Our Vision

To remain market leader and technology pace setter in the engineering and electronics industry by utilizing the high-tech engineering expertise of the Siemens Group worldwide. To maintain our strong and prominent local presence.

Our Mission

To realize our vision by:

- Providing quality to our customers at competitive prices, to their complete satisfaction.
- Generating earnings sufficient to ensure a secure future for the company and to protect and increase our shareholders' investment.
- To enhance creativity and job satisfaction of our employees by providing opportunities for personal development, limited only by their own ability and drive.
- To contribute to the national economy, whilst realizing a strong sense of responsibility to society and the environment.
- To enhance the investment of our customers through Human Excellence, our Technology, our Processes, our High Standards of Quality and Financial Strength.
- To support and strive for technology transfer to Pakistan through our global resources and local presence.

Annual Report 2006

Pakistan

Solutions for MegaCities

www.siemens.com.pk

SIEMENS

Chief Executive Officer

Divisions

Communications	Power Transmission & Distribution	Industrial Solutions & Power Generation	Automation & Drives	Medical Transportation & Appliances	Finance and Business Administration

Business Units

					Central Departments	Corporate Departments
Enterprise Networks	HV Sub-Stations	Power Generation	Generating Sets	Medical Solutions	Financial Controlling	Human Resources
Fixed Networks	Transformers	Engineering & Construction	Motors & Alternators	Transportation	Shared Services	Industrial Relations
Moblie Networks	Switchboards	On- Call Logistics Service, Maintenance	Standard Products	Siemens Home Appliances	Corporate Information Office	Corporate Communications
Carrier Services	PTD Services	Information Technology			Export Control	Corporate Quality Management System
Special Systems	Energy Automation	Process Industries & Water Technology			Central Audit	Regional Compliance Office

COMPANY INFORMATION

BOARD OF DIRECTORS

Syed Babar Ali, Lahore	Chairman
Sohail Wajahat H. Siddiqui, Karachi	Managing Director
Javaid Anwar, Karachi	Director
Tajammal Hussain Bokharee, Lahore	Director
Andrew Hall, Munich	Director (until 17.07.2006)
Joachim Moeller, Erlangen	Director
Patrick de Royer, Munich	Director (until 31.03.2006)
Stephan Schneider, Munich	Director (effective 27.07.2006)
Monika Valtwies, Munich	Director (effective 27.04.2006)
Gerhard Wilcke, Karachi	Director
Mohammad Rafi	Company Secretary

MANAGEMENT

Sohail Wajahat H. Siddiqui	Chief Executive Officer
Gerhard Wilcke	Chief Financial Officer
Parvez Iftikhar	Communications
Mohammad Ilyas	Power Transmission & Distribution
Nasim A. Siddiqui	Industrial Solutions and Power Generation
S. Nadeem Ali Kazmi	Automation & Drives
Syed Asadullah	Medical, Transportation and Appliances

BANKERS

ABN Amro Bank
Citibank NA
Deutsche Bank AG
Habib Bank Limited
Hongkong & Shanghai Banking Corporation Limited
Meezan Bank Limited
MCB Bank Limited
Standard Chartered Bank
Union Bank Limited

AUDITORS

KPMG Taseer Hadi & Co., Karachi

REGISTERED OFFICE

B-72, Estate Avenue, Sindh Industrial Trading Estates, Karachi-75700

Monika Valtwies
Director

Tajammal Hussain Bokharee
Director

Mohammad Rafi
Company Secretary

Stephan Schneider
Director

Gerhard Wilcke
Director & CFO

Javaid Anwar
Director

Joachim Moeller
Director

Sohail Wajahat H. Siddiqui
MD & CEO

Syed Babar Ali
Chairman

Key Operating and Financial Data

Six Years Summary	2006	2005	2004	2003	2002	2001
		Rupees in '000				
Trading Results						
New orders	**25,337,253**	17,715,216	11,514,501	6,049,459	4,916,418	4,130,505
Net turnover	**19,806,575**	13,132,819	7,110,456	5,812,128	4,836,296	4,460,459
Export of goods and services	**131,623**	517,676	412,471	472,290	669,358	555,168
Contracts executed outside Pakistan	**4,657,654**	3,271,416	-	-	-	-
Gross profit	**2,394,660**	1,764,595	1,252,137	1,002,054	999,719	798,429
Operating profit	**1,822,353**	1,383,165	786,631	622,884	588,273	402,448
Profit before tax	**1,512,884**	1,232,899	760,716	616,919	510,234	403,805
Profit after tax	**735,390**	778,846	412,562	349,971	390,882	253,887
Interim dividend	**279,706**	233,088	155,392	101,005	-	-
Proposed final dividend	**233,088**	186,470	233,088	101,005	101,742	101,742
Balance Sheet						
Share capital	**77,696**	77,696	77,696	77,696	78,263	78,263
Reserves	**2,652,500**	2,383,286	2,070,616	1,813,446	1,680,819	1,391,679
Property, plant and equipment	**737,990**	602,876	525,462	496,694	495,605	478,320
Net current assets	**549,220**	1,333,299	1,411,527	1,242,416	1,135,753	919,367
Long-term liabilities	**77,399**	45,536	10,256	6,786	48,439	9,778
Investors Information						
Gross profit in percent of sales	**12%**	13%	18%	17%	21%	18%
Earnings per share (Rs)	**94.65**	100.24	53.10	44.89	49.95	32.44
Profit before tax in percent of sales	**8%**	9%	11%	11%	11%	9%
Profit after tax in percent of sales	**4%**	6%	6%	6%	8%	6%
Inventory turnover (times)	**9.20**	8.91	5.38	4.09	3.47	3.57
Debtor turnover (times)	**5.15**	6.43	4.59	4.98	4.38	4.34
Total assets turnover (times)	**1.53**	1.66	1.42	1.33	1.29	1.40
Fixed assets turnover (times)	**25.71**	19.98	12.50	11.68	9.76	9.33
Break-up value per share (Rs)	**351.38**	316.73	276.49	243.39	224.77	187.83
Market value per share (Rs)	**980**	671	480	355	197	105
High / low during the year (Rs)	**1,365 / 650**	719 / 480	579 / 341	449 / 196	215 / 105	146 / 95
Price earning ratio	**10.35**	6.69	9.04	7.91	3.94	3.24
Cash dividend per share (Rs)	**66**	54	50	26	13	13
Dividend yield ratio	**0.07**	0.08	0.10	0.07	0.07	0.12
Dividend pay out ratio	**70%**	54%	94%	58%	26%	40%
Return on capital employed	**27%**	32%	19%	19%	22%	17%
Debt : equity ratio	**-**	-	-	-	-	-
Current ratio	**1.06**	1.25	1.50	1.50	1.59	1.54
Quick ratio	**0.81**	0.97	1.13	1.05	0.96	0.95
Interest cover (times)	**16.74**	43.00	103.49	68.18	15.40	7.16

"The Directors of your Company were actively involved during the year in performing their duties under the Code of Corporate Governance, with the objective of enhancing performance, safeguarding the interest of shareholders and promoting market confidence."

Syed Babar Ali
Chairman

Dear Shareholders,

The directors are pleased to present the Annual Report and the audited financial statements for the year ended September 30, 2006 together with Auditors' report thereon. The momentum gained by your Company last year also continued to exist this year. The Company made record sales and pre-tax profits in its history and over achieved all its budgeted targets.

The Board of Directors kept a close look on the affairs of the Company through out the year and was involved in all major decisions. The management kept the Board well informed on all matters of significance.

CARVE OUT OF COM CARRIER AND ENTERPRISE NETWORK ACTIVITIES

During the year under review, Siemens AG, Germany (SAG), the majority shareholders of the Company, announced that globally the COM carrier network activities of SAG would be carved out and shall be merged into a new company (with 50:50 stake holding), called Nokia Siemens Networks (NSN), with Nokia as the other partner. Further, SAG's COM enterprise network business would also be separated to form a new entity. Accordingly, COM carrier and enterprise network activities of Siemens Pakistan shall also be carved out to NSN Pakistan and a separate entity of SAG respectively, subject to approval by the shareholders, at a fair market value. Additionally, the COM Carrier network business in Carrier Telephone Industries (Private) Ltd. (CTI), which is a subsidiary of the Company, shall also be carved out to NSN Pakistan at fair market value.

AMALGAMATION OF CARRIER TELEPHONE INDUSTRIES WITH THE COMPANY

In the first quarter of the current financial year, the Company has acquired 52.51% shares of CTI held by Pakistan Telecommunication Company Limited (PTCL) and took over the management control on December 9, 2005. In order to have better control and to get benefit of synergies, it has been decided that the business of CTI be amalgamated into the Company with effect from October 01, 2006, subject to approval of the Honorable High Court and shareholders.

APPROPRIATIONS

The Board has recommended a final cash dividend of Rs. 30 per share, subject to approval of the shareholders. The effect of such declaration shall be reflected in the next year's financial statements and appropriations. The Board also approved transfer of Rs. 200 million to general reserves.

In addition to the above, the Company announced two interim cash dividends of Rs. 36 per share during the financial year. Following is the summary of the appropriations made during the year:

	(Rupees in thousand)
Retained earnings - October 01, 2005	545,758
Net profit after taxation for the year ended September 30, 2006	735,390
	1,281,148
Appropriations	
Final dividend @ Rs. 24 per share for the year ended September 30, 2005	(186,470)
First interim dividend paid @ Rs.6 per share for the year ended September 30, 2006	(46,618)
Second interim dividend paid @ Rs.30 per share for the year ended September 30, 2006	(233,088)
Retained earnings – September 30, 2006	**814,972**

The earnings per share for the year ended September 30, 2006 was Rs. 94.65 per share.

COMPLIANCE WITH LISTING REGULATIONS

The Statement of Compliance with the Best Practices of Corporate Governance is annexed on page 58 of this report. In addition to the confirmations made in that statement, the directors are also pleased to confirm the following specific compliance:

The financial statements prepared by the management of the Company present fairly its state of affairs, the result of its operations, cash flows and changes in equity.

Proper books of account of the Company have been maintained.

Accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.

International Accounting Standards, as applicable in Pakistan, have been followed in preparation of financial statements and any departure therefrom has been adequately disclosed.

The system of internal control is sound in design and effectively implemented and is subject to continuous review by internal audit for improvement, if any

There are no significant doubts upon the Company's ability to continue as a going concern.

There has been no departure from the best practices of corporate governance as detailed in the listing regulations of the stock exchanges of Pakistan.

Information regarding outstanding taxes and levies are given in notes to the audited financial statements.

No trade in the shares of the Company were carried out by the Directors, CEO, CFO, Company Secretary, Executives and their spouses and minor children.

PATTERN OF SHAREHOLDING

There were 807 shareholders in total as of September 30, 2006. The two major shareholders are Siemens AG, Germany holding 64.02% shares whereas National Investment Trust is the second largest with holding of 25.52%. The detailed pattern and categories of shareholding of the Company as of September 30, 2006 are annexed to this annual report on page 123.

KEY OPERATING AND FINANCIAL HIGHLIGHTS

Key operating and financial Highlights for the last six years have been summarized and shown on page 7 of this report.

INVESTMENT IN RETIREMENT BENEFITS

The value of investments, made by the staff retirement funds, operated by the Company as per their respective audited financial statements are as follows:

Provident Fund as on June 30, 2005	Rs. 391.148 million
Gratuity Fund as on September 30, 2005	Rs. 107.432 million

BOARD OF DIRECTORS

The Directors of your Company were actively involved during the year in performing their duties under the Code of Corporate Governance, with the objective of enhancing performance, safeguarding the interest of shareholders and promoting market confidence. During the last business year four meetings of the Board of Directors were held. Attendance of each director in these meetings is as follows:

Name of Director	No. of meetings attended
Syed Babar Ali	3
Mr. Sohail Wajahat H. Siddiqui	4
Mr. Javaid Anwar	3
Mr. Joachim Moeller	1
Mr. Gerhard Wilcke	4
Mr. Patrick de Royer (Resigned with effect from March 31, 2006)	0
Mr. Andrew Hall (Resigned with effect from July 17, 2006)	2
Mr. Tajammal H. Bokharee	3
Ms. Monika Valtwies (Appointed on April 27, 2006)	2
Mr. Stephan Schneider (Appointed on July 27, 2006)	1

The participation of two foreign directors in two different meetings was facilitated through video conferencing when they were unable to visit Pakistan. The record of video conferencing is available with the Company. The minutes of those meetings in which directors participated through video conferencing are signed by all the directors present.

Since the issuance of last Annual Report two casual vacancies occurred on the Board due to resignation of Mr. Patrick de Royer and Mr. Andrew Hall. The vacancies were filled by the appointments of Ms. Monika Valtwies and Mr. Stephan Schneider within the stipulated time. The Board of Directors wishes to record its appreciation for the valuable services rendered by Mr. Patrick de Royer and Mr. Andrew Hall and extend its warm welcome to Ms. Monika Valtwies and Mr. Stephan Schneider.

The terms of existing board are going to expire on December 1, 2006, with completion of three years' period. The next election of the board shall be held on December 1, 2006.

AUDIT COMMITTEE

The audit committee of the Board comprises of following four non executive directors:

Mr. Tajammal H. Bokharee	Chairman
Mr. Javaid Anwar	Member
Ms. Monika Valtwies	Member
Mr. Stephan Schneider	Member

During the financial year four meetings of the committee were held. The committee has its terms of reference which were determined by your board in accordance with the guidelines provided in the Code of Corporate Governance. The Audit Committee reviewed, in addition to others, the quarterly, half yearly and yearly financial statements besides reviewing the internal control system, the internal audit plan, material audit findings and recommendations of the Internal Auditor. The Board appreciates valuable contribution made by the Audit Committee.

Due to resignations of Mr. Patrick de Royer and Mr. Andrew Hall from the Board, who were also the members of the Audit Committee, Ms. Monika Valtwies and Mr. Stephan Schneider have been appointed as members of the Audit Committee.

MATERIAL CHANGES

There have been no material changes since September 30, 2006 to the date of this report and the Company has not entered into any commitment during this period, which would have an adverse effect on the financial position of the company or of its subsidiary. The details of COM carrier and enterprise activities carve out have already been provided above.

EXTERNAL AUDITORS

The present external auditors, KPMG Taseer Hadi & Co. retire and being eligible, offer themselves for reappointment.

The external auditors have been given satisfactory rating under the Quality Control Review Program of the Institute of Chartered Accountants of Pakistan (ICAP). The external auditors have confirmed that their firm is in compliance with International Federation of Accountants (IFAC) guidelines on Code of Ethics as adopted by the ICAP. The external auditors have not been appointed to provide other services except in accordance with the listing regulations and they have confirmed that they have observed IFAC guidelines in this respect.

As suggested by the Audit Committee, the Board recommends their reappointment for the year ending September 30, 2007.

CONSOLIDATED FINANCIAL STATEMENTS

The Company holds majority shares in the CTI. The consolidated financial statements are included in this annual report together with Auditors' report thereon. Included in the consolidated financial statements, after tax loss of Rs. 5.202 million incurred by the subsidiary as at September 30, 2006. During the year, CTI announced a Voluntary Separation Scheme (VSS) for all its employees. Those employees who accepted the VSS have been paid Rs. 49.9 million. If this payment was not made, the CTI profit before tax would have been increased by this amount.

MANAGEMENT REPORT

The Board endorses the contents of the Management report attached hereto.

HOLDING COMPANY

The Company is a subsidiary of Siemens Aktiengesellschaft, which is incorporated in Germany.

On behalf of the Board

Syed Babar Ali
Chairman

Karachi, November 20, 2006

"Our business success depends heavily upon our power of innovation and consistent recognition and development of expert capability derived from a strategic technology roadmap."

Sohail Wajahat H. Siddiqui
MD & CEO

Management Report

GENERAL REVIEW

Pakistan's growth performance in the year under review has been inspiring considering the October 2005 earthquake and soaring energy and raw material prices world wide. The real GDP grew above 6 percent against a target of 7 percent for the year 2005-2006. Major contribution in current year's country growth came from service sectors and industry. Manufacturing sector grew at a relatively slower pace of 8.6 percent against 12.6 percent growth last year. During the fiscal year 2005-2006 Per Capita Income, which is one of the main indicators of development, registered an increase over 14 percent over last year which reflects upturn in average standard of living of the people in the country. On the other hand, steps taken by the government for documentation of economy and widening tax base have started producing results. CBR's tax collections registered a robust increase of 20.7 percent over last year which also supports indication of economic prosperity of the country.

The indicators above are not only important for the country but also for the Company. The higher revenues for the government will lead to more development and infrastructure projects.

PERFORMANCE AND FINANCIAL OVERVIEW

The company's operating results for the year once again substantiate that the dedication and hard work of its employees blended with finest corporate and management strategies has further pushed up the momentum of success. Another record performance has been achieved. Following are some important financial highlights of the company:

New Orders of Rs. 25.3 billion have been received with an increase of 43% over the last year which is an all time record. The major orders include high voltage grid stations to be constructed in Dubai, orders for Transformers and Switchboards, some major orders from mobile operators, New Muree Bulk Water Supply Project and KESC operation and management contract etc.

Sales increased by 51% as compared to the corresponding period to Rs. 19.8 billion – again a record performance. The major increase is contributed by Power Transmission and Distribution and Communication Divisions.

Profit before tax increased by 23% compared to the corresponding period of last year showing an all time high value of Rs. 1.5 billion. The major contributors are higher sales volume, higher commission income, lower selling and marketing expenses as a percentage of sales and well controlled general administration expenses.

Taxation increased by 71% as compared to the corresponding period of last year. The increase is mainly attributable to increase in sales and profit of the Company and increase in project business on which tax is charged as a percentage of turnover without considering profit on the project, resulting in higher incidence of tax.

Orders in hand at the end of the year depict a healthy outlook.

Capital investments of Rs.799 million (2005: Rs.243 million) which include investment in Carrier Telephone Industries (Private) Limited and for replacement and modernization of plant and machinery, vehicles.

CONTRIBUTION TO NATIONAL EXCHEQUER

The Company contributed Rs. 1,971 million (2005: Rs. 1,226 million) to the National Exchequer during the year in the form of duties and income and sales taxes and other levies.

EXECUTIVE MANAGEMENT COMMITTEE

Executive Management Committee comprising the Chief Executive Officer, the Chief Financial Officer and the Executive Directors of the Operating Divisions remained active during the year. The committee meets at least every quarter to review the result of operations, to formulate strategic plans of marketing, production, investments and to take corrective and preventive measures for mitigation of risks and for seizing business opportunities. The Committee places before the Board of Directors all such matters which are required to be approved by it under the law as well as other matters of significance.

CORPORATE COMMITTEE

The Corporate Committee consists of heads of all corporate departments, headed by the Chief Executive Officer. The committee meetings are held each quarter. The committee considers the actionable items of Executive Management Committee, discusses significant issues of each corporate area and suggests improvements wherever necessary.

TEAM WORK

Team work is the fuel that allows common people to attain uncommon results. The management believes in active interaction with different levels of management and different categories of employees, in order to involve them in the achievement of its overall goal and to get their valuable comments and recommendations for improvement in various areas of the organization.

For major and important customers Key Account Managers exist to provide them one point access. A quarterly meeting of all Key Account Managers is held, chaired by Chief Executive Officer to discuss matters of significance relating to customers.

There is a yearly meeting of all the Divisional Directors, General Managers and Deputy General Managers of operational and corporate units. There is an open

session each year with all the engineers who have worked with Siemens for at least two years and with trainees.

SIEMENS COMPLIANCE PROGRAMME

Siemens has a compliance system that encompasses all measures required for the effective prevention and detection of violations against Business Conduct Guidelines of Siemens. The Regional Compliance Officer (RCO) of the Company performs his duties in close cooperation with the Chief Compliance Officer of Siemens AG (CCO) and reports to the Managing Director of Siemens Pakistan. The RCO also submits an annual compliance report to the board of directors.

HUMAN RESOURCE

People Excellence at our organization is given the highest priority as we develop and implement a multi-faceted strategy towards becoming a high performance culture where our people are expected to:

- Grow and develop by exceeding goals
- Achieve a high degree of competency
- Persevere in ongoing development
- Think today about the challenges coming tomorrow.

Our Company's performance is based upon the performance of our employees. Through a structured and transparent dialogue between employees and managers, the Performance Management Process makes the difference in terms of setting ambitious goals and linking performance with consequences.

We push top talent through early identification, and speed up their development to ensure our sustainable success. The evaluation of top talent is part of the Siemens Management Review and calls for an ambitious, committed and disciplined plan from our employees.

Our business success depends heavily upon our power of innovation, consistent recognition and development of expert capability derived from a strategic technology roadmap.

QUALITY

Drive for continual improvement supported by focused managements' commitment has ensured that we remain market leaders and our stakeholder's interests are protected. Quality is, therefore, a serious consideration at every level in our Company and has a cardinal role in our achievements.

Quality Management System is embedded in our organizational culture and its pragmatic tenor is the back bone of all our working procedures. Adhering to stringent controls on Quality has again made it possible to achieve recertification under ISO 9001:2000 standards this year without any nonconformity.

The quality of our products and services represents a key constituent of our corporate strategy whose principle aims are customer's satisfaction, customer's retention and to keep the cost under control by constantly decreasing the wastage and reworks.

HEALTH, SAFETY AND ENVIRONMENT

Our working procedures and conditions are so designed that the Safety and Health of our employees has paramount consideration. The management takes cognizance of all such issues at the highest level and ensures that controls are in place with the purpose. Our safe working conditions have been acknowledged by Employers Federation of Pakistan who have awarded us the shield for Best Practices in Occupational Health and Safety

With a strong sense of responsibility to the preservation of the Environment, we have accorded its due priority in our working practices. By gradually integrating it in our Quality Management System we are working towards the establishment of an EMS/ ISO 14001 Compliant Management System. Our commitment to the Environment starts from the design of our products and we take all possible steps in the elimination of environmentally hazardous materials and ensure that all steps are taken in their safe disposal.

PRODUCT SAFETY

Product safety issues continue to be closely monitored and no related incident was reported this year. We have also taken steps to impart comprehensive training to our employees on these issues so that all technical and legal aspects are known to them.

BUSINESS PROCESSES IMPROVEMENT ACTIVITIES

Our business processes improvement activities are constantly undertaken by our top+ program. This is in addition to our continual activities for improvement and redefinition of all our processes through the Quality Management System and Siemens specific quality initiatives.

CORPORATE CITIZENSHIP

Sustainable business success and good corporate citizenship are inextricably linked at Siemens. Fully aware of its responsibility towards its employees, the Company promotes diversity within its workforce and views the vocational training, continuing education, development, safety and health of its employees as high priorities.

The Company supports educational initiatives, promotes sports and cultural events and provides help to the needy. Our university liaison program helps youth acquire the key qualifications so vital in today's world. Scholarships are provided to students in the fields of engineering, medicine and business administration besides internship to students in different sections of our Company. The Company Awards gold medals to the best students in recognition of their academic achievements in the fields of the fields of electrical and electronic engineering.

Regular visits are organized of students from engineering and technical institutions and employees of large customers including various branches of the armed forces of Pakistan to our manufacturing complex. Such visits are part of the curriculum of many of these institutions.

Siemens has a well established apprentice training center where young men are exposed to latest technology and trained for the industry. The three year course imparts knowledge in electrical and mechanical trades during which period the apprentices get stipend paid by the company. The trained apprentices are much sought after not only by the local engineering industry but also by this sector in the region. The Company inducts underprivileged children to give them a head start on life. As at September 30, 2006 there were 110 apprentices on training at the Siemens complex.

Siemens has a policy of providing monetary and other contributions and help to institutions which work for collective benefit to the society. During the year under review Siemens helped many organizations such as Aga Khan Hospital and Medical College Foundation, conference on Environment, Gold Medal for student of Jinnah University various schools fund raising efforts, Rotary Club for their Charity Gala, various Organizations for the under privileged, patient's welfare societies etc. In the field of sports various tournaments in hockey and cricket were supported.

EARTHQUAKE RELIEF EFFORTS

The news of earthquake in the Northern areas of the country prompted Siemens management to spring into action immediately establishing an earthquake relief committee and appointing key account manager for relief efforts. Due to the efforts of this committee Siemens locally and globally has provided relief in the form of cash, kind and services to the tune of more than ninety million rupees (approx 1.5 million US$). A large part of it is due to our global effort spearheaded by "Caring Hands" under which Siemens employees in the regional companies of Asia Pacific region donated part of their salaries which were matched by their management and the collection reached Rs. 5.5 million. Siemens AG, Germany, our parent company, contributed its entire share of first interim dividend which amounts to Rs.26.8 million. These contributions will be used to fund the " Light for Life Program" that envisages providing power to areas where power has not yet been restored or where conventional methods cannot be employed.

Siemens Pakistan employees also worked with dedication to help the Earthquake victims while the employees in Karachi set up a camp to collect relief goods their counter parts in Islamabad which was part of the belt hit by the earthquake spread out in the affected areas to help the victims. Top officials in Islamabad also worked in the local hospitals as volunteers and at the same time worked day and night to restore the severed telecommunication links in the earthquake affected areas voluntarily. Many Siemens employees were also affected some of whom lost near and dear ones and a majority were left with houses that were completely destroyed. Siemens set up a fund to help the employees and a large number of employees also donated to add to this fund.

AWARDS

We were awarded the following prestigious awards during the year:

1 Export Award by SITE Association.
2 First prize for Wall Calendar and Second prize for Desk Calendar by NCCA.
3 Occupational Health & Safety Award.
4 Woman Manager of the year Award to Ms. Sowaba Imran, Manager SHA.
5 LTU (Large Tax Payer's Unit) Award by Central Board of Revenue.

6 Consumer Choice Award for Generating Set Unit.
7 Environment Excellence Award by National Forum for Environment and Health.
8 First prize for Newsletter (Siemens ki Dunya).

ACKNOWLEDGEMENT

The Management is extremely thankful for the continued support of the Board of Directors whose guidance and decisions contributed significantly towards achieving success and consistent growth. We also appreciate the valuable contribution and active role of the Audit Committee in supporting and guiding the Management on matters of great importance leading to success in achieving the targets of the Company.

