



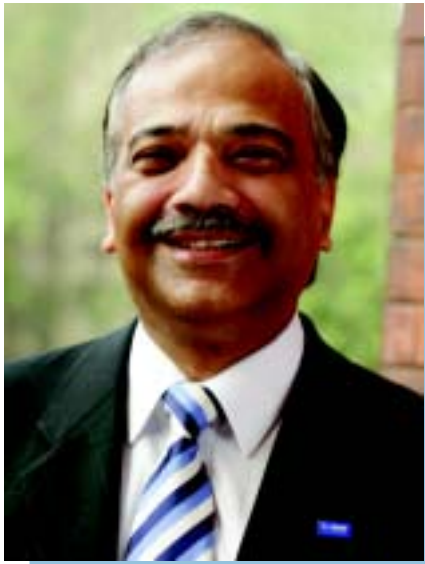
SHAPING THE FUTURE

 **BASF**

The Chemical Company

Annual Report 2005 - 2006

BASF India Limited



## Message from the Chairman & Managing Director

Dear Shareholders,

*"India everywhere"* – The theme of the Davos World Economic Forum conference, clearly reflected the changing perception of India in the Global Economy. Last few years, the economy has been consistently growing. Most importantly, last year the manufacturing sector has shown 9% growth. This augurs well for the Chemical industry.

We will shape our future on the principles of *"Sustainability"*. The equilibrium between the economic compulsions, ecological considerations and social needs has to be maintained for sustainable growth. Your Company has structured the organization and management process accordingly.

**BASF – The Chemical Company.** We believe in innovation. The Research & Development Centre is now part of the Global Technology Platform, attracting some of the best chemistry-minds in the country. We will shape the future with our Chemistry and are well positioned to achieve BASF Strategy 2015.

Our loyal, committed and professional employees will add value to our stakeholders.

With Best Wishes,

A handwritten signature in black ink, which appears to read "Prasad Chandran". The signature is written in a cursive style and is underlined with a single horizontal line.

**Prasad Chandran**

# 62nd Annual General Meeting

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Thursday, 10th August 2006 at 3.00 p.m. at Yashwantrao Chavan Pratishthan Auditorium, Y. B. Chavan Centre, General Jagannath Bhosale Marg, Nariman Point, Mumbai - 400 021.	
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<b>BASF India Limited</b>	
<b>Registered Office:</b> RBC, Mahindra Towers, 1st Floor, 'A' Wing, Dr. G. M. Bhosale Marg, Worli, Mumbai - 400 018. Phone: 022-6661 8000 www.basf-india.com	
<b>Works</b>	
Thane-Belapur Road, Turbhe, Navi Mumbai-400 705, Maharashtra.	
Bala/Thokur Village, Surathkal-Bajpe Road, Mangalore Taluka, Dakshina Kannada District, Karnataka - 575 030.	
83/2, Demni Village, Dena Bank Road, Dadra - 396 191.	
Union Territory of Dadra & Nagar Haveli	
<b>Branches</b>	
Ahmedabad, Chennai, Delhi, Kolkata	
<b>Registrar and Share Transfer Agent</b> Sharepro Services (India) Private Limited Satam Estate, 3rd Floor, Above Bank of Baroda, Cardinal Gracious Road, Chakala, Andheri (East), Mumbai - 400 099. Phone : 022-2821 5168/2832 9828 Fax : 022-2837 5646	
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## Board of Directors

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Mr. Prasad Chandran  
*Chairman and Managing Director*

Dr. Rainer Diercks

Dr. Raman Ramachandran  
*Alternate to Dr. Rainer Diercks*

Dr. Tilman Krauch

Mr. Deepak Thuse  
*Alternate to Dr. Tilman Krauch*

Mr. Boon Yeow Yee

Mr. S. Ramnath  
*Alternate to Mr. Boon Yeow Yee*

Mr. K.R. Coorlawala

Mr. R.R. Nair

Mr. Pradip P. Shah

Mr. R.A. Shah

### **Auditors**

Deloitte Haskins & Sells  
*Chartered Accountants*

### **Solicitors**

Messrs Crawford Bayley & Co.  
Messrs Udawadia & Udeshi

### **Bankers**

ABN Amro Bank N.V.  
Citibank N.A.  
Deutsche Bank  
HDFC Bank Limited  
Standard Chartered Bank

### **Internal Auditors**

Mahajan & Aibara  
*Chartered Accountants*

### **Executive Committee**

Mr. Prasad Chandran

Mr. P.M. Balakrishnan

Mr. M.R. Iyer

Mr. S. Khanolkar

Mr. Ravi Nair

Dr. Raman Ramachandran

Dr. G. Ramaseshan

Mr. S. Ramnath

Mr. Deepak Thuse

Mr. R.Y. Vaidya

### **Company Secretary**

Mr. M.R. Iyer



# Directors' Report

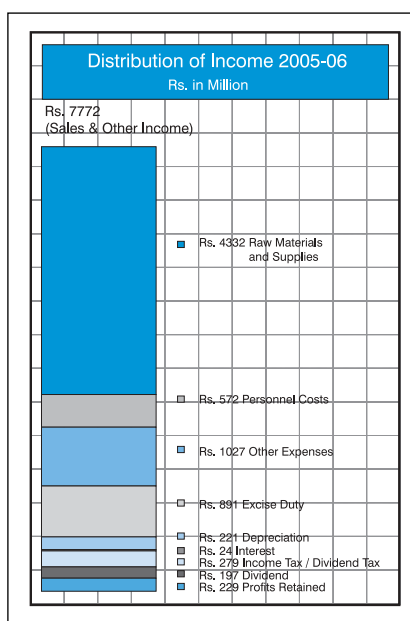


Maiden visit. On taking over as Member of the Board of Executive Directors, BASF AG, responsible for Asia Pacific, Dr. Martin Brudermueller visits India in his first week.

Your Directors have pleasure in presenting their Report for the financial year ended 31st March 2006.

## Financial Results

(Rs. in Million)



	Year ended 31.3.2006	Year ended 31.3.2005
Sales	7716.4	7401.8
Profit before tax	705.7	600.6
Tax	251.6	220.9
Profit after tax	454.1	379.7
Balance brought forward	193.0	191.0
Available for appropriation	647.1	570.7
This has been appropriated as follows:		
Proposed Dividend	197.3	169.1
Corporate Tax on Dividend	27.7	23.7
Cess on Dividend pertaining to previous year	—	0.4
Debenture Redemption Reserve/(withdrawal)	—	(300.0)
General Reserve	197.1	484.5
Balance carried forward	225.0	193.0

## Activities

The performance of your Company during the year under report has registered an improvement over the previous year. Sales at Rs. 7716.4 million during the year ended 31st March 2006 registered increase of 4% compared to the previous year. Profit before tax at Rs. 705.7 million represents an increase of 17% compared to the previous year. This increase was mainly on account of higher capacity utilisation, improved operating results of Plastics, Agricultural Products and Chemicals businesses and reduction in interest cost during the year under report.

Profit after tax at Rs. 454.1 million was higher by 20% compared to the previous year.

The Plastics business registered higher sales and profits compared to the previous year. The Agricultural Products business recorded lower sales during the year ended 31st March 2006. However, profits showed improvement due to better realizations and rationalization measures undertaken in the areas of distribution and product portfolios. The Chemicals business registered significant increase due to improved demand from the end user industries.

The Performance Products segment which include textiles, dispersions, specialty and leather chemicals businesses registered increase in sales during the year under report. The textiles, dispersions and specialty chemical businesses registered higher volumes and turnover compared to the previous year. Margins in leather chemicals were under pressure on account of increase in raw material prices and drop in the production of leather.

The export sales was at Rs. 252 million during the year under report.

## Dividend

Your Directors recommend payment of dividend on the equity shares @ 70% (including a special dividend of 10% out of the amount received on transfer of Phorate activity) for the financial year ended 31st March 2006. The dividend will absorb Rs. 197.3 million.

Financial Ratios		
	2005-06	2004-05
Equity vs Total Assets (%)	69.34	61.26
Return on Capital Employed (%)	26.95	23.41
before interest and taxes		
Profitability of total income (%)	9.38	8.90
before interest and taxes		
Current Ratio	3.06	2.33
current assets :		
short term liabilities and provisions		
Acid Test Ratio	2.01	1.50
short term receivables plus		
cash and cash items:		
short term liabilities and provisions		

## Finance & Accounts

With focus on cash flows and working capital management, your Company continued to reduce its total borrowings. This coupled with access to low cost funds, resulted in overall reduction in interest costs for the year under report by 61%.

### Capital Expenditure

Capital Expenditure incurred during the year aggregated to Rs. 142.6 million.

### Reduction in Borrowings

Strong cash accruals and tight control over working capital enabled your Company to significantly reduce its borrowing levels to Rs. 13 million, compared to Rs. 99.7 million in the previous year.

### Fixed Deposits

Your Company continued to maintain the highest rating of 'FAAA' awarded by CRISIL. Your Company did not accept any Fixed Deposits during the year under report. There were no overdue deposits except unclaimed deposits of Rs. 1.6 million as at 31st March 2006.

Your Company transferred unclaimed fixed deposit of Rs. 0.34 million during the year to the Investor Education and Protection Fund.

## Management Discussion & Analysis Report

In terms of Clause 49 of the Listing Agreement with the Stock Exchanges, the Management Discussion & Analysis Report is appended to this Report.

### Wholly owned Subsidiary

BASF Polyurethanes India Limited (BPIL), your Company's subsidiary is in the process of setting up a system house at Turbhe, to manufacture Polyurethane System (PU) products. After receipt of the requisite approvals, BPIL will commence manufacture of PU products. The indenting and trading activities of your Company relating to PU products will also be suitably integrated in BPIL. Attached to the accounts of your Company are the Report and Audited Accounts of BPIL.

### Phorate Activity

In line with the global decision of BASF Group to divest Phorate activity relating to Agricultural Products business, your Company transferred its Phorate activity to AMVAC Chemical Corporation, USA, for Rs. 28.8 million.

### Asian Technical Centre for Textiles

Keeping in line with the requirements of the market for quality technical service in textile chemicals, your Company set up the Asian Technical Centre for Textiles at Thane to cater to the needs of the customers in the Indian sub-continent. The Centre is equipped with the state-of-the-art equipment for textile processing and will also function as a training centre for employees and customers.

### Expansion of Polymer Dispersions Capacity

Your Directors had in October 2005, approved the proposal for expansion of the polymer dispersions plant capacity at Mangalore from 20000 tpa to 65000 tpa to meet the demand of customers in the paper and architectural coatings, adhesive and construction segment. The project cost estimated at Rs. 410 million, is expected to be commissioned by the first quarter of 2007. The project is financed by internal accruals and borrowings.

### Corporate Governance

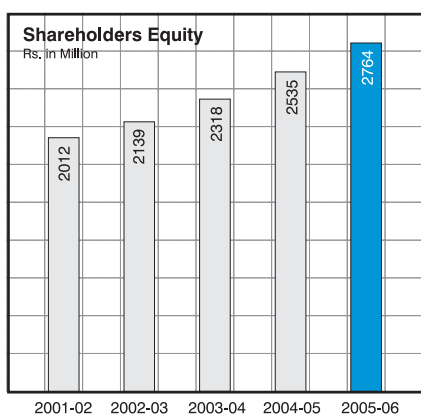
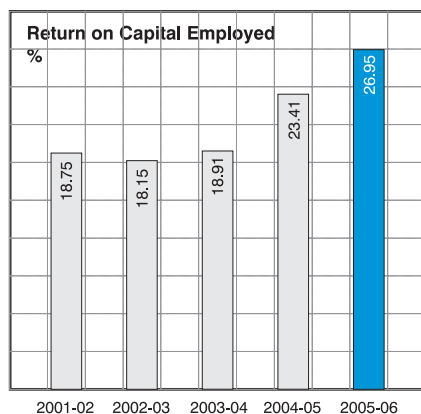
Your Company always strived to incorporate appropriate standards for good corporate governance. Your Company has complied with the Corporate Governance requirements as per the revised Clause 49 of the Listing Agreements with the Stock Exchanges.

A separate report on Corporate Governance alongwith a Certificate of Compliance from the Auditors, forms part of this report.

### Directors' Responsibility Statement

Your Directors confirm:

- (i) that in the preparation of the annual accounts, the applicable accounting standards have been followed;



- (ii) that the Directors have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of your Company at the end of the financial year ended 31st March 2006 and of the profits of your Company for that year;
- (iii) that the Directors had 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 your Company and for preventing and detecting fraud and other irregularities;
- (iv) that the Directors have prepared the annual accounts on a going concern basis.

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

Information pursuant to Section 217(1)(e) of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988, is given in the annexure to this Report.

**Directors**

Dr. E. Baumgartner resigned from the Board w.e.f. 23rd January 2006. Your Directors wish to place on record their sincere appreciation of the guidance and valuable advice received from Dr. E. Baumgartner in the deliberations of the Board during his tenure as a Director.

Consequent upon the resignation of Dr. E. Baumgartner from the Board, Mr. S. Kumarasamy, ceased to be his Alternate Director effective from 23rd January 2006. Mr. S. Kumarasamy retired from the services of the Company effective 1st April 2006.

Mr. R. E. Vaz, who was the Alternate Director to Mr. Boon Yeow Yee, resigned from the Board effective 1st April 2006 consequent upon attaining superannuation.

Your Board of Directors wish to place on record their sincere appreciation of the guidance and valuable advice received from Mr. S. Kumarasamy and Mr. R. E. Vaz in the deliberations of the Board during their tenure as Directors.

Dr. Rainer Diercks was appointed as a Director on 23rd January 2006 in the casual vacancy caused by the resignation of Dr. E. Baumgartner in terms of Article 108 of the Articles of Association of your Company and Section 262 of the Companies Act, 1956.

Mr. Deepak Thuse was initially appointed as an Alternate Director to Dr. Harald Lauke effective 23rd January 2006 and thereafter appointed as an Alternate to Dr. Tilman Krauch, effective 17th April 2006.

Mr. S. Ramnath was appointed as an Alternate Director to Mr. Boon Yeow Yee, effective 1st April 2006.

Dr. Raman Ramachandran was appointed as an Alternate Director to Dr. Rainer Diercks, effective 1st April 2006.

Dr. Harald Lauke resigned from the Board w.e.f. 17th April 2006. Your Directors wish to place on record their sincere appreciation of the guidance and valuable advice received from Dr. Harald Lauke in the deliberations of the Board during his tenure as a Director.

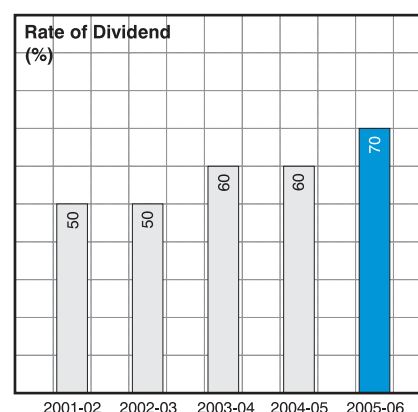
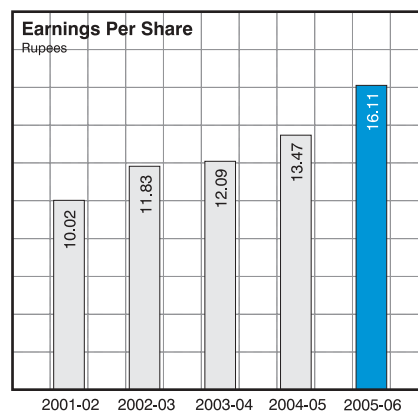
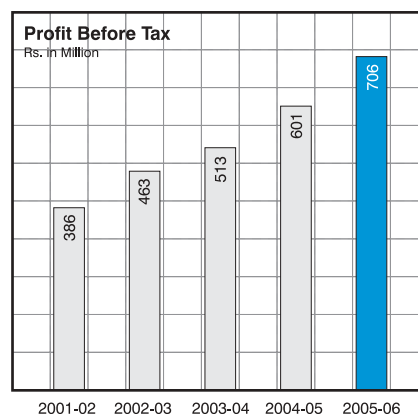
Dr. Tilman Krauch was appointed as an Additional Director of your Company w.e.f. 17th April 2006 in terms of Article 108 of the Articles of Association of your Company and Section 260 of the Companies Act, 1956 and he holds office up to the date of the ensuing Annual General Meeting.

Mr. R. A. Shah and Mr. R. R. Nair, retire by rotation at the ensuing Annual General Meeting and being eligible, offer themselves for re-appointment.

As required under Clause 49 of the Listing Agreement with the Stock Exchanges, the details of Directors seeking re-appointment at the ensuing Annual General Meeting, is provided in the Corporate Governance Report, forming part of this Annual Report.

**Auditors**

M/s. Deloitte Haskins & Sells, Mumbai retire at the forthcoming Annual General Meeting and are eligible for re-appointment.



### Auditors' Report

Your Directors would like to refer to Para 4(vi) of the Auditors' Report dated 2nd May 2006. We invite your attention to Note 12 of Schedule 21 attached to these accounts which depicts the position in regard to the pending approval from the members of the Company in the General Meeting. In your Directors' opinion, the Note is self-explanatory.

### Cost Audit

The Board of Directors in pursuance of an order under Section 233B of the Companies Act, 1956, issued by the Government have appointed M/s. R. Nanabhoy & Co., Cost Accountants, Mumbai as Cost Auditors of your Company for conducting audit of the cost accounts maintained by your Company in respect of Insecticides for the financial year 2006-07.



Expansion Project. Ground breaking ceremony at Mangalore to increase capacity of the Dispersions Plant from 20,000 metric tons to 65,000 metric tons per annum.

### Particulars of Employees

The particulars of employees required to be furnished under Section 217(2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975, forms part of this Report. However, as per the provisions of Section 219(1)(b)(iv) of the Companies Act, 1956, the Report and Accounts are being sent to all shareholders, excluding the statement of particulars of employees. Any shareholder interested in obtaining a copy may write to the Company Secretary at the Registered Office of the Company.

### Personnel and Welfare

Industrial relations in the Mangalore, Thane & Dadra factories remained cordial.

Your Directors express their sincere appreciation for the dedicated efforts put in by all the employees and for their continued contribution for ensuring higher performance of your Company during the year.

### General

The Consolidated Financial Statements of your Company in this Annual Report are inclusive of the results of BASF Polyurethanes India Limited.

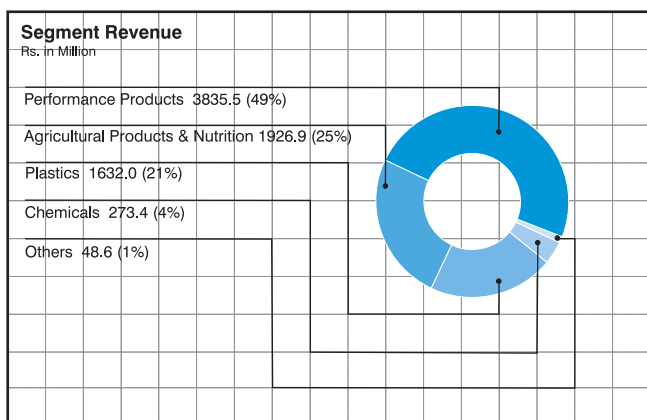
On behalf of the Board of Directors

PRASAD CHANDRAN  
Chairman & Managing Director

Mumbai

Dated: 2nd May 2006





## Annexure to the Directors' Report

Statement containing particulars pursuant to the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 and forming part of the Directors' Report.

### A. Conservation of Energy

The Company continued its policy of giving priority to energy conservation measures including regular review of energy generation, distribution and consumption and effective control on utilisation of energy, in its manufacturing facilities at Thane, Mangalore & Dadra.

During the year under report, various energy saving measures were implemented in the Company's factories, which include:

- Reduction in specific power consumption in a plant by incorporating the following measures/carrying out modifications viz.
  - Modification of cooling water circuit in a plant.
  - Incorporating measures for switching certain equipment as per batch requirements.
  - Reducing run hours of an equipment, so as to have campaign production.
  - Modification in a chilling plant to reduce compressor run hours.
- Rationalise process parameters to bring down batch cycle time of production processes.
- Replacement of old gear box by an energy efficient one in a plant.
- Installation of energy efficient split and window Air-conditioners in place of existing Air Conditioners.
- Increasing set temperature of Air-conditioners to save on power.
- All personal computer monitors programmed to switch off after a set time of non-use.

The above measures not only resulted in significant savings in the total energy consumed but also had a positive impact on improvement in the environment.

In addition, the Company plans to implement the following energy conservation measures:

- To execute the second solar water heating system for pre-heating boiler feed water.
- To rationalize process parameters to bring down batch cycle time of energy intensive production processes to achieve reduction in energy consumption.
- To reduce power cost by obtaining power from the State Grid.
- To reduce spray dryer running cost by converting existing LDO fuel fired generator burner to Furnace oil/fuel fired burner.
- To carry out feasibility studies for:
  - Introduction of economizer for recovery of waste heat from the flue gas of boilers.
  - Implementation of solar water heating system in a different location to pre-heat boiler feed water and explore possibilities of using solar energy for other process applications.
  - Adoption of rain water harvesting in a scientific manner to use rain water during monsoon and improve the underground water table level.
  - Installation of auto switching system for a plant.
  - Implementing drip irrigation for gardening.
  - Installation of energy efficient gear boxes in existing reactors.

Requisite data in respect of Energy Consumption are given below:

	Current Year 1.4.2005 to 31.3.2006	Previous Year 1.4.2004 to 31.3.2005
(a) Power & Fuel Consumption		
1. Electricity		
(a) Purchased		
Units (in '000' kwh)	7427	8513
Total amount (Rs. in million)	27.60	30.70
Rate per unit (Rs.)	3.72	3.61
(b) Own generation		
• Through diesel generator		
Units (in '000' kwh)	7721	8104
Units per litre of oil	3.67	3.75
Cost per unit (Rs.)	7.39	6.16

	Current Year 1.4.2005 to 31.3.2006	Previous Year 1.4.2004 to 31.3.2005
• Through Steam Turbine/Generator units		
Units per litre of fuel	N.A.	N.A.
Oil/gas		
Cost per unit		
2. Coal (specify quality and where used)	N.A.	N.A.
Qty. (tonnes)		
Total cost		
Average rate		
3. Furnace oil/fuels		
Qty. (k. litres)	2673	3057
Total Amount (Rs. in million)	40.96	36.38
Average rate (Rs./litre)	15.32	11.90
4. Others/Internal Generation (Qty.)	N.A.	N.A.
Total cost rate/unit		
(b) Consumption per unit of production		
Products		
Expandable polystyrene		
Unit M.T.		
Electricity (kwh)	61	80
Furnace oil/fuels (litres)	24	27
Coal (specify quality)	N.A.	N.A.
Others (specify)	N.A.	N.A.
Leather chemicals, auxiliaries, pigments, tanning and finishing agents including metal complex dyes, acrylic polymers and carboxylated styrene butadiene lattices		
Unit M.T.		
Electricity (kwh)	343	365
Furnace oil/fuels (litres)	52	62
Coal (specify quality)	N.A.	N.A.
Others (specify)	N.A.	N.A.
Pesticides		
Unit M.T.		
Electricity (kwh)	290	267
Furnace oil/fuels (litres)	170	114
Coal (specify quality)	N.A.	N.A.
Others (specify)	N.A.	N.A.

