Method. Accordingly, Rs. 243350.02 lakhs being the revalued amount stands substituted for the historical cost in the block of fixed assets.

The aforesaid revaluation is also envisaged in the Scheme of amalgamation approved by the High Court of AP as detailed in Note No.4 above.

The Company had earlier revalued its freehold land as on 31.03.2003 admeasuring 1040.28 acres, situated at Kakinada (plant site), on the basis of reports of an approved independent valuer on the present market value basis (Standard Indices). Accordingly, Rs.8842.38 lakhs, being revalued amount stand substituted for the historical cost in the gross block of fixed assets.

9. Land and Buildings:

- a. Includes 68 acres leased to Nagarjuna Agricultural Research and Development Institute.
- b. Includes 5 acres, the possession of which is yet to be taken, title under dispute.
- c. Includes Land valued at Rs.958.08 lakhs and Buildings valued at Rs.291.92 lakhs vested with the Company pursuant to the order dated 27-04-98, of the Hon'ble High Court of Andhra Pradesh.
- d. Excludes value of 33 acres, which is in the possession and use of the Company pending fixation of compensation by the State Government.
- e. Excludes 14.06 acres pending completion of proposed alienation and handing over possession by Govt. of A.P. including 3.14 acres which cannot be alienated under AP Land Reforms Act, 1973.

10. Investments :

The Company has investments in the following subsidiary Companies :

1. Nagarjuna Oil Corporation Ltd (NOCL)
2. Nagarjuna Power Corporation Ltd (NPCL)
3. Jaiprakash Engineering and Steel Company Ltd (JESCO)

NOCL which is implementing the Oil Refinery Project has made substantial progress in tying up the Balance Equity has tied up marketing arrangement in full and has received approval for Sales Tax Loan from the Govt. of Tamil Nadu. With these developments, the financial closure is expected to be completed in few months. All statutory clearances and permits have already been obtained and are subsisting.

NPCL which is implementing the Power Project has obtained an in-principle sanction from Power Finance Corporation (PFC) for their part of the loan. The balance debt component shall be syndicated by PFC with the other lenders / banks. The Power Purchase Agreement (PPA) has already been finalised and the same shall be re-signed in accordance with the new norms. NPCL has also issued Letter of Intent for the EPC Contract. Equity tie up with a strategic partner is in the advanced stage of finalisation.

The above two companies are in the project stage and any diminution in the latest available book value as compared to the cost of such shares before commencement of operations by the companies cannot be considered a permanent diminution. Consequently, no provision is considered necessary at this stage.

Investment in JESCO, the Steel Project of the Company has since been shelved. The realisations from sale of assets of the Company is expected to be in excess of the investments made. Hence, there is no diminution in the value of the investment.

11. Sundry Debtors, Loans and Advances :

The comprehensive review of the Sundry Debtors and Loans and Advances including Rs. 24760.00 lakhs relating to fertilizer subsidy claims and, other receivables carried out by an independent agency indicated that it was not appropriate to carry forward a sum of Rs. 46638.27 lakhs as good for recovery under the above head as chances of recovery of same is bleak considering the Management's efforts over the last few years proving futile, adverse judicial pronouncements and rejection of fertiliser subsidy claims by Government Authorities.

The Company has further written off Rs. 128.11 lakhs in the profit and loss account representing irrecoverable book debts relating to manufactured products.

Accordingly, the value of Sundry Debtors and Loans and Advances including fertiliser subsidy claims and other receivables has been restated at Rs. 40614.66 lakhs as against Rs. 87252.93 lakhs. As per the Guidance Note of the Institute of Chartered Accountants of India, the reduction in value of Sundry Debtors and Loans and Advances has to be charged to the Profit and Loss Account, however, in accordance with the Scheme sanctioned by the Hon'ble High Court of Andhra Pradesh an amount of Rs. 46638.27 lakhs being the effect of such restatement has been adjusted against Revaluation Reserve.

12. Income Tax:

a) Current Tax :

Provision for current tax has been made on book profits in accordance with section 115 JB of the Income Tax Act, 1961. The provision for tax in respect of assessments not yet completed is computed by the company taking into consideration the treatment of various matters as decided in the Company's income tax assessments of the earlier years.

b) Deferred Tax :

In accordance with the Accounting Standard No.22 issued by ICAI and followed by the company, a sum of Rs.2070.29 lakhs (previous year Rs.3567.55 lakhs) deferred tax credit was drawn from the Deferred Tax Liability A/c. and debited to the Profit & Loss A/c.

Details of components of deferred tax liability and assets stated in the Balance Sheet are given below :

a.1 Liabilities		Rs. in Lakhs	
Particulars	31.03.2005	31.03.2004	
Depreciation	31,082.61	33,048.94	
Deferred revenue expenditure	---	371.73	
Total	31,082.61	33,420.67	

a.2 Assets		Rs. in Lakhs	
Particulars	31.03.2005	31.03.2004	
Carry forward business loss	---	4,408.35	
Provision for diminution in value of investments	---	---	
Total	---	4,408.35	

13. Group Concession Scheme – (GCS) Subsidy :

The FICC has notified provisional price applicable to the Company under GCS and, the subsidy has been accounted on the said basis for the year 2004-05. Adjustments if any, on notification of final prices under GCS, will be considered in the year in which the notifications are received.

14. Capital Investment Subsidy:

An amount of Rs. 20 lakhs was received as Capital Investment subsidy from Govt. of Andhra Pradesh vide consolidated proceedings no.10/4/2001/1014/FD-I dated 27.06.2001 towards Capital Investment of the erstwhile NPIL, in respect of Micro Irrigation business, subject to the condition that the unit shall be in continuous production atleast till 31.12.2004.

15. Remission of Liability:

The Company pursuant to settlement of dues with American Express Bank Ltd., IDBI Bank Ltd., and Development Credit Bank Ltd., as envisaged in the CDR Package, adjusted an amount of Rs. 1464.70 lakhs representing remission of principal amount of their debt by credit to profit and loss account. (Previous year Rs. 841.01 lakhs from ING Vysya Bank Ltd).

16. Debenture Redemption Reserve

Consequent to reschedulement of dates of redemption and tenure, no additional provision is required to be created during the year.

17. Deferred Revenue

The catalysts installed last year which were to be charged off in the normal course over years depending upon their useful life, as technically assessed, has been charged off completely amounting to Rs. 1030.59 lakhs, due to use of contaminated Naphtha.

18. Segmental Accounting

The financial results relate mainly to fertiliser segment. In Accordance with Accounting Standard (AS) -17, since the financial results of micro irrigation segment is less than the limit for separate disclosure, the same is not shown separately.

19. Balances in respect of Sundry Debtors, Loans and Advances, and Sundry Creditors relating to Micro irrigation business are subject to confirmation.

20. Related party transactions

1. Names of related parties and description of relationship.

a) Subsidiaries

- (i) Nagarjuna Oil Corporation Limited
- (ii) Jaiprakash Engineering and Steel Company Limited
- (iii) Nagarjuna Power Corporation Limited

b) Associates

- (i) Nagarjuna Agricultural Research and Development Institute (NARDI)
- (ii) Ikisan Limited
- (iii) KVK Raju International Leadership Academy
- (iv) Nagarjuna Foundation
- (v) Nagarjuna Corporation Limited

c) Key Management Personnel

- (i) Mr.K.S.Raju, Vice Chairman & Managing Director
- (ii) Mr.K.Rahul Raju, Director – Business Development and Strategic Planning
- (iii) Mr.P.P.Singh, Director - Technical
- (iv) Mr.R.S.Nanda, Director and Chief Operating Officer

2. Related party transactions are as under :**Rs. Lakhs**

Sl. No	Nature of transaction	Subsidiaries 31.03.2005	Associates 31.03.2005	Key Mgmt. Personnel 31.03.2005	Subsidiaries 31.03.2004	Associates 31.03.2004	Key Mgmt. Personnel 31.03.2004
01.	Finance :						
	Share Appln. Money	1500.00	---	---	1806.56	---	---
	Refund of Share Appln Money	249.00	---	---	635.88	---	---
	Advances given	2062.53	10.00	---	200.65	34.83	---
	Advances received	7.35	0.90	3.26	---	32.64	3.26
02.	Purchase of fixed assets	12.70	---	---	1.01	1.26	---
03.	Sale of Shares	---	---	---	---	6.00	---
04.	Receiving of services :						
	Service charges	---	---	---	---	127.62	---
	Reimbursement of expenses	---	---	---	---	0.06	---
	Prof. & Mgmt. Consultancy	---	---	---	---	---	---
05.	Providing Services	---	---	---	---	23.79	---
06.	Grant to R & D	---	18.97	---	---	38.87	---
07.	Lease Rental received	---	0.01	---	---	0.01	---
08.	Remuneration to Key Mgmt. Personnel	---	---	130.37	---	---	105.96

21. Earnings per Share :

Sl. No.	Earning per share (Basic and diluted) has been computed as under :	Unit of Measurement	31.03.2005	31.03.2004
1.	Net Profit/(Loss) after tax	(Rs. in Lakhs)	2952.70	1743.82
2.	Number of ordinary shares (fully called up)	(Numbers)	428181821	417020593
3.	Earnings per share (Face Value of Rs. 10/- per share)	[1] / [2]	0.70	0.42

22. Managerial Remuneration :**Rs. Lakhs**

Sl. No.	Remuneration of Managing Director and Whole Time Directors	31.03.2005	31.03.2004
1.	Salaries	64.45	53.82
2.	Perquisites	45.88	36.30
3.	Contribution to Provident Fund and other Funds	20.04	15.84
	Total	130.37	105.96

23. Auditors' Remuneration :**Rs. Lakhs**

Sl. No.	Particulars	31.03.2005	31.03.2004
1.	For statutory audit (including service tax)	16.53	16.20
2.	For Tax Audit	3.90	1.89
3.	For Certification	15.43	3.22
4.	Out of pocket expenses	7.21	6.44
	Total	43.07	27.75

24. Information pursuant to provisions of Paras 3 & 4 of Part II of Schedule VI of Companies Act, 1956 is as under :**a. Capacity**

Licensed capacity *
Installed capacity @

Sl. No.	Product	Unit	31.03.2005	31.03.2004
1.	Ammonia	MT/Day	1800	1800
2.	Urea	MT/Day	3000	3000
3.	Extruded Irrigation Systems & Parts thereof	Tons/Annum	1140	---

* Registered pursuant to the scheme of delicensing

@ As certified by the Management and relied upon by the Auditors being a technical matter.

b. Production, Sales & Stock :

