

NOTICE

NOTICE IS HEREBY GIVEN THAT THE THIRTIETH ANNUAL GENERAL MEETING OF NAGARJUNA FERTILIZERS AND CHEMICALS LIMITED WILL BE HELD AT 10.00 A.M ON SEPTEMBER 28, 2006 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 30th Annual Report of the Directors, Balance Sheet as at March 31, 2006, the Profit and Loss Account for the financial year ended March 31, 2006, the Cash Flow Statement for the financial year ended March 31, 2006, and the Report of the Auditors thereon.
2. To declare a dividend on Preference Shares for the year ended March 31, 2006.
3. To appoint a Director in the place of Dr. N C B Nath, who retires by rotation and is eligible for re-appointment.
4. To appoint a Director in the place of Shri R S Nanda, who retires by rotation and is eligible for re-appointment.
5. To appoint a Director in the place of Shri K Rahul Raju, 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 an Ordinary 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 30th 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(s), the following resolution which will be proposed as an Ordinary Resolution:

"RESOLVED THAT subject to Sections 198, 269, 309 and Schedule XIII and other applicable provisions of the Companies Act, 1956 Shri P P Singh, be and is hereby re-appointed as Director (Technical) of the company for a further period of one year with effect from February 24, 2006 subject to the necessary approval of the financial institutions".

"RESOLVED FURTHER THAT Shri P P Singh, be and is hereby paid the following remuneration and perquisites during the term of his office and the same also be paid as minimum remuneration in the event of inadequacy or absence of profits in any financial year, during his term of office."

1. Salary :

Salary (including dearness allowance and all other allowances) – Rs. 1.5 lakh 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, 10% of the salary shall be deducted by the company; or
- c. In case no accommodation is provided by the company, Shri P P Singh 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 10% 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 P P Singh, Director (Technical) 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 P P Singh, Director (Technical)".

"RESOLVED FURTHER THAT the perquisites mentioned above shall be interchangeable within the overall ceiling of the annual salary of Shri P P Singh, Director (Technical)".

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

"RESOLVED THAT subject to Sections 198, 269, 309, 310, 311 and Schedule XIII and other applicable provisions of the Companies Act, 1956 Shri K S Raju, Vice Chairman and Managing Director, be and is hereby paid the following remuneration and perquisites for the balance period of two years of his appointment with effect from April 1, 2006 and the same also be paid as minimum remuneration in the event of inadequacy or absence of profits in any financial year during the balance term of his office, subject to necessary approvals of the financial institutions."

1. Salary :

Salary (including dearness allowance and all other allowances) – Rs.2 lakhs per month

2. Commission :

0.5% of the net profits of the company computed in accordance with Section 349 of the Companies Act, 1956, limited to his annual salary.

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, 10% of the salary shall be deducted by the company; or
- c. In case no accommodation is provided by the company, Shri K S 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 10% 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 S Raju may, subject to overall ceiling specified above, be modified as may be agreed to by the company and Shri K S Raju, Vice Chairman & Managing Director".

"RESOLVED FURTHER THAT the perquisites mentioned above shall be interchangeable within the overall ceiling of the annual salary of Shri K S Raju, Vice Chairman & Managing Director".

By Order of the Board

Hyderabad
April 27, 2006

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 1997 - 98 to the Investor Education and Protection Fund. The unclaimed dividend for the year 1998 - 99 shall be transferred to the Investor Education and Protection Fund during November '2006.
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 15, 2006 to September 28, 2006 (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 2006 - 2007 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 30th Annual General Meeting to be held on September 28, 2006**Item No. 7**

Shri P P Singh was appointed as Director (Operations) of the company with effect from February 24, 2001 for a period of three years. He was re-appointed for a further period of two years with effect from February 24, 2004 and was re-designated as Director (Technical).

The Board of Directors of the company at their meeting held on January 24, 2006 approved the reappointment of Shri P P Singh as Director (Technical) of the company for a further period of one year with effect from February 24, 2006, based on the commendation of the Remuneration Committee.

Shri Singh has contributed immensely during the previous years to the successful running of the Plants of the company,

despite severe financial constraints and it is necessary to extend the term of office of Shri P P Singh for a further period of one year effective February 24, 2006.

Shri P P Singh shall look after the expansion plans and technology related issues of the company.

Your Directors commend the reappointment of Shri P P Singh as Director (Technical) of the company for a further period of one year effective February 24, 2006 on the terms and conditions stated in the notice.

None of the Directors of the company except Shri P P Singh may be deemed to be concerned or interested in this resolution.

Item No. 8

The Board of Directors of the company at their meeting held on April 25, 2003 re-appointed Shri K S Raju as Vice Chairman & Managing Director for a period of five years effective April 1, 2003 subject to necessary approvals.

In view of the company not having registered profits in 2002 - 2003 and the company being required to comply with the Notification No.G.S.R.36(E) dated January 16, 2002 issued by the Government of India (Dept. of Company Affairs) amending the Schedule XIII to the Companies Act, 1956, which provides that the remuneration could be fixed only for a period of three years though appointment could be for a period of five years, and necessary approvals for payment of remuneration to Shri K S Raju was obtained for a period of three years. The three years period expires on March 31, 2006.

The shareholders at their meeting held on July 28, 2003 approved the re-appointment of Shri K S Raju, Vice Chairman & Managing Director for a period of five years with effect from April 1, 2003 and also approved the remuneration payable to Shri K S Raju for a period of three years effective April 1, 2003.

It is now necessary to approve the remuneration payable to Shri K S Raju, Vice Chairman & Managing Director for the balance of two years.

The Board of Directors of the company at their meeting held on January 24, 2006 approved the payment of remuneration to Shri K S Raju for the balance two years of his term of re-appointment based on the commendation of the Remuneration Committee of Directors.

Shri K S Raju has been associated with the company since 1985 and has made significant contributions to the progress of the company. His experience and expertise would be of immense value to the company.

Your Directors commend the payment of remuneration for the balance of two years to Shri K S Raju, Vice Chairman & Managing Director, with effect from April 1, 2006 to March 31, 2008 on the terms and conditions stated in the notice.

None of the Directors of the company except Shri K S Raju and Shri K Rahul Raju (being related to Shri K S Raju) may be deemed to be concerned or interested in this 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

Hyderabad
April 27, 2006

M. Ramakanth
Secretary

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REPORT OF THE DIRECTORS

Your Directors have pleasure in presenting the 30th Annual Report together with the Audited Accounts of your company for the year ended March 31, 2006.

The Financial Results and the Consolidated Financial Results of the company for the year ended March 31, 2006 are as under :

FINANCIAL RESULTS

Particulars	Rs. in Crores	
	2005-2006 current year	2004-2005 previous year
Net Sales / Income from Operations	1452.95	1266.39
Other Income	20.44	17.67
Remission of principal amount of loan	-	14.65
Total Expenditure		
a. (Increase) / decrease in Stock	5.84	(18.78)
b. Consumption of Raw Materials	481.11	376.26
c. Staff Cost	39.33	32.37
d. Purchases – Traded Products	78.56	101.53
e. Power and Fuel	332.44	282.03
f. Marketing, Operating, Administrative and other Expenses	230.51	205.90
Total	1167.79	979.31
Interest	130.99	142.79
Depreciation	121.05	121.36
Profit before tax	53.56	55.25
Provision for tax	41.59	5.02
Deferred Tax	56.47	(20.70)
Fringe Benefit Tax	1.58	-
Profit / (loss) after Tax	66.86	29.53
Dividend – Preference Shares	0.0037*	0.0018
Balance C/d to Balance Sheet	135.06	140.22
Paid Up Equity Share Capital (Face Value of Rs.10/- per share)	427.96	416.61
Reserves excluding revaluation reserve	452.49	385.64
Basic & Diluted Earning per share (annualised) – in Rs.	1.56	0.70

* Proposed

CONSOLIDATED FINANCIAL RESULTS

Particulars	Rs. in Crores	
	2005 -2006 current year	2004 -2005 previous year
Net Sales / Income from Operations	1452.95	1266.39
Other Income	20.44	17.67
Remission of principal amount of loan	-	14.65
Total Expenditure		
a. (Increase) / decrease in Stock	5.84	(18.78)
b. Consumption of Raw Materials	481.11	376.26
c. Staff Cost	39.33	32.37
d. Purchases – Traded Products	78.56	101.53
e. Power and Fuel	332.44	282.03
f. Marketing, Operating, Administrative and other Expenses	230.51	205.90
Total	1167.79	979.31
Interest	130.99	142.79
Depreciation	121.05	121.36
Profit before tax	53.56	55.25

Provision for tax	41.59	5.02
Deferred Tax	56.47	(20.70)
Fringe Benefit Tax	1.58	-
Profit / (loss) after Tax	66.86	29.53
Dividend – Preference Shares	0.0037*	0.0018
Balance C/d to Balance Sheet	135.06	140.22
Paid Up Equity Share Capital (Face Value of Rs.10/- per share)	427.96	416.61
Reserves excluding revaluation reserve	452.49	385.64
Basic & Diluted Earning per share (annualised) – in Rs.	1.56	0.70

* Proposed

DIVIDEND

Your directors after careful consideration of the accounts of the company have not recommended any dividend to the equity shareholders of the company.

Your directors recommend 0.01% dividend to the preference shareholders of the company for the year ended March 31, 2006 amounting to Rs.0.37 lakhs.

SHARE CAPITAL

Your company had issued 37,20,372 0.01% coupon optionally cumulative convertible redeemable preference shares of Rs.100/- each to the financial institutions in June '2004. The 0.01% coupon optionally cumulative convertible redeemable preference shares shall now remain as ordinary preference shares.

During the year the company allotted 1,11,61,228 equity shares of Rs.10/- each at par to the shareholders of erstwhile Nagarjuna Palma India Limited which was amalgamated with the company with effect from October 1, 2004 pursuant to the scheme of amalgamation approved by the Honourable High Court of Andhra Pradesh.

PLANT OPERATIONS

(i) Straight Nutrition Business

Your company during the year manufactured 13.79 lakh MTs of Urea as against 13.93 lakh MTs in the previous year. Both the plants of your company continue to perform at high levels of energy efficiency with the overall energy being below that of the previous year.

The supply of natural gas and naphtha was satisfactory during the year though your company would benefit from availability of additional natural gas.

Your company has taken various initiatives to improve energy efficiency, enhance plant reliability, improve product quality and reduce costs. In order to maximise the stream days and avoid unforeseen shut downs to the plant, your company as a regular feature had been conducting plant health checks to ascertain the condition of the various equipments. Your company has been assisted by acclaimed consultants in the area and based on their recommendation, your company has initiated remedial actions. The action taken has yielded results, which can be seen in the adequate stability in the plant operations of the company.

Your company subject to the approval of the Government of India is proposing to revamp the plants in order to facilitate increase in capacity and improve energy efficiency. Your company has engaged the services of Haldor Topsoe for ammonia plant and Snamprogetti for urea plant to undertake a study on the techno-economic-feasibility for the proposed revamp of the plants.

ii. Nutrition Solution Business

Your company in line with its vision statement has made forays into new businesses like micro irrigation and speciality fertilizers.

Micro Irrigation

Your company in the past has faced hardships in relation to recoveries in view of the Micro Irrigation business being government subsidy driven. Under these pressing circumstances, there has been stability in operations of the Micro Irrigation business.

Your company has been attempting to increase its exposure to the non-subsidy sector, which is highly competitive with pressures on margins.

Your company would consider repositioning itself in the Micro Irrigation business, keeping in view the returns expected out of this business.

Speciality Fertilizers

Your company has taken the initiative of educating and providing necessary support to the farmers in Andhra Pradesh, of the benefits of utilising speciality fertilizers. In this regard, your company has demonstrated in its pilot projects, the practices to be followed to achieve higher production through the application of fertilizers by adopting standard operating practices as well as benefiting from the use of non traditional speciality fertilizers.

The combination of providing micro irrigation systems coupled with speciality fertilizers would help to meet the scarce water resources in the country and increase farm productivity.

MARKETING

a. Straight Nutrition Business

During the year under review, your company recorded urea sale of 14.67 lakh MTs as against the previous years urea sale of 15.63 lakh MTs.

Your company during the year handled 38,418 MTs of imported urea on behalf of the Government of India.

Your company taking advantage of the favourable agri climatic conditions and good rainfall has been able to market all its manufactured and imported urea. The good seasonal conditions resulted in the inventory levels being regularly negligible, putting the market channel to tremendous strain.

Your company keeping in line with the corporate vision, launched a major initiative in the direction of supplying micro nutrients in various forms to the farmers.

Your company also successfully launched 'Zeta', a high value micro nutrient and also marketed Zinc Sulphate, MOP and other fertilizers.

b. Nutrition Solution Business

Micro Irrigation

Your company has during the year increased its sales in Andhra Pradesh, Gujarat and other states and achieved a turnover of Rs.16.66 crores (previous half year Rs.6.82 crores from date of amalgamation) consequent to the fillip given to micro irrigation business in the country.

Your company has also during the year launched various new micro irrigation products to meet the demands of the farmers and commenced operations in Madhya Pradesh, Rajasthan and Kerala.

Speciality Fertilizers

During the year under review, your company has sold 5543 MTs of speciality fertilizers registering Rs. 24.24 crores of turnover (previous year Rs.10.01 crores), which shows a growth rate of 142% compared to the previous year.

Your company, during the year launched the Nagarjuna "Double Ox" brand to sell the various non-urea products of the company namely MAP, MKP, CN-FG, SOP and CN-SG.

ENVIRONMENT, SAFETY AND AWARDS

Environment

Your company's concern for protection of the environment is a well acknowledged fact. The green belt has developed into a man-made forest with animals living in harmony with nature in the green belt.

Safety

Your company during the year has implemented the Process Safety Management Systems (PSMS) and adopted the Code of Practice by Occupational Safety and Health Administration (OSHA), USA.

Your company continues to maintain high standards of performance in the areas of safety, environment and health and has received commendation for the same. During the year, your company registered a record 701 maximum accident free man-days equivalent to 3.152 million man-hours in the year 2005.

Awards

Some of the prestigious awards received by your company during the year are

1. FAI Environment Protection Award in the Nitrogenous Fertilizers Plants category for the year 2004-05.
2. Award for excellence in natural gas conservation in the fertilizer sector category for the outstanding contribution to natural gas conservation during the year 2004-05 from Gas Authority of India Ltd.
3. Commendation prize awarded on the occasion of First National Convention on "Energy Conservation Initiatives", organised by Andhra Pradesh Productivity Council, Hyderabad.
4. Highest possible rating of 5 Star in the OHS Audit conducted by British Safety Council, U.K.

CORPORATE GOVERNANCE

Your company has adopted the best corporate governance practices and has also taken steps to understand the interest of its stakeholders so that the needs of the stakeholders could be met.

A detailed Report alongwith a certificate of compliance appears in the Annexure to the Directors' Report.

DIRECTORS

In accordance with the articles of association of the company, Dr. N C B Nath, Shri R S Nanda and Shri K Rahul Raju retire at the forthcoming annual general meeting and being eligible, offer themselves for re-appointment.

Industrial Development Bank of India Limited has nominated Shri B K Batra, Chief General Manager, Industrial Development Bank of India Limited (IDBI), Mumbai, as their Nominee on the Board of Directors of the company in the place of Shri R Sathyamurthi.

The Government of Andhra Pradesh has nominated Smt. Lakshmi Parthasarathy, IAS, Principal Secretary to Government & Commissioner for Industrial Promotion, Industries & Commerce Department as their Nominee on the Board of the Company in the place of Shri Jainder Singh, IAS.

Shri R Krishnan ceased to be the director of the company with effect from November 5, 2005.

The Board of Directors at their meeting held on January 24, 2006 re-appointed Shri P P Singh as Director (Technical) of the company for a period of one year with effect from February 24, 2006. The re-appointment of Shri P P Singh is being placed before the shareholders at the forthcoming Annual General Meeting.

UTI Asset Management Company Private Limited has nominated Shri Vishwanath Mathur as a nominee of The Administrator of the Specified Undertaking of Unit Trust of India, on the Board of the Company.

Field Marshal Sam Manekshaw ceased to be a Director and Chairman with effect from April 27, 2006. The Board of Directors at their meeting held on April 27, 2006 unanimously acknowledged the significant contribution made by Field Marshal during his long tenure as Director and Chairman and appointed Field Marshal Sam Manekshaw as 'Chairman Emeritus' of the company, not being a member of the Board of Directors of the company.

Consequent to the resignation of Field Marshal Sam Manekshaw as Chairman, Shri K S Raju, formerly Vice Chairman and Managing Director was unanimously appointed as Chairman and Managing Director of the Company by the Board of Directors of the Company.

Shri V N Rai, Alternate Director to Shri Chandra Pal Singh Yadav, resigned from the Board of Directors of the Company, consequent to his term of appointment with KRIBHCO expiring by July 8, 2006.



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The Board of Directors placed on record their deep appreciation of the services rendered by Field Marshal Sam Manekshaw, Shri R Krishnan, Shri R Satyamurthi, Shri Jainder Singh, IAS. and Shri V N Rai during their tenure of office.

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 by the Auditors in the Audit Report in relation to the investments made by the company with subsidiaries i.e., Nagarjuna Power Corporation Limited (NPCL) and Jaiprakash Engineering and Steel Company Limited (JESCO), your directors do not consider it appropriate to make any provisioning towards diminution in the value of the investments made in the above subsidiaries as they perceive that there is no diminution in the latest book value as compared to the cost of investments.

Your directors perceive that the investments made in NPCL and JESCO are long term investments meant to be held permanently and the diminution in the value is of temporary nature. The change in the nature of diminution would stand reversed in future, if necessitated.

COST AUDITOR

Shri Dantu Mitra, Cost Accountant, continues to be the Cost Auditor of the company for the year 2006 – 07.

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.

HUMAN RESOURCE

Your company during the year has taken various initiatives with the assistance of renowned consultants to introduce and implement best HR practices that meet global standards.

SUBSIDIARY COMPANIES

A statement of the holding company's interest in the subsidiary companies viz. 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.

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 viz. 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 on any of the subsidiary companies may write to the company to enable the same to be forwarded.

PROJECTS

A. Nagarjuna Oil Corporation Limited (NOCL)

NOCL, the wholly owned subsidiary of your company is involved in implementing the Refinery Project at Cuddalore in Tamil Nadu. Substantial progress has been made during the year under review. The highlights are given below :

- Equity is fully tied up.
- IDBI's appraisal of the project has been completed and a formal Letter of Intent has been issued sanctioning a Rupee Term loan of Rs.500 crores.
- MOUs / Agreements have been signed for crude requirement, marketing tie ups, etc.
- All government clearances and approvals have been obtained and are valid and subsisting.

B. Nagarjuna Power Corporation Limited (NPCL)

NPCL, a subsidiary of your company is implementing the 1015 MW imported coal fired thermal power project through Nagarjuna Power Corporation Limited (NPCL) in Karnataka. All clearances, both statutory and non-statutory have been obtained including site clearance from Karnataka State Pollution Control Board and environment clearance from Ministry of Environment and Forest.