## B. Technology Absorption

### RESEARCH & DEVELOPMENT (R&D)

#### 1. Specific Areas in which R&D was carried out by the Company:

During the year, the R&D Centre of the Company was engaged in supporting all the businesses through innovations and undertook multifold research activities including:

- Development of new products/formulations
- Developing cost effective processes and streamlining existing processes in the areas of paper/leather/textile/other specialty chemicals and auxiliaries
- Optimising effluent treatment processes

During the year under report, the R & D Centre was recognized by BASF AG as a part of its Global Technology Platform. This recognition brought several Global Research projects to the R & D Centre and the laboratories were modernized. The R&D Centre augmented research instruments facility. Presently, the Centre is working on Global Research projects in the following areas:

- New organic chemical intermediates for various applications
- Textile auxiliaries

- Paper dyes and dye intermediates
  - Isolation of potential pesticides from natural sources
  - Novel methods in leather application
2. *Benefits derived as a result of the above R&D:*  
 With its continuous endeavour to explore and apply new and innovative chemistry for the benefit of customers, the R & D Centre developed several new products during the year.  
 As a part of global collaborative research efforts, 3 new products were introduced in the market during the year.
3. *Future plans of action:*  
 Future plans of action of the R&D Centre are as follows:
- Development of innovative products and processes.
  - Enhancing Global collaborative research with BASF AG.
  - Installing state-of-the-art analytical instruments to carry out research more efficiently.
  - Modernizing additional laboratory space in order to accommodate more scientists and to expand the scope of the R & D Centre.
  - Identifying and developing technologies for export oriented products.
  - Exploring newer areas of research.
4. *Expenditure on R&D:*

	Rs. in million
(a) Capital	10.0
(b) Recurring	37.0
(c) Total	47.0
(d) Total R&D Expenditure as a percentage of total turnover	0.7%

#### TECHNOLOGY ABSORPTION, ADAPTATION AND INNOVATION

1. *Efforts in brief, towards technology absorption, adaptation and innovation:*  
 The R & D Centre of the Company is recognized by the Ministry of Science and Technology, Government of India. The Centre is ISO 9000 certified. The Centre is engaged in developmental activities, viz. new cost effective technologies for new as well as existing products, batch cycle time reduction etc. Additionally, the Centre is carrying out basic research in the areas of
- (i) new organic chemical intermediates for various applications,
  - (ii) textile auxiliaries,
  - (iii) paper dyes/ intermediates and
  - (iv) leather chemicals.
- The R&D Centre is also engaged in research activities pertaining to the adaptation of process technologies received from BASF AG.
2. *Benefits derived and the results of the above efforts:*  
 Various new products were developed and commercialized during the year. Introduction of innovative products enabled the Company to pass on the benefits to the customers. Additional efforts in process optimization led to cost reduction. This helped the businesses to remain cost competitive in the market.
3. *Imported technology:*  
 During the last 5 years, the Company entered into agreements with BASF AG for sourcing the following technical know-how:
- (i) In 2002 and 2004 for manufacture of new products.
  - (ii) In 2004 for manufacture of expandable polystyrene.
- The Company has excellent interaction with its parent Company, BASF AG and receives on an ongoing basis, valuable technical information and support. As a result, the Company introduced a range of new products in different business segments.

#### C. Foreign Exchange Earnings and Outgo

The particulars with regard to foreign exchange earnings and outgo appear on page 39 and 40 of the Annual Report and Accounts.

On behalf of the Board of Directors

PRASAD CHANDRAN  
 Chairman & Managing Director

Mumbai  
 Dated: 2nd May 2006

# Management Discussion and Analysis Report



Dr. Tilman Krauch, newly appointed President, BASF East Asia Regional Headquarters Limited, gets a warm welcome when he visited BASF India Limited office for the first time.

In 2005-06, the Indian economy grew at a rate of over 8% compared to 7.5% in the previous year. For the past few years, manufacturing companies have taken initiatives to improve their competitiveness. These are paying dividends. The manufacturing sector grew by 9.4% and was one of the major contributors to higher economic growth along with the services sector. The agricultural sector showed improved performance and grew by 2.3% compared to a modest growth in the previous year.

The chemical industry's performance was also in line with the manufacturing sector. The chemical industry maintained its growth trajectory and grew by 9%. The imports and exports of chemical products showed a growth of over 15%.

Chemical industry serves various end-use industries. Most of the end-use industries catered to by the Company registered a healthy growth in 2005-06. Government's thrust on infrastructure resulted in higher construction activity. Demand for automotive, pharmaceuticals and consumer durables were strong as a result of higher disposable income and easy availability of credit. Abolition of quota regime resulted in demand for high quality textiles from India.

Economic as well as industrial growth are expected to remain healthy and would result in higher growth of end-use industries, who have been augmenting capacities to meet increased demand.

All these indicators point to a strong demand for chemical products. The outlook for the chemical industry thus remains encouraging.

## Plastics

Expandable polystyrene (Styropor) is the major business in this segment. Styropor is used in the area of packaging and insulation. The major end-user in the packaging segment includes consumer electronics and white goods. In the insulation segment, the major consumers include cold storage and air-conditioning industries.

The expandable polystyrene (EPS) market is catered to by four manufacturers and currently this industry is going through a restructuring phase.

The EPS customers are the processors (moulders), who convert the raw material into finished product. Given the growth in the end-user industry, many of these processors are expanding capacities to cater to the increased volume of business.

Electronics and consumer durables packaging is the major segment for EPS business. Increasing urbanization, rising standard of living and aspiration levels are further accelerating the growth.

Major consumer durable manufacturers have taken steps to enhance production capacities to cater to the increased demand.

Underutilized capacities of plants in South East Asian countries could result in pressure on prices and margin. Lower import duties have further reduced margins for the local manufacturers of EPS. Volatile raw material prices and strong competition will continue to be a feature of the EPS business.

The Styropor business continued to record volume growth in a competitive environment enabling the Company to improve its market position. Turnover increased marginally. Steps undertaken to debottleneck production capacity of Styropor enabled the Company to cater to peak demand.

The Plastics business of the Company showed higher sales and profits during the year ended 31st March 2006, compared to the previous year.

## Performance Products

The Performance products business include tanning agents, leather, textile, specialty and dispersion chemicals.

The Indian leather Industry witnessed following changes in the past year.

- Industry forward integrating into full shoes.
- Inflow of imported raw hides was on the rise while local hides availability was lower.
- Traditional raw hide, like goat, was out of demand, resulting in reduced level of production in some tanneries.
- Hong Kong/China emerged as export destinations for finished leather.
- Garment sector witnessed poor demand.
- Overall leather production dropped significantly due to change in fashion, poor availability of key raw hides and lower exports of finished leather from India.



Opportunities Unlimited – a corporate workshop to identify emerging opportunities for BASF end-user industries.

With regard to the market outlook, environmental issues are gaining prominence due to pressure from European buyers. Also, manufacturers are evincing interest in the growing domestic market for leather goods. The shifting of customers in Kolkata to the new complex in Bantala gained momentum and the shift is expected to be complete in the near future.

The turnover and volume of leather chemicals was lower during the year under report. Despite demand being lower, the Company's position in the high performance leather segment was strengthened. The Company received favourable response for its eco-friendly products and the outlook for our products are favourable. The demand for specialty Beam House chemicals continued to grow as it enabled the tanneries to save water and reduce effluent treatment costs. New products introduced by the Company for upgradation of low-grade leather was well received in the market.

The textile industry in India, after the phase out of the quota regime, is upbeat, attracting new investments, increased orders and utilization of capacities.

The textile chemical industry in India is dominated by medium and small units. The Company ranks among the top 3 in the organized sector. Many European chemical suppliers are setting up base in India, resulting in a very competitive environment. Also, the fragmented processing sector is witnessing consolidation and an increasing number of composite mills.

The business has shown growth in the sizing and printing auxiliaries product groups, during the past year. BASF's unique acrylic sizing agents has enhanced production efficiencies of the textile customers.

The aqueous-based pigment printing systems continue to be a driving force for our business. The introduction of third generation products in dyeing, received favourable response from textile processors. The Company made foray into functional finishes, a niche segment in the area of textile finishing.

Keeping in line with the requirement of the market for quality technical service, the Company set up the Asian Technical Centre for Textiles at Thane, to cater to the needs of the customers in the Indian subcontinent. The Centre is equipped with the state-of-the-art equipment for textile processing and will function as a training centre for employees and customers.

Increasing demand for eco-friendly products has given impetus to the BASF eco-friendly product range viz., ECOFIT range. BASF is expected to play a key role in developing value added services for the textile industry.

The bottlenecks facing the textile industry viz., rising energy costs and prices, transportation delays, power fluctuation, inadequate infrastructure need to be tackled and the Government is taking the required steps to address the problem.

In order to be competitive, Indian textile manufacturers need to develop their expertise in the higher value-added service segment of the supply chain, such as design, sourcing and retail distribution. This development is taking place.

The outlook for the textile chemicals business is favourable. Emphasis on improvement in process efficiencies, increased productivity and superior technical service is expected to drive the demand for textile chemicals in the coming years.

The dispersions and specialty chemicals business cater to the requirement of a wide spectrum of industries including paper, construction, automotive and oil, paints, plastics, adhesives, detergents and value added fuel chemicals. Most of the industries in which the business operates, are growing at a rate over GDP growth rate. During the year, many of the paper mills and paint companies undertook expansion plans. Paper mills are improving their technology and making efforts to improve quality and product mix for export and domestic market.

The thrust for infrastructure development by the Government continued during the year. Coupled with development in housing sector there is a significant growth in construction and paint industry. The construction chemical companies, who are our customers, are participating and are recording growth, every year.





On the fast track..... Participants at the Team Automotive Asia Meet in Chennai, a platform that consolidates our efforts and initiatives for the Automobile industry.

The detergent industry is experiencing growth with changed marketing strategies of major detergent manufacturers that is helping them drive volume growth. The automotive sector registered growth this year with local demand and export of vehicles reaching a record high. The demand for additives and pigments in engineering plastics for automobiles, multifunctional fuel additives and branding of fuels led to growth in this business segment.

The large paper and board producers in India are adding new equipment with large capacities and are looking for new technologies to compete on cost and quality with world leaders. BASF is the only company in India that has new generation products in all the segments of papermaking and paper coating applications. BASF is augmenting its technical services to match customer needs. Increased disposable income is helping sectors like construction, paints and adhesives to grow. Opportunities for construction chemicals in

local and export market are increasing. Growing petrochemicals and refining sector also created opportunities for growth in mineral oil and additives business.

The Company launched new products in various businesses. These include paper chemicals, architectural coatings, high performance pigments, light stabilizers, coating raw materials and multifunctional additives. The paper coatings, architectural coatings and construction chemicals segments witnessed good growth. Automotive fluids business grew substantially.

The outlook for the dispersions and specialty chemicals business is favourable. The turnover and sales volume in the specialty and dispersions chemicals business registered increase, compared to the previous year.

## Chemicals

The chemicals supplied by the BASF Group cater to the requirement of a wide range of user industries including pharmaceutical, agro chemicals, petrochemicals and intermediates, plastics, inorganic chemicals, coatings, leather and textiles processing.

The overall economic growth witnessed in the country during the past year was reflected in the growth of chemical and downstream industries. The Company participated in this growth and business grew significantly, compared to the previous year.

The Company enhanced its business presence through increased merchandising activity.

Several product stewardship training programmes were conducted for customers to ensure safe handling of chemicals. In the field of plasticizers, the Company launched a new environment-friendly product, which has good prospects in medical devices and food contact applications. The chemical business increased its manpower to service the Indian market and extended its geographical spread.

The Indian pharmaceutical, agrochemical and coatings industry are on a growth path and have fared well during the year under report. These user industries continue to be active in sourcing generic products for the global pharma and agro-chemical companies, which require high quality BASF chemicals.

The outlook for the chemical business is favourable. Given the technological excellence of BASF products coupled with technical service capabilities, the Company is well positioned to take advantage of growing opportunities.

## Agricultural Products & Nutrition

The prospects for agricultural production in 2005 - 2006 were favourable due to near normal monsoon. Agriculture is expected to grow by 2.3%. Food grain production is estimated to increase by 5%. Horticulture, floriculture, poultry and animal husbandry, which account for 30% of production in agriculture and allied sectors, are estimated to grow by 6%.

The pronouncements in the Union budget reflect the Government's continued commitment to improving agricultural productivity. The outlay for irrigation projects stands substantially increased. Food processing sector has been placed on the priority list for bank credit, thus facilitating increased investments. The focus on rural infrastructure and rural extension service also augurs well for agriculture. Structural reforms in rural sector, entry of corporates in farming and food processing, penetration of technology in rural economy and emergence of commodity exchanges are significant developments. However, the dependence on monsoon continues to be a risk factor in Agriculture.

In 2005, the crop protection market declined by 10% over the previous year. The rapid penetration of genetically modified insect resistant cotton and general pest free situation in conventional cotton, significantly reduced insecticide applications targeted at cotton bollworm. Insecticides constitute more than 50% of the total crop protection market and hence this



Learning is fun! After inaugurating BASF Kids Lab in Delhi, Dr. R.A. Mashelkar (Director General – CSIR) joins the kids in having fun with chemistry. A total of 4,375 students from 43 schools participated.

significantly impacted the overall market. Fungicides, which constitute 15% of the market, grew. Herbicides applications increased in soybeans and cotton. However, due to generic pressure in wheat herbicide segment, there was a decline in the value growth of this segment.

The year witnessed consolidation in the Indian agrochemicals industry. The crop protection market is expected to be flat in the midterm, as the growth forecast in fungicide and herbicide treated areas could be offset by decline in insecticide usage (due to penetration of GMO crops).

The agricultural products business continued its profitable growth, by implementing various measures in 2005. These included:

- Rigorous adoption of value-based management.
  - Adoption of sales and operations processes to help reduction of inventory and improve customer service.
  - Emphasis on demand generation through farmer contact programmes.
- As a part of our continuing efforts to rationalise portfolio, low margin insecticide Thimet (Phorate), was divested.
  - Three new proprietary products were successfully launched.

These are in line with our ongoing measures to deliver more value to our customers and also optimize assets and working capital management.

The nutrition business has a product range that include vitamins for human and animal nutrition, actives and excipients for pharmaceuticals, aroma chemicals and ingredients for the cosmetic industry.

The pharmaceutical and cosmetic industry was on a growth mode during the year under report. Overseas acquisition by Indian Pharma companies pitched the domestic industry into the global arena. Also, the onset of the patent regime opened opportunities for contract manufacturing.

Economic growth, changing lifestyle and growing affluence had driven the growth of cosmetic industry. The consolidation process is driving innovation and growth in the cosmetic industry.

The nutrition business is identifying growth areas in various segments such as home mix premixes in animal nutrition, dietary supplements and beverages, regulatory markets for the pharmaceutical industry and opportunities in perfumery cosmetic chemicals.

The nutrition business is poised to take advantage of the changing market with its full range of products and is expected to grow with its customers.

### Technical Management

The ongoing efforts of the Company to implement cost optimization measures at its factories continued during the year under report. Greater focus on manpower utilisation, process improvements and energy conservation measures has led to cost reduction and also resulted in higher yield, lower batch cycle time, improved quality and enhanced capacities. All these measures also led to reduction in pollution load, thereby serving the cause of environmental protection and sustainable development.

At Thane factory, a number of technical initiatives were implemented. Employee development programme was conducted to bring in cross functional synergies.

The Mangalore factory continued to work at optimum efficiency and achieved record production in dispersions products, thereby utilizing its rated capacity. The dispersions plant is in the process of expanding capacity from 20000 tpa to 65000 tpa. The work on the project has commenced. The dyes plant worked at optimum efficiency.

Formulation and packing activities were optimised at Dadra factory, resulting in higher productivity and flexibility in operations.

Safety, Health and Environment management continue to receive top priority at all our factories.

Industrial relations in Thane, Mangalore and Dadra factories continue to remain cordial.

### Internal Control Systems and their Adequacy

The Company has a proper and adequate system of internal control to ensure that all resources are put to efficient use and are well protected against loss and all transactions are authorised, recorded and reported correctly.

The Company's internal control systems are supplemented by an extensive programme of internal audit by an independent firm of Chartered Accountants. In line with the BASF group policies, the group internal auditors also perform audits in specific areas of operations.

The Company's internal control systems are periodically tested and certified by the Company's statutory and internal auditors. The internal control systems are constantly reviewed by the Audit Committee constituted by the Board.

### **Developments in Human Resources and Industrial Relations front**

In order to form the best team in industry, to attract/retain the best talent in the organization and to build an organization on the values and principles of the BASF Group, the following initiatives were undertaken during the year under report.

The first Development Center in India was held in February 2005 and the second Development Center for the sub-region was also held in India, with participants from neighbouring countries. A Development Center is an objective medium of providing information about an individual's skills over a range of managerial competencies. A team of trained observers administer it. Through the process, the Company gets to know the competencies demonstrated by the individuals that would help in deepening and expanding the understanding of their strengths and development needs.

The senior Management of BASF came together to design the BASF Mentoring model. A group of mentors have been identified and the mentoring process has been implemented for all management and engineer trainees.

### **Employee Engagement Survey**

The Employee Engagement Survey was initiated and completed in 2005. The results of the survey were collated and actions are being taken to improve the engagement levels of the employees.

### **Performance Management**

Detailed employee dialogue is carried out at the time of the year-end performance review. A workshop on performance management was held for better understanding of the competency based performance review.

### **BASF Horizon**

HR and Corporate Communications launched Project BASF Horizon. This is an initiative towards building the brand, "BASF: The Chemical Company".

### **Industrial Relations**

Industrial relations continued to remain harmonious at all the factories during the year under report. The Company employed 817 persons as on 31st March 2006.

On behalf of the Board of Directors

PRASAD CHANDRAN  
*Chairman & Managing Director*

*Mumbai*  
*Dated: 2nd May 2006*

# Report on Corporate Governance



Mr. Chandran met with the Honorable President of India, Dr. A.P.J. Abdul Kalam. Mr. Chandran briefed him of BASF initiatives on Sustainable Development in India.

The Company has complied with the requirements of Corporate Governance in terms of the revised Clause 49 of the Listing Agreement.

## 1. COMPANY'S PHILOSOPHY ON CODE OF GOVERNANCE

The Company's philosophy on Corporate Governance is aimed at assisting the management in the efficient conduct of its business and in meeting its obligations to stakeholders and is guided by a strong emphasis on transparency, accountability and integrity. The commitment to good Corporate Governance is embodied in its Values Statement, comprising of the following:

- Sustainable Profitable Performance
- Innovation for the Success of Customers
- Safety, Health & Environmental Responsibility
- Personal and Professional Competence
- Mutual Respect and Open Dialogue
- Integrity

For several years, the Company has shown a high level of commitment towards effective corporate governance and has been at the forefront of benchmarking its internal systems and policies with global standards. The Company maintains highest business ethics and complies with all statutory and regulatory requirements.

The Company's philosophy on Corporate Governance envisages attainment of higher levels of transparency, accountability and equity in all facets of its operations and in all its interactions with its stakeholders, including shareholders, employees, customers, suppliers, government, lenders and the community at large. It aims to increase and sustain its corporate value through growth and innovation.

The Company believes that its operations and actions must serve the underlying goal of enhancing the interests of all its stakeholders over a sustained period of time, in a socially responsible way.

All employees are bound by a Code of Conduct that sets forth the Company's policies on all important issues.

## 2. BOARD OF DIRECTORS AS ON 2ND MAY 2006

A. Composition and category of the Board of Directors are as follows:

### EXECUTIVE DIRECTORS

Name	Date of Appointment	Designation	No. of Meetings held during the Last Financial Year	No. of Meetings Attended	No. of Memberships in Boards of other Companies*
Mr. Prasad Chandran	April 2, 2000 (re-appointed on 2nd April 2005)	Chairman & Managing Director	5	4	1
Mr. Deepak Thuse Alternate to Dr. Tilman Krauch	January 23, 2006	Chief Executive — Plastics	5	1	1
Mr. S. Ramnath Alternate to Mr. Boon Yeow Yee	April 1, 2006	Chief Executive — Finance & Information Technology	5	N.A.	1
Dr. Raman Ramachandran Alternate to Dr. Rainer Diercks	April 1, 2006	Chief Executive — Agricultural Products	5	N.A.	1

\* Excludes Directorships in Private Limited Companies, Memberships of Managing Committees of various Chambers/Bodies and Alternate Directorships.

## NON-EXECUTIVE DIRECTORS

Name	Date of Appointment	Designation	No. of Meetings held during the Last Financial Year	No. of Meetings Attended	No. of Memberships in Boards of other Companies**
Dr. Tilman Krauch	April 17, 2006	Director	5	N.A.	1
Dr. Rainer Diercks	January 23, 2006	Director	5	Nil	1
Mr. Boon Yeow Yee	April 21, 2004	Director	5	Nil	1

\*\* Excludes Directorships in Private Limited Companies and Bodies Corporate.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

Name	Date of Appointment	Designation	No. of Meetings held during the Last Financial Year	No. of Meetings Attended	No. of Memberships in Boards of other Companies*	No. of Memberships/ Chairmanships in other Committees
Mr. K. R. Coorlawala	February 10, 1975	Director	5	5	1	Nil
Mr. Pradip P. Shah	January 31, 2000	Director	5	4	13	Membership – 8 Chairmanship – 3
Mr. R. A. Shah	April 25, 1968	Director	5	5	14	Membership – 7 Chairmanship – 4
Mr. R. R. Nair	March 30, 2001	Director	5	3	3	Nil

\* Excludes Directorships in Private Limited Companies, Bodies Corporate, Memberships of Managing Committees of various Chambers/Bodies and Alternate Directorships.

- **Number of Board Meetings held during the year along with the dates of the meetings:**

Five Board Meetings were held during the year 2005-06. The dates on which the said Meetings were held are as follows:

- (1) 27th June 2005
- (2) 28th July 2005
- (3) 5th August 2005
- (4) 27th October 2005
- (5) 23rd January 2006

- B. **All pecuniary relationship or transactions of the non-executive Directors vis-a-vis, the Company.**

M/s. K. R. Coorlawala, R. A. Shah, Pradip P. Shah and R. R. Nair, non-executive independent Directors of the Company do not have any pecuniary relationship with the Company other than the commission payable to them. Details of commission paid are given at Serial No. 4 of this report.

Dr. Harald Lauke, Dr. Rainer Diercks, Mr. Boon Yeow Yee and Dr. E. Baumgartner were not paid any commission during the financial year 2005-06.

### 3. AUDIT COMMITTEE

The Board of Directors of the Company constituted an Audit Committee on 1st March 2001 comprising of three independent non-executive Directors viz. Mr. K. R. Coorlawala as Chairman, Mr. R. A. Shah and Mr. Pradip P. Shah as Members and Mr. M. R. Iyer as Secretary of the Committee. Mr. S. Ramnath, Chief Executive, Finance & Information Technology was nominated as a Permanent Invitee on 25th September 2001. The constitution of the Audit Committee also meets with the requirements of Section 292A of the Companies Act, 1956.

The terms of reference stipulated by the Board to the Audit Committee contained under the revised Clause 49 of the Listing Agreement are as follows:

- Overseeing the Company's financial reporting process and the disclosure of its financial information to ensure that the financial statement is correct, sufficient and credible.
- Recommending to the Board, the appointment, re-appointment and removal of statutory auditor, fixation of audit fees and also approval for payment for any other services.
- Reviewing with the management, the quarterly, half yearly and annual financial statements before submission to the Board, focusing primarily on:
  - 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.
  - Changes, if any, in accounting policies and practices and reasons for the same.
  - Major accounting entries based on exercise of judgment by the management.
  - Significant adjustments made in the financial statements arising out of audit findings
  - Compliance with listing & other legal requirements concerning financial statements.



- Any related party transactions i.e. transactions of the Company of material nature, with promoters or the management, their subsidiaries or relatives etc. that may have potential conflict with the interests of the Company at large.
- Qualification in draft audit report.
- Reviewing the following information
  - ❖ Management discussion and analysis of financial condition and results of operations
  - ❖ Statement of significant related party transactions submitted by the management
  - ❖ Management letters / letters of internal control weaknesses
  - ❖ Internal Audit reports relating to internal control weaknesses
  - ❖ Financial statements, in particular, the investments made by the unlisted Subsidiary Company
  - ❖ Appointment, removal & terms of remuneration of the Chief Internal Auditor.
- Reviewing with the management, performance of statutory and internal auditors, the adequacy of the internal control systems.
- Reviewing the adequacy of internal audit function, including if applicable, the structure of the internal audit department, staffing and seniority of the official heading the department, reporting structure, coverage and frequency of internal audit.
- Discussion with the internal auditors, any significant findings and follow up thereon.
- Reviewing the findings of any internal investigations by the internal auditors into matters where there is suspected fraud or irregularity or a failure of internal control systems of a material nature and reporting the matter to the Board.
- Discussion with the 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.
- Reviewing the Company's financial and risk management policies.
- Looking into the reasons for substantial defaults, if any, in the payments to the depositors, debentureholders, shareholders (in case of non payment of declared dividends) and creditors.

The Audit Committee meetings were held on 27th June 2005, 27th October 2005 and 23rd January 2006 during the financial year 2005-06. Mr. K. R. Coorlawala, Chairman and Mr. R. A. Shah Member of the Committee, Mr. S. Ramnath, Permanent Invitee and Mr. M. R. Iyer, Secretary of the Committee were present at all the meetings. Mr. Pradip P. Shah, Member of the Committee was present at the meetings held on 27th June 2005 and 23rd January 2006. The Statutory Auditors, Cost Auditors and Internal Auditors, as needed, were invitees to the meetings.

#### 4. REMUNERATION

- **Remuneration Committee**

As the Remuneration Committee is non-mandatory, the Board decided that the formation of this Committee be taken at an appropriate time.

- **Remuneration of Non-executive Directors**

The remuneration of non-executive Directors are decided by the Board of Directors of the Company within the limits approved by the Members.