Sl. No.	Particulars	31.03.2005		31.03.2004	
		Quantity MT	Value Rs. Lakhs	Quantity MT	Value Rs. Lakhs
1.	Opening Stock :				
	Ammonia	4002	214.70	9324	568.43
	Urea	27682	1238.92	264663	12017.71
	Extruded Irrigation Systems and parts thereof	138	151.99	NA	NA
2.	Production :				
	Ammonia	803482	----	701927	----
	Urea	1392538	----	1193960	----
	Extruded Irrigation Systems and parts thereof	326	----	NA	NA
3.	Captive Consumption :				
	Ammonia	794364	----	685656	----
4.	* Sales :				
	Ammonia	8117	1176.55	21593	2552.85
	Urea	1359754	62699.18	1430941	66547.83
	Extruded Irrigation Systems and parts thereof	359	529.93	NA	NA
5.	Closing Stock :				
	Ammonia	5003	304.03	4002	214.70
	Urea	60466	2774.09	27682	1238.92
	Extruded Irrigation Systems and parts thereof	105	106	NA	NA

* Sales quantity includes transit and standardisation losses. Sales value does not include concession under GCS, in the case of Urea.

c. Trading Activity

Sl. No.	Class of Products	31.03.2005		31.03.2004	
		Quantity MT	Value Rs. Lakhs	Quantity MT	Value Rs. Lakhs
1.	Opening Stock :				
	Traded Urea		----		----
	Pesticides		----		446.93
	Pool Urea		----		----
	Speciality Fertilizers		----		----
	Others		121.40		223.29
			121.40		670.22
2.	Purchases:				
	Traded Urea	2352	107.45		-----
	Pesticides		----		2812.11
	Pool Urea	201440	8050.24		-----
	Speciality Fertilizers		1057.77		-----
	Others		938.04		259.43
			10153.50		3071.54
3.	Sales:				
	Traded Urea	2352	111.65		-----
	Pesticides		----		3627.73
	Pool Urea	201440	10187.37		-----
	Speciality Fertilizers		1001.25		-----
	Others		1421.21		451.17
			12721.48		4078.90
4.	Closing Stock :				
	Traded Urea		----		-----
	Pesticides		----		-----
	Pool Urea		----		-----
	Speciality Fertilizers		335.08		33.55
	Others		86.14		-----
			421.22		33.55

d. Raw material consumed (100% Indigenous) :

Sl. No.	Class of Product	31.03.2005		31.03.2004	
		Quantity	Value Rs. Lakhs	Quantity	Value Rs. Lakhs
1.	Natural Gas (1000 SM ³)	397512	17038.92	409849	17118.92
2.	Naphtha (MT)	102167	20053.95	42572	5761.21
3.	Plastic Granules (Tons)	304	270.54	NA	NA
4.	Others	-----	262.49	-----	254.64
	Total		37625.90		23134.77

e. Value of stores and spares consumed :

Sl. No.	Item	31.03.2005		31.03.2004	
		%	Value Rs. Lakhs	%	Value Rs. Lakhs
1.	Imported	18	104.15	32	99.00
2.	Indigenous	82	476.58	68	205.78
	Total	100	580.73	100	304.78

f. CIF Value of Imported goods :

Rs. Lakhs

Sl. No.	Item	31.03.2005	31.03.2004
1.	Spares	225.63	1179.79
2.	Traded products	521.64	----
3.	Capital Goods (WIP)	1431.98	----
	Total	2179.25	1179.79

g. Expenditure in Foreign Currency

Rs. Lakhs

Sl. No.	Item	31.03.2005	31.03.2004
1.	Professional & Consultancy	84.11	---
2.	Others	34.37	51.76
	Total	118.48	51.76

h. Earnings in foreign currency (FOB)

Rs. Lakhs

Sl. No.	Item	31.03.2005	31.03.2004
1.	Others	NIL	NIL
	Total	----	----

25. Sales are net of cash discounts of Rs.446.40 lakhs (previous year Rs.950.18 lakhs).

26. Dues to Small Scale Industrial Undertakings, exceeding 30 days

a) Kelkar Equipments Rs. 1.57 lakhs

b) Calorie Plastics Pvt. Ltd Rs. 5.64 lakhs

27. Previous year figures have been re-grouped / re-classified / re-cast wherever necessary and are not comparable with current year figures which includes figures in respect of Micro Irrigation business as the business of the transferee Company got merged only from 01.10.2004, being the effective date of the merger.

28. Amounts are rounded off to the nearest Rupees in Lakhs. Figures in brackets represent credits / deductions.

Signatures to Schedules "1 to 13"

As per our report attached to the Balance Sheet for **M. Bhaskara Rao & Co.** Chartered Accountants

For and on behalf of the Board.

Field Marshal Sam Manekshaw, M.C.
Chairman

K S Raju
Vice Chairman & Managing Director

M Ramakanth
Secretary

Anilkumar Mehta
Partner

Hyderabad
April 21, 2005

New Delhi
April 21, 2005

N C B Nath
S R Ramakrishnan
Directors

P P Singh
Director (Technical)

R S Nanda
Director & Chief Operating Officer

K Rahul Raju
Director - Business Development & Strategic Planning

To

The Board of Directors

NAGARJUNA FERTILIZERS AND CHEMICALS LTD.

1) We have examined the attached Consolidated Balance Sheet of NAGARJUNA FERTILIZERS AND CHEMICALS LTD. and its subsidiaries as at 31st March 2005, the Consolidated Profit and Loss Account and the Consolidated Cash Flow Statement for the year then ended.

2) These financial statements are the responsibility of the Nagarjuna Fertilizers and Chemicals Limited's management. Our responsibility is to express an opinion on these consolidated 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 prepared, in all material respects, in accordance with an identified financial reporting framework and are free of material misstatements. 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.

3) We report that the consolidated financial statements have been prepared by the Company in accordance with the requirements of Accounting Standard 21 Consolidated Financial Statements, issued by the Institute of Chartered Accountants of India and on the basis of the separate audited financial statements of Nagarjuna Fertilizers and Chemicals Limited and its subsidiaries included in the consolidated financial statements.

4) **Reference is invited to the following notes on accounts under Schedule 15:**

i) Note No. 11, regarding the shortfall in the available book value of unquoted investments in subsidiaries as compared to the cost, which is not considered permanent diminution for reasons stated in referred note.

Owing to non-compliance of AS -13 -Accounting for Investments, non- provisioning towards diminution in the carrying value of investments, we are unable to form an opinion on the above matter and its impact on the financial statements and Profit for the year and consequential effect on reserves.

ii) Note No.5 (v) regarding adjustment of Rs.46638.27 lakhs being irrecoverable sundry debtors (including other receivables) and Loans & Advances against Revaluation Reserve.

5) **Note No. 11 regarding:**

a) Financial statements of NOCL and NPCL subsidiaries of the company being drawn up on a going concern basis for reasons stated in the

said note in respect of which, we are unable to express an opinion pending financial closure of the project and, final outcome of various project related matters respectively.

b) Erosion of investment of Rs.3522.34 Lakhs made by NPCL a subsidiary of the company in its wholly owned subsidiary Nagarjuna Electric Generating Company Limited in view of it's winding up and the said loss yet to be written off/adjusted.

6) a) Note No.3 A (iv) regarding non-provisioning of income tax demand of Rs.94.66 lakhs relating to JESCO a subsidiary of the company, and

b) Note No.25 regarding non-provisioning of Rs.1336.47 Lakhs towards additional compensation claimed by equipment supplier in the case of NOCL a subsidiary of the company.

7) **Subject to our remarks at Paragraphs 4(i), 5, 6(b) above**, on the basis of the information given to us and on the consideration of the separate audit reports on individual audited financial statements of Nagarjuna Fertilizers and Chemicals Limited and its aforesaid subsidiaries, in our opinion and to the best of our information and according to the explanations given to us, the attached Consolidated Financial Statements give a true and fair view in conformity with the accounting principles generally accepted in India:

a) In the case of the Consolidated Balance Sheet of the state of affairs of Nagarjuna Fertilizers and Chemicals Limited and its subsidiaries as at 31st March 2005,

b) In the case of the Consolidated Profit and Loss Account of the profit for the year ended, on that date and

c) In the case of the Consolidated Cash Flow Statement of the cash flows of Nagarjuna Fertilizers and Chemicals Limited and its subsidiaries for the year then ended.

for M. BHASKARA RAO & CO.,
CHARTERED ACCOUNTANTS

Anilkumar Mehta
Partner

Hyderabad

April 21, 2005

Membership Number : 14284

Nagarjuna Fertilizers and Chemicals Limited
Consolidated Balance Sheet as at 31st March, 2005

Rs. Lakhs

Particulars	Schedule Reference	31-03-2005		31-03-2004	
SOURCES OF FUNDS					
Shareholders' Funds					
Share Capital	1	46,497.44		41,660.79	
Reserves and Surplus	2	140,203.73	186,701.17	44,232.39	85,893.18
Minority Interests			208.67		3.57
Loan Funds	3				
Secured Loans			160,251.21		170,120.87
Unsecured Loans			4,512.19		3,979.15
Deferred Tax Liability			31,082.61		33,420.67
Total			382,755.85		293,417.44
APPLICATION OF FUNDS					
Fixed Assets	4				
Gross Block		383,664.98		240,118.68	
Depreciation		(117,103.98)		(104,719.62)	
Lease adjustment		(5,221.70)		(5,742.08)	
Net Block		261,339.30		129,656.98	
Capital work in Progress	5	67,686.40	329,025.70	65,868.56	195,525.54
Expenditure Pending allocation	6		29,440.43		23,097.49
Investments	7		87.72		104.52
Current Assets, Loans and Advances	8				
Inventories		7,620.13		6,157.47	
Sundry Debtors		22,170.65		35,383.91	
Cash and Bank Balances		1,966.37		1,780.29	
Loans and Advances		14,056.97		54,684.77	
		45,814.12		98,006.44	
Current Liabilities and Provisions	9				
Current Liabilities		(27,662.97)		(31,750.73)	
Provisions		(707.36)		(235.47)	
Net Current Assets			17,443.81		66,020.24
Deferred Tax Asset			--		4,408.35
Miscellaneous Expenditure (to the extent not written off or adjusted)					
Preliminary Expenses			3,235.84		3,230.71
Loss on Investments			3,522.34		--
Deferred Revenue Expenditure			--		1030.59
Total			3,82,755.85		2,93,417.44
Accounting Policies & Notes on Accounts	15				

As per our report attached for **M. Bhaskara Rao & Co.**
Chartered Accountants

Anilkumar Mehta
Partner

Hyderabad
April 21, 2005

For and on behalf of the Board.
Field Marshal Sam Manekshaw, M.C.
Chairman

K S Raju
Vice Chairman & Managing Director

M Ramakanth
Secretary

New Delhi
April 21, 2005

N C B Nath
S R Ramakrishnan
Directors

P P Singh
Director (Technical)