We would like to thank our extremely valued customers, suppliers, contractors and financial institutions, whose faith, cooperation and support over the years strengthened our relationship which plays a vital role in improving our products and services and contribution to the national economy

The Company is immensely proud of its human resources and thankful for all Executives, Officers and Workers for consistently delivering outstanding performance resulting in a higher level of success and profitability for the Company.

We are also thankful for the support provided to us by our parent company and the trust reposed by the shareholders on the management and the board of directors. This support gives confidence and encouragement in achieving the targets and application of strategies.

BUSINESS RISKS, CHALLENGES AND FUTURE OUTLOOK

With all the indicators of economy showing a positive trend, expected infrastructure development, privatization and opportunities in the energy sector, both within and outside the country, may prove favourable for the Company's future success. We have penetrated well in the UAE market of Transmission and Distribution, despite intense competition.

The carve out of COM activities, as mentioned in the Directors' Report, will have a significant financial impact on the Company in future, however, the management of the Company believes that the impact shall be off set through growth in other business segments. It is expected that with the amalgamation of Carrier Telephone Industries (Private) Limited, the profitability of the Company would improve due to synergies.

The price of success is hard work, dedication to the job and the determination that whether we win or lose, we have applied the best of ourselves to the task in hand and will continue to apply the same in future. With our global tools of top+ and Fit4More- Profit and Growth, we see no reason why we cannot achieve and surpass our targets. However, due to intense competition, we have enormous pressure on our prices which is not in line with rising prices of our inputs. The rising inflation and interest rates may have some adverse impact on the growth of market.

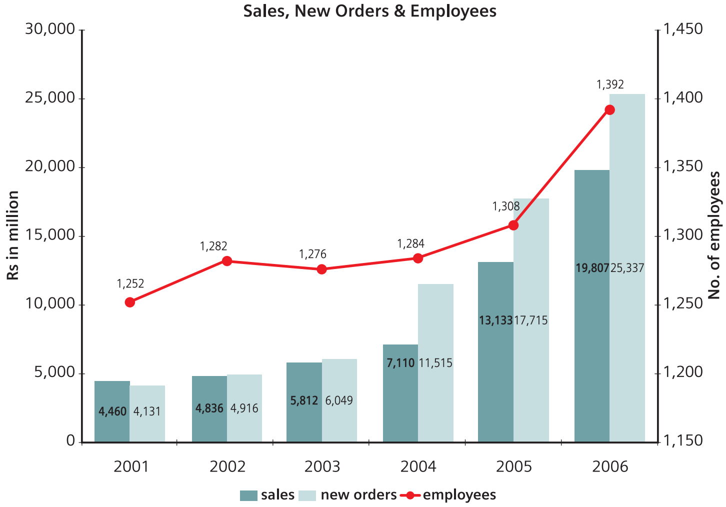
Sohail Wajahat H. Siddiqui
Managing Director &
Chief Executive Officer

Karachi; November 20, 2006

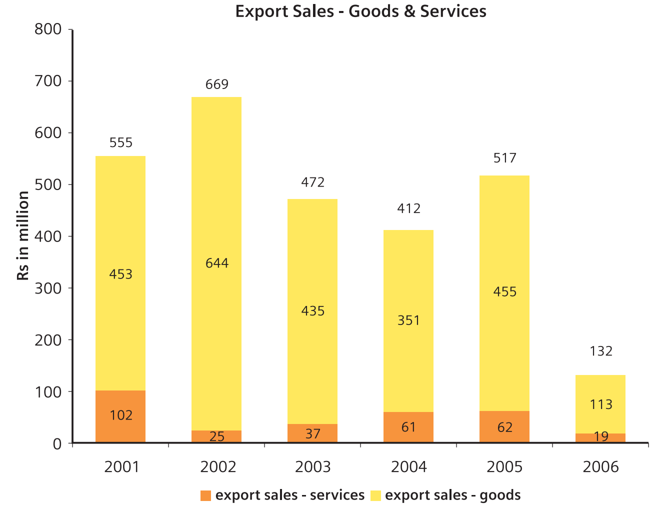
“Siemens solutions for megacities make the life of their residents much more enjoyable”

Gerhard Wilcke
Chief Financial Officer

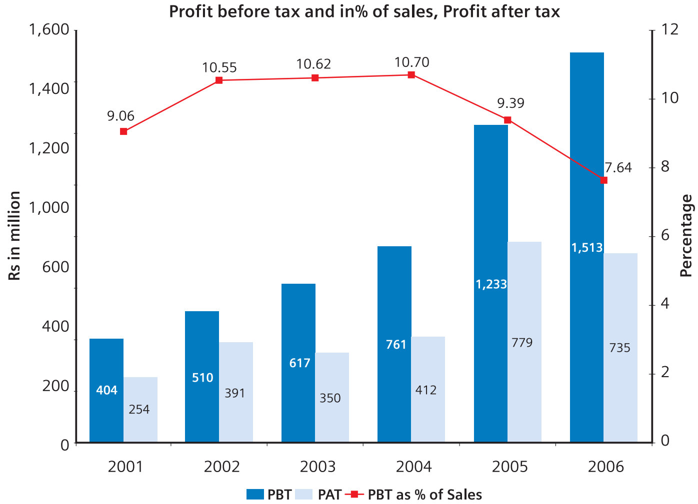
Sales, New Orders & Employees



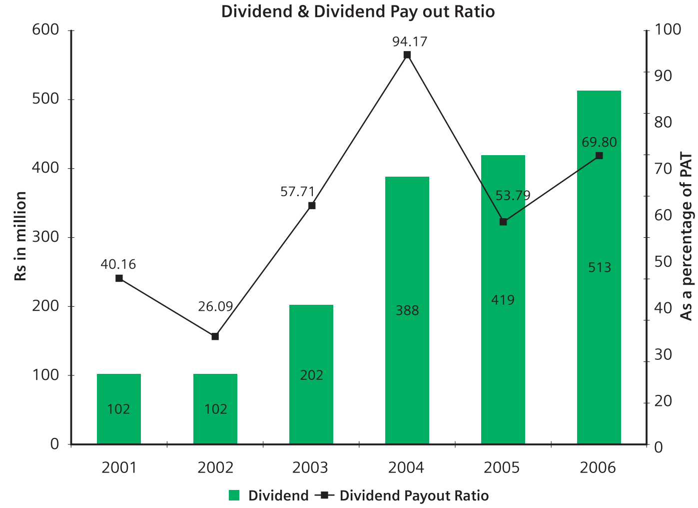
Export Sales - Goods & Services



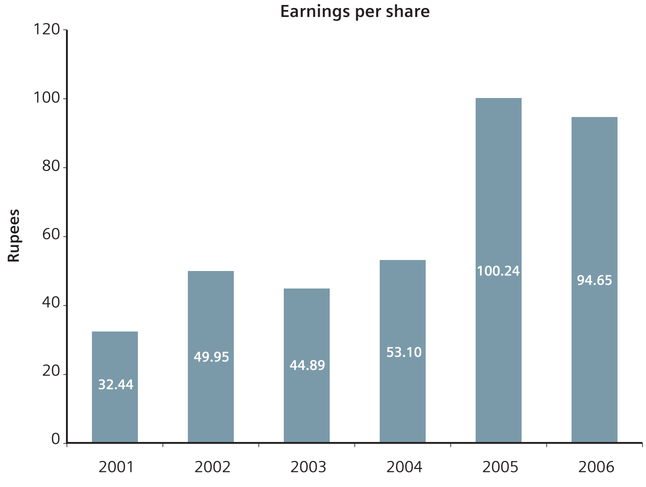
Profit before tax and in% of sales, Profit after tax



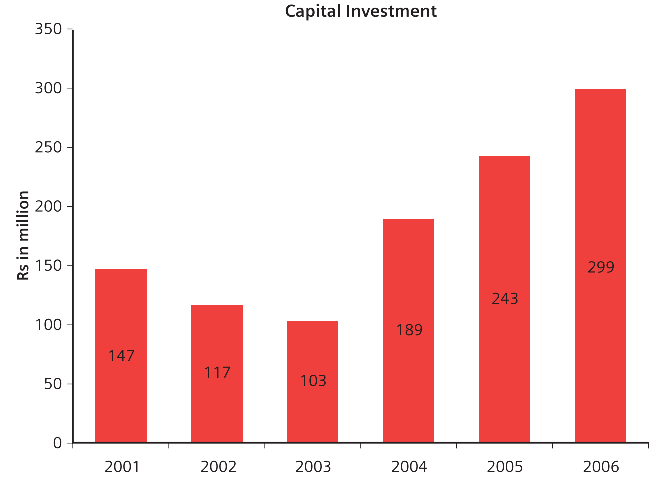
Dividend & Dividend Pay out Ratio



Earnings per share

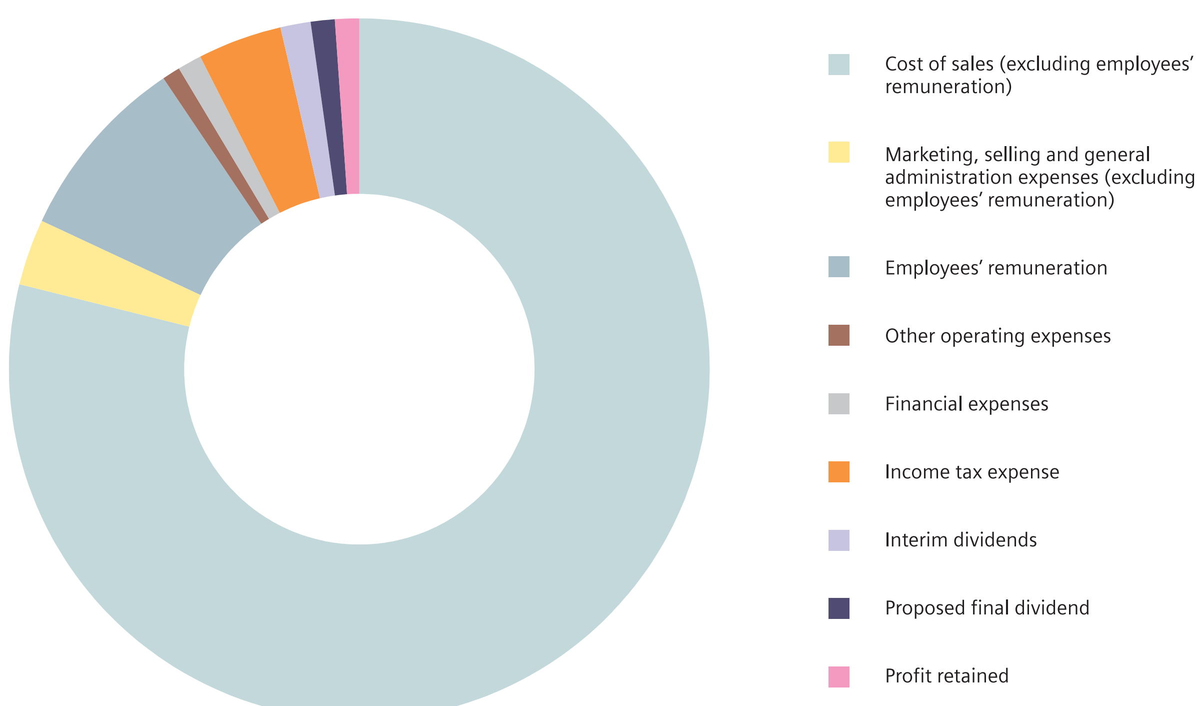


Capital Investment



	Rupees in '000
Revenue	
Net sales	19,806,575
Commission and allowances earned	615,347
Other operating income	104,745
	20,526,667

Distribution of revenue	
Cost of sales (excluding employees' remuneration)	16,165,196
Marketing, selling and general administration expenses (excluding employees' remuneration)	629,143
Employees' remuneration	1,805,230
Other operating expenses	163,493
Financial expenses	250,721
Income tax expense	777,494
Interim dividends	279,706
Proposed final dividend	233,088
Profit retained	222,596
	20,526,667



Communications

Communication solutions for Megacities ...

Sales	Rs. 6,152 million +79%
New Orders	Rs. 7,028 million +78%

HiPath based Voice over Internet Protocol (VoIP) solution at Karachi University.

Education in megacities now requires futuristic solutions provided by Siemens.

Enterprise Networks

Success with Siemens HiPath Voice over Internet Protocol (VoIP) solutions continued with HiPath capturing a major share of the market. Various orders for VoIP solutions were received, of which some important ones include KASB Bank, Metro Cash-&-Carry and Karachi University. Siemens HiPath based VoIP call center applications were also successfully implemented at several places, including DHL, Karachi Electric Supply Corporation and Hong Kong Shanghai Bank.

Enterprise Data networking business met with continued success and major orders were received from NIB Bank, United Bank, Central Depository Company, Sui Southern Gas, Pakistan Military Academy, Karachi University, Sardar Bahadur Khan Women's University Quetta and University of Health Sciences Lahore.

We were the first in the market to introduce a WiFi based VoIP solution enabling customers to develop corporate hotspots providing a genuine multimedia experience for people on the move.

With the growing success of Siemens HiPath solutions, in-depth knowledge of data systems integration and innovative new products like WiFi VoIP, Siemens Enterprise Networks has maintained it's market leadership position in the country.

Overview

Turnkey solutions for converged and IP voice networks, CRM application and secure data networks. Latest technology in these fields backed by professional team for support during solution life cycle. Keeping communication networks in megacities working like a well oiled machine.

Highlights

- HiPath captured a major share of the market
- Important VoIP orders were received
- Siemens HiPath based VoIP call centre applications successfully implemented at several places
- First in the market to introduce WiFi based VoIP solution

Siemens engineer working at Warid Telecom's Metro Fiber Project.

With expected increase to 40 million mobile phone subscribers in the near future cellular companies are working overtime to provide enhanced services especially in megacities like Karachi.

Fixed Networks

Overview

Business Unit Fixed Networks is focusing on innovations that drive the next generation network market segments; these include IP (Internet Protocol) Convergence, Broadband Access and Optical Networking. We provide innovative solutions for the bustling megacities.

Highlights

- Successfully installed new online billing platform for PTCL
- Supplied 15,000 network termination units for ISDN
- Warid Telecom's Metro Fiber project completed
- Telenor Pakistan's network expanded in five new cities successfully

In the business year 2005-06, several projects were executed at Pakistan Telecommunication Company Limited (PTCL), and cellular service providers Warid Telecom and Telenor Pakistan.

In PTCL, we have successfully installed and commissioned the new online billing platform for collection of billing data, which will be transmitted online, from Siemens EWSD (Siemens Electronic Digital Switching System) exchanges to the PTCL billing and customer care centers. This will enable PTCL to introduce new facilities like Hot Billing to its customers.

Other major projects executed with PTCL include NetManager expansion project for the management of all Siemens exchanges, and the supply of 15,000 network termination units for ISDN (Integrated Services Digital Network) Basic Rate Access. In addition to this, the trial for next generation network switching platform is currently underway. Warid Telecom's Metro Fiber Project was also completed this year for four main cities including Islamabad, Lahore, Faisalabad and Karachi.

Currently, Siemens is providing operations and maintenance services to the Warid network both with regard to civil works and equipment. Recently, the expansion contract of the same project was also signed. This in addition to upgrades in the existing equipment includes installation of Siemens next generation SDH (Synchronous Digital Hierarchy) solution in two new mobile switching centers of Warid Telecom.

In Telenor Pakistan's LDI (Long Distance International) Phase II expansion project, the network has been expanded in five new cities successfully. Siemens has offered state of the art, high capacity media gateways and data communication network elements for this project.

PTCL Billing Project for CDRs Collection from 117 EWSD Exchanges.

Siemens service engineers working with dedication at PTCL. With the growing infrastructure in megacities there is increasing demand for such expertise.

Carrier Services

These services include building, operating & maintaining communication networks for different wireline & wireless operators.

With our rich experience of building & maintaining communication networks, we provided round the clock technical support services to PTCL & NTC (National Telecom Corporation) in all regions. In addition to the execution of various projects for PTCL pertaining to network management, billing & access, we also executed a next generation network trial project for PTCL which is a step forward towards a modern all-IP network through a smooth & seamless migration from the traditional TDM (Time Division Multiplex) network.

During the year we helped in extension of Telenor long distance international network by the completion of Phase I & Phase II with deployment of state of the art media gateways of Siemens Surpass product line in different cities.

We gave consistent service support to Mobilink and contributed further to its growth by network expansion via commissioning of additional MSC's (mobile switching centers) & gateway MSCs this year.

The professional excellence, competence & experience of our specialists resulted in customer satisfaction which is a goal we cherish at Siemens.

Overview

Carrier Services provides state of the art services for Siemens Communication Networks for mobile & fixed network operators across Pakistan. We keep communications safe and reliable in constantly expanding megacities.

Highlights

- Providing round the clock technical support services to PTCL and NTC
- Executed a next generation network trial project for PTCL
- Consistent service support to Mobilink

Another Mobile Communication Tower adding new dimensions to the landscape.

Megacities with their booming communication needs are now dotted with such towers.

Mobile Networks

Overview

Offering a wide range of products and services for GSM, GPRS and UMTS including Switching Subsystem, Base Station System, Intelligent Network, Microwave Radio Equipment and end to end solutions for Mobile Data Services. Futuristic solutions for megacities of the country.

Highlights

- Major orders from Telenor, Mobilink and Ufone successfully executed
- Leadership position in WiMAX and GSM-R solutions will play important role
- First WiMAX trial agreement signed

Mobile Networks reached a new pinnacle of excellence, this year being one of the most successful for the unit.

Major orders were received from Telenor, Mobilink and Ufone for services and network expansion which were successfully executed during the year. In order to ensure future business growth and profitability, new technologies such as WiMAX, IMS applications and GSM-R (Railways) have been introduced in the market.

Being the first certified WiMAX supplier and GSM-R (Railway) solution provider in the world, it is expected that our leadership position in the introduction of these new technologies will play an important role in the success of ongoing and new projects.

Siemens has signed the first WiMAX trial agreement which could be the start of a country wide deployment of WiMAX network being planned by the operator for next calendar year.

We successfully deployed additional Intelligent Network (IN) platforms at Mobilink and in total 10 IN platforms are serving more than 20 million subscribers.

It is expected that the number of mobile subscribers will reach almost 40 million in Pakistan this year. New services will be launched in an attempt to attract a new subscriber base and increase the data flow in mobile networks

Working on the motorway specialists from special systems are instrumental in ensuring safe journeys through reliable communication.

The boom in megacities attracts the rural population resulting in travel becoming more frequent and safety on the highways has to be ensured through better communication.

Special Systems

One of the key projects this year was a state of the art roadside emergency communication radio (ECR) system for the national highways authority on the M-3 & M-1 motorways.

This is a new market and the system has been designed and engineered locally, involving integrated technologies for reliable and fool proof operations for commuters.

Special Systems has also been given the responsibility for the operation and maintenance of the ECR system on motorway section M3.

Special Systems have added a new dimension to the security setup of Punjab prisons.

Advanced X-Ray scanning machines with modern detection features have been installed at various prisons in Punjab.

Solar systems, test & measurement equipment and business with defense and other security agencies also showed a positive trend this year.

Overview

Special Systems offers a diversified range of products and services which include communications, monitoring & security, defense electronics and solar power. This unit truly offers high tech solutions for megacities.

Highlights

- Roadside emergency communication system for national highways authority was a key project
- Advanced X-ray scanning machines added new dimension to security of Punjab prisons.
- Positive trend in Solar systems and test and measurement equipment.

Power Transmission and Distribution

Energy Infrastructure solutions for Megacities ...

Sales	Rs. 8,846 million +45%
New Orders	Rs.11,280 million +20%

Dubai Sports City Stadium glitters like a jewel at night.

The substation for this magnificent piece of architectural marvel is being set up by Siemens Pakistan. With health conscious and sport loving populations forming the core of megacities larger sports facilities are now required to cope with the demand.

HV Sub-station & Energy Automation

We completed the NTDC (National Transmission & Dispatch Company) – KESC interconnection project and one diameter of the Sahiwal 500kV AIS (Air Insulated Substation) while Rewat lot 1 500kV AIS is under execution.

Siemens signed another major contract with a local utility for construction of a new state of the art load dispatch center having EMS (Energy Management System) / DMS (Distribution Management System) & SCADA Systems.

Siemens Pakistan is strengthening its position in the UAE region by signing more contracts with private customers as well as with DEWA (Dubai Electricity & Water Authority).

From the private sector, in Dubai, we have orders of 3 new substations for Dubai Sports City and substations for Dubai Festival City and International Media Processing Zone.

Another substation order from DEWA is for Dubai Investment Park. From the past orders 9 substations have been commissioned successfully and handed over to customers.

BU TD was also very successful in marketing HV (High Voltage) circuit breakers and protection relays in which we are the market leaders.

Overview

We provide equipment & substations for power transmission & distribution systems. The growing energy needs of megacities are a special focus for our unit which can address these constantly increasing requirements by providing state of the art equipments and services.

Highlights

- Completed the NTDC (National Transmission & Dispatch Company)–KESC interconnection project and one diameter of the Sahiwal 500kV AIS
- Signed more contracts with private customers as well as with DEWA in Dubai
- Market leaders in high voltage circuit breakers

40 MVA Transformer at WAPDA Grid Station at Faisalabad Agricultural University, this was inaugurated recently.

Such large transformers are instrumental in keeping up with increase in load and demand especially in megacities like Karachi.

Transformers

Overview

We are the largest production centre for Distribution and Power Transformers in Pakistan serving the entire local market as well as catering to the needs of neighboring countries. We are ideally placed to fill the growing requirements for transformers in present and future megacities of the country.

Highlights

- The largest production centre for Distribution and Power Transformers in Pakistan
- We also supplied Distribution and Power Transformers to Kuwait, Yemen and Afghanistan.
- We are enhancing our capacity upto 220 KV
- Developed a 40MVA Power Transformer for WAPDA network

The demand for transformers in private and public sector remained high due to high economic growth, investment in social and industrial sector, village electrification work, housing schemes and rehabilitation of electrical networks by utilities.

We have also successfully maintained our traditional role as a technology trend setters and market leaders by providing specially designed transformers for various applications in industries.

We developed a 40MVA Power Transformer for the WAPDA network which was successfully type tested at KEMA laboratory Holland and supplied to WAPDA on time. The business unit also supported utilities in Pakistan and abroad by supplying our quality products.

While WAPDA remained our major customer for Distribution and Power Transformers, we also supplied Distribution and Power Transformers to Kuwait, Yemen and Afghanistan. We also provided supervisory support during installation and commissioning phase of Power Transformers to support our customers resulting in enhanced customer satisfaction.

We are enhancing our capacity to serve the local market for all types of network and special application transformers (Distribution & Power) up to 220KV. This capital investment will bring the country new technology, savings in foreign exchange and allow us to supply 220KV Transformers locally to utilities within a reasonable delivery time. This project is in full swing.

Simoprime Switchgear ready to be dispatched to the customer.

Such large local manufacturing facilities are invaluable in providing cost effective solutions for megacities.

Switchboards

BU Switchboards has always strived to provide reliable and high quality products to their customers. Our relatively latest and most reliable switchgear designs, Simoprime A2 and Sivacon 8PT, have gained a sterling reputation among industrial customers. More than 150 panels of Sivacon 8PT Switchgear and 250 panels of Simoprime A2 were sold during the last year which clearly illustrates the popularity of these switchgears. Our special switchgear-8BK20, specifically meant for higher kA/busbar ratings in medium voltage applications, was supplied to Packages Limited, one of our very important industrial customers.

We were an integral part of the power transmission link set up between HUBCO & NTDC-KESC and the Sahiwal 500kV AIS project and supplied our Protection & Control panels (500 & 220kV) to cater for their highly sophisticated control/ protection needs.

We consider Afghanistan an emerging market and were successful in acquiring business there resulting in supplying switchgears to two projects.

The concept of industrial estates & housing schemes are gaining popularity and we are proud to be part of this idea. More than 300 Pad Mounted Transformers (PMTs) have been provided in this sector. We are now equipped to cater for higher kVA requirements (up to 1250kVA) in PMTs. Ring Main Units (RMUs), this year too, did remarkably well, and more then 150 RMUs were supplied and installed in industrial and utility sectors.

As power is the key to economic growth, we expect to receive substantial orders from industrial and utility customers in the coming year. With our state of the art production facility and technically superior designs, we are fully geared to meet the growing power demand.

Overview

Our activities include design, engineering, manufacturing and service of medium voltage and low voltage switchgear. Fully equipped to address the growing energy needs of megacities.

Highlights

- Latest Switchgear designs Simoprime A2 and Sivacon 8PT gained sterling reputation among industrial customers
- We were integral part of NTDC-KESC transmission link
- Supplied switchgear for electricity rehabilitation projects in Afghanistan
- We are now equipped to cater for higher kVA requirements in PMTs.

On site discussion with NTDC engineer regarding maintenance of HV Circuit Breakers.

With new, larger and more sophisticated electrical networks in megacities it requires high caliber manpower to deal with service issues.

PTD Services

Overview

Integrated services for all areas of power transmission and distribution. Regional centre of competence for Network planning. The unit is fully equipped to deal with the growing service needs of megacities in the energy sector.

Highlights

- Carried out network studies of several large industrial units.
- Supported customers in ensuring the smooth running of their plants
- Helped the corporatised DISCO's in maintaining their assets.

Network Planning

In the rapidly growing industrial sector, electrical networks are becoming more and more complex. To ensure reliable operation of complex networks, planning is essential for every utility and industry. Better planning requires a vision of future load growth and development. The required approach is to be ready to meet the future demand in simple, cost effective and efficient manner. PTD Services has the local expertise (experience with international projects) available to carry out electrical network planning studies, to offer most optimal and reliable solutions to customers. We have successfully carried out network studies of Attock Refinery Ltd, Nishat Textile Mills, ICI Pakistan, Procter & Gamble Pakistan and Kot Addu Power Company Ltd.