The Central Electricity Regulatory Commission (CERC) has approved the project cost and tariff related matters, which are in line with the new tariff guidelines of The Electricity Act, 2003.

The Government of Karnataka has also approved the Power Purchase Agreement (PPA) to be entered into with five electricity supplying companies from Karnataka State. The PPA with Kerala State Electricity Board is pending finalisation.

The equity closure for the project has been completed and the company has also received in-principle approval from REC, HUDCO and Power Finance Corporation for financing the project.

CORPORATE SOCIAL RESPONSIBILITY

Your company has always been a responsible corporate citizen and has made significant contributions towards community development. Your company supports various social causes by providing potable water, basic medical facilities, minimum education to people in the adjoining villages. Your company takes active interest in environmental issues and is continuing to assist the local administration in Kakinada towards 'Green Kakinada' by developing and upkeep of parks and avenue plantation in the town. Your company has also been assisting the surrounding community with primary health programmes.

DIRECTORS RESPONSIBILITY STATEMENT

Pursuant to Section 217 (2AA) of the Companies Act, 1956, Your Directors hereby report:

- that in the preparation of Annual Accounts for the year ended March 31, 2006, 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, 2006 and of profit and loss account for the period ended March 31, 2006.
- 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 investors of your company, the dedicated employees and all others who are continuing to assist your company.

On Behalf of the Board

Hyderabad
July 28, 2006

K S Raju
Chairman & Managing Director

FORM-A				
Form for disclosure of particulars with respect to conservation of energy				
I. Urea				
Particulars	Unit	Year ended		
		31.03.2006	31.03.2005	
Power & Fuel Consumption				
1. Electricity				
a) Purchased				
Unit	1000 KWH	2897.981	2836.4068	
Total Amount	Rs. Lakhs	214.03	217.61	
Rate/ KWH	Rs./KWH	7.39 *	7.67 *	
b) Own Generation				
Through Gas Turbine Units	1000 KWH	205476	210771.8	
KWH per SM ³ of Gas		5.484	5.249	
Cost of gas per Unit of Power generated	Rs./KWH	0.840	0.817	
2. Fuel				
(Including Ammonia-fuel, steam & power)				
Quantity - Natural Gas	1000 SM ³	285591.63	298604.75	
NG LHV	Kcal/SM ³	8819.277	8817.849	
Total Cost	Rs. Lakhs	13157.45	12799.92	
Rate per Unit of Natural Gas	Rs./1000 SM ³	4607.09	4286.58	
Quantity - Naphtha	MT	70112.510	67907.33	
Naphtha LHV	Kcal/kg	10543.244	10504.4	
Total Cost	Rs. Lakhs	18171.24	13157.72	
Rate per Unit of Naphtha	Rs./MT	25917.26	19376.00	
Quantity - LSHS	MT	6370.32	10461.514	
LSHS LHV	Kcal/kg	9133.790	9583.170	
Total Cost	Rs. Lakhs	1156.64	1481.64	
Rate per Unit of LSHS	Rs./MT	18156.72	14162.73	
3. Consumption per MT of Urea Production (including Ammonia - fuel, steam & power)				
Particulars	Unit	Standard	Year ended	
			31.03.2006	31.03.2005
Electricity (Incl. Internal Generation)	KWH	132.8	151.1	153.39
Naphtha at 10500kcal/kg	Kg	64.5	51.04	48.78
LSHS (At actual calorific value)	Kg	Nil	4.619	7.513
Natural Gas (Fuel)** at 8168 Kcal/SM ³	SM ³	251	223.578	231.492
* This amount is paid towards purchased power to APTRANSCO. ** 8168 KCal per SM ³ is as per Design Norms.				
II. Micro Irrigation				
Particulars	Unit	Year ended		
		31.03.2006	31.03.2005 *	
Electricity				
a) Purchased	1000KWH	989.964	329.44	
Total Amount	Rs. In lakhs	40.08	14.75	
Rate/ KWH	Rs./KWH	4.048	4.47	
b) Own Generation				
Diesel	1000KWH	83.024	42.850	
Total cost in lakhs	Rs. In lakhs	3.09	2.19	
Rate per unit (KWH)	cost of diesel per unit of power generation	3.71	5.11	
Consumption per meter of Lateral				
Particulars	Unit	Standard	Year ended	
			31.03.2006	31.03.2005 *
Electricity (incl. Internal Generation)	KWH	-	0.0402	0.0479

* for the period from 01.10.2004 to 31.03.2005



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FORM-B

Form for disclosure of particulars with respect to technology absorption for the year 2005-06.

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 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 :

- Overall specific energy consumption of Urea and treated effluent discharge have been reduced as given below.
- Complex specific energy consumption during 2005-06 is 5.662 Gcal/MT, the previous best being 5.718 Gcal/MT during 2004-05.
- Raw water consumption has come down to 5.545 M³/MT urea from 5.998 M³/MT of urea achieved previously.
- In addition, improvement in product quality and cost reduction by import substitution has been realized.

3. Future Plan of Action:

A number of actions have been planned to improve reliability as well as to reduce the specific energy consumption further, as mentioned below :

- Fluid coupling installation for Ammonia-I Primary Reformer Induced Draft Fan.
- Ammonia-I Primary Reformer Tubes and Catalyst replacement partially.
- Ammonia-I Low Temperature Shift Catalyst replacement.
- Ammonia-I cooling tower fan blades replacement with energy saving blades.
- Advance Process Control for Ammonia plant-II.
- Change of insulation in Heat Recovery and Steam Generation Unit "C" and Ammonia-I Primary Reformer roof.
- Refurbishment has been planned for IDL-01 line to enhance the existing production capacity in MI plant.

Expenditure on R & D:

Expenditure relating to Capital items is debited to Fixed Assets and depreciated at applicable rates. Revenue expenditure is charged to Profit & Loss account of the year in which they are incurred.

	Rs. In lakhs
Revenue Expenditure	408.94
Capital Expenditure	240.75
Total Expenditure on R & D in 2005-06	649.69

B. Technology Absorption, Adaptation and Innovation:

1. Efforts, in brief, made towards technology absorption, adaptation and Innovation:

- The conventional Titanium tube High Pressure stripper in Urea-I has been replaced with latest version of bimetallic stripper in April 2005.
- Schemes identified through energy audit are being implemented in a phased manner.
- Replacement of Methanator inlet isolation valve from globe to ball valve has reduced the pressure drop in the front end of Ammonia plant-I.
- GT-C up rating with improved version of sealing system and change in operating methodology have resulted in energy savings.
- Ammonia Refrigeration Compressor turbine, Synthesis Gas Compressor turbine and CO₂ Compressor turbine hot well condensate pump drives have been changed over from turbine to motor.
- Re-Installing Process Air Pre-heater coil in E-202A and 7 Nos. of Catalyst Tubes in Primary Reformer have reduced the pressure drop in front end and led to energy savings in Ammonia plant-I.
- In MI plant, new line for producing plain lateral has been converted to produce both HDPE sprinkler pipes and plain laterals. New moulds have been developed for online & threaded drippers. PL machinery has been refurbished & enhanced the production capacity to 100%.

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 2005 -06

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	392.77
2. Foreign Exchange Earnings	Nil

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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, 2006.

Name	Age	Qualifications	Designation	Date of Commencement	Years of Experience	Remuneration Received (Rs.)	Previous Employment before joining the company
Employed for the year :							
Raju K S	56	B.E (Mech)	Vice Chairman and Managing Director *	01-07-1987	31	5541918	Managing Director Nagarjuna Finance Ltd
Singh P P	65	FIE	Director (Technical)	24-02-2001	41	3374095	Managing Director M/s. KRIBHCO
Shri Mahalingam J	52	B.A., ACA	Vice President (Finance)	01-10-1990	27	2974591	DGM (Finance) Andhra Cement Company Limited
Nanda R S	62	B. Sc. Engg. (Mech.)	Director & COO	26-06-2004	39	4004203	President & Managing Director Coromandel Fertilisers Ltd.
Stalin S	56	B.E. (Chem.)	Executive Director	13-05-2004	34	3723561	President Chambal Fertilizers & Chemicals Limited
Goel M C	51	B.Sc (Ag. &AH) , MA (Eco), PGDBM	Vice President & Busi. Head (NSB)	22-04-2004	29	2547511	Senior Vice President Aditya Vikram Birla Group
Bhaskara Rao D	57	C A	Vice President (Finance)	01-10-2000	33	2581430	Executive Vice President (Fin.) Nagarjuna Finance Limited

Notes :

- 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.
 - Remuneration includes Salary, Perquisites and Company's contribution to Provident Fund, Gratuity and Superannuation Fund.
 - 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.
- * was appointed as Chairman by the Board of Directors at their meeting held on April 27, 2006.

Statement pursuant to Section 212 of the Companies Act, 1956 relating to Company's interest in Subsidiary Companies as at 31st March, 2006

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, 2006	31st March, 2006	31st March, 2006
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 Company	225,61,693 equity shares of face value of Rs.10/- each fully paid-up	59,20,00,000 equity shares of face value of Rs. 10/- each fully paid - up	6,40,00,000 equity shares of face value of Rs. 10/- each fully paid-up
	b) Extent of interest of holding company at the end of the financial year of the Subsidiary Companies	99.84%	100.00%	96.90%
3.	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, 2006	—	—	—
	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, 2006	—	—	—
	ii) For the previous financial year of the subsidiary companies since they became the holding company's subsidiaries.	—	—	—

For and on behalf of the Board

N C B Nath
(Director)

PP Singh
Director (Technical)

Hyderabad
April 27, 2006

M. Ramakanth
Secretary

K S Raju
Vice Chairman & Managing Director



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Particulars of Subsidiaries as at March 31, 2006 in terms of approval dated March 9, 2006 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)	59,200.00	6,629.40	5,771.90
b.	Reserves	1.07	-	2.85
c.	Total Assets			
	Fixed Assets (incl. CWIP)	70,174.15	4.41	28.83
	Expenditure Pending Allocation	26,424.30	3,053.65	3,846.95
	Current Assets, Loans & Advances	224.05	565.88	1,937.18
	Miscellaneous Expenditure (to the extent not written off or adjusted)	3,270.90	* 3,527.47	-
d.	Total Liabilities			
	Loans Secured / Unsecured	16,017.06	-	42.56
	Others	24,875.28	522.01	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)	-	-	@ 0.06
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 27, 2006

M Ramakanth
Secretary

CORPORATE GOVERNANCE REPORT FOR THE PERIOD APRIL 1, 2005 TO MARCH 31, 2006

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.

B. PHILOSOPHY ON CODE OF CORPORATE GOVERNANCE

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 correct, accurate and relevant 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.

Date of Report

The information provided in the Corporate Governance Report for the purpose of unanimity is as on March 31, 2006.

The report is updated as on the date of the report wherever applicable.

C. ADOPTION OF SECRETARIAL STANDARDS FOR GOOD GOVERNANCE INTRODUCED BY THE INSTITUTE OF COMPANY SECRETARIES OF INDIA (ICSI)

The company has been following good secretarial practices and standards as laid down in the Secretarial Standards issued by the Institute of Company Secretaries of India, New Delhi, except in relation to compliance of Secretarial Standard - 2, clause 1.2.6, which provides for listed companies with more than 5000 shareholders to publish in a newspaper having wide circulation within the States of India, where more than 1000 members reside an abridged text of the Notice, listing the items of the business of the meeting.

D. LOCATION OF PLANT

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

E. Registered Office is located at Nagarjuna Hills, Punjagutta, Hyderabad - 500 082.

F. BOARD OF DIRECTORS

(i) Pecuniary Relationship

Non-executive Directors do not have any pecuniary relationship with the company except as stated in Clause J of the Report.

(ii) Composition

As on March 31, 2006 the strength of the Board of Directors was fifteen, of which, eleven are Non-executive, one Vice Chairman and Managing Director and three Whole-time Directors.

Consequent to the resignation of Field Marshal Sam Manekshaw on April 27, 2006, the strength of the Board of Directors is fourteen, of which, ten are Non-executive, one Chairman and Managing Director and three Whole-time Directors.

The Board members include nominees of Industrial Development Bank of India Limited, IFCI Limited, ICICI Bank Limited, State Bank of India, Unit Trust of India, Government of Andhra Pradesh, our co-promoters Krishak Bharathi Co-operative Limited and Snamprogetti and Nominees of Core Promoter Companies.

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

- * April 21, 2005
- * July 22, 2005
- * September 26, 2005
- * October 28, 2005
- * January 24, 2006

Details in relation to the Members of the **Board of Directors** of the company as on March 31, 2006, 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
			Public	Private			
Field Marshal Sam Manekshaw @	Chairman	Non - executive	10	--	--	2	N
Shri Ashok Chopra Snamprogetti Nominee	Director	Independent & Non-executive	--	--	--	1	Y
Shri B. K Batra * Nominee of IDBI Ltd	Director	Independent & Non-executive	2	--	2	2	Y
Shri Chandra Pal Singh Yadav Kribhco Nominee	Director	Non-executive	8	--	5	3	Y
Shri R K Chavali Nominee of IFCI Ltd	Director	Independent & Non-executive	2	1	3	3	N
Shri R Krishnan **	Director	Independent & Non-executive	3	3	--	4	Y
Shri K M Jaya Rao Nominee of ICICI Bank Ltd	Director	Independent & Non-executive	4	--	1	1	N
Smt. D. Lakshmi Parthasarathy *** Govt. of AP Nominee	Director	Non-executive	3	--	--	--	N
Dr. N C B Nath	Director	Independent & Non-executive	--	1	--	5	Y
Shri M P Radhakrishnan SBI Nominee	Director	Independent & Non-executive	2	--	1	4	Y
Shri V N Rai, ## Alternate to Shri Chandra Pal Singh Yadav	Director	Non-executive	5	--	2	--	N
Shri S R Ramakrishnan	Director	Independent & Non-executive	2	--	1	4	N
Shri R Sathyamurthi Nominee of IDBI ****	Director	Independent & Non-executive	1	--	1	1	N
Shri Vishwanath Malthur Nominee of UTI *****	Director	Independent & Non-executive	--	--	--	--	--
Shri P P Singh	Director (Technical)	Executive	3	1	2	5	Y
Shri R S Nanda	Director & Chief Operating Officer	Executive	--	1	--	5	Y
Shri K Rahul Raju	Director - Business Development & Strategic Planning	Executive	4	5	1	5	Y
Shri K S Raju	Vice Chairman & Managing Director	Executive	11	8	3	5	Y

@ attended only two meetings in view of ill-health and ceased to be Chairman and Director with effect from April 27, 2006. * joined the Board on April 29, 2005

** ceased to be a Director with effect from November 5, 2005 *** ceased to be a Director with effect from April 29, 2005

*** joined the Board on August 31, 2005

***** Joined the Board on February 17, 2006

ceased to be Alternate Director with effect from July 8, 2006



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G. 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 deliberate in the decision making process :

- Operations Report of every month.
- 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.
- Minutes of the meetings of the Board of Directors and Committees of the Board of Directors.
- Status of Subsidiary Companies.
- Minutes of meetings of the Board of Directors of Subsidiary Companies
- Details of Related Party Transactions
- Quarterly Compliance Report on Clause 49
- Report on Risk Assessment and Minimisation Procedures
- Appointment of Chief Financial Officer / Internal Auditor
- Fatal or serious accidents, dangerous occurrences, any material effluent or pollution problems.
- Any issue, which involves possible public or product liability claims of substantial nature, including any judgement or order which, may have passed strictures on the conduct of the company or taken an adverse view regarding another enterprise that can have negative implications on the company.
- Transactions that involve substantial payment towards goodwill, brand equity or intellectual property.
- Quarterly details of foreign exchange exposures and the steps taken by management to limit the risks of adverse exchange rate movement, if material.

H.1. RESPONSIBILITIES OF THE CHAIRMAN AND MANAGING DIRECTOR

The Board of Directors at their Meeting held on July 3, 1993 delegated the powers to Shri K S Raju, Chairman and Managing Director to enable him carry out the day-to-day operations of the company.

The powers encompasses all areas such as Finance, Personnel, Legal, General and Miscellaneous powers.

H.2. RESPONSIBILITIES OF OTHER WHOLE-TIME DIRECTORS

Shri R S Nanda, Director and COO is incharge of the operations of the company, which includes plant operations, marketing operations, human resource development and financial management of the company.

Shri P P Singh, Director (Technical) is responsible for the company's forays into new projects.

Shri K Rahul Raju, Director – Business Development and Strategic Planning is responsible for new initiatives, corporate planning and long term strategies that will be beneficial to the development of the company.

H.3. LEAD INDEPENDENT DIRECTOR

Dr. N C B Nath, who is the Chairman of the Audit Committee of Directors is the Lead Independent Director.

H.4. RETIREMENT POLICY

The company does not have a Retirement Policy for the Members of the Board of Directors of the company.

H.5. SUCCESSION PLANNING

The company has identified / is in the process of identifying successors to various key positions in the company across all departments and at all management levels, to enable smooth transition and continuity of operations.

H.6. TRAINING FOR BOARD MEMBERS

The Board of Directors of the company consists of senior personnel, who are independent directors, nominees of financial institutions and banks and promoters apart from the whole-time directors.

Training of the Whole-time Directors on various issues are need based through attending of workshops, seminars, conferences on various matters from time to time.

In relation to nominees of financial institutions, banks and promoters, the Directors being employees undergo training on regular basis in their respective organizations.

The Board of Directors of the company are regularly updated on all areas such as changes in statutory and non-statutory matters, marketing, HR, Plant performance etc., through presentations and written material.

H.7. REPORT OF THE AUDIT COMMITTEE OF DIRECTORS

The Audit Committee of the Board of Directors of the company have to report as under :

- a. During the year under review, the company's various departments, divisions spread all over India were audited by the In-house Internal Audit Department of the company and the reports placed before the Audit Committee for consideration.
- b. The audits were carried out pursuant to an Audit Calendar prepared by the Internal Audit Department of the company and approved by the Audit Committee in the beginning of the year.
- c. The Audit Committee noted the Audit Report, the views of the Auditee and the Management on the observations of the Internal Audit Department.
- d. The Audit Committee's suggestions from time to time were implemented by the company during the course of the year.
- e. The Internal Audit Department during the course of the year adopted a Risk Based approach to Internal Audit in accordance with the recommendations of

the Institute of Chartered Accountants of India. This was in comparison to the earlier system of transaction mode of Audit.

- f. The present system of Internal Audit is based on risks associated with any particular matter.
- g. The Audit Committee sought clarifications from the Auditors, Cost Accountant and the Management of the company, whenever required, in relation to the financial matters of the company as per the scope and powers of the Audit Committee.
- h. The Audit Committee meetings were interactive.

I. 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
- d. Shri R S Nanda ** - Member

The quorum is two members present.

* ceased to be a Member with effect from November 5, 2005.

** appointed as member with effect from April 27, 2006.

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 B K Batra * - Member
- c. Shri M P Radhakrishnan - Member
- d. Shri K M Jaya Rao - Member
- e. Smt. D Lakshmi Parthasarathy ** - Member
- f. Shri R Sathyamurthi *** - Member

The quorum is two members present.