R S Nanda
Director & Chief Operating Officer

K Rahul Raju
Director - Business Development & Strategic Planning

Consolidated Profit and Loss Account for the year ended 31st March, 2005

Rs. Lakhs

Particulars	Schedule Reference	31-03-2005		31-03-2004	
Income					
Sales, Subsidy and Equated Freight (Net of taxes, margins and discounts)			126,638.97		107,262.11
Other Income	10		1,767.37		3,389.11
Remission of principal amount of loan			1,464.70		841.01
TOTAL			129,871.04		111,492.23
Expenditure					
Purchases - traded products			10,153.50		3,056.70
Raw Materials consumed			37,625.90		23,134.77
Power and Fuel			28,203.36		18,712.80
Catalysts Charge			1,030.59		67.31
Chemicals and Consumables			426.63		357.85
Salaries, Wages and benefits	11		3,236.57		2,976.07
(Increase)/Decrease in Stock	12		(1,878.40)		11,769.20
Packing Materials consumed			4,233.23		2,689.36
Transport and Handling charges			9,289.39		8,366.32
Distribution Expenses			364.96		754.65
Other Expenses	13		5,245.23		3,693.30
Depreciation	4	12,159.10		12,163.82	
Less: Transfer from Revaluation Reserve		22.72	12,136.38	-	12,163.82
Interest and Financing Charges	14		14,278.63		25,573.81
TOTAL			124,345.97		113,315.96
Profit / (Loss) Before Tax			5,525.07		(1,823.73)
Provision for Tax - Current year			502.08		-
Deferred Tax credit / (debit)			(2,070.29)		3,567.55
Profit / (Loss) After Tax			2,952.70		1,743.82
Balance brought forward			11,660.34		9,916.52
Less: Debit Balance on a/c of amalgamation			(590.03)		-
			14,023.01		11,660.34
Appropriations					
Preference Dividend			0.18		-
Dividend Tax			0.02		-
Balance Carried to Balance Sheet			14,022.81		11,660.34
			14,023.01		11,660.34
Earnings Per Share	15.B.22		0.70		0.42
Accounting Policies & Notes on Accounts	15				

As per our report attached to the Balance Sheet for **M. Bhaskara Rao & Co.** Chartered Accountants

Anilkumar Mehta
Partner

Hyderabad
April 21, 2005

For and on behalf of the Board.
Field Marshal Sam Manekshaw, M.C.
Chairman

K S Raju
Vice Chairman & Managing Director

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April 21, 2005

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Director (Technical)

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Director & Chief Operating Officer

K Rahul Raju
Director - Business Development & Strategic Planning

Nagarjuna Fertilizers and Chemicals Limited
Consolidated Cash Flow Statement for the year ended 31st March, 2005 Rs. Lakhs

Particulars	31-03-2005		31-03-2004	
A. Cash Flow from Operating Activities				
Net Profit / (Loss) before Extraordinary item and Tax Adjustments for :		5,525.07		(1,823.73)
Add : Depreciation	12,136.38		12,163.82	
Deferred revenue expenses written off	1,030.59		67.31	
Lease equalisation	(520.38)		(523.04)	
Interest	14,278.63	26,925.22	25,573.81	37,281.90
		32,450.29		35,458.17
Less : Dividend received	10.07		46.58	
Profit / (Loss) on sale of assets (net)	203.45		117.97	
Profit on sale of investments (net)	6.65		1,250.43	
Remission of liability	1,464.70	1,684.87	841.01	2,255.99
Operating Profit before working capital changes		30,765.42		33,202.18
Adjustments for :				
Less : Trade and other receivables	*(3,412.63)		(1,916.31)	
Inventories	1,462.66	(1,949.97)	(12,185.22)	(14,101.53)
		32,715.39		47,303.71
Add: Trade and other payables		5,112.20		(9,583.06)
Cash generated from operations		37,827.59		37,720.65
Interest paid	-	14,028.30		31,009.69
Direct taxes	-	314.75		(279.16)
Remission of liability		1,464.70		841.01
Cash flow after extraordinary items		24,949.24		7,831.13
Net cash from operating activities		24,949.24		7,831.13
B. Cash Flow from Investing activities				
Purchase of fixed assets ****	9,383.50		6,011.05	
Investment in subsidiaries	12,736.97		-	
Purchase of Investments	-	22,120.47	-	6,011.05
Sale of fixed assets	1,487.02		149.78	
Sale of investments	22.31		2,891.05	
Proceeds from Amalgamation (net)	34.56		-	
Dividend received	10.07	1,553.96	46.58	3,087.41
Net cash used in investing activities		20,566.51		2,923.64
C. Cash flow from financing activities				
Share capital - (including premium)	*6,287.84		0.02	
Proceeds Sales Tax Deferral	674.85			
Proceeds from long term borrowings	7,697.07	14,659.76	* 7,510.78	7,510.80
Repayment of short term loans / FD	141.81		8,507.93	
Repayment of long term loans	**18,581.10		4,197.26	
Dividend paid ***	133.50	18,856.41	116.93	12,822.12
Net cash used in financing activities		4,196.65		5,311.32
Net decrease in cash and Cash equivalents		186.08		(403.83)
Cash and cash equivalents as at 01.04.2004		1,780.29		2,184.12
Cash and cash equivalents as at 31.03.2005@@		1,966.37		1,780.29

* Conversion of differential interest (previous year Rs. Nil)

** includes conversion of differential interest into OCCRPS Rs.3720.37 Lakhs (Pr year Rs. Nil)

*** relating to earlier years (including transfer to Investor Education and Protection Fund Rs.115.93 lakhs, previous year Rs.89.88 lakhs).

**** includes capitalisation of machinery spares Rs. Nil (previous year Rs.1461.50 lakhs) and deferred revenue expenditure Rs. Nil (previous year Rs.1065.37 lakhs)

☆ Net of reduction in value of Rs. 46,638.27 Lakhs in trade & other receivables adjusted against revaluation reserve (Refer Note 5(v) Schedule 15)

@ @ includes unclaimed dividend of Rs. 441.83 lakhs (previous year Rs.575.33 lakhs)

As per our report attached
for **M. Bhaskara Rao & Co.**
Chartered Accountants

For and on behalf of the Board.
Field Marshal Sam Manekshaw, M.C.
Chairman

N C B Nath
S R Ramakrishnan
Directors

K S Raju
Vice Chairman & Managing Director

P P Singh
Director (Technical)

Anilkumar Mehta
Partner

M Ramakanth
Secretary

R S Nanda
Director & Chief Operating Officer

Hyderabad
April 21, 2005

New Delhi
April 21, 2005

K Rahul Raju
Director - Business Development &
Strategic Planning

Schedules to the Consolidated Balance Sheet as at 31st March, 2005

Particulars	Rs. Lakhs	
	31.03.2005	31.03.2004
Schedule 1 - Share Capital		
Authorised		
60,00,00,000 Equity shares of Rs. 10/- each	60,000.00	60,000.00
2,00,00,000 Preference Shares of Rs.100/- each	20,000.00	20,000.00
Total	80,000.00	80,000.00
Issued		
41,97,25,062 Equity shares of Rs. 10/- each	41,972.51	41,972.51
37,20,372 Optionally Convertible Cumulative Redeemable Preference Shares of Rs.100/- each	3,720.37	-
Total	45,692.88	41,972.51
Subscribed and Paid Up		
41,70,20,593 Equity shares of Rs. 10/- each fully called-up	41,702.06	41,702.06
Of the above 18,33,333 Shares were allotted as fully Paid pursuant to the approved Scheme of amalgamation without payments being received in Cash.		
Calls in arrears - Others	(41.11)	(41.27)
37,20,372 Optionally Convertible Cumulative Redeemable Preference Shares of Rs.100/- each fully called up (previous year Nil)	3,720.37	-
(refer Note 6 A of schedule 15)		
Equity Share Capital pending allotment		
1,11,61,228 Equity Shares of Rs.10/- each (Pr. year Nil) pending allotment to shareholders of Nagarjuna Palma India Limited (NPIL) consequent to amalgamation of NPIL as per the scheme of amalgamation.	1,116.12	-
(refer Note 6 B of schedule 15)		
Total	46,497.44	41,660.79

Particulars	Rs. Lakhs	
	31.03.2005	31.03.2004
Schedule 2 - Reserves and Surplus		
Capital Reserve		
As per last Balance Sheet	301.10	301.10
add: Capital reserve on amalgamation	279.03	-
	580.13	301.10
Capital Subsidy	20.00	-
(refer note 15 of schedule 15)		
Revaluation Reserve		
As per last Balance Sheet	8,326.61	8,326.61
Additions during the year		
(refer note 5 (v) of schedule 15)	93,332.47	-
	101,659.08	8,326.61
Less: Transfer to Profit & Loss a/c	22.72	-
	101,636.36	8,326.61
Share Premium		
As per last Balance Sheet	9,243.93	9,243.92
Receipts during the year	0.09	0.01
	9,244.02	9,243.93
Debt Redemption Reserve		
As per last Balance Sheet	9,582.50	9,582.50
General Reserve		
As per last Balance Sheet	5,117.91	5,117.91
Profit and Loss Account-Balance		
As per last Balance Sheet	11,660.34	9,916.52
Less: Debit balance on amalgamation	(590.03)	-
Add: Profit for the year	2,952.50	1,743.82
	14,022.81	11,660.34
Total	140,203.73	44,232.39

Particulars	Rs. Lakhs	
	31.03.2005	31.03.2004
Schedule 3 - Loan Funds		
Secured Loans		
(Refer Note 7 of Schedule 15)		
A. Debentures - unquoted		
i) 75,00,000 14.5% Secured Redeemable Non - convertible Debentures of Rs. 100 each	7,500.00	7,500.00
ii) 6,71,602 14.5% Secured Redeemable Non - convertible Debentures of Rs. 100 each	503.70	503.70
iii) 80,00,000 15% Secured Redeemable Non - convertible Debentures of Rs. 100 each	2,933.50	2,933.50
iv) 1,53,30,000 15% Secured Redeemable Non - convertible Debentures of Rs. 100 each	15,330.00	15,330.00
v) 25,00,000 15% Secured Redeemable Non - convertible Debentures of Rs. 100 each	2,500.00	2,500.00
vi) 30,00,000 13.25% Secured Redeemable Non - convertible Debentures of Rs. 100 each	3,000.00	3,000.00
vii) 32,00,000 12.50% Secured Redeemable Non - convertible Debentures of Rs. 100 each	1,800.00	2,577.98
viii) 33,49,36,238 0% Secured Redeemable Non - convertible Debentures of Rs. 1/- each	3,349.36	-
ix) Interest accrued and due	344.86	60.21
	37,261.42	34,405.39
B. From Institutions - Term Loans		
i) In Rupees	78,657.94	80,709.59
ii) In Foreign Currency	5,377.77	10,953.93
iii) Differential Interest	-	5,161.12
iv) Interest accrued and due	8.82	26.94
C. From Banks		
i) Working Capital Demand Loan / Cash Credit	13,018.85	12,226.76
ii) Overdraft/Term Loan	25,130.34	24,272.69
iii) Differential Interest	-	1,914.65
iv) Interest accrued and due	796.07	449.80
Total	160,251.21	170,120.87
Unsecured Loans		
Fixed Deposits	0.15	50.85
From Banks - Foreign Currency	-	-
From Banks - Rupee Loan	-	15.81
Sales Tax Deferral - Loan	4,362.68	3,687.83
HDFC Loan	106.80	182.10
Others	42.56	42.56
Total	4,512.19	3,979.15