- **Details of remuneration paid to all the Directors during the year 2005-2006.**

(a) EXECUTIVE DIRECTORS

(Amount in Rupees)

Remuneration	Mr. Prasad Chandran	Mr. S. Kumarasamy *	Mr. R. E. Vaz *	Mr. Deepak Thuse	Total #
Remuneration package@	1,09,79,383/-	35,06,277/-	45,28,841/-	4,85,218/-	1,94,99,719/-

@ Remuneration package includes Salary, Benefits, Pension, Performance Linked Incentive etc.

# Includes Performance Linked Incentive (PLI) of Rs. 50,25,904/-. PLI is based on achievements against pre-agreed targets.

\* Mr. S. Kumarasamy and Mr. R. E. Vaz ceased to be the wholetime Directors w.e.f. 23rd January 2006 and 1st April 2006 respectively.

The agreements in respect of Mr. Prasad Chandran, Chairman and Managing Director, Mr. Deepak Thuse (appointed w.e.f. 23rd January 2006), Mr. S. Ramnath (appointed w.e.f. 1st April 2006) and Dr. Raman Ramachandran, (appointed w.e.f. 1st April 2006), Whole-time Directors, are for a period of five years. Either of the parties to these agreements is entitled to terminate the agreements by giving six months' notice in writing.

Presently, the Company does not have a Scheme for grant of stock options to the Directors.

(b) INDEPENDENT NON-EXECUTIVE DIRECTORS

The Commission due to the independent non-executive Directors for the financial year ended 31st March 2006 is as follows:

(Amount in Rupees)

Mr. K. R. Coorlawala	Mr. R. A. Shah #	Mr. Pradip P. Shah	Mr. R. R. Nair
4,00,000/-	4,00,000/-	4,00,000/-	4,00,000/-

# M/s. Crawford Bayley & Co., one of the Solicitors of the Company in which Mr. R. A. Shah is a Senior Partner renders professional services to the Company.

**5. SHAREHOLDERS'/INVESTORS' GRIEVANCE COMMITTEE**

The Board of Directors of the Company constituted a Shareholders'/Investors' Grievance Committee on 1st March 2001 comprising of Mr. K. R. Coorlawala as Chairman, Mr. Prasad Chandran and Mr. R. E. Vaz as Members.

As Mr. R. E. Vaz retired from the services of the Company on and from 1st April 2006, Mr. S. Ramnath was appointed as a member of the Shareholders'/Investors' Grievance Committee. The Committee looks into redressal of shareholders' and investors' complaints/grievances. The Committee also looks into complaints concerning transfer of shares, non-receipt of balance sheet, non-receipt of dividends etc. The Committee oversees the performance of the Registrar and Share Transfer Agent and recommends measures for overall improvement in the quality of investor service.

The Board has designated Mr. M. R. Iyer, Chief Executive, Legal & Company Secretary as the Compliance Officer.

The Company has a Share Transfer Committee comprising of Mr. Prasad Chandran as Chairman, Mr. K. R. Coorlawala and Mr. S. Ramnath as members which approves all matters related to shares vis-à-vis transfers, deletions, transmissions, dematerialisation and rematerialisation of shares etc. The Committee meets from time to time and approves the transfers and transmission of shares and deletion of names, issue of duplicate share certificates etc.

During the year, 46 complaints were received from the shareholders and these have been resolved to date.

Outstanding complaints as on 31st March 2006 were Nil.

There were no requests for dematerialisation / transfer of shares pending as on 31st March 2006.

**6. GENERAL BODY MEETINGS**

During the last three years, the Company's Annual General Meetings (AGMs) were held at Yashwantrao Chavan Pratishthan Auditorium, Y.B. Chavan Centre, General Jagannath Bhosale Marg, Nariman Point, Mumbai 400 021 on the following dates:

1. Friday 5th August 2005 at 3.00 p.m.
2. Thursday 5th August 2004 at 3.00 p.m.
3. Thursday 7th August 2003 at 3.00 p.m.

All resolutions including the special resolutions at AGMs are generally passed by way of show of hands. No postal ballots were used for voting at these meetings.

**Attendance of Directors at AGMs during the last financial year:**

5th August 2005 (AGM) All Directors except Dr. E. Baumgartner and Mr. Boon Yeow Yee were present.

**7. DETAILS OF DIRECTORS SEEKING APPOINTMENT/RE-APPOINTMENT**

Brief resumés of the Directors seeking appointment or re-appointment are as follows:

- Mr. R. R. Nair has been a Director on the Board of the Company since March 2001. Mr. Nair holds a Masters degree in psychology and ranked first in the University of Kerala. He also holds a Post-Master's diploma in Industrial & Personnel Management and a diploma in Advanced Personnel Management. He is an alumni of Stanford & Michigan Universities and has specialized in the field of personnel management, human resources and organization development. Mr. Nair has worked as Selection & Training Manager in Hindustan Lever Limited, a subsidiary of Unilever Corp. in 1973.

Mr. Nair contributes regularly to teaching efforts at the Indian School of Business, Hyderabad, Indian Institute of Management, Bangalore, National University of Singapore and Hindustan Lever Limited's Management Training Centre. He was selected for the National Award by the National Human Resource Department (NHRD) Network for outstanding contribution to the HR profession. He was also conferred the Life-time Achievement award by NHRD.

Presently, Mr. R. R. Nair is Director of the following public limited companies:

1. Union Bank of India Director
2. TVS Electronics Limited Director
3. BASF Polyurethanes India Limited Director

- Mr. R. A. Shah has been a Director on the Board of the Company since April 1968. Mr. R. A. Shah is a Solicitor and a senior partner of M/s.Crawford Bayley & Co., a reputed firm of Advocates & Solicitors, Mumbai. He has specialized in a broad spectrum of Corporate Laws in general with special focus on Foreign Investments, Joint Ventures, Technology and Licence Agreements, Intellectual Property rights, Mergers & Acquisitions, Industrial Licensing, Anti Trust and Competition Law.

Mr. R. A. Shah is also the Member of Managing Committees of various Commerce & Industry Associations such as Bombay Chamber of Commerce and Industry, Indo German Chamber of Commerce and the President of the Society of Indian Law Firms (Western Region).

Presently, Mr. R. A. Shah is Chairman / Director of the following public limited companies viz.

1. Godfrey Phillips India Limited Chairman
2. Pfizer Limited Chairman
3. Colgate Palmolive India Limited Vice Chairman
4. The Associated Cement Companies Limited Director
5. Abbott India Limited Director
6. Asian Paints (India) Limited Director
7. The Bombay Dyeing and Mfg. Co. Ltd. Director
8. Clariant Chemicals Limited Director
9. Deepak Fertilizers & Petrochemicals Corp. Ltd. Director
10. Gillette India Limited Director
11. Lupin Limited Director
12. Nicholas Piramal India Limited Director
13. Procter & Gamble Hygiene & Healthcare Ltd. Director
14. Jumbo World Holdings Limited Director
15. Atul Limited Alternate Director
16. BASF Polyurethanes India Limited Alternate Director
17. Century Enka Limited Alternate Director
18. Modicare Limited Alternate Director
19. RPG Life Science Limited Alternate Director
20. Schrader Duncan Limited Alternate Director
21. Uhde India Limited Alternate Director
22. Wockhardt Limited Alternate Director

- Dr. Tilman Krauch has studied chemistry at the University of Freiburg, Germany and at ETH Zurich, Switzerland. He has done his doctorate and spent his post doctorate periods at the Shemiakin Institute, Moscow, Russia and Kyoto University, Japan. Dr. Krauch joined BASF AG's Plastics Laboratory in 1990. He worked as Assistant to the Chairman of the Board of Executive Directors of BASF AG in 1995. In the year 2001, he became Group Vice President, Fiber Intermediates, Europe, Performance Polymers Division and in 2004, he became Group Vice President Global Business Unit, Polyamide and Intermediates, Performance Polymers Division. Presently, Dr. Tilman Krauch is the President, Regional Functions and Market Efficiency, Asia Pacific. Dr. Tilman Krauch has been a Director of the Company and its wholly-owned subsidiary BASF Polyurethanes India Limited, since 17th April 2006.
- Mr. Deepak Thuse is a B.E. from Pune University. He is presently the Chief Executive of the Plastics Division. He has been in the employment of the Company since 3rd August 1981 and has valuable experience of over 28 years in the Plastics business. Mr. Thuse is also a Director in BASF Polyurethanes India Limited. Presently, Mr. Thuse is an Alternate Director to Dr. Tilman Krauch in the Company.
- Mr. S. Ramnath is a graduate in Commerce and a Chartered Accountant. He is presently the Chief Executive, Finance and Information Technology. He has been in the employment of the Company since 18th November 1996 and has valuable experience of over 24 years. Presently, Mr. Ramnath is an Alternate Director to Mr. Boon Yeow Yee in the Company and in BASF Polyurethanes India Limited.

- Dr. Raman Ramachandran holds a doctorate degree in Agricultural Science. He is presently the Chief Executive of Agricultural Products Division. He has been in the employment of the BASF Group since 1st March 1996. During the period 2000 to 2004, Dr. Ramachandran was sent on delegation as Regional Marketing Manager for Agricultural Products, Asia Pacific, based at Singapore. He has valuable experience of over 19 years in the Agricultural Products business. Presently, Dr. Raman Ramachandran is an Alternate Director to Dr. Rainer Diercks in the Company and in BASF Polyurethanes India Limited.

## 8. DISCLOSURES

- (a) There were no materially significant related party transactions made by the Company with its promoters, directors or relatives or the management, their subsidiaries etc., which have potential conflict with the interests of the Company at large. The Register of Contracts containing the transactions in which Directors are interested is placed before the Board at every Board Meeting for approval.  
Transactions with related parties are disclosed in Note No. 22 of Schedule 21 to the Accounts in the Annual Report.
- (b) During the last three years, there were no strictures or penalties imposed on the Company either by SEBI or the Stock Exchanges or any other statutory authority for non-compliance of any matter related to the capital market.
- (c) The Company has complied with the mandatory requirements of the Code of Corporate Governance as stipulated under Clause 49 of the Listing Agreement.
- (d) Risk Management  
During the year, an analysis of the Company's risks covering strategic (business), operational & financial, and legal & compliance risks as perceived by the Management had been made and measures identified for mitigating these risks.
- (e) The Management Discussion & Analysis Report forms part of this Annual Report.

## 9. MEANS OF COMMUNICATION

- The Quarterly and Half-yearly Unaudited Financial results are generally published in the widely circulating national and local newspapers such as 'The Economic Times'/'Financial Express' (in English), 'Maharashtra Times' and 'Tarun Bharat' (in Marathi). These results are not sent to each household of shareholders.
- The Company's Financial results/official news releases and other important Investor related information are periodically displayed and updated on the Company's web site, viz., [www.basf-india.com](http://www.basf-india.com).
- EDIFAR filing:  
As required under clause 51 of the Listing Agreements with Stock Exchanges, all data relating to quarterly financial results, shareholding pattern etc. are being electronically filed on the EDIFAR web site, [www.sebiedifar.nic.in](http://www.sebiedifar.nic.in) within the timeframe prescribed in this regard.

## 10. GENERAL SHAREHOLDERS INFORMATION

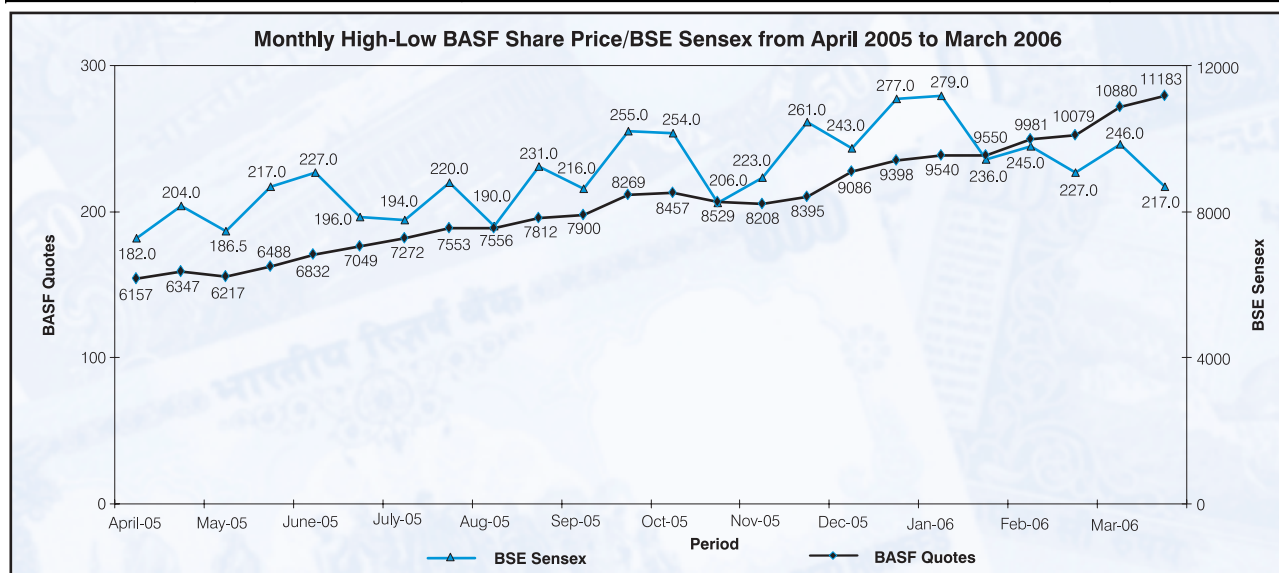
- (a) The Annual General Meeting of the Company will be held on Thursday, 10th August 2006 at 3.00 p.m. at Yashwantrao Chavan Pratishthan Auditorium, Y. B. Chavan Centre, General Jagannath Bhosale Marg, Nariman Point, Mumbai - 400 021.
- (b) Financial Calendar –

Results for quarter ending June 30, 2006	2nd/3rd week of July 2006
Annual General Meeting	10th August 2006
Results for quarter ending September 30, 2006	Last week of October 2006
Results for quarter ending December 31, 2006	Last week of January 2007
Results for the year ending March 31, 2007	Before June 30, 2007
- (c) Date of book closure: 1st August 2006 to 10th August 2006 (both days inclusive) for the purposes of Annual General Meeting and payment of dividend.
- (d) Dividend payment date: 14th August 2006
- (e) Listing on Stock Exchanges: The equity shares of the Company are listed on The Stock Exchange, Mumbai (BSE) and National Stock Exchange of India Limited (NSE). The Company has paid the annual listing fees for the financial year 2006-07 to both the Stock Exchanges.
- (f) Stock Code : 500042  
SYMBOL : BASF  
Demat ISIN No. in NSDL : INE373A01013  
Demat ISIN No. in CDSL : INE373A01013

- (g) Market Price Data: High/low market price of the Company's equity shares traded on The Stock Exchange, Mumbai and the National Stock Exchange of India during each month in the last Financial Year ended on 31st March 2006 is furnished below along with a graph indicating the performance of Company's share price in comparison with the BSE Sensex :

SHARE PRICES (HIGH/LOW) OF BASF INDIA LIMITED FOR THE PERIOD APRIL 2005 TO MARCH 2006

AT BSE			AT NSE		
Month	High (Date)	Low (Date)	Month	High (Date)	Low (Date)
April	204.00 (22.04.2005)	182.00 (18.04.2005)	April	205.00 (22.04.2005)	182.00 (18.04.2005)
May	217.00 (17.05.2005)	186.50 (03.05.2005)	May	217.00 (17.05.2005)	186.00 (03.05.2005)
June	227.00 (09.06.2005)	196.00 (28.06.2005)	June	226.00 (08.06.2005)	195.00 (29.06.2005)
July	220.00 (15.07.2005)	194.00 (26.07.2005)	July	217.00 (19.07.2005)	194.00 (29.07.2005)
August	231.00 (18.08.2005)	190.00 (09.08.2005)	August	234.00 (18.08.2005)	189.50 (09.08.2005)
September	255.00 (21.09.2005)	216.00 (02.09.2005)	September	255.00 (21.09.2005)	215.00 (05.09.2005)
October	254.00 (06.10.2005)	206.00 (21.10.2005)	October	255.00 (06.10.2005)	206.00 (21.10.2005)
November	261.00 (28.11.2005)	223.00 (07.11.2005)	November	260.00 (28.11.2005)	220.00 (02.11.2005)
December	277.00 (30.12.2005)	243.00 (26.12.2005)	December	277.00 (30.12.2005)	240.00 (26.12.2005)
January	279.00 (03.01.2006)	236.00 (24.01.2006)	January	279.00 (04.01.2006)	232.00 (18.01.2006)
February	245.00 (06.02.2006)	227.00 (20.02.2006)	February	248.00 (06.02.2006)	225.00 (02.02.2006)
March	246.00 (16.03.2006)	217.00 (29.03.2006)	March	246.00 (16.03.2006)	217.00 (24.03.2006)



- (h) Registrar & Share Transfer Agent: **Sharepro Services (India) Private Ltd. (Sharepro)**

**Registered Office**

**Sharepro Services (India) Private Ltd.,**  
Unit : BASF India Limited,  
Satam Estate, 3rd Floor, Above Bank of Baroda,  
Cardinal Gracious Road, Chakala, Andheri (East),  
Mumbai - 400 099

Tel. No. : 022-2821 5168, 2832 9828,  
2821 5991, 2834 7719, 2834 8218

Fax No. : 022-2837 5646

Email : [sharepro@vsnl.com](mailto:sharepro@vsnl.com)

**Investors Relation Centre**

**Sharepro Services (India) Private Ltd.,**  
Unit : BASF India Limited,  
912, Raheja Centre, Free Press Journal Road,  
Nariman Point,  
Mumbai - 400 021.

Tel. No. : 022-2288 1568/69,  
2282 5163, 2288 4527

Fax No. : 022-2282 5484

Email : [sharepro\\_services@roltanet.com](mailto:sharepro_services@roltanet.com)



The details of contact persons of Sharepro are as follows :

Name	Phone no.	Fax no.
Mr. G. R. Rao	022-2821 5168/2821 5169	022-2837 5646
Mrs. Indira P. Karkera	022-2832 9828/2821 5169	022-2837 5646

(i) Share Transfer System: Presently, the share transfers which are received in physical form are processed by the Registrar and Share Transfer Agent and approved by the Share Transfer Committee which meets twice in a month and the share certificates are returned within a period of 20 to 25 days from the date of lodgment, subject to the transfer instruments being valid and complete in all respects.

(j) The distribution of shareholdings of the Company as on 31st March 2006 was as follows:

Category (No. of shares)	No. of shareholders	Percentage	No. of shares	Percentage
1-500	26715	89.99	2479363	8.80
501-1000	1536	5.17	1192021	4.23
1001-2000	794	2.68	1165714	4.14
2001-3000	247	0.83	623519	2.21
3001-4000	98	0.33	347604	1.23
4001-5000	86	0.29	407396	1.45
5001-10000	125	0.42	873305	3.09
10001 and above	83	0.29	21101226	74.85
<b>Total</b>	<b>29684</b>	<b>100.00</b>	<b>28190148</b>	<b>100.00</b>

(k) The shareholding pattern of the Company as on 31st March 2006 was as follows:

Category	No. of shares	% of total capital
Foreign Promoters	14853020	52.69
Directors and relatives of Directors	450	0.00
NRIs, OCBs and FIIs	1126204	4.00
Financial Institutions and Mutual Funds	4016904	14.25
Nationalised and other Banks	35186	0.12
Domestic Corporate Bodies	1005674	3.57
General Public including shares in transit	7152710	25.37
<b>Total</b>	<b>28190148</b>	<b>100.00</b>

(l) Dematerialisation of shares: The Company's equity shares are held in dematerialised form by the National Securities Depository Limited (NSDL) and the Central Depository Services (India) Limited (CDSL) under ISIN INE373A01013. Over 52% of the shareholding of the Company have been dematerialised as on 31st March 2006.

(m) As of date, the Company has not issued GDRs/ADRs/Warrants or any convertible instruments.

(n) Plant locations:

**Thane Plant**

Thane Belapur Road,  
Turbhe,  
Navi Mumbai 400 705  
Maharashtra.

**Mangalore Plant**

Bala/Thokur Village,  
Surathkal-Bajpe Road,  
Mangalore Taluka,  
Dakshina Kannada District,  
Karnataka 575 030.

**Dadra Plant**

83/2, Dena Bank Road,  
Demni Village,  
Dadra 396 191  
Union Territory of Dadra &  
Nagar Haveli.

(o) Address for correspondence:

Mr. Pradeep Chandan/Mr. S.P. Trivedi  
BASF India Limited,  
RBC, Mahindra Towers, 1st Floor, 'A' Wing,  
Dr. G. M. Bhosale Marg,  
Worli, Mumbai 400 018.

Tel : 6661 8000

Fax : 2495 0512

Email : [pradeep.chandan@basf.com](mailto:pradeep.chandan@basf.com)

[shreyas.trivedi@basf.com](mailto:shreyas.trivedi@basf.com)

(p) Top Ten Shareholders of the Company as on 31st March 2006:

Sl. No.	Name of the shareholder(s)	Holdings	% in the total capital
1.	BASF Aktiengesellschaft	14853020	52.69
2.	Reliance Capital Trustee Co. Ltd. A/c. Reliance Tax Saver (ELSS) Fund	1304309	4.63
3.	United India Insurance Company Ltd.	766771	2.72
4.	General Insurance Corporation of India	576895	2.05
5.	The New India Assurance Company Ltd.	379012	1.34
6.	The Oriental Insurance Company Ltd.	300603	1.07
7.	FIDS Funds (Mauritius) Ltd.	285971	1.01
8.	National Insurance Company Limited	202883	0.72
9.	Himalayan India Holdings	190269	0.67
10.	UTI Master Value Fund	177899	0.63

(q) Share price: Rs. 242/- per share on The Stock Exchange, Mumbai as on 29th April 2006.

## 11. CODE OF CONDUCT

The Company has established Code of Conduct for its Board Members and Senior Management personnel. The Code of Conduct for the Board Members and Senior Management personnel is posted on the Company's web site, [www.basf-india.com](http://www.basf-india.com)

All the Board members and senior management personnel have complied with the Code of Conduct.

On behalf of the Board of Directors

PRASAD CHANDRAN  
Chairman & Managing Director

Mumbai,  
Dated: 2nd May 2006

## Auditors' Certificate on Compliance of Conditions of Corporate Governance under Clause 49 of the Listing Agreement.

To

The Members of BASF India Limited

We have examined the compliance of conditions of Corporate Governance by BASF India Limited for the year ended March 31, 2006 as stipulated in Clause 49 of the Listing Agreement of the said Company with Stock Exchanges.

The compliance of conditions of Corporate Governance is the responsibility of the Management. Our examination was limited to procedures and implementation thereof, adopted by the Company for ensuring the compliance of the conditions of the 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 Deloitte Haskins & Sells  
Chartered Accountants

N.P. Sarda  
Partner

Membership No. 9544

Mumbai,  
Date: 2nd May 2006

# Auditors' Report to the Members of BASF India Limited

1. We have audited the attached Balance Sheet of BASF India Limited, as at March 31, 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 the 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 (Auditors' Report) Order, 2003 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 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 directors as on March 31, 2006 and taken on record by the Board of Directors, we report that none of the directors is disqualified as on March 31, 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) Without qualifying our opinion, we draw attention to Note No. 12 of Schedule 21 annexed to and forming part of the financial statements, regarding the appointment and remuneration to a director amounting to Rs. 5 Lakhs, which is subject to the approval of the Members at the ensuing Annual General Meeting of the Members of the Company;
  - (vii) In our opinion and to the best of our information and according to the explanations given to us, the said accounts read together with the notes thereon, give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:
    - (a) in the case of the Balance Sheet, of the state of affairs of the Company as at March 31, 2006;
    - (b) in the case of the Profit and Loss Account, of the profit for the year ended on that date; and
    - (c) in the case of the Cash Flow Statement, of the cash flows for the year ended on that date.

For Deloitte Haskins & Sells  
*Chartered Accountants*

N.P. Sarda  
*Partner*  
Membership No. 9544

*Mumbai*  
*Date: 2nd May 2006*

## Annexure referred to in paragraph 3 of the Auditors' Report on the Accounts of BASF India Limited

In our opinion and according to the information and explanations given to us, the nature of the Company's business/ activities during the year is such that clauses xii, xiii, xiv, xv, xviii, xix and xx of para 4 of the Order are not applicable to the Company.