Asset Services

The performance of a factory depends on safe and reliable energy distribution to run the manufacturing process undisturbed round the clock. We are proud of supporting our valuable customers in ensuring the smooth running of their plants by providing preventative maintenance services, retrofitting and up-gradation of electrical equipment and carrying out rehabilitation/refurbishment projects of substations and grid stations. Currently our major customers include KESC (Haroonabad & Lyari Grid Stations), KNPC, and Dewan Cement Ltd. We are also engaged in providing reliable, cost effective engineering solutions to our customers (KESC, WAPDA (Water and Power Development Authority) DISCOs (Distribution Companies) Pak-Arab Refinery Ltd, Peoples Steel Mills, Al-Noor Sugar Mills etc. Keeping in view the new market environment, we are committed to providing the best services solutions to our valuable customers, to help them succeeded in the present tough competitive environment.

Operation and Maintenance contracts

With the privatization & de-regularization of the energy sector in the country, the business unit is not only engaged in providing technical support to prospective investors but is also helping the corporatised DISCO's in maintaining their assets in particular FESCO and HESCO.

Industrial Solutions and Power Generation

Catering to the industrial needs of Megacities ...

Sales	Rs. 3,091 million +30%
New Orders	Rs. 5,381 million +95%

A view of the pumping house of greater Karachi water supply project K111.

Megacities are struggling with chaotic traffic conditions and shortages of energy, water and housing. PWT offers long lasting affordable solutions for these cities in the water sector.

Process Industries & Water Technologies

Overview

We provide solutions in water and process industries. PWT continued its journey of success and made significant contributions in both sectors. Providing clean drinking water to all in the megacities is a big challenge for every country. We offer many solutions for this and for the growing process industries in Pakistan.

Highlights

- Water supply to Karachi enhanced by 100 million gallons per day with completion of K-III project
- Dewan cement was a major project in cement sector
- Continued international support to Siemens Malaysia, Siemens China and Siemens Saudi Arabia
- Made significant inroads in chemical industry

WATER TECHNOLOGIES

The Greater Karachi Water Supply Project (K-III Project) has enhanced water supply to Karachi by 100 million gallons per day, thereby alleviating the water problems of the citizens of Karachi. Siemens Pakistan was the Consortium Leader of the two Pumping Stations (Dhabeji and NEK) built under this project. The total value of K-III project was approx. Rs.7 Billion and the value of the Consortium's scope of work was approx. Rs 750 Million. The project was completed two months ahead of schedule. The inauguration of this mega project was performed by the President of Pakistan General Pervez Musharraf. He appreciated the timely completion of this important project. Due to the success of this project we have made significant achievements in the water sector and have acquired several new projects.

PROCESS INDUSTRIES

Dewan Cement was a major project in the cement sector this year. Dewan Cement Line II project is one of the biggest projects in cement in the history of PWT. The project includes complete plant control system, electrical switchgears, variable speed drives, etc. In addition to this we also received orders from Pakistan Cement, Maple Leaf Cement, Fecto Cement and Attock Cement. PWT also continued its international support to Siemens Malaysia, Siemens China and Siemens Saudi Arabia by providing engineering & commissioning services. Specialized services were also provided to Gulf Cement-UAE and Puttalam Cement-Srilanka.

Apart from cement we also made significant inroads in the chemical industry. We undertook a prestigious instrumentation & control system project for Clariant. The project involves highest safety levels, PCS7 V6.1 and distributed I/O in Zone1 as well as a comprehensive instrumentation package. Extensive testing of the software has been carried out together with the Swiss consultant.

Our control system solutions are also popular in the sugar industry. We were able to successfully complete two boiler control systems for ICI. PWT has also been busy improving and increasing Cadbury production with its process control system.

Construction work at the New Muree Bulk Water Supply Project in full swing.

Megacities will require mega projects like these to fulfill the ever increasing demand of water. Water management systems, which take terrain structure into account, are ideal for such projects.

Engineering and Construction

Business Unit Engineering & Construction experienced yet another year of success. We served all the sectors of our core competence and fully responded to the current and potential demands of the market.

The prevailing boom in the industrial sector has increased the demand for power and other utilities. We have already built up a strong position in the sector of power plants as a result of the flawless execution of the DHA (Defence Housing Authority) combined cycle power and desalination Plant

In the infrastructure sector, we are in the final stages of the successful completion of Sunder Industrial Estate and Karachi Export Processing Zone.

We have further strengthened our business relations with Sialkot International Airport Limited, the first ever private sector airport in Pakistan by winning the contract for electrical utilities as well as external electrification.

We continued to maintain our dominance in the Oil and Gas Sector by winning the contracts for mechanical, electrical & instrumentation Works at the Chanda Gas Processing Facility.

In addition to this we also executed the contracts for sewage treatment plant and condensate loading gantry, projects awarded to us by ENI Pakistan Ltd.

The biggest landmark of the year was the attainment of the New Murree Bulk Water Supply Project, owned by Housing Urban Development, which created new business opportunities for our US FILTER water technology business.

Overview

Turnkey solutions and general contracting services in energy, industrial and infrastructure sectors. From project management to procurement, mechanical and electrical constructions we provide a host of services. The one window facilitator for mega projects in megacities.

Highlights

- Flawless execution of DHA Combined cycle power and desalination plant
- Final stages of successful completion of Sunder Industrial estate and Karachi Export Processing Zone
- Won contract from Sialkot International Airport
- New Muree Bulk Water Supply Project created new opportunities for US Filter

Service Centre Pakistan Team with Foreign Specialists at Rousch Power Plant.

Combining local resources with international expertise can help overcome problems facing megacities.

Power Generation

Overview

From design, engineering studies to complete utility / industrial power plant solutions, scheduled & unscheduled power plant maintenance & to new system installations we provide solutions to help our customers meet their targets. We are fully equipped to meet the challenges of megacities & enhance the quality of life of their residents.

Highlights

- State of the art technology steam turbine sold to Packages Limited
- Expanded its operations to the Gulf Market with high class skilled services
- Successfully completed Baiji project in Iraq

Siemens Pakistan with its strong local presence in the power generation industry has played a significant role in enhancing Pakistan's power generation capacity in both thermal & hydro power.

This year, our success story starts with the selling of a state of the art technology steam turbine to Packages Limited in collaboration with Siemens Industrial Turbo Machinery. It is a cogeneration application steam turbine of 41 MW with 10 different load point conditions designed to meet the electrical power and process steam requirements for Package's new paper factory at Kasur.

Our Power Generation Industrial Application and Oil & Gas Division is one of the leading solution providers for power generation & gas compression solutions, co-generation applications in industries and up / down stream compressor solutions for oil and gas sector. Its range of products and services primarily features gas turbines for industrial applications with ratings up to 50 MW.

As a reliable local and regional partner, Service Center Pakistan has been operational in Power Generation Business Unit since 1997 serving the local market power plant maintenance business successfully and has also expanded its operations to the Gulf Market with high class skilled services.

To satisfy the recent boom in the global energy sector service market, Siemens has made a global resource pool with support from strategic regional offices, having strong service capabilities. Power Generation service centre is playing a major role in supporting other regional offices (like UAE in the Gulf region & South East Asia) to cater to different customer needs.

In April 2006, BU PG successfully completed the Baiji Project in Iraq for the modified Hot Gas Path Inspection of two V Type Siemens gas turbines. Keeping in view, the geo- political situation in Iraq, it was a very tough decision to send our service team to Baiji.

Siemens ITS team at Oil & Gas seminar.

Exchange of information and ideas is essential in helping megacities tackle their problems through latest IT technology and know how.

Information Technology Services

The highlight of the year was the breakthrough in the pharmaceuticals and utilities industries with its SAP ERP and IT infrastructure solutions offerings, while at the same time the business unit strengthened its ties with existing customer base and signed up another project in the Oil / Gas industry to bolster its dominance. ITS at Siemens Pakistan can now boast of serving more than eight (8) prominent industrial sectors in the country. In 2006 we intensified our focus on our marketing and sales activities. ITS participated in prestigious industry events and exhibitions, including POGEE (Pakistan Oil, Gas and Energy Exhibition) and SAP SummIT 2006. The SAP SummIT, held in September 2006 at Lahore was a big success again this year because of the participation of more than 500 leading corporate sector organizations in Pakistan.

SAP summIT is a comprehensive business and technology forum where customers & prospects gain clear insights into how SAP's business solutions can enhance their organization's performance. It is also an opportunity to witness the latest developments in SAP technology.

The SAP Authorized Training Center conducted the maximum number of SAP academy programs and produced a record 150 SAP trained professionals in just one year. Similarly SAP short courses and training program on new dimension products of SAP were also launched for the first time in Pakistan. These initiatives resulted in optimum utilization of training infrastructure as well as increased revenue-base and customer satisfaction. SAP ATC (Authorized Training Centre) now has the distinction of conducting seventeen SAP academies so far in different cities of Pakistan and has trained over 600 attendees in various technologies and SAP solutions with a 70% success rate.

In the same year, Siemens also became the first SAP partner in Pakistan to establish a full-fledge Siemens support services setup to provide round-the-clock support to its 28 plus SAP solutions clients. This state of the art service provides for a single point of contact for all our SAP software, hardware, networking troubleshooting and support for customers.

Overview

ERP software and services make up a large part of our core business functions, but we also provide other comprehensive services.
Business Unit Information Technology Services (ITS) registered a steady growth in the fiscal year 2006.

Highlights

- Breakthrough in Pharmaceutical and utilities industries
- Now serving more than 8 industrial sectors in Pakistan
- Maximum number of SAP academy programs in a year producing a record 150 SAP consultants.
- First SAP partner in Pakistan to establish full fledged support service

A view of the call centre set up by OLM in Siemens Pakistan.

Growing populations, diversified businesses and time pressures require speedy services to customers in megacities. Call centers like this are addressing these needs.

OnCall, LogisticsService, Maintenance

Overview

We are a technical service provider of Siemens Pakistan for industry and infrastructure. Many cities are being transformed as new infrastructure are being built to cope with the mega pressures of megacities. We provide the means for long term sustainability of these mega projects.

Highlights

- Annual operation and maintenance contract for Kohat tunnel
- Successfully completed PLC based system at National Refinery
- Established a state of the art call centre for Siemens Pakistan
- Supply of dual feeder system to Maple Leaf Cement

We have received the annual operation & maintenance contract of Kohat Tunnel Pakistan for electrical traffic control through CCTV, WINCC and XMAT based SCADA Control System.

Recently we have successfully completed the supply, engineering, installation & commissioning of the PLC (Programmable Logic Controller) based Alarm Annunciation and Control System for two compressors based on SIMATIC S7400 H redundant system at National Refinery Ltd.

We have achieved another milestone in the history of Siemens by establishing a state of the art call centre for customer satisfaction. The call centre has a complaint management system for complete tracking and monitoring of customer calls and complaints which facilitates the customer by reducing response time.

Another landmark project was engineering, design, and supply of dual feeder system based upon NXPLUS-C switchgear to Maple Leaf Cement Ltd.
We also provide high-end training for PLC, drives, and protection systems to industry personnel. Our team serves more than 400 customers annually by providing a wide range of maintenance, troubleshooting and other field services.

The Kerry Center in Beijing
November 2, 2006 | The multifunctional Kerry Center in Beijing hosts a hotel, apartments and commercial offices.

The building automation system from Siemens Building Technologies controls and monitors the fire safety system, energy management system, light, climate, and air and water usage, and access control systems. It also ensures optimal comfort and security in all of the buildings spaces. This technology is now available in Pakistan and will ensure safety and comfort in the megacities of the country.

Siemens Building Technologies

SBT portfolio consists of building management systems, HVAC(Heating, Ventilation and Air Conditioning) controls, fire alarm systems, fire suppression systems, surveillance systems, intruder detection systems, access control systems and various other products/solutions in the fields of comfort, safety and security.

In 2006, the business was soft launched through a road show at Marriot hotel Karachi. This road show was attended by important players in building technologies business.

SBT team was involved in extensive sales and marketing activities throughout the year. These included onsite presentations on product portfolio, product selection training and extensive meetings with various consultants, contractors, owners etc.

Presently SBT is involved in (or has completed) projects such as upgradation of fire alarm system at PARCO(Pak Arab Refinery), fire alarm system for Pearl Continental Hotel Gawader, security surveillance cameras for the German consulate, fire alarm system for Siemens head office and security surveillance for the Siemens office in Lahore. There are many other important projects in the pipeline.

Overview

Siemens Building Technologies (SBT) is a new business set up in Siemens with the aim of making buildings in Pakistan more productive, comfortable, secure and safe for owners, users, tenants and other stake holders.

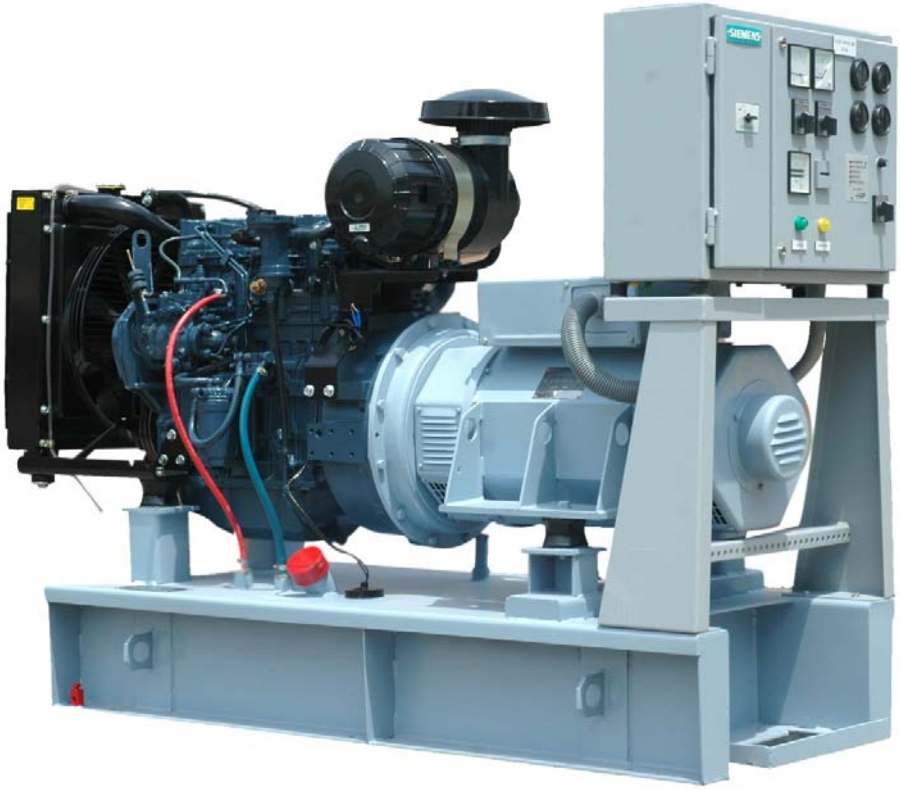
Highlights

- Soft launch of business by road show at hotel in Karachi
- Engaged in extensive sales and marketing activities throughout the year
- Several projects completed others in pipeline

Automation and Drives

Automation to drive Megacities

Sales	Rs. 1,203 million +30%
New Orders	Rs. 1,256 million +28%



A diesel generating set ready for delivery.

A mix of backup power with power provided by utilities is helping megacities cope with growing demands of electricity.

Automation and Drives

1 Generating Sets

The business of generating sets continued its tremendous expansion, thanks primarily to a high quality product and overall improvement in key economic indicators. A record number of generating sets were produced and sold this year. The upturn in the telecom and oil and gas sectors of the economy resulted in a major demand for these sets. The expansion of cellular networks in remote locations where utility power is not available, also paved the way for the installation of generating sets. A new sales avenue of financial institutions also established itself as a market segment for such sets. The enhancement in volume and market share is expected to continue in the next fiscal year.

Consumer preference for our generating sets is another feather in our cap. Our generating sets won the Consumer Choice Award 2005 in the category of best generator.

In exports we are looking for business opportunities in regional markets such as Bangladesh, the Gulf States and Sri Lanka.

The business unit is initiating programs for improving efficiency and introducing cost saving measures. These are aimed at assuring our competitiveness and maintaining our position as the leading local manufacturer of generating sets.

2 Motors and Alternators

The motors segment witnessed increased sales due to an increase in demand and subsequently increased share of the market. This was driven primarily by the growth in industrial segments like sugar and chemical. New sugar mills like Etihad Sugar at Rahim Yar Khan opted for a wide range of Siemens motors for their plants.

The motors business performance in 2007 will depend upon market dynamics and our ability to sustain the pressure of higher costs owing to the world wide increase in the costs of raw material. A determined sales and marketing strategy will be needed to fight against the continuing menace of illegal imports and reconditioned motors being imported as scrap and sold as new.

Overview

1 We provide locally manufactured diesel generating sets according to customer specifications. Growing demands of energy in megacities is putting pressure on energy resources and we aim to fill the gap by offering our cost effective and innovative solutions.

2 We locally manufacture a wide ranger of motors and alternators that are also exported to the region. The unit is fulfilling the growing demands of these products as cities become megacities and existing infrastructure requires timely expansion.

3 We are engaged in the marketing of products like Programmable Logic Controllers and Variable Speed Drives. Our products help speed up modernization for total automation required in this age of megacities.

Mag flow meter used for water management in industry.

With growing populations in megacities water scarcity is a natural consequence and industries have to manage water judiciously. Siemens helps industries in their quest for better water management solutions.

Automation and Drives

Highlights

Generating Sets

- Our generating sets won the Consumer Choice Award 2005 in the category of best generator
- A record number of generating sets were produced and sold this year
- A new sales avenue of financial institutions also established itself as a market segment for DG sets

Motors and Alternators

- New sugar mills like Etihad Sugar at Rahim Yar Khan opted for a wide range of Siemens motors for their plants.
- The increased demand of generating sets directly affected alternator production

Standard Products

- We energetically pursued product promotion and customer training throughout the year
- We made important contributions to new projects like Bulleh Shah paper mills at Kasur and Lucky Cement plant expansion in the NWFP.

The increased demand of generating sets directly affected alternator production. This ensured maximum use of production facilities around the year. Up gradation and refurbishment of production machines was another step taken to ensure quality products in desired volumes.

3 Standard Products

The Standard Products segment energetically pursued product promotion and customer training throughout the year in order to keep the market informed about Siemens innovations and their unique features. This, together with the increase in our product spectrum resulted in higher sales and profitability. We have also made a successful entry in the field of process instrumentation.

Markets of existing products like Programmable Logic Controllers and Variable Speed Drives provided further business. The business unit also made important contributions to new projects like Bulleh Shah paper mills at Kasur and Lucky Cement plant expansion in the NWFP.

Medical Solutions

Medical Solutions for Megacities ...

Sales	Rs. 437 million +90%
New Orders	Rs. 310 million –44%

Latest technology helping early diagnosis of diseases at Lady Reading Hospital Peshawar.

State of the art medical equipment for angiography such as Axiom Artis dFC is indispensable for megacities coping with an ever increasing demand on health care delivery institutions.

Medical Solutions

Overview

We provide turnkey executions and complete solutions in the healthcare industry. With exploding populations in megacities the need for latest technology to diagnose diseases early is fulfilled by our futuristic medical solutions.

Highlights

- We maintained our leadership position in molecular imaging
- Multimodality solutions for healthcare institutions lead the way for us in Pakistan
- Siemens gained a lead by securing a multimodality project from the Healthcare Hospital defense chapter

There was continued growth and an upward trend in the Medical Solutions market in Pakistan in the year under review.

We regained our leadership in molecular imaging by securing five out of seven orders of Dual Head Gamma cameras spanning from Karachi to Peshawar from the Atomic Energy Commission Medical Centers of Pakistan.

Multimodality solutions for healthcare institutions lead the way for Siemens Medical in Pakistan

Healthcare Hospital

Siemens gained a lead by securing a multimodality project from the Healthcare Hospital defense chapter. The 7 storey hospital shall now house a wide range of Siemens diagnostic imaging specialties which include the state of the art cardiac angiography system Axiom Artis dFC, CT scanner Somatom Sprit, X-ray systems Axiom Iconos R100 with Multix Swing, mammography system Mammomat Balance, C-arm Arcadis Varic, ultrasound systems Sonoline G60S and Sonoline G20. The hospital is expected to be operational in 6 weeks.

Lady Reading Hospital, Peshawar

We were also successful in getting the order from this important hospital of Peshawar. The multimodality order included the state of the art cardiac angiography system Axiom Artis dFC, a dual head Gamma Camera and two ultrasound systems Acuson CV 70

An important boost to the Siemens Molecular imaging installed base was an order for molecular imaging system, Duet Gamma Camera System for nuclear medicine studies.

Siemens Home Appliances

Providing improved quality of life for Megacities ...

Sales	Rs. 78 million	–6%
New Orders	Rs. 81 million	–13%

The latest liftmatic oven from SHA.

Innovative products like these are catering to the raised expectations of better quality of life in megacities.

Siemens Home Appliances

Overview

SHA offers a complete range of free standing & built in appliances that include refrigerators, gas cookers, washing machines, dish-washers & a wide range of small kitchen appliances. With higher earnings there is desire for higher standard of living. SHA endeavors to fill that need.

Highlights

- SHA promoted its built in range in the project market
- We are now partners in major projects like Meadows, Executive lodges, Savoy residences, Khudadad heights, Karakoram Heights and Blue water villas
- We are working with global developers like Emaar and Al Ghurair in the country
- Modern new showrooms opened in Lahore and Islamabad

Building further on the previous year's project strategy, Siemens Home Appliances (SHA) promoted its built in range in the project market and is a partner in major projects like Meadows, Executive lodges, Savoy residences, Khudadad heights, Karakoram Heights and Blue water villas in Islamabad and Lahore.

Apart from this SHA is also working with global developers like Emaar and Al Ghurair in the country

With a vision of leadership in a quality conscious market offering innovative products and solution, SHA focused on introducing new products like steam oven, warming drawers, Liftmatic oven, and quantum speed oven. Products that simply change the rules of cooking by combining the power and speed of light with conventional cooking methods.

Combining its product strength with professional services, SHA aims to introduce more innovative products in future with unique features for customers and partners that demand high quality and style.

A new showroom for SHA products opened in Lahore which will allow customers to obtain a first hand experience of SHA products including the whole range of built in kitchen appliances.

Locally Manufactured Products and Services

COMMUNICATIONS

Services

- RF planning, installation, commissioning and testing support of Turn-key Mobile Communication Systems incl: Mobile Switching Centers, Intelligent Networks, Base Station Controllers, Microwave Systems and Radio Base Stations
- Installation, commissioning and testing of complete Fixedline Communication Systems, incl: Switching and Fiber Optics Communication.
- Round the clock operation and maintenance support providing technical assistance for all Siemens Communication Systems
- Training for Switching and Transmission networks for Siemens and customers.
- Installation and commissioning of Internet Services, including Voice over IP solutions.
- Installation, commissioning and after-sales of Voice and Data Communication Systems, incl: LAN and WAN solutions for all types of Enterprises.

Products

Local manufacturing of digital communication systems is carried out at Siemens owned Carrier Telephone Industries Ltd. (CTI), Islamabad and joint venture Telephone Industries of Pakistan Ltd. (TIP), Haripur. Most of the after-sales repair work is also carried out at these locations locally. The products covered include:

- Digital Microwave Radios
- SDH Optic Fibre Transmission equipment
- Fixed Wireless Sets
- Digital Switching System EWSD
- Containers for housing rural Switching Systems
- Rectifier panels for telephone exchanges
- Telephone distribution cabinets and boxes

POWER TRANSMISSION AND DISTRIBUTION

Services

- Upgrading and Retrofitting of Electrical Installations
- Maintenance and Spare Parts
- Customer Training
- Network Analysis and Consultancy
- Engineering for System Protection
- Asset Management, Operations and Integrated Service Contracts
- System Studies
- Center of Competence for Network Planning

Products

Transformers

- Distribution transformers upto 3000 KVA
- Power transformers upto 220kV/160 MVA
- 11 kV Auto transformers with OLTC for use as Voltage Stabilizers
- Rectifier transformers
- Furnace transformers
- Reactors
- Neutral earthing transformers
- All types of designs for export market
- Center of competence for the region

Low Voltage Switchboards

- Switchboards upto 6300 Amps upto 100 kA
- Motor Control Centers fixed or draw-out type
- Hard wired or programmable logic controls
- Special switchboards, e.g. marine type according to various classification societies
- Control-gear for thyristor fed DC drives
- Control-gear for variable speed AC drives
- Power factor improvement plants
- Relay and Control Panels for 132/220/500 kV sub-stations
- Control Desks
- Bus Tie Ducts
- Distribution Boards

Medium Voltage Switchboards

- Circuit Breaker Panels upto 40kA and 125kV BIL
- Medium Voltage Load Break Switch Panels
- SF 6 Ring Main Units

Package Transformers Substations

For outdoor and indoor installations
- Self contained, factory wired
- Separate sections for MV, LV and transformers

Switchgear Components

- MV Vacuum circuit breakers
  3100 Amps, 40 kA, 15kV/36 kV/95 kV
  1250 Amps, 40kA, 15 kV/36 kV/95 kV
  800 Amps, 40 kA, 17.5 kV/38 kV/95 kV
  800 Amps, 20 kA, 12 kV, 28 kV, 75 kV

- MV Insulators

High Voltage Substation Projects

For High Voltage Substations upto 500kV, we offer complete Solutions including the following:

- Project Management
- Engineering
- GIS or HIS Gridstations
- Outdoor/Indoor Conventional Gridstations
- Transmission Lines
- Numerical Protection Systems
- Conventional and Digital Sub-station Control Systems

Due to our expertise in executing turnkey projects, Siemens Pakistan is designated as **"Center of Competence"** for High Voltage Substations in the region.

Energy Automation Systems

- Protection Relays and Protection Systems
- SCADA/Telecom Systems for Utilities and for the industries
- Load Dispatch Centre

INDUSTRIAL SOLUTIONS AND POWER GENERATION

Services

Engineering & Construction

Services and Solutions for Industrial, Infrastructure and Energy Sectors

- Project Management
- Design & Engineering Services (Mechanical, Electrical & Instrumentation)
- Global Procurement Services
- Mechanical Constructions
- Civil Constructions
- Electrical and I&C Installations
- Instrumentation & Control Systems
- Airport & Airfield Lighting Solutions
- Traffic Control Solutions
- Testing, Pre –Commissioning, Commissioning and Life Cycle Support

Traffic Control Systems

- Traffic Signal controller for vehicular traffic along with pedestrian crossing
- Vehicular/pedestrian signal heads (PVC/ aluminum) 300 mm or 200 mm
- Normal tubular and hanging type (cantilever) poles for signals head mounting.