Schedules to the Consolidated Balance Sheet as at 31st March, 2005

Schedule 4 - Fixed Assets

Rs. Lakhs

Particulars	Gross Block at Cost					Depreciation					Net Block	
	As at 31.03.2004	Additions/ Adjustments during the year	Additions/ Adjustments on amal-gamation	Deductions/ Adjustments during the year	As at 31.03.2005	upto 31.03.2004	On amal-gamation	For the year #	Deductions/ Adjustments during the year	Upto 31.03.2005	As at 31.03.2005	As at 31.03.2004
Land (Refer foot note 3)	11,013.67	7.79	276.66	283.47	11,014.65	-	-	-	-	-	11,014.65	11,013.67
Buildings	9,592.22	6,346.57	112.07	141.73	15,909.13	2,700.92	22.59	268.19	16.98	2,974.72	12,934.41	6,891.30
Roads, Drains & Culverts	1,120.14	3,100.27	-	-	4,220.41	195.49	-	18.76	-	214.25	4,006.16	924.65
Railway Siding	1,352.62	125.60	-	-	1,478.22	619.46	-	64.28	-	683.74	794.48	733.16
Plant & Machinery	198,970.16	132,671.12	527.24	809.86	331,358.66	92,875.33	261.24	10,821.31	0.98	103,956.90	227,401.76	106,094.82
Furniture, Fixtures & Office Equipment	**2,900.19	150.92	59.38	177.93	2,932.56	1,884.90	37.92	206.56	115.95	2,013.42	919.14	992.56
Vehicles	178.34	38.33	14.89	20.30	211.25	105.69	3.82	17.04	13.27	113.28	97.97	72.67
Leased assets:												
Plant & Machinery												
A - Ongoing leases	11,399.97	-	-	-	11,399.97	4,722.98	-	601.92	-	5,324.90	6,075.07	6,676.99
B - Run off leases ***	3,630.00	-	-	-	3,630.00	1,631.11	-	191.66	-	1,822.77	1,807.23	1,998.89
Lease Terminal adjustment										(5,221.70)	(5,742.08)	
Capital work in progress:												
Buildings	0.35	77.80	-	-	78.15	-	-	-	-	-	78.15	0.35
Plant & Machinery	-	1,431.98	-	-	1,431.98	-	-	-	-	-	1,431.98	-
TOTAL	240,157.66	@143,950.37	990.24	@ 1,433.29	383,664.98	104,735.88**	325.57	#12,189.72	147.18	117,103.98	261,339.30*	129,656.63*
Previous Year	239,603.52	581.12	-	66.31	240,118.33	92,561.59	-	12,191.49	33.46	104,719.62	129,656.63	

1. Additions to Plant & Machinery include:

- (i) Rs. 43.29 lakhs (Debit) on account of exchange rate variation (previous year Rs.940.56 lakhs (credit)) and
- (ii) Rs. Nil (previous year Rs. 1461.50 lakhs) on account of capitalisation of machinery spares as required under Accounting Standard 10 - Accounting for Fixed Assets issued by Institute of Chartered Accountants of India.
2. * Net of lease Terminal adjustment.
3. The company has re-valued its free hold land as on 31.03.2003 admeasuring 1040.28 acres, situated at Kakinada (plant site), on the basis of reports of approved valuer on "present market value basis (Standard Indices) method". Accordingly, Rs.8842.38 lakhs, being re-valued amount stands substituted for the historical cost in the gross block of fixed assets.
4. @ Includes Rs. 6346.57 lakhs, Rs. 3100.27 lakhs, Rs. 125.60 lakhs, Rs. 132185.30 lakhs respectively in Buildings,Roads Drains Culverts, Railway sidings and Plant & Machinery representing increase in value pursuant to report of approved valuer on revaluation of manufacturing facilities at Kakinada and Rs. 808.89 lakhs is decrease in respect of certain assets (refer Note 9 of schedule 15).
5. Land and buildings include Rs. 317.00 lakhs and Rs.730.00 lakhs respectively, paid as advance, pending registration since the title deeds are yet to be received from the transferor company.
6. *** Represents leases where lease period is over, and release of equipment to lessee is pending.
7. # includes depreciation relating to construction period Rs.30.62 lakhs (previous year Rs.27.67 lakhs)
8. ** includes Rs.38.98 lakhs relating to NPCL

Schedule 5 - Capital Work in Progress

Rs. Lakhs

Particulars	31.03.2005	31.03.2004
Site Development	972.29	915.50
Building under construction	168.76	168.76
Plant & Machinery:		
Equipment at Site *	45,526.16	43,984.81
Construction Power	21.51	21.51
Technical Services	8,927.38	8,581.97
Advances against Capital Expenditure:		
Land	357.50	357.50
Site Development - Contractors	28.89	28.89
Buildings - Contractors	-	55.63
Technical KnowHow	19.94	52.18
Plant & Machinery		
Equipment Suppliers	11,598.97	11,598.97
Unloading & Transport	65.00	102.84
Total	67,686.40	65,868.56

* includes customs duty Rs.6851 lakhs (previous year Rs. 6629 lakhs) Cenvatable and Rs.1813 lakhs (previous year Rs.1883 lakhs) exchange rate variation on loans availed)

Schedule 6 - Expenditure Pending Allocation

Rs. Lakhs

Particulars	31.03.2005	31.03.2004
Salaries & Wages	151.78	157.50
Contribution to Provident and Other Funds	17.09	15.47
Staff Welfare expenses	8.05	8.56
Rent	47.72	46.46
Rates & Taxes	45.02	6.30
Repairs & Maintenance - Others	26.86	21.52
Insurance-Office eqpt, Medical & Others	37.44	8.51
Printing and Stationery	1.82	1.87
Postage, Telephone and Telex	10.15	10.00
Travelling and Conveyance	54.57	45.37
Advertisement	1.01	0.26
Recruitment & Training	0.79	0.13
Legal & Professional Charges	172.85	44.80
Directors' Sitting fees	0.16	0.20
Directors Travel Expenses	17.14	3.16
Auditors Remuneration	3.96	2.67
Profit/Loss on sale of Fixed Assets (Net)	2.51	0.21
Security Expenses	16.01	13.63
Electricity and Water charges	15.68	18.68
Miscellaneous Expenses	9.65	8.43
Depreciation	30.61	27.67
Interest	2,896.66	2,002.06
Financing charges	50.86	37.08
Less: Miscellaneous Income (includes TDS Rs.2.17 lakhs, previous year Rs.1.09 lakhs)	(11.25)	(13.77)
Sub - Total	3,607.14	2,466.78
Brought forward from Previous year	25,833.29	20,630.71
Total	29,440.43	23,097.49

Schedules to the Consolidated Balance Sheet as at 31st March, 2005

Schedule 7 - Investments (at cost)

Rs. Lakhs

Particulars	Face Value (Rs)	Numbers	31-03-2005		31-03-2004	
			Face Value (Rs)	Numbers	Face Value (Rs)	Numbers
Long Term Investments:						
I. Equity shares - Unquoted						
Equity shares (Fully Paid)						
Nagarjuna Palma (India) Ltd	10	-	-	10	192,815	6.14
Nagarjuna Agricultural Research and Development Institute	10	25,020	2.50	10	25,020	2.50
KVK Raju International Leadership Academy	10	150,000	15.00	10	150,000	15.00
			17.50			23.64
II. Equity Shares - Quoted						
(Fully paid - other than trade)						
Essar Oil Ltd	10	-	-	10	5,749	2.54
IFCI Ltd	10	-	-	10	100,000	10.00
Sri Saritha Software and Industries Ltd	10	391,275	36.53	10	391,275	36.53
State Bank of Bikaner and Jaipur	100	3,670	19.37	100	3,670	19.37
State Bank of Travancore	100	8,540	50.47	100	8,540	50.47
Times Guarantee Financials Ltd	10	7,900	10.92	10	7,900	10.92
			117.29			129.83
Total			134.79			153.47
Less: Provision for diminution in value of Quoted investments			47.07			48.95
Total			87.72			104.52
Aggregate cost of Quoted Shares			117.29			129.83
Aggregate Market value of Quoted Shares			260.68			206.32

Schedule 8 - Current Assets, Loans and Advances

Rs. Lakhs

Particulars	31.03.2005	31.03.2004
A. Current Assets		
1. Inventories (as valued and Certified by the Management)		
Traded Products	421.35	33.55
Manufactured Urea	2,880.03	1,238.92
Raw Materials	602.62	987.04
Work in Process	304.03	214.70
Packing Materials	92.03	261.14
Stores and Spares	3,308.87	3,411.45
Loose Tools	11.20	10.67
	7,620.13	6,157.47
2. Sundry Debtors (Unsecured)		
Debits Outstanding over six months		
Considered good	1,476.38	19,136.47
Considered doubtful	280.41	332.12
Other debts considered good	20,694.27	16,247.44
	22,451.06	35,716.03
Provision for doubtful debts	(280.41)	(332.12)
	22,170.65	35,383.91
3. Cash and Bank balances		
Cash on Hand		
Balances with Scheduled Banks	0.52	0.28
Current Accounts	1,552.93	1,337.59
Deposit accounts	412.92	442.42
	1,966.37	1,780.29
B. Loans and Advances		
Secured (Considered good)		
Loans to Employees**	147.79	199.60
Unsecured (Considered Good)		
Loans to Employees**	3.21	5.56
Advances recoverable in Cash or in kind or for value to be received @		
Balance with Customs Authorities	11,420.99	51,847.21
Deposits with others	44.62	9.39
Claims receivable	2,438.85	2,620.85
	1.51	2.16
	14,056.97	54,684.77
Total	45,814.12	98,006.44

** Includes amounts due from Directors/Officer Rs. 8.77 Lakhs (Previous year Rs.12.02 Lakhs) and Maximum amount due Rs.12.02 lakhs. (Previous year Rs. 15.28 Lakhs)
@ Includes advance tax of Rs.787.52 lakhs (Previous year Rs.473.21 lakhs.)