1. In respect of its fixed assets:
  - a. The Company has maintained proper records showing full particulars, including quantitative details and situation of its fixed assets.
  - b. Some of the fixed assets were physically verified during the year by the management in accordance with a programme of verification, which in our opinion provides for physical verification of all the fixed assets at reasonable intervals. According to the information and explanations given to us, no material discrepancies were noticed on such verification.
  - c. The fixed assets disposed off during the year, in our opinion, do not constitute a substantial part of the fixed assets of the Company and such disposal has, in our opinion, not affected the going concern status of the Company.
2. In respect of its inventories:
  - a. As explained to us, inventories were physically verified during the year by the management at reasonable intervals.
  - 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 were reasonable and adequate in relation to the size of the Company and the nature of its business.

- c. In our opinion and according to the information and explanations given to us, the Company has maintained proper records of its inventories and no material discrepancies were noticed on physical verification.
3. In respect of loans, secured or unsecured, granted or taken by the Company to or from companies, firms or other parties covered in the register maintained under Section 301 of the Companies Act, 1956, according to the information and explanations given to us:
  - a. The Company has granted unsecured loans to one party. At the year-end, the outstanding balances of such loans granted aggregated to Rs. 10 crore and the maximum amount involved during the year was Rs. 10 crore.
  - b. The rate of interest and other terms and conditions of such loans are, in our opinion, prima facie not prejudicial to the interest of the Company.
  - c. The receipt and payment of principal amounts and interest have during the year been as per stipulations.
  - d. There is no overdue amount of principal and interest outstanding at the year end.
  - e. The Company has not taken any loan secured or unsecured from companies, firms or other parties covered in the register maintained under Section 301 of the Companies Act, 1956.
4. In our opinion and according to the information and explanations given to us, there is adequate internal control system commensurate with the size of the Company and nature of its business with regard to purchases of inventory and fixed assets and for the sale of goods and services and we have not observed any continuing failure to correct major weaknesses in such internal controls.
5. a. To the best of our knowledge and belief and according to the information and explanations given to us, the contracts or arrangements that needed to be entered into the register maintained under Section 301 of the Companies Act, 1956, have been so entered.
  - b. In our opinion and according to the information and explanations given to us, the transactions made in pursuance of the contracts or arrangements entered in the register maintained under Section 301 of the Companies Act, 1956 and exceeding the value of Rs. 5 lakhs in respect of any party during the year have been made at prices which are reasonable having regard to the prevailing market prices at the relevant time, except that reasonableness could not be ascertained where comparable quotations are not available having regard to the specialised nature of some of the transactions of the Company.
6. In our opinion and according to the information and explanations given to us, the Company has complied with the provisions of Sections 58A and 58AA or any other relevant provisions of the Companies Act, 1956 and the Companies (Acceptance of Deposit) Rules, 1975, with regard to the deposits accepted from the public. According to the information and explanations given to us, no order has been passed, with regard to the deposits, by the Company Law Board or National Company Law Tribunal or Reserve Bank of India or any Court or any other Tribunal.
7. In our opinion, the internal audit functions carried out during the year by a firm of Chartered Accountants appointed by the management have been commensurate with the size of the Company and the nature of its business.
8. We have broadly reviewed the books of account and records maintained by the Company in respect of manufacture of insecticides, pursuant to the order made by the Central Government for the maintenance of cost records under Section 209(1)(d) of the Companies Act, 1956 and are of the opinion that *prima facie*, the prescribed records have been made and maintained. We have, however, not made a detailed examination of the records with a view to determining whether they are accurate or complete. To the best of our knowledge and according to the information and explanations given to us, the Central Government has not prescribed the maintenance of cost records for any other product of the Company.
9. In respect of Statutory dues:
  - a. According to the information and explanations given to us, the Company has been generally regular in depositing undisputed statutory dues, including Provident Fund, Investor Education and Protection Fund, Employees' State Insurance, Income Tax, Sales Tax, Wealth Tax, Service Tax, Custom Duty, Excise Duty, Cess and any other material statutory dues with the appropriate authorities during the year.
  - b. According to the information and explanations given to us, no undisputed amounts payable in respect of Income Tax, Sales Tax, Wealth Tax, Service Tax, Customs Duty, Excise Duty and Cess were outstanding, as at March 31, 2006 for a period of more than six months from the date they became payable.
  - c. There have been no disputed dues as on March 31, 2006, which have not been deposited with the respective authorities in respect of Income Tax, Custom Duty, Wealth Tax, Service Tax and Cess. The Company has disputed sales tax dues of Rs. 21.47 Lakhs, relating to year 1997-1998, which is pending before Appellate Tribunal and excise duty of Rs. 10.15 Lakhs, Rs. 8.81 Lakhs and Rs. 14.69 Lakhs, relating to years 1989-1990 to 2004-2005, which are pending before Commissioner, Commissioner (Appeals) and Appellate Tribunal respectively.
10. The Company does not have any accumulated losses as at the end of the financial year. The Company has not incurred cash losses during the financial year covered by our audit and the immediately preceding financial year.
11. In our opinion and according to the information and explanations given to us, the Company has not defaulted in the repayment of dues to a financial institution and bank.
12. To the best of our knowledge and belief and according to the information and explanations given to us, in our opinion, term loans availed by the Company were, *prima facie*, applied by the Company during the year for the purposes for which the loans were obtained.
13. According to the information and explanations given to us and on an overall examination of the balance sheet of the Company, we report that the funds raised on short-term basis have, *prima facie*, not been used during the year for long-term investment.
14. To the best of our knowledge and belief and according to the information and explanation given to us, no fraud on or by the Company was noticed or reported during the year.

For Deloitte Haskins & Sells  
Chartered Accountants

N. P. Sarda  
Partner  
Membership No. 9544  
Mumbai  
Date: 2nd May 2006

## Balance Sheet as at March 31, 2006

Rs. in million

	Schedule	March 31, 2006	March 31, 2005
<b>SOURCES OF FUNDS</b>			
<b>Shareholders' Funds:</b>			
Capital	1	281.9	281.9
Reserves and Surplus	2	2,482.1	2,253.0
		2,764.0	2,534.9
<b>Loan Funds:</b>			
Secured Loans	3	—	90.5
Unsecured Loans	4	13.0	9.2
		13.0	99.7
<b>Deferred Tax Liabilities (net)</b>	5	—	7.7
<b>Total</b>		<b>2,777.0</b>	<b>2,642.3</b>
<b>APPLICATION OF FUNDS</b>			
<b>Fixed Assets:</b>			
Gross Block		2,813.5	2,735.6
Less: Depreciation		2,174.5	1,965.9
Net Block	6	639.0	769.7
Capital Work-in-Progress		65.9	13.6
		704.9	783.3
<b>Investments</b>	7	29.5	—
<b>Deferred Tax Assets (net)</b>	5	34.7	—
<b>Current Assets, Loans and Advances:</b>			
Inventories	8	1,105.8	1,198.4
Sundry Debtors	9	1,521.4	1,735.5
Cash and Bank Balances	10	9.2	18.5
Loans and Advances	11	580.5	402.1
		3,216.9	3,354.5
Less:			
<b>Current Liabilities and Provisions:</b>			
Liabilities	12	926.7	1,255.1
Provisions	13	282.3	240.4
		1,209.0	1,495.5
<b>Net Current Assets</b>		<b>2,007.9</b>	<b>1,859.0</b>
<b>Total</b>		<b>2,777.0</b>	<b>2,642.3</b>

For Accounting Policies and Notes to Accounts — Refer **Schedule 21**

As per our report of even date attached

Prasad Chandran  
Chairman & Managing Director

K. R. Coorlawala  
R. R. Nair  
Raman Ramachandran  
S. Ramnath  
Pradip P. Shah  
R. A. Shah  
Deepak Thuse  
Directors

For Deloitte Haskins & Sells  
Chartered Accountants

N. P. Sarda  
Partner

M.R. Iyer  
Company Secretary

Mumbai, 2nd May 2006

2nd May 2006



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

Rs. in million

	Schedule	March 31, 2006	March 31, 2005
<b>Income:</b>			
Sales	14	7,716.4	7,401.8
Less: Excise Duty		890.7	811.8
		6,825.7	6,590.0
Other Income	15	55.3	35.0
		6,881.0	6,625.0
<b>Expenditure:</b>			
Materials Consumed	16	3,391.2	3,333.5
Purchase of Finished Goods		818.9	1,136.4
Other Expenses	17	1,599.3	1,475.5
Depreciation		220.5	244.1
Interest	18	23.6	61.1
		6,053.5	6,250.6
Increase/(Decrease) in Stocks	19	(121.8)	226.2
<b>Profit Before Tax</b>		705.7	600.6
<b>Tax</b>	20	251.6	220.9
<b>Profit After Tax</b>		454.1	379.7
Surplus Brought Forward		193.0	191.0
Available for Appropriation		647.1	570.7
<b>Appropriations:</b>			
Proposed Dividend		197.3	169.1
Corporate Tax on Dividend		27.7	23.7
Cess on Dividend pertaining to previous year		—	0.4
Debenture Redemption Reserve/(Withdrawal)		—	(300.0)
General Reserve		197.1	484.5
		422.1	377.7
Balance Carried Forward		225.0	193.0
Weighted average number of equity shares outstanding during the year		28,189,466	28,189,466
Basic and diluted earnings per share (in Rs.)		16.11	13.47
Face value per share (in Rs.)		10.00	10.00

For Accounting Policies and Notes to Accounts — Refer **Schedule 21**

As per our report of even date attached

Prasad Chandran  
Chairman & Managing Director

K. R. Coorlawala  
R. R. Nair  
Raman Ramachandran  
S. Ramnath  
Pradip P. Shah  
R. A. Shah  
Deepak Thuse  
Directors

For Deloitte Haskins & Sells  
Chartered Accountants

N. P. Sarda  
Partner

M.R. Iyer  
Company Secretary

Mumbai, 2nd May 2006

2nd May 2006

## Cash Flow Statement for the year ended March 31, 2006

Rs. in million

	March 31, 2006		March 31, 2005	
<b>A. Cash flow from operating activities</b>				
Net profit before Tax		705.7		600.6
Adjustments for:				
Depreciation	220.5		244.1	
Interest expense	23.6		61.1	
Compensation on transfer of Phorate business	(28.8)		—	
Compensation on transfer of Textile Dyes business	(1.3)		(2.0)	
(Profit)/Loss on sale of fixed assets (net)	(1.4)		(1.7)	
Interest income	(2.8)		(1.6)	
Unrealised (Gain)/Loss on foreign exchange (net)	(2.2)		3.0	
Miscellaneous expenditure written off	—		30.9	
Bad debts written off	8.3		16.5	
Provision for Doubtful Debts	13.8	229.7	8.2	358.5
<b>Operating profit before working capital changes</b>		935.4		959.1
(Increase)/Decrease in:				
Trade and Other Receivables	3.2		39.4	
Inventories	92.6		(412.6)	
Trade and Other Liabilities	(314.2)	(218.4)	502.7	129.5
<b>Cash generated from operations</b>		717.0		1,088.6
Direct taxes paid (net)		(283.4)		(246.4)
<b>Net cash from operating activities</b>		433.6		842.2
<b>B. Cash flow from investing activities</b>				
Acquisition of fixed assets		(142.8)		(75.1)
Realisation on sale of fixed assets		1.9		6.9
Proceeds from transfer of Phorate business		28.8		—
Proceeds from investment maturity		—		50.1
Investment in Subsidiary – BASF Polyurethanes India Limited		(0.5)		—
Purchase of Investment		(29.0)		—
Interest received		2.6		5.9
<b>Net cash used in investing activities</b>		(139.0)		(12.2)
<b>C. Cash flow from financing activities</b>				
Repayment of debentures		—		(600.0)
(Repayment of)/Proceeds from loan funds (net)		(85.9)		34.2
Interest paid		(25.2)		(73.8)
Dividend paid		(169.1)		(169.1)
Tax paid on above dividend		(23.7)		(22.1)
<b>Net cash used in financing activities</b>		(303.9)		(830.8)
<b>Net decrease in cash and cash equivalents</b>		(9.3)		(0.8)
Cash and cash equivalents (opening balance)		18.5		19.3
Cash and cash equivalents (closing balance)		9.2		18.5

As per our report of even date attached

For Deloitte Haskins & Sells  
Chartered Accountants

N. P. Sarda  
Partner

Mumbai, 2nd May 2006

Prasad Chandran  
Chairman & Managing Director

M.R. Iyer  
Company Secretary

K. R. Coorlawala  
R. R. Nair  
Raman Ramachandran  
S. Ramnath  
Pradip P. Shah  
R. A. Shah  
Deepak Thuse  
Directors

2nd May 2006

## Schedules to Balance Sheet as at March 31, 2006

### 1. Share Capital

Rs. in million

	March 31, 2006	March 31, 2005
<b>Authorised:</b>		
<b>30,000,000</b> (Previous Year – 30,000,000) Equity Shares of Rs. 10/- each	<b>300.0</b>	300.0
<b>Issued:</b>		
<b>28,190,148</b> (Previous Year – 28,190,148) Equity Shares of Rs. 10/- each	<b>281.9</b>	281.9
<b>Subscribed and Paid-up:</b>		
<b>28,189,466</b> (Previous Year – 28,189,466) Equity Shares of Rs. 10/- each fully paid	<b>281.9</b>	281.9
Of the above–		
– <b>700</b> (Previous Year – 700) Equity Shares were allotted as fully paid pursuant to a contract without payment being received in cash and		
<b>15,771,400</b> (Previous Year – 15,771,400) Equity Shares were allotted as fully paid Bonus Shares by way of capitalisation of Reserves.		
– <b>4,035,948</b> shares were allotted to the erstwhile shareholders of Cyanamid Agro Limited (CAL) consequent to the amalgamation w.e.f. April 1, 2001		
– <b>14,853,020</b> (Previous Year – 14,853,020) Equity Shares are held by BASF AG, the holding company.		
	<b>281.9</b>	281.9

### 2. Reserves and Surplus

	Balance as on April 1,		Additions during the year		Withdrawals during the year		Balance as on March 31,	
	2005	2004	2005-06	2004-05	2005-06	2004-05	2006	2005
Debenture Redemption Reserve	—	300.0	—	—	—	300.0	—	—
Share Premium Account	<b>621.0</b>	621.0	—	—	—	—	<b>621.0</b>	621.0
General Reserve	<b>1,438.5</b>	954.0	<b>197.1</b>	484.5	—	—	<b>1,635.6</b>	1,438.5
Amalgamation Reserve	<b>0.5</b>	0.5	—	—	—	—	<b>0.5</b>	0.5
Surplus as per Profit & Loss Account	<b>193.0</b>	191.0	<b>32.0</b>	2.0	—	—	<b>225.0</b>	193.0
	<b>2,253.0</b>	2,066.5	<b>229.1</b>	486.5	—	300.0	<b>2,482.1</b>	2,253.0

### 3. Secured Loans

	March 31, 2006	March 31, 2005
Bank Overdrafts/Facilities	—	90.5
– Secured by hypothecation of inventories and receivables		
	—	90.5

### 4. Unsecured Loans

	March 31, 2006	March 31, 2005
Bank Overdrafts/Facilities (Repayable within one year <b>Rs. 10.5 million</b> — Previous Year Rs. Nil)	<b>10.5</b>	—
Fixed Deposits (Repayable within one year <b>Rs. 2.3 million</b> — Previous Year Rs. 2.3 million)	<b>2.3</b>	8.2
Interest accrued and due thereon	<b>0.2</b>	1.0
	<b>13.0</b>	9.2

### 5. Deferred Tax Assets/(Liabilities) – net

	March 31, 2006	March 31, 2005
(Ref. note 7)		
Deferred tax assets	<b>55.1</b>	55.0
Deferred tax liabilities	<b>(20.4)</b>	(62.7)
	<b>34.7</b>	(7.7)

## Schedules to Balance Sheet as at March 31, 2006

### 6. Fixed Assets

Rs. in million

	Freehold Land	Leasehold Land	Buildings and Ownership Flats*	Plant and Machinery <sup>#</sup>	Furniture, Fixtures and Equipment	Vehicles	Total	Previous Year
<b>Cost:</b>								
As at April 1, 2005	18.6	55.9	474.6	2,080.4	89.8	16.3	2,735.6	2,739.3
Additions	—	—	10.7	64.9	13.4	1.3	90.3	63.9
Deductions	—	—	—	6.7	0.8	4.9	12.4	67.6
As at March 31, 2006	18.6	55.9	485.3	2,138.6	102.4	12.7	2,813.5	2,735.6
<b>Depreciation:</b>								
As at April 1, 2005	—	2.0	157.3	@1,750.0	44.4	12.2	1,965.9	1,784.2
Depreciation for the year	—	0.1	18.7	189.7	10.6	1.4	220.5	244.1
Deductions	—	—	—	6.3	0.7	4.9	11.9	62.4
As at March 31, 2006	—	2.1	176.0	1,933.4	54.3	8.7	2,174.5	1,965.9
<b>Written Down Value:</b>								
As at March 31, 2006	18.6	53.8	309.3	205.2	48.1	4.0	639.0	769.7
As at March 31, 2005	18.6	53.9	317.3	330.4	45.4	4.1	769.7	955.1
Capital work in progress**	—	—	13.2	52.4	0.3	—	65.9	13.6

\* Buildings include **Rs. 0.03 million** (Previous Year Rs. 0.03 million) being the value of shares in various co-operative societies.

\*\* Capital work in progress includes advances **Rs. 36.2 million** (Previous Year Rs. 4.7 million) — Considered good.

# Plant & Machinery includes Gross Block **Rs. 73.1 million** (Previous Year Rs. 73.1 million), Accumulated Depreciation — **Rs. 73.1 million** (Previous Year Rs. 65.0 million) and Net Block **Rs. Nil** (Previous Year Rs. 8.1 million) being the Company's share of an asset jointly owned with another company.

@ Includes Rs. 70.0 million on account of impairment of assets done in 2001-02.

### 7. Investments

	March 31, 2006	March 31, 2005
(Non-Trade) — Unquoted — Long Term		
<b>Investment in 100% Subsidiary Company at cost</b> BASF Polyurethanes India Limited — 50000 Equity shares (Previous Year — Nil) of Rs. 10 each	0.5	—
<b>Other Investments</b> National Bank for Agriculture & Rural Development — 2900 Bonds (Previous Year — Nil) of Rs. 10000 each	29.0	—
	29.5	—

### 8. Inventories

	March 31, 2006	March 31, 2005
Raw Materials	472.5	444.6
Finished Goods	567.5	685.5
Stock-in-Process	22.4	26.2
Packing Materials	28.6	28.0
Stores and Spare Parts	14.8	14.1
	1,105.8	1,198.4

### 9. Sundry Debtors — (Unsecured)

	March 31, 2006	March 31, 2005
(Including debts considered doubtful <b>Rs. 112.3 million</b> Previous Year Rs. 98.5 million) Debts outstanding for a period exceeding six months	134.4	121.2
Other Debts	1,499.3	1,712.8
	1,633.7	1,834.0
Less: Provision for doubtful debts	112.3	98.5
	1,521.4	1,735.5
(Ref. note 9 — Dues from companies under the same management)		

## Schedules to Balance Sheet as at March 31, 2006

### 10. Cash and Bank Balances

Rs. in million

	March 31, 2006	March 31, 2005
Cash on hand	0.3	0.4
Balances with Scheduled Banks:		
— On Current Accounts	7.5	10.6
— On Deposit Accounts	1.3	7.3
Balance in current account with The Municipal Co-operative Bank Limited, Mumbai (Maximum balance during the year <b>Rs. 0.2 million</b> — Previous Year Rs. 0.3 million)	0.1	0.2
	9.2	18.5

### 11. Loans and Advances (Unsecured) — Considered Good

	March 31, 2006	March 31, 2005
Advances recoverable in cash or in kind or for value to be received Includes due from — Directors and other officers <b>Rs. 0.9 million</b> (Previous Year Rs. 3.9 million) Maximum amount during the year <b>Rs. 3.9 million</b> (Previous Year Rs. 4.3 million) representing loans together with accrued interest. In the case of Directors, it represents loans given to them before they became Directors.	396.2	289.8
Loan to wholly owned subsidiary – BASF Polyurethanes India Limited — Maximum amount during the year <b>Rs. 100.0 million</b> (Previous Year Rs. Nil)	100.0	—
Interest accrued on loan to subsidiary – not due	0.2	—
Duty Drawback	9.7	18.2
Balances with Excise authorities	1.2	10.3
Income Tax (Net of Provisions)	73.2	83.8
	580.5	402.1

### 12. Current Liabilities

	March 31, 2006	March 31, 2005
Acceptances	3.3	5.6
Sundry Creditors		
— Small Scale Industrial Undertakings (Ref. note 8)	16.4	18.9
— Others	771.5	1,103.7
Deposits	112.7	100.6
Unclaimed Dividend*	3.8	3.3
Unclaimed matured fixed deposits*	1.6	2.5
Unclaimed Interest Warrants*	0.9	0.7
* (There are no amounts due and outstanding to be credited to Investor Education and Protection Fund)		
Interest accrued but not due	1.3	2.1
Other Liabilities	15.2	17.7
	926.7	1,255.1

### 13. Provisions

	March 31, 2006	March 31, 2005
Proposed Dividend	197.3	169.1
Corporate Tax on Dividend	27.7	23.7
Provision for Leave Encashment	57.3	47.6
	282.3	240.4





Strengthening the value chain — Manufacturing site heads hand over their pledge and commitment to Mr. Prasad Chandran during the first manufacturing conference in Mumbai.

## Schedules to Profit & Loss Account for the year ended March 31, 2006

### 14. Sales

Rs. in million

	March 31, 2006	March 31, 2005
Sale of Goods	7,342.8	7,121.2
Indent Commission/Technical Charges	373.6	280.6
	7,716.4	7,401.8

### 15. Other Income

	March 31, 2006	March 31, 2005
Interest (Gross)		
— Delayed Payment Charges	5.2	10.0
— Others (Tax deducted at source <b>Rs. 1.9 million</b> ; Previous Year Rs. 3.2 million)	6.8	5.7
Interest on loan to subsidiary (Tax deducted at source <b>Rs. 0.3 million</b> ; Previous Year Rs. Nil)	1.3	—
Compensation on transfer of Phorate business (Ref. note 10)	28.8	—
Compensation on transfer of Textile Dyes business	1.3	2.0
Profit on sale of Fixed Assets (net)	1.4	1.7
Interest on Investments (Gross) — Non-Trade and Long Term (Tax deducted at source <b>Rs. Nil</b> ; Previous Year Rs. Nil)	—	0.7
Rent	0.7	—
Discount	1.7	7.0
Sale of Scrap	6.4	5.9
Sundries	1.7	2.0
	55.3	35.0

### 16. Materials Consumed

	March 31, 2006	March 31, 2005
Raw Materials:		
Stock at Commencement	444.6	260.6
Purchases	3,270.4	3,372.6
Stock at Close	(472.5)	(444.6)
	3,242.5	3,188.6
Packing Materials	148.7	144.9
	3,391.2	3,333.5

## Schedules to Profit & Loss Account for the year ended March 31, 2006

### 17. Other Expenses

Rs. in million

	March 31, 2006	March 31, 2005
Salaries, Wages, Bonus and Commission	441.1	370.4
Workmen and Staff Welfare	73.2	64.1
Contribution to Provident and Other Funds	57.2	51.3
Consumption of Stores and Spare Parts	31.3	32.8
Power and Fuel	189.0	170.1
Rent (Ref. note 6(b))	76.1	60.9
Rates and Taxes — Excise Duty	(4.0)	16.8
— Others	2.5	6.7
Repairs — Machinery	18.7	15.2
— Buildings	9.5	6.5
— Others	18.7	17.4
Insurance	23.9	25.1
Bad Debts Written Off	8.3	16.5
Provision for Doubtful Debts	13.8	8.2
Service Fees	63.9	60.4
Travelling	92.7	76.0
Freight and Handling Charges	177.0	160.9
Communication/ System Expenses	60.2	69.3
Royalty	19.2	28.8
Voluntary Retirement Scheme	—	30.9
Discounts	50.5	37.3
Donations	0.5	2.6
Sundry Expenses	176.0	147.3
	<b>1,599.3</b>	<b>1,475.5</b>

### 18. Interest

	March 31, 2006	March 31, 2005
On Fixed Deposits and Term Loans	0.8	42.4
On Others	22.8	18.7
	<b>23.6</b>	<b>61.1</b>

### 19. Increase/(Decrease) in Stocks

	March 31, 2006	March 31, 2005
Stock at Close		
Finished Goods	567.5	685.5
Stock-in-Process	22.4	26.2
Sub-total	589.9	711.7
Stock at Commencement		
Finished Goods	(685.5)	(467.6)
Stock-in-Process	(26.2)	(17.9)
Sub-total	(711.7)	(485.5)
Net Increase/(Decrease) in Stocks	<b>(121.8)</b>	<b>226.2</b>

### 20. Tax

	March 31, 2006	March 31, 2005
Current Tax Expense (includes wealth tax Rs. 2.0 million — Previous Year Rs. 2.0 million)	272.3	274.3
Deferred Tax Credit	(42.4)	(53.4)
Fringe Benefit Tax	21.7	—
	<b>251.6</b>	<b>220.9</b>

## 21. Accounting Policies and Notes to Accounts

(Amounts are shown in Millions of Rupees, abbreviated as Rs. Mio.)