Power Generation

Our service center provides technical support and services for almost all areas of Power Plant including:

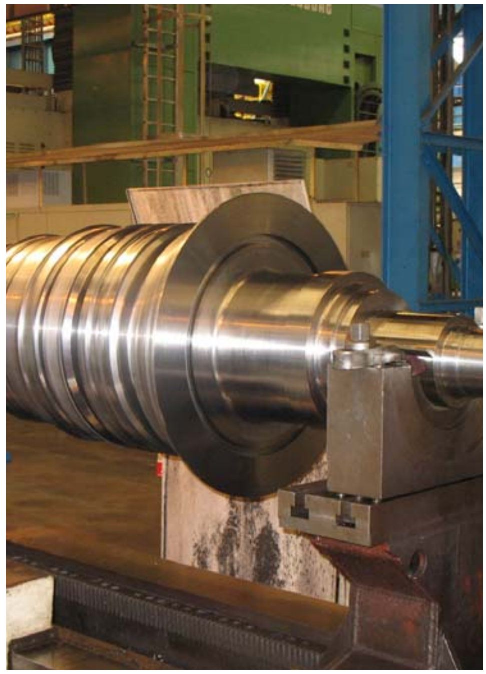
- Minor and major inspections of Turbines & Generators of all ranges, makes & sizes
- Routine and schedule maintenance, as well as long term maintenance contracts.
- Calibration of instruments
- Condition monitoring
- Vibration analysis
- Electrical and I&C system, trouble shooting & commissioning

Information Technology Services

Business software and IT infrastructure solutions including:

- mySAP ERP solutions
- Siemens Learning Center (state-of-the-art, dedicated training center offering SAP Academy and Short Course training and other leading certification programs)
- Complete IT infrastructure solutions (includes hardware and networking solutions)

Siemens Support Services (provides round-the-clock systems support services to our clients)



Process Industries and Water Technology

- Project Management
- Complete Design, Engineering and Commissioning of Process Control Systems
- Distributed Control System for Continuous and Batch Process Industry.
- SCADA System for Water, Oil & Gas etc.
- Process Instrumentations
- Water & Waste Water treatment plants.
- Water pumping stations / Disposal stations.
- IT Solution for Process Industries
- Management Information Systems
- Electrical Systems
- Systems Integration
- Training and Workshop for Customers

OnCall-, LogisticsService, Maintenance Services

Our service center provides technical support and services for entire plant life cycle including:

OnCall, Logistics, Maintenance

- Preventive and Predictive maintenance
- Maintenance contracts
- Routine Maintenance of Electrical and I&C system
- Calibration of instruments
- PCB Repair
- Minor and major inspections and overhauls specially for power plants
- On-Call Services and Call out support
- Vibration analysis
- Thermography Services for Electrical and Mechanical Equipment / System
- Logistics Supply of Spare Parts
- Consultancy Services range from process mapping and analysis to detailed feasibility studies
- Training for industrial personnel

Workshop Services

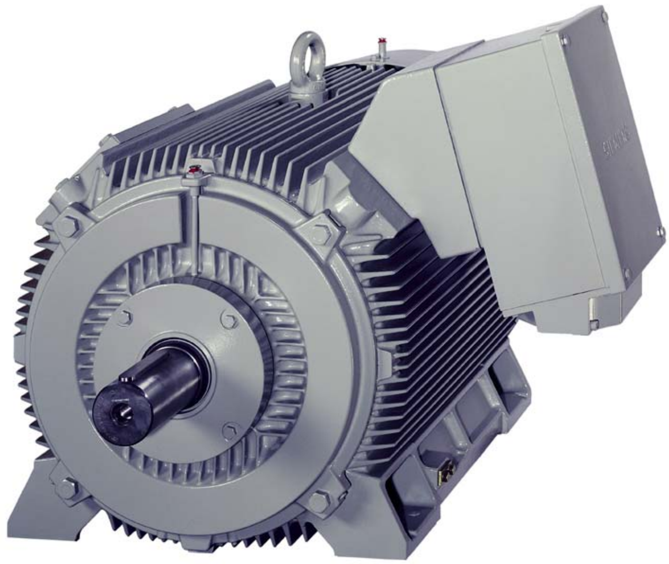
- Motors / Alternators Repairs and Overhauling

Rail Transportation

- Complete design and manufacture of system and power supply Racks and Auto Block, Tokenless and Track Circuiting Systems
- Completely wire Track Cabinets, Control and Indication Panels, and Assembly of Signal Groups

Siemens Building Technologies

- Fire Alarm Systems
- Security Systems
  - Surveillance System (through high-tech Security Cameras)
  - Intruder detection systems
  - Access Control System
- Building Management Systems and HVAC Controls
- Hospitality Solutions



AUTOMATION AND DRIVES

PRODUCTS

Generating Sets

- Upto 1.1 MVA, 3 phase, 400V, 50/60 Hz.
- Base load, Prime power or Standby duty
- Automatic Mains, Failure Units (Relay based/Logic module based)
- Changeover Units (Manual/Motorized)
- Synchronizing Units - Manual & Automatic
- Manual Over Ride panels
- Main & Sub-distribution Boards
- Sound attenuated / Weatherproof enclosures
- Skid, Trailer / Trolley-mounted
- Fuel Tanks
- Fully customizable, tailor made options

Low Voltage Motors

- 3-phase squirrel cage induction types motors for horizontal and vertical applications, 1HP to 400 HP, 2, 4 6 & 8 poles
- 3-phase squirrel cage induction motors for horizontal and vertical applications in energy saving design, 1 HP to 25 HP, 2, 4 6 & 8 poles
- 3-phase vertical hollow shaft motors for deep well turbine pumps, 7.5 HP to 250 HP, 2, 4 & 6 poles

Special Motors

- Pole changing Motors
- Increased Safety Motors
- Motors for textile applications

Service and Repair

- Pre and post purchase consultancy services for power solutions
- Maintenance, Repair and Overhauls with full back-up support
- Turnkey operation and maintenance contracts
- Genuine back up spare parts inventory
- Installation, Testing and Commissioning

MEDICAL SOLUTIONS

Services

We offer economical and complete solutions to customers for execution of projects on turnkey basis, project management, inclusive of engineering, construction, supplies, installation, commissioning, customer training and long term maintenance.

Notice of Meeting

Notice is hereby given that the Fifty Fourth Annual General Meeting of the shareholders of Siemens (Pakistan) Engineering Company Limited will be held on **December 27, 2006** at B-72, Estate Avenue, S.I.T.E., Karachi at 10:30 a.m. to transact the following business:

Ordinary business

1. To confirm the minutes of the extra ordinary general meeting of the shareholders of the Company held on December 01, 2006.

2. To receive and adopt the audited financial statements for the year ended September 30, 2006 and reports of the directors and auditors thereon.

3. To declare and approve final dividend of Rs. 30 per share (300%) in addition to interim dividend of Rs. 36 per share (360%) already paid, thereby making a total dividend of Rs. 66 per share (660%) for the year ended September 30, 2006.

4. To appoint auditors and to fix their remuneration for the year ending September 30, 2007.The present auditors KPMG Taseer Hadi & Co., Chartered Accountants, retire and being eligible have offered themselves for reappointment.

5. To transact such other ordinary business as may be placed before the Meeting with the permission of the Chair.

Special business

6. To consider and, if thought fit, to pass with or without modification the following resolution authorising the sale and transfer of Communication (COM) carrier networks and enterprise networks business and related assets of the company:

   RESOLVED THAT subject to any regulatory and other approvals and consents as may be necessary, the Company sell and transfer its carrier and enterprise networks businesses and assets connected therewith including, without limitation, movable and intangible assets, employees of the Company employed by or in connection with such businesses, but excluding immovable property, to one or more entities in or outside Pakistan for cash consideration not less than: (a) Rs. 1,899.136 million (equivalent € 24.348 million) for the carrier networks business and (b) Rs. 156.484 million (equivalent € 2.006 million) for the enterprise networks business subject in each case to any adjustment as may be required in order to reflect the actual identity and value of the transferred assets but not exceeding 5% of the aforesaid consideration in the event of a downward adjustment.

   FURTHER RESOLVED THAT the Company do all such acts, deeds and things as may be necessary and/or expedient for the aforesaid purpose or in furtherance thereof including, without limitation, to enter into and deliver and implement any and all agreements or undertakings as may be necessary or expedient for the purpose.

   FURTHER RESOLVED THAT Mr. Sohail Wajahat H. Siddiqui, Managing Director & CEO of the Company and Mr. Mohammad Rafi, Company Secretary, or such one or more other persons as either of them may from time to time specially designate for the purpose, be and are hereby severally authorised and empowered to: negotiate, finalize and execute (as applicable) any and all contracts, instruments, powers of attorney, notices, certificates, documents (of whatever nature and description) for or in connection with the sale and transfer of the Company's carrier and enterprise networks businesses and assets; affix the Company seal onto any agreement or document and sign or countersign the same; seek and obtain any and all regulatory and other approvals and consents as may be necessary or expedient for the purpose; and in connection with such sale and transfer for the consideration as aforesaid, do all such acts, deeds and things as they may deem necessary and/or expedient.

7. To approve the holding of office of profit as Chief Financial Officer by Mr. Gerhard Wilcke, the director of the Company.

8. To consider and pass with or without modification the following resolution as a Special Resolution for amending the Articles of Association of the Company:

   "Resolved that in the Article 115 of the Articles of Association of the Company in the last line Rupees ten thousand be inserted in place of Rupees five hundred".

By order of the Board

Mohammad Rafi
Company Secretary

Karachi: December 5, 2006.

Notes:

1. The Share Transfer Books of the Company will remain closed from December 19, 2006 to December 28, 2006 (both days inclusive).

2. A member entitled to attend and vote at this Meeting may appoint another member as his/her proxy to attend and vote on his/her behalf. Proxy forms in order to be valid must be received at the Registered Office of the Company not less than 48 hours before the time of Meeting. A member shall not be entitled to appoint more than one proxy. A proxy must be a member.

3. CDC account holders will further have to follow the under mentioned guidelines as laid down in Circular No.1 dated January 26, 2000 issued by the Securities and Exchange Commission of Pakistan.

FOR ATTENDING THE SHAREHOLDERS MEETING

i) In case of individuals, the account holder or sub-account holder and/or the person, whose securities are in group account and their registration details are uploaded as per the Regulations, shall authenticate his/her identity by showing his/her original National Identity Card (NIC) or original passport at the time of attending the meeting.
The shareholders registered on CDC are also requested to bring their particulars, I.D. numbers and account numbers in CDS.

ii) In case of a corporate entity the Board of Directors' resolution/Power of Attorney with specimen signature of the nominee shall be produced (unless it has been provided earlier) at the time of meeting.

FOR APPOINTMENT OF PROXIES

i) In case of individual, the account holder or sub-account holder and/or the person whose securities are in group account and their registration details are uploaded as per the Regulations, shall submit the proxy form as per requirement notified by the company.

ii) The proxy form shall be witnessed by two persons whose names, addresses and NIC numbers shall be mentioned on the form.

iii) Attested copies of NIC or the passport of the beneficial owners and the proxy shall be furnished with the proxy form.

iv) The proxy shall produce his original NIC or original passport at the time of meeting.

v) In case of corporate entity, the Board of Directors resolution/Power of Attorney with specimen signature shall be submitted along with proxy form to the company.

4. The statement under section 160(1)(b) of The Companies Ordinance,1984 is annexed.

Statement under section 160(1)(b) of The Companies Ordinance, 1984

1. In June 2006, Siemens AG, Germany (SAG) the majority shareholders of the Company, had announced that globally the Communication (COM) carrier activities of SAG would be carved out and shall be merged into a new company (with 50:50 stake holding), called Nokia Siemens Networks,(NSN) with Nokia as the other partner. Further, SAG's COM enterprise business would also be separated to form a new entity. Accordingly, COM carrier and enterprise activities of Siemens Pakistan shall also be carved out and sold and transferred respectively to NSN Pakistan and a separate company of SAG. The following are the details of the transaction:

2. (i) Fair value of business to be disposed off, determined by an independent consultant appointment of which was approved by the board:

COM carrier networks		Rs. 1,899.136 million
COM enterprise networks		Rs. 156.484 million
	Total	**Rs. 2,055.620 million**

(ii) The proposed manner of disposal of the business and assets:

Sale of business and assets against cash

(iii) Reasons for sale, lease or disposal of assets and the benefits expected to accrue to the shareholders there from:

As explained above, this decision is in line with the decision of SAG. No further support shall be available from SAG for this business in future. Shareholders shall be benefited by increased earnings in the form of capital gain and by investment of the sales proceed in other profitable operations and acquisitions, if any.

The directors have no personal interest in the sale and transfer of the businesses and assets referred to above.

3. Mr. Gerhard Wilcke has been elected as director of the Company in the extra ordinary general meeting of the shareholders held on December 01, 2006. He is also holding office of profit as the Chief Financial Officer of the Company. Hence approval is being sought for Mr. Gerhard Wilcke's holding of office of profit as Chief Financial Officer under section 188 (c)(i) of The Companies Ordinance 1984 and article 117 of the Articles of Association of the Company.
Mr. Gerhard Wilcke , being a director, is interested in this approval .No other director has any interest in this appointment, directly or indirectly.

4. The Board of Directors of the Company have decided to increase the remuneration of the Directors for attending the Board Meeting from Rupees five hundred to Rupees ten thousand. Therefore, the present article 115 of the Articles of Association of the Company needs to be amended accordingly and a special resolution is to be passed by the shareholders of the Company to effect the amendment in the subject Article.

Statement of Compliance with the Best Practices of Code of Corporate Governance

This statement is being presented to comply with the requirements of the Code of Corporate Governance as incorporated in the listing regulations of the stock exchanges of Pakistan. The Code provides a framework of best practices of Corporate Governance. Good Governance is considered indispensable by the Board to enhance and achieve highest performance. The Company has applied the principles contained in the Code in the following manner:

1. The Company encourages representation of independent non-executive directors. The Board comprises of eight directors which include three independent non-executive directors, one of whom is the Chairman. Two directors represent the National Investment Trust Limited (NIT).

2. All the directors have given declaration that they were aware of their duties and powers under the relevant laws and the Company's Memorandum and Articles of Association and the listing regulations of the stock exchanges of Pakistan.

3. None of the directors of the Company is serving as a director in ten or more listed companies.

4. All the resident directors of the Company are registered taxpayers and none of them has defaulted in payment of any dues to any banking company, a DFI or NBFI.

5. None of the directors or their spouses are engaged in business of stock brokerage.

6. The casual vacancies, due to resignation of two of the directors during the year, were duly filled in within 30 days.

7. The Company has adopted a Statement of Ethics & Business Practices which has been signed by all the directors and employees of the Company.

8. The Board of Directors has developed a Vision and Mission Statement. All significant policies have been approved by the Board and incorporated in the Company's Code of Corporate Governance manual. The level of materiality has been defined by the Board.

9. All the powers of the Board have been duly exercised and decisions on material transactions have been taken by the Board. The appointment, remuneration and terms and conditions of employment of the Chief Executive Officer, the Chief Financial Officer, the Head of Internal Audit and the Company Secretary have been approved by the Board of Directors.

10. The roles and responsibilities of the Chairman and the Chief Executive Officer are clearly defined.

11. The meetings of the Board are presided over by the Chairman and, in his absence, by a director elected by the Board for this purpose.

12. The Board meets at least once in every quarter.

13. Written notices and agenda of Board Meetings are circulated not less than seven days before the meetings.

14. The Minutes of the Board Meetings are appropriately recorded, signed by the Chairman and circulated within 14 days from the date of meetings.

15. The Company conducted in-house orientation for foreign resident directors to apprise them of their duties and responsibilities. Other directors being professionals and directors of other local companies are already aware of their duties and responsibilities.

16. All material information as required under the relevant rules has been provided to the stock exchanges and to the Securities & Exchange Commission of Pakistan within the prescribed time limit.

17. All quarterly, half yearly and annual financial statements presented to the Board for approval were duly endorsed by the CEO and the CFO.

18. The directors, CEO, CFO and other executives do not hold any interest in the shares of the Company other than that disclosed in the pattern of shareholding.

19. All statements have been included in the Directors' report, which are required by the Code and Section 236 of the Companies Ordinance, 1984.

20. We confirm that the Company has complied with all material principles and the corporate and financial reporting requirements of the Code as mentioned in this Statement of Compliance with the best practices of Corporate Governance.

21. The Board has formed an audit committee. It comprises of four members, all of whom are non-executive directors.

22. The meetings of the audit committee were held at least once every quarter prior to approval of interim and final results of the Company and as required by the Code. The terms of reference of the committee have been formed and advised to the committee for compliance.

23. The Company has an internal audit function in place. The function is managed by suitably qualified and experienced staff. The internal audit activities are further supplemented by financial audit carried out by regional audit team.

24. The external auditors of the Company have confirmed that they have been given a satisfactory rating under the quality control review program of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Company and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.

25. The external auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.

26. The directors' report has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.

For and on behalf of the Board of Directors

Syed Babar Ali
Chairman
Karachi, November 20, 2006

Sohail Wajahat H. Siddiqui
Chief Executive Officer

Review Report to the Members on Statement of Compliance with Best Practices of Code of Corporate Governance

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of Siemens (Pakistan) Engineering Company Limited to comply with the Listing Regulation No. 37, 36 and Chapter VIII of the Karachi, Islamabad and Lahore Stock Exchanges respectively where the Company is listed.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Company. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Company's compliance with the provisions of the Code of Corporate Governance and report if it does not. A review is limited primarily to inquiries of the Company personnel and review of various documents prepared by the Company to comply with the Code.

As part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control system sufficient to plan the audit and develop an effective audit approach. We have not carried out any special review of the internal control system to enable us to express an opinion as to whether the Board's statement on internal control covers all controls and the effectiveness of such internal controls.

Based on our review, nothing has come to our attention, which causes us to believe that the Statement of Compliance does not appropriately reflect the Company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance.

KPMG Taseer Hadi & Co.

Date: November 20, 2006
Karachi

KPMG Taseer Hadi & Co.
Chartered Accountants

Auditors' Report to the Members

We have audited the annexed unconsolidated balance sheet of Siemens (Pakistan) Engineering Company Limited ("the Company") as at 30 September 2006 and the related unconsolidated profit and loss account, unconsolidated cash flow statement and unconsolidated statement of changes in equity together with the notes forming part thereof, for the year then ended and we state 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.

It is the responsibility of the Company's management to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the approved accounting standards and the requirements of the Companies Ordinance, 1984. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the above said statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the above said statements. We believe that our audit provides a reasonable basis for our opinion and, after due verification, we report that:

a) in our opinion, proper books of account have been kept by the Company as required by the Companies Ordinance, 1984;

b) in our opinion:

   i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;

   ii) the expenditure incurred during the year was for the purpose of the Company's business; and

   iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Company;

c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at 30 September 2006 and of the profit, its cash flows and changes in equity for the year then ended; and

d) in our opinion, Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980), was deducted by the Company and deposited in the Central Zakat Fund established under section 7 of that Ordinance.

KPMG Taseer Hadi & Co.

Date: November 20, 2006
Karachi

KPMG Taseer Hadi & Co.
Chartered Accountants

Siemens (Pakistan) Engineering Company Limited
Balance Sheet
As at September 30, 2006

	Note	2006	2005
		(Rupees in '000)	
Share capital and reserves			
Share capital			
- Authorised			
20,000,000 (2005: 20,000,000) ordinary shares of Rs 10 each		**200,000**	200,000
- Issued, subscribed and fully paid-up	*4*	**77,696**	77,696
Reserves	*5*	**1,837,528**	1,837,528
Retained earnings		**814,972**	545,758
Total equity		**2,730,196**	2,460,982
Retention money payable		**68,843**	37,534
Employees' long service bonus		**8,556**	8,002
Total non-current liabilities		**77,399**	45,536
Trade and other payables	*7*	**8,302,734**	5,032,357
Short-term running finances	*8*	**503,690**	104,584
Provision for taxation		**440,304**	245,036
Total current liabilities		**9,246,728**	5,381,977
Contingencies and commitments	*9*		
Total equity and liabilities		**12,054,323**	7,888,495

Siemens (Pakistan) Engineering Company Limited
Balance Sheet
As at September 30, 2006

	Note	2006	2005
		(Rupees in '000)	
Property, plant and equipment	*10*	**737,990**	602,876
Intangible assets	*11*	**32,372**	54,392
Long-term investment	*12*	**500,000**	-
Long-term receivables and prepayments	*13*	**638,396**	400,586
Deferred tax assets	*14*	**349,617**	115,365
Total non-current asset		**2,258,375**	1,173,219
Inventories	*15*	**2,285,213**	1,499,812
Trade receivables	*16*	**5,098,330**	2,597,760
Other receivables	*17*	**645,097**	873,944
Cash and bank balances	*18*	**1,767,308**	1,743,760
Total current assets		**9,795,948**	6,715,276
Total assets		**12,054,323**	7,888,495

The annexed notes 1 to 40 form an integral part of these financial statements.

Sohail Wajahat H. Siddiqui
Chief Executive Officer

Gerhard Wilcke
Chief Financial Officer & Director

Siemens (Pakistan) Engineering Company Limited

Profit and Loss Account

For the year ended September 30, 2006

	Note	2006	2005
		(Rupees in '000)	
Net sales	19	**19,806,575**	13,132,819
Cost of sales	20	**(17,411,915)**	(11,368,224)
Gross profit		**2,394,660**	1,764,595
Commission and allowances earned		**615,347**	579,851
		3,010,007	2,344,446
Marketing and selling expenses	21	**(967,655)**	(744,098)
General administration expenses	22	**(219,999)**	(217,183)
		(1,187,654)	(961,281)
		1,822,353	1,383,165
Other operating expenses	23	**(163,493)**	(106,358)
Financial expenses	24	**(250,721)**	(94,107)
Other operating income	25	**104,745**	50,199
		(309,469)	(150,266)
Profit before tax		**1,512,884**	1,232,899
Income tax expense	26	**(777,494)**	(454,053)
Profit for the year		**735,390**	778,846
Basic and diluted earnings per share (Rupees)	27	**94.65**	100.24

The annexed notes 1 to 40 form an integral part of these financial statements.

Sohail Wajahat H. Siddiqui
Chief Executive Officer

Gerhard Wilcke
Chief Financial Officer & Director

Siemens (Pakistan) Engineering Company Limited
Cash Flow Statement
For the year ended September 30, 2006

	Note	2006	2005
		(Rupees in '000)	
Cash flows from operating activities			
Cash generated from operations	28	**2,071,025**	1,737,110
Payments to employees for long service bonus		**(2,310)**	(1,376)
Financial expenses paid		**(249,875)**	(93,699)
Income tax paid		**(816,478)**	(369,810)
Long-term receivables and prepayments		**(237,810)**	(347,702)
Retention money payable		**31,309**	34,487
Net cash flows from operating activities		**795,861**	959,010
Cash flows from investing activities			
Capital expenditure		**(299,451)**	(243,186)
Proceeds from sale of property, plant and equipment		**23,465**	15,453
Investment			
- subsidiary	28.2	**(500,000)**	-
- others		**-**	5,450
Financial income received		**69,549**	29,734
Net cash flows from investing activities		**(706,437)**	(192,549)
Cash flows from financing activities			
Dividends paid		**(464,982)**	(464,946)
Net cash flows from financing activities		**(464,982)**	(464,946)
Net (decrease) / increase in cash and cash equivalents		**(375,558)**	301,515
Cash and cash equivalents at beginning of the year		**1,639,176**	1,337,661
Cash and cash equivalents at end of the year	29	**1,263,618**	1,639,176

The annexed notes 1 to 40 form an integral part of these financial statements.

Sohail Wajahat H. Siddiqui
Chief Executive Officer

Gerhard Wilcke
Chief Financial Officer & Director

Siemens (Pakistan) Engineering Company Limited
Statement of Changes in Equity
For the year ended September 30, 2006

	Issued, subscribed and paid-up share capital	Share premium	Capital repurchase reserve account	Other capital reserve	General reserve	Retained earnings	Total
	(Rupees in '000)						
Balance as at September 30, 2004	77,696	9,635	567	4,300	1,798,433	257,681	2,148,312
Final dividend @ Rs 30 per share for the year ended September 30, 2004	-	-	-	-	-	(233,088)	(233,088)
Transfer to general reserves	-	-	-	-	24,593	(24,593)	-
Profit for the year ended September 30, 2005	-	-	-	-	-	778,846	778,846
Interim dividend @ Rs 30 per share for the six months period ended March 31, 2005	-	-	-	-	-	(233,088)	(233,088)
Balance as at September 30, 2005	77,696	9,635	567	4,300	1,823,026	545,758	2,460,982
Final dividend @ Rs 24 per share for the year ended September 30, 2005	-	-	-	-	-	(186,470)	(186,470)
Profit for the year ended September 30, 2006	-	-	-	-	-	735,390	735,390
Interim dividend @ Rs 6 per share for the three months period ended December 31, 2005	-	-	-	-	-	(46,618)	(46,618)
Interim dividend @ Rs 30 per share for the six months period ended March 31, 2006	-	-	-	-	-	(233,088)	(233,088)
Balance as at September 30, 2006	**77,696**	**9,635**	**567**	**4,300**	**1,823,026**	**814,972**	**2,730,196**

The annexed notes 1 to 40 form an integral part of these financial statements.

Sohail Wajahat H. Siddiqui
Chief Executive Officer

Gerhard Wilcke
Chief Financial Officer & Director

Siemens (Pakistan) Engineering Company Limited
Notes to the Financial Statements
For the year ended September 30, 2006

1. LEGAL STATUS AND OPERATIONS

The Company is incorporated in Pakistan as a public limited company and its shares are quoted on the Karachi, Islamabad and Lahore Stock Exchanges. The Company is principally engaged in execution of projects under contracts and in the manufacture, installation and sale of electronic and electrical capital goods.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of these financial statements are set out below:

2.1 Statement of compliance

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan and the requirements of the Companies Ordinance, 1984. Approved accounting standards comprise of such International Accounting Standards as notified under the provisions of the Companies Ordinance, 1984. Wherever the requirements of the Companies Ordinance, 1984 or directives issued by the Securities and Exchange Commission of Pakistan differ with the requirements of these standards, the requirements of the Companies Ordinance, 1984 or the requirements of the said directives take precedence.