* appointed as a Member with effect from July 22, 2005.

** appointed as a Member with effect from Sept. 26, 2005.

*** ceased to be a Member with effect from April 29, 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 B K Batra * - Member
- d. Smt. D Lakshmi Parthasarathy ** - Member
- e. Shri K S Raju - 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.

* appointed as a Member with effect from July 22, 2005.

** appointed as a Member with effect from Sept. 26, 2005.

*** ceased to be a Member with effect from April 29, 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 April 18, 2005, July 22, 2005, September 26, 2005, October 27, 2005, January 23, 2006 and March 22, 2006. 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 B K Batra *	Member	4
Shri S R Ramakrishnan	Member	4
Smt. D Lakshmi		
Parthasarathy **	Member	1
Shri R Sathyamurthi ***	Member	1
Shri K S Raju	Member	6
Shri K M Jaya Rao	Member	2

- * appointed as a Member with effect from July 22, 2005.
- ** appointed as a Member with effect from Sept. 26, 2005.
- *** ceased to be a Member with effect from April 29, 2005.

4. Banking Committee

Members are:

- a. Shri K S Raju - Chairman
- b. Shri R Krishnan * - Member
- c. Shri P P Singh - Member
- d. Shri R S Nanda ** - Member

The quorum is two members present.

* ceased to be a Member with effect from November 5, 2005.

** appointed as a member with effect from April 27, 2006.

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 B K Batra * - Member
- d. Shri R Sathyamurthi ** - Member

* appointed as a Member with effect from July 22, 2005.

** ceased to be a Member with effect from April 29, 2005.

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 K M Jaya Rao - Member
- c. Dr. N C B Nath ** - Member
- d. Shri P P Singh - Member

The quorum is two members present.

* ceased to be a member with effect from April 27, 2006.

** appointed as a Member with effect from October 28, 2005.

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.



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7. Remuneration Committee

Members are:

- | | | |
|--------------------------|---|----------|
| a. Dr. N C B Nath | - | Chairman |
| b. Shri S R Ramakrishnan | - | Member |
| c. Shri B K Batra * | - | Member |
| d. Shri R Satyamurthi ** | - | Member |

The quorum is two members present.

* appointed as a Member with effect from July 22, 2005.

** ceased to be a Member with effect from April 29, 2005.

Terms of reference:

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

During the year under review, the Remuneration Committee of Directors had met twice and the meetings were held on April 18, 2005 and January 23, 2006. The details of attendance of members of the Remuneration Committee are as follows:

Name of the Member	Status	No. of meetings attended
Dr. N C B Nath	Chairman	2
Shri B K Batra *	Member	1
Shri S R Ramakrishnan	Member	1
Shri R Sathyamurthi **	Member	1

* appointed as a Member with effect from July 22, 2005.

** ceased to be a Member with effect from April 29, 2005.

REMUNERATION POLICY :

The remuneration paid to Executive Directors is considered and recommended by the Remuneration Committee and approved by the Board of Directors. The approval of the Board of Directors is subject to the approval by the shareholders and such other authorities, as the case may be.

8. Warrants Committee

Members are:

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

The quorum is two members present.

* ceased to be a Member with effect from November 5, 2005.

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 B K Batra ** | - | Member |
| g. Shri R K Chavali | - | Member |
| h. Shri K S Raju | - | Member |

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

* ceased to be a Member with effect from April 29, 2005

** appointed as a Member with effect from July 22, 2005

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.

J. 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, 2005 to March 31, 2006 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.20,000/-
Shri Ashok Chopra	Rs.10,000/-
Shri B K Batra **	Rs.80,000/-
Shri Chandra Pal Singh Yadav	Rs.30,000/-
Shri R.K. Chavali *	Rs.30,000/-
Shri K M Jaya Rao *	Rs.40,000/-
Shri R Krishnan #	Rs.40,000/-
Smt. D Lakshmi Parthasarathy##	Rs.20,000/-
Dr. N C B Nath	Rs.1,30,000/-
Shri M P Radhakrishnan	Rs.50,000/-
Shri S R Ramakrishnan	Rs.80,000/-
Shri V N Rai ###	Nil
Shri R Satyamurthi ***	Rs.20,000/-
Shri Vishwanath Mathur @@	Nil

@ ceased to be Chairman and Director with effect from April 27, 2006.

@@ joined as nominee director with effect from February 17, 2006.

* paid to IFCI / ICICI.

** appointed as a Director with effect from April 29, 2005 and amount paid to IDBI

*** ceased to be a Director with effect from April 29, 2005. amount paid to IDBI

ceased to be a Director with effect from November 5, 2005

joined as a Nominee Director with effect from August 31, 2005.

ceased to be Alternate Director with effect from July 8, 2006.



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The details of the remuneration paid to Shri K S Raju, 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 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.	as above	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.

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 rules of the company and no severance fees is payable.

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

K. RE-APPOINTMENT / REMUNERATION OF THE DIRECTORS

(A) Information about the Directors retiring by rotation:

Name of Director	Dr. N C B Nath	Shri R S Nanda	Shri K Rahul Raju
Date of Birth	February 17, 1930	March 4, 1944	August 31, 1976
Date of Appointment	December 5, 1990	June 26, 2004	February 24, 2001
Experience in specific functional areas	Is a well-known Economist and Consultant	Engineer with 40 years of experience in managing Chemical / Fertilizer companies	Shri K Rahul Raju was inducted into the Nagarjuna Group's Business during the year 1996 - 97. He was later Head-Nagarjuna's Biz Initiatives. He was Chief Executive Officer of Bijam Bio-Sciences Limited and also Head of Nagarjuna Group's Emerging Business Initiatives in the year 2000. He has been Director - Business Development and Strategic Planning of Nagarjuna Fertilizers and Chemicals Limited since 2004.
Qualifications	Ph. D (Eco.)	B.Sc. (Mech. Engg.)	B.Com (Hons.)
List of other Directorships held as on March 31, 2006	Dr. N C B Nath Consultants Private Limited	Reliance Cellulose Products Limited	Nagarjuna Oil Corp. Limited Nagarjuna Corporation Limited Ikisan Limited Nagarjuna Agrichem Limited Nagarjuna Foundation Biz Softcom Solutions Pvt. Limited Bijam Private Limited Bijam Investments Pvt Limited Bijam Bio-sciences Pvt Limited

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(B) Information pertaining to Whole-time Directors :

Name of Director	Shri K S Raju	Shri P P Singh
Date of Birth	June 29, 1950	January 15, 1941
Date of Appointment	April 25, 2003	February 24, 2004
Experience in specific functional areas	Has 21 years of experience in management of Fertilizer companies.	Engineer with 41 years of experience in management of Fertilizer companies.
Qualifications	B.E.	F.I.E.
List of other Directorships held as on March 31, 2006.	Nagarjuna International (Vietnam) Limited Jaiprakash Engineering & Steel Co. Limited Nagarjuna Oil Corporation Limited Nagarjuna Holding (Vietnam) PTE Limited Nagarjuna Agrichem Limited Nagarjuna Power Corporation Limited K anumuru Education and Knowledge Limited Nagarjuna Corporation Limited Ikisan Limited Bhagiradha Chemicals and Industries Limited The Fertilizer Association of India Bijam Private Limited Biz Softcom Solutions Private Limited Nagarjuna Agricultural Research and Development Institute KVK Raju International Leadership Academy Magna Infotech Private Limited Nagarjuna Foundation Nagarjuna Hydro Energy Private Limited Bijam Biosciences Private Limited Himagiri Hydro Energy Private Limited	Ikisan Limited Jaiprakash Engineering & Steel Co. Limited Nagarjuna Oil Corporation Limited Nagarjuna Agricultural Research and Development Institute
Chairman / Member of the Committees of the Boards of the other Companies on which he is a Director as on March 31, 2006	Jaiprakash Engineering & Steel Co. Ltd. Chairman - Remuneration Committee Nagarjuna Power Corporation Limited Member - Audit Committee Nagarjuna Oil Corporation Limited Member - Audit Committee Chairman - Banking Committee Member - Remuneration Committee Chairman - Share Allotment and Transfer Committee Chairman - Management Committee Nagarjuna Agrichem Limited Chairman - Banking Committee Chairman - Shares and Debentures Committee	Jaiprakash Engineering & Steel Co. Ltd. Chairman - Audit Committee Member - Remuneration Committee Nagarjuna Oil Corporation Limited Member - Audit Committee Member - Remuneration Committee Member - Shares Allotment and Transfer Committee



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L. CODE OF CONDUCT AND ETHICS

The Board of Directors of the company have formulated a Code of Conduct and Ethics applicable to all the Members of the Board of Directors and Senior Management Personnel of the Company.

The Details of the Code of Conduct and Ethics are posted at the company's website at www.nagarjunafertilizers.com.

A detailed declaration alongwith a certificate of compliance appears in the Annexure to the Corporate Governance Report

M. RISK ASSESSMENT AND MINIMISATION PROCEDURE

The company from time to time has been conducting exercises on Risk Assessment and Minimisation Procedures. This had been need based and being done by internal management team.

The company has now with the assistance of leading consultants formulated a structured procedure for Risk Assessment and Minimisation Procedure.

In terms of the Risk Assessment and Minimisation Procedure, a Steering Committee consisting of senior executives of the company has been formed to look at the various risks affecting the company and also finding ways and means of mitigating the risks.

Risk Owners and Risk Champions have been appointed. The report of the Steering Committee is presented to the Board of Directors on a quarterly basis.

N. SHAREHOLDER INFORMATION

The company has 4,34,117 shareholders.

The company during April 1, 2005 to March 31, 2006 received 17,296 letters / complaints from the investors, out of which 17,250 letters were attended and resolved and the balance letters / complaints were resolved subsequently. 11,328 requests for transfer of shares and 45,125 requests for dematerialisation / rematerialisation of shares were received and the shares dematerialised / rematerialised.

O SHAREHOLDER/DEPOSITORS QUERIES RECEIVED - REPLIED DURING THE YEAR

Nature of Letters	Opening Balance	Replied	Received	*Closing Balance
Change of address	0	2,472	2,472	0
Revalidation of dividend warrants	0	577	577	0
Share transfers	0	11,328	11,328	0
Demat / Remat of Shares	0	45,125	45,125	0
Issue of duplicate certificates	35	215	204	46
Transmission of shares	0	776	776	0
Deposit complaints	0	110	110	0
General queries	0	13,111	13,111	0

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

P. 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.

Q. 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.

R. 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, 2006, over 80.78 % 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 : **42,81,81,821**

Total No. of Shareholders : **4,34,117**

Mode of Shareholding	No. of Shares	% to Total Equity Shares	No. of Share holders	% to Total Share holders
Physical Form	8,22,91,249	19.22%	2,90,852	67.00%
Electronic Mode	34,58,90,572	80.78%	1,43,265	33.00%

The company's ISIN No. for dematerialisation for both NSDL and CDSL is INE 580A01013.

S. 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, 2005, September 30, 2005 and December 31, 2005 were posted on the company's website and the financial

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results for the year ended March 31, 2006 have been 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.

S.1 Shareholders' Rights

We communicate with investors regularly through e-mail, telephone and face-to-face meetings either in investor conferences or personal visits.

We announce the quarterly financial results within one month of the close of a quarter.

The quarterly financial results are published in one English newspaper and one vernacular newspaper and updated on the company's website.

T. Distribution of Shareholding

I. The Distribution of shareholding as on March 31, 2006 was as follows :

Share Holding	Share Holders		Share Holding	
	Number	% to Total	Value in Rs.	% to Total
Upto 5000	3,84,473	88.56	70,27,46,540	16.41
5001 – 10000	31,586	7.28	27,10,76,870	6.33
10001 – 20000	10,347	2.38	16,37,34,430	3.82
20001 – 30000	2,883	0.66	7,59,13,720	1.77
30001 – 40000	1,141	0.26	4,16,98,250	0.97
40001 – 50000	1,196	0.28	5,79,97,270	1.35
50001 – 100000	1,336	0.31	10,19,22,640	2.38
100001 and Above	1,155	0.27	2,86,67,28,490	66.95
TOTAL	4,34,117	100.00	4,28,18,18,210	100.00

II. Distribution of Shareholding as on March 31, 2006

Category	No. of shares held	Percentage of shareholding
A. Promoter's Holding	15,08,74,528	35.24
B. Non – Promoters Holding		
I. Institutional Investors		
a. Mutual Funds and UTI	47,32,150	1.11
b. Banks, Financial Institutions, Insurance Companies (Central / State Govt. Institutions / Non-Government Institutions)	1,90,09,447	4.44
c. Foreign Institutional Investors	2,50,04,323	5.84
II. Others		
a. Private Corporate Bodies	6,41,02,022	14.97
b. Indian Public	16,08,75,662	37.57
c. NRIs / OCBs	35,83,689	0.83
d. Any other (please specify)	--	--
GRAND TOTAL	42,81,81,821	100.00

III. Details of persons holding more than 1 % shareholding as on March 31, 2006

S. No. Name of the Company

I. Indian Promoters

a. Core Promoters

- 1 Nagarjuna Holdings Private Limited
- 2 K S Raju Associates and Estates Private Limited
- 3 K R R Holdings Private Limited
- 4 Paschim Holdings Private Limited
- 5 K S Raju and Associates Private Limited
- 6 Nagarjuna Engineering and Construction Company Private Limited
- 7 Fireseed Limited

b. Co - Promoters

- 8 Governor of Andhra Pradesh
- 9 Krishak Bharati Co-operative Limited

II. Financial Institutions

- 10 IFCI Limited
- 11 Life Insurance Corporation of India

III Foreign Institutional Investors

- 12 ABN AMRO Bank NV London Branch

IV Others

- 13 Nagarjuna Staff Betterment Company Private Limited
- 14 Nagarjuna Employee Welfare Foundation
- 15 Lok Prakashan Limited
- 16 Neo Securities Limited

T.1. SHARES HELD BY NON – EXECUTIVE DIRECTORS

Name of the Director	No. of shares held
Field Marshal Sam Manekshaw @	13,000
@ ceased to be Chairman and Director with effect from April 27, 2006.	

T.2. DETAILS OF PUBLIC FUNDING IN THE LAST THREE YEARS

The company has not raised any funds from the public since the Public Issue of the company in 1992.

T.3. INSIDER TRADING

The company in compliance with the Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 1992 has formulated a well defined Insider Trading Policy which prohibits its employees and other associates to deal in the securities of the company based on any unpublished price sensitive information.

The Insider Trading Policy lays down the guidelines which advises all the persons considered as Insiders on the procedures to be followed and disclosures to be made while dealing with shares of the company and cautioning them of the consequences of violation.

U. DIVIDEND HISTORY FOR THE LAST 5 YEARS

The company has not declared dividend since the year 2000.



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V. Market Price Data – the High / Low price of shares of the company traded during each month for the year April 1, 2005 to March 31, 2006 on The Stock Exchange, Mumbai and National Stock Exchange of India Limited are as follows:

Month	BSE	
	High Rate	Low Rate
April '2005	14.52	12.40
May '2005	14.80	10.85
June '2005	16.65	13.65
July '2005	17.50	14.00
August '2005	17.70	15.40
September '2005	18.10	15.05
October '2005	16.15	12.10
November '2005	15.75	14.11
December '2005	15.45	13.90
January '2006	16.18	13.60
February '2006	16.27	13.82
March '2006	14.95	12.90

Month	NSE	
	High Rate	Low Rate
April '2005	14.50	12.40
May '2005	14.75	12.45
June '2005	16.65	13.25
July '2005	17.50	13.95
August '2005	17.75	15.20
September '2005	18.10	13.60
October '2005	16.60	12.10
November '2005	15.85	12.40
December '2005	15.40	13.90
January '2006	16.10	13.55
February '2006	16.30	13.80
March '2006	14.95	12.85

W. GENERAL BODY MEETINGS

(1) The last four General Meetings were held as under:

Financial Year	Date	Time	Place
2002 – 2003	28.07.2003	10.00 a.m.	Sri Satya Sai Nigamagamam 8-3-987/2 Srinagar Colony Hyderabad – 500 073
2003 - 2004	22.09.2004	10.00 a.m.	Sri Satya Sai Nigamagamam 8-3-987/2 Srinagar Colony Hyderabad – 500 073
2003 – 2004	23.12.2004 (EGM)	10.00 a.m.	Sri Satya Sai Nigamagamam 8-3-987/2 Srinagar Colony Hyderabad – 500 073
2004- 2005	26.09.2005	10.00.a.m.	Sri Satya Sai Nigamagamam 8-3-987/2 Srinagar Colony Hyderabad – 500 073

The 29th Annual General Meeting of the company was attended by over 2600 shareholders including nominees of the Government of Andhra Pradesh, Krishak Bharathi Co-operative Limited and Promoter Companies and proxies.

Since Field Marshal Sam Manekshaw, Chairman, was unable to attend the Annual General Meeting, Shri K S Raju, Vice Chairman & Managing Director, chaired the Meeting and the Chairman of the Audit Committee, Dr. N C B Nath was present at the Annual General Meeting.

(2) Special Resolutions passed in the last three years

a. Special Resolutions passed at the 27th Annual General Meeting held on July 28, 2003.

- Re-appointment of the Statutory Auditors of the company, M/s. M Bhaskara Rao & Company, Chartered Accountants, Hyderabad.
- Approval of the remuneration payable to the Whole-time Directors and Managing Director of the company.

b. Special Resolutions passed at the 28th Annual General Meeting held on September 22, 2004.

- Re-appointment of the Statutory Auditors of the company, M/s. M Bhaskara Rao & Company, Chartered Accountants, Hyderabad.
- Re-appointment of Shri P P Singh as Director (Technical) of the company.
- Appointment of Shri R S Nanda as Director and Chief Operating Officer of the company.
- Appointment of Shri K Rahul Raju as Director – Business Development & Strategic Planning of the company and the remuneration payable to him.
- To make contributions during any financial year to charitable and other funds or trusts upto an amount not exceeding Rs.25 lakhs.

c. Special Resolutions passed at the 29th Annual General Meeting held on September 26, 2005.

- Re-appointment of the Statutory Auditors of the company, M/s. M Bhaskara Rao & Company, Chartered Accountants, Hyderabad.
- Payment of remuneration to Shri K Rahul Raju for a period of three years with effect from June 26, 2004.
- Alteration of “the other objects” of the Memorandum of Association of the company by inserting a new clause.

(3) Postal Ballot

During the year, the company obtained the approval of the Members, through Postal Ballot, for alteration of Objects Clause of the Memorandum of Association. Salient features of the postal ballot are provided below:

- The Board of Directors of the company, at its meeting held on April 21, 2005 appointed Shri S Ravi, Advocate, failing him, Shri Sanjay Kishore, Advocate, as the Scrutiniser for conducting the postal ballot voting process in a fair and transparent manner.