Schedule 9 - Current Liabilities and Provisions

Rs. Lakhs

Particulars	31.03.2005	31.03.2004
Current Liabilities		
Acceptances	-	7,381.26
Sundry Creditors		
Small Scale Industrial Undertakings	40.41	2.91
Others	25,343.02	21,620.40
Unclaimed Dividend	441.83	575.33
Unclaimed Fixed Deposits	59.98	139.05
Unclaimed matured Debentures	359.15	365.20
Interest accrued on above	30.86	54.80
Deposits	898.39	807.21
Other Liabilities	200.22	516.13
Interest accrued but not due on Loans /Deposits	289.11	288.44
Total	27,662.97	31,750.73
Provisions:		
Provision for Taxation	503.32	1.58
Proposed Dividend	0.18	-
Provision for Dividend Tax	0.02	-
Provision for Leave Encashment	194.50	233.89
Provision for Gratuity	9.34	-
Total	707.36	235.47

There are no amounts due to be transferred to Investor Education and Protection Fund.

Schedules to the consolidated Profit and Loss Account for the year ended 31st March, 2005

Schedule 10 - Other Income		Rs. Lakhs	
Particulars	31.03.2005	31.03.2004	
Interest (Tax Deducted at source)			
Rs. 9.03 lakhs, Previous Year Rs. 12.28 lakhs)	290.75	897.46	
Dividends (Tax Deducted At Source)			
Rs. Nil , Previous Year Rs. Nil)	10.07	46.58	
Liabilities no longer required written back	281.74	88.85	
Miscellaneous Income	358.92	369.37	
Profit on Sale of Investment (Net)	6.65	1,250.43	
Profit on Sale of Assets (Net)	203.45	117.97	
Lease Rentals	95.41	95.41	
Lease Equalisation	520.38	523.04	
Total	1,767.37	3,389.11	

Schedule 11 - Salaries, Wages and Benefits

Rs. Lakhs

Particulars	31.03.2005	31.03.2004
Salaries & Wages	2,642.45	2,435.61
Contribution to Provident and Other Funds	216.50	178.59
Staff Welfare Expenses	377.62	361.87
Total	3,236.57	2,976.07

Schedules to the Consolidated Profit and Loss Account for the year ended 31st March, 2005

Schedule 12 - (Increase)/Decrease in Stock		Rs. Lakhs	
Particulars		31.03.2005	31.03.2004
Traded Products			
Opening Stock *	121.40		670.23
Closing stock	(421.35)		(33.55)
		(299.95)	636.68
Manufactured Urea			
Opening Stock @	1,390.91		12,017.71
Closing stock	(2,880.03)		(1,238.92)
		(1,489.12)	10,778.79
Work in Process			
Opening Stock	214.70		568.43
Closing stock	(304.03)		(214.70)
		(89.33)	353.73
(Increase)/Decrease in Stock		(1,878.40)	11,769.20

* includes Rs. 87.85 lakhs of Micro Irrigation division as at 01.10.04 pursuant to amalgamation

@ includes Rs. 151.99 lakhs of Micro Irrigation division as at 01.10.04 pursuant to amalgamation

Schedule 13 - Other expenses		Rs. Lakhs	
Particulars		31.03.2005	31.03.2004
Rent		122.27	94.58
Rates and Taxes		231.06	63.56
Electricity and Water Charges		68.40	53.06
Stores and Spares Consumed		580.73	301.58
Repairs and Maintenance			
Buildings	37.60		21.06
Plant & Machinery	163.47		351.60
Others	302.79	503.86	187.15
Insurance		691.76	602.03
Printing and Stationery		72.01	46.26
Postage, Telephone and Telex		200.61	158.12
Travelling and Conveyance		423.68	393.67
Advertisement and Publicity		309.37	276.03
Employee Recruitment and Training		40.44	10.24
Legal, Secretarial and Professional charges		674.04	618.59
Share Registry expenses		40.39	69.87
Directors Sitting Fees		3.25	3.70
Research & Development - grant		18.97	38.87
Auditors' Remuneration		43.07	27.75
Donations		0.10	-
Provision for doubtful debts / claims		-	3.97
Bad debts written off	128.11		138.00
Less: Provision for doubtful debts / advances	51.72	76.39	-
Provision for depletion in value of stores		889.11	-
CFG Project Expenditure		-	39.68
Miscellaneous Expenses		255.72	193.93
Total		5,245.23	3,693.30

Schedule 14 - Interest and Financing Charges		Rs. Lakhs	
Particulars	31.03.2005	31.03.2004	
Term Loans	8,206.24	12,799.29	
Debentures	3,798.91	5,922.44	
Others	2,273.48	6,852.08	
Total	14,278.63	25,573.81	

SCHEDULE 15 - Accounting Policies and Notes to Accounts

A. SIGNIFICANT ACCOUNTING POLICIES :

1. General:

The company follows accrual system of accounting and recognises income and expenditure on accrual basis unless otherwise stated. The Accounts are prepared on historical cost convention, unless otherwise stated.

2. Fixed Assets:

- Fixed assets are stated at cost, unless stated otherwise. Cost comprises the purchase price and other attributable expenses.
- Revaluation : The net increase in the value of the assets is credited to the Revaluation Reserve.
- Impairment of Assets : Impairment of an asset is reviewed and recognised in the event changes and circumstances indicate that the carrying amount of an asset is not recoverable. Difference between the carrying amount of an asset and the recoverable value is recognised as impairment loss in the statement of profit and loss in the year of impairment.
- Borrowing Cost incurred on acquisition of Qualifying Assets are capitalised. Qualifying Asset is an Asset, which will take substantial period of time to bring to its intended use.
- Expenditure pending allocation : Expenditure during construction period other than those directly related to an asset is grouped under "Expenditure pending allocation" and is capitalised or treated as deferred revenue expenditure, at the time of commencement of commercial production as determined in accordance with the generally accepted accounting principles.

3. Depreciation on Fixed Assets:

- Depreciation on fixed assets other than the assets given on lease, is provided on straight-line method at the rates and in the manner prescribed in Schedule XIV of the Companies Act, 1956.
- Depreciation charge for each year is net of additional depreciation on incremental values arising out of revaluation met out of revaluation reserve.
- In respect of Assets given on lease, depreciation is provided on straight line method at the rates and in the manner prescribed in Schedule XIV of the Companies Act, 1956. Further, in respect of ongoing leases, the guidance note on accounting of leases issued by the Institute of Chartered Accountants of India (ICAI) is followed.

4. Investments :

Investments are stated at cost less any diminution in their value, which is other than temporary.

5. Foreign currency transactions:

The transactions in foreign currencies remaining outstanding at the end of the year, are translated at the exchange rates prevailing on the date of Balance Sheet or at the rate of exchange fixed under contractual arrangements. Exchange gain/loss on transactions relating to liabilities incurred to acquire fixed assets is treated as an adjustment to the cost of fixed assets. Exchange gains and losses on foreign exchange transactions other than those relating to fixed assets are adjusted in the profit and loss account.

6. Revenue recognition:

- Credit under Group Concession Scheme (GCS) and Equated Freight is considered on despatch of finished goods from the factory in accordance with the procedure prescribed by the Government of India – Fertiliser Industry Co-ordination Committee.
- Lease rental income is recognised in accordance with the guidance note on accounting for leases issued by ICAI.

7. Warranty claims in respect of Micro Irrigation business raised by parties regarding free replacements etc. covered under warranties are accounted in the year in which the claims are finally settled.

8. Deferred Revenue/Preliminary Expenditure:

Expenditure on catalyst is treated as deferred revenue expenditure and amortised on the basis of estimated life as technically assessed.

Preliminary expenses are written off over a period of 10 years in equal instalments.

9. Inventories:

The method of valuation of various categories of inventories is as follows:

a. Manufactured Products :

i. Finished goods - at lower of cost and net realisable value.

ii. Work in process - at cost.

Cost - includes material cost, labour, factory overheads and depreciation but excludes interest on borrowings.

Net realisable value in the case of Urea - the Group Concession Price notified by the Govt. of India in respect of finished goods lying at the factory, and the net sale price in respect of finished goods lying in the warehouses outside the factory.

b. Traded products - at lower of cost and net realisable value.

c. Other finished goods, work-in-process, raw materials, stores, spares, packing material and loose tools - at weighted average cost, less provision for depletion in value, if any.

10. Retirement Benefits:

The company's liability towards gratuity and superannuation benefits of eligible employees is covered by a policy with LIC and the annual contributions are paid/provided in accordance therewith. Gratuity Liability in respect of two Subsidiary Companies is accounted on actuarial valuation. Leave encashment is provided on the basis of valuation by independent actuaries, as at date of the Balance Sheet. The Company's contribution towards provident fund and pension fund is administered and managed by an approved trust and are charged to revenue.

11. Taxes on Income:

Current tax is determined as the amount of tax payable in respect of taxable income for the period. Deferred tax is recognised subject to the consideration of prudence, on timing differences, being the difference between taxable income and accounting income that originate in one period and is capable of reversal in one or more subsequent periods.

12. Contingencies :

Loss contingencies arising from claims, litigation, assessments, fines, penalties, after sales warranties, right to recompense etc. are provided for when it is probable that a liability may be incurred, and the amount can be reasonably estimated.

B. NOTES TO ACCOUNTS:

1. (a) Consolidated Accounts:

The Consolidated Financial Statements have been prepared in accordance with Accounting Standard 21 (AS-21) "Consolidated Financial Statements" issued by Institute of Chartered Accountants of India.

The subsidiaries considered in the preparation of these consolidated financial statements are:

Percentage of voting power
As at 31.03.2005 As at 31.03.2004

a) Nagarjuna Oil Corporation Limited (NOCL)	100.00	100.00
b) Jaiprakash Engg. & Steel Co. Ltd. (JESCO)	99.84	99.43
c) Nagarjuna Power Corporation Ltd (NPCL)	96.90	Nil

These consolidated Financial Statements are based, in so far as they relate to amounts included in respect of subsidiaries, on the audited financial statements.

(b) Associates:

The details of associates in accordance with Accounting Standard 23 "Accounting for Investments in associates in consolidated financial statements"

(a) Nagarjuna Agricultural Research and Development Institute (NARDI)*	25.00%
(b) K.V.K.Raju International Leadership Academy*	42.85%

* Investments are valued in accordance with AS 13-Valuation of Investments since these are registered under section 25 of the Companies Act, 1956.