### 1. Accounting Policies

#### (a) Basis of Accounting

The financial statements are prepared under the historical cost convention, on accrual basis, in accordance with generally accepted accounting principles in India and the provisions of the Companies Act, 1956.

#### (b) Use of estimates

The presentation of financial statements in conformity with the generally accepted accounting principles requires estimates and assumptions to be made that affect the reported amount of assets and liabilities on the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Difference between the actual result and estimates are recognised in the period in which the results are known/materialise.

#### (c) Revenue Recognition

Sales of products and Indent Commission are recognised when risk and rewards of ownership of the products are passed on to the customers, which is generally on despatch of goods or when the services are provided. Sales include excise duty but exclude trade discounts, rebates and sales tax.

#### (d) Fixed Assets

Fixed Assets are recorded at cost net of Cenvat credit wherever eligible. Cost includes all expenses and interest attributable to the project till the date of commissioning. Impairment is done when the carrying amount of the asset exceeds its recoverable amount. Impairment loss is charged to the Profit and Loss Account in the year in which an asset is identified as impaired. An impairment loss recognised in prior accounting periods is reversed if there has been a change in the estimate of the recoverable amount.

#### (e) Depreciation

Depreciation is charged on straight-line basis at the following rates:

Factory Buildings	—	3.34 %
Residential Flats	—	5.00 %
Plant & Machinery	—	10.34 %
Computers	—	25.00 %
Vehicles	—	25.00 %
Furniture, Fixtures & Equipment	—	12.50 %
Assets costing Rs. 5,000 or below	—	100.00 %

Depreciation on additions/deletions is calculated on a *pro-rata* basis. Accelerated depreciation is charged on certain assets based on periodic review of estimated useful life.

Leasehold land is amortised over the period of lease.

#### (f) Investments

Current investments are valued at lower of cost and fair value. Long-term investments are stated at cost less provision, if any, for permanent diminution in value.

#### (g) Inventories

Inventories are valued at cost or net realisable value, whichever is lower. The costs are worked out on weighted average basis. Excise duty on goods manufactured by the Company and remaining in inventory is included as a part of valuation of finished goods.

#### (h) Foreign Currency

Transactions in foreign currencies are recorded at the exchange rates prevailing on the date of transaction. Monetary items in foreign currencies are stated at the closing exchange rate. In the case of forward exchange contracts, the premium or discount arising at the inception of such a forward exchange contract is amortised as expense or income over the life of the contract and the difference between the year end rate and rate on the date of the contract is recognised as exchange difference in the Profit and Loss Account. Gains/losses on conversion/translation have been recognised in the Profit and Loss Account or adjusted in the value of fixed assets as applicable.

#### (i) Employee Benefits

Contribution to Provident Fund, Family Pension Fund and Superannuation Fund are provided on accrual basis. Contribution to Gratuity Fund and provision for leave encashment liability are based on actuarial valuation.

#### (j) Assets taken on lease

Lease rentals payable as per agreements on vehicles and other assets are charged as expenditure on accrual basis.

#### (k) Deferred Revenue Expenditure

Compensation to employees under Voluntary Retirement Scheme is written off over a period of 36 months from the month of incurrence.

#### (l) Deferred taxes

Deferred tax assets and liabilities are restated at the substantively enacted Income tax rates. Deferred tax assets are created only to the extent they are expected to materialise.

(m) **Borrowing costs**

Borrowing costs that are attributable to the acquisition or construction of qualifying assets are capitalised. Other borrowing costs are recognised as an expense in the period in which they are incurred.

(n) **Provisions, Contingent Liabilities and Contingent Assets**

Provisions are recognised only when there is a present obligation as a result of past events and when a reliable estimate of the amount of the obligation can be made. Contingent Liability is disclosed for (i) Possible obligations which will be confirmed only by future events not wholly within the control of the Company or (ii) Present obligations arising from past events where it is not probable that an outflow of resources will be required to settle the obligation or a reliable estimate of the amount of the obligation cannot be made. Contingent Assets are not recognised in the financial statements since this may result in the recognition of income that may never be realised.

2. Contingent Liabilities not provided for:

- (a) Claims against the Company not acknowledged as debts: **Rs. 264.8 Mio.** (Previous Year Rs. 264.3 Mio.) in respect of which the Company has counter claims of **Rs. 434.7 Mio.**(Previous Year Rs. 434.7 Mio.).

The Company is a party to various legal proceedings in the normal course of business, including one proceeding concerning acquisition of office premises. The Company does not expect the outcome of these proceedings to have a material adverse effect on the Company's financial conditions, results of operations or cash flows.

- (b) Demands for taxes and duties in respect of which the Company has preferred appeals with appropriate authorities

a. Income tax : **Rs. 39.9 Mio.** (Previous Year Rs. 24.3 Mio.)

b. Others : **Rs. 5.8 Mio.** (Previous Year Rs. 6.3 Mio.)

- (c) Counter Guarantees issued by the Company to its Banks: **Rs. 6.9 Mio.** (Previous Year Rs. 19.9 Mio.).

At the request of the Company, its banks have issued guarantees in the event of the Company failing to fulfill its performance obligation under various commercial agreements. The Company has issued counter guarantees to the banks in respect of these guarantees.

3. Estimated amount of contracts remaining to be executed on capital account and not provided for **Rs. 145.6 Mio.** (Previous Year Rs. 10.7 Mio.).

4. The exchange loss of **Rs. 4.7 Mio.** (Previous Year gain of Rs. 3.9 Mio.) has been included in the Profit and Loss Account for the year.

5. Expenditure on Research and Development charged to Profit and Loss Account **Rs. 37.0 Mio.** (Previous Year Rs. 19.8 Mio.).

6. The Company has taken certain assets under operating leases.

- (a) Total minimum lease payments in this respect are as follows:

Rs. Mio.

	2005-06	2004-05
<b>Due</b>		
Not later than one year	14.0	11.4
Later than one year but not later than five years	32.6	17.8
Later than five years	3.2	3.2
<b>Total</b>	<b>49.8</b>	<b>32.4</b>

- (b) Lease rent of **Rs. 16.2 Mio.** (Previous Year Rs. 11.9 Mio.) has been included under 'Rent' in the Profit and Loss Account.

7. Deferred Tax:

The break up of Deferred Tax Assets/(Liabilities) as at March 31, 2006 is as under:

Rs. Mio.

	2005-06	2004-05
<b>Deferred Tax Assets</b>		
Timing differences on account of:		
Provision for doubtful debts	37.8	33.2
Expenditure under Voluntary Retirement Scheme	6.8	12.9
Others	10.5	8.9
<b>Total Deferred Tax Assets</b>	<b>55.1</b>	<b>55.0</b>
<b>Deferred Tax Liabilities</b>		
Timing differences on account of:		
Items related to Fixed Assets	(20.4)	(62.7)
<b>Total Deferred Tax Liabilities</b>	<b>(20.4)</b>	<b>(62.7)</b>
<b>Deferred Tax Assets/(Liabilities) – net</b>	<b>34.7</b>	<b>(7.7)</b>

8. Sundry creditors include **Rs. 6.4 Mio.** (Previous Year Rs. 11.6 Mio.) due to small scale industrial undertakings (as given below) where amounts are outstanding for more than 30 days.

Act Infraport Limited, Chemox Industrial Corporation, J.B.Plastics, Maruti Dal Mill, Mullackal Polymers, Naman Plastic Processors, New Alliance Dye Chem Pvt. Ltd., Pragji Gopalji & Sons, Prefect Packaging, R.S.B. Chemical Industries, Ranka Organics Pvt. Ltd., Surya Plast Industries, Swami Packaging Industries, TASC Chemical Industries, United Clearing & Forwarding Pvt. Ltd., Urvashi Chemical Agencies.

As per the terms of contract, the credit period is generally upto 60 days.

The above information regarding small-scale industrial undertakings has been determined to the extent such parties have been identified on the basis of information available with the Company.

9. Sundry debtors, considered good, include the following amounts due from companies under the same management:

	Rs. Mio.	
	2005-06	2004-05
BASF Company Limited	19.9	—
BASF Agro B.V.	4.3	148.5
BASF Aktiengesellschaft	3.0	—
BASF Asia-Pacific Service Centre S/B	2.8	—
Elastogran Italia Spa	2.5	—
BASF China Limited	1.1	1.2
BASF Corporation	1.0	2.0
BASF East Asia Regional HQ Limited	0.8	0.8
BASF JCIC Neopentylglycol Co. Ltd.	0.6	0.1
BASF Japan Limited	0.4	0.4
BASF Philippines Inc.	0.4	—
PT BASF Indonesia	0.3	—
BASF Turkey Kimya Sanayi Ve Ticaret	0.3	—
BASF (Thai) Limited	0.2	—
BASF Auxiliary Chemicals Co. Limited	0.2	0.1
BASF Finlay Private Limited	0.2	—
BASF Polyurethanes (Malaysia) S/B	0.1	0.1
BASF Chem Trade GmbH	0.1	0.1
BASF Bangladesh Limited	—	2.2
BASF Agro SAS	—	1.8
BASF Argentina S.A.	—	0.9
BASF Coatings (India) Private Ltd.	—	0.9
BASF Mexicana,S.A. de CV	—	0.2
BASF Curtex S.A.	—	0.1
<b>Total</b>	<b>38.2</b>	<b>159.4</b>

10. In line with the global divestiture of Phorate activity, assets relating to this product were transferred to AMVAC Chemical Corporation on October 31,2005 for a consideration of Rs.28.8 Mio.
11. BASF Polyurethanes India Limited (BPIL) a wholly owned subsidiary of the company was incorporated on 6th April, 2005. BPIL is in the process of establishing a system house, within Turbhe works, to manufacture Polyurethane System (PU) products. After the requisite approvals are received, BPIL will commence manufacture of PU products. Thereafter, the indenting and trading activities of the company, relating to PU products within the plastics segment, will be transferred to BPIL. The related sales, profits and assets account for 5% of the total activities of the company.
12. Managerial Remuneration under Section 198 of the Companies Act, 1956, (excluding provision for contribution to Gratuity Fund and Group Insurance) is **Rs. 21.1 Mio.** (Previous Year Rs. 15.0 Mio.). This includes remuneration of a Director appointed during the year which is subject to approval of the Shareholders in General Meeting – **Rs.0.5 Mio.** (Previous Year Rs. Nil)

	Rs. Mio.	
	2005-06	2004-05
Salaries	14.1	9.9
Contribution to Provident and Superannuation Funds	2.1	1.8
Monetary Value of other perquisites	3.3	2.1
Commission	1.6	1.2
<b>Total</b>	<b>21.1</b>	<b>15.0</b>



13. Computation of Net Profit in accordance with Section 349 of the Companies Act, 1956: Rs. Mio.

	2005-06	2004-05
Profit before Tax	705.7	600.6
Add: Provision for doubtful debts	13.8	8.2
Managerial remuneration	21.1	15.0
	34.9	23.2
Less: Profit on sale of assets	1.4	1.7
Compensation on transfer of Phorate business	28.8	—
Compensation on transfer of Textile Dyes business	1.3	2.0
	31.5	3.7
Net profit u/s. 349 for the purpose of Directors' Commission	709.1	620.1
Maximum remuneration permissible to whole-time Directors under the Act at 10%	70.9	62.0
Commission payable to non-whole time Directors at 1%	7.1	6.2
Commission restricted as determined by the Board of Directors	1.6	1.2

14. Segment Information for the year ended March 31, 2006:

(a) **PRIMARY SEGMENT INFORMATION (by Business Segments)**

*The previous year's figures are given in light type below each item.*

Rs. Mio.

	Agricultural Products & Nutrition	Performance Products	Plastics	Chemicals	Others	Un- allocated	Total
Segment Revenue	1,926.9 2,101.9	3,835.5 3,600.1	1,632.0 1,545.5	273.4 128.7	48.6 25.6	— —	7,716.4 7,401.8
Less: Inter-segment revenue	—	—	—	—	—	—	—
<b>Sales/Income from operations</b>	<b>1,926.9</b> <i>2,101.9</i>	<b>3,835.5</b> <i>3,600.1</i>	<b>1,632.0</b> <i>1,545.5</i>	<b>273.4</b> <i>128.7</i>	<b>48.6</b> <i>25.6</i>	—	<b>7,716.4</b> <i>7,401.8</i>
<b>Segment Result</b>	<b>337.4</b> 296.8	<b>390.2</b> 399.3	<b>157.8</b> 130.5	<b>104.5</b> 97.6	<b>12.1</b> 10.5	—	<b>1,002.0</b> 934.7
Interest						23.6 61.1	23.6 61.1
Other un-allocable expenditure net of un-allocable income						272.7 273.0	272.7 273.0
<b>Profit Before Tax</b>							<b>705.7</b> 600.6
Current Tax						272.3 274.3	272.3 274.3
Deferred Tax Credit						(42.4) (53.4)	(42.4) (53.4)
Fringe Benefit Tax						21.7 —	21.7 —
<b>Profit After Tax</b>							<b>454.1</b> 379.7
<b>OTHER INFORMATION</b>							
Segment Assets	624.2 1,123.9	1,763.0 1,786.2	743.4 584.7	98.6 56.4	0.2 1.0	756.6 585.6	3,986.0 4,137.8
Segment Liabilities	173.8 326.4	390.9 512.7	204.8 289.2	21.6 1.0	0.2 0.3	430.7 473.3	1,222.0 1,602.9
Capital Expenditure	7.0 33.4	92.4 31.0	16.4 2.8	0.8 1.0	— —	26.0 7.5	142.6 75.7
Depreciation	23.5 68.2	157.0 136.7	18.5 17.4	0.7 0.6	— —	20.8 21.2	220.5 244.1
Amortisation of Voluntary Retirement Expenses						— 30.9	— 30.9

(b) **SECONDARY SEGMENT INFORMATION (by Geographic Segments)**

Rs. Mio.

	Domestic	Exports	Total
Revenues	7,075.7 6,541.1	640.7 860.7	7,716.4 7,401.8
Total Assets	3,936.9 3,953.2	49.1 184.6	3,986.0 4,137.8
Capital Expenditure	142.6 75.7	— —	142.6 75.7

Notes on Segment Information:

1. Segments have been identified in accordance with the Accounting Standard on Segment Reporting (AS-17). Business Segments have been considered as primary segments.
2. Details of type of products included in each segment —
  - **Agricultural Products & Nutrition** — Agrochemicals like pesticides and herbicides and high-value fine chemicals for the food, pharmaceuticals, animal feed and cosmetics industries.
  - **Performance Products** — Tanning agents, Leather Chemicals, Textile Chemicals, Dispersion Chemicals and Specialty Chemicals.
  - **Plastics** — Expandable Polystyrene (EPS), Engineering plastics and Polyurethane business.
  - **Chemicals** — Chemicals includes Inorganic chemicals, Intermediates and Petrochemicals.
  - **Others** — Indent Commission income not relating to any of the above segments and other recoveries.
3. Un-allocable Corporate Assets include Administration Assets, Capital Work-in-Progress and Net Deferred Tax Assets.
4. Un-allocable Corporate Liabilities include Secured and Unsecured Loans, Net Deferred Tax Liabilities, Provision for leave encashment, Proposed dividend and other un-allocable liabilities.

15. Auditors' Remuneration:

Rs. Mio.

	2005-06	2004-05
As Auditors	3.0	3.0
In other capacity (tax audit and certification)	1.6	0.8
Reimbursement of out of pocket expenses	0.2	0.2
Service Tax	—	0.2
<b>Total</b>	<b>4.8</b>	<b>4.2</b>

16. Capacities, Production, Purchases and Stocks:

The previous year's figures are given in light type below each item.

Class of Goods	Quantitative denomination	Capacity		Production/ Purchases Quantity	Stock at Commencement Quantity	Stock at Close Quantity
		Licensed	Installed			
<b>(a) Manufactured goods:</b> Expandable Polystyrene (Styropor)	M.T.	***	20000 20000	15324 13470	19 40	171 19
Leather Auxiliaries (Organic Chemicals)	M.T.	***	15000 15000	10288 11195	883 710	614 883
Oil & Well Chemicals	M.T.	***	3250 3250	Nil Nil	Nil Nil	Nil Nil
Leather Auxiliaries, Finishing Agents and Pigments	M.T.	***	7350 7350	6362 5795	808 668	810 808
Leather Chemicals and Auxiliaries including Metal Complex Dyes & Acrylic Polymers and Carboxylated Styrene Butadiene Lattices	M.T.	***	22225 22225	21903 19732	1064 1064	677 1064
Pesticides						
— Basic Production	M.T.	***	**1670 1670	728 1132	106 30	43 106
— Formulation	M.T.		*	1774 1460	178 144	240 178
	K.L.		*	3599 3837	1256 725	1313 1256
<b>(b) Traded Goods:</b> Agro and Other Chemicals	M.T./K.L.	Not Applicable		12687 12547	2127 2193	2078 2127
Value of Purchases — Rs. 818.9 mio. (Previous Year Rs. 1,136.4 mio.)						

\* The capacity varies depending upon the product mix.

\*\* Includes capacity for Dimethoate

\*\*\* Delicensed vide Gazette Notification No. S.O.477(E) dated 25.07.91.

Notes:

(a) Value of stocks in Rs. Mio.:

	2005-06	2004-05
Closing Stock	567.5	685.5
Opening Stock	685.5	467.6

(b) The installed capacity has been certified by Technical Management of the Company and not verified by the Auditors, this being a technical matter.

(c) The figures of production are excluding captive consumption and the figures of stocks are after adjustment of shortages/excesses.

(d) The Company has licenses to manufacture 300 M.T. of Expanded Polystyrene (Thermocole) and 200 M.T. of Dimethoate.

(e) The Department of Company Affairs, Government of India vide its Order No. 46/117/2006-CL-III dated April 12, 2006 issued under Section 211(4) of the Companies Act, 1956 has exempted the Company from disclosure of quantitative details relating to turnover in the Profit and Loss Account under para 3(i)(a) of Part II, Schedule VI to the Companies Act, 1956.

17. Consumption of Raw Materials, Components and Spare Parts:

(a) Raw Materials:

	2005-06		2004-05	
	%	Rs. Mio.	%	Rs. Mio.
Imported	63.3	2,052.8	60.9	1,941.0
Indigenous	36.7	1,189.7	39.1	1,247.6
	100.0	3,242.5	100.0	3,188.6

Note:

The Department of Company Affairs, Government of India vide its Order No. 46/117/2006-CL-III dated April 12, 2006 issued under Section 211(4) of the Companies Act, 1956 has exempted the Company from disclosure of quantitative details relating to consumption of raw materials in the Profit and Loss Account under para 3(ii)(a)(1) of Part II, Schedule VI to the Companies Act, 1956.

(b) Components and Spare Parts:

	2005-06		2004-05	
	%	Rs. Mio.	%	Rs. Mio.
Imported	—	—	3.0	1.0
Indigenous	100.0	31.3	97.0	31.8
	100.0	31.3	100.0	32.8

18. Value of direct import on C.I.F. basis during the year (including in-transit):

Rs. Mio.

	2005-06	2004-05
Raw Materials	1,656.9	1,698.3
Components and Spare Parts	—	1.0
Capital Goods	3.0	2.0
Finished Goods	508.9	396.2

19. Expenses in foreign currencies during the year:

Rs. Mio.

	2005-06	2004-05
Royalty (net of tax)	17.6	26.3
Communication/System Expenses (net of tax)	49.6	51.8
Foreign Travel	9.9	8.1
Interest (net of tax)	0.7	0.7
Commission	9.6	9.8
Consultancy charges	3.3	1.9
Others	3.2	4.3

20. Amount remitted in foreign currencies during the year on account of dividends (after tax):

	2005-06	2004-05
<b>Equity Shares:</b>		
Amount remitted (Rs. Mio.)	89.1	89.1
Number of non-resident shareholders	1	1
Number of Equity Shares of Rs. 10/- each held by non-resident on which dividends were due	14,853,020	14,853,020
Year to which dividend relates	2004-2005	2003-2004

21. Earnings in foreign exchange during the year:

Rs. Mio.

	2005-06	2004-05
Exports of goods calculated on FOB basis (excludes Rupee Exports to Nepal & Bhutan — <b>Rs. 5.1 Mio.</b> — Previous Year Rs. 5.4 Mio.)	246.9	558.6
Indent Commission/Technical Charges	373.6	280.6
Freight and Insurance	15.1	16.1

22. **Related Party Disclosures**

(a) **Parties where control exists :**

BASF AG	Holding Company (holds 52.7% of the equity share capital as on March 31, 2006)
BASF Polyurethanes India Limited	100% Subsidiary

(b) **Other related parties with whom transactions have taken place during the year**

**Fellow Subsidiaries:**

BASF Agro B.V.	BASF Petronas Chemicals SDN BHD
BASF Bangladesh Ltd.	Elastogran GmbH
BASF Curtex S.A.	BASF Agro SAS
BASF Finlay Pvt. Ltd.	Compo GmbH
BASF Japan Ltd.	BASF Pakistan (Private) Ltd.
BASF South East Asia Pte Ltd.	BASF Imigrantes S/A
BASF Singapore Pte Ltd.	BASF East Asia Regional Headquarters
BASF Corporation	Elastogran Italia Spa
PT BASF Indonesia	BASF Chemicals & Polymers, Pakistan
BASF Company Ltd.	BASF Kanoo Gulf FZE
BASF China Ltd.	BASF Auxiliary Chemicals Co. Ltd.
BASF South Africa (PTY) Ltd.	BASF Asia-Pacific Service Centre S/B
BASF Styrenics Private Ltd.*	BASF JCIC Neopentylglycol Co. Ltd.
BASF Phillipines Inc.	BASF (Thai) Limited
BASF Turkey Kimya Sanayi Ve Ticaret	BASF Coatings (India) Pvt. Ltd.
BASF Chemtrade Gesel	Kali Und Salz Beteiligungs AG
BASF (Malaysia) SDN BHD	

\* Group company 100% held by BASF Styrenics Holding Company, Mauritius which is 100% held by BASF AG.

(c) **Key Management Personnel**

**Chairman & Managing Director:**

Mr. Prasad Chandran

**Whole-Time Directors**

Mr. R. E. Vaz (Alternate to Mr. Boon Yeow Yee)

Mr. S. Kumarasamy (Alternate to Dr. E. Baumgartner) upto 23rd January 2006

Mr. Deepak Thuse (Alternate to Dr. Harald Lauke) w.e.f. 23rd January 2006

(d) **Relatives of Key Managerial Persons**

Mrs. Jean Vaz (wife of Mr. R. E. Vaz)

## (e) Details of transactions for the year ended March 31, 2006:

Rs. Mio.