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- Notice alongwith postal ballot form and prepaid self-addressed envelope was despatched to the Members.
- The last date of receipt of postal ballot forms was closing hours of September 25, 2005.
- The postal ballot forms received were kept in boxes sealed by scrutiniser.
- The Scrutiniser, after verification of postal ballots, submitted his Report to the Chairman of the company on September 26, 2005.
- Based on the scrutiniser's report, the results of the postal ballot were declared on September 26, 2005 at the venue of the Annual General Meeting as follows :

Resolution No.1

Alteration of Objects Clause of the Memorandum of Association

Particulars	No. of Members	No. of Votes (value in Rs.)	% of Votes
Total Postal Ballots received	10,331	1,43,72,38,840	-
Valid Postal Ballots received	10,117	1,43,72,38,840	100
Invalid Postal Ballots received	214	-	-
Postal Ballots in favour of the Resolution	9,838	1,43,63,99,340	99.94
Postal Ballots against the Resolution	279	8,39,500	0.06

The special resolution referred to above was carried by overwhelming majority.

No special resolution requiring a postal ballot is being proposed for the ensuing AGM.

X. 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. As on March 31, 2006 an amount of Rs.53,98,430/- remained unclaimed.

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

Y. 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 to 1997-1998 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 1997 - 98 to the Investor Education and Protection Fund is given below:

Name of the Bank	Amount transferred
State Bank of Patiala	- Rs.27,70,612/-
State Bank of Hyderabad	- Rs.31,98,988/-
Punjab National Bank	- Rs.66,64,499/-

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
1998 - 1999	September 20, 1999	November ' 2006
1999 - 2000	September 28, 2000	November ' 2007

ii. Unclaimed Debentures / Debenture Interest

5,82,40,269 debentures aggregating Rs.60,74,61,909.00 were redeemed on December 31, 1998 as per the terms of the issue. The seven years period ended on December 31, 2005. All the debenture holders were sent reminder letters to claim the redemption amount and interest on debentures. Rs.1,16,68,547.00 were paid to debenture holders who claimed redemption amount and Rs.23,446.00 was paid as interest on debentures. The unclaimed redemption amount of Rs.2,39,00,444.00 and interest amount of Rs.9,50,948.00 were transferred to the Investor Education and Protection Fund in February '2006.

1	Total redemption amount outstanding as on 31-12-2005 (Rs.)	2,39,00,444.00
2	Total Interest amount outstanding as on 31-12-2005 (Rs.)	9,50,948.00



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3	No. of claims received and processed for redemption	9,740
4	Total amount paid (Rs.)	1,16,68,547.00
5	No. of claims received and processed for interest on Debentures	264
6	Total amount paid (Rs.)	23,446.00

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, 2006 :

Amount transferred Upto March 31, 2006	-	Rs.9,85,043.00
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Share holders and deposit holders who have not claimed their dividends, 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.

Z 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 Department 1 st Floor, New Trading Ring Routunda Building P J Towers, Dalal Street, Fort Mumbai - 400 001	500075

A.A. 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.
- Whistle Blower Policy - The Audit Committee of Directors at their meeting held on September 26, 2005 approved and commended the draft Whistle Blower Policy and the Board of Directors at their meeting held on September 26, 2005 approved the Whistle Blower Policy.

The company affirms that no personnel has been denied access to the Audit Committee.

- Details of compliance with mandatory requirements and adoption of the non-mandatory requirements of this clause.

The company has complied with all the mandatory requirements and has adopted the non-mandatory requirements.

- The company has not issued any GDRs / ADRs and there are no Warrants.

A.C. 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 & Development Institute
- Nagarjuna Power Corporation Limited
- Nagarjuna Corporation Limited

A.D. Calendar for the year

a. Date of Book Closure

September 15, 2006 to September 28, 2006 (both days inclusive)

b. 30th Annual General Meeting

Venue - Sri Satya Sai Nigamagmam, Srinagar Colony, Hyderabad

Time - 10.00 A.M.

Date. - September 28, 2006

c. Tentative dates for considering Financial Results

For the quarter ended June 30, 2006 3rd Week of July '06

For the quarter ending September 30, 2006 3rd Week of Oct. '06

For the quarter ending December 31, 2006 3rd Week of Jan. '07

For the year ending March 31, 2007 4th Week of April '07

31st Annual General Meeting 4th week of July '07

A.E. Name and designation of the Compliance Officer.

Shri M Ramakanth : Secretary

Telephone No. : 040 - 23355317

Fax No. : 040 - 23350247

Email id. : RamakanthM@nagarjunagroup.com

MANAGEMENT DISCUSSION AND ANALYSIS**1. INDUSTRY SCENARIO AND DEVELOPMENT**

The role of agriculture in the growth of Indian economy has been well settled. The growth and development of Fertilizer Industry have been linked to the performance of the agriculture sector. The Fertilizer Industry over the years has been able to live upto the expectations of increased production and supply of fertilizers to meet the demands of agriculture.

Enhancement of agricultural growth is essential for achieving overall GDP growth rate of 8 – 10 % and improved productivity is critical for achieving accelerated agricultural growth rate.

Low productivity has afflicted the Indian agriculture and the yield per hectare is lower compared to that of the neighboring and other countries.

Agriculture sector share in the GDP has been falling while the rate of capital formation in the sector has also been declining due to stagnation and fall in investment.

Agricultural production in 2005-06 were normal in view of the normal rainfall. Further the agriculture sector growth during the year 2005 -2006 has been at 2.3%. The main concern has been the declining productivity in the agriculture sector. The need of the hour is to increase agriculture yield in order to cater to the growing needs of the economy.

The President of India and Prime Minister have expressed their deep concern and the necessity for another green revolution to increase agricultural production. This would provide an opportunity for your company to meet the demands through adequate supply of urea and other nutrients. Your company has started a new initiative for integrated farm management for the farmers and has set-up a number of demonstration farms in the country to demonstrate that increased productivity is possible with scientific way of farming at optimum cost.

The monsoon 2005 spread was not uniform but the weighted rainfall was at 99% as compared to the previous year. This gave a fillip to the agriculture. The low and volatile growth rate in the agriculture and allied sectors was reflected in the average annual growth rate declining from 4.7% during the 8th plan to 2.2% during the 9th plan.

During the year 2005 – 2006 the sales volume of fertilizers registered a healthy growth over the corresponding period of the previous year due to good monsoon. The sales of N, P & K increased by 8.8%, 14.9% and 16.3% respectively. This was despite the fact that there was only a marginal increase in the urea production due to capacity constraint. The production of DAP fell short by 1.45 Million Tonnes. The shortfalls of urea and DAP were met through larger imports.

The revenues of fertilizers produced increased following high realisation due to increased cost of feed stock

though operating margins were under pressure due to rise in input cost and the government policy continued to influence the profitability of the industry.

The subsidy on urea during 2005-06 for your company was estimated at Rs.1153.90 crores and the increase was attributed to steep increase in the price of feed stock and raw material and the strain was likely to continue during the year.

The Finance Act, 2006 has not caused any impact on the Fertilizer sector but has definitely caused strain on the distribution of subsidy in view of the fertilizer subsidy for the fiscal year 2005-2006 likely to exceed Rs 24000 crores against a budget estimate of Rs.15250 crores.

One of the main reasons for the increase in subsidy has been the selling price which has remained constant with negligible increase though there has been substantial increase in input cost due to steep increase in prices of Naphtha and gas which are the raw materials for manufacture of urea.

The delayed receipt of subsidy reimbursement from the government has impacted the financial position of your company due to the additional interest burden.

The erstwhile individual unit oriented retention price in respect of urea had been replaced in stages by a group based pricing scheme with effect from April '2003 and April '2004. The Department of Fertilizers has constituted a working group under the Chairmanship of Dr. Y K Alagh to look into the new 3rd stage of pricing policy, which is effective from April 1, 2006.

The draft proposals of the third phase of the pricing policy circulated to the various companies in the industry has not been encouraging with a further likely drop in the reimbursement of subsidies. This would adversely impact your company with a likely reduction in disposable profits.

The non-availability of adequate quantity of natural gas and the high cost of naphtha has also burdened your company's financials.

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

During the year under review your company had gone in for Process Safety Management Systems (PSMS) implementation, which focused on the application of management controls on operations involving hazardous materials / processes in a way that process hazards are identified, understood and controlled and knowledge updated so that process related upsets/ incidents could be eliminated. Your company had pro-actively adopted the Code of Practice by Occupational Safety and Health Administration (OSHA), USA, although this is not mandatory in India. This complements well with the accreditation of OHSAS – 18001 and British Safety Council's 5 star audit for the plant.



During the year, the Plants were audited for upgraded version of EMS management system ISO 14001:2004 certification and upgraded certificate is awaited. ISO 9001:2000 and OHSAS 18001 systems surveillance audits were conducted. Your company implemented Phase-I of Process Safety Management System and stepping into Phase-II PSMS implementation.

Your Company had undertaken a project called Project "nHance" for Business Process Re-engineering (BPR). The project was aimed at enhancing the Quality, Speed, Reliability, Flexibility and Cost Effectiveness of all our business processes, right from the strategic planning process to managing customer relations and enhancing organisational effectiveness aimed at aligning employees of your company and business processes. This project entailed bringing in best-in-class business practices, standardising and IT enabling them within your company with necessary information technology upgrades.

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 K.G. Basin in Andhra Pradesh by various agencies is encouraging news for your company which shall help your company being able to fully operate on natural gas and maximise its operations more efficiently two years from now.

4. RISKS AND CONCERNS

Your company has developed a structured approach and formulated a Risk Assessment and Minimisation Procedure. The procedure shall be reviewed periodically to ensure that the various risks have been identified and a Risk Management framework has been formulated for the company. A system of clear accountability regarding the management of the risks identified has been put in place.

5. FUTURE STRATEGIC DIRECTIONS

The Corporate Debt Restructuring of the Company has brought in substantial financial stability to the company but the company is yet unable to meet the aspirations of the shareholders.

In this scenario, the company is looking at various options to garner additional revenues so as to increase the profitability of the company. The company has also been looking at options in view of the present control regime under which the company operates and the quest for globalisation of business opportunity so as to be able to sustain the company's business.

Your company has been looking at options in this regard and also looking to increase the disposable profits of the company.

Your company has also proposed to revamp and de-bottleneck the existing Plants at Kakinada, subject to necessary approvals of the Government of India and shall take a decision only after the announcement of the third phase of the pricing policy effective April 1, 2006.

Your company is making inroads into research in areas of biotechnology and proposes to enhance its exposure in this area.

6. INTERNAL CONTROL

Your company has adequate internal control systems and with the various initiatives that are being taken during the course of the year in the Information Technology sector, expects to have adequate systems and procedures in place.

7. HUMAN RESOURCES / INDUSTRIAL RELATIONS:

Your company proposes to strengthen the existing manpower and obtain the best from others through inspired alliances so as to have a sustained environment. In this regard, your company has conducted a competency profiling for identifying a change in organisation structure and also proposes undertaking training and development of personnel.

Your company during the period under review has introduced the concept of remunerating employees on Cost to Company (CTC) basis, linked to performance and corporate objectives. Your company has also been advised by leading consultants in this regard and is also adopting the best global HR practices.

DECLARATION REGARDING COMPLIANCE BY BOARD MEMBERS AND SENIOR MANAGEMENT PERSONNEL WITH THE CODE OF CONDUCT AND ETHICS

This is to inform you that the Company has adopted a Code of Conduct and Ethics applicable to all the Members of the Board of Directors and Senior Management Personnel of the company. The details of the Code of Conduct and Ethics are available at the Company's website at www.nagarjunafertilizers.com.

I confirm that the Company has in respect of the financial year ended March 31, 2006 received from all the Members of the Board of Directors and all the Senior Management Personnel of the company a declaration of compliance with the Code of Conduct and Ethics as applicable to them.

Senior Management Personnel are personnel who are a part of the core management team, comprising personnel one level below the executive directors and including all functional heads as on March 31, 2006.

Hyderabad
April 27, 2006

K S Raju
Vice Chairman & Managing Director



NFCL

CERTIFICATION BY CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER OF THE COMPANY

We, K S Raju, Vice Chairman & Managing Director and CEO and J Mahalingam, Chief Financial Officer, of Nagarjuna Fertilizers and Chemicals Limited, to the best of our knowledge and belief certify that :

1. We have reviewed the Balance Sheet and Profit and Loss Account of the Company for the year ended 31st March, 2006 and all its schedules and notes on accounts, as well as the Cash Flow Statement.
2. Based on our knowledge and information, these statements do not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made.
3. Based on our knowledge and information, the financial statements, and other financial information included in this report, fairly present in all material respects, the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report, and are in compliance with the existing accounting standards and / or applicable laws and regulations.
4. To the best of our knowledge and information :
 - a. these statements do not contain any materially untrue statement or omit to state a material fact or contains statement that might be misleading.
 - b. these statements together present a true and fair view of the Company's affairs and are in compliance with existing accounting standards, applicable laws and regulations.
5. We also certify, that based on our knowledge and the information provided to us, there are no transactions entered into by the Company, which are fraudulent or illegal.
6. The Company's other certifying officers and we are responsible for establishing and maintaining internal controls and procedures for the Company, and we have evaluated the effectiveness of the Company's internal controls and procedures and confirm them to be adequate.
7. The Company's other certifying officers and we have disclosed, based on our most recent evaluation of internal controls and systems and have to state
 - a. That there were no deficiencies in the design or operation of internal controls, which we are aware;
 - b. That there have been adequate internal controls in the company.
 - c. That there was no fraud, which we have become aware of and that involves Management or other employees who have a significant role in the Company's internal control systems;
 - d. That there were no changes in accounting policies during the year.

Hyderabad
April 27, 2006

K S Raju
Vice Chairman &
Managing Director

J Mahalingam
Chief
Financial Officer

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, 2006 as stipulated in Clause 49 of the Listing Agreement of the said company with Stock Exchanges.

The Compliance of conditions of Corporate Governance is the responsibility of the management of the company. Our examination was limited to procedures and implementation thereof, adopted by the company for ensuring compliance of the conditions of Corporate Governance. It is neither an audit nor an expression of opinion on the financial statements of the company.

In our opinion and to the best of our information and according to the explanations given to us, we certify that the company has complied with the conditions of Corporate Governance as stipulated in the above mentioned Listing Agreement.

We 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
July 28, 2006

V K Muralidhar
Partner

NFCL



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, 2006, 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 of India 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
 - v) On the basis of written representations received from the directors, as on 31st March, 2006 and taken on record by the Board of Directors, we report that none of the directors is disqualified as on 31st March, 2006 from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Companies Act, 1956;
 - vi) We draw attention to the following notes on accounts in Schedule 13:
 - a) Note No 7(i) – regarding statement of net asset value of Investment in Nagarjuna Oil Corporation Limited (NOCL), a wholly owned subsidiary of the Company. Despite the unreasonable delay in execution of the project and in view of the various positive developments stated during the year the management perceives that the project is commercially and operationally viable and is confident of implementation of the project.
 - b) **Note No. 7 (ii) and 7(iii) regarding investments in Nagarjuna Power Corporation Limited (NPCL) and Jaiprakash Engineering and Steel Company Limited (JESCO) subsidiaries of the company. These companies are in the project stage and any diminution in the latest book value as compared to the cost of such share before commencement of operations by the companies is not considered as permanent diminution. In view of the uncertainties in implementation of the projects by the said subsidiaries and in the absence of quantification of the diminution, we are unable to form an opinion in the matter and its impact on the financial statements including the profit for year and consequential effect on reserves.**

- c) Note No. 8 (b) regarding the carrying value of certain overdue for a considerable time.
- d) Note No. 9 (a) regarding non provision for tax (amount not determined) as a result of amendment of certain sections of Income Tax Act, 1961 retrospectively by the Finance Act 2006 and its impact on the profit for the year and consequential effect on reserves.
- e) Note 10 Re: Group Concession Scheme – Subsidy.
- vii) **Subject to our remarks at Paragraph (vi) (b) above**, in our opinion and to the best of our information and according to the explanations given to us, the said accounts read with other notes and significant accounting policies 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, 2006;
 - 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

V K Muralidhar
Partner

Hyderabad
April 27, 2006

Membership Number: 201570

Annexure

Re: Nagarjuna Fertilizers and Chemicals Limited
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 (excluding 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.
- (g) 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 adequate 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, 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, 2006 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 2006. 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. 5003.70 Lakhs and debenture interest amounting to Rs.979.57 Lakhs held by Unit Trust of India. (Refer Note 4(b) (i) (a) and (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 the Companies (Auditors' Report) Order, 2003 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 Companies (Auditors' Report) Order, 2003 are not applicable to the company.
 - (xv) The company has given a corporate guarantee to 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. UTI Bank Ltd has invoked the corporate guarantee – Rs.5572.41 Lakhs
 - (xvi) The company has not obtained any term loans during the year.
 - (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 created securities for the debentures issued in the previous years.
 - (xx) The company has not raised any money by public issues 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.