2.2 Basis of preparation

These financial statements have been prepared under the ‘historical cost’ convention.

These financial statements are separate financial statements of the Company in which investments are accounted for on the basis of direct equity interest rather than on the basis of the reported results and net assets of the investee. The consolidated financial statements of the Group have also been presented.

Key sources of estimation and judgements

The preparation of financial statements in conformity with approved accounting standards requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. However, assumptions and judgements made by the management in the application of accounting policies that have significant effect on the financial statements are not expected to result in material adjustment to the carrying amounts of assets and liabilities.

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In preparing these financial statements, the significant judgements made by the management in applying accounting policies include:

- Warranty obligations (note 2.4)
- Provision for liquidated damages aggregating Rs 213.481 million as at September 30, 2006 (note 2.4)
- Provision against inventories and doubtful receivables (notes 2.12 and 2.13)
- Actuarial assumptions for the gratuity scheme and provision thereagainst (note 6)
- Provision for taxes and deferred taxation (note 26.2)
- Cost of completion of contracts in progress and their results (note 31)

Standards, interpretations and amendments to published accounting standards that are issued but not yet effective

The following standards, amendments and interpretations of approved accounting standards are only effective for accounting periods beginning on or after October 1, 2006 and except for additional disclosures are not expected to have a significant effect on the Company’s financial statements or are not relevant to the Company:

- Amendment to IAS 1, Presentation of Financial Statements - Capital disclosures;
- IAS 19 (Amendment), Employee Benefits - Additional disclosures;
- IAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intra group Transactions;
- IAS 39 (Amendment), The Fair Value Option;
- Amendment to IAS 21, The Effects of Changes in Foreign Exchange Rates: net investment in foreign operation;
- IFRIC 4, Determining whether an Arrangement contains a Lease;
- IFRIC 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Fund;
- IFRIC 6, Liabilities arising from Participating in a Specific market - Waste Electrical and Electronic Equipment;
- IFRIC 9, Reassessment of Embedded Derivatives; and
- IFRIC 10, Interim Financial Reporting and Impairment

2.3 Employees' retirement benefits

Defined Benefit Plan

The Company operates a funded gratuity scheme for its regular permanent employees except expatriates. Provisions are made in the financial statements to cover obligations on the basis of actuarial valuation carried out annually under the projected unit credit method. Actuarial gains / losses are amortised over the expected future service of the employees.

Defined Contribution Plan

The Company also operates a provident fund scheme for all its regular permanent employees except expatriates. Equal monthly contributions are made to the fund, both by the Company and the employees at the rate of 10 percent of basic salary and cost of living allowance wherever applicable.

2.4 Provisions

A provision is recognised in the balance sheet when the Company has legal or constructive obligation as a result of past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of obligation.

The Company accounts for its obligations towards long service bonus payable to its employees who are expected to complete twenty five / forty years of service when the employees render service.

The Company accounts for its warranty obligations when the underlying products or services are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

Various contracts entered into by the Company include provisions whereby liquidated damages may be imposed in case of delay in completion of the project. These damages are generally levied in case the delay is considered to be on account of factors under Company's control. The Company makes provision for these liquidated damages based on an analysis of various factors resulting in delays / estimated delays. The imposition of actual liquidated damages is subject to negotiations and, in certain cases, based on fresh analysis of the factors affecting the delay, these damages may not be imposed or may be higher than the amount provided. On final acceptance and release of retention money, the provisions which are no longer required are released to profit and loss account.

2.5 Borrowing costs

Borrowing costs are recognised as an expense in the period in which they are incurred.

2.6 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses, if any. Cost in relation to self manufactured assets includes direct cost of materials, labour and applicable manufacturing overheads. Capital work-in-progress is stated at cost.

Depreciation is charged to profit and loss account applying the straight line method whereby the cost of an asset is written off over its estimated service life. Depreciation on additions is charged from the month in which asset is put to use and on disposals upto the month of deletion.

Maintenance and normal repairs are charged to income as and when incurred.

Renewals and improvements are capitalised and the assets so replaced, if any, are retired. Gains or losses on sale or retirement of fixed assets are included in income currently.

2.7 Intangible assets

Intangible assets are stated at cost less accumulated amortisation. These are amortised using the straight line method over the estimated useful lives of intangible assets.

2.8 Impairment

The carrying value of the Company's non-financial assets other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indications exist, the recoverable amount is estimated. An impairment loss is recognised if carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the profit and loss.

2.9 Investments

Investments in subsidiaries are recognised at cost.

2.10 Taxation

2.10.1 *Current*

Provision for current taxation is based on taxability of certain income streams of the Company under presumptive tax regime at the applicable tax rates and remaining income streams chargeable at current rate of taxation under the normal tax regime after taking into account tax credits and tax rebates available, if any.

2.10.2 *Deferred*

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only when it is probable that future taxable profits will be available against which the deductible temporary differences can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

2.11 Long-term receivables

Long-term loans, trade debts, deposits and other receivables, except those on which mark-up is earned by the Company are discounted to their present values.

2.12 Inventories

Inventories are valued at the lower of cost and net realisable value. Cost of finished goods, both manufactured and purchased, raw material and components is determined on weighted average basis. The cost of work-in-process and finished goods includes direct materials, labour and applicable production overheads. Goods-in-transit are valued at cost comprising invoice value and other expenses incurred thereon.

Net realisable value is arrived at by considering the depletion span and technical obsolescence of inventories and the replacement cost thereof.

2.13 Trade receivables

2.13.1 Trade receivables are initially recognised at fair value and subsequently measured at amortised cost.

2.13.2 Due against construction work in progress represents the gross unbilled amount expected to be collected from customers for contract work performed to date. It is measured at cost plus profit recognised to date less progress billing and recognised losses. Cost includes all expenditures related directly to specific projects and an allocation of fixed and variable overheads incurred.

2.13.3 Provision for impairment on trade receivables is established when there is objective evidence that the Company will not be able to collect all amount due according to original terms of receivables.

2.14 Cash and cash equivalent

Cash and cash equivalents comprise of cash in hand and deposits held with banks. Running finance facilities availed by the Company, which are repayable on demand and form an integral part of the Company's cash management are included as part of cash and cash equivalents for the purpose of the statement of cash flows.

2.15 Segment reporting

A business segment is a distinguishable component within a Company that is engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments. The Company's primary format for segment reporting is based on business segments.

2.16 Foreign currencies

Foreign currency transactions are translated into Pak Rupees at exchange rates prevailing on the date of transaction. Assets and liabilities in foreign currencies are translated at the rates of exchange prevailing at the balance sheet date. Exchange gains and losses are included in income currently.

2.17 Revenue recognition

Revenue from sale of goods are recognised when significant risks and rewards of ownership are transferred to the buyer i.e., when deliveries are made or when goods are specifically contractually appropriated. Service revenue is recognised over the contractual period or as and when services are rendered to customers. Commission income is recognised on receipt of credit note.

Contract revenue and contract costs relating to long term construction contracts are recognised as revenue and expenses respectively by reference to stage of completion of contract activity at the balance sheet date. Stage of completion of a contract is determined by applying 'cost-to-cost method'. Under cost-to-cost method stage of completion of a contract is determined by reference to the proportion that contract cost incurred to date bears to the total estimated contract cost. Contract revenue on construction contracts valuing less than Rs 10 million and duration upto six months is recognised using completed contract method. Expected losses on contracts are recognised as an expense immediately.

In respect of certain sales contracts, the price differentials are accounted for in the year in which they are finally determined.

2.18 Financial assets and liabilities

All financial assets and liabilities are initially measured at cost, which is the fair value of the consideration given or received as appropriate. These financial assets and liabilities are subsequently measured at fair value or amortised cost as the case may be. The Company derecognises the financial assets and financial liabilities when it ceases to be a party to such contractual provisions of the instruments.

2.19 Derivative financial instruments

The Company uses derivative financial instruments to hedge its exposure to foreign exchange arising from operational activities. Any gain or loss from re-measuring the hedging instrument at fair value is recognised in the profit and loss account.

2.20 Dividends

Dividend is recognised as a liability in the period in which it is declared.

2.21 Discontinuing operations

A discontinuing operation is a separate major line of business, which is a distinct part of the business both operationally and also for financial reporting purposes and which is in the process of being sold in its entirety.

3. DISCONTINUING OPERATIONS

Siemens Aktiengesellschaft, Germany (SAG) announced that globally the Communication (COM) carrier network activities of SAG would be carved out and shall be merged into a new company (with 50:50 stake holding), called Nokia Siemens Networks (NSN), with Nokia as the other partner. Further, SAG's COM enterprise network business would also be separated to form a new entity. Accordingly, COM carrier and enterprise network activities of the Company shall also be carved out to NSN Pakistan and a separate entity of SAG respectively effective January 1, 2007, subject to approval by the shareholders, at a fair market value.

During the year ended September 30, 2006, COM earned revenue of Rs 5,957.510 million, incurred expenses of Rs 4,738.168 million and earned a pre-tax profit of Rs 1,219.342 million with a related income tax expense of Rs 426.031 million. During the year, COM's cash inflow from operating activities was Rs 1,323.184 million, cash outflow from investing activities was Rs 8.000 million and cash flow from financing activities was nil. The carrying values of COM's assets and liabilities were Rs 1,488.532 million and Rs 833.052 million respectively.

			2006	2005
			(Rupees in '000)	
4.	**ISSUED, SUBSCRIBED AND FULLY PAID-UP SHARE CAPITAL**			
	Ordinary shares of Rs. 10 each			
	6,217,780	Issued for cash	**62,178**	62,178
	81,700	Issued for consideration other than cash	**817**	817
	1,526,800	Issued as bonus shares	**15,268**	15,268
	(56,683)	Shares bought back	**(567)**	(567)
	7,769,597		**77,696**	77,696

4.1 Siemens AG held 4,973,680 ordinary shares (2005: 4,973,680 ordinary shares) of Rs. 10 each of the Company as at September 30, 2006.

4.2 Dividends

The Board of Directors in their meeting held on November 20, 2006 have proposed a final cash dividend of Rs. 30 per share (2005: Rs. 24 per share) amounting to Rs. 233.088 million (2005: Rs. 186.470 million). The Board also proposed to transfer an amount of Rs. 200.000 million (2005: nil) from retained earnings to general reserves.

			2006	2005
5.	**RESERVES**	*Note*	**(Rupees in '000)**	
	Share premium	*5.1*	**9,635**	9,635
	Capital repurchase reserve account	*5.2*	**567**	567
	Other capital reserve		**4,300**	4,300
	General reserve		**1,823,026**	1,823,026
			1,837,528	1,837,528

5.1 This represents premium of Rs 50 per share on issue of 186,340 ordinary shares and Rs 70 per share on issue of 223,608 ordinary shares of Rs 10 each during the years ended September 30, 1988 and 1990 respectively. This amount has been reduced by Rs 15.334 million on account of 56,683 shares bought back by the Company during the year ended September 30, 2003.

5.2 This represents the amount by which the share capital of the Company was diminished on buy back of 56,683 shares of Rs 10 each and transferred from the distributable profits of the Company to 'Capital Repurchase Reserve Account' during the year ended September 30, 2003. This reserve was created to comply with the requirements of sub-section 10 of section 95A of the Companies Ordinance, 1984.

6. STAFF RETIREMENT BENEFIT - Defined benefit plan

6.1 The actuarial valuation of gratuity scheme was carried out at September 30, 2006. The projected unit credit method, using the following significant financial assumptions, has been used for the actuarial valuation:

- Discount rate 10.78% per annum compound (2005: 11.65%).
- Expected rate of increase in salaries 8.66% per annum (2005: 9.52%).
- Expected rate of return on plan assets 10.78% per annum (2005: 11.65%).

The amounts recognised in the balance sheet are as follows:

	2006	2005
	(Rupees in '000)	
Fair value of plan assets	**348,379**	331,390
Present value of defined benefit obligation	**(294,992)**	(246,385)
Surplus	**53,387**	85,005
Unrecognised net gain	**(13,920)**	(39,535)
Surplus carried forward in the balance sheet	**39,467**	45,470

6.2 Movement in net asset in the balance sheet is as follows:

	2006	2005
Opening balance of net asset	**45,470**	47,983
Expense recognised for the year	**(6,003)**	(2,513)
Closing balance of net asset	**39,467**	45,470

6.3 The following amounts have been charged in the profit and loss account in respect of these benefits:

	2006	2005
Current service expense	**19,200**	16,321
Interest expense	**27,455**	17,084
Expected return on plan assets	**(37,357)**	(25,805)
Expense for the year	**9,298**	7,600
Recognition of actuarial gain	**(3,295)**	(5,087)
Expense recognised in the financial statements	**6,003**	2,513

6.4 Actual return on plan assets for the year ended September 30, 2006 was Rs. 39.050 million (2005: Rs. 20.778 million)

6.5 Company's asset in respect of the gratuity scheme of Rs. 39.467 million (2005: Rs. 45.470 million) is included in note 17 'Other receivables'.

7. TRADE AND OTHER PAYABLES

	Note	2006	2005
		(Rupees in '000)	
Creditors		**3,268,909**	1,838,430
Accruals for contract and other obligations		**931,928**	412,661
Warranty obligations	*7.1*	**396,703**	266,676
Accrued liabilities		**658,206**	482,484
Advances from customers			
- For goods		**724,749**	430,325
- For services including projects		**1,806,972**	1,433,480
Accrued mark-up on running finances		**1,455**	609
Unearned portion of revenue and maintenance contracts		**63,850**	1,123
Workers' profits participation fund	*7.2*	**82,145**	65,716
Workers' welfare fund		**47,519**	19,921
Unclaimed dividend		**5,420**	4,226
Other liabilities		**314,878**	76,706
		8,302,734	5,032,357
Amount payable to related parties included in trade and other payables are as follows:			
- Payable to parent company		**378,149**	-
- Payable to a subsidiary		**384**	-
- Payable to associates		**694,886**	745,272
		1,073,419	745,272

7.1	Warranty obligations		2006	2005
			(Rupees in '000)	
	Balance at beginning of the year		**266,676**	243,264
	Additional provision		**354,640**	123,534
	Reversals of utilised and unutilised amounts		**(224,613)**	(100,122)
	Balance at end of the year		**396,703**	266,676
7.2	**Workers' profits participation fund**			
	Balance at beginning of the year		**65,716**	40,590
	Interest paid on funds utilised in Company's business		**9,068**	5,658
	Amount allocated for the year		**82,145**	65,716
	Amount paid to the Fund		**(74,784)**	(46,248)
	Balance at end of the year		**82,145**	65,716

8. SHORT-TERM RUNNING FINANCES

The Company has short term running finance facilities available from various banks aggregating to Rs 1,204.200 million (2005: Rs. 838.000 million). The mark-up on these facilities ranges between 8.75% to 11.06% per annum (2005: 9% to 11%) and the facilities are secured by joint hypothecation of inventories of finished goods, work-in-process, raw materials and components and present and future trade receivables.

Other facilities granted by the banks and amounts remaining unutilised thereof as at September 30, 2006 are as follows:

	2006	2005
	(Rupees in '000)	
Letters of credit		
- limit	**3,693,309**	1,269,565
- unutilised portion	**2,342,722**	905,593
Guarantees		
- limit	**4,090,491**	4,160,000
- unutilised portion	**432,544**	1,194,498

9. CONTINGENCIES AND COMMITMENTS

9.1 As at September 30, 2006 capital expenditure contracted for but not incurred amounted to Rs. 142.068 million (2005: Rs. 62.722 million).

9.2 The Company has been made party to a legal suit along with two other Siemens entities for infringement of intellectual property rights of an individual. The plaintiff has prayed the court for recovery of cost and damages of Rs. 20 billion. The Company considers that the suit has no merit and accordingly no provision has been made thereagainst.

9.3 The Company is defending various cases in the High Court of Sindh for the recovery of claim aggregating to Rs 183.859 million alongwith liquidated damages. The Company's management is confident, based on the advice of its legal advisor, that the matter will be decided in its favour and accordingly no provision has been made in these financial statements in respect of the amounts claimed.

9.4 The Company has filed a case in the High Court of Sindh against a claim of Sui Southern Gas Company Limited amounting to Rs 7.690 million. The Company's management is confident, based on the advice of its legal advisor, that the matter will be decided in its favour and accordingly no provision has been made in these financial statements in respect of the amount claimed.

10.	PROPERTY, PLANT AND EQUIPMENT		2006	2005
		Note	(Rupees in '000)	
	Tangible assets	*10.1*	**661,943**	570,089
	Capital work in progress	*10.2*	**76,047**	32,787
			737,990	602,876

10.1 Tangible assets

2006	Cost at October 1, 2005	Additions / (deletions)	Cost at September 30, 2006	Accumulated depreciation at October 1, 2005	Depreciation for the year / (on deletion)	Accumulated depreciation at September 30, 2006	Net book value at September 30, 2006	Depreciation rates as a % of cost
	(Rupees in '000)							
Leasehold lands	53,149	-	53,149	19,366	1,329	20,695	**32,454**	2.5
Buildings on leasehold lands	228,377	-	228,377	67,499	5,870	73,369	**155,008**	2.5 & 10
Plant and machinery	427,718	50,806 (4,712)	473,812	264,930	34,340 (4,706)	294,564	**179,248**	10,20,25 & 100
Tools and patterns	110,839	24,972 (3,149)	132,662	96,986	13,267 (1,505)	108,748	**23,914**	50
Furniture and equipment	331,303	57,309 (18,335)	370,277	234,970	45,845 (17,867)	262,948	**107,329**	20,25,33.33 & 100
Vehicles	237,730	118,350 (25,775)	330,305	135,276	51,535 (20,496)	166,315	**163,990**	25 & 50
	1,389,116	**251,437** **(51,971)**	**1,588,582**	**819,027**	**152,186** **(44,574)**	**926,639**	**661,943**	

2005	Cost at October 1, 2004	Additions / (deletions)	Cost at September 30, 2005	Accumulated depreciation at October 1, 2004	Depreciation for the year / (on deletion)	Accumulated depreciation at September 30, 2005	Net book value at September 30, 2005	Depreciation rates as a % of cost
	(Rupees in '000)							
Leasehold lands	53,149	-	53,149	18,038	1,328	19,366	33,783	2.5
Buildings on leasehold lands	223,994	4,383	228,377	61,693	5,806	67,499	160,878	2.5 & 10
Plant and machinery	381,294	49,811 (3,387)	427,718	235,888	31,732 (2,690)	264,930	162,788	10,20,25 & 100
Tools and patterns	92,250	19,196 (607)	110,839	86,012	11,581 (607)	96,986	13,853	50
Furniture and equipment	282,806	66,045 (17,548)	331,303	215,665	36,679 (17,374)	234,970	96,333	20,25,33.33 & 100
Vehicles	186,743	71,500 (20,513)	237,730	110,441	41,150 (16,315)	135,276	102,454	25 & 50
	1,220,236	210,935 (42,055)	1,389,116	727,737	128,276 (36,986)	819,027	570,089	

10.2 Capital work in progress

	2006	2005
	(Rupees in '000)	
Building under construction	**33,015**	7,928
Plant, machinery and equipment under installation	**28,982**	9,859
Advances to suppliers	**14,050**	15,000
	76,047	32,787

10.3 Details of property, plant and equipment deleted during the year

	Original cost	Accumulated depreciation	Net book value	Sale proceeds	Mode of disposal	Name and address of purchaser
	----------------------(Rupees in '000)---------------------					
Plant and machinery						
Items with book value below Rs 50,000	4,712	4,706	6	-		
	4,712	**4,706**	**6**	**-**		
Tools and patterns						
	1,754	761	993	1,174	Insurance claim	
	260	43	217	221	Negotiation	Tecom Pakistan (Pvt) Ltd. Society Office Building, Office # 6, Kashmir Road, Karachi.
	260	43	217	221	Negotiation	-do-
	260	43	217	221	Negotiation	-do-
Items with book value below Rs 50,000	615	615	-	-		
	3,149	**1,505**	**1,644**	**1,837**		
Furniture and equipment						
	97	46	51	75	Insurance claim	
Items with book value below Rs 50,000	18,238	17,821	417	578		
	18,335	**17,867**	**468**	**653**		
Vehicles						
	4,950	1,031	3,919	5,165	Insurance claim	
	879	55	824	841	Insurance claim	
	1,240	930	310	496	Company policy	Mr. Farrukh Latif - Ex-Executive
	1,549	1,355	194	1,008	Negotiation	Mr. Muhammad Nasir Khan House No. A-597 Sector 11-A, North Karachi
Items with book value below Rs 50,000	17,157	17,125	32	13,465		
	25,775	**20,496**	**5,279**	**20,975**		
Total	**51,971**	**44,574**	**7,397**	**23,465**		

11. INTANGIBLE ASSETS

	Cost at October 1, 2005	Additions / (write off)	Cost at September 30, 2006	Accumulated amortisation at October 1, 2005	Amortisation for the year / (write off)	Accumulated amortisation at September 30, 2006	Net book value at September 30, 2006	Amortisation rate as a % of cost
	--(Rupees in '000)--							
Software	76,476	4,754	81,230	22,084	26,774	48,858	**32,372**	33.33
2006	**76,476**	**4,754**	**81,230**	**22,084**	**26,774**	**48,858**	**32,372**	
2005	3,130	73,361 (15)	76,476	767	21,332 (15)	22,084	54,392	

11.1 Depreciation and amortisation have been allocated as follows:

	Note	Depreciation	Amortisation	2006 Total	2005 Total
		-----------------------------(Rupees in '000)-----------------------------			
Cost of sales	*20.1*	89,712	15,782	**105,494**	81,437
Marketing and selling expenses	*21*	49,880	8,776	**58,656**	55,954
General administration expenses	*22*	12,594	2,216	**14,810**	12,217
		152,186	26,774	**178,960**	149,608

12. LONG TERM INVESTMENT - Unquoted

	Note	2006	2005
		(Rupees in '000)	
In a subsidiary			
Carrier Telephone Industries (Private) Limited (CTI)	*12.1*	**500,000**	-

12.1 This represents 8,016 fully paid ordinary shares of Rs 1,000 each constituting 52.51% shares of CTI. This investment has been carried at cost in these financial statements. The Company's share in the fair value of assets acquired and liabilities assumed in CTI have been disclosed in note 28.2.

13. LONG TERM RECEIVABLES AND PREPAYMENTS

	Note	2006	2005
		(Rupees in '000)	
Loans			
Considered good			
Due from executives	*13.1 & 13.2*	**11,245**	14,473
Due from others		**2,579**	5,499
		13,824	19,972
Receivable within one year		**(3,051)**	(3,812)
Long term portion		**10,773**	16,160
Discounting to present value		**(3,060)**	(4,406)
		7,713	11,754
Trade receivables			
Considered good			
Due from related parties		**-**	2,584
Due from others		**662,442**	410,903
		662,442	413,487
Considered doubtful - others		**220**	124
		662,662	413,611
Provision for doubtful debts		**(220)**	(124)
		662,442	413,487
Discounting to present value		**(89,734)**	(38,074)
		572,708	375,413
Security deposits		**53,843**	13,419
Prepayments		**4,132**	-
		638,396	400,586
Maximum amount outstanding at end of any month during the year against loans to executives		**13,467**	17,244

13.1 This represents real estate loans provided interest free to executives in accordance with the Company's policy. The loans are secured against the respective assets for which the loans have been granted and are recoverable in one to ten years in equal monthly installments.

13.2	Reconciliation of carrying amount of loans to executives	2006	2005
		(Rupees in '000)	
	Balance at beginning of the year	14,473	16,673
	Promotion of non-executive employees as executive	1,781	755
	Repayments	(5,009)	(2,955)
	Balance at end of the year	11,245	14,473

14. DEFERRED TAX ASSETS

Debit / (credit) balances arising in respect of:		
Provision for doubtful debts and deposits	20,331	5,634
Provision for obsolete and slow moving items of inventories	26,872	13,516
Contract and other obligations	206,956	58,892
Warranty obligations	87,473	37,335
Discounting of long-term receivables	20,461	7,015
Accelerated tax depreciation	(12,476)	(7,027)
	349,617	115,365

15. INVENTORIES

Raw materials and components	836,488	439,674
Goods-in-transit	217,062	207,884
Work-in-process	928,964	766,739
Finished goods	546,438	271,997
	2,528,952	1,686,294
Provision for slow moving and obsolete items	(243,739)	(186,482)
	2,285,213	1,499,812

15.1 The above balances include items costing Rs 13.216 million (2005: nil) valued at net realisable value of Rs 4.078 million (2005: nil).

16.	TRADE RECEIVABLES		2006	2005
		Note	(Rupees in '000)	
	Considered good			
	Due from related parties			
	- a subsidiary		12,561	-
	- associates	*16.1*	10,298	130,211
			22,859	130,211
	Due from others		2,933,139	1,629,882
			2,955,998	1,760,093
	Due against construction work in progress			
	- associates	*16.1*	6,811	76,117
	- others		2,135,521	761,550
			2,142,332	837,667
	Considered doubtful - others		85,010	40,123
			5,183,340	2,637,883
	Provision for doubtful receivables		(85,010)	(40,123)
			5,098,330	2,597,760

16.1 These represent amounts due from Siemens AG and its affiliates and associates.

17. OTHER RECEIVABLES

	Note	2006	2005
		(Rupees in '000)	
Loans and advances			
Considered good			
Loans due from			
- Executives		**2,476**	2,877
- Others		**575**	1,058
		3,051	3,935
Advances to			
- Executives		**1,076**	220
- Suppliers		**245,297**	231,294
- Others		**16,783**	7,537
		263,156	239,051
		266,207	242,986
Trade deposits, short-term prepayments and other receivables			
Trade deposits		**109,136**	171,403
Short-term prepayments	*17.1*	**54,045**	52,697
Due from a subsidiary - considered good		**1,253**	-
Sales tax refundable		**173,200**	261,662
Interest receivable		**14,263**	1,633
Others		**33,967**	151,187
		385,864	638,582
Provision for doubtful trade deposits		**(6,974)**	(7,624)
		378,890	630,958
		645,097	873,944

17.1 This includes Rs. 39.467 million (2005: Rs. 45.470 million) representing excess contribution as per actuarial valuation in funded employees' gratuity scheme.