2. Estimated amount of contracts remaining to be executed on capital account and not provided for (net of advance)

- In respect of Capital and Service Orders Rs. 231.98 lakhs (Previous year Rs.84.00 lakhs)
- In respect of 33 acres land in possession, compensation for which is not ascertained.
- In respect of NPCL Rs. 368756.27 lakhs – (including LOIs - Rs. 367063.50 lakhs) (Previous year Rs.1692.77 lakhs)
- In respect of NOCL Rs. 51072.49 lakhs (Previous year Rs. 48719.40 lakhs)

3. A. Contingent Liabilities:

- Counter guarantees given to Bankers in respect of Bank guarantees Rs.712.82 Lakhs (Previous year Rs.146.27 Lakhs)
 - Corporate guarantees given to banks by NFCL on behalf of NOCL, a subsidiary Company Rs.15323.00 Lakhs (Previous year Rs. 15043.48 lakhs)
 - Taxation matters of NFCL under appeals Rs.111.69 lakhs (Previous Year Rs. 490.60 lakhs).
 - Taxation matters of JESCO under appeals Rs. 94.66 lakhs (Previous Year Rs. 94.66 lakhs)
- B. Claims against the company not acknowledged as debts Rs. 1401.98 lakhs (Previous year Rs. 675.83 lakhs).**
- Demand for payment under AP Non Agricultural Land Assessment Act (NALA) Rs. 159.45 lakhs (Previous year Rs.159.45 lakhs)
 - Property tax – Kakinada Municipality Rs. Nil (Previous year Rs. 142.10 lakhs)
 - Property Tax – Indrapalem Panchayat Rs.11.48 Lakhs (Previous year Rs. 11.48 lakhs)
 - Compensation for Land acquisition Rs.228.45 lakhs (Previous Year Rs. 263.34 lakhs).
 - Water Tariff (PHE Dept) Rs. 89.58 lakhs (Previous Year Rs. Nil)
 - Water Charges (Irrigation) Rs. 131.52 lakhs (Previous Year Rs. Nil)

vii) Corporate - Legal Cases Rs. 33.85 lakhs
(Previous Year Rs. 8.37 lakhs)

viii) Marketing - Legal Cases Rs. 747.65 lakhs
(Previous Year Rs. 91.09 lakhs)

4. Corporate Debt Restructuring:

The company was sanctioned a Debt Restructuring Package (including working capital) under Corporate Debt Restructuring (CDR) Scheme on 20.02.2004 effective from 1st April 2003 vide letter no BY.CDR (AG)/ No.307/2003-04, dated 16th March 2004. All the lenders have approved and implemented the Package, except UTI AMC Pvt. Ltd. The benefits accrued under the package have been given effect in the Accounts except in the case of UTI AMC Pvt. Ltd. The restructuring inter-alia envisages:

- Reduction of interest from 1st April 2003
- Issue of 0.01% Coupon Optionally Convertible Cumulative Redeemable Preference Shares (OCCRPS)/Zero Coupon Debentures (ZCD) to compensate the differential interest for the year 2003-04
- Deferment/rescheduling in repayment of principal
- The Company to divest its equity investments/loans and advances lent to subsidiary/group companies to the extent and in the manner envisaged
- Remission of principal outstanding in certain cases

The Accounts for the year ended 31st March 2005, have been drawn up after giving effect to the CDR Package, except in respect of outstandings of UTI AMC Pvt. Ltd.

The lenders reserve the right to recompense the sacrifices being made in case the profitability and cash flow position of the Company so warrants in future.

The lenders have the right to reset the interest rates after every three years.

The lenders shall have the right to convert 20% of their outstanding debt after financial year 31.03.2011 into equity and, in the event of any default in servicing the debt, the lenders shall also have the right to convert the defaulted amounts into equity (at par) or any other instruments. The promoters shall be given the first right of refusal, if the converted shares/instruments are decided to be sold by the lenders.

5. Amalgamation of Nagarjuna Palma India Limited (NPIL) and reorganization of the Company under Sections 391 – 394 of the Companies Act, 1956

- i) In terms of the Scheme of Amalgamation ("the Scheme") approved by the members at the meeting convened by the Hon'ble High Court of Andhra Pradesh held on 23rd December, 2004, and subsequently sanctioned by the Hon'ble High Court, Nagarjuna Palma India Limited (NPIL) a subsidiary Company engaged in the business of manufacture and marketing of micro irrigation systems was amalgamated with the Company with effect from 1st October, 2004.
- ii) The salient features of the Scheme are:
 - a. With effect from the Transfer Date, i.e. 1st October, 2004, the Undertaking of NPIL shall stand vested in the Company.
 - b. With effect from the Effective date i.e., the date the Transferee Company files the certified copy of the Order of the Hon'ble High Court of Andhra Pradesh with the Registrar of

Companies, Andhra Pradesh, Hyderabad, under Section 391(3) of the Act, in consideration of the vesting of the Undertaking of NPIL, the Company shall issue and allot four equity shares of Rs.10/- each fully paid up at par in exchange for five equity shares of Rs.10/- each fully paid up at par of the transferor Company.

- c. In respect of 99,12,815 equity shares of Rs. 10/- each held by the Company in NPIL, the Company shall issue and allot 79,30,252 equity shares of Rs. 10/- each in favour of Nagarjuna Employee Welfare Foundation, a company incorporated under Section 25 of the Companies Act, 1956 for the welfare of the employees of the Company.
- d. Upon amalgamation and vesting of the Undertaking in the Company, the Company shall draw up a Balance Sheet reflecting therein the values of the Assets and Liabilities of the Transferor Company and also the values of the Assets and Liabilities of the Transferee Company subject to restatement, revaluation / revision of such assets by credit to Revaluation Reserve as are in the opinion of the Board of Directors appropriate having regard to the fair value of such assets so as to reflect a true and fair view of the assets and liabilities in the Balance Sheet of the Transferee Company.
- iii) The amalgamation has been accounted under the "Pooling of Interest" method as laid down in Accounting Standard – 14 issued by the Institute of Chartered Accountants of India. Accordingly, the assets, liabilities and reserves of the Transferor Company as on 1st October 2004 have been taken over at their book values subject to adjustments made for differences in the accounting policies between the Transferor and Transferee Company as specified in the Scheme.
- iv) The Shares issued on the amalgamation and the difference between the consideration and the value of the net identifiable assets vested with the Transferee company as on 1st October, 2004 is summarized below:

	Rs. Lakhs
Assets of NPIL taken over	1592.71
Liabilities of NPIL taken over	768.04
Net assets / (liabilities)	824.67
Shares of the Company to be issued – 1,11,61,228 nos.	1116.12
Excess of shares issued over net assets /liabilities taken over	(291.45)
Accounted for as under:	
Capital Subsidy	20.00
Capital Reserve	279.03
Profit and Loss Account debit balance	(590.03)
Preliminary Expenses not written off	(0.45)
	(291.45)

- v) In terms of paragraph 8.4 of the Scheme and in accordance with Section 391 and Section 394 of the Companies Act, 1956, the Board of Directors of the Company carried out :
 - a) revaluation of the Plant and Machinery forming part of the Manufacturing facilities at Kakinada as on 31.03.2005 by engaging the services of a Reputed Valuer; and
 - b) restatement of the value of Sundry Debtors (including other receivables) and Loans & Advances as on 31.03.2005.

Based on the report of the valuer, the value of the manufacturing facilities at Kakinada have been re-valued at Rs.243350.02 lakhs as against the present book value of Rs. 102401.15 lakhs which has resulted in an increase in the value of the fixed assets by Rs. 140948.87 lakhs. The said amount of Rs. 140948.87 lakhs was transferred to revaluation reserve and a sum of Rs. 46638.27 lakhs as detailed in Note no. 12 representing irrecoverable Sundry Debtors (including other receivables) and Loans & Advances as assessed by an independent agency and other adjustments relating to the Scheme of amalgamation amounting to Rs. 978.14 lakhs, has been adjusted against the revaluation reserve and the net amount of Rs. 93332.47 lakhs reflected as addition to Revaluation Reserve under "Reserves and Surplus" Schedule 2 of the Balance Sheet.

6. Share Capital:

A. Optionally Convertible Cumulative Redeemable Preference Shares – (OCCRPS) of Rs. 3720.37 lakhs (Previous year Nil) represent shares allotted on 9th October 2004 to IDBI, IFCI and LIC as fully paid, as per the CDR scheme, being the interest differential between the contracted rates and CDR approved rates for the FY 2003-04. These are redeemable/convertible after the entire debt liabilities are fully repaid.

B. Shares to NPIL pending allotment

"Equity Share Capital pending allotment" included under Share Capital of Schedule 1 represent 1,11,61,228 equity shares of Rs. 10/- each to be issued and allotted to the shareholders of erstwhile Nagarjuna Palma India Ltd pursuant to the Scheme of Amalgamation.

7. Secured Loans:

1. A - DEBENTURES

i 75,00,000, 14.50% Secured Redeemable Non-Convertible Debentures (NCD) of Rs.100/- each are redeemable as follows :

(a)45,00,000 issued to UTI in six half yearly instalments commencing from July 2003 as per reschedulement.

The first four instalments of Rs. 450 lakhs each, due on 20th July 2003, 20th January 2004, 20th July 2004 and 20th January 2005, aggregating to Rs.1800 lakhs are overdue.

(b)30,00,000 issued to LIC in 41 structured quarterly instalments commencing from 31st March 2006 as per reschedulement in line with the CDR Package.

ii 6,71,602, 14.50% Secured Redeemable Non-Convertible Debentures (NCD) of Rs.100/- each issued to UTI are redeemable in 24 monthly instalments commencing from October 2002 as per reschedulement. The balance outstanding is Rs.503.70 lakhs (Previous year Rs. 503.70 lakhs). The entire outstanding of Rs. 503.70 lakhs is overdue.

iii 80,00,000, 15.00% Secured Redeemable Non-Convertible Debentures (NCD) of Rs.100/- each issued to IFCI redeemable in 41 quarterly instalments commencing from 31st March 2006 as per reschedulement in line with the CDR Package. The balance outstanding is Rs.2,933.50 lakhs (previous year Rs. 2,933.50 lakhs).

iv 1,53,30,000, 15.00% Secured Redeemable Non-Convertible Debentures (NCD) of Rs.100/- each issued to ICICI redeemable in 41 quarterly instalments commencing from 31st March 2006 as

per reschedulement in line with the CDR Package.

v 25,00,000, 15.00% Secured Redeemable Non-Convertible Debentures (NCD) of Rs.100/- each issued to IFCI redeemable in 41 quarterly instalments commencing from 31st March 2006 as per reschedulement in line with the CDR Package.

vi 30,00,000, 13.25% Secured Redeemable Non-Convertible Debentures (NCD) of Rs.100/- each issued to LIC redeemable in 41 structured quarterly instalments commencing from 31st March 2006 as per reschedulement in line with the CDR Package.