Statute	Nature	Amount Involved (Rs. Lakhs)	period	Forum where dispute is pending
Sales Tax Acts of Various 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-parte order on sales tax assessment	3.20 1.41	2000-2001 2001-2002	Joint Commissioner Patna
	Penalty for non endorsement of way bills and tax on Trade margin	64.62	2001-2002	Deputy Commissioner Corporate Division (AW), Kolkata
The Andhra Pradesh Tax on Entry of Goods into Local Areas Act, 2001	Entry Tax	266.01	2002-2003 to 2005 -2006	Sales Tax Appellate Tribunal, Visakhapatnam.

for M.Bhaskara Rao & Co.,
Chartered Accountants

Hyderabad
April 27, 2006

V K Muralidhar
Partner
Membership Number:201570

Balance Sheet as at 31st March, 2006

Rs.Lakhs

Particulars	Schedule	31-03-2006		31-03-2005	
SOURCES OF FUNDS					
Shareholders' Funds					
Share Capital	1	46,516.36		46,497.44	
Reserves and Surplus	2	137,953.60		140,199.82	
			184,469.96		186,697.26
Loan Funds					
Secured Loans	3	140,175.98		144,924.29	
Unsecured Loans		5,151.47	145,327.45	4,469.63	149,393.92
Deferred Tax Liability			25,435.90		31,082.61
TOTAL			355,233.31		367,173.79
APPLICATION OF FUNDS					
Fixed Assets					
Gross Block	4	380,617.38		381,570.40	
Depreciation		(136,508.25)		(116,934.57)	
Lease adjustment		(4,824.27)		(5,221.70)	
		239,284.86		259,414.13	
Capital Work in progress		673.58		1,510.14	
Net Block			239,958.44		260,924.27
Investments					
	5		67,912.27		66,443.89
Current Assets, Loans and Advances					
Inventories	6	5,776.20		7,620.13	
Sundry Debtors		31,124.31		22,170.64	
Cash and Bank Balances		6,084.00		1,922.16	
Loans and Advances		24,529.91		18,163.62	
		67,514.42		49,876.55	
Current Liabilities and Provisions					
Current Liabilities	7	(14,802.57)		(9,375.69)	
Provisions		(5,349.25)		(695.23)	
Net Current Assets			47,362.60		39,805.63
TOTAL			355,233.31		367,173.79
Accounting Policies & Notes to accounts	13				

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

V. K. Muralidhar
Partner

Hyderabad
April 27, 2006

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

K S Raju
Vice Chairman & Managing Director

M Ramakanth
Secretary

Hyderabad
April 27, 2006

J. Mahalingam
Chief Financial Officer

B K Batra
N C B Nath
M P Radhakrishnan
S R Ramakrishnan
Directors
P P Singh
Director (Technical)
R S Nanda
Director & Chief Operating Officer
K Rahul Raju
Director - Business Development & Strategic Planning

NFCL



Profit and Loss Account for the year ended 31st March, 2006

Rs.Lakhs

Particulars	Schedule	31-03-2006		31-03-2005	
Income					
Sales, Subsidy and Equated Freight (Net of taxes, duties, margins and discounts)			145,294.74		126,638.97
Other Income	8		2,043.84		1,767.37
Remission of principal amount of loan			-		1,464.70
TOTAL			147,338.58		129,871.04
Expenditure					
Purchases - traded products			7,856.49		10,153.50
Raw Material consumed			48,110.60		37,625.90
Power and Fuel			33,243.63		28,203.36
Catalysts Charge			540.21		1,030.59
Chemicals and Consumables			588.09		426.63
Salaries, Wages and benefits	9		3,933.23		3,236.57
(Increase)/Decrease in Stock	10		584.25		(1,878.40)
Packing Material consumed			3,813.02		4,233.23
Transport and Handling charges			9,132.29		9,289.39
Distribution Expenses			461.77		364.96
Other Expenses	11		8,515.62		5,245.23
Depreciation	4	20,363.63		12,159.10	
Less: Transfer from Revaluation Reserve		8,258.21	12,105.42	22.72	12,136.38
Interest and Financing Charges	12		13,098.74		14,278.63
TOTAL			141,983.36		124,345.97
Profit / (Loss) Before Tax			5,355.22		5,525.07
Provision for Tax - Net			4,158.95		502.08
Deferred Tax credit / (debit)			5,646.71		(2,070.29)
Fringe Benefit Tax			157.78		-
Profit / (Loss) After Tax			6,685.20		2,952.70
Balance brought forward			14,022.81		11,660.34
Less: Debit Balance on a/c of amalgamation			-		(590.03)
Amount available for appropriation			20,708.01		14,023.01
Appropriations					
Debenture Redemption Reserve			7,201.10		-
Preference Dividend			0.37		0.18
Dividend Tax			0.05		0.02
Balance Carried to Balance Sheet			13,506.49		14,022.81
			20,708.01		14,023.01
Earnings per Share (Annualised)	13.B.14		1.56		0.70
Accounting Policies & Notes to Accounts	13				

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

V. K. Muralidhar
Partner

Hyderabad
April 27, 2006

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

K S Raju
Vice Chairman & Managing Director

M Ramakanth
Secretary

Hyderabad
April 27, 2006

J. Mahalingam
Chief Financial Officer

B K Batra
N C B Nath
M P Radhakrishnan
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, 2006 Rs.Lakhs

Particulars	31-03-2006		31-03-2005	
A. Cash Flow from Operating Activities				
Net Profit / (Loss) before Extraordinary items and Tax Adjustments for :		5,355.22		5,525.07
Add : Depreciation	12,105.42		12,136.38	
Deferred revenue expenses written off	540.21		1,030.59	
Lease equalisation	(397.43)		(520.38)	
Interest	13,098.74	25,346.94	14,278.63	26,925.22
		30,702.16		32,450.29
Less : Dividend received	10.08		10.07	
Profit /(Loss) on sale of assets (net)	(14.02)		203.45	
Profit on sale of investment (net)	142.28		6.65	
Remission of liability	-		1,464.70	
		138.34		1,684.87
Operating Profit before working capital changes		30,563.82		30,765.42
Adjustments for :				
Less : Trade and other receivables	11,404.39		(9,865.31)	
Inventories	(1,843.93)	9,560.46	1,462.66	(8,402.65)
		21,003.36		39,168.07
Add : Trade and other payables		10,709.80		2,683.69
Cash generated from operations		31,713.16		41,851.76
Direct taxes		3,498.73		314.65
Remission of liability		-		1,464.70
Cash flow after extraordinary items		28,214.43		43,001.81
Net cash from operating activities		28,214.43		43,001.81
B. Cash Flow from Investing activities				
Purchase of fixed assets	541.59		3,982.81	
Investment in subsidiaries	1,500.00		12,736.97	
Purchase of Investments	-	2,041.59	-	16,719.78
Sale of fixed assets	313.74		1,471.51	
Sale of investments	173.90		17.31	
Proceeds from Amalgamation (net)	-		34.56	
Dividend received	10.08	497.72	10.07	1,533.45
Net cash used in investing activities		1,543.87		15,186.33
C. Cash flow from financing activities				
Share capital - (including premium)	19.38		4,836.74	
Proceeds from Sales Tax Deferral	732.24		674.85	
Proceeds from long term borrowings	-	751.62	-	5,511.59
Repayment of short term loans / FD	50.40		126.00	
Repayment of long term loans **	10,511.86		18,581.10	
Interest paid	12,536.82		14,028.30	
Dividend Paid ***	161.26	23,260.34	133.50	32,868.90
Net cash used in financing activities		22,508.72		27,357.31
Net Increase/(decrease) in cash and Cash equivalents		4,161.84		458.17
Cash and cash equivalents as at 01.04.2005		1,922.16		1,463.99
Cash and cash equivalents as at 31-03-2006 @ @		6,084.00		1,922.16

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

*** relating to earlier years (including transfer to Investor Education and Protection Fund Rs 126.34 lakhs previous year Rs. 115.93 lakhs).

@ @ includes unclaimed dividend of Rs 280.75 lakhs (previous year Rs. 441.83 lakhs)

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

V. K. Muralidhar
 Partner

Hyderabad
 April 27, 2006

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

K S Raju
 Vice Chairman & Managing Director

M Ramakanth
 Secretary

Hyderabad
 April 27, 2006

J. Mahalingam
 Chief Financial Officer

B K Batra
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M P Radhakrishnan
S R Ramakrishnan
 Directors
P P Singh
 Director (Technical)
R S Nanda
 Director & Chief Operating Officer
K Rahul Raju
 Director - Business Development
 & Strategic Planning

Schedules forming part of the Balance Sheet as at 31st March, 2006

Schedule 1 - Share Capital		Rs.Lakhs	
Particulars	31-03-2006	31-03-2005	
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			
42,81,81,821 Equity Shares (pr year 41,97,25,062) of Rs.10/- each	42,818.18	41,972.51	
37,20,372 0.01% Ordinary Redeemable Preference Shares of Rs. 100/ each (Previous year 37,20,372 0.01% Optionally Convertible Cumulative Redeemable Preference Shares of Rs. 100/ each)	3,720.37	3,720.37	
TOTAL	46,538.55	45,692.88	
Subscribed and Paid Up			
42,81,81,821 Equity Shares of Rs. 10/- (pr yr. 41,70,20,593) each fully called up. Of the above 1,29,94,561 (pr yr. 18,33,333) Shares were allotted as fully Paid pursuant to the approved Schemes of amalgamation without payments being received in cash which includes 1,11,61,228 Shares allotted during the year .	42,818.18	41,702.06	
Calls in arrears - Others	(22.19)	(41.11)	
37,20,372 0.01% Ordinary Redeemable Preference Shares of Rs. 100/- fully paid up (Previous year 37,20,372 0.01% Optionally Convertible Cumulative Redeemable Preference Shares of Rs 100 each) (refer note 3 of schedule 13.B)	3,720.37	3,720.37	
Equity Share Capital pending allotment	-	1,116.12	
TOTAL	46,516.36	46,497.44	

Schedule 2 - Reserves and Surplus		Rs.Lakhs	
Particulars	31-03-2006	31-03-2005	
Capital Reserve			
As per last Balance Sheet	580.13	301.10	
Add: Capital reserve on amalgamation	-	279.03	580.13
Capital Subsidy	20.00		20.00
Revaluation Reserve			
As per last Balance Sheet	101,636.36	8,326.61	
Addition during the year (net)	-	93,332.47	
Deletion - impairment of asset during the year	673.26		
	100,963.10	101,659.08	
Less: Transfer to Profit & Loss A/c	8,258.21	22.72	101,636.36
Share Premium			
As per last Balance Sheet	9,244.03	9,243.93	
Receipts during the Year	0.46	0.09	9,244.02
Debenture Redemption Reserve			
As per last Balance Sheet	9,582.50	9,582.50	
Additions during the year	7,201.10	-	9,582.50
General Reserve			
As per last Balance Sheet	5,114.00		5,114.00
Profit and Loss Account - Balance	13,506.49		14,022.81
TOTAL	137,953.60		140,199.82

Schedules forming part of the Balance Sheet as at 31st March, 2006

Schedule 3 - Loan Funds

Rs.Lakhs

Particulars	31-03-2006	31-03-2005
Secured Loans (Refer note no 4 of schedule 13.B)		
A. Debentures - unquoted		
i) 75,00,000 14.5% Secured Redeemable Non-convertible Debentures of Rs.100 each	7,470.00	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	2,904.17	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	2,475.00	2,500.00
vi) 30,00,000 13.25% Secured Redeemable Non-convertible Debentures of Rs. 100 each	2,970.00	3,000.00
vii) 32,00,000 12.50 % Secured Redeemable Non-convertible Debentures of Rs. 100 each	1,800.00	1,800.00
viii) 18,67,73,027 (pr. Yr. 33,49,36,238) 0 % Secured Redeemable Non-convertible Debentures of Rs. 1/- each	1,867.73	3,349.36
ix) Interest accrued and due	979.57	344.86
	36,300.17	37,261.42
B. From Institutions - Term Loans		
i) in Rupees	77,100.32	78,657.94
ii) in Foreign currency	22.28	5,377.77
iii) Interest accrued and due	-	8.82
C. From Banks		
i) Working Capital Demand Loans / Cash Credit	18,209.30	13,018.85
ii) Term Loans	8,543.91	10,546.70
iii) Interest accrued and due	-	52.79
TOTAL	140,175.98	144,924.29
Unsecured Loans		
Fixed Deposits	-	0.15
Sales Tax Deferral - Loan	5,094.92	4,362.68
HDFC Loan	56.55	106.80
TOTAL	5,151.47	4,469.63

Schedule 4 - Fixed Assets

Rs.Lakhs

Particulars	Gross Block at Cost			Depreciation				Net Block		
	As at 31-03-2005	Additions during the period	Deductions/ Adjustments during the period	As at 31-03-2006	Upto 31-03-2005	For the period	Deductions/ Adjustments	Upto 31-03-2006	As at 31-03-2006	As at 31-03-2005
Land (Refer foot note 3)	10,750.41	19.87	13.38	10,756.90	-	-	-	-	10,756.90	10,750.41
Buildings	15,909.13	79.71	-	15,988.84	2,974.72	679.78	-	3,654.50	12,334.34	12,934.41
Roads, Drains & Culverts	4,220.41	-	-	4,220.41	214.25	202.44	-	416.69	3,803.72	4,006.16
Railway Siding	1,478.22	-	-	1,478.22	683.74	73.96	-	757.70	720.52	794.48
Plant & Machinery	331,300.39	345.40	1,569.72	330,076.07	103,936.91	18,438.79	613.54	121,762.16	208,313.91	227,363.48
Furniture, Fixtures & Office Equipment	2,686.00	350.23	174.19	2,862.04	1,869.38	158.35	159.17	1,868.56	993.48	816.62
Vehicles	195.88	42.73	33.68	204.93	107.91	16.73	17.24	107.40	97.53	87.97
Leased assets : Plant & Machinery										
A - Ongoing leases	11,399.97	-	3,875.00	7,524.97	5,324.90	499.90	2,044.57	3,780.23	3,744.74	6,075.07
B - Run off leases ***	3,630.00	-	(3,875.00)	7,505.00	1,822.76	293.68	(2,044.57)	4,161.01	3,343.99	1,807.24
Lease Terminal adjustment									(4,824.27)	(5,221.70)
	381,570.41	837.94	1,790.97	380,617.38	116,934.57	20,363.63	789.95	136,508.25	239,284.86 *	259,414.14 *
Previous Year	239,550.75	142,431.66	1,402.24	#381,570.41	104,584.08	12,159.10	134.18	## 116,934.57	259,414.14 *	

- Additions to Plant & Machinery includes Rs.42.28 lakhs debit on account of exchange rate variation { previous year 43.29 lakhs (debit)}.
- *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.
- Buildings,Roads Drains Culverts, Railway sidings and Plant & Machinery of manufacturing facilities at Kakinada were revalued pursuant to report of approved valuer on 31.03.2005 at Rs. 6346.57 lakhs, Rs. 3100.27 lakhs, Rs. 125.60 lakhs, Rs. 132185.30 lakhs respectively and Rs 808.89 lakhs decrease in respect of certain assets.
- 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.
- # Includes addition on amalgamation Rs. 990.24 lakhs.
- ## Includes addition on amalgamation Rs. 325.57 lakhs.
- *** 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, 2006

Schedule 5 - Investments (at cost)

Particulars	Face Value Rupees	31-03-2006		31-03-2005	
		Numbers	Rs. lakhs	Numbers	Rs. lakhs
LONG TERM INVESTMENTS:					
I. Equity Shares - Unquoted					
a) Equity Shares (Fully Paid)					
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		17.50
b) Shares in Subsidiary Companies- Unquoted					
Nagarjuna Oil Corporation Limited	10	592,000,000	59,200.00	577,000,000	57,700.00
Jaiprakash Engg. & Steel Co. Ltd	10	22,561,693	2,256.17	22,561,693	2,256.17
Nagarjuna Power Corporation Limited	10	64,000,000	6,400.00	64,000,000	6,400.00
			67,856.17		66,356.17
II. Equity Shares - Quoted (Fully paid - other than trade)					
Sri Saritha Software and Industries Ltd.	10	391,275	36.53	391,275	36.53
State Bank of Bikaner and Jaipur	100	320	1.69	3,670	19.37
State Bank of Travancore	100	6,245	36.91	8,540	50.47
Times Guarantee Financials Ltd.	10	-	-	7,900	10.92
			75.13		117.29
			67,948.80		66,490.96
Less: Provision for dimunition in value of Quoted investments			36.53		47.07
TOTAL			67,912.27		66,443.89
Aggregate cost of Quoted Shares			75.13		117.29
Aggregate Market Value of Quoted Shares			282.02		260.68

Schedules forming part of the Balance Sheet as at 31st March, 2006

Schedule 6 - Current Assets, Loans and Advances

Rs.Lakhs

Particulars	31-03-2006		31-03-2005	
A. Current Assets				
1. Inventories (as valued and certified by Management)				
Traded products	781.08		421.35	
Manufactured products	2,090.66		2,880.03	
Raw materials	643.62		602.62	
Work in process	149.42		304.03	
Packing materials	94.05		92.03	
Stores and Spares	2,012.80		3,308.87	
Loose tools	4.57	5,776.20	11.20	7,620.13
2. Sundry Debtors (Unsecured)				
Debts outstanding over six months				
Considered good	1,352.69		1,476.38	
Considered doubtful	258.08		280.41	
Other debts considered good	29,771.62		20,694.26	
	31,382.39		22,451.05	
Provision for doubtful debts	(258.08)	31,124.31	(280.41)	22,170.64
3. Cash and Bank balances				
Cash on hand	2.11		0.22	
Balances with Scheduled Banks:				
Current Accounts	5,742.76		1,512.08	
Deposit Accounts	339.13	6,084.00	409.86	1,922.16
B. Loans and Advances				
Secured (considered good):				
Loans to Employees **	115.45		147.79	
Unsecured (considered good):				
Loans to employees **	0.33		1.93	
Advances recoverable in cash or in kind or for value to be received @	23,774.10		17,455.75	
Balance with Customs Authorities	11.53		36.96	
Deposits with others	627.58		519.68	
Claims receivable	0.92	24,529.91	1.51	18,163.62
TOTAL		67,514.42		49,876.55

** Includes amounts due from Directors / Officer Rs 5.60 Lakhs (Pr.Yr. Rs.8.77 Lakhs) and Maximum amount due Rs 8.77 lakhs (Pr. Yr. Rs.12.02 Lakhs).

@ Includes advance to Subsidiaries - Nagarjuna Oil Corporation Ltd, Rs 5719.47 Lakhs (Pr. Yr. Rs. 1486.34 Lakhs) and share application money Rs.nil (pr yr Rs. 1300.00 lakhs), Nagarjuna Power Corporation Limited Rs.499.54 lakhs (Pr. Yr. Rs. 362.43 lakhs) and share application money Rs. 24.29 lakhs (pr yr Rs. 24.29 lakhs), Jaiprakash Engg. & Steel Co.Ltd share application money Rs.3512.18 lakhs (pr yr Rs. 3512.18 lakhs) and advance tax of Rs 4649.97 Lakhs(Pr. Yr. Rs. 734.39 lakhs).

Schedules forming part of the Balance Sheet as at 31st March, 2006
Schedule 7 - Current Liabilities and provisions
Rs.Lakhs

Particulars	31-03-2006	31-03-2005
Current Liabilities:		
Sundry Creditors		
Small Scale Industrial Undertakings	2.99	40.41
Others	12,898.27	7,086.42
Unclaimed Dividend *	280.75	441.83
Unclaimed Fixed Deposits *	46.80	59.98
Unclaimed Matured Debentures *	-	359.15
Interest accrued on above	7.19	30.86
Deposits	1,133.90	898.39
Other Liabilities	180.98	195.78
Interest accrued but not due on Loans/Deposits	251.69	262.87
TOTAL	14,802.57	9,375.69
Provisions :		
Provision for Taxation	5,077.89	502.08
Provision for Fringe Benefit Tax	11.01	-
Proposed Dividend	0.37	0.18
Provision for Dividend Tax	0.05	0.02
Provision for Leave Encashment	259.93	186.19
Provision for Gratuity	-	6.76
TOTAL	5,349.25	695.23

* 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, 2006
Rs.Lakhs

Particulars	31-03-2006	31-03-2005
Schedule 8 - Other Income		
Interest (TDS Rs.4.14 lacs, Pr. Yr. Rs. 9.03 lacs)	357.69	290.75
Dividends- non trade (TDS Rs. Nil , Pr. Yr. Rs. nil)	10.08	10.07
Liabilities / Provisions no longer required written back	729.29	281.74
Miscellaneous Income	314.56	358.92
Profit on Sale of Investments (net)	142.28	6.65
Profit on Sale of Assets (net)	-	203.45
Lease Rentals	92.51	95.41
Lease Equalisation	397.43	520.38
TOTAL	2,043.84	1,767.37
Schedule 9 - Salaries, Wages and Benefits		
Salaries & Wages	3,147.15	2,642.45
Contribution to Provident and Other Funds	371.43	216.50
Staff Welfare Expenses	414.65	377.62
TOTAL	3,933.23	3,236.57
Schedule 10 - (Increase)/Decrease in Stock		
Traded Products		
Opening Stock	421.35	121.40
Closing Stock	781.08	421.35
Manufactured products		
Opening Stock	2,880.03	1,390.91
Closing Stock	2,090.66	2,880.03
Work in Process		
Opening Stock	304.03	214.70
Closing Stock	149.42	304.03
(Increase)/Decrease in stock	584.25	(1,878.40)

NFCL**Schedules forming part of the Profit and Loss Account for the year ended 31st March, 2006**

Rs.Lakhs

Particulars	31-03-2006		31-03-2005	
Schedule 11 - Other expenses				
Rent		238.64		122.27
Rates and Taxes		284.52		231.06
Electricity and Water		76.56		68.40
Stores and Spares Consumed		2,661.60		580.73
Repairs and Maintenance				
Buildings	28.29		37.60	
Plant & Machinery	493.56		163.47	
Others	355.81	877.66	302.79	503.86
Insurance		809.25		691.76
Printing and Stationery		73.04		72.01
Postage, Telephone and Telex		231.07		200.61
Travelling and Conveyance		633.40		423.68
Advertisement and Publicity		384.05		309.37
Employee Recruitment and Training		67.10		40.44
Legal, Secretarial and Professional Charges		1,023.69		674.04
Share Registry Expenses		32.66		40.39
Directors Sitting Fees		5.45		3.25
Research & Development - Grant		-		18.97
Loss on Sale of Assets(Net)		14.02		-
Auditors' remuneration		40.95		43.07
Donations		0.16		0.10
Bad Debts/Advances written off	261.45		128.11	
Less: Provision for doubtful debts/advances	22.33	239.12	51.72	76.39
Impairment of assets / Provision for depletion in value of stores		282.74		889.11
Miscellaneous Expenses		539.94		255.72
TOTAL		8,515.62		5,245.23
Schedule 12 - Interest and Financing charges				
Term Loans		8,475.58		9,664.64
Debentures		3,814.13		3,798.91
Others		809.03		815.08
TOTAL		13,098.74		14,278.63

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. Preliminary Expenditure:

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

8. 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.