Nature of Transactions	Holding Company/ Subsidiary		Fellow Subsidiaries		Key Management Personnel		Relatives of Key Management Personnel		Total	
	2005-06	2004-05	2005-06	2004-05	2005-06	2004-05	2005-06	2004-05	2005-06	2004-05
<b>Sale of Goods</b>										
BASF AG	22.1	28.2	—	—	—	—	—	—	22.1	28.2
BASF Agro B. V.	—	—	40.1	375.0	—	—	—	—	40.1	375.0
BASF South East Asia Pte. Ltd.	—	—	16.0	—	—	—	—	—	16.0	—
BASF Bangladesh Ltd.	—	—	9.6	—	—	—	—	—	9.6	—
BASF Coatings (India) Pvt. Ltd.	—	—	23.0	—	—	—	—	—	23.0	—
Others	—	—	7.5	77.6	—	—	—	—	7.5	77.6
<b>Sub-Total</b>	<b>22.1</b>	<b>28.2</b>	<b>96.2</b>	<b>452.6</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>118.3</b>	<b>480.8</b>
<b>Services Rendered</b>										
BASF AG	80.2	49.0	—	—	—	—	—	—	80.2	49.0
BASF South East Asia Pte Ltd.	—	—	205.3	148.6	—	—	—	—	205.3	148.6
BASF Petronas Chemical SDN BHD	—	—	38.4	30.5	—	—	—	—	38.4	30.5
BASF Company Limited	—	—	35.7	29.1	—	—	—	—	35.7	29.1
Others	—	—	14.0	40.6	—	—	—	—	14.0	40.6
<b>Sub-Total</b>	<b>80.2</b>	<b>49.0</b>	<b>293.4</b>	<b>248.8</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>373.6</b>	<b>297.8</b>
<b>Sale of Assets</b>										
BASF Coatings (India) Pvt. Ltd.	—	—	—	4.3	—	—	—	—	—	4.3
<b>Interest Income on Loans</b>										
BASF Polyurethanes India Ltd.	1.3	—	—	—	—	—	—	—	1.3	—
Others	—	—	—	—	0.2	0.2	—	—	0.2	0.2
<b>Sub-Total</b>	<b>1.3</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>0.2</b>	<b>0.2</b>	<b>—</b>	<b>—</b>	<b>1.5</b>	<b>0.2</b>
<b>Purchase of Goods/Materials</b>										
BASF AG	50.3	56.0	—	—	—	—	—	—	50.3	56.0
BASF Agro B.V.	—	—	192.3	73.5	—	—	—	—	192.3	73.5
BASF South East Asia Pte Ltd.	—	—	936.8	412.0	—	—	—	—	936.8	412.0
BASF Petronas Chemical SDN BHD	—	—	260.8	276.1	—	—	—	—	260.8	276.1
BASF Polyurethanes India Ltd.	50.9	—	—	—	—	—	—	—	50.9	—
Others	—	—	175.5	255.5	—	—	—	—	175.5	255.5
<b>Sub-Total</b>	<b>101.2</b>	<b>56.0</b>	<b>1,565.4</b>	<b>1,017.1</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>1,666.6</b>	<b>1,073.1</b>
<b>Services Received</b>										
BASF AG	7.8	6.2	—	—	—	—	—	—	7.8	6.2
BASF South East Asia Pte Ltd.	—	—	50.6	52.0	—	—	—	—	50.6	52.0
Others	—	—	8.5	11.5	—	—	—	—	8.5	11.5
<b>Sub-Total</b>	<b>7.8</b>	<b>6.2</b>	<b>59.1</b>	<b>63.5</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>66.9</b>	<b>69.7</b>
<b>Purchase of Assets</b>										
BASF AG	0.1	—	—	—	—	—	—	—	0.1	—
PT BASF Indonesia	—	—	0.1	—	—	—	—	—	0.1	—
<b>Sub-Total</b>	<b>0.1</b>	<b>—</b>	<b>0.1</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>0.2</b>	<b>—</b>
<b>Royalty and Technical Fees</b>										
BASF AG	19.2	28.8	—	—	—	—	—	—	19.2	28.8
<b>Dividend</b>										
BASF AG	89.1	89.1	—	—	—	—	—	—	89.1	89.1
<b>Remuneration</b>	—	—	—	—	19.5	13.8	—	—	19.5	13.8
<b>Rent Paid</b>	—	—	—	—	—	—	0.8	0.8	0.8	0.8
<b>Loans given</b>										
BASF Polyurethanes India Ltd.	100.0	—	—	—	—	—	—	—	100.0	—
<b>Outstandings:</b>										
Receivable	3.0	—	35.2	159.4	0.9	3.1	0.2	0.2	39.3	162.7
Payable	2.0	7.1	249.7	202.8	—	—	—	—	251.7	209.9

Details of remuneration to Directors are given in Note 12.

Amounts due from directors and interest recovered thereon have been included under Schedule 11 of the Balance Sheet and Schedule 15 of the Profit and Loss Account under Interest – Others respectively.

23. As at the year end, the Company has booked forward exchange contracts for hedging net payables of Rs. 135.7 Mio out of total net exposure of Rs. 141.4 Mio. The balance was hedged immediately thereafter.

24. The Previous Year's figures have been regrouped and rearranged wherever necessary.

Signatures to Schedules 1 to 21

As per our report of even date attached

For Deloitte Haskins & Sells  
Chartered Accountants

N. P. Sarda  
Partner

Mumbai, 2nd May 2006

Prasad Chandran  
Chairman & Managing Director

M.R. Iyer  
Company Secretary

K. R. Coorlawala  
R. R. Nair  
Raman Ramachandran  
S. Ramnath  
Pradip P. Shah  
R. A. Shah  
Deepak Thuse  
Directors

2nd May 2006



## Balance Sheet Abstract and General Business Profile

<b>I. Registration Details :</b>			
Registration No. : 3972		State Code : 11	
Balance Sheet Date : 31.03.2006			
<b>II. Capital Raised during the Period :</b>			
(Amount in Rs. million)			
Public Issue :	Nil	Rights Issue : Capital raised :	Nil
Bonus Issue :	Nil	Private Placement :	Nil
<b>III. Position of Mobilisation and Deployment of Funds :</b>			
(Amount in Rs. million)			
Total Liabilities :	2777.0	Total Assets :	2777.0
<b>Sources of Funds :</b>			
Paid Up Capital :	281.9	Reserves & Surplus :	2482.1
Secured Loans :	—	Unsecured Loans :	13.0
<b>Application of Funds :</b>			
Net Fixed Assets :	704.9	Investments :	29.5
Net Current Assets :	2007.9	Deferred Tax Assets – Net :	34.7
Accumulated Losses:	Nil		
<b>IV. Performance of Company</b>			
(Amount in Rs. million)			
Turnover (including Other Income) :	6881.0	Total Expenditure :	6175.3
Profit Before Tax :	705.7	Profit After Tax :	454.1
Earnings Per Share in Rs. :	16.11	Dividend Rate % :	70
<b>V. Generic Names of Principal Products of the Company :</b>			
(As per monetary terms)			
<b>Item Code No.</b>	<b>Product Description</b>		
(ITC Code)			
320210.00	Synthetic Tanning Agent		
390311.00	Expandable Polystyrene		
380220.90	Carbendazim		

Prasad Chandran  
*Chairman & Managing Director*

M. R. Iyer  
*Company Secretary*

K. R. Coorlawala  
R. R. Nair  
Raman Ramachandran  
S. Ramnath  
Pradip P. Shah  
R. A. Shah  
Deepak Thuse  
*Directors*  
2nd May 2006

## Statement pursuant to Section 212 of the Companies Act, 1956

Name of the subsidiary Company	Financial year ending of the subsidiary	Number of equity shares held	Extent of holding	For the financial year of the subsidiary	
				Profit/(Losses) so far as it concerns the members of the holding Company and not dealt with in the holding Company's accounts	Profit/(Losses) so far as it concerns the members of the holding Company and dealt with in the holding Company's accounts
BASF Polyurethanes India Limited	31-03-2006	50000 shares of Rs. 10 each	100%	Rs. 0.3 million	—

The Company was incorporated on 6th April 2005. This being the first financial year, the previous year's figures are not applicable.

Prasad Chandran  
*Chairman & Managing Director*

M. R. Iyer  
*Company Secretary*

K. R. Coorlawala  
R. R. Nair  
Raman Ramachandran  
S. Ramnath  
Pradip P. Shah  
R. A. Shah  
Deepak Thuse  
*Directors*  
2nd May 2006

# Directors' Report

## BASF Polyurethanes India Limited (Subsidiary Company)

The Directors have pleasure in presenting their Report for the first financial year of your Company from 6th April 2005 to 31st March 2006.

### Activities

Your Company was incorporated as a wholly owned subsidiary of BASF India Limited on 6th April 2005 and is in the process of setting up a system house at Turbhe, to manufacture Polyurethane System (PU) Products. Your Company carried out trading activity during the year under report and registered net sales of Rs. 50.9 million and profit after tax of Rs. 0.3 million. After receipt of the requisite approvals, your Company will commence manufacture of PU products.

### Dividend

The Directors do not recommend any dividend on the equity shares for the financial year ended 31st March 2006.

### Capital Expenditure

Capital Expenditure incurred during the year aggregated to Rs. 96.2 million.

### Directors

Mr. Prasad Chandran, Mr. K. R. Coorlawala and Mr. R.R. Nair, were appointed as the first Directors of your Company in terms of Article 103(a) of the Articles of Association of the Company.

Mr. Boon Yeow Yee was appointed as an Additional Director of the Company effective 22nd July 2005 in terms of Article 107 of the Articles of Association of the Company and Section 260 of the Companies Act, 1956 and he holds office up to the date of the ensuing Annual General Meeting and is eligible for re-appointment.

Dr. E. Baumgartner, appointed as a Director of your Company on 28th July 2005 resigned from the Board w.e.f. 23rd January 2006. Your Directors wish to place on record their sincere appreciation of the guidance and valuable advice received from Dr. E. Baumgartner during his tenure as a Director.

Consequent upon the resignation of Dr. E. Baumgartner from the Board, Mr. S. Kumarasamy, who was the Alternate to Dr. E. Baumgartner, ceased to be a Director, effective from 23rd January 2006.

Dr. Harald Lauke who was appointed as a Director on 28th July 2005, resigned from the Board w.e.f. 17th April 2006. Your Directors wish to place on record their sincere appreciation of the guidance and valuable advice received from Dr. Harald Lauke during his tenure as a Director.

Mr. R. A. Shah, was initially appointed as an Alternate to Dr. Harald Lauke effective 28th July 2005. Consequent upon the resignation of Dr. Harald Lauke, he ceased to be his Alternate and was appointed Alternate to Dr. Tilman Krauch, effective 17th April 2006.

Dr. Rainer Diercks was appointed as a Director on 23rd January 2006 in the casual vacancy caused by the resignation of Dr. E. Baumgartner in terms of Article 107 of the Articles of Association of the Company and Section 262 of the Companies Act, 1956. He holds office upto the date of the ensuing Annual General Meeting and is eligible for re-appointment.

Mr. R. E. Vaz, who was the Alternate Director to Mr. Boon Yeow Yee resigned from the Board w.e.f. 1st April 2006.

Your Board of Directors wish to place on record their sincere appreciation of the guidance and valuable advice received from Mr. S. Kumarasamy and Mr. R.E. Vaz in the deliberations of the Board during their tenure as Directors.

Mr. Deepak Thuse and Dr. Tilman Krauch were appointed as Additional Directors of your Company w.e.f. 5th January 2006 and 17th April 2006 respectively in terms of Article 107 of the Articles of Association of the Company and Section 260 of the Companies Act, 1956 and they hold office up to the date of the ensuing Annual General Meeting and are eligible for re-appointment.

Mr. S. Ramnath and Dr. Raman Ramachandran were appointed as Alternate Directors to Mr. Boon Yeow Yee and Dr. Rainer Diercks respectively, effective 1st April 2006.

Mr. Prasad Chandran was appointed as Managing Director of your Company for a period of 3 years with effect from 23rd January 2006. No remuneration is payable to him.

Mr. R. R. Nair retires by rotation at the ensuing Annual General Meeting and being eligible, offers himself for re-appointment.

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

Since the Company carried out Trading activity during the year under report, the requirement of Section 217(1)(e) of the Companies Act, 1956 read with the Companies (Disclosure of Particulars in the report of the Board of Directors) Rules 1988 in respect of Conservation of Energy & Technology Absorption are not applicable.

The foreign exchange outgo during the year is appearing on page 54 of the Annual Report and Accounts.

### Directors' Responsibility Statement

Your Directors confirm:

- (i) that in the preparation of the annual accounts, the applicable accounting standards have been followed;
- (ii) that the Directors have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of your Company at the end of the financial year ended 31st March 2006 and of the profits of your Company for that year;

- (iii) that the Directors had 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 your Company and for preventing and detecting fraud and other irregularities;
- (iv) that the Directors have prepared the annual accounts on a going concern basis.

#### Auditors

M/s. Deloitte Haskins & Sells, Mumbai retire at the forthcoming Annual General Meeting and are eligible for re-appointment.

#### Particulars of Employees

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

Your Directors express their sincere appreciation for the dedicated efforts put in by all the employees.

On behalf of the Board of Directors

PRASAD CHANDRAN  
Chairman & Managing Director

Mumbai

Dated: 2nd May 2006

#### Annexure to the Directors' Report

Information as per Section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975 and forming part of the Directors' Report for the financial year ended 31st March, 2006.

Name of employee	Designation and Nature of Duties	Gross Remuneration Rupees	Qualification	Date of Commencement of employment	Age/ Experience Years	Particulars of last employment, Last employer, Post last held, No. of years
<b>(a) Employed throughout the Financial Year under review and were in receipt of remuneration for the Financial Year in the aggregate of not less than Rs. 24,00,000/-.</b>						
Nil						
<b>(b) Employed for part of the Financial Year under review and were in receipt of remuneration for any part of the year, at a rate of not less than Rs. 2,00,000/-per month.</b>						
Mr. Schilling Udo	General Manager	86,40,950	Engineer – Chemistry	01.06.2005	51/29	BASF Elastogran GmbH, Lemförde AG, Manager – Technical Service Marine Applications (1)

(i) All appointments are/were contractual and terminable by notice on either side.

(ii) The employments are subject to the rules and regulations of the Company in force from time to time.

(iii) Gross remuneration includes Salary, allowances, leave encashment on retirement, the Company's contribution to Provident and Superannuation Funds, monetary value of perquisite calculated in accordance with the Income Tax Act/Rules but excludes Medical Expenses and Group Insurance Premium.

(iv) None of the employees is related to any Director of the Company. None of the employees hold more than 2% of the paid-up equity capital of the Company.

On behalf of the Board of Directors

(PRASAD CHANDRAN)

Chairman & Managing Director

Mumbai, 2nd May 2006.

## Auditors' Report to the Members of BASF Polyurethanes India Limited

- We have audited the attached Balance Sheet of BASF Polyurethanes India Limited, as at March 31, 2006, the Profit and Loss Account and also the Cash Flow Statement for the period from April 6, 2005 to March 31, 2006 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.
- 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 the Management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
- As required by the Companies (Auditors' Report) Order, 2003 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.
- Further to our comments in the Annexure referred to above, we report that:
  - We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit;
  - In our opinion, proper books of account as required by law have been kept by the Company so far as appears from our examination of those books;
  - The Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report are in agreement with the books of account;
  - In our opinion, the Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report comply with the accounting standards referred to in sub-section (3C) of Section 211 of the Companies Act, 1956;
  - On the basis of written representations received from directors as on March 31, 2006 and taken on record by the Board of Directors, we report that none of the directors is disqualified as on March 31, 2006 from being appointed as a director in terms of clause (g) of sub-section (1) of Section 274 of the Companies Act, 1956;
  - In our opinion and to the best of our information and according to the explanations given to us, the said accounts read together with the notes thereon, give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:
    - in the case of the Balance Sheet, of the state of affairs of the Company as at March 31, 2006;

- (b) in the case of the Profit and Loss Account, of the profit for the period from April 6, 2005 to March 31, 2006; and
- (c) in the case of the Cash Flow Statement, of the cash flows for the period from April 6, 2005 to March 31, 2006.

For Deloitte Haskins & Sells  
Chartered Accountants

N.P. Sarda  
Partner

Membership No. 9544

Mumbai,  
Date: 2nd May 2006

## Annexure referred to in paragraph 3 of the Auditors' Report on the Accounts of BASF Polyurethanes India Limited

In our opinion and according to the information and explanations given to us, the nature of the Company's business/activities during the year is such that clauses vi, vii, xi, xii, xiii, xiv, xv, xvi, xviii, xix and xx of para 4 of the Order are not applicable to the Company.

1. In respect of its fixed assets:
  - a. The Company has maintained proper records showing full particulars, including quantitative details and situation of its fixed assets.
  - b. Some of the fixed assets were physically verified during the year by the management in accordance with a programme of verification, which in our opinion provides for physical verification of all the fixed assets at reasonable intervals. According to the information and explanations given to us, no material discrepancies were noticed on such verification.
  - c. None of the fixed assets were disposed off during the year.
2. In respect of its inventories:
  - a. As explained to us, inventories were physically verified during the year by the management at reasonable intervals.
  - 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 were reasonable and adequate in relation to the size of the Company and the nature of its business.
  - c. In our opinion and according to the information and explanations given to us, the Company has maintained proper records of its inventories and no material discrepancies were noticed on physical verification.
3. In respect of loans, secured or unsecured, granted or taken by the Company to or from companies, firms or other parties covered in the register maintained under Section 301 of the Companies Act, 1956, according to the information and explanations given to us:
  - 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.
  - b. The Company has taken loans from one party, BASF India Limited, holding company. At the year-end, the outstanding balances of such loans taken aggregated to Rs. 10 crore and the maximum amount involved during the year was Rs 10 crore.
  - c. The rate of interest and other terms and conditions of such loans are, in our opinion, prima facie not prejudicial to the interest of the Company.
  - d. There is no overdue amount of principal and interest outstanding at the year end.
  - e. The payment of principal amount and interest in respect of such loans are as per stipulations.
4. In our opinion and according to the information and explanations given to us, there is adequate internal control system commensurate with the size of the Company and nature of its business with regard to purchases of inventory and fixed assets and for the sale of goods and services and we have not observed any continuing failure to correct major weaknesses in such internal controls.
5.
  - a. To the best of our knowledge and belief and according to the information and explanations given to us, the contracts or arrangements that needed to be entered into the register maintained under Section 301 of the Companies Act, 1956, have been so entered.
  - b. In our opinion and according to the information and explanations given to us, the transactions made in pursuance of the contracts or arrangements entered in the register maintained under Section 301 of the Companies Act, 1956 and exceeding the value of Rs. 5 lakhs in respect of any party during the year have been made at prices which are reasonable having regard to the prevailing market prices at the relevant time, except that reasonableness could not be ascertained where comparable quotations are not available having regard to the specialised nature of some of the transactions of the Company.
6. To the best of our knowledge and according to the information and explanations given to us, the Central Government has not prescribed the maintenance of cost records for any of the products of the Company.
7. In respect of Statutory dues:
  - a. According to the information and explanations given to us, the Company has been generally regular in depositing undisputed statutory dues, including Provident Fund, Investor Education and Protection Fund, Employees' State Insurance, Income Tax, Sales Tax, Wealth Tax, Service Tax, Custom Duty, Excise Duty, Cess and any other material statutory dues with the appropriate authorities during the year.
  - b. According to the information and explanations given to us, no undisputed amounts payable in respect of Income Tax, Sales Tax, Wealth Tax, Service Tax, Customs Duty, Excise Duty and Cess were outstanding, as at March 31, 2006 for a period of more than six months from the date they became payable.
  - c. There have been no disputed dues as on March 31, 2006, which have not been deposited with the respective authorities in respect of Income Tax, Sales Tax, Wealth Tax, Service Tax, Customs Duty, Excise Duty and Cess.
8. This is the first financial year of the Company. The Company does not have any accumulated losses as at the end of the financial year. The Company has not incurred cash losses during the financial year covered by our audit.
9. According to the information and explanations given to us and on an overall examination of the balance sheet of the Company, we report that the funds raised on short-term basis have, prima facie, not been used during the year for long-term investment.
10. To the best of our knowledge and belief and according to the information and explanation given to us, no fraud on or by the Company was noticed or reported during the year.

For Deloitte Haskins & Sells  
Chartered Accountants

N.P. Sarda  
Partner

Membership No. 9544

Mumbai,  
Date: 2nd May 2006

## Balance Sheet as at March 31, 2006

Rs. in 000's

	Schedule	March 31, 2006
<b>SOURCES OF FUNDS</b>		
<b>Shareholders' Funds:</b>		
Capital	1	500
Reserve and Surplus		
– Surplus from Profit and Loss Account		318
		818
<b>Loan Funds:</b>		
Unsecured Loans	2	136,856
<b>Total</b>		<b>137,674</b>
<b>APPLICATION OF FUNDS</b>		
<b>Fixed Assets:</b>		
Gross Block		321
Less: Depreciation		71
Net Block	3	250
Capital Work-in-Progress		79,118
Expenditure during Construction	4	16,773
		96,141
<b>Deferred Tax Assets (net)</b>	5	259
<b>Current Assets, Loans and Advances :</b>		
Inventories	6	72,768
Sundry Debtors	7	2,041
Cash and Bank Balances	8	20,980
Loans and Advances	9	29,304
		125,093
Less:		
<b>Current Liabilities and Provisions:</b>		
Liabilities	10	82,783
Provisions	11	1,036
		83,819
<b>Net Current Assets</b>		<b>41,274</b>
<b>Total</b>		<b>137,674</b>

For Accounting Policies and Notes to Accounts — Refer **Schedule 15**

As per our report of even date attached

Prasad Chandran  
Chairman & Managing Director

K. R. Coorlawala  
R. R. Nair  
Raman Ramachandran  
S. Ramnath  
R. A. Shah  
Deepak Thuse  
Directors

For Deloitte Haskins & Sells  
Chartered Accountants

N. P. Sarda  
Partner

Pradeep Chandan  
Company Secretary

Mumbai, 2nd May 2006

2nd May 2006

## Profit and Loss Account for the period April 06, 2005 to March 31, 2006

Rs. in 000's

	Schedule	April 06, 2005 to March 31, 2006
<b>Income:</b>		
Sales		50,871
Less: Excise Duty		—
		50,871
<b>Expenditure:</b>		
Materials Consumed	12	—
Purchase of Finished Goods		55,435
Other Expenses	13	1,361
		56,796
Increase/(Decrease) in Stocks		6,484
<b>Profit Before Tax</b>		559
<b>Tax</b>	14	241
<b>Profit After Tax</b>		318
Balance Carried Forward		318
Weighted average number of equity shares outstanding during the period		50,000
Basic and diluted earnings per share (in Rs.)		6.36
Face value per share (in Rs.)		10.00

For Accounting Policies and Notes to Accounts — Refer **Schedule 15**

As per our report of even date attached

Prasad Chandran  
*Chairman & Managing Director*

K. R. Coorlawala  
R. R. Nair  
Raman Ramachandran  
S. Ramnath  
R. A. Shah  
Deepak Thuse  
*Directors*

For Deloitte Haskins & Sells  
*Chartered Accountants*

N. P. Sarda  
*Partner*

Pradeep Chandan  
*Company Secretary*

Mumbai, 2nd May 2006

2nd May 2006



## Cash Flow Statement for the period April 06, 2005 to March 31, 2006

Rs. in 000's

	April 06, 2005 to March 31, 2006	
<b>A. Cash flow from operating activities</b>		
Net profit before Tax		559
Adjustments for:		
Depreciation	71	
Interest expense	5,002	
Unrealised (Gain)/Loss on foreign exchange (net)	(893)	4,180
<b>Operating profit before working capital changes</b>		4,739
(Increase)/Decrease in :		
Trade and Other Receivables	(31,345)	
Inventories	(72,768)	
Trade and Other Liabilities	83,776	(20,337)
<b>Cash used in operations</b>		(15,598)
Direct taxes paid (net)		(450)
<b>Net cash used in operating activities</b>		(16,048)
<b>B. Cash flow from investing activities</b>		
Acquisition of fixed assets		(96,212)
<b>Net cash used in investing activities</b>		(96,212)
<b>C. Cash flow from financing activities</b>		
Proceeds from loan funds		136,856
Proceeds from issue of equity shares		500
Interest paid		(4,116)
<b>Net cash generated from financing activities</b>		133,240
<b>Net increase in cash and cash equivalents</b>		20,980
Cash and cash equivalents (opening balance)		—
Cash and cash equivalents (closing balance)		20,980

As per our report of even date attached

For Deloitte Haskins & Sells  
Chartered Accountants

N. P. Sarda  
Partner

Mumbai, 2nd May 2006

Prasad Chandran  
Chairman & Managing Director

Pradeep Chandan  
Company Secretary

K. R. Coorlawala  
R. R. Nair  
Raman Ramachandran  
S. Ramnath  
R. A. Shah  
Deepak Thuse  
Directors

2nd May 2006

## Schedules to Balance Sheet as at March 31, 2006

### 1. Share Capital

Rs. in 000's

	March 31, 2006
<b>Authorised:</b> 15,000,000 Equity Shares of Rs. 10/- each	150,000
<b>Issued:</b> 50,000 Equity Shares of Rs. 10/- each	500
<b>Subscribed and Paid-up:</b> 50,000 Equity Shares of Rs. 10/- each fully paid – All the above Equity Shares are held by BASF India Ltd., the holding Company and its nominees. BASF AG is the ultimate holding Company of BASF Polyurethanes India Limited	500
	500

### 2. Unsecured Loans

	March 31, 2006
Loan from BASF India Ltd. (Repayable within one year TRs. 100,000) (Maximum balance during the year TRs. 100,000)	100,000
Loan from BASF AG (Repayable within one year TRs. Nil) (Maximum balance during the year TRs. 36,856)	36,856
	136,856

### 3. Fixed Assets

			March 31, 2006
	Plant and Machinery	Furniture, Fixtures and Equipment	Total
<b>Cost:</b>			
As at April 6, 2005	—	—	—
Additions	295	26	321
Deductions	—	—	—
As at March 31, 2006	295	26	321
<b>Depreciation:</b>			
As at April 6, 2005	—	—	—
Depreciation for the year	59	12	71
Deductions	—	—	—
As at March 31, 2006	59	12	71
<b>Written Down Value:</b>			
As at March 31, 2006	236	14	250
Capital work in progress*	79,118		79,118

\* Capital work in progress includes advances of TRs. 663 – Considered good.