18. CASH AND BANK BALANCES

	2006	2005
	(Rupees in '000)	
With banks in		
- Current accounts	**9,917**	187,487
- Deposit accounts	**1,615,483**	1,467,825
Cheques in hand	**141,908**	88,448
	1,767,308	1,743,760

19. NET SALES

	2006	2005
- Export - Goods	**112,919**	455,326
- Services	**18,704**	62,350
- Contracts executed outside Pakistan	**4,657,654**	3,271,416
- Against International Tenders	**64,000**	102,016
- Other - Goods	**7,223,941**	5,004,197
- Services including projects	**7,931,697**	4,479,216
Gross sales	**20,008,915**	13,374,521
Commission paid	**(4,027)**	(11,169)
Sales tax	**(198,313)**	(230,533)
Net sales	**19,806,575**	13,132,819

20. COST OF SALES

	Note	2006	2005
		(Rupees in '000)	
Opening inventory of finished goods		**236,985**	210,007
Cost of goods manufactured and services rendered	*20.1*	**17,038,872**	10,866,607
Finished goods purchased		**555,672**	528,595
		17,831,529	11,605,209
Closing inventory of finished goods		**(419,614)**	(236,985)
Cost of sales		**17,411,915**	11,368,224

20.1 Cost of goods manufactured and services rendered

	Note	2006	2005
Opening inventories			
Raw materials and components		**363,300**	208,252
Goods-in-transit		**207,884**	84,308
Work-in-process		**691,643**	702,753
		1,262,827	995,313
Purchase of goods and services		**13,527,826**	9,145,546
Salaries, wages and employees welfare expense		**1,233,665**	785,003
Gratuity fund contribution		**2,604**	1,164
Provident fund contribution		**10,450**	8,381
Fuel, power and water		**620,784**	204,028
Repairs and maintenance		**171,505**	102,132
Rent, rates and taxes		**507,187**	255,648
Liquidated damages for late deliveries - net of recoveries		**116,876**	58,640
Warranty and other contractual obligations		**578,810**	(151,484)
Slow moving and obsolete items of inventories		**57,257**	45,960
Inventories written off		**-**	416
IT, networking and data communication		**38,527**	29,757
Insurance		**75,790**	76,790
Depreciation and amortisation	*11.1*	**105,494**	81,437
Transportation		**84,478**	43,804
Travelling and conveyance		**324,391**	312,843
Stationery, telex and telephone		**106,396**	81,388
Others		**126,055**	97,736
		18,950,922	12,174,502
Closing inventories			
Raw materials and components		**(746,050)**	(363,300)
Goods-in-transit		**(217,062)**	(207,884)
Work-in-process		**(902,487)**	(691,643)
		(1,865,599)	(1,262,827)
		17,085,323	10,911,675
Transfer to property, plant and equipment		**-**	(8,758)
Sale of scrap		**(46,451)**	(36,310)
		(46,451)	(45,068)
		17,038,872	10,866,607

21.	MARKETING AND SELLING EXPENSES	Note	2006	2005
			(Rupees in '000)	
	Salaries, wages and employees welfare expense		**426,104**	322,860
	Gratuity fund contribution		**2,803**	1,068
	Provident fund contribution		**11,513**	8,237
	Fuel, power and water		**44,864**	31,284
	Repairs and maintenance		**43,485**	35,879
	Advertising and sales promotion		**30,173**	28,056
	Rent, rates and taxes		**47,275**	58,783
	Insurance		**6,200**	8,643
	Provision / (reversal of provision) for doubtful trade receivables		**44,983**	(456)
	Reversal of provision for doubtful trade deposits		**(650)**	(2,402)
	Bad debts written off		**1,386**	11,284
	Depreciation and amortisation	*11.1*	**58,656**	55,954
	Travelling and conveyance		**71,523**	42,973
	Transportation expenses		**81,841**	45,053
	Stationery, telex and telephone		**32,789**	40,955
	IT, networking and data communication		**57,523**	53,666
	Others		**7,187**	2,261
			967,655	744,098

22.	GENERAL ADMINISTRATION EXPENSES	Note	2006	2005
	Salaries, wages and employees welfare expense		**114,994**	92,644
	Gratuity fund contribution		**596**	281
	Provident fund contribution		**2,501**	1,936
	Fuel, power and water		**4,864**	2,735
	Repairs and maintenance		**9,117**	6,255
	Rent, rates and taxes		**1,753**	1,834
	Insurance		**2,016**	1,622
	Auditors' remuneration	*30*	**2,306**	2,445
	Depreciation and amortisation	*11.1*	**14,810**	12,217
	Travelling and conveyance		**14,601**	14,167
	Stationery, telex and telephone		**9,133**	7,770
	IT, networking and data communication		**10,192**	7,937
	Legal and professional		**18,025**	58,614
	Donations	*22.1*	**2,588**	740
	Others		**12,503**	5,986
			219,999	217,183

22.1 Donations include Rs 0.035 million (2005: Rs. 0.070 million) to Organisation for the Under Privileged - 108-A/II, Khayaban-e-Rahat, Street 25, Phase IV, DHA, Karachi. The spouse of Mr. Sohail Wajahat Siddiqui, Chief Executive Officer of the Company, is amongst the Trustees of the Organisation.

23.	OTHER OPERATING EXPENSES	2006	2005
		(Rupees in '000)	
	Provision for discounting on long-term receivables	**50,314**	30,585
	Workers' profits participation fund	**82,145**	65,716
	Workers' welfare fund	**31,034**	10,057
		163,493	106,358

24. FINANCIAL EXPENSES

	Note	2006	2005
		(Rupees in '000)	
Interest on workers' profits participation fund		9,068	5,658
Mark-up on short-term finances		79,304	23,699
Mark-up on trade and other payables		7,727	-
Exchange loss		65,955	9,128
Commission on guarantees		15,047	11,238
Bank charges for services		73,620	44,384
		250,721	94,107

25. OTHER OPERATING INCOME

		2006	2005
Mark-up from trade and other receivables		1,454	306
Income on amounts placed with banks under deposit accounts		80,725	29,786
Profit on sale of property, plant and equipment		16,068	10,384
Gain on sale of investment		-	1,039
Balances no longer payable written back		6,498	8,495
Others		-	189
		104,745	50,199

26. INCOME TAX EXPENSE

		2006	2005
Current			
- For the year		923,272	444,020
- For prior years		88,474	-
		1,011,746	444,020
Deferred		(234,252)	10,033
	26.1 & 26.2	777,494	454,053

26.1 Reconciliation of income tax expense for the year

	2006	2005
Accounting profit	1,512,884	1,232,899
Enacted tax rate	35%	35%
Tax on accounting profit at enacted rate	529,509	431,515
Tax effect of income assessed under Presumptive Tax Regime (PTR)	151,296	16,437
Tax effect of expenses that are not allowable in determining taxable income	8,215	6,101
Prior years' tax expense	88,474	-
	777,494	454,053

26.2 The Company makes provision for taxation based on its understanding of the tax laws and regulations and on the basis of advices from its tax consultants. These provisions may require change in case these laws and regulations are interpreted differently by tax authorities and Company's appeals are not accepted at various forums.

27. BASIC AND DILUTED EARNINGS PER SHARE

	2006	2005
	(Rupees in '000)	
Profit for the year	735,390	778,846
	(No. of shares)	
Weighted average number of ordinary shares	7,769,597	7,769,597
	(Rupees)	
Basic and diluted earnings per share	94.65	100.24

28.	CASH GENERATED FROM OPERATIONS	Note	2006	2005
			(Rupees in '000)	
	Profit before tax		1,512,884	1,232,899
	Adjustment for non cash expenses and other items:			
	Depreciation and amortisation		178,960	149,608
	Profit on sale of property, plant and equipment		(16,068)	(10,384)
	Employees' long service bonus		2,864	2,169
	Warranty obligations		130,027	23,412
	Financial expenses		250,721	94,107
	Financial income		(82,179)	(30,092)
	Working capital changes	28.1	93,816	275,391
			2,071,025	1,737,110

28.1	Working capital changes	2006	2005
	(Increase) / decrease in current assets		
	Inventories	(785,401)	(294,492)
	Trade receivables	(2,500,570)	(1,266,581)
	Other receivables	241,477	(520,776)
		(3,044,494)	(2,081,849)
	Increase in current liabilities		
	Trade and other payables	3,138,310	2,357,240
		93,816	275,391

28.2 Investment in a subsidiary

The Company has acquired 52.51% shareholding of CTI on December 9, 2005. The Company's share in the fair value of assets acquired and liabilities assumed in CTI as at that date are as follows:

	(Rupees in '000)
Property, plant and equipment	403,468
Investment	4,905
Long-term receivables	3,822
Deferred taxation	9,573
Inventories	152,040
Trade receivables	63,766
Other receivables	36,172
Cash	1,376
Long-term liabilities	(27,894)
Short-term running finances	(109,511)
Trade and other payables	(150,748)
	386,969
Goodwill on acquisition	113,031
Total purchase price	500,000

29.	CASH AND CASH EQUIVALENTS	Note	2006	2005
			(Rupees in '000)	
	Cash and bank balances	18	1,767,308	1,743,760
	Short-term running finances		(503,690)	(104,584)
			1,263,618	1,639,176

30.	AUDITORS' REMUNERATION	Note	2006	2005
			(Rupees in '000)	
	Audit fee		1,291	940
	Tax representation and advisory services		401	941
	Special reports and certifications, review of half yearly accounts, audits of workers' profits participation fund, gratuity fund and group reporting		485	311
	Out of pocket expenses		129	253
			2,306	2,445

31.	LONG TERM CONSTRUCTION CONTRACTS	Note	2006	2005
	Contract revenue for the year		11,398,120	7,110,593
	Contract costs incurred to date		19,875,849	8,788,941
	Gross profit realised to date		1,492,337	611,594
	Balance of advances received		1,605,587	1,078,051
	Retention money receivable		1,588,082	1,146,201
	Gross amount due from customers		2,142,332	837,667
	Estimated future costs to complete projects in progress	31.1	3,134,967	327,735

31.1 As part of application of percentage of completion method on contract accounting, the plan costs are estimated. These estimates are based on the prices of materials and services applicable at that time, forecasted increases and expected completion date at the time of such estimation. Such estimates are reviewed at regular intervals. Any subsequent changes in the prices of materials and services compared to forecasted prices and changes in the time of completion affect the results of the subsequent periods.

32. REMUNERATION OF THE CHIEF EXECUTIVE, DIRECTOR AND EXECUTIVES

The aggregate amounts charged in the financial statements in respect of remuneration and fringe benefits of the chief executive, director and executives of the Company are as follows:

	2006			2005		
	Chief Executive	Director	Executives	Chief Executive	Director	Executive
	(Rupees in '000)					
Managerial remuneration	19,156	12,170	258,340	16,847	11,670	136,303
Retirement benefits and Company's contribution to provident fund	669	-	9,644	539	-	4,318
Perquisites and benefits:						
- Group insurance and medical	85	22	3,245	239	26	1,040
- Share based payments	5,218	4,399	691	247	217	-
- Long service bonus	218	560	1,301	89	-	879
- Rent and others	470	739	2,791	1,136	1,107	2,951
	25,816	17,890	276,012	19,097	13,020	145,491
Number of persons	1	1	81	1	1	47

32.1 In addition to the above, remuneration and fringe benefits of five expatriate executives (2005: four) hired for a project amounted to Rs. 37.900 million (2005: Rs. 7.400 million).

32.2 The aggregate amount charged in these financial statements in respect of directors' fee paid to six directors (2005: six) was Rupees six thousand and five hundred (2005: Rupees five thousand and five hundred). No fee was paid to any alternate director (2005: three directors were paid Rupees two thousand five hundred).

32.3 The chief executive, director and seventy four executives (2005: forty six) have been provided with free use of Company's cars and a director has also been provided with the Company's owned and maintained furnished accommodation.

32.4 The chief executive and a director have been provided with telephone facility at their residences.

32.5 The above balances include an amount of Rs 84.461 million (2005: Rs 58.186 million) on account of compensation to key management personnel, the details of which are as follows:

	2006	2005
	(Rupees in '000)	
Short-term employee benefits	**71,441**	56,163
Post-employment benefits	**1,878**	1,223
Other long-term benefits	**834**	336
Share based payments	**10,308**	464
	84,461	58,186

33. TRANSACTIONS WITH RELATED PARTIES

Related parties comprise of a subsidiary of the Company, Siemens AG, its subsidiaries and associates and other companies with common directorship with significant influence on other companies, employees retirement benefit funds and key management employees. Transactions with related parties can be summarised as follows:

	Note	**2006**	2005
		(Rupees in '000)	
Parent Company			
Sales of goods and rendering of services		**4,211,482**	2,214,445
Purchases of goods and receipt of services		**2,231,183**	2,526,182
Commission and allowances earned		**379,109**	387,710
Dividends		**298,420**	298,420
Subsidiary Company			
Sales of goods and rendering of services		**25,830**	-
Purchases of goods and receipt of services		**19,586**	-
Rent expense		**1,202**	-
Associated Companies			
Sales of goods and rendering of services		**292,202**	666,259
Purchases of goods and receipt of services		**1,011,359**	526,390
Commission and allowances earned		**225,569**	188,785
Commission paid		**2,483**	8,235
Others			
Dividends		**30**	30
Contribution to employees retirement benefits		**30,466**	21,068
Compensation to key management personnel	*32.5*	**84,461**	58,186

33.1 Transactions with related parties were carried out on commercial terms and conditions and at prices agreed based on inter company prices. Shared services are charged at uniform rates to all locations in the region.

34. PLANT CAPACITY AND ACTUAL PRODUCTION	**Capacity**	**Actual Production 2006**	**Actual Production 2005**
Electric motors	300,000 HP	**152,459 HP**	119,867 HP
Motors controlgears and controlboards	150,000 HP	**3,210 HP**	3,295 HP
Electric transformers	2,000 MVA	**2,520 MVA**	2,403 MVA
Generating sets	40,000 KVA	**62,957 KVA**	36,895 KVA
Switchgears and distribution boards	4,500 Nos.	**5,559 Nos.**	2,980 Nos.

34.1 The under utilisation of capacity is mainly attributed to reduced demand owing to imports by private and public sectors.

34.2 Due to increased demand, the production of Electric transformers, Generating sets, Switchgears and distribution boards is above its normal capacity, which was achieved through extra shift working.

35. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The carrying value of all financial assets and liabilities is estimated to approximate their fair value.

36. FINANCIAL ASSETS AND LIABILITIES

Interest / mark-up rate risk arises from the possibility that changes in interest / mark-up rates will affect the value of financial instruments. The Company is exposed to interest / mark-up rate risk in respect of following:

	Interest / mark-up Bearing			Non-interest Bearing			
	Maturity upto one year	Maturity after one year	Sub-total	Maturity upto one year	Maturity after one year	Sub-total	Total
2006	(Rupees in '000)						
Financial Assets							
Loans to employees	-	-	-	3,051	7,713	10,764	**10,764**
Trade deposits	-	48,000	48,000	102,162	5,843	108,005	**156,005**
Trade receivables	-	-	-	5,098,330	572,708	5,671,038	**5,671,038**
Other receivables	-	-	-	49,483	-	49,483	**49,483**
Cash and bank balances	1,615,483	-	1,615,483	151,825	-	151,825	**1,767,308**
	1,615,483	**48,000**	**1,663,483**	**5,404,851**	**586,264**	**5,991,115**	**7,654,598**
Financial Liabilities							
Retention money payable	-	-	-	-	68,843	68,843	**68,843**
Trade and other payables	229,301	-	229,301	4,248,868	-	4,248,868	**4,478,169**
Short-term running finances	503,690	-	503,690	-	-	-	**503,690**
	732,991	**-**	**732,991**	**4,248,868**	**68,843**	**4,317,711**	**5,050,702**
2005							
Financial Assets							
Loans to employees	-	-	-	3,935	11,754	15,689	15,689
Trade deposits	-	-	-	163,779	13,419	177,198	177,198
Trade receivables	-	-	-	2,597,760	375,413	2,973,173	2,973,173
Other receivables	-	-	-	152,820	-	152,820	152,820
Cash and bank balances	1,467,825	-	1,467,825	275,935	-	275,935	1,743,760
	1,467,825	-	1,467,825	3,194,229	400,586	3,594,815	5,062,640
Financial Liabilities							
Retention money payable	-	-	-	-	37,534	37,534	37,534
Trade and other payables	-	-	-	2,402,780	-	2,402,780	2,402,780
Short-term running finances	104,584	-	104,584	-	-	-	104,584
	104,584	-	104,584	2,402,780	37,534	2,440,314	2,544,898

36.1 Effective Mark-up Rates	2006	2005
	%	%
Trade deposit	**8.00**	-
Cash and bank balances	**9.29**	4.93
Trade and other payables	**10.00**	-
Short-term running finances	**9.30**	7.37

37. CREDIT RISK AND CONCENTRATIONS OF CREDIT RISK

Credit risk represents the accounting loss that would be recognised at the reporting date if counter parties fail completely to perform as contracted. To mitigate the credit risk, the Company has a system of assigning credit limits to its customers. The Company endeavors to cover the credit risks on government sector trade receivables by restricting credit facility to the projects which are financed by multilateral financial institutions and / or financed by special allocation of funds by the provincial / federal governments. Business with government sector customers is also secured by way of inland letters of credit where possible. Credit risk on private sector is covered to the maximum extent possible through letters of credit or legally binding contracts with availability of adequate finance for the project from the sponsors and lenders.

The sector wise analysis of receivables including trade receivables, advances to suppliers and trade deposits is given below:

	2006		2005	
	(Rupees in '000)	%	(Rupees in '000)	%
Government sector				
Energy	**2,735,225**	**44**	1,293,173	37
Communication	**607,712**	**10**	399,332	12
Health	**31,687**	**-**	31,008	1
Aviation	**7,708**	**-**	52,306	2
Others	**612,119**	**10**	289,364	8
Sub-total	**3,994,451**	**64**	2,065,183	60
Private sector				
Construction companies	**841,147**	**13**	567,961	16
Energy	**540,818**	**9**	100,381	3
Communication	**117,468**	**2**	194,425	6
Cement Industry	**62,111**	**1**	46,659	1
Dealers and agents	**42,621**	**1**	30,574	1
Aviation	**32,327**	**-**	24,111	-
Others	**649,273**	**10**	434,067	13
Sub-total	**2,285,765**	**36**	1,398,178	40
Total	**6,280,216**	**100**	3,463,361	100

38. FOREIGN EXCHANGE RISK MANAGEMENT

Foreign currency risk arises mainly where receivables and payables exist due to transactions with foreign undertakings, especially group companies. In respect of anticipated future transactions, the following forward exchange contracts have been taken at the balance sheet date to hedge the foreign currency liabilities to group companies and others.

	2006	2005
	(Rupees in '000)	
Forward exchange contracts		
- Purchased value	**2,093,321**	1,059,321
- Fair value	**2,079,682**	1,028,943

39. INFORMATION ABOUT BUSINESS SEGMENTS

2006 REVENUE	Energy	Rotary machines and products	Industry automation and services	Communication	Other operations	Eliminations	Consolidated
	(Rupees in '000)						
External sales	9,443,137	1,202,889	2,483,604	5,957,510	719,435		**19,806,575**
Inter-segment sales	476,349	557,787	243,859	226,364	1,190	(1,505,549)	**-**
Total revenue	9,919,486	1,760,676	2,727,463	6,183,874	720,625	(1,505,549)	**19,806,575**
RESULT							
Segment result	58,503	83,776	247,464	1,219,342	30,898	-	**1,639,983**
Unallocated corporate expenses							**(113,179)**
							1,526,804
Interest expense							**(96,099)**
Interest income							**82,179**
Income tax							**(777,494)**
Profit for the year							**735,390**
OTHER INFORMATION							
Capital expenditure	130,399	16,341	41,545	15,348	8,092		
Depreciation and amortisation	49,287	11,282	22,840	34,226	5,228		
Non-cash expenses other than depreciation and amortisation	59,533	24,610	16,064	29,226	1,668		
ASSETS AND LIABILITIES							
Segment assets	5,197,501	675,539	966,284	1,488,532	251,301	-	**8,579,157**
Unallocated corporate assets							**3,475,166**
Consolidated total assets							**12,054,323**
Segment liabilities	3,968,901	593,888	893,346	833,052	103,926	-	**6,393,113**
Unallocated corporate liabilities							**2,931,014**
Consolidated total liabilities							**9,324,127**
2005							
REVENUE							
External sales	6,278,633	928,615	2,170,468	3,292,508	462,595	-	13,132,819
Inter-segment sales	534,296	182,174	63,134	131,768	2,487	(913,859)	-
Total revenue	6,812,929	1,110,789	2,233,602	3,424,276	465,082	(913,859)	13,132,819
RESULT							
Segment result	475,739	38,780	189,824	529,169	74,425	-	1,307,937
Unallocated corporate expenses							(75,773)
							1,232,164
Interest expense							(29,357)
Interest income							30,092
Income tax							(454,053)
Profit for the year							778,846
OTHER INFORMATION							
Capital expenditure	54,378	27,981	15,990	66,163	9,549		
Depreciation and amortisation	37,533	7,949	25,513	23,849	4,060		
Non-cash expenses other than depreciation and amortisation	(29,408)	11,028	6,762	35,050	878		
ASSETS AND LIABILITIES							
Segment assets	2,880,614	370,012	687,326	772,716	90,829	-	4,801,497
Unallocated corporate assets							3,086,998
Consolidated total assets							7,888,495
Segment liabilities	1,859,213	278,550	690,787	533,185	69,071	-	3,430,806
Unallocated corporate liabilities							1,996,707
Consolidated total liabilities							5,427,513

39.1 Included in total sales is an amount of Rs 4,657.654 million (2005: Rs 3,271.416 million) in respect of sales made in the region of United Arab Emirates. The carrying value of segment assets in that region as at September 30, 2006 was Rs 2,964.430 million (2005: Rs 1,239.375 million). The cost to acquire property, plant and equipment during the year in that region was Rs 9.702 million (2005: Rs 12.670 million).

39.2 In order to comply with the requirements of International Accounting Standard 14 "Segment Reporting" the activities of the Company have been grouped into five segments of related products and services. The energy segment mainly relates to supply and installation of transformers, switchboards, and other related power generation, transmission, and distribution equipment and related services. Rotary machines and product segment includes diesel generating sets, motors, alternators and drives etc. Industry automation and services segment includes designing, engineering and construction services in electrical field, mechanical field and information technology services. Communication segment covers supply and installation of telecommunication and other related equipment and services. Other operations include supply and services of health care equipment and home appliances.

39.3 The above mentioned segments do not necessarily match with the organisational structure of the Company.

39.4 Segment assets include all operating assets used by a segment and consist principally of receivables, inventories and property, plant and equipment, net of allowances and provisions but do not include deferred income taxes. Segment liabilities include all operating liabilities and consist principally of accounts payable, advances and accrued and other liabilities.

40. GENERAL

40.1 Previous year's figures have been rearranged and reclassified wherever necessary for the purposes of comparison. Major change represents reclassification due to change in presentation of amounts due against construction work in progress from 'inventories' to 'trade receivables'. The related amounts in the cash flow statement have also been reclassified. This change was made for better presentation of transactions in the financial statements of the Company.

40.2 The financial statements were authorised for issue by the Board of Directors in their meeting held on November 20, 2006.

40.3 These financial statements are presented in Pakistan Rupees which is the functional currency and figures are rounded off to the nearest thousand of rupees.

Sohail Wajahat H. Siddiqui
Chief Executive Officer

Gerhard Wilcke
Chief Financial Officer & Director

SIEMENS
Global network of innovation

Consolidated Financial Statements

Auditors' Report to the Members

We have audited the annexed consolidated financial statements comprising consolidated balance sheet of Siemens (Pakistan) Engineering Company Limited as at 30 September 2006 and the related consolidated profit and loss account, consolidated cash flow statement and consolidated statement of changes in equity together with the notes forming part thereof, for the year then ended.

These financial statements are responsibility of the Company's management. Our responsibility is to express our opinion on these financial statements based on our audit.

We conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the above said statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the above said statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the consolidated financial statements examined by us present fairly the financial position of Siemens (Pakistan) Engineering Company Limited as at 30 September 2006 and the results of its operations, its cash flows and changes in equity for the year then ended in accordance with the approved accounting standards as applicable in Pakistan.

KPMG Taseer Hadi & Co.

Date: November 20, 2006
Karachi

KPMG Taseer Hadi & Co.
Chartered Accountants

Siemens (Pakistan) Engineering Company Limited
Consolidated Balance Sheet
As at September 30, 2006

	Note	2006	2005
		(Rupees in '000)	
Share capital and reserves			
Share capital			
- Authorised			
20,000,000 ordinary shares of Rs 10 each		**200,000**	200,000
- Issued, subscribed and fully paid-up	*5*	**77,696**	77,696
Reserves	*6*	**1,837,528**	1,837,528
Retained earnings		**806,588**	545,758
Total equity		**2,721,812**	2,460,982
Minority Interest		**347,504**	-
Total equity and minority interest		**3,069,316**	2,460,982
Retention money payable		**68,843**	37,534
Employees' long service bonus		**8,556**	8,002
Deferred liability	*7*	**46,891**	-
Total non-current liabilities		**124,290**	45,536
Trade and other payables	*8*	**8,483,210**	5,032,357
Short-term running finances	*9*	**784,778**	104,584
Provision for taxation		**425,202**	245,036
Total current liabilities		**9,693,190**	5,381,977
Contingencies and commitments	*10*		
Total equity and liabilities		**12,886,796**	7,888,495

Siemens (Pakistan) Engineering Company Limited
Consolidated Balance Sheet
As at September 30, 2006

	Note	2006	2005
		(Rupees in '000)	
Property, plant and equipment	11	**1,477,252**	602,876
Intangible assets	12	**139,751**	54,392
Long-term receivables and prepayments	13	**644,158**	400,586
Deferred tax assets	14	**367,335**	115,365
Total non-current assets		**2,628,496**	1,173,219
Inventories	15	**2,452,339**	1,499,812
Trade receivables	16	**5,336,901**	2,597,760
Other receivables	17	**698,771**	873,944
Cash and bank balances	18	**1,770,289**	1,743,760
Total current assets		**10,258,300**	6,715,276
Total assets		**12,886,796**	7,888,495

The annexed notes 1 to 40 form an integral part of these consolidated financial statements.