9. 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 with this scheme. 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.

10. Research and Development Expenses:

Expenditure relating to capital items is debited to fixed assets and depreciated at applicable rates. Revenue expenditure is charged to Profit and loss account of the year in which they are incurred.

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 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 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.



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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.3712.57 lakhs (Previous year Rs.231.98 lakhs)
 - ii) In respect of 33 acres land in possession, compensation is not ascertained.
- 2 A. Contingent Liabilities:
 - i) Counter guarantees given to Bankers in respect of Bank guarantees Rs.881.88 Lakhs (Previous year Rs. 712.82 Lakhs)
 - ii) Corporate guarantees given to banks on behalf of Nagarjuna Oil Corporation Ltd., a subsidiary company Rs.16015.79 Lakhs (Previous year Rs. 15323.00 lakhs). UTI Bank Limited has invoked the guarantee of Rs.5572.41 lakhs.
 - iii) Taxation matters under appeals Rs.111.69 lakhs (Previous year Rs. 111.69 lakhs).
- B. Claims against the company not acknowledged as debts Rs. 2064.63 lakhs (Previous year Rs. 1401.98 lakhs).

3. Share Capital:

In Accordance with the CDR Scheme 37,20,372 0.01% Optionally Convertible Cumulative Redeemable Preference Shares – (OCCRPS) of Rs.100/- each were issued to certain lenders to compensate the differential rate of interest for the year 2003-04.

Pursuant to the Guidelines governing issues of Preference Shares, the said OCCRPSS are to be converted into Equity Shares within 18 months from the Date of Allotment. Since the said OCCRPSS were not converted into Equity Shares within the time prescribed by SEBI, they remain as Ordinary Redeemable Preference Shares. These are redeemable after the entire debt liabilities are fully paid.

4. Secured Loans:

a) 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 Asset Management Company Pvt. Ltd. The benefits accrued under the package have been given effect in the Accounts except in the case of UTI Asset Management Company 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.

The Company is to disinvest its equity investments/loans and advances lent to subsidiary/group companies to the extent and in the manner envisaged.

b) A - DEBENTURES

- i 75,00,000, 14.50% Secured Redeemable Non-Convertible Debentures 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.
 - (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 of Rs.100/- each issued to UTI, are redeemable in 24 monthly instalments commencing from October 2002 as per reschedulement.
- iii 80,00,000, 15.00% Secured Redeemable Non-Convertible Debentures of Rs.100/- each issued to IFCI, redeemable in 41 structured quarterly instalments commencing from 31st March 2006 as per reschedulement in line with the CDR Package.
- iv 1,53,30,000, 15.00% Secured Redeemable Non-Convertible Debentures of Rs.100/- each issued to ICICI, redeemable in 41 structured 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 of Rs.100/- each issued to IFCI, redeemable in 41 structured quarterly instalments commencing from 31st March 2006 as per reschedulement in line with the CDR Package.



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- vi 30,00,000, 13.25% Secured Redeemable Non-Convertible Debentures 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 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 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 are secured by exclusive mortgage of leased assets) 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.

UTI Asset Management Company Pvt. Ltd., has not participated in CDR package and accordingly the Debentures issued to them have become payable in full. The Company has taken necessary initiatives to settle the dues as One Time Settlement with alternate finance from other lenders in the next year. (Refer Note (i)(a) and (ii) above)

- viii 18,67,73,027 (Previous year 33,49,36,238) 0% Secured Redeemable Non-Convertible Debentures of Re.1/- each have been 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 Limited, Oriental Bank of Commerce, Rabo India Finance (Pvt) Ltd., The Karur Vysya Bank Limited, Karnataka Bank Limited, IndusInd Bank Limited, and ICICI Bank, as envisaged in the CDR Package. The debentures are redeemable after the entire debt liabilities are fully repaid.

Out of the 33,49,36,238 0% Secured Redeemable Non-Convertible Debentures as at 31st March, 2005, 1,94,66,411 0% Secured Redeemable Non-Convertible Debentures allotted to Canara Bank has been converted to interest free Funded Interest Term Loan of Rs.1.95 Crores and 12, 86, 96, 800 0% Secured Redeemable Non-Convertible Debentures allotted to ICICI Bank has been converted into Zero Coupon Loan of Rs.12.87 Crores during the year.

- B)** 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.
- C)** Term loans from banks 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, a second charge (sub-ordinate to the financial institutions) on the monthly subsidy and are further secured by way of a charge created through an equitable mortgage by deposit of title deeds of certain immovable property of the Company.
- D)** 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.

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

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.

5. Unsecured Loans:

a) Fixed Deposits:

There are no matured deposits which are claimed but remain unpaid as on the date of the Balance Sheet. The balance of matured unclaimed deposits outstanding as on 31.03.2006 is Rs.46.80 lakhs (previous year Rs.59.98 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 is deferred (interest-free) for a period of 14 years from 19.03.1998. The deferred sales tax of each year is repayable after the expiry of the period deferred.

6. 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 Andhra Pradesh including 3.14 acres which cannot be alienated under Andhra Pradesh Land Reforms Act, 1973.

7. Investments:

The Company has investments in the following three subsidiary Companies:

(Rs. Lakhs)

Name of the Subsidiary	31.03.2006	31.03.2005
Nagarjuna Oil Corporation Ltd (NOCL)	59200.00	57700.00
Nagarjuna Power Corporation Ltd (NPCL)	6400.00	6400.00
Jaiprakash Engineering and Steel Company Ltd (JESCO)	2256.17	2256.17

- i. NOCL is implementing the Oil Refinery Project has made substantial progress. The Project has been appraised by the equity participants and re-appraised by Industrial Development Bank of India (IDBI) confirming the commercial viability; achieved 100% equity participation with leading industrial groups in India and Overseas; term loan of Rs.500 crores sanctioned by IDBI; mandate for syndication given to IDBI and State Bank of India (SBI) for tying up the balance loan; tie up with the Oil Companies comprising of reputed public and private sectors for marketing of company's products in the domestic and overseas markets; equipment stored at Cuddalore and ports in Europe are subjected to regular inspection and technical experts have certified the good condition of the equipment and the Company has obtained necessary statutory clearances and approvals which are current and enforceable.

Despite the unreasonable delay in execution of the Project, in view of the above stated positive developments stated above during the year, the Management perceives that the project is viable and is confident of implementation of the Project.

- ii. NPCL is implementing the Power Project. The land for the project has been acquired by Karnataka Industrial Area Development Board (KIADB); the Power Purchase Agreement (PPA) already signed with Karnataka Power Transmission Corporation (KPTC) and the PPA with Kerala State Electricity Board is in progress; Power Finance Corporation has given a clearance for Rs.750 crores and is syndicating the balance term loan; In principle approval has been received from Rural Electrification Corporation Ltd (RECL) for Rs.500 crores and Housing Urban Development Corporation (HUDCO) for Rs.500 crores and Central Electricity Regulatory Commission (CERC) has furnished its approval for the project cost.

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.

- iii. Investment in JESCO, the Steel Project of the Company has since been shelved. The realizations 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.

8. Sundry Debtors, Loans and Advances :

- a. Specific debts and advances identified as irrecoverable and doubtful are written off – Rs. 261.45 lakhs (previous year Rs.128.11 lakhs) as bad debts.
- b. Certain advances aggregating to Rs. 4622.72 lakhs (including dues from subsidiary company Rs.3512.18 lakhs for which tangible assets are available) are overdue for a considerable time. Management is taking steps to recover the same. Any shortfall in the recovery will be provided for on completion of recovery efforts.
- c. Balances under sundry debtors, (loans and advances and other recoverables including subsidies) represent aggregate receivables.

Confirmation of balances from most of the sundry debtors have been obtained and others are awaited.

9. Income Tax:

a) Current Tax :

Provision for current tax is made for the amount of tax payable in respect of taxable income for the year under Income Tax Act 1961. The Company has, after making review of the pending tax matters, opined that no further provision is necessary in respect of disputed tax demand of Rs.111.69 lakhs which are in various stages of appeals. Any further provision required in respect of disputed tax will be considered on completion of the appellate proceedings.

The Finance Act 2006, has amended certain sections of the Income Tax Act with retrospective effect. The company has taken legal opinion which has stated that the amendment is unreasonable, and violative of constitutional rights and can be contested before the Courts. In view of this, the company has not considered the consequential effect to the amendment and its tax impact in the financial statements. The management is of the opinion that any additional tax impact resulting out of this amendment can be met from the balance available in the profit and loss account and its reserves.

b) Deferred Tax:

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

Liabilities	Rs. Lakhs	
	31.03.2006	31.03.2005
Particulars		
Depreciation	25435.90	31,082.61
Total	25435.90	31,082.61

10. Group Concession Scheme – (GCS) Subsidy

Nitrogenous fertilizers are under the Group Concession Scheme as per pricing scheme implemented w.e.f. 1st April, 2003. The concession rate for the current period has been recognised on the basis of notified price for plant-I and plant-II, further adjusted with input price escalation and other known policy parameters Rs. 12,226.73 lakhs (Previous year Rs.16689.66 lakhs)

Pending finalisation of “Net Gain” as per the policy for Production and Sale of Urea beyond 100% re-assessed capacity, the company has estimated the Net Gain in accordance with the known policy parameters in this regard.

Adjustments if any, on notification of final prices under the scheme will be considered in the year in which notifications are received.

11. Expenditure on Research and Development

Particulars	Rs. Lakhs	
	2005-06	2004-05
Revenue expenditure	408.94	18.97
Capital Expenditure	240.75	—
Total	649.69	18.97

12. Segmental Accounting

The financial results relate mainly to fertilizer 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.

13. Related party transactions

1. Names of related parties and description of relationship.

a) Subsidiaries

- (i) Nagarjuna Oil Corporation Limited
- (ii) Jaiprakash Engineering & Steel Co. 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 & Strategic Planning
- (iii) Mr.P.P.Singh, Director - Technical
- (iv) Mr.R.S.Nanda, Director & Chief Operating Officer

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2. Related party transactions are as under:

Rs. Lakhs

Sl. No	Nature of transaction	Subsidiaries 31.03.2006	Associates 31.03.2006	Key Mgmt. Personnel 31.03.2006	Subsidiaries 31.03.2005	Associates 31.03.2005	Key Mgmt. Personnel 31.03.2005
1.	Finance :						
	Equity	1500.00	---	---	200.00	---	---
	Share Appln. Money	(1300.00)	---	---	1300.00	---	---
	Refund of Share						
	Appln Money	---	---	---	249.00	---	---
	Advances given	4370.23	---	---	2062.53	10.00	---
	Advances received	11.76	40.71	2.99	7.35	0.90	3.26
2.	Purchase of fixed assets	---	---	---	12.70	1.26	---
3.	Receiving of services :						
	Service charges	---	71.29	---	---	---	---
4.	Grant to R & D	---	---	---	---	18.97	---
5.	Lease Rental received	---	0.01	---	---	0.01	---
6.	Remuneration to Key Mgmt. Personnel	---	---	141.40	---	---	130.37

14. Earnings per Share:

Sl. No.	Earning per share (Basic and Diluted) has been computed as under:	Unit of Measurement	31.03.2006	31.03.2005
1.	Net Profit / (Loss) after tax	(Rs in Lakhs)	6685.20	2952.70
2.	Number of ordinary shares (fully called up)	(Numbers)	428181821	428181821
3.	Earnings per share (Face value of Rs. 10/- per share)	[1] / [2]	1.56	0.70

15. Managerial Remuneration:

Rs. Lakhs

Sl. No.	Remuneration of Managing Director and Whole Time Directors	31.03.2006	31.03.2005
1.	Salaries	71.78	64.45
2.	Perquisites	47.45	45.88
3.	Contribution to Provident Fund and other funds	22.17	20.04
	Total	141.40	130.37

16. Auditors' Remuneration :

Rs. Lakhs

Sl.No.	Particulars	31.03.2006	31.03.2005
1.	Statutory Audit	16.60	16.53
2.	Tax Audit	6.21	3.90
3.	Other Services	4.91	-
4.	Certification	9.73	15.43
5.	Out of pocket expenses	3.50	7.21
	Total	40.95	43.07

17. 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	31.03.2006	31.03.2005
1.	Ammonia	MT/Day	1800	1800
2.	Urea	MT/Day	3000	3000
3.	Extruded Irrigation Systems & parts thereof	Lakh Mtrs/Annum	295	295

* Registered pursuant to the scheme of delicensing

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

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b. Production, Sales and Stock:

Sl. No	Particulars	Unit of Measurement	31.03.2006		31.03.2005	
			Quantity	Value Rs. Lakhs	Quantity	Value Rs. Lakhs
1.	Opening Stock :					
	Ammonia	MT	5003	304.03	4002	214.70
	Urea	MT	60466	2774.09	27682	1238.92
	Extruded Irrigation Systems and parts thereof	Lakh Metre	28.02	105.94	36.80	151.99
2.	Production :					
	Ammonia	MT	788471	--	803482	--
	Urea	MT	1379220	--	1392538	--
	Extruded Irrigation Systems and parts thereof	Lakh Meters	174.29	--	86.95	--
3.	Captive Consumption :					
	Ammonia	MT	791644.39	--	794364	--
4.	* Sales :					
	Ammonia	MT	204.92	32.38	8117	1176.55
	Urea	MT	1396927.35	64167.97	1359754	62699.18
	Extruded Irrigation Systems and parts thereof	Lakh Meters	159.54	1077.19	95.73	529.93
5.	Closing Stock :					
	Ammonia	MT	1624.63	149.42	5003	304.03
	Urea	MT	42758.70	1919.29	60466	2774.09
	Extruded Irrigation Systems and parts thereof	Lakh Meters	42.78	171.37	28.02	105.94

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

c. Trading Activity

Sl. No.	Class of Product	31.03.2006		31.03.2005	
		Quantity MT	Value Rs. Lakhs	Quantity MT	Value Rs. Lakhs
1.	Opening Stock :				
	MOP		---		---
	Pool Urea		---		---
	Speciality Fertilisers		335.21		---
	Others		86.14		121.40
			421.35		121.40
2.	Purchases :				
	MOP	31764.95	3096.30	2352	107.45
	Pool Urea	38418.45	1516.76	201440	8050.24
	Speciality Fertilisers		1783.58		1057.77
	Others		1459.85		938.04
			7856.49		10153.50
3.	Sales :				
	MOP	31764.95	3267.81	2352	111.65
	Pool Urea	38418.45	1852.38	201440	10187.37
	Speciality Fertilisers		2423.66		1001.25
	Others		2110.06		1421.21
			9653.91		12721.48
4.	Closing Stock :				
	MOP		--		--
	Pool Urea		--		--
	Speciality Fertilisers		635.87		335.21
	Others		145.21		86.14
			781.08		421.35

NFCL**d. Raw material consumed (100% indigenous):** **Rs. Lakhs**

Sl. No.	Class of Product	31.03.2006		31.03.2005	
		Quantity	Value Rs. Lakhs	Quantity	Value Rs. Lakhs
1.	Natural Gas (1000 SM ³)	366246.366	16875.70	397512	17038.92
2.	Naphtha (MT)	116750.159	30368.86	102167	20053.95
3.	Plastic Granules (Tons)	846.018	610.53	304	270.54
4.	Others	---	255.51	---	262.49
	Total		48110.60		37625.90

e. Value of stores and spares consumed : **Rs. Lakhs**

Sl. No.	Item	31.03.2006		31.03.2005	
		%	Value Rs.lakhs	%	Value Rs.lakhs
1.	Imported	73	1938.53	18	104.15
2.	Indigenous	27	723.07	82	476.58
	Total	100	2661.60	100	580.73

f. CIF value of imported goods : **Rs. Lakhs**

Sl. No.	Item	31.03.2006	31.03.2005
1.	Spares	2212.49	225.63
2.	Traded products	4734.87	521.64
3.	Capital Goods (WIP)	---	1431.98
	Total	6947.36	2179.25

g. Expenditure in Foreign currency **Rs. Lakhs**

Sl. No.	Item	31.03.2006	31.03.2005
1.	Professional & Consultancy	269.22	84.11
2.	Others	123.55	34.37
	Total	392.77	118.48

h. Earnings in foreign currency (FOB): **31.03.2006** **31.03.2005**
NIL **NIL**

18. Sales are net of cash discounts of Rs.140.69 lakhs (previous year Rs.446.40 lakhs).

19. Dues to Small Scale Industrial Undertakings, exceeding 30 days - Nil

20. Previous year figures have been re-grouped / re-classified / re-cast wherever necessary.

21. 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**V. K. Muralidhar**
PartnerHyderabad
April 27, 2006For and on behalf of the Board
Field Marshal Sam Manekshaw, M.C.
Chairman**K S Raju**
Vice Chairman & Managing Director**M Ramakanth**
SecretaryHyderabad
April 27, 2006**J. Mahalingam**
Chief Financial Officer**B K Batra**
N C B Nath
M P Radhakrishnan
S R Ramakrishnan
Directors
P P Singh
Director (Technical)
R S Nanda
Director & Chief Operating Officer
K Rahul Raju
Director - Business Development
& Strategic Planning

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To

The Board of Directors

Nagarjuna Fertilizers and Chemicals Ltd.