The interest rates stand revised to 10.50% w.e.f. 01.04.2004 in respect of Debentures stated at i (b), iii, iv, v, and vi as per CDR package sanctioned on 20th February 2004.

vii 32,00,000 12.50% Secured Redeemable Non-Convertible Debentures (NCD) of Rs.100/- each issued to SBI redeemable in 20 equal quarterly instalments commencing from 31st March 2005 as per reschedulement in line with the CDR Package. The balance outstanding is Rs.1800.00 lakhs (previous year Rs. 2,577.98 lakhs).

The interest rates stand revised to 7.00% w.e.f. 01.04.2004 in respect of Debentures stated above as per CDR package sanctioned on 20th February 2004.

The above debentures (excluding Rs.4300.00 lakhs, relating to assets given on lease, issued to ICICI), together with accrued interest, remuneration and other expenses thereof are secured by a registered mortgage and an exclusive charge on the Company's immovable property situated at Ahmedabad and an equitable mortgage and a charge on the other immovable and movable properties of the Company in favour of the debenture trustees, save and except stock in trade, book debts given as security to banks for obtaining working capital facilities and assets given on lease with exclusive charge in favour of the funding institution. Charge creation in respect of Rs. 9371.60 lakhs is pending, for which specific approvals from the lenders (as per CDR package) is awaited.

Out of Rs.15,330.00 lakhs 15% Non-Convertible Debentures issued to ICICI Bank, Rs.4300.00 lakhs are secured by exclusive mortgage of assets given on lease.

viii 33,49,36,238 0% Secured Redeemable Non-Convertible Debentures of Rs.1/- each issued to various lenders viz. State Bank of India, State Bank of Hyderabad, State Bank of Bikaner and Jaipur, State Bank of Patiala, State Bank of Travancore, State Bank of Saurashtra, Bank of India, Bank of Baroda, Canara Bank, Indian Overseas Bank, Punjab National Bank, UCO Bank, Union Bank of India, The Bank of Rajasthan Ltd., SICOM, Oriental Bank of Commerce, Rabo India Finance (Pvt) Ltd., Karur Vysya Bank, Karnataka Bank, IndusInd Bank, and ICICI Bank, as envisaged in the CDR Package. The debentures are redeemable after the entire debt liabilities are fully repaid.

The above debentures are secured by way of second charge on the fixed assets of the Company ranking pari-passu with the working capital banks. This is subject to receiving NOCs from the second charge holders which is still awaited.

B – LONG TERM LOANS :

The Long Term Loans from Institutions are secured by way of a charge created through an equitable

mortgage of immovable properties by deposit of title deeds and hypothecation of movable properties of the Company including movable plant and machinery, spares, tools and other movables, present and future, save and except stock in trade, book debts, and stores & spares, given as security to banks for obtaining working capital facilities and assets given on lease with exclusive charge in favour of the funding institution. They are further secured by way of a second charge on the current assets of the company.

The interest rates stand revised to 10.50% w.e.f. 01.04.2004 in respect of Long Term Loans stated above as per CDR package sanctioned on 20th February 2004.

In respect of Micro irrigation business Term Loan from IDBI of Rs. 330 lakhs is secured by way of first mortgage of immovable properties and further by a first charge by way of hypothecation of movables including movable machinery, machinery spares, tools and accessories, subject to prior charge created/to be created on the stocks of raw materials, semi-finished and finished goods, consumable stores and such other movables, of erstwhile Nagarjuna Palma India Ltd. The Term Loan was restructured effective 30.03.2001.

The Company is taking steps to modify the mortgages and other charges in respect of borrowings of Micro irrigation business with the lenders of the Company.

C – MEDIUM TERM LOANS :

The medium term loans from banks and others, aggregating to Rs.14241.07 lakhs together-with interest accrued thereon, are secured by way of a first charge on the fixed assets of the company ranking pari-passu with the financial institutions, and a second charge (sub-ordinate to the financial institutions) on the monthly subsidy. These charges are subject to the approval of respective Banks and Institutions, holders of first charge, which are still awaited.

The interest rates stand revised to 7% w.e.f. 01.04.2003 in respect of Medium Term Loans stated above as per CDR package sanctioned on 20th February 2004.

The mortgage and charges in favour of the trustees for Debenture holders, Institutions & Banks, referred to above rank pari-passu first charge inter se and further secured by a second charge on current assets of the company, except in the case of 0% Secured Redeemable Non-Convertible Debentures.

D-WORKING CAPITAL :

Working Capital Demand loan, Cash Credit and Non Fund based limits of LCs and BGs from banks are secured by hypothecation of stock in trade, book debts and stores & spares, present and future and second charge on the fixed assets of the company.

The interest rates stand revised to 8.50% w.e.f. 01.04.2003 in respect of Working Capital loans stated above as per CDR package sanctioned on 20th February 2004.

All the secured loans are additionally secured by the pledge of shares held by the Company in Jaiprakash Engineering and Steel Company Ltd, Nagarjuna Power Corporation Limited, except the loan availed by erstwhile NPIL from IDBI (Rs. 330 lakhs).

All the Term Loans and Debentures from Institutions and Banks, counter guarantees, working capital demand loan / cash credit from banks are personally guaranteed by Shri K.S.Raju, Vice Chairman and Managing Director of the Company.

2. Loans of the Subsidiaries

- a) Rupee Term Loan from Exim Bank is secured by mortgage of immovable properties and hypothecation of the concerned subsidiary Company's movable fixed assets both present and future, including movable Plant & Machinery, appliances, furniture, vehicles, machinery spares and stores, tools and accessories, whether or not installed. The charge is ranking pari-passu with Indian Overseas Bank. The loan is further secured by exclusive pledge of equity shares of the Company held by Nagarjuna Fertilizers and Chemicals Ltd of the aggregate face value of Rs. 9000 lakhs.
- b) Overdraft from Karur Vysya Bank Ltd and UTI Bank Ltd resulting out of devolvement of foreign Letters of Credit opened by the respective Banks are secured by a charge by way of hypothecation of refinery equipment imported under Foreign Letter of Credit opened with the respective Banks. The charge is ranking pari-passu with other lenders.
- c) Overdraft from Indian Overseas Bank, resulting out of devolvement of foreign Letters of Credit opened by the Bank is secured by a charge created by way of hypothecation of the concerned subsidiary Company's all movable assets and properties present and future, whether or not installed including movable plants, machineries, goods, semi-finished and finished goods – consumable stores and spares, stock in trade, goods in process, movables in transit, bills receivables and book debts. The charge is ranking pari-passu with other lenders.

All the above loans are secured by Corporate Guarantee of Nagarjuna Fertilizers and Chemicals Limited, the holding Company

- d) Loan from ICICI Bank Ltd is secured by hypothecation of car purchased.

8. Unsecured Loans:

a) Fixed Deposits:

There are no matured deposits which are claimed but unpaid as on the date of the Balance Sheet. The balance outstanding as on 31.03.2005 is Rs.60.13 lakhs (previous year Rs. 189.90 lakhs) out of which Rs.59.98 lakhs remain unclaimed (previous year Rs.139.05 lakhs).

b) Sales Tax Deferral:

The Govt. of Andhra Pradesh has extended to the Company, the incentive of sales tax deferral scheme pursuant to which the sales tax attributable to the sales effected out of production from Plant I and Plant II is deferred (interest-free) for a period of 5 years from 04.07.1994 in the case of Plant I and 14 years from 19.03.1998 in the case of Plant II. The deferred sales tax of each year is repayable after the expiry of the period deferred. The deferred Sales Tax in respect of Plant I was fully repaid by 10.09.2003. In respect of Plant II the sales tax so deferred aggregates to Rs. 4362.68 lakhs, based on the Sales Tax Returns (previous year Rs. 3687.83 lakhs) in respect of which payments commence after 19.03.2012.

9. Revaluation of Fixed Assets:

The Company has re-valued the manufacturing facilities located at Kakinada as on 31st March 2005 on the basis of report of an independent approved valuer. The Valuation has been done on the basis of Depreciated Replacement Cost Method. Accordingly, Rs. 243350.02 lakhs being the revalued amount stands substituted for the historical cost in the block of fixed assets.

The aforesaid revaluation is also envisaged in the Scheme of amalgamation approved by the High Court of AP as detailed in Note No. 5 above.

The Company had earlier revalued its freehold land as on 31.03.2003 admeasuring 1040.28 acres, situated at Kakinada (plant site), on the basis of reports of an approved independent valuer on the present market value basis (Standard Indices). Accordingly, Rs.8842.38 lakhs, being re-valued amount stand substituted for the historical cost in the gross block of fixed assets.

10. Land and Buildings:

- Includes 68 acres leased to Nagarjuna Agricultural Research and Development Institute.
- Includes 5 acres, the possession of which is yet to be taken, title under dispute.
- Includes Land valued at Rs.958.08 lakhs and Buildings valued at Rs.291.92 lakhs vested with the Company pursuant to the order dated 27-04-98, of the Hon'ble High Court of Andhra Pradesh.
- Excludes value of 33 acres, which is in the possession and use of the Company pending fixation of compensation by the State Government.
- Excludes 14.06 acres pending completion of proposed alienation and handing over possession by Govt. of A.P. including 3.14 acres which cannot be alienated under AP Land Reforms Act, 1973.
- State Industries Promotion Corporation of Tamil Nadu Limited (SIPCOT) has acquired 736 acres of land for handing over to NOCL. The company has made a part payment, which is grouped under Capital Work in Progress. On payment of balance amount, the same will be transferred / leased to the company.

11. Investments :

The Company has investments in the following subsidiary Companies :

- Nagarjuna Oil Corporation Ltd (NOCL)
- Nagarjuna Power Corporation Ltd (NPCL)
- Jaiprakash Engineering and Steel Company Ltd (JESCO)

NOCL which is implementing the Oil Refinery Project has made substantial progress in tying up the Balance Equity has tied up marketing arrangement in full and has received approval for Sales Tax Loan from the Govt. of Tamil Nadu. With these developments, the financial closure is expected to be complete in few months. All statutory clearances and permits have already been obtained and are subsisting.

NPCL which is implementing the Power Project has obtained an in-principle sanction from Power Finance Corporation (PFC) for their part of the loan. The balance debt component shall be syndicated by PFC with the other lenders / banks. The Power Purchase Agreement (PPA) has already been finalised and the same shall be re-signed in accordance with the new norms. NPCL has also issued Letter of Intent for the EPC Contract. Equity tie up with a strategic partner is in the advanced stage of finalisation.

NPCL has invested in M/s. Nagarjuna Electric Generating Co. Ltd. (NEGCL) a wholly owned subsidiary. The Hon'ble High Court of Andhra Pradesh vide its order dated 18.12.2003 ordered winding up of NEGCL and appointed a Receiver. NEGCL has furnished all information called for in connection with the winding up proceedings. The full value of investment: Rs. 3522.34 lakhs has been reckoned in the accounts as a loss and grouped under

Miscellaneous Expenditure (to the extent not written off or adjusted).