Sohail Wajahat H. Siddiqui
Chief Executive Officer

Gerhard Wilcke
Chief Financial Officer & Director

Siemens (Pakistan) Engineering Company Limited
Consolidated Profit and Loss Account
For the year ended September 30, 2006

	Note	2006	2005
		(Rupees in '000)	
Net sales	19	**20,795,847**	13,132,819
Cost of sales	20	**(18,344,090)**	(11,368,224)
Gross profit		**2,451,757**	1,764,595
Commission and allowances earned		**615,347**	579,851
		3,067,104	2,344,446
Marketing and selling expenses	21	**(1,003,475)**	(744,098)
General administration expenses	22	**(256,120)**	(217,183)
		(1,259,595)	(961,281)
		1,807,509	1,383,165
Other operating expenses	23	**(169,227)**	(106,358)
Financial expenses	24	**(264,894)**	(94,107)
Other operating income	25	**134,932**	50,199
		(299,189)	(150,266)
Profit before tax		**1,508,320**	1,232,899
Income tax expense	26	**(783,784)**	(454,053)
Profit for the year		**724,536**	778,846
Attributable to			
- Equity holders of Siemens (Pakistan) Engineering Company Limited		**727,006**	778,846
- Minority interest		**(2,470)**	-
		724,536	778,846
Basic and diluted earnings per share (Rupees)	27	**93.57**	100.24

The annexed notes 1 to 40 form an integral part of these consolidated financial statements.

Sohail Wajahat H. Siddiqui
Chief Executive Officer

Gerhard Wilcke
Chief Financial Officer & Director

Siemens (Pakistan) Engineering Company Limited
Consolidated Cash Flow Statement
For the year ended September 30, 2006

	Note	2006	2005
		(Rupees in '000)	
Cash flows from operating activities			
Cash generated from operations	28	**2,019,478**	1,737,110
Payments to employees for long service bonus		**(2,310)**	(1,376)
Financial expenses paid		**(263,790)**	(93,699)
Income tax paid		**(818,168)**	(369,810)
Long-term receivables and prepayments		**(236,294)**	(347,702)
Retention money payable		**31,309**	34,487
Deferred liability		**(3,841)**	-
Net cash flows from operating activities		**726,384**	959,010
Cash flows from investing activities			
Acquisition of subsidiary	28.2	**(500,000)**	-
Capital expenditure		**(312,101)**	(243,186)
Proceeds from sale of property, plant and equipment		**24,032**	15,453
Investments		**9,341**	5,450
Financial income received		**69,592**	29,734
Net cash flows from investing activities		**(709,136)**	(192,549)
Cash flows from financing activities			
Dividends paid		**(464,982)**	(464,946)
Net cash flows from financing activities		**(464,982)**	(464,946)
Net (decrease) / increase in cash and cash equivalents		**(447,734)**	301,515
Cash and cash equivalents at beginning of the year		**1,639,176**	1,337,661
Cash and cash equivalents acquired on acquisition of subsidiary		**(205,931)**	-
Cash and cash equivalents at end of the year	29	**985,511**	1,639,176

The annexed notes 1 to 40 form an integral part of these consolidated financial statements.

Sohail Wajahat H. Siddiqui
Chief Executive Officer

Gerhard Wilcke
Chief Financial Officer & Director

Siemens (Pakistan) Engineering Company Limited
Consolidated Statement of Changes in Equity
For the year ended September 30, 2006

	Issued, subscribed and paid-up share capital	Share premium	Capital repurchase reserve account	Other capital reserve	General reserve	Retained earnings	Minority Interest	Total
	(Rupees in '000)							
Balance as at September 30, 2004	77,696	9,635	567	4,300	1,798,433	257,681	-	2,148,312
Final dividend @ Rs 30 per share for the year ended September 30, 2004	-	-	-	-	-	(233,088)	-	(233,088)
Transfer to general reserves	-	-	-	-	24,593	(24,593)	-	-
Profit for the year ended September 30, 2005	-	-	-	-	-	778,846	-	778,846
Interim dividend @ Rs 30 per share for the six months period ended March 31, 2005	-	-	-	-	-	(233,088)	-	(233,088)
Balance as at September 30, 2005	77,696	9,635	567	4,300	1,823,026	545,758	-	2,460,982
Final dividend @ Rs 24 per share for the year ended September 30, 2005	-	-	-	-	-	(186,470)	-	(186,470)
Minority interest on acquisition of subsidiary	-	-	-	-	-	-	349,974	349,974
Profit / (loss) for the year ended September 30, 2006	-	-	-	-	-	727,006	(2,470)	724,536
Interim dividend @ Rs 6 per share for the three months period ended December 31, 2005	-	-	-	-	-	(46,618)	-	(46,618)
Interim dividend @ Rs 30 per share for the six months period ended March 31, 2006	-	-	-	-	-	(233,088)	-	(233,088)
Balance as at September 30, 2006	**77,696**	**9,635**	**567**	**4,300**	**1,823,026**	**806,588**	**347,504**	**3,069,316**

The annexed notes 1 to 40 form an integral part of these consolidated financial statements.

Sohail Wajahat H. Siddiqui
Chief Executive Officer

Gerhard Wilcke
Chief Financial Officer & Director

Siemens (Pakistan) Engineering Company Limited

Notes to the Consolidated Financial Statements

For the year ended September 30, 2006

1. LEGAL STATUS AND OPERATIONS

The Group consists of:

- Siemens (Pakistan) Engineering Company Limited; and
- Carrier Telephone Industries (Private) Limited

Siemens (Pakistan) Engineering Company Limited (the Company) is incorporated in Pakistan as a public limited company and its shares are quoted on the Karachi, Islamabad and Lahore Stock Exchanges. The Company is principally engaged in execution of projects under contracts and in the manufacture, installation and sale of electronic and electrical capital goods.

Carrier Telephone Industries (Private) Limited (CTI) (the subsidiary) is incorporated in Pakistan as a private limited company. The subsidiary is engaged in the manufacture of carrier multiplex equipment, digital system alongwith its existing spectrum of analog system and computer equipment.

2. Basis of consolidation

Subsidiaries are those enterprises in which the parent company directly or indirectly controls, beneficially owns or holds more than 50% of the voting securities or otherwise has the power to elect and appoint more than 50% of its directors. The financial statements of subsidiaries are included in the consolidated financial statements from the date control commences until the date control ceases.

The assets and liabilities of subsidiary company have been consolidated on a line by line basis. All intra group balances and transactions have been eliminated.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of these consolidated financial statements are set out below:

3.1 Statement of compliance

These consolidated financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan and the requirements of the Companies Ordinance, 1984. Approved accounting standards comprise of such International Accounting Standards as notified under the provisions of the Companies Ordinance, 1984. Wherever the requirements of the Companies Ordinance, 1984 or directives issued by the Securities and Exchange Commission of Pakistan differ with the requirements of these standards, the requirements of the Companies Ordinance, 1984 or the requirements of the said directives take precedence.

3.2 Basis of preparation

These consolidated financial statements have been prepared under the 'historical cost' convention.

Key sources of estimation and judgements

The preparation of consolidated financial statements in conformity with approved accounting standards requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. However, assumptions and judgements made by the management in the application of accounting policies that have significant effect on the consolidated financial statements are not expected to result in material adjustment to the carrying amounts of assets and liabilities.

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In preparing these consolidated financial statements, the significant judgements made by the management in applying accounting policies include:

- Warranty obligations (note 3.4)
- Provision for liquidated damages aggregating Rs 213.481 million as at September 30, 2006 (note 3.4)
- Provision against inventories and doubtful receivables (notes 3.11 and 3.12)
- Actuarial assumptions for the gratuity scheme and medical and provision thereagainst (note 7)
- Provision for taxes and deferred taxation (note 26.2)
- Cost of completion of contracts in progress and their results (note 31)

Standards, interpretations and amendments to published accounting standards that are issued but not yet effective

The following standards, amendments and interpretations of approved accounting standards are only effective for accounting periods beginning on or after October 1, 2006 and except for additional disclosures are not expected to have a significant effect on the Group's financial statements or are not relevant to the Group:

- Amendment to IAS 1, Presentation of Financial Statements - Capital disclosures;
- IAS 19 (Amendment), Employee Benefits - Additional disclosures;
- IAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intra group Transactions;
- IAS 39 (Amendment), The Fair Value Option;
- Amendment to IAS 21, The Effects of Changes in Foreign Exchange Rates: net investment in foreign operation;
- IFRIC 4, Determining whether an Arrangement contains a Lease;
- IFRIC 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Fund;
- IFRIC 6, Liabilities arising from Participating in a Specific market - Waste Electrical and Electronic Equipment;
- IFRIC 9, Reassessment of Embedded Derivatives; and
- IFRIC 10, Interim Financial Reporting and Impairment

3.3 Employees' retirement benefits

Defined Benefit Plan

The Group operates funded gratuity schemes for its regular permanent employees except expatriates. Provisions are made in the consolidated financial statements to cover obligations on the basis of actuarial valuation carried out annually under the projected unit credit method. Actuarial gains / losses are amortised over the expected future service of the employees.

Defined Contribution Plan

The Group also operates provident fund schemes for all its regular permanent employees except expatriates. Equal monthly contributions are made to the fund, both by the Group and the employees at the rate of 10 percent of basic salary and cost of living allowance wherever applicable.

In addition to above, the subsidiary has the following further plans for its employees.

Accumulated compensated absences

The subsidiary provides a facility to its regular employees for accumulating their annual earned leave. Provision is made annually to cover the obligation for accumulating compensated absences based on actuarial valuation using Projected Unit Credit Method. Provision for the year is charged to profit and loss account.

Medical facility

The subsidiary provides medical reimbursement facility to its retired employees and their spouse through its authorised doctors and chemists for a period of ten years after retirement, if the employee has served for at least 25 years at the time of his retirement.

Provision is made annually to cover the obligation for reimbursement of medical expenses based on actuarial valuation using Projected Unit Credit Method. Provision for the year is charged to profit and loss account. All actuarial gains / losses are recognised immediately in the profit and loss account.

This difference in accounting policy in respect of recognition of actuarial gains / losses of subsidiary as compared to the Company does not have a material impact on these consolidated financial statements.

3.4 Provisions

A provision is recognised in the balance sheet when the Group has legal or constructive obligation as a result of past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of obligation.

The Group accounts for its obligations towards long service bonus payable to its employees who are expected to complete twenty five / forty years of service when the employees render service.

The Group accounts for its warranty obligations when the underlying products or services are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

Various contracts entered into by the Group include provisions whereby liquidated damages may be imposed in case of delay in completion of the project. These damages are generally levied in case the delay is considered to be on account of factors under Group’s control. The Group makes provision for these liquidated damages based on an analysis of various factors resulting in delays / estimated delays. The imposition of actual liquidated damages is subject to negotiations and, in certain cases, based on fresh analysis of the factors affecting the delay, these damages may not be imposed or may be higher than the amount provided. On final acceptance and release of retention money, the provisions which are no longer required are released to profit and loss account.

3.5 Borrowing costs

Borrowing costs are recognised as an expense in the period in which they are incurred.

3.6 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses, if any. Cost in relation to self manufactured assets includes direct cost of materials, labour and applicable manufacturing overheads. Capital work-in-progress is stated at cost.

Depreciation is charged to profit and loss account applying the straight line method whereby the cost of an asset is written off over its estimated service life. Depreciation on additions is charged from the month in which asset is put to use and on disposals upto the month of deletion. No depreciation is charged on freehold land.

Maintenance and normal repairs are charged to income as and when incurred.

Renewals and improvements are capitalised and the assets so replaced, if any, are retired. Gains or losses on sale or retirement of fixed assets are included in income currently.

3.7 Intangible assets

3.7.1 *Software*

Software is stated at cost less accumulated amortisation. These are amortised using the straight line method over the estimated useful lives of software.

3.7.2 *Goodwill*

Goodwill represents the excess of cost of acquisition of the subsidiary over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. This is stated at cost less accumulated amortisation and impairment, if any. The goodwill is amortised over the period of twenty years.

3.8 Impairment

The carrying value of Group's non-financial assets other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indications exist, the recoverable amount is estimated. An impairment loss is recognised if carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the profit and loss.

3.9 Taxation

3.9.1 *Current*

Provision for current taxation is based on taxability of certain income streams of the Group under presumptive tax regime at the applicable tax rates and remaining income streams chargeable at current rate of taxation under the normal tax regime after taking into account tax credits and tax rebates available, if any.

3.9.2 *Deferred*

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only when it is probable that future taxable profits will be available against which the deductible temporary differences can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

3.10 Long-term receivables

Long-term loans, trade debts, deposits and other receivables, except those on which mark-up is earned by the Group are discounted to their present values.

3.11 Inventories

Inventories are valued at the lower of cost and net realisable value. Cost of finished goods, both manufactured and purchased, raw material and components is determined on weighted average basis. The cost of work-in-process and finished goods includes direct materials, labour and applicable production overheads. Goods-in-transit are valued at cost comprising invoice value and other expenses incurred thereon.

Net realisable value is arrived at by considering the depletion span and technical obsolescence of inventories and the replacement cost thereof.

3.12 Trade receivables

3.12.1 Trade receivables are initially recognised at fair value and subsequently measured at amortised cost.

3.12.2 Due against construction work in progress represents the gross unbilled amount expected to be collected from customers for contract work performed to date. It is measured at cost plus profit recognised to date less progress billing and recognised losses. Cost includes all expenditures related directly to specific projects and an allocation of fixed and variable overheads incurred.

3.12.3 Provision for impairment on trade receivables is established when there is objective evidence that the Group will not be able to collect all amount due according to original terms of receivables.

3.13 Cash and cash equivalent

Cash and cash equivalents comprise of cash in hand and deposits held with banks. Running finance facilities availed by the Group, which are repayable on demand and form an integral part of the Group's cash management are included as part of cash and cash equivalents for the purpose of the statement of cash flows.

3.14 Segment reporting

A business segment is a distinguishable component within a Group that is engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments. The Group's primary format for segment reporting is based on business segments.

3.15 Foreign currencies

Foreign currency transactions are translated into Pak Rupees at exchange rates prevailing on the date of transaction. Assets and liabilities in foreign currencies are translated at the rates of exchange prevailing at the balance sheet date. Exchange gains and losses are included in income currently.

3.16 Revenue recognition

Revenue from sale of goods are recognised when significant risks and rewards of ownership are transferred to the buyer i.e., when deliveries are made or when goods are specifically contractually appropriated. Service revenue is recognised over the contractual period or as and when services are rendered to customers. Commission income is recognised on receipt of credit note.

Contract revenue and contract costs relating to long term construction contracts are recognised as revenue and expenses respectively by reference to stage of completion of contract activity at the balance sheet date. Stage of completion of a contract is determined by applying 'cost-to-cost method'. Under 'cost-to-cost method', stage of completion of a contract is determined by reference to the proportion that contract cost incurred to date bears to the total estimated contract cost. Contract revenue on construction contracts valuing less than Rs 10 million and duration upto six months is recognised using completed contract method. Expected losses on contracts are recognised as an expense immediately.

In respect of certain sales contracts, the price differentials are accounted for in the year in which they are finally determined.

3.17 Financial assets and liabilities

All financial assets and liabilities are initially measured at cost, which is the fair value of the consideration given or received as appropriate. These financial assets and liabilities are subsequently measured at fair value or amortised cost as the case may be. The Group derecognises the financial assets and financial liabilities when it ceases to be a party to such contractual provisions of the instruments.

3.18 Derivative financial instruments

The Group uses derivative financial instruments to hedge its exposure to foreign exchange arising from operational activities. Any gain or loss from re-measuring the hedging instrument at fair value is recognised in the profit and loss account.

3.19 Dividends

Dividend is recognised as a liability in the period in which it is declared.

3.20 Discontinuing operations

A discontinuing operation is a separate major line of business, which is a distinct part of the business both operationally and also for financial reporting purposes and which is in the process of being sold in its entirety.

4. DISCONTINUING OPERATIONS

Siemens Aktiengesellschaft, Germany (SAG) announced that globally the Communication (COM) carrier network activities of SAG would be carved out and shall be merged into a new company (with 50:50 stake holding), called Nokia Siemens Networks (NSN), with Nokia as the other partner. Further, SAG's COM enterprise network business would also be separated to form a new entity. Accordingly, COM carrier and enterprise network activities of the Company shall also be carved out to NSN Pakistan and a separate entity of SAG respectively effective January 1, 2007, subject to approval by the shareholders, at a fair market value. Additionally, the COM Carrier network business in a subsidiary of the Company, shall also be carved out to NSN Pakistan at fair market value.

During the year ended September 30, 2006, COM earned revenue of Rs 6,946.782 million, incurred expenses of Rs 5,712.674 million and earned a pre-tax profit of Rs 1,234.108 million with a related income tax expense of Rs 431.808 million. During the year, COM's cash flow from operating activities was Rs 1,253.707 million, cash outflow from investing activities was Rs 20.083 million and cash flow from financing activities was nil. The carrying values of COM's assets and liabilities were Rs 1,838.539 million and Rs 999.038 million respectively.

			2006	2005
			(Rupees in '000)	
5.	**ISSUED, SUBSCRIBED AND FULLY PAID-UP SHARE CAPITAL**			
	Ordinary shares of Rs. 10 each			
	6,217,780	Issued for cash	**62,178**	62,178
	81,700	Issued for consideration other than cash	**817**	817
	1,526,800	Issued as bonus shares	**15,268**	15,268
	(56,683)	Shares bought back	**(567)**	(567)
	7,769,597		**77,696**	77,696

5.1 Siemens Aktiengesellschaft, Germany (Siemens AG) held 4,973,680 ordinary shares of Rs. 10 each of Siemens Pakistan as at September 30, 2006.

5.2 Dividends

The Board of Directors of Siemens (Pakistan) Engineering Company Limited in their meeting held on November 20, 2006 have proposed a final cash dividend of Rs. 30 per share (2005: Rs. 24 per share) amounting to Rs. 233.088 million (2005: Rs. 186.470 million). The Board also proposed to transfer an amount of Rs. 200.000 million (2005: nil) from retained earnings to general reserves.

6.	**RESERVES**		2006	2005
		Note	(Rupees in '000)	
	Share premium	*6.1*	**9,635**	9,635
	Capital repurchase reserve account	*6.2*	**567**	567
	Other capital reserve		**4,300**	4,300
	General reserve		**1,823,026**	1,823,026
			1,837,528	1,837,528

6.1 This represents premium of Rs 50 per share on issue of 186,340 ordinary shares and Rs 70 per share on issue of 223,608 ordinary shares of Rs 10 each during the years ended September 30, 1988 and 1990 respectively. This amount has been reduced by Rs 15.334 million on account of 56,683 shares bought back by the Company during the year ended September 30, 2003.

6.2 This represents the amount by which the share capital of the Company was diminished on buy back of 56,683 shares of Rs 10 each and transferred from the distributable profits of the Company to 'Capital Repurchase Reserve Account' during the year ended September 30, 2003. This reserve was created to comply with the requirements of sub-section 10 of section 95A of the Companies Ordinance, 1984.

7.	**DEFERRED LIABILITY**	2006	2005
		(Rupees in '000)	
	Provision for employees' medical scheme	**46,891**	-

		Funded Gratuity	Unfunded Medical
		(Rupees in '000)	
7.1	**Staff Retirement Benefit**		
	The amounts recognised in the consolidated balance sheet are as follows:		
	Fair value of plan assets	405,731	(46,891)
	Present value of defined benefit obligation	(335,459)	-
	Surplus	70,272	(46,891)
	Unrecognised net gain	(13,920)	-
	Surplus carried forward in the consolidated balance sheet	56,352	(46,891)
7.2	Movement in net asset / (liability) in the consolidated balance sheet is as follows:		
	Opening balance of net asset / (liability)	45,470	(50,731)
	Assets of subsidiary company's plan	11,185	-
	(Expense) / income recognised for the year	(303)	2,038
	Contributions / payments by the subsidiary	-	1,802
	Closing balance of net asset / (liability)	56,352	(46,891)
7.3	The following amounts have been charged in the consolidated profit and loss account in respect of these benefits:		
	Current service expense	21,733	1,795
	Interest expense	31,191	3,805
	Expected return on plan assets	(43,457)	-
	Expense for the year	9,467	5,600
	Recognition of actuarial gain	(9,164)	(7,638)
	Expense / (income) recognised in the consolidated financial statements	303	(2,038)

7.4 The actuarial valuations of gratuity schemes operated by the Group were carried out at September 30, 2006. The projected unit credit method, using the following significant financial assumptions, has been used for the actuarial valuation:

- Discount rate of 8% and 10.78% per annum compound (2005: 11.65%).
- Expected rate of increase in salaries 8% and 8.66% per annum (2005: 9.52%).
- Expected rate of return on plan assets 12% and 10.78% per annum (2005: 11.65%).

7.5 Actual return on plan assets of the Group for the year ended September 30, 2006 was Rs. 48.635 million (2005: Rs. 20.778 million)

7.6 Group's asset in respect of the gratuity scheme of Rs. 56.352 million (2005: Rs. 45.470 million) is included in note 17 'Other receivables'.

8.	TRADE AND OTHER PAYABLES	Note	2006	2005
			(Rupees in '000)	
	Creditors		**3,384,224**	1,838,430
	Accruals for contract and other obligations		**945,189**	412,661
	Warranty obligations	*8.1*	**404,841**	266,676
	Accrued liabilities		**674,318**	482,484
	Advances from customers			
	- For goods		**744,079**	430,325
	- For services including projects		**1,806,972**	1,433,480
	Accrued mark-up on running finances		**4,728**	609
	Unearned portion of revenue and maintenance contracts		**63,850**	1,123
	Workers' profits participation fund	*8.2*	**82,227**	65,716
	Workers' welfare fund		**47,519**	19,921
	Unclaimed dividend		**5,420**	4,226
	Other liabilities		**319,843**	76,706
			8,483,210	5,032,357
	Amount payable to related parties included in trade and other payables are as follows:			
	- Payable to Siemens AG		**378,149**	-
	- Payable to associates		**765,266**	745,272
			1,143,415	745,272
8.1	**Warranty obligations**			
	Balance at beginning of the year		**266,676**	243,264
	Provision in the books of subsidiary on acquisition		**5,902**	-
	Provision made during the year by the Group		**356,876**	123,534
	Reversals of utilised and unutilised amounts		**(224,613)**	(100,122)
	Balance at end of the year		**404,841**	266,676
8.2	**Workers' profits participation fund**			
	Balance at beginning of the year		**65,716**	40,590
	Interest paid on funds utilised in Company's business		**9,068**	5,658
	Amount allocated for the year		**82,227**	65,716
	Amount paid to the Fund		**(74,784)**	(46,248)
	Balance at end of the year		**82,227**	65,716

9. SHORT-TERM RUNNING FINANCES

The Group has short term running finance facilities available from various banks aggregating to Rs 1,979.200 million (2005: Rs. 838.000 million). The mark-up on these facilities ranges between 8.75% to 11.06% per annum (2005: 9% to 11%) and the facilities are secured by joint hypothecation of inventories of finished goods, work-in-process, raw materials and components and present and future trade receivables.

Other facilities granted by the banks and amounts remaining unutilised thereof as at September 30, 2006 are as follows:

	2006	2005
	(Rupees in '000)	
Letters of credit		
- limit	**4,493,309**	1,269,565
- unutilised portion	**3,007,684**	905,593
Guarantees		
- limit	**4,540,491**	4,160,000
- unutilised portion	**623,709**	1,194,498

10. CONTINGENCIES AND COMMITMENTS

10.1 As at September 30, 2006 capital expenditure contracted for but not incurred amounted to Rs. 152.051 million (2005: Rs. 62.722 million).

10.2 The Company has been made party to a legal suit along with two other Siemens entities for infringement of intellectual property rights of an individual. The plaintiff has prayed the court for recovery of cost and damages of Rs. 20 billion. The Company considers that the suit has no merit and accordingly no provision has been made thereagainst.

10.3 The Company is defending various cases in the High Court of Sindh for the recovery of claim aggregating to Rs 183.859 million alongwith liquidated damages. The Company's management is confident, based on the advice of its legal advisor, that the matter will be decided in its favour and accordingly no provision has been made in these consolidated financial statements in respect of the amounts claimed.

10.4 The Company has filed a case in the High Court of Sindh against a claim of Sui Southern Gas Company Limited amounting to Rs 7.690 million. The Company's management is confident, based on the advice of its legal advisor, that the matter will be decided in its favour and accordingly no provision has been made in these consolidated financial statements in respect of the amount claimed.