1. We have examined the attached Consolidated Balance Sheet of Nagarjuna Fertilizers and Chemicals Limited and its subsidiaries as at 31st March 2006, 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:
 - a) Note No 1(c) (i) – regarding the progress in implementation of the project in wholly owned subsidiary (NOCL) owing to reasons stated in the said note and in view of the various positive developments stated during the year the management perceives that the project is commercially and operationally viable and is confident of implementation of the project.
 - b) **Note No. 1(c) (ii) and 1 (c) (iii) regarding the status in implementation of the projects in subsidiary companies (NPCL and JESCO) and as the companies are in the project stage and any diminution in the latest book value as compared to the cost of such share before commencement of operations by the companies is not considered as permanent diminution. In view of the uncertainties in implementation of the projects by the said subsidiaries and in the absence of quantification of the diminution, we are unable to form an opinion in the matter and its impact on the financial statements including the profit for year and consequential effect on reserves.**
 - c) Note No. 8 regarding the carrying value of certain overdues for a considerable time.
 - d) Note No. 9 (a) regarding non provision for tax (amount not determined) as a result of amendment of certain sections of Income Tax Act, 1961 retrospectively by the Finance Act 2006 and it's impact on the profit for the year and consequential effect on reserves.
 - e) Note 10 Re: Group Concession Scheme – Subsidy.
 - f) **Subject to our remarks at Paragraph ' 4(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 2006,
 - (b) In the case of the Consolidated Profit and Loss Account of the results of operations of Nagarjuna Fertilizers and Chemicals Limited and its subsidiaries for the year then ended, 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

V K MURALIDHAR
Partner

Membership Number:201570

Hyderabad
April 27, 2006

**Nagarjuna Fertilizers and Chemicals Limited
Consolidated Balance Sheet as at 31st March, 2006**

Rs.Lakhs

Particulars	Schedule Reference	31-03-2006		31-03-2005	
SOURCES OF FUNDS					
Shareholders' Funds					
Share Capital	1	46,516.36		46,497.44	
Reserves and surplus	2	137,957.50	184,473.86	140,203.73	186,701.17
Minority Interests			208.67		208.67
Loan funds					
Secured Loans	3		156,193.04		160,251.21
Unsecured Loans			5,194.03		4,512.19
Deferred Tax Liability			25,435.90		31,082.61
TOTAL			371,505.50		382,755.85
APPLICATION OF FUNDS					
Fixed Assets					
Gross Block	4	381,196.92		382,154.85	
Depreciation		(136,699.18)		(117,103.97)	
Lease Adjustment		(4,824.27)		(5,221.70)	
Net Block		239,673.47		259,829.18	
Capital work in Progress	5	70,492.39	310,165.86	69,214.42	329,043.60
Expenditure Pending allocation	6		33,324.74		29,440.43
Investments	7		56.10		87.72
Current Assets, Loans and Advances					
Inventories	8	5,776.20		7,620.13	
Sundry Debtors		31,124.31		22,170.65	
Cash and Bank Balances		6,238.78		1,966.37	
Loans and Advances		17,332.17		14,039.09	
		60,471.46		45,796.24	
Current Liabilities and Provisions					
Current Liabilities	9	(33,946.06)		(27,662.97)	
Provisions		(5,364.97)		(707.36)	
Net Current Assets			21,160.43		17,425.92
Miscellaneous Expenditure (to the extent not written off or adjusted)					
Preliminary Expenses			3,276.03		3,235.84
Loss on Investments			3,522.34		3,522.34
TOTAL			371,505.50		382,755.85
Accounting Policies & Notes to Accounts	15				

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

V. K. Muralidhar
Partner

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

K S Raju
Vice Chairman & Managing Director

M Ramakanth
Secretary

J. Mahalingam
Chief Financial Officer

B K Batra
N C B Nath
M P Radhakrishnan
S R Ramakrishnan
Directors
P P Singh
Director (Technical)
R S Nanda
Director & Chief Operating Officer
K Rahul Raju
Director - Business Development & Strategic Planning

Hyderabad
April 27, 2006

Hyderabad
April 27, 2006

Nagarjuna Fertilizers and Chemicals Limited
Consolidated Profit and Loss Account for the year ended 31st March, 2006

Rs.Lakhs

Particulars	Schedule Reference	31-03-2006		31-03-2005	
Income					
Sales, Subsidy and Equated Freight (Net of taxes, duties, margins and discounts)			145,294.74		126,638.97
Other Income	10		2,043.84		1,767.37
Remission of principal amount of loan			-		1,464.70
TOTAL			147,338.58		129,871.04
Expenditure					
Purchases - Traded Products			7,856.49		10,153.50
Raw Materials consumed			48,110.60		37,625.90
Power and Fuel			33,243.63		28,203.36
Catalysts Charge			540.21		1,030.59
Chemicals and Consumables			588.09		426.63
Salaries, Wages and benefits	11		3,933.23		3,236.57
(Increase) / Decrease in Stock	12		584.25		(1,878.40)
Packing Materials Consumed			3,813.02		4,233.23
Transport and Handling Charges			9,132.29		9,289.39
Distribution Expenses			461.77		364.96
Other Expenses	13		8,515.62		5,245.23
Depreciation	4	20,363.63		12,159.10	
Less: Transfer from Revaluation Reserve		8,258.21	12,105.42	22.72	12,136.38
Interest and Financing Charges	14		13,098.74		14,278.63
TOTAL			141,983.36		124,345.97
Profit / (Loss) Before Tax			5,355.22		5,525.07
Provision for Tax - Current year			4,158.95		502.08
Deferred Tax credit / (debit)			5,646.71		(2,070.29)
Fringe Benefit Tax			157.78		-
Profit / (Loss) After Tax			6,685.20		2,952.70
Balance Brought Forward			14,022.81		11,660.34
Less: Debit balance on account of amalgamation			-		(590.03)
Amount available for Appropriations			20,708.01		14,023.01
Appropriations					
Debenture Redemption Reserve			7,201.10		-
Preference Dividend			0.37		0.18
Dividend Tax			0.05		0.02
Balance Carried to Balance Sheet			13,506.49		14,022.81
			20,708.01		14,023.01
Earnings per Share	15.B.15		1.56		0.70
Accounting Policies and Notes to Accounts	15				

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

V. K. Muralidhar
Partner

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

K S Raju
Vice Chairman & Managing Director

M Ramakanth
Secretary

J. Mahalingam
Chief Financial Officer

B K Batra
N C B Nath
M P Radhakrishnan
S R Ramakrishnan
Directors
P P Singh
Director (Technical)
R S Nanda
Director & Chief Operating Officer
K Rahul Raju
Director - Business Development
& Strategic Planning

Hyderabad
April 27, 2006

Hyderabad
April 27, 2006

Nagarjuna Fertilizers and Chemicals Limited
Consolidated Cash Flow Statement for the year ended 31st March, 2006 Rs.Lakhs

Particulars	31-03-2006		31-03-2005	
A. Cash Flow from Operating Activities				
Net Profit / (Loss) before Extraordinary item and Tax		5,355.22		5,525.07
Adjustments for :				
Add: Depreciation	12,105.42		12,136.38	
Deferred revenue expenses written off	540.21		1,030.59	
Lease equalisation	(397.43)		(520.38)	
Interest	13,098.74	25,346.94	14,278.63	26,925.22
		30,702.16		32,450.29
Less: Dividend received	10.08		10.07	
Profit / (Loss) on sale of assets (net)	(14.02)		203.45	
Profit on sale of investments (net)	142.28		6.65	
Remission of liability	-	138.34	1,464.70	1,684.87
Operating Profit before working capital changes		30,563.82		30,765.42
Adjustments for :				
Less: Trade and other receivables	1,638.28		(3,412.63)	
Inventories	(1,843.93)	(205.65)	1,462.66	(1,949.97)
		30,769.47		32,715.39
Add: Trade and other payables		6,376.84		6,363.20
Cash generated from operations		37,146.31		39,078.59
Direct taxes	-	3,498.81		(314.75)
Remission of liability		-		1,464.70
Cash flow after extraordinary items		33,647.50		40,228.54
Net cash from operating activities		33,647.50		40,228.54
B. Cash Flow from Investing activities				
Purchase of fixed assets	6,555.03		9,383.50	
Investment in subsidiaries	1,500.00		12,736.97	
Purchase of Investments	-	8,055.03	-	22,120.47
Sale of fixed assets	314.51		1,487.02	
Sale of investments	173.90		22.31	
Proceeds from Amalgamation (net)	-		34.56	
Dividend received	10.08	498.49	10.07	1,553.96
Net cash used in investing activities		7,556.54		20,566.51
C. Cash flow from financing activities				
Share capital - (including premium)	19.38		4,836.74	
Minority Interest	-		200.10	
Proceeds Sales Tax Deferral	732.24		674.85	
Proceeds from long term borrowings	690.15	1,441.77	7,697.07	13,408.76
Repayment of short term loans / FD	50.40		141.81	
Repayment of long term loans **	10,511.86		18,581.10	
Interest paid	12,536.82	-	14,028.30	
Dividend paid ***	161.24	23,260.32	133.50	32,884.71
Net cash used in financing activities		21,818.55		19,475.95
Net decrease in cash and Cash equivalents		4,272.41		186.08
Cash and cash equivalents as at 01.04.2005		1,966.37		1,780.29
Cash and cash equivalents as at 31.03.2006 @@		6,238.78		1,966.37

** includes conversion of differential interest into OCCRPS Rs.Nil (Pr year Rs.3270.37 lakhs)

*** relating to earlier years (including transfer to Investor Education and Protection Fund Rs.126.34 lakhs, previous year Rs.115.93 lakhs).

@ @ includes unclaimed dividend of Rs.280.75 lakhs (previous year Rs.441.83 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	B K Batra N C B Nath M P Radhakrishnan S R Ramakrishnan Directors P P Singh Director (Technical) R S Nanda Director & Chief Operating Officer K Rahul Raju Director - Business Development & Strategic Planning
V. K. Muralidhar Partner	K S Raju Vice Chairman & Managing Director	
	M Ramakanth Secretary	J. Mahalingam Chief Financial Officer
Hyderabad April 27, 2006	Hyderabad April 27, 2006	

Schedules to the Consolidated Balance Sheet as at 31st March, 2006

Schedule 4 - Fixed Assets

Rs.Lakhs

Particulars	Gross Block at Cost				Depreciation				Net Block	
	As at 31-03-2005	Additions/adjustment during the year	Deductions/Adjustments during the year	As at 31-03-2006	Upto 31-03-2005	For the year	Deductions/Adjustments	Upto 31-03-2006	As at 31-03-2006	As at 31-03-2005
Land (Refer foot note.3)	11,014.65	19.87	13.38	11,021.14	---	---	---	---	11,021.14	11,014.65
Buildings	15,909.13	79.71	---	15,988.84	2,974.72	679.78	---	3,654.50	12,334.34	12,934.41
Roads, Drains & Culverts	4,220.41	---	---	4,220.41	214.25	202.44	---	416.69	3,803.72	4,006.16
Railway siding	1,478.22	---	---	1,478.22	683.74	73.96	---	757.70	720.52	794.48
Plant & Machinery	331,300.39	345.40	1,569.72	330,076.07	103,936.91	18,438.79	613.54	121,762.16	208,313.91	227,401.76
Furnitures , Fixtures										
& Office Equipment	2,990.80	357.32	186.16	3,161.96	2,033.42	185.68	166.43	2,052.67	1,109.29	913.41
Vehicles	211.28	42.73	33.70	220.31	113.27	18.19	17.25	114.22	106.09	97.88
Leased assets										
- Plant & Machinery										
a. Ongoing leases	11,399.97	---	(3,875.00)	7,524.97	5,324.90	499.90	2,044.57	3,780.23	3,744.74	6,075.07
b. Run off leases ***	3,630.00	---	3,875.00	7,505.00	1,822.76	293.68	(2,044.57)	4,161.01	3,343.99	1,807.23
Lease Terminal adjustment									(4,824.27)	(5,221.70)
Total	382,154.85	845.03	1,802.96	381,196.92	117,103.97	# 20,392.42	797.22	136,699.18	239,673.47*	259,823.35*
Previous Year	**240,157.66	143,950.37	1,433.29	⊕ 382,674.74	**104,735.88	# 12,189.72	147.18	⊕⊕116,778.42	259,823.35*	

- Additions to Plant & Machinery includes Rs. 42.28 lakhs (debit) on account of exchange rate variation { previous year Rs.43.29 lakhs (debit) }.
- * 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.
- Buildings,Roads Drains Culverts, Railway sidings and Plant & Machinery of manufacturing facilities at Kakinada were revalued pursuant to report of approved valuer on 31.03.2005 at Rs. 6346.57 lakhs, Rs. 3100.27 lakhs, Rs. 125.60 lakhs, Rs. 132185.30 lakhs respectively and Rs 808.89 lakhs decrease in respect of certain assets.
- 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.
- ⊕ Includes addition on amalgamation Rs. 990.24 lakhs
- ⊕⊕ Includes addition on amalgamation Rs. 325.57 lakhs
- # includes depreciation relating to construction period Rs.28.79 lakhs (previous year Rs.30.62 lakhs)
- ** Includes Rs.38.98 lakhs relating to NPCL

Schedule 5 - Capital Work in Progress

Rs.Lakhs

Particulars	31.03.2006	31.03.2005
Site Development	972.29	972.29
Building under construction	168.76	168.76
Plant & Machinery:		
Equipment at Site *	47,547.77	45,526.16
Construction Power	21.51	21.51
Technical Services	8,920.27	8,927.38
Advances against Capital Expenditure:		
Land	457.50	357.50
Site Development - Contractors	28.89	28.89
Buildings - Contractors	-	-
Technical Know How	37.83	37.83
Building	451.85	78.15
Plant & Machinery		
Equipment Suppliers	11,598.97	11,598.97
Unloading & Transport	65.00	65.00
Plant & Machinery	101.41	1,431.98
Lab Equipments & Others	120.36	-
Total	70,492.39	69,214.42

* includes Rs.6354.00 lakhs (previous year Rs. 6851.00 lakhs) represents Cenvatable Customs duty.

Schedule 6 - Expenditure Pending Allocation

Rs.Lakhs

Particulars	31.03.2006	31.03.2005
Salaries & Wages	173.15	151.78
Contribution to Provident and Other Funds	20.15	17.09
Staff Welfare expenses	16.25	8.05
Rent	46.72	47.72
Rates & Taxes	31.60	45.02
Repairs & Maintenance - Others	22.87	26.86
Insurance-Office eqpt, Medical & Others	13.86	37.44
Printing and Stationery	3.51	1.82
Postage, Telephone and Telex	12.13	10.15
Travelling and Conveyance	84.96	54.57
Advertisement	3.58	1.01
Recruitment & Training	2.83	0.79
Legal & Professional Charges	217.78	172.85
Directors' Sitting fees	0.22	0.16
Directors' Travel Expenses	21.07	17.14
Auditors' Remuneration	6.27	3.96
Profit/Loss on sale of Fixed Assets (Net)	3.94	2.51
Security Expenses	18.63	16.01
Electricity and Water charges	17.87	15.68
Miscellaneous Expenses	17.59	9.65
Depreciation	28.79	30.61
Interest	3,007.65	2,896.66
Financing charges	113.10	50.86
Less: Miscellaneous Income (includes TDS Rs.0.05 lakhs, previous year Rs.2.17 lakhs)	(0.23)	(11.25)
Sub - Total	3,884.31	3,607.14
Brought forward from Previous year	29,440.43	25,833.29
Total	33,324.74	29,440.43

Schedules to the Consolidated Balance Sheet as at 31st March, 2006

Schedule 7 - Investments (at Cost)

Particulars	Face Value (Rs.)	Numbers	31-03-2006		31-03-2005	
			Rs. Lakhs	Rs. Lakhs	Numbers	Rs. Lakhs
Long Term Investments:						
I. Equity shares - Unquoted						
Equity shares (Fully Paid)						
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			17.50
II. Equity Shares - Quoted (Fully paid - other than trade)						
Sri Saritha Software and Industries Ltd	10	391,275	36.53	10	391,275	36.53
State Bank of Bikaner and Jaipur	100	320	1.69	100	3,670	19.37
State Bank of Travancore	100	6,245	36.91	100	8,540	50.47
Times Guarantee Financials Ltd	10	-	-	10	7,900	10.92
			75.13			117.29
			92.63			134.79
Less: Provision for diminution in value of Quoted investments			36.53			47.07
			56.10			87.72
Aggregate cost of Quoted Shares			75.13			117.29
Aggregate Market value of Quoted Shares			282.02			260.68

Schedule 8 - Current Assets, Loans and Advances Rs.Lakhs

Particulars	31.03.2006		31.03.2005	
A. Current Assets				
1. Inventories (as valued and				
Certified by the Management)				
Traded Products	781.08		421.35	
Manufactured Urea	2,090.66		2,880.03	
Raw Materials	643.62		602.62	
Work in Process	149.42		304.03	
Packing Materials	94.05		92.03	
Stores and Spares	2,012.80		3,308.87	
Loose Tools	4.57	5,776.20	11.20	7,620.13
2. Sundry Debtors (Unsecured)				
Debits Outstanding over six months				
Considered good	1,352.69		1,476.38	
Considered doubtful	258.08		280.41	
Other debts considered good	29,771.62		20,694.27	
	31,382.39		22,451.06	
Provision for doubtful debts	(258.08)	31,124.31	(280.41)	22,170.65
3. Cash and Bank balances				
Cash on Hand				
	2.95		0.52	
Balances with Scheduled Banks				
Current Accounts	5,893.49		1,552.93	
Deposit accounts	342.34	6,238.78	412.92	1,966.37
B. Loans and Advances				
Secured (Considered good)				
Loans to Employees **	115.45		147.79	
Unsecured (Considered Good)				
Loans to Employees **	1.26		3.21	
Advances recoverable in Cash or in kind or for value to be received@				
	14,640.84		11,403.11	
Balance with Customs Authorities	21.02		44.62	
Deposits with others	2,540.26		2,438.85	
Fringe Benefit Tax	12.42		-	
Claims receivable	0.92	17,332.17	1.51	14,039.09
Total		60,471.46		45,796.24

** Includes amounts due from Directors/Officer Rs.5.60 Lakhs (Previous year Rs.8.77 Lakhs) and Maximum amount due Rs.8.77 lakhs. (Previous year Rs. 12.02 Lakhs)

@ Includes advance tax of Rs. 4717.01 lakhs (Previous year Rs.789.08 lakhs.)