The above two companies are in the project stage and any diminution in the latest available book value as compared to the cost of such shares before commencement of operations by the companies cannot be considered a permanent diminution. Consequently, no provision is considered necessary at this stage.

Investment in JESCO, the Steel Project of the Company has since been shelved. The realisations from sale of assets of the Company is expected to be in excess of the investments made. Hence, there is no diminution in the value of the investment.

12. Sundry Debtors, Loans and Advances :

The comprehensive review of the Sundry Debtors and Loans and Advances including Rs. 24760.00 lakhs relating to fertilizer subsidy claims and other receivables carried out by an independent agency indicated that it was not appropriate to carry forward a sum of Rs. 46638.27 lakhs as good for recovery under the above head as chances of recovery of same is bleak considering the Management's efforts over the last few years proving futile, adverse judicial pronouncements and rejection of fertiliser subsidy claims by Government Authorities.

The Company has further written off Rs. 128.11 lakhs in the profit and loss account representing irrecoverable book debts relating to manufactured products.

Accordingly, the value of Sundry Debtors and Loans and Advances including fertiliser subsidy claims and other receivables has been restated at Rs. 40614.66 lakhs as against Rs. 87252.93 lakhs. As per the Guidance Note of the Institute of Chartered Accountants of India, the reduction in value of Sundry Debtors and Loans and Advances has to be charged to the Profit and Loss Account, however, in accordance with the Scheme sanctioned by the Hon'ble High Court of Andhra Pradesh an amount of Rs. 46638.27 lakhs being the effect of such restatement has been adjusted against Revaluation Reserve.

13. Income Tax:

a) Current Tax :

Provision for current tax has been made on book profits in accordance with section 115 JB of the Income Tax Act, 1961. The provision for tax in respect of assessments not yet completed is computed by the company taking into consideration the treatment of various matters as decided in the Company's income tax assessments of the earlier years.

b) Deferred Tax :

In accordance with the Accounting Standard No.22 issued by ICAI and followed by the company, a sum of Rs.2070.29 lakhs (previous year Rs.3567.55 lakhs) deferred tax credit was drawn from the Deferred Tax Liability A/c. and debited to the Profit & Loss A/c.

Details of components of deferred tax liability and assets stated in the Balance Sheet are given below

Particulars	Rs. Lakhs	
	31.03.2005	31.03.2004
Depreciation	31,082.61	33,048.94
Deferred revenue expenditure	---	371.73
Total	31,082.61	33,420.67

a.2 Assets	Rs. Lakhs		
	Particulars	31.03.2005	31.03.2004
Carry forward business loss	---	4,408.35	
Provision for diminution in value of investments	---	---	
Total	---	4,408.35	

14. Group Concession Scheme – (GCS) Subsidy :

The FICC has notified provisional price applicable to the Company under GCS and, the subsidy has been accounted on the said basis for the year 2004-05. Adjustments if any on notification of final prices under GCS will be considered in the year in which the notifications are received.

15. Capital Investment Subsidy:

An amount of Rs. 20 lakhs was received as Capital Investment subsidy from Govt. of Andhra Pradesh vide consolidated proceedings no.10/4/2001/1014/FD-I dated 27.06.2001 towards Capital Investment of the erstwhile NPIL, in respect of Micro Irrigation business, subject to the condition that the unit shall be in continuous production atleast till 31.12.2004.

16. Remission of Liability:

The Company pursuant to settlement of dues with American Express Bank Ltd., IDBI Bank Ltd., and Development Credit Bank Ltd., as envisaged in the CDR Package, adjusted an amount of Rs. 1464.70 lakhs representing remission of principal amount of their debt by credit to profit and loss account. (Previous year Rs. 841.01 lakhs from ING Vysya Bank Ltd).

17. Debenture Redemption Reserve

Consequent to rescheduling of dates of redemption and tenure, no additional provision is required to be created during the year.

18. Deferred Revenue

The catalysts installed last year which were to be charged off in the normal course over years depending upon their useful life, as technically assessed, has been charged off completely amounting to Rs. 1030.59 lakhs, due to use of contaminated Naphtha.

19. Segmental Accounting

The financial results relate mainly to fertiliser segment. In Accordance with Accounting Standard (AS) -17, since the financial results of micro irrigation segment is less than the limit for separate disclosure, the same is not shown separately.

20. Balances in respect of Sundry Debtors, Loans and Advances, and Sundry Creditors relating to Micro irrigation business and balances in respect of suppliers, advances recoverable and other receivables of a subsidiary (NOCL) are subject to confirmation.

21. Related party transactions

1. Names of related parties and description of relationship.

a) Associates

- Nagarjuna Agricultural Research and Development Institute (NARDI)
- Ikisan Limited
- KVK Raju International Leadership Academy
- Nagarjuna Foundation
- Nagarjuna Corporation Limited

b) Key Management Personnel

- Mr.K.S.Raju, Vice Chairman & Managing Director
- Mr.K.Rahul Raju, Director – Business Development & Strategic Planning
- Mr.P.P.Singh, Director - Technical
- Mr.R.S.Nanda, Director & Chief Operating Officer
- Mr S Ram Mohan, Director & Chief Executive Officer

2. Related party transactions are as under:

Sl. No	Nature of transaction	Rs. Lakhs			
		Associates 31.03.2005	Key Mgmt. Personnel 31.03.2005	Associates 31.03.2004	Key Mgmt. Personnel 31.03.2004
01.	Finance :				
	Share Appln. Money	---	---	---	---
	Refund of Share Appln Money	---	---	---	---
	Advances given	10.00	---	34.83	---
	Advances received	0.90	3.26	32.64	3.26
02.	Purchase of fixed assets	---	---	1.26	---
03.	Sale of Shares	---	---	6.00	---
04.	Receiving of services :				
	Service charges	---	---	127.62	---
	Reimbursement of expenses	---	---	0.06	---
	Prof. & Mgmt. Consultancy	---	---	---	---
05.	Providing Services	---	---	23.79	---
06.	Grant to R & D	18.97	---	38.87	---
07.	Lease Rental received	0.01	---	0.01	---
08.	Remuneration to Key Mgmt. Personnel	---	130.37	---	105.96

22. Earnings Per Share :

Sl. No.	Earning per share (Basic and diluted) has been computed as under :	Unit of Measurement	31.03.2005	31.03.2004
1.	Net Profit/(Loss) after tax	(Rs. in Lakhs)	2952.70	1743.82
2.	Number of ordinary shares (fully called up)	(Numbers)	428181821	417020593
3.	Earnings per share (Face Value of Rs. 10/- per share)	[1] / [2]	0.70	0.42

23. Managerial Remuneration :

Rs. Lakhs

Sl. No.	Remuneration of Managing Director and Whole Time Directors	31.03.2005	31.03.2004
1.	Salaries	86.45	75.82
2.	Perquisites	56.26	43.13
3.	Contribution to Provident Fund and other Funds	23.88	19.68
	Total	166.59	138.63

24. Sales are net of cash discounts of Rs.446.40 lakhs (previous year Rs.950.18 lakhs).

25. Provision is not made in respect of Rs. 1336.47 lakhs towards compensation claimed by equipment supplier of a subsidiary, the same will be dealt with in the accounts after obtaining necessary approvals from Reserve Bank of India in respect of which application has been made.

26. Dues to Small Scale Industrial Undertakings, exceeding 30 days

- a) Kelkar Equipments Rs. 1.57 lakhs
b) Calorie Plastics Pvt. Ltd Rs. 5.64 lakhs

27. Previous year figures have been regrouped/re-classified/re-cast wherever necessary and do not include the consolidation of NPCL which has become subsidiary during the year, and figures relating to Micro irrigation business which got merged effective 01.10.2004, and are not comparable with current year.

28. Amounts are rounded off to the nearest Rupees in Lakhs. Figures in brackets represent credits / deductions.

Signatures to Schedule "1 to 15"

As per our report attached to the Balance Sheet for **M. Bhaskara Rao & Co.** Chartered Accountants

For and on behalf of the Board.

Field Marshal Sam Manekshaw, M.C.
Chairman

N C B Nath
S R Ramakrishnan
Directors

K S Raju
Vice Chairman & Managing Director

P P Singh
Director (Technical)

Anilkumar Mehta
Partner

M Ramakanth
Secretary

R S Nanda
Director & Chief Operating Officer

Hyderabad
April 21, 2005

New Delhi
April 21, 2005

K Rahul Raju
Director - Business Development & Strategic Planning



Nagarjuna Fertilizers and Chemicals Limited

Registered Office : Nagarjuna Hills, Hyderabad – 500 082

**29th Annual General Meeting at 10.00 a.m. on September 26, 2005
at Sri Satya Sai Nigamagmam, 8-3-987/2, Srinagar Colony, Hyderabad - 500 073**

ADMISSION SLIP

Folio No.

Shares Held

Please tick whether Member / Jointholder / Proxy

Member's or Proxy's Signature

Note : Shareholder / Proxy must bring the Admission Slip to the Meeting and hand it over at the entrance duly signed.



Nagarjuna Fertilizers and Chemicals Limited

Registered Office : Nagarjuna Hills, Hyderabad – 500 082

PROXY FORM

Folio No.

I/We, _____

_____ of

_____ in the district of _____ being member / members

of Nagarjuna Fertilizers and Chemicals Limited hereby appoint _____

_____ of

_____ in the district of _____ or

failing him _____ of

_____ in the district of _____

as my/our proxy to vote for me/us on my/our behalf at the Twenty Ninth Annual General Meeting of the Company to be held on September 26, 2005 and at any adjournment(s) thereof.

Signed this _____ day of _____, 2005.



Note : The Proxy form duly completed must reach the Registered Office of the Company at Hyderabad not less than 48 hours before the time of the meeting.

NFCL



Board of Directors

Field Marshal Sam Manekshaw, M.C.
Chairman

Ashok Chopra
Snamprogetti Nominee

B K Batra
IDBI Nominee

Chandra Pal Singh Yadav
KRIBHCO Nominee

R K Chavali
IFCI Nominee

K M Jaya Rao
ICICI Nominee

R Krishnan

N C B Nath

M P Radhakrishnan
SBI Nominee

Secretary
M Ramakanth

V N Rai
Alternate to Shri Chandra Pal Singh Yadav

Auditors
M Bhaskara Rao & Co.,
Chartered Accountants
Hyderabad - 500 082
INDIA

S R Ramakrishnan

P P Singh
Director (Technical)

Registered Office
Nagarjuna Hills
Hyderabad - 500 082
INDIA

R S Nanda
Director & Chief Operating Officer

K Rahul Raju
Director - Business Development & Strategic Planning

Factory
Kakinada - 533 003
East Godavari Dist.
Andhra Pradesh
INDIA

K S Raju
Vice Chairman & Managing Director