## Schedules to Balance Sheet as at March 31, 2006

### 4. Expenditure during Construction

Rs. in 000's

	March 31, 2006
(Ref. note 7)	
Salaries, Wages, Bonus and Commission	6,919
Workmen and Staff Welfare	182
Contribution to Provident and Other Funds	66
Depreciation	71
Interest	5,002
Consumption of Stores and Spare Parts	212
Rent	1,924
Repairs – Machinery	2
– Others	5
Insurance	2
Travelling	2,321
Freight and Handling Charges	52
Communication/System Expenses	70
Licence Fees	61
Sundry Expenses	1,026
	17,915
Less: Exchange gain on Foreign currency loan	1,142
	16,773

### 5. Deferred Tax Assets/(Liabilities) – net

	March 31, 2006
(Ref. note 5)	
Deferred tax assets	315
Deferred tax liabilities	(56)
	259

### 6. Inventories

	March 31, 2006
Raw Materials	66,092
Finished Goods	6,484
Packing Materials	192
	72,768

## Schedules to Balance Sheet as at March 31, 2006

### 7. Sundry Debtors – (Unsecured) – Considered Good

Rs. in 000's

	March 31, 2006
Debts outstanding for a period exceeding six months	—
Other Debts – Due from BASF India Limited – the holding Company	2,041
	2,041

### 8. Cash and Bank Balances

	March 31, 2006
Balances with Scheduled Banks:	
– On Current Accounts	20,980
	20,980

### 9. Loans and Advances (Unsecured) – Considered Good

	March 31, 2006
Advances recoverable in cash or in kind or for value to be received	29,304
	29,304

### 10. Current Liabilities

	March 31, 2006
Sundry Creditors	
– Small Scale Industrial Undertakings (Ref. note 6)	74
– Others	81,401
Interest accrued but not due	886
Other Liabilities	422
	82,783

### 11. Provisions

	March 31, 2006
Provision for Income Tax (net)	50
Provision for Leave Encashment	986
	1,036

## Schedules to Profit & Loss account for the period April 06, 2005 to March 31, 2006

### 12. Materials Consumed

Rs. in 000's

	April 06, 2005 to March 31, 2006
Raw Materials:	
Stock at Commencement	—
Purchases	66,092
Stock at Close	(66,092)
	—

### 13. Other Expenses

	April 06, 2005 to March 31, 2006
Preliminary Expenses	1,171
Auditors' Remuneration – Audit Fees	100
– In Other Capacity	30
Directors' Sitting Fees	60
	1,361

### 14. Tax

	April 06, 2005 to March 31, 2006
Current Tax	448
Deferred Tax	(259)
Fringe Benefit Tax	52
	241

### 15. Accounting Policies and Notes to Accounts

(Amounts are shown in Thousands of Rupees, abbreviated as TRs.)

#### 1. Accounting Policies

##### (a) Basis of Accounting

The financial statements are prepared under the historical cost convention, on accrual basis, in accordance with generally accepted accounting principles in India and the provisions of the Companies Act, 1956.

##### (b) Use of estimates

The presentation of financial statements in conformity with the generally accepted accounting principles requires estimates and assumptions to be made that affect the reported amount of assets and liabilities on the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Difference between the actual result and estimates are recognised in the period in which the results are known/materialise.

##### (c) Revenue Recognition

Sales of products are recognised when risk and rewards of ownership of the products are passed on to the customers, which is generally on despatch of goods. Sales include excise duty but exclude trade discounts, rebates and sales tax.

##### (d) Fixed Assets

Fixed Assets are recorded at cost net of Cenvat credit wherever eligible. Cost includes all expenses and interest attributable to the project till the date of commissioning. Impairment is done when the carrying amount of the asset exceeds its recoverable amount. Impairment loss is charged to the Profit and Loss Account in the year in which an asset is identified as impaired. An impairment loss recognised in prior accounting periods is reversed if there has been a change in the estimate of the recoverable amount.

All expenditure incurred during the project construction period are accumulated and shown as Expenditure during Construction until the assets are ready for commercial use.

(e) **Depreciation**

Depreciation is charged on straight-line basis at the following rates:

Plant & Machinery	—	10.34%
Computers	—	25.00%
Furniture, Fixtures & Equipment	—	12.50%
Assets costing Rs. 5,000 or below	—	100.00%

Depreciation on additions/deletions is calculated on a *pro-rata* basis. Accelerated depreciation is charged on certain assets based on periodic review of estimated useful life.

(f) **Inventories**

Inventories are valued at cost or net realisable value, whichever is lower. The costs are worked out on weighted average basis. Excise duty on goods manufactured by the Company and remaining in inventory is included as a part of valuation of finished goods.

(g) **Foreign Currency**

Transactions in foreign currencies are recorded at the exchange rates prevailing on the date of transaction. Monetary items in foreign currencies are stated at the closing exchange rate. In the case of forward exchange contracts, the premium or discount arising at the inception of such a forward exchange contract is amortised as expense or income over the life of the contract and the difference between the year end rate and rate on the date of the contract is recognised as exchange difference in the Profit and Loss Account. Gains/losses on conversion/translation have been recognised in the Profit and Loss Account or adjusted in the value of fixed assets as applicable.

(h) **Employee Benefits**

Contribution to Provident Fund, Family Pension Fund and Superannuation Fund are provided on accrual basis. Contribution to Gratuity Fund and provision for leave encashment liability are based on actuarial valuation.

(i) **Deferred taxes**

Deferred tax assets and liabilities are restated at the substantively enacted Income tax rates. Deferred tax assets are created only to the extent they are expected to materialise.

(j) **Borrowing costs**

Borrowing costs that are attributable to the acquisition or construction of qualifying assets are capitalised. Other borrowing costs are recognised as an expense in the period in which they are incurred.

(k) **Provisions, Contingent Liabilities and Contingent Assets**

Provisions are recognised only when there is a present obligation as a result of past events and when a reliable estimate of the amount of the obligation can be made. Contingent Liability is disclosed for (i) Possible obligations which will be confirmed only by future events not wholly within the control of the Company or (ii) Present obligations arising from past events where it is not probable that an outflow of resources will be required to settle the obligation or a reliable estimate of the amount of the obligation cannot be made. Contingent Assets are not recognised in the financial statements since this may result in the recognition of income that may never be realised.

- Contingent Liability not provided for counter Guarantee issued by the Company to its Bank **TRs. 5** against a Bank Guarantee issued to Sales Tax Authorities.
- Estimated amount of contracts remaining to be executed on capital account and not provided for **TRs. 4,392**
- The exchange loss of **TRs. 257** has been included in the Profit and Loss Account for the year.
- Deferred Tax:

The break up of Deferred Tax Assets/(Liabilities) as at March 31, 2006 is as under:

TRs.

	2005-06
<b>Deferred Tax Assets</b>	
Timing differences on account of:	
Preliminary Expenses	315
<b>Deferred Tax Liabilities</b>	
Timing difference on account of:	
Items related to Fixed Assets	(56)
<b>Deferred Tax Assets/(Liabilities) – Net</b>	<b>259</b>



6. Sundry creditors include **TRs. 44** outstanding for more than 30 days to United Clearing & Forwarding Pvt. Ltd. a small-scale industrial undertaking.

As per the terms of contract, the credit period is generally up to 60 days.

The above information regarding small-scale industrial undertakings has been determined to the extent such parties have been identified on the basis of information available with the Company.

7. The Company is in the process of establishing a system house, to manufacture Polyurethane System (PU) products. Expenses incurred during the project construction period are shown as Expenditure during Construction.

8. Segment Information for the period April 06, 2005 to March 31, 2006:

The Company's main business is manufacturing and sales of Polyurethanes. In view of this there is only one identifiable business segment and Domestic geographic segment as defined by Accounting Standard 17 (Segment Reporting) issued by the ICAI.

9. Capacities, Production, Purchases and Stocks:

Class of Goods	Quantitative denomination	Capacity		Production/Purchases Quantity	Stock at Commencement Quantity	Stock at Close Quantity	Turnover	
		Licensed	Installed				Quantity	Amount (TRs.)
<b>Traded Goods:</b>								
Polyurethanes	<b>M.T.</b>	<b>Not Applicable</b>		<b>453</b>	<b>—</b>	<b>57</b>	<b>396</b>	<b>50,871</b>
Value of Purchases – <b>TRs. 55,435</b>								

Notes:

- (a) Value of stocks in TRs.

	<b>2005-06</b>
Closing Stock	<b>6,484</b>
Opening Stock	<b>—</b>

10. Value of direct import on C.I.F. basis during the period (including in-transit):

**TRs.**

	<b>2005-06</b>
Raw Materials	<b>49,579</b>
Capital Goods	<b>9,024</b>
Finished Goods	<b>45,176</b>

11. Expenses in foreign currencies during the period:

**TRs.**

	<b>2005-06</b>
Foreign Travel	<b>1,414</b>
Interest (net of tax)	<b>648</b>

12. Related Party Disclosures

**(a) Parties where control exists**

BASF India Limited	Holding Company (holds 100% of the equity share capital as on March 31, 2006)
BASF AG	Ultimate Holding Company

**(b) Other related parties with whom transactions have taken place during the period**

**Fellow Subsidiaries**

BASF Company Limited	BASF Petronas Chemicals SDN BHD
BASF South East Asia Pte. Ltd.	Elastogran GmbH
Elastogran Italia Spa	

## (c) Details of transactions during the period April 06, 2005 to March 31, 2006:

TRs.

Nature of Transactions	Holding Company & Ultimate Holding Company	Fellow Subsidiaries	Total
	2005-06	2005-06	2005-06
<b>Sale of Goods</b>			
BASF India Limited	50,871	—	50,871
<b>Purchase of Goods/Materials</b>			
BASF AG	4,857	—	4,857
BASF Company Limited	—	41,669	41,669
BASF South East Asia Pte. Ltd.	—	7,801	7,801
Elastogran Italia Spa	—	10,332	10,332
Others	—	595	595
<b>Sub-Total</b>	<b>4,857</b>	<b>60,397</b>	<b>65,254</b>
<b>Services Received</b>			
Elastogran GmbH	—	1,407	1,407
<b>Interest on Loans</b>			
BASF AG	720	—	720
BASF India Limited	1,305	—	1,305
<b>Sub-Total</b>	<b>2,025</b>	<b>—</b>	<b>2,025</b>
<b>Outstandings:</b>			
Receivable	2,041	—	2,041
Payable	—	53,093	53,093
<b>Loans</b>			
BASF AG	36,856	—	36,856
BASF India Limited	1,00,000	—	1,00,000
	<b>1,36,856</b>	<b>—</b>	<b>1,36,856</b>

13. As at March 31, 2006, the Company has booked forward exchange contracts for hedging net payables of TRs. 36,856 out of total net exposure of TRs. 48,984. The balance was hedged immediately thereafter.
14. During the period April 06, 2005 to March 31, 2006, the Company has incurred borrowing costs of TRs. 5,002 which have been shown under Expenditure during Construction.
15. The Company was incorporated on 6th April 2005. This being the first financial year, the previous year's figures are not applicable.

Signatures to Schedules 1 to 15

As per our report of even date attached

For Deloitte Haskins & Sells  
Chartered AccountantsN. P. Sarda  
Partner

Mumbai, 2nd May 2006

Prasad Chandran  
Chairman & Managing DirectorPradeep Chandan  
Company SecretaryK. R. Coorlawala  
R. R. Nair  
Raman Ramachandran  
S. Ramnath  
R. A. Shah  
Deepak Thuse  
Directors

2nd May 2006

## Balance Sheet Abstract and General Business Profile

### I Registration Details :

Registration No. :	152467	State Code :	11
Balance Sheet Date :	31.03.2006		

### II Capital Raised during the Period :

(Amount in Rs. Thousands)

Public Issue :	Nil	Rights Issue : Capital raised :	Nil
Bonus Issue :	Nil	Private Placement :	500

### III Position of Mobilisation and Deployment of Funds :

(Amount in Rs. Thousands)

Total Liabilities :	137674	Total Assets :	137674
Sources of Funds :			
Paid Up Capital :	500	Reserves & Surplus :	318
Secured Loans :	—	Unsecured Loans :	136856
Application of Funds :			
Net Fixed Assets :	96141	Investments :	—
Net Current Assets :	41274	Deferred Tax Assets - Net	259
Accumulated Losses:	Nil		

### IV Performance of Company

(Amount in Rs. Thousands)

Turnover (including Other Income) :	50871	Total Expenditure	50312
Profit Before Tax :	559	Profit After Tax	318
Earnings Per Share in Rs. :	6.36	Dividend Rate %	—

### V Generic Names of Principal Products of the Company :

(As per monetary terms)

Item Code No. (ITC Code)	Product Description
2929.10.90	Isocyanate - Others
3907.20.90	Other Polyurethanes

Prasad Chandran  
Chairman & Managing Director

Pradeep Chandan  
Company Secretary

K. R. Coorlawala  
R. R. Nair  
Raman Ramachandran  
S. Ramnath  
R. A. Shah  
Deepak Thuse  
Directors

2nd May 2006

# Auditors' Report to the Board of Directors of BASF India Limited Group

We have audited the attached Consolidated Balance Sheet of BASF India Limited Group as at March 31, 2006 and also the Consolidated Profit and Loss Account and the Consolidated Cash Flow statement for the year ended on that date annexed thereto. These financial statements are the responsibility of BASF India Limited's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material mis-statements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

We report that the consolidated financial statements have been prepared by BASF India Limited's management in accordance with the requirements of Accounting Standard (AS) 21, Consolidated Financial Statements, issued by The Institute of Chartered Accountants of India.

In our opinion and to the best of our information and according to the explanations given to us, the 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 the BASF India Limited Group as at March 31, 2006; and
- (b) in the case of the Consolidated Profit and Loss Account, of the profit for the year ended on that date; and
- (c) in the case of the Consolidated Cash Flow Statement, of the cash flows for the year ended on that date.

For Deloitte Haskins & Sells  
*Chartered Accountants*

N.P. Sarda  
*Partner*  
Membership No. 9544

*Mumbai,*  
*Date: 2nd May 2006*

## Consolidated Balance Sheet of BASF India Limited and its Subsidiary as at March 31, 2006

Rs. in million

	Schedule	March 31, 2006
<b>SOURCES OF FUNDS</b>		
<b>Shareholders' Funds:</b>		
Capital	1	281.9
Reserves and Surplus	2	2,481.0
		2,762.9
<b>Loan Funds:</b>		
Unsecured Loans	3	49.9
		49.9
<b>Total</b>		<b>2,812.8</b>
<b>APPLICATION OF FUNDS</b>		
<b>Fixed Assets:</b>		
Gross Block		2,813.8
Less: Depreciation		2,174.6
Net Block	4	639.2
Capital Work-in-Progress		145.0
Expenditure during Construction	5	15.5
		799.7
<b>Investments</b>	6	29.0
<b>Deferred Tax Assets (net)</b>	7	34.9
<b>Current Assets, Loans and Advances:</b>		
Inventories	8	1,178.6
Sundry Debtors	9	1,499.0
Cash and Bank Balances	10	30.1
Loans and Advances	11	509.7
		3,217.4
Less:		
<b>Current Liabilities and Provisions:</b>		
Liabilities	12	984.9
Provisions	13	283.3
		1,268.2
<b>Net Current Assets</b>		<b>1,949.2</b>
<b>Total</b>		<b>2,812.8</b>

For Accounting Policies and Notes to the Consolidated Accounts — Refer **Schedule 21**

As per our report of even date attached

Prasad Chandran  
*Chairman & Managing Director*

K. R. Coorlawala  
R. R. Nair  
Raman Ramachandran  
S. Ramnath  
Pradip P. Shah  
R. A. Shah  
Deepak Thuse  
*Directors*

For Deloitte Haskins & Sells  
*Chartered Accountants*

N. P. Sarda  
*Partner*

M.R. Iyer  
*Company Secretary*

Mumbai, 2nd May 2006

2nd May 2006

## Consolidated Profit and Loss Account of BASF India Limited and its Subsidiary for the year ended March 31, 2006

Rs. in million

	Schedule	March 31, 2006
<b>Income:</b>		
Sales	14	7,716.4
Less: Excise Duty		890.7
		6,825.7
Other Income	15	54.0
		6,879.7
<b>Expenditure:</b>		
Materials Consumed	16	3,391.2
Purchase of Finished Goods		823.5
Other Expenses	17	1,600.7
Depreciation		220.5
Interest	18	23.6
		6,059.5
Increase/(Decrease) in Stocks	19	(115.3)
<b>Profit Before Tax</b>		704.9
<b>Tax</b>	20	251.9
<b>Profit After Tax</b>		453.0
Surplus Brought Forward		193.0
Available for Appropriation		646.0
<b>Appropriations:</b>		
Proposed Dividend		197.3
Corporate Tax on Dividend		27.7
General Reserve		197.1
		422.1
Balance Carried Forward		223.9
Weighted average number of equity shares outstanding during the year		28,189,466
Basic and diluted earnings per share (in Rs.)		16.07
Face value per share (in Rs.)		10.00

For Accounting Policies and Notes to the Consolidated Accounts — Refer **Schedule 21**

As per our report of even date attached

Prasad Chandran  
Chairman & Managing Director

K. R. Coorlawala  
R. R. Nair  
Raman Ramachandran  
S. Ramnath  
Pradip P. Shah  
R. A. Shah  
Deepak Thuse  
Directors

For Deloitte Haskins & Sells  
Chartered Accountants

N. P. Sarda  
Partner

M.R. Iyer  
Company Secretary

Mumbai, 2nd May 2006

2nd May 2006



## Consolidated Cash Flow Statement of BASF India Limited and its Subsidiary for the year ended March 31, 2006

Rs. in million

	March 31, 2006	
<b>A. Cash flow from operating activities</b>		
Net profit before Tax		704.9
Adjustments for:		
Depreciation	220.5	
Interest expense	23.6	
Compensation on transfer of Phorate business	(28.8)	
Compensation on transfer of Textile Dyes business	(1.3)	
(Profit)/Loss on sale of fixed assets (net)	(1.4)	
Interest income	(1.5)	
Unrealised (Gain)/Loss on foreign exchange (net)	(3.1)	
Bad debts written off	8.3	
Provision for Doubtful Debts	13.8	230.1
<b>Operating profit before working capital changes</b>		935.0
(Increase)/Decrease in:		
Trade and Other Receivables	96.2	
Inventories	19.8	
Trade and Other Liabilities	(254.6)	(138.6)
<b>Cash generated from operations</b>		796.4
Direct taxes paid (net)		(284.0)
<b>Net cash generated from operating activities</b>		512.4
<b>B. Cash flow from investing activities:</b>		
Acquisition of fixed assets		(237.7)
Realisation on sale of fixed assets		1.9
Proceeds from transfer of Phorate business		28.8
Proceeds from investment maturity		—
Purchase of Investment		(29.0)
Interest received		1.5
<b>Net cash used in investing activities</b>		(234.5)
<b>C. Cash flow from financing activities</b>		
(Repayment of)/Proceeds from loan funds (net)		(49.0)
Interest paid		(24.5)
Dividend paid		(169.1)
Tax paid on above dividend		(23.7)
<b>Net cash used in financing activities</b>		(266.3)
<b>Net increase in cash and cash equivalents</b>		11.6
Cash and cash equivalents (opening balance)		18.5
Cash and cash equivalents (closing balance)		30.1

As per our report of even date attached

For Deloitte Haskins & Sells  
Chartered Accountants

N. P. Sarda  
Partner

Mumbai, 2nd May 2006

Prasad Chandran  
Chairman & Managing Director

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Deepak Thuse  
Directors

2nd May 2006

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

### 1. Share Capital

Rs. in million

	March 31, 2006
<b>Authorised:</b> 30,000,000 Equity Shares of Rs. 10/- each	300.0
<b>Issued:</b> 28,190,148 Equity Shares of Rs. 10/- each	281.9
<b>Subscribed and Paid-up:</b> 28,189,466 Equity Shares of Rs. 10/- each fully paid Of the above – – 700 Equity Shares were allotted as fully paid pursuant to a contract without payment being received in cash and 15,771,400 Equity Shares were allotted as fully paid Bonus Shares by way of capitalisation of Reserves. – 4,035,948 shares were allotted to the erstwhile shareholders of Cyanamid Agro Limited (CAL) consequent to the amalgamation w.e.f April 1, 2001 – 14,853,020 Equity Shares are held by BASF AG, the holding company.	281.9
	281.9

### 2. Reserves and Surplus

	Balance as on April 1, 2005	Additions during the year 2005-06	Withdrawals during the year 2005-06	Balance as on March 31, 2006
Share Premium Account	621.0	—	—	621.0
General Reserve	1,438.5	197.1	—	1,635.6
Amalgamation Reserve	0.5	—	—	0.5
Surplus as per Profit & Loss Account	193.0	30.9	—	223.9
	2,253.0	228.0	—	2,481.0

### 3. Unsecured Loans

	March 31, 2006
Bank Overdrafts/Facilities (Repayable within one year <b>Rs. 10.5 million</b> )	10.5
Fixed Deposits (Repayable within one year <b>Rs. 2.3 million</b> )	2.3
Interest accrued and due thereon	0.2
Loan from BASF AG (Repayable within one year <b>Rs. Nil</b> ) (Maximum balance during the year <b>Rs. 36.9 million</b> )	36.9
	49.9

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

### 4. Fixed Assets

Rs. in million

	Freehold Land	Leasehold Land	Buildings and Ownership Flats*	Plant and Machinery#	Furniture, Fixtures and Equipment	Vehicles	Total
<b>Cost:</b>							
As at April 1, 2005	18.6	55.9	474.6	2,080.4	89.8	16.3	2,735.6
Additions	—	—	10.7	65.2	13.4	1.3	90.6
Deductions	—	—	—	6.7	0.8	4.9	12.4
As at March 31, 2006	18.6	55.9	485.3	2,138.9	102.4	12.7	2,813.8
<b>Depreciation:</b>							
As at April 1, 2005	—	2.0	157.3	@ 1,750.0	44.4	12.2	1,965.9
Depreciation for the year	—	0.1	18.7	189.8	10.6	1.4	220.6
Deductions	—	—	—	6.3	0.7	4.9	11.9
As at March 31, 2006	—	2.1	176.0	1,933.5	54.3	8.7	2,174.6
<b>Written Down Value:</b>							
As at March 31, 2006	18.6	53.8	309.3	205.4	48.1	4.0	639.2
Capital work in progress**	—	—	13.2	131.5	0.3	—	145.0
* Buildings include <b>Rs. 0.03 million</b> being the value of shares in various co-operative societies.							
** Capital work-in-progress includes advances <b>Rs. 36.9 million</b> – Considered good.							
# Plant & Machinery includes Gross Block <b>Rs. 73.1 million</b> , Accumulated Depreciation – <b>Rs. 73.1 million</b> and Net Block <b>Rs. Nil</b> being the Company's share of an asset jointly owned with another company.							
@ Includes Rs. 70.0 million on account of impairment of assets done in 2001-02.							