Schedule 9 - Current Liabilities and Provisions Rs.Lakhs

Particulars	31.03.2006		31.03.2005	
Current Liabilities				
Acceptances				
		-		-
Sundry Creditors				
Small Scale Industrial Undertakings		2.99		40.41
Others		32,007.92		25,343.02
Unclaimed Dividend *		280.75		441.83
Unclaimed Fixed Deposits *		46.80		59.98
Unclaimed matured Debentures		-		359.15
Interest accrued on above		7.19		30.86
Deposits		1,133.90		898.39
Other Liabilities		192.78		200.22
Interest accrued but not due on Loans /Deposits		273.73		289.11
Total		33,946.06		27,662.97
Provisions:				
Provision for Taxation		5,079.13		503.32
Provision for Fringe Benefit Tax		12.11		-
Proposed Dividend		0.37		0.18
Provision for Dividend Tax		0.05		0.02
Provision for Leave Encashment		269.88		194.50
Provision for Gratuity		3.43		9.34
Total		5,364.97		707.36

* 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, 2006

Schedule 10 - Other Income Rs.Lakhs

Particulars	31-03-2006		31-03-2005	
Interest (Tax Deducted at source Rs.4.14 lakhs)		357.69		290.75
(Previous Year Rs. 9.03 lakhs)				
Dividends - Non Trade (TDS Rs. Nil, Previous Year Rs. Nil)		10.08		10.07
Liabilities no longer required written back		729.29		281.74
Miscellaneous Income		314.56		358.92
Profit on Sale of Investment (Net)		142.28		6.65
Profit on Sale of Assets (Net)		-		203.45
Lease Rentals	92.51		95.41	
Lease Equalisation	397.43	489.94	520.38	615.79
Total		2,043.84		1,767.37

**Schedules to the Consolidated Profit and Loss Account
for the year ended 31st March, 2006**

Schedule 11 - Salaries , Wages and Benefits		Rs.Lakhs	
Particulars	31.03.2006	31.03.2005	
Salaries & Wages	3,147.15		2,642.45
Contribution to Provident and Other Funds	371.43		216.50
Staff Welfare Expenses	414.65		377.62
Total	3,933.23		3,236.57

Schedule 12 - (Increase)/Decrease in Stock		Rs.Lakhs	
Particulars	31.03.2006	31.03.2005	
Traded Products			
Opening Stock	421.35		121.40
Closing stock	781.08	(359.73)	421.35
Manufactured Urea			
Opening Stock	2,880.03		1,390.91
Closing stock	2,090.66	789.37	2,880.03
Work in Process			
Opening Stock	304.03		214.70
Closing stock	149.42	154.61	304.03
(Increase)/Decrease in Stock		584.25	(1,878.40)

Schedule 13 - Other expenses		Rs.Lakhs	
Particulars	31.03.2006	31.03.2005	
Rent	238.64		122.27
Rates and Taxes	284.52		231.06
Electricity and Water Charges	76.56		68.40
Stores and Spares Consumed	2,661.60		580.73
Repairs and Maintenance			
Buildings	28.29		37.60
Plant & Machinery	493.56		163.47
Others	355.81	877.66	302.79
Insurance		809.25	691.76
Printing and Stationery		73.04	72.01
Postage , Telephone and Telex		231.07	200.61
Travelling and Conveyance		633.40	423.68
Advertisement and Publicity		384.05	309.37
Employee Recruitment and Training		67.10	40.44
Legal, Secretarial & Professional charges		1,023.69	674.04
Share Registry expenses		32.66	40.39
Directors' sitting Fees		5.45	3.25
Research & Development - grant		-	18.97
Loss on Sale of Assets (Net)		14.02	-
Auditors' Remuneration		40.95	43.07
Donations		0.16	0.10
Bad debts written off	261.45		128.11
Less: Provision for doubtful debts / advances	22.33	239.12	51.72
Impairment of assets / Provision for depletion in value of stores		282.74	889.11
Miscellaneous Expenses		539.94	255.72
Total		8,515.62	5,245.23

Schedule 14 - Interest and Financing Charges			
Particulars	31.03.2006	31.03.2005	
Term Loans	8,475.58		9,664.64
Debentures	3,814.13		3,798.91
Others	809.03		815.08
Total	13,098.74		14,278.63

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:

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.

d. 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.

e. 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:

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. Preliminary Expenditure:

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

8. 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.

9. 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 with this scheme. 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.

10. Research and Development Expenses:

Expenditure relating to capital items is debited to fixed assets and depreciated at applicable rates. Revenue

expenditure is charged to Profit and loss account of the year in which they are incurred.

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 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 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 31.03.2006	As at 31.03.2005
a) Nagarjuna Oil Corporation Limited (NOCL)	100.00	100.00
b) Jaiprakash Engg. & Steel Co. Ltd. (JESCO)	99.84	99.84
c) Nagarjuna Power Corporation Ltd (NPCL)	96.90	96.90

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 are given below in accordance with Accounting Standard 23 "Accounting for Investments in associates in consolidated financial statements"

	Percentage of voting power	
	As at 31.03.2006	As at 31.03.2005
(i) Nagarjuna Agricultural Research and Development Institute (NARDI)	*25.00%	25.00%
(ii) K.V.K.Raju International Leadership Academy	*42.85%	42.85%

*The investments in associates are not considered for consolidation as the Companies are not registered under Section 25 of the Companies Act, 1956 and the investments are valued in accordance with Accounting Standard 13 – "Accounting for Investments".

(c) i. NOCL is implementing the Oil Refinery Project has made substantial progress. The Project has been appraised by the equity participants and re-appraised by Industrial Development Bank of India (IDBI) confirming the commercial viability; achieved 100% equity participation with leading industrial groups in India and Overseas; term loan of Rs.500 crores sanctioned by IDBI; mandate for syndication given to IDBI and State Bank of India (SBI) for tying up the balance loan; tie up with the Oil Companies comprising of reputed public and private sectors for marketing of company's products in the domestic and overseas markets; equipment stored at Cuddalore and ports in Europe are subjected to regular inspection and technical experts have certified the good condition of the equipment and the Company has obtained necessary statutory clearances and approvals which are current and enforceable.

Despite the unreasonable delay in execution of the Project, in view of the above stated positive developments stated above during the year, the Management perceives that the project is viable and is confident of implementation of the Project.

ii. NPCL is implementing the Power Project. The land for the project has been acquired by Karnataka Industrial Area Development Board (KIADB); the Power Purchase Agreement (PPA) already signed with Karnataka Power Transmission Corporation (KPTC) and the PPA with Kerala State Electricity Board is in progress; Power Finance Corporation has given a clearance for Rs.750 crores and is syndicating the balance term loan; In principle approval has been received from Rural Electrification Corporation Ltd (RECL) for Rs.500 crores and Housing Urban Development Corporation (HUDCO) for Rs.500 crores and Central Electricity Regulatory Commission (CERC) has furnished its approval for the project cost.

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.

iii. Investment in JESCO, the Steel Project of the Company has since been shelved. The realizations 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.

2. 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.3712.57 lakhs (Previous year Rs.231.98 lakhs)
- ii) In respect of 33 acres land in possession, compensation is not ascertained.
- iii) In respect of NPCL Rs. 366972.50 lakhs – (Previous year Rs.368756.27 lakhs, including LOIs - Rs. 367063.50 lakhs)

iv) In respect of NOCL Rs. 48305.39 lakhs (Previous year Rs. 51072.49 lakhs)

3.A. Contingent Liabilities:

i) Counter guarantees given to Bankers in respect of Bank guarantees Rs.881.88 Lakhs (Previous year Rs. 712.82 Lakhs)

ii) Corporate guarantees given to banks on behalf of Nagarjuna Oil Corporation Ltd., a subsidiary company Rs.16015.79 Lakhs (Previous year Rs. 15323.00 lakhs). UTI Bank Limited has invoked the guarantee of Rs.5572.41 lakhs.

iii) Taxation matters under appeals Rs.111.69 lakhs (Previous Year Rs. 111.69 lakhs).

iv) 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. 2066.28 lakhs (Previous year Rs. 1401.98 lakhs).

4 **Share Capital:**

In Accordance with the CDR Scheme 37,20,372 0.01% Optionally Convertible Cumulative Redeemable Preference Shares – (OCCRPS) of Rs.100 each were issued to certain lenders to compensate the differential rate of interest for the year 2003-04.

Pursuant to the Guidelines governing issues of Preference Shares, the said OCCRPS are to be converted into Equity Shares within 18 months from the Date of Allotment. Since the said OCCRPS were not converted into Equity Shares within the time prescribed by SEBI, they remain as Ordinary Redeemable Preference Shares. These are redeemable after the entire debt liabilities are fully paid.

5 **Secured Loans:**

a) **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 Asset Management Company Pvt. Ltd. The benefits accrued under the package have been given effect in the Accounts except in the case of UTI Asset Management Company 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.

The Company is to disinvest its equity investments/loans and advances lent to subsidiary/group companies to the extent and in the manner envisaged.

b) A - DEBENTURES

i 75,00,000, 14.50% Secured Redeemable Non-Convertible Debentures 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.

(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 of Rs.100/- each issued to UTI, are redeemable in 24 monthly instalments commencing from October 2002 as per reschedulement.

iii 80,00,000, 15.00% Secured Redeemable Non-Convertible Debentures of Rs.100/- each issued to IFCI, redeemable in 41 structured quarterly instalments commencing from 31st March 2006 as per reschedulement in line with the CDR Package.

iv 1,53,30,000, 15.00% Secured Redeemable Non-Convertible Debentures of Rs.100/- each issued to ICICI, redeemable in 41 structured 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 of Rs.100/- each issued to IFCI, redeemable in 41 structured 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 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 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 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 are secured by exclusive mortgage of leased assets) 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.

UTI Asset Management Company Pvt. Ltd., has not participated in CDR package and accordingly the Debentures issued to them have become payable in full. Company has taken necessary initiatives to settle the dues as One Time Settlement with alternate finance from other lenders in the next year. (Refer Note (i)(a) and (ii) above)

viii 18,67,73,027 (Previous year 33,49,36,238) 0% Secured Redeemable Non-Convertible Debentures of Re.1/- each have been 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 Limited, Oriental Bank of Commerce, Clear Water Capital Partners India Pvt Ltd, The Karur Vysya Bank Limited, Karnataka Bank Limited, IndusInd Bank Limited, and ICICI Bank, as envisaged in the CDR Package. The debentures are redeemable after the entire debt liabilities are fully repaid.

Out of the 33,49,36,238 0% Secured Redeemable Non-Convertible Debentures as at 31st March, 2005, 1,94,66,411 0% Secured Redeemable Non-Convertible Debentures allotted to Canara Bank has been converted to interest free funded interest Term Loan of Rs.1.95 Crores and 12,86,96,800 0% Secured Redeemable Non-Convertible Debentures allotted to ICICI Bank has been converted into Zero Coupon Loan of Rs.12.87 Crores during the year.

B) 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.

C) Term loans from banks 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, a second charge (sub-ordinate to the financial institutions) on



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the monthly subsidy and are further secured by way of a charge created through an equitable mortgage by deposit of title deeds of certain immovable property of the Company.

- D) 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.

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

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.

c) Loans of the Subsidiaries:

- i) Rupee Term Loan from Exim Bank is secured by mortgage of immovable properties and hypothecation of the 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 Limited of aggregate face value of Rs. 90 crores.
- ii) Overdraft from Karur Vysya Bank Ltd. and UTI Bank Limited resulting out of devolvement of foreign Letters of Credit opened by the respective Banks are secured by a charge created 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.
- iii) 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 all the Company's 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 further secured by Corporate Guarantee of Nagarjuna Fertilizers and Chemicals Limited, the holding company.

- iv) UTI Bank has filed an application with Debt Recovery Tribunal (DRT) in June 2005, for recovery of its dues. Various alternative proposals were explored during the year for the settlement but the

same could not materialize. The Company is now proposing to raise the loan required in full (including UTI Bank loan portion) for the Project and accordingly mandated IDBI and SBI for syndication. The Company is confident of achieving financial closure during the next year which will enable the Company to settle the dues to UTI Bank in full.

- v) Loan from ICICI Bank is secured by the hypothecation of the Car purchased.

6 Unsecured Loans:

a) Fixed Deposits:

There are no matured deposits which are claimed but remain unpaid as on the date of the Balance Sheet. The balance of matured unclaimed deposits outstanding as on 31.03.2006 is Rs.46.80 lakhs (previous year Rs.59.98 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 is deferred (interest-free) for a period of 14 years from 19.03.1998. The deferred sales tax of each year is repayable after the expiry of the period deferred.

7 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 Andhra Pradesh including 3.14 acres which cannot be alienated under Andhra Pradesh Land Reforms Act, 1973.
- f) State Industries Promotion Corporation of Tamil Nadu Limited (SIPCOT) has acquired 736 acres of land for handing over to the company. The company has made a part payment, which is included under Capital Work in Progress; on payment of balance amount, the same will be transferred / leased to the Company.

8 Sundry Debtors, Loans and Advances :

- a. Specific debts and advances identified as irrecoverable and doubtful are written off –Rs. 261.45 lakhs (previous year Rs.128.11 lakhs) as bad debts.

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b. Certain advances aggregating to Rs. 4622.72 lakhs (including dues from subsidiary company Rs.3512.18 lakhs for which tangible assets are available) are overdue for a considerable time. Management is taking steps to recover the same. Any shortfall in the recovery will be provided for on completion of recovery efforts.

c. Balances under sundry debtors, (loans and advances and other recoverables including subsidies) represent aggregate receivables.

Confirmation of balances from most of the sundry debtors have been obtained and others are awaited.

9 Income Tax:

a) Current Tax :

Provision for current tax is made for the amount of tax payable in respect of taxable income for the year under Income Tax Act 1961. The Company has, after making review of the pending tax matters, opined that no further provision is necessary in respect of disputed tax demand of Rs.111.69 lakhs which are in various stages of appeals. Any further provision required in respect of disputed tax will be considered on completion of the appellate proceedings.

The Finance Act 2006, has amended certain sections of the Income Tax Act with retrospective effect. The company has taken legal opinion which has stated that the amendment is unreasonable, and violative of constitutional rights and can be contested before the Courts. In view of this, the company has not considered the consequential effect to the amendment and its tax impact in the financial statements. The management is of the opinion that any additional tax impact resulting out of this amendment can be met from the balance available in the profit and loss account and its reserves.

b) Deferred Tax:

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

Rs. Lakhs

Liabilities	31.03.2006	31.03.2005
Depreciation	25435.90	31,082.61
Total	25435.90	31,082.61

10. Group Concession Scheme – (GCS) Subsidy

Nitrogenous fertilizers are under the Group Concession Scheme as per pricing scheme implemented w.e.f. 1st April, 2003. The concession rate for the current period has been recognised on the basis of notified price for plant-I and plant-II, further adjusted with input price escalation and other known policy parameters Rs. 12,226.73 lakhs (Previous year Rs.16689.66 lakhs) Pending finalisation of "Net Gain" as per the policy for Production and Sale of Urea beyond 100% re-assessed capacity, the company has estimated the Net Gain in accordance with the known policy parameters in this regard.

Adjustments if any, on notification of final prices under the scheme will be considered in the year in which notifications are received.

11. Expenditure on Research and Development

	2005-06	2004-05
Revenue expenditure	408.94	18.97
Capital Expenditure	240.75	—
Total	649.69	18.97

12. Segmental Accounting

The financial results relate mainly to fertilizer 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.

13. Equipments of Subsidiary Company:

A Subsidiary Company (NOCL) had entered into an agreement with M/s Uhde GmbH (UHDE) for supply, dismantling, packing, transportation and storage of Mobil Refinery equipment which inter-alia, provides right of ownership and disposal after giving notice to the Subsidiary Company in case of non-payment of storage charges. UHDE has dispatched part of the equipment which is received and stored at bonded warehouse of the Subsidiary Company's Plant site at Cuddalore. The balance equipment for which the amount is due is retained at the European Ports by UHDE at the risk and responsibility of the Subsidiary Company. The arrangement envisages payment of storage charges to UHDE and an agreement was entered into which is valid till September 2006.

14. 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

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2. Related party transactions are as under:

Rs. Lakhs

Sl. No	Nature of transaction	Associates 31.03.2006	Key Mgmt Personnel 31.03.2006	Associates 31.03.2005	Key Mgmt Personnel 31.03.2005
1.	Finance : Advances given Advances received	--- 40.71	--- 2.99	10.00 0.90	-- 3.26
2.	Purchase of fixed assets	---	---	1.26	--
3.	Receiving of services : Service charges	71.29	--	--	--
4.	Grant to R & D	--	--	18.97	--
5.	Lease Rental received	0.01	--	0.01	--
6.	Remuneration to Key Mgmt. Personnel	--	180.32	--	166.59

15. Earnings per Share:

Sl. No.	Earning per share (Basic and diluted) has been computed as under:	Unit of Measurement	31.03.2006	31.03.2005
1.	Net Profit / (Loss) after tax	(Rs in Lakhs)	6685.20	2952.70
2.	Number of ordinary shares (fully called up)	(Numbers)	428181821	428181821
3.	Earnings per share (Face value of Rs. 10/- per share)	[1] / [2]	1.56	0.70

16. Managerial Remuneration:

Sl. No.	Remuneration of Managing Director and Whole Time Directors	31.03.2006	31.03.2005
1.	Salaries	83.78	86.45
2.	Perquisites	70.56	56.26
3.	Contribution to Provident Fund and other funds	25.98	23.88
	Total	180.32	166.59

17. Sales are net of cash discounts of Rs.140.69 lakhs (previous year Rs.446.40 lakhs).

18. Dues to Small Scale Industrial Undertakings, exceeding 30 days - Nil

19. Previous year figures have been re-grouped / re-classified / re-cast wherever necessary.

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

Signatures to Schedules " 1 to 15"

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

V. K. Muralidhar
Partner

Hyderabad
April 27, 2006

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

K S Raju
Vice Chairman & Managing Director

M Ramakanth
Secretary

Hyderabad
April 27, 2006

J. Mahalingam
Chief Financial Officer

B K Batra
N C B Nath
M P Radhakrishnan
S R Ramakrishnan
Directors
P P Singh
Director (Technical)
R S Nanda
Director & Chief Operating Officer
K Rahul Raju
Director - Business Development
& Strategic Planning



NFCL

Board of Directors

K S Raju
Chairman & Managing Director

Field Marshal Sam Manekshaw, M.C.
Chairman Emeritus

Ashok Chopra
Nominee of Snamprogetti

B K Batra
Nominee of IDBI

Chandra Pal Singh Yadav
Nominee of KRIBHCO

R K Chavali
Nominee of IFCI

K M Jaya Rao
Nominee of ICICI

Lakshmi Parthasarathy
Nominee of Government of Andhra Pradesh

N C B Nath

M P Radhakrishnan
Nominee of SBI

S R Ramakrishnan

Vishwanath Mathur
Nominee of UTI

P P Singh
Director (Technical)

R S Nanda
Director & Chief Operating Officer

K Rahul Raju
Director – Business Development & Strategic Planning

Secretary
M Ramakanth

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

Registered Office
Nagarjuna Hills
Hyderabad - 500 082
INDIA

Website
www.nagarjunafertilizers.com

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



Nagarjuna Fertilizers and Chemicals Limited

Registered Office : Nagarjuna Hills, Hyderabad - 500 082.

**30th Annual General Meeting at 10.00 a.m. on September 28, 2006
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 _____ or

_____ in the district of _____

as my/our proxy to vote for me/us on my/our behalf at the Thirtieth Annual General Meeting of the Company to be held on

September 28, 2006 and at any adjournment (s) thereof.

Signed this _____ day of _____ 2006.



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