### 5. Expenditure during Construction

	March 31, 2006
(Ref. note 9)	
Salaries, Wages, Bonus and Commission	6.9
Workmen and Staff Welfare	0.2
Contribution to Provident and Other Funds	0.1
Depreciation	0.1
Interest	3.7
Consumption of Stores and Spare Parts	0.2
Rent	1.9
Travelling	2.3
Communication/System Expenses	0.1
Licence Fees	0.1
Sundry Expenses	1.0
	16.6
Less: Exchange gain on Foreign currency loan	1.1
	15.5

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

### 6. Investments

Rs. in million

	March 31, 2006
<b>(Non-Trade) – Unquoted – Long Term</b>	
National Bank for Agriculture & Rural Development – 2900 Bonds of Rs. 10000 each	29.0
	29.0

### 7. Deferred Tax Assets/(Liabilities) – net

	March 31, 2006
(Ref. note 7)	
Deferred tax assets	55.4
Deferred tax liabilities	(20.5)
	34.9

### 8. Inventories

	March 31, 2006
Raw Materials	538.6
Finished Goods	574.0
Stock-in-Process	22.4
Packing Materials	28.8
Stores and Spare Parts	14.8
	1,178.6

### 9. Sundry Debtors – (Unsecured)

	March 31, 2006
(Including debts considered doubtful Rs. 112.3 million)	
Debts outstanding for a period exceeding six months	134.4
Other Debts	1,476.9
	1,611.3
Less : Provision for doubtful debts	112.3
	1,499.0

### 10. Cash and Bank Balances

	March 31, 2006
Cash on hand	0.3
Balances with Scheduled Banks:	
– On Current Accounts	28.4
– On Deposit Accounts	1.3
Balance in current account with The Municipal Co-operative Bank Limited, Mumbai (Maximum balance during the year Rs. 0.2 million)	0.1
	30.1

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

### 11. Loans and Advances (Unsecured) – Considered Good

Rs. in million

	March 31, 2006
Advances recoverable in cash or in kind or for value to be received Includes due from – Directors and other officers <b>Rs. 0.9 million</b> – Maximum amount during the year <b>Rs. 3.9 million</b> representing loans together with accrued interest. In the case of Directors, it represents loans given to them before they became Directors.	425.6
Duty Drawback	9.7
Balances with Excise authorities	1.2
Income Tax (Net of Provisions)	73.2
	509.7

### 12. Current Liabilities

	March 31, 2006
Acceptances	3.3
Sundry Creditors	
– Small Scale Industrial Undertakings	16.5
– Others	828.5
Deposits	112.7
Unclaimed Dividend*	3.8
Unclaimed matured fixed deposits*	1.6
Unclaimed Interest warrants*	0.9
* (There are no amounts due and outstanding to be credited to Investor Education and Protection Fund)	
Interest accrued but not due	2.0
Other Liabilities	15.6
	984.9

### 13. Provisions

	March 31, 2006
Proposed Dividend	197.3
Corporate Tax on Dividend	27.7
Provision for Leave Encashment	58.3
	283.3



Redrawing what the tsunami wiped away.... Mr. Chandran flags off the boats given to 90 families at Ganapathichettykulam.

## Schedules to the Consolidated Profit & Loss Account for the year ended March 31, 2006

### 14. Sales

Rs. in million

	March 31, 2006
Sale of Goods	7,342.8
Indent Commission/Technical Charges	373.6
	<b>7,716.4</b>

### 15. Other Income

	March 31, 2006
Interest (Gross)	
- Delayed Payment Charges	5.2
- Others (Tax deducted at source <b>Rs. 1.9 million</b> )	6.8
Compensation on transfer of Phorate business (Ref. note 8)	28.8
Compensation on transfer of Textile Dyes business	1.3
Profit on sale of Fixed Assets (net)	1.4
Rent	0.7
Discount	1.7
Sale of Scrap	6.4
Sundries	1.7
	<b>54.0</b>

### 16. Materials Consumed

	March 31, 2006
Raw Materials:	
Stock at Commencement	444.6
Purchases	3,336.5
Stock at Close	(538.6)
	<b>3,242.5</b>
Packing Materials	148.7
	<b>3,391.2</b>



## Schedules to the Consolidated Profit & Loss Account for the year ended March 31, 2006

### 17. Other Expenses

Rs. in million

	March 31, 2006
Salaries, Wages, Bonus and Commission	441.2
Workmen and Staff Welfare	73.2
Contribution to Provident and Other Funds	57.2
Consumption of Stores and Spare Parts	31.3
Power and Fuel	189.0
Rent (Ref. note 6(b))	76.1
Rates and Taxes – Excise Duty	(4.0)
– Others	2.5
Repairs – Machinery	18.7
– Buildings	9.5
– Others	18.7
Insurance	23.9
Bad Debts Written Off	8.3
Provision for Doubtful Debts	13.8
Service Fees	63.9
Travelling	92.7
Freight and Handling Charges	177.0
Communication/ System Expenses	60.2
Royalty	19.2
Discounts	50.5
Donations	0.5
Preliminary Expenses	1.2
Sundry Expenses	176.1
	<b>1,600.7</b>

### 18. Interest

	March 31, 2006
On Fixed Deposits and Term Loans	0.8
On Others	22.8
	<b>23.6</b>

### 19. Increase/(Decrease) in Stocks

	March 31, 2006
Stock at Close	
Finished Goods	574.0
Stock-in-Process	22.4
Sub-total	596.4
Stock at commencement	
Finished Goods	(685.5)
Stock-in-Process	(26.2)
Sub-total	(711.7)
Net increase/(decrease) in stocks	<b>(115.3)</b>

## Schedules to the Consolidated Profit & Loss Account for the year ended March 31, 2006

### 20. Tax

Rs. in million

	March 31, 2006
Current Tax Expense (includes wealth tax <b>Rs. 2.0 million</b> )	272.8
Deferred Tax Credit	(42.7)
Fringe Benefit Tax	21.8
	251.9

### 21. Accounting Policies and Notes to the Consolidated Accounts

(Amounts are shown in Millions of Rupees, abbreviated as Rs. Mio.)

#### 1. Accounting Policies

##### (a) Basis of Accounting

The financial statements are prepared under the historical cost convention, on accrual basis, in accordance with generally accepted accounting principles in India and the provisions of the Companies Act, 1956.

##### (b) Principles of Consolidation

- The consolidated financial statements include the audited financial statements of BASF India Limited ('the Company'), and its wholly owned subsidiary. The consolidation has been carried out in accordance with Accounting Standard (AS 21) – Consolidated Financial Statements on the following basis:
  - The financial statements of the Company and its subsidiary have been combined on a line-by-line basis by adding together, the book values of like items of assets, liabilities, income and expenses, after fully eliminating intra-group balances/transactions and resulting unrealised profits/losses.
  - The consolidated financial statements have been prepared using uniform accounting policies for like transactions and other events in similar circumstances and are presented to the extent possible, in the same manner as the Company's separate financial statements.
- The subsidiary considered in the consolidated financial statements is:

Name of the Company	Country of incorporation	Proportion of ownership interest
BASF Polyurethanes India Limited	India	100%

- Comparative figures for the previous period are not presented; this being the first occasion that consolidated financial statements are presented.

##### (c) Use of estimates

The presentation of financial statements in conformity with the generally accepted accounting principles requires estimates and assumptions to be made that affect the reported amount of assets and liabilities on the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Difference between the actual result and estimates are recognised in the period in which the results are known/materialise.

##### (d) Revenue Recognition

Sale of products and Indent Commission are recognised when risk and rewards of ownership of the products are passed on to the customers, which is generally on despatch of goods or when the services are provided. Sales include excise duty but exclude trade discounts, rebates and sales tax.

##### (e) Fixed Assets

Fixed Assets are recorded at cost net of Cenvat credit wherever eligible. Cost includes all expenses and interest attributable to the project till the date of commissioning. Impairment is done when the carrying amount of the asset exceeds its recoverable amount. Impairment loss is charged to the Profit and Loss Account in the year in which an asset is identified as impaired. An impairment loss recognised in prior accounting periods is reversed if there has been a change in the estimate of the recoverable amount.

All expenditure incurred during the project construction period are accumulated and shown as Expenditure during Construction until the assets are ready for commercial use.

(f) **Depreciation**

Depreciation is charged on straight-line basis at the following rates:

Factory Buildings	—	3.34 %
Residential Flats	—	5.00 %
Plant & Machinery	—	10.34 %
Computers	—	25.00 %
Vehicles	—	25.00 %
Furniture, Fixtures & Equipment	—	12.50 %
Assets costing Rs. 5,000 or below	—	100.00 %

Depreciation on additions/deletions is calculated on a *pro-rata* basis. Accelerated depreciation is charged on certain assets based on periodic review of estimated useful life.

Leasehold land is amortised over the period of lease.

(g) **Investments**

Current investments are valued at lower of cost and fair value. Long-term investments are stated at cost less provision, if any, for permanent diminution in value.

(h) **Inventories**

Inventories are valued at cost or net realisable value, whichever is lower. The costs are worked out on weighted average basis. Excise duty on goods manufactured by the Company and remaining in inventory is included as a part of valuation of finished goods.

(i) **Foreign Currency**

Transactions in foreign currencies are recorded at the exchange rates prevailing on the date of transaction. Monetary items in foreign currencies are stated at the closing exchange rate. In the case of forward exchange contracts, the premium or discount arising at the inception of such a forward exchange contract is amortised as expense or income over the life of the contract and the difference between the year end rate and rate on the date of the contract is recognised as exchange difference in the Profit and Loss Account. Gains/losses on conversion/translation have been recognised in the Profit and Loss Account or adjusted in the value of fixed assets as applicable.

(j) **Employee Benefits**

Contribution to Provident Fund, Family Pension Fund and Superannuation Fund are provided on accrual basis. Contribution to Gratuity Fund and provision for leave encashment liability are based on actuarial valuation.

(k) **Assets taken on lease**

Lease rentals payable as per agreements on vehicles and other assets are charged as expenditure on accrual basis.

(l) **Deferred Revenue Expenditure**

Compensation to employees under Voluntary Retirement Scheme is written off over a period of 36 months from the month of incurrence.

(m) **Deferred taxes**

Deferred tax assets and liabilities are restated at the substantively enacted Income tax rates. Deferred tax assets are created only to the extent they are expected to materialise.

(n) **Borrowing costs**

Borrowing costs that are attributable to the acquisition or construction of qualifying assets are capitalised. Other borrowing costs are recognised as an expense in the period in which they are incurred.

(o) **Provisions, Contingent Liabilities and Contingent Assets**

Provisions are recognised only when there is a present obligation as a result of past events and when a reliable estimate of the amount of the obligation can be made. Contingent Liability is disclosed for (i) Possible obligations which will be confirmed only by future events not wholly within the control of the Company or (ii) Present obligations arising from past events where it is not probable that an outflow of resources will be required to settle the obligation or a reliable estimate of the amount of the obligation cannot be made. Contingent Assets are not recognised in the financial statements since this may result in the recognition of income that may never be realised.

2. **Contingent Liabilities not provided for:**

- (a) Claims against the Company not acknowledged as debts: **Rs. 264.8 Mio.** in respect of which the Company has counter claims of **Rs. 434.7 Mio.**

The Company is a party to various legal proceedings in the normal course of business, including one proceeding concerning acquisition of office premises. The Company does not expect the outcome of these proceedings to have a material adverse effect on the Company's financial conditions, results of operations or cash flows.

- (b) Demands for taxes and duties in respect of which the Company has preferred appeals with appropriate authorities

a. Income tax : **Rs. 39.9 Mio.**

b. Others : **Rs. 5.8 Mio.**

- (c) Counter Guarantees issued by the Company and its subsidiary to their Banks: **Rs. 6.9 Mio.**

At the request of the Company, its banks have issued guarantees in the event of the Company failing to fulfil its performance obligation under various commercial agreements. The Company has issued counter guarantees to the banks in respect of these guarantees.

3. Estimated amount of contracts remaining to be executed on capital account and not provided for **Rs. 150.0 Mio.**
4. The exchange loss of **Rs. 5.0 Mio.** has been included in the Profit and Loss Account for the year.
5. Expenditure on Research and Development charged to Profit and Loss Account **Rs. 37.0 Mio.**
6. The Company has taken certain assets under operating leases.
- (a) Total minimum lease payments in this respect are as follows:

	Rs. Mio.
	2005-06
<b>Due</b>	
Not later than one year	14.0
Later than one year but not later than five years	32.6
Later than five years	3.2
<b>Total</b>	<b>49.8</b>

- (b) Lease rent of **Rs. 16.2 Mio.** has been included under 'Rent' in the Profit and Loss Account.

7. **Deferred Tax:**

The break up of Deferred Tax Assets/(Liabilities) as at March 31, 2006 is as under:

	Rs. Mio.
	2005-06
<b>Deferred Tax Assets</b>	
Timing differences on account of:	
Provision for doubtful debts	37.8
Expenditure under Voluntary Retirement Scheme	6.8
Others	10.8
<b>Total Deferred Tax Assets</b>	<b>55.4</b>
<b>Deferred Tax Liabilities</b>	
Timing difference on account of:	
Items related to Fixed Assets	(20.5)
<b>Total Deferred Tax Liabilities</b>	<b>(20.5)</b>
<b>Deferred Tax Assets - Net</b>	<b>34.9</b>

8. In line with the global divestiture of Phorate activity, assets relating to this product were transferred to AMVAC Chemical Corporation on October 31, 2005 for a consideration of Rs. 28.8 Mio.

9. BPIL (the Subsidiary) is in the process of establishing a system house to manufacture Polyurethane System (PU) products. Expenses incurred during the project construction period are shown as Expenditure during Construction.
10. Managerial Remuneration under Section 198 of the Companies Act, 1956, (excluding provision for contribution to Gratuity Fund and Group Insurance) is **Rs. 21.1 Mio.** This includes remuneration of a Director appointed during the year which is subject to approval of the Shareholders in General Meeting – **Rs. 0.5 Mio.**

Rs. Mio.

	2005-06
Salaries	14.1
Contribution to Provident and Superannuation Funds	2.1
Monetary Value of other perquisites	3.3
Commission	1.6
<b>Total</b>	<b>21.1</b>

11. Segment Information for the year ended March 31, 2006:

(a) **PRIMARY SEGMENT INFORMATION (by Business Segments)**

Rs. Mio.

	Agricultural Products & Nutrition	Per- formance Products	Plastics	Chemicals	Others	Un-allocated	Total
Segment Revenue	1,926.9	3,835.5	1,632.0	273.4	48.6	—	7,716.4
Less : Inter-segment revenue	—	—	—	—	—	—	—
<b>Sales/Income from operations</b>	<b>1,926.9</b>	<b>3,835.5</b>	<b>1,632.0</b>	<b>273.4</b>	<b>48.6</b>	<b>—</b>	<b>7,716.4</b>
<b>Segment Result</b>	<b>337.4</b>	<b>390.2</b>	<b>157.0</b>	<b>104.5</b>	<b>12.1</b>	<b>—</b>	<b>1,001.2</b>
Interest						23.6	23.6
Other un-allocable expenditure net of un-allocable income						272.7	272.7
<b>Profit Before Tax</b>							<b>704.9</b>
Current Tax						272.8	272.8
Deferred Tax Credit						(42.7)	(42.7)
Fringe Benefit Tax						21.8	21.8
<b>Profit After Tax</b>							<b>453.0</b>
<b>OTHER INFORMATION</b>							
Segment Assets	624.2	1,763.0	838.4	98.6	0.2	756.6	4,081.0
Segment Liabilities	173.8	390.9	300.9	21.6	0.2	430.7	1,318.1
Capital Expenditure	7.0	92.4	111.3	0.8	—	26.0	237.5
Depreciation	23.5	157.0	18.5	0.7	—	20.8	220.5

(b) **SECONDARY SEGMENT INFORMATION (by Geographic Segments)**

Rs. Mio.

	Domestic	Exports	Total
Revenues	7,075.7	640.7	7,716.4
Total Assets	4,031.9	49.1	4,081.0
Capital Expenditure	237.5	—	237.5

**Notes on Segment Information:**

1. Segments have been identified in accordance with the Accounting Standard on Segment Reporting (AS-17). Business Segments have been considered as primary segments.

2. Details of type of products included in each segment —
  - **Agricultural Products & Nutrition** – Agrochemicals like pesticides and herbicides and high-value fine chemicals for the food, pharmaceuticals, animal feed and cosmetics industries.
  - **Performance Products** – Tanning agents, Leather Chemicals, Textile Chemicals, Dispersion Chemicals and Specialty Chemicals.
  - **Plastics** – Expandable Polystyrene (EPS), Engineering plastics and Polyurethane business.
  - **Chemicals** – Chemicals includes Inorganic chemicals, Intermediates and Petrochemicals.
  - **Others** – Indent Commission income not relating to any of the above segments and other recoveries.
3. Un-allocable Corporate Assets include Administration Assets, Capital Work-in-Progress and Net Deferred Tax Assets.
4. Un-allocable Corporate Liabilities include Secured and Unsecured Loans, Net Deferred Tax Liabilities, Provision for leave encashment, Proposed dividend and other un-allocable liabilities.

## 12. Related Party Disclosures:

### (a) Parties where control exists

BASF AG	Holding Company (holds 52.7% of the equity share capital as on March 31, 2006)
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### (b) Other related parties with whom transactions have taken place during the year

#### Fellow Subsidiaries

BASF Agro B.V.	BASF Petronas Chemicals SDN BHD
BASF Bangladesh Ltd.	Elastogran GmbH
BASF Curtex S.A.	BASF Agro SAS
BASF Finlay Pvt. Ltd.	Compo GmbH
BASF Japan Ltd.	BASF Pakistan (Private) Ltd.
BASF South East Asia Pte Ltd.	BASF Imigrantes S/A
BASF Singapore Pte Ltd.	BASF East Asia Regional Headquarters
BASF Corporation	Elastogran Italia Spa
PT BASF Indonesia	BASF Chemicals & Polymers, Pakistan
BASF Company Ltd.	BASF Kanoo Gulf FZE
BASF China Ltd.	BASF Auxiliary Chemicals Co. Ltd.
BASF South Africa (PTY) Ltd.	BASF Asia-Pacific Service Centre S/B
BASF Styrenics Private Ltd.*	BASF JCIC Neopentylglycol Co. Ltd.
BASF Phillipines Inc.	BASF (Thai) Limited
BASF Turkey Kimya Sanayi Ve Ticaret	BASF Coatings (India) Pvt. Ltd.
BASF Chemtrade Gesel	Kali Und Salz Beteiligungs AG
BASF (Malaysia) SDN BHD	

\* Group company 100% held by BASF Styrenics Holding Company, Mauritius which is 100% held by BASF AG.

### (c) Key Management Personnel

#### Chairman & Managing Director

Mr. Prasad Chandran

#### Whole-Time Directors

Mr. R. E. Vaz (Alternate to Mr. Boon Yeow Yee)

Mr. S. Kumarasamy (Alternate to Dr. E. Baumgartner) upto 23rd January 2006

Mr. Deepak Thuse (Alternate to Dr. Harald Lauke) w.e.f. 23rd January 2006

### (d) Relatives of Key Managerial Persons

Mrs. Jean Vaz (wife of Mr. R. E. Vaz)

## (e) Details of transactions for the year ended March 31, 2006:

Rs. Mio.

Nature of Transactions	Holding Company	Fellow Subsidiaries	Key Management Personnel	Relatives of Key Management Personnel	Total
<b>Sale of Goods</b>					
BASF AG	22.1	—	—	—	22.1
BASF Agro B.V.	—	40.1	—	—	40.1
BASF South East Asia Pte Ltd.	—	16.0	—	—	16.0
BASF Bangladesh Ltd.	—	9.6	—	—	9.6
BASF Coatings (India) Pvt. Limited	—	23.0	—	—	23.0
Others	—	7.5	—	—	7.5
<b>Sub-Total</b>	<b>22.1</b>	<b>96.2</b>	<b>—</b>	<b>—</b>	<b>118.3</b>
<b>Services Rendered</b>					
BASF AG	80.2	—	—	—	80.2
BASF South East Asia Pte. Ltd.	—	205.3	—	—	205.3
BASF Petronas Chemical SND BHD	—	38.4	—	—	38.4
BASF Company Limited	—	35.7	—	—	35.7
Others	—	14.0	—	—	14.0
<b>Sub-Total</b>	<b>80.2</b>	<b>293.4</b>	<b>—</b>	<b>—</b>	<b>373.6</b>
<b>Interest income on Loans</b>	—	—	0.2	—	0.2
<b>Purchase of Goods/Materials</b>					
BASF AG	55.2	—	—	—	55.2
BASF Agro B.V.	—	192.3	—	—	192.3
BASF South East Asia Pte. Ltd.	—	944.6	—	—	944.6
BASF Petronas Chemical SND BHD	—	260.8	—	—	260.8
Others	—	228.1	—	—	228.1
<b>Sub-Total</b>	<b>55.2</b>	<b>1,625.8</b>	<b>—</b>	<b>—</b>	<b>1,681.0</b>
<b>Services Received</b>					
BASF AG	7.8	—	—	—	7.8
BASF South East Asia Pte. Ltd.	—	50.6	—	—	50.6
Others	—	9.9	—	—	9.9
<b>Sub-Total</b>	<b>7.8</b>	<b>60.5</b>	<b>—</b>	<b>—</b>	<b>68.3</b>
<b>Purchase of Assets</b>					
BASF AG	0.1	—	—	—	0.1
PT BASF Indonesia	—	0.1	—	—	0.1
<b>Sub-Total</b>	<b>0.1</b>	<b>0.1</b>	<b>—</b>	<b>—</b>	<b>0.2</b>
<b>Royalty and Technical Fees</b>					
BASF AG	19.2	—	—	—	19.2
<b>Dividend</b>					
BASF AG	89.1	—	—	—	89.1
<b>Remuneration</b>	—	—	19.5	—	19.5
<b>Rent Paid</b>	—	—	—	0.8	0.8
<b>Loan Taken</b>					
BASF AG	36.9	—	—	—	36.9
<b>Outstandings:</b>					
Receivable	3.0	12.8	—	0.2	16.0
Payable	—	280.3	—	—	280.3

Details of remuneration to Directors are given in Note 10.

Amounts due from directors and interest recovered thereon have been included under Schedule 11 of the Consolidated Balance Sheet and Schedule 15 of the Consolidated Profit and Loss Account under Interest – Others respectively.

Signatures to Schedules 1 to 21

As per our report of even date attached

Prasad Chandran  
Chairman & Managing Director

K. R. Coorlawala  
R. R. Nair  
Raman Ramachandran  
S. Ramnath  
Pradip P. Shah  
R. A. Shah  
Deepak Thuse  
Directors

For Deloitte Haskins & Sells  
Chartered Accountants

N. P. Sarda  
Partner

M.R. Iyer  
Company Secretary

2nd May 2006

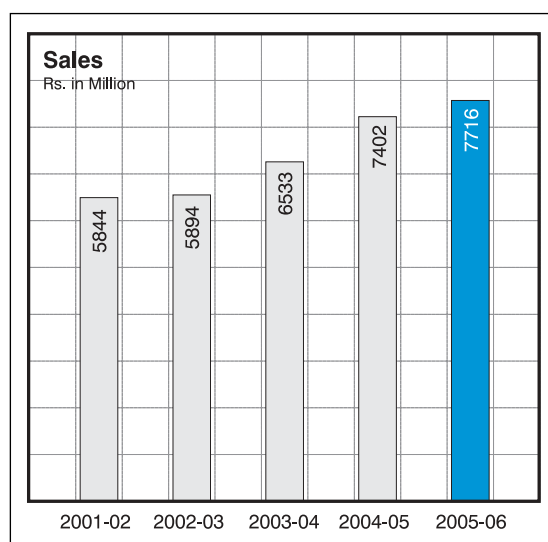
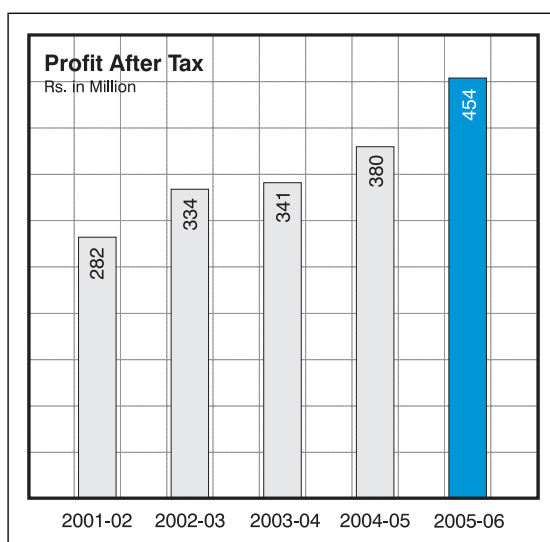
Mumbai, 2nd May 2006



## Financial Highlights — At a glance

Rs. in Million

	2001-02	2002-03	2003-04	2004-05	2005-06
Sales	5844	5894	6533	7402	<b>7716</b>
Profit before tax	386	463	513	601	<b>706</b>
Profit after tax	282	334	341	380	<b>454</b>
Total assets	4321	4606	4046	4138	<b>3986</b>
Borrowings	1080	1323	670	100	<b>13</b>
Shareholders' equity	2012	2139	2318	2535	<b>2764</b>
Depreciation	220	214	212	244	<b>221</b>
Capital expenditure	45	117	47	76	<b>143</b>
Exports	584	620	511	564	<b>252</b>
R & D cost	14	13	16	20	<b>37</b>
Personnel cost (Total)	408	417	456	486	<b>572</b>
Dividend amount	141	141	169	169	<b>197</b>
Dividend in %	50	50	60	60	<b>70</b>
Number of employees	990	928	917	833	<b>817</b>
Number of shareholders	37422	34421	32831	29493	<b>29684</b>



Innovation with Impact – The Chemicals team in front of the BASF stall at Chemspec 2006 in Mumbai.