11. PROPERTY, PLANT AND EQUIPMENT	*Note*	**2006**	2005
		(Rupees in '000)	
Tangible assets	*11.1*	**1,399,801**	570,089
Capital work in progress	*11.2*	**77,451**	32,787
		1,477,252	602,876

11.1 Tangible assets

2006	Cost at October 1, 2005	Identifiable tangible assets of CTI on acquisition	Additions / (deletions)	Cost at September 30, 2006	Accumulated depreciation at October 1, 2005	Depreciation for the year / (on deletion)	Accumulated depreciation at September 30, 2006	Net book value at September 30, 2006	Depreciation rates as a % of cost
	(Rupees in '000)								
Leasehold lands	53,149	-	-	53,149	19,366	1,329	20,695	**32,454**	2.5
Freehold land	-	544,011	-	544,011	-	-	-	**544,011**	-
Buildings on leasehold / freehold lands	228,377	106,495	1,405 (49)	336,228	67,499	8,254 (17)	75,736	**260,492**	2.5 & 10
Plant and machinery	427,718	98,533	54,516 (5,677)	575,090	264,930	60,537 (5,157)	320,310	**254,780**	10,20,25 & 100
Tools and patterns	110,839	-	24,972 (3,149)	132,662	96,986	13,267 (1,505)	108,748	**23,914**	50
Furniture and equipment	331,303	7,426	62,547 (18,739)	382,537	234,970	51,715 (18,188)	268,497	**114,040**	20,25,33.33 & 100
Vehicles	237,730	12,095	119,047 (26,060)	342,812	135,276	57,970 (20,544)	172,702	**170,110**	25 & 50
	1,389,116	**768,560**	**262,487** **(53,674)**	**2,366,489**	**819,027**	**193,072** **(45,411)**	**966,688**	**1,399,801**	

2005	Cost at October 1, 2004	Identifiable tangible assets of CTI on acquisition	Additions / (deletions)	Cost at September 30, 2005	Accumulated depreciation at October 1, 2004	Depreciation for the year / (on deletion)	Accumulated depreciation September 30, 2005	Net book value at at September 30, 2005	Depreciation rates as a % of cost
	(Rupees in '000)								
Leasehold lands	53,149	-	-	53,149	18,038	1,328	19,366	33,783	2.5
Buildings on leasehold lands	223,994	-	4,383	228,377	61,693	5,806	67,499	160,878	2.5 & 10
Plant and machinery	381,294	-	49,811 (3,387)	427,718	235,888	31,732 (2,690)	264,930	162,788	10,20,25 & 100
Tools and patterns	92,250	-	19,196 (607)	110,839	86,012	11,581 (607)	96,986	13,853	50
Furniture and equipment	282,806	-	66,045 (17,548)	331,303	215,665	36,679 (17,374)	234,970	96,333	20,25,33.33 & 100
Vehicles	186,743	-	71,500 (20,513)	237,730	110,441	41,150 (16,315)	135,276	102,454	25 & 50
	1,220,236	-	210,935 (42,055)	1,389,116	727,737	128,276 (36,986)	819,027	570,089	

11.2 Capital work in progress

	2006	2005
	(Rupees in '000)	
Building under construction	**34,419**	7,928
Plant, machinery and equipment under installation	**28,982**	9,859
Advances to suppliers	**14,050**	15,000
	77,451	32,787

11.3 Details of property, plant and equipment deleted during the year

	Original cost	Accumulated depreciation	Net book value	Sale proceeds	Mode of disposal	Name and address of purchaser
	(Rupees in '000)					
Buildings on freehold lands						
Items with book value below Rs 50,000	49	17	32	71		
	49	**17**	**32**	**71**		
Plant and machinery						
Items with book value below Rs 50,000	5,677	5,157	520	202		
	5,677	**5,157**	**520**	**202**		
Tools and patterns						
	1,754	761	993	1,174	Insurance claim	
	260	43	217	221	Negotiation	Tecom Pakistan (Pvt) Ltd. Society Office Building, Office # 6, Kashmir Road, Karachi.
	260	43	217	221	Negotiation	- do -
	260	43	217	221	Negotiation	- do -
Items with book value below Rs 50,000	615	615	-	82		
	3,149	**1,505**	**1,644**	**1,919**		
Furniture and equipment						
	97	46	51	75	Insurance claim	
Items with book value below Rs 50,000	18,642	18,142	500	590		
	18,739	**18,188**	**551**	**665**		
Vehicles						
	4,950	1,031	3,919	5,165	Insurance claim	
	879	55	824	841	Insurance claim	
	1,240	930	310	496	Company policy	Mr. Farrukh Latif-Ex-Executive
	1,549	1,355	194	1,008	Negotiation	Mr. Muhammad Nasir Khan House No. A-597, Sector 11-A, North Karachi.
	285	48	237	200	Negotiation	Mr. Anwar Ali Khan I-9/4, Islamabad.
Items with book value below Rs 50,000	17,157	17,125	32	13,465		
	26,060	**20,544**	**5,516**	**21,175**		
Total	**53,674**	**45,411**	**8,263**	**24,032**		

12. INTANGIBLE ASSETS

	Note	2006	2005
		(Rupees in '000)	
Software	*12.1*	**32,372**	54,392
Goodwill	*12.2*	**107,379**	-
		139,751	54,392

	Cost at October 1, 2005	Additions / (write off)	Cost at September 30, 2006	Accumulated amortisation at October 1, 2005	Amortisation for the year / (on write off)	Accumulated amortisation at September 30, 2006	Net book value at September 30, 2006	Amortisation rate as a % of cost
	(Rupees in '000)							
12.1 Software	76,476	4,754	81,230	22,084	26,774	48,858	32,372	33.33
2006	**76,476**	**4,754**	**81,230**	**22,084**	**26,774**	**48,858**	**32,372**	
2005	3,130	73,361 (15)	76,476	767	21,332 (15)	22,084	54,392	

12.2 Goodwill

	2006	2005
	(Rupees in '000)	
Purchase consideration for acquisition of CTI	**500,000**	-
Group's share in fair value of identifiable assets and liabilities of CTI	**(386,969)**	-
Goodwill arising on acquisition	**113,031**	-
Amortisation for the year	**(5,652)**	-
	107,379	-

12.1 Depreciation and amortisation other than amortisation of goodwill have been allocated as follows:

	Note	Depreciation	Amortisation	2006 Total	2005 Total
		(Rupees in '000)			
Cost of sales	*20.1*	127,805	15,782	**143,587**	81,437
Marketing and selling expenses	*21*	51,277	8,776	**60,053**	55,954
General administration expenses	*22*	13,990	2,216	**16,206**	12,217
		193,072	26,774	**219,846**	149,608

Amortisation of goodwill has been shown in note 23 'other operating expenses'.

13. LONG TERM RECEIVABLE AND PREPAYMENTS	Note	2006	2005
		(Rupees in '000)	
Loans			
Considered good			
Due from executives	*13.1 & 13.2*	11,245	14,473
Due from others		13,008	5,499
		24,253	19,972
Receivable within one year		(5,547)	(3,812)
Long term portion		18,706	16,160
Discounting to present value		(5,647)	(4,406)
		13,059	11,754
Trade receivables			
Considered good			
Due from related parties		-	2,584
Due from others		662,442	410,903
		662,442	413,487
Considered doubtful - others		220	124
		662,662	413,611
Provision for doubtful debts		(220)	(124)
		662,442	413,487
Discounting to present value		(89,734)	(38,074)
		572,708	375,413
Security deposits		54,259	13,419
Prepayments		4,132	-
		644,158	400,586
Maximum amount outstanding at end of any month during the year against loans to executives		13,467	17,244

13.1 This represents real estate loans provided interest free to executives in accordance with the Company's policy. The loans are secured against the respective assets for which the loans have been granted and are recoverable in one to ten years in equal monthly installments.

13.2 Reconciliation of carrying amount of loans to executives	2006	2005
	(Rupees in '000)	
Balance at beginning of the year	14,473	16,673
Promotion of non-executive employees as executive	1,781	755
Repayments	(5,009)	(2,955)
Balance at end of the year	11,245	14,473

14. DEFERRED TAX ASSETS

Debit / (credit) balances arising in respect of:	2006	2005
Provision for doubtful debts	33,926	5,634
Provision for obsolete and slow moving items of inventories	26,328	13,516
Contract and other obligations	212,156	58,892
Warranty obligations	90,322	37,335
Discounting of long-term receivables	20,461	7,015
Accelerated tax depreciation	(41,060)	(7,027)
Tax loss for the period	15,352	-
Minimum tax for the period	9,850	-
	367,335	115,365

15. INVENTORIES

	2006	2005
	(Rupees in '000)	
Raw materials and components	**894,697**	439,674
Goods-in-transit	**220,592**	207,884
Work-in-process	**958,742**	766,739
Finished goods	**623,464**	271,997
	2,697,495	1,686,294
Provision for slow moving and obsolete items	**(245,156)**	(186,482)
	2,452,339	1,499,812

15.1 The above balances include items costing Rs 13.216 million (2005: nil) valued at net realisable value of Rs 4.078 million (2005: nil).

16. TRADE RECEIVABLES

	Note	2006	2005
		(Rupees in '000)	
Considered good			
Due from related parties - associates	*16.1*	**10,298**	130,211
Due from others		**3,184,271**	1,629,882
		3,194,569	1,760,093
Due against construction work in progress			
- associates	*16.1*	**6,811**	76,117
- others		**2,135,521**	761,550
		2,142,332	837,667
Considered doubtful		**119,953**	40,123
		5,456,854	2,637,883
Provision for doubtful receivables		**(119,953)**	(40,123)
		5,336,901	2,597,760

16.1 These represent amounts due from Siemens AG and its affiliates and associates.

17. OTHER RECEIVABLES

	Note	2006	2005
		(Rupees in '000)	
Loans and advances			
Considered good			
Loans due from			
- Executives		**2,476**	2,877
- Others		**3,071**	1,058
		5,547	3,935
Advances to			
- Executives		**1,076**	220
- Suppliers		**252,686**	231,294
- Others		**16,783**	7,537
		270,545	239,051
		276,092	242,986
Trade deposits, short-term prepayments and other receivables			
Trade deposits		**121,767**	171,403
Short-term prepayments	*17.1*	**72,850**	52,697
Sales tax refundable		**180,680**	261,662
Interest receivable		**14,263**	1,633
Others		**40,093**	151,187
		429,653	638,582
Provision for doubtful trade deposits		**(6,974)**	(7,624)
		422,679	630,958
		698,771	873,944

17.1 This includes Rs. 56.352 million (2005: Rs. 45.470 million) representing excess contribution as per actuarial valuation in funded employees' gratuity schemes operated by the Group.

18. CASH AND BANK BALANCES

	Note	2006	2005
		(Rupees in '000)	
With banks in			
- Current accounts		**11,033**	187,487
- Deposit accounts		**1,617,264**	1,467,825
Cheques in hand		**141,908**	88,448
Cash in hand		**84**	-
		1,770,289	1,743,760

19. NET SALES

	Note	2006	2005
- Export - Goods		**112,919**	455,326
- Services		**18,704**	62,350
- Contracts executed outside Pakistan		**4,657,654**	3,271,416
- Against International Tenders		**64,000**	102,016
- Other - Goods		**8,213,213**	5,004,197
- Services including projects		**7,931,697**	4,479,216
Gross sales		**20,998,187**	13,374,521
Commission paid		**(4,027)**	(11,169)
Sales tax		**(198,313)**	(230,533)
Net sales		**20,795,847**	13,132,819

20. COST OF SALES

	Note	2006	2005
Opening inventory of finished goods		**344,184**	210,007
Cost of goods manufactured and services rendered	*20.1*	**17,940,874**	10,866,607
Finished goods purchased		**555,672**	528,595
		18,840,730	11,605,209
Closing inventory of finished goods		**(496,640)**	(236,985)
Cost of sales		**18,344,090**	11,368,224

20.1 Cost of goods manufactured and services rendered	Note	2006	2005
		(Rupees in '000)	
Opening inventories			
Raw materials and components		440,760	208,252
Goods-in-transit		207,884	84,308
Work-in-process		771,205	702,753
		1,419,849	995,313
Purchase of goods and services		14,185,062	9,145,546
Salaries, wages and employees welfare expense		1,337,876	785,003
Gratuity fund (reversal) / expense		(1,308)	1,164
Provident fund contribution		11,772	8,381
Fuel, power and water		624,608	204,028
Repairs and maintenance		178,867	102,132
Stores, spares and loose tools consumed		2,325	-
Rent, rates and taxes		507,665	255,648
Liquidated damages for late deliveries - net of recoveries		126,584	58,640
Warranty and other contractual obligations		580,944	(151,484)
Slow moving and obsolete items of inventories		58,674	45,960
Inventories written off		-	416
IT, networking and data communication		38,527	29,757
Insurance		76,960	76,790
Depreciation and amortisation	12.3	143,587	81,437
Transportation		84,478	43,804
Travelling and conveyance		324,871	312,843
Stationery, telex and telephone		111,110	81,388
Others		130,058	97,736
		19,942,509	12,174,502
Closing inventories			
Raw materials and components		(804,259)	(363,300)
Goods-in-transit		(217,062)	(207,884)
Work-in-process		(932,265)	(691,643)
		(1,953,586)	(1,262,827)
		17,988,923	10,911,675
Transfer to property, plant and equipment		-	(8,758)
Sale of scrap		(48,049)	(36,310)
		(48,049)	(45,068)
		17,940,874	10,866,607

21. MARKETING AND SELLING EXPENSES

	Note	2006	2005
		(Rupees in '000)	
Salaries, wages and employees welfare expense		**444,848**	322,860
Gratuity fund expense		**1,738**	1,068
Provident fund contribution		**11,873**	8,237
Fuel, power and water		**45,410**	31,284
Repairs and maintenance		**45,779**	35,879
Advertising and sales promotion		**30,893**	28,056
Rent, rates and taxes		**48,265**	58,783
Insurance		**7,480**	8,643
Provision / (reversal of provision) for doubtful trade receivables		**52,586**	(456)
Reversal of provision for doubtful trade deposits		**(650)**	(2,402)
Bad debts written off		**1,396**	11,284
Depreciation and amortisation	*12.3*	**60,053**	55,954
Travelling and conveyance		**72,166**	42,973
Transportation expenses		**81,841**	45,053
Stationery, telex and telephone		**33,588**	40,955
IT, networking and data communication		**57,523**	53,666
Others		**8,686**	2,261
		1,003,475	744,098

22. GENERAL ADMINISTRATION EXPENSES

	Note	2006	2005
Salaries, wages and employees welfare expense		**127,665**	92,644
Gratuity fund (reversal) / expense		**(127)**	281
Provident fund contribution		**2,746**	1,936
Fuel, power and water		**5,957**	2,735
Repairs and maintenance		**15,446**	6,255
Rent, rates and taxes		**1,934**	1,834
Insurance		**2,016**	1,622
Auditors' remuneration	*30*	**3,690**	2,445
Depreciation and amortisation	*12.3*	**16,206**	12,217
Travelling and conveyance		**15,155**	14,167
Stationery, telex and telephone		**10,634**	7,770
IT, networking and data communication		**10,192**	7,937
Legal and professional		**20,865**	58,614
Donations	*22.1*	**2,588**	740
Others		**21,153**	5,986
		256,120	217,183

22.1 Donations include Rs 0.035 million (2005: Rs. 0.070 million) to Organisation for the Under Privileged - 108-A/II, Khayaban-e-Rahat, Street 25, Phase IV, DHA, Karachi. The spouse of Mr. Sohail Wajahat Siddiqui, Chief Executive Officer of the Company, is amongst the Trustees of the Organisation.

		Note	2006	2005
23.	**OTHER OPERATING EXPENSES**		**(Rupees in '000)**	
	Amortisation of goodwill		**5,652**	-
	Provision for discounting on long-term receivables		**50,314**	30,585
	Workers' profits participation fund		**82,227**	65,716
	Workers' welfare fund		**31,034**	10,057
			169,227	106,358
24.	**FINANCIAL EXPENSES**			
	Interest on workers' profits participation fund		**9,068**	5,658
	Mark-up on short-term finances		**92,943**	23,699
	Mark-up on trade and other payables		**7,727**	-
	Exchange loss		**65,955**	9,128
	Commission on guarantees		**15,047**	11,238
	Bank charges for services		**74,154**	44,384
			264,894	94,107
25.	**OTHER OPERATING INCOME**			
	Mark-up from trade receivables		**1,454**	306
	Income on amounts placed with banks under deposit accounts		**80,768**	29,786
	Profit on sale of property, plant and equipment		**15,769**	10,384
	Gain on sale of investment		**-**	1,039
	Sales tax refund		**28,809**	-
	Balances no longer payable written back		**6,557**	8,495
	Rental income		**1,128**	-
	Others		**447**	189
			134,932	50,199
26.	**INCOME TAX EXPENSE**			
	Current			
	- For the year		**929,049**	444,020
	- For prior years		**88,474**	-
			1,017,523	444,020
	Deferred		**(233,739)**	10,033
		26.1 & 26.2	**783,784**	454,053
26.1	**Reconciliation of income tax expense for the year**			
	Accounting profit		**1,508,320**	1,232,899
	Enacted tax rate		**35%**	35%
	Tax on accounting profit at enacted rate		**527,912**	431,515
	Tax effect of income assessed under Presumptive Tax Regime (PTR)		**151,296**	16,437
	Tax effect of expenses that are not allowable in determining taxable income		**10,325**	6,101
	Prior years' tax expense		**88,474**	-
	Minimum tax		**5,777**	-
			783,784	454,053

26.2 The Group makes provision for taxation based on its understanding of the tax laws and regulations and on the basis of advices from its tax consultants. These provisions may require change in case these laws and regulations are interpreted differently by tax authorities and its appeals are not accepted at various forums.

		Note	2006	2005
27.	**BASIC AND DILUTED EARNINGS PER SHARE**			
			(Rupees in '000)	
	Profit for the year		**727,006**	778,846
			(No. of shares)	
	Weighted average number of ordinary shares		**7,769,597**	7,769,597
			(Rupees)	
	Basic and diluted earnings per share		**93.57**	100.24
28.	**CASH GENERATED FROM OPERATIONS**		**(Rupees in '000)**	
	Profit before tax		**1,508,320**	1,232,899
	Adjustment for non cash expenses and other items:			
	Depreciation and amortisation		**219,846**	149,608
	Amortisation of goodwill		**5,652**	-
	Profit on sale of property, plant and equipment		**(15,769)**	(10,384)
	Employees' long service bonus		**2,864**	2,169
	Warranty obligations		**132,263**	23,412
	Financial expenses		**264,894**	94,107
	Financial income		**(82,222)**	(30,092)
	Working capital changes	*28.1*	**(16,370)**	275,391
			2,019,478	1,737,110
28.1	**Working capital changes**			
	(Increase) / decrease in current assets			
	Inventories		**(662,983)**	(294,492)
	Trade receivables		**(2,630,651)**	(1,266,581)
	Other receivables		**247,433**	(520,776)
			(3,046,201)	(2,081,849)
	Increase in current liabilities			
	Trade and other payables		**3,029,831**	2,357,240
			(16,370)	275,391

28.2 During the year, the Company acquired 52.51% shares of CTI from Privatisation Commission and took control of the management on December 9, 2005. During the period since December 9, 2005 the subsidiary has incurred after tax loss of Rs. 5.202 million. The acquisition had the following effect on the Group's assets and liabilities on acquisition date:

	(Rupees in '000)
Property, plant and equipment	**768,364**
Investment	**9,341**
Long-term receivables	**7,278**
Deferred taxation	**18,231**
Inventories	**289,544**
Trade receivables	**121,435**
Other receivables	**68,887**
Long-term liabilities	**(53,122)**
Trade and other payables	**(287,084)**
	942,874
Cash and cash equivalents	**(205,931)**
Net identifiable assets	**736,943**
Minority interest	**(349,974)**
	386,969
Goodwill on acquisition	**113,031**
Consideration paid in cash	**500,000**

The fair values of identified assets and liabilities and contingent liabilities were estimated as follows:

a) Property, plant and equipment

The fair value of property, plant and equipment is based on the market values. The market values have been estimated by an independent valuation expert and represents the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction.

b) Inventories

The fair value of inventory acquired is determined based on its estimated selling price in the ordinary course of business less the estimated costs of completion and sale and a reasonable profit margin based on the effort required to complete and sell.

c) Other assets and liabilities

The fair value of other assets and liabilities were estimated to approximate their carrying values as the assets and liabilities are for short term.

29. CASH AND CASH EQUIVALENTS

	Note	2006	2005
		(Rupees in '000)	
Cash and bank balances	*18*	**1,770,289**	1,743,760
Short-term running finances		**(784,778)**	(104,584)
		985,511	1,639,176

30. AUDITORS' REMUNERATION

	2006	2005
Audit fee	**1,741**	940
Tax representation and advisory services	**1,285**	941
Special reports and certifications, review of half yearly accounts, audits of workers' profits participation fund, gratuity fund and group reporting	**485**	311
Out of pocket expenses	**179**	253
	3,690	2,445

31. LONG TERM CONSTRUCTION CONTRACTS	Note	2006	2005
		(Rupees in '000)	
Contract revenue for the year		**11,398,120**	7,110,593
Contract costs incurred to date		**19,875,849**	8,788,941
Gross profit realised to date		**1,492,337**	611,594
Balance of advances received		**1,605,587**	1,078,051
Retention money receivable		**1,588,082**	1,146,201
Gross amount due from customers		**2,142,332**	837,667
Estimated future costs to complete projects in progress	*31.1*	**3,134,967**	327,735

31.1 As part of application of percentage of completion method on contract accounting, the plan costs are estimated. These estimates are based on the prices of materials and services applicable at that time, forecasted increases and expected completion date at the time of such estimation. Such estimates are reviewed at regular intervals. Any subsequent changes in the prices of materials and services compared to forecasted prices and changes in the time of completion affect the results of the subsequent periods.

32. REMUNERATION OF THE CHIEF EXECUTIVE, DIRECTOR AND EXECUTIVES

The aggregate amounts charged in the consolidated financial statements in respect of remuneration and fringe benefits of the chief executive, director and executives of the Group are as follows:

	2006			2005		
	Chief Executive	**Director**	**Executives**	Chief Executive	Director	Executive
	(Rupees in '000)					
Managerial remuneration	**19,156**	**12,170**	**258,340**	16,847	11,670	136,303
Retirement benefits and Group's contribution to provident fund	**669**	**-**	**9,644**	539	-	4,318
Perquisites and benefits:						
- Group insurance and medical	**85**	**22**	**3,245**	239	26	1,040
- Share based payments	**5,218**	**4,399**	**691**	247	217	-
- Long service bonus	**218**	**560**	**1,301**	89	-	879
- Rent and others	**470**	**739**	**2,791**	1,136	1,107	2,951
	25,816	**17,890**	**276,012**	19,097	13,020	145,491
Number of persons	**1**	**1**	**81**	1	1	47

32.1 In addition to the above, remuneration and fringe benefits of five expatriate executives (2005: four) hired for a project amounted to Rs. 37.900 million (2005: Rs. 7.400 million).

32.2 The aggregate amount charged in these consolidated financial statements in respect of directors' fee paid to six directors (2005: six) was Rupees six thousand and five hundred (2005: Rupees five thousand and five hundred). No fee was paid to any alternate director (2005: three directors were paid Rupees two thousand five hundred).

32.3 The chief executive, director and seventy four executives (2005: forty six) have been provided with free use of Company's cars and a director has also been provided with the Company's owned and maintained furnished accommodation.

32.4 The chief executive and a director have been provided with telephone facility at their residences.

32.5 The above balances include an amount of Rs 84.461 million (2005: Rs 58.186 million) on account of compensation to key management personnel, the details of which are as follows:

	2006	2005
	(Rupees in '000)	
Short-term employee benefits	**71,441**	56,163
Post-employment benefits	**1,878**	1,223
Other long-term benefits	**834**	336
Share based payments	**10,308**	464
	84,461	58,186

33. TRANSACTIONS WITH RELATED PARTIES

Related parties comprise of Siemens AG, its subsidiaries and associates and other companies with common directorship with significant influence on other companies, employees retirement benefit funds and key management employees. Transactions with related parties can be summarised as follows:

	Note	2006	2005
		(Rupees in '000)	
Siemens AG			
Sales of goods and rendering of services		**4,211,482**	2,214,445
Purchases of goods and receipt of services		**2,299,418**	2,526,182
Commission and allowances earned		**379,109**	387,710
Dividends		**298,420**	298,420
Associated Companies			
Sales of goods and rendering of services		**294,231**	666,259
Purchases of goods and receipt of services		**1,324,928**	526,390
Commission and allowances earned		**225,569**	188,785
Commission paid		**2,483**	8,235
Others			
Dividends		**30**	30
Contribution to employees retirement benefits		**32,376**	21,068
Compensation to key management personnel	*32.5*	**84,461**	58,186

33.1 Transactions with related parties were carried out on commercial terms and conditions and at prices agreed based on inter company prices. Shared services are charged at uniform rates to all locations in the region.

34. PLANT CAPACITY AND ACTUAL PRODUCTION	Capacity	Actual Production 2006	Actual Production 2005
Electric motors	300,000 HP	**152,459 HP**	119,867 HP
Motors controlgears and controlboards	150,000 HP	**3,210 HP**	3,295 HP
Electric transformers	2,000 MVA	**2,520 MVA**	2,403 MVA
Generating sets	40,000 KVA	**62,957 KVA**	36,895 KVA
Switchgears and distribution boards	4,500 Nos.	**5,559 Nos.**	2,980 Nos.

34.1 The under utilisation of capacity is mainly attributed to reduced demand owing to imports by private and public sectors.

34.2 Due to increased demand, the production of Electric transformers, Generating sets, Switchgears and distribution boards is above its normal capacity, which was achieved through extra shift working.

35. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The carrying value of all financial assets and liabilities is estimated to approximate their fair value.

36. FINANCIAL ASSETS AND LIABILITIES

Interest / mark-up rate risk arises from the possibility that changes in interest / mark-up rates will affect the value of financial instruments. The Group is exposed to interest / mark-up rate risk in respect of following:

	Interest / mark-up Bearing			Non-interest Bearing			
	Maturity upto one year	Maturity after one year	Sub-total	Maturity upto one year	Maturity after one year	Sub-total	Total
2006	(Rupees in '000)						
Financial Assets							
Loans to employees	-	-	-	5,547	13,059	18,606	**18,606**
Trade deposits	-	48,000	48,000	114,793	6,259	121,052	**169,052**
Trade receivables	-	-	-	5,336,901	572,708	5,909,609	**5,909,609**
Other receivables	-	-	-	54,356	-	54,356	**54,356**
Cash and bank balances	1,617,264	-	1,617,264	153,025	-	153,025	**1,770,289**
	1,617,264	**48,000**	**1,665,264**	**5,664,622**	**592,026**	**6,256,648**	**7,921,912**
Financial Liabilities							
Retention money payable	-	-	-	-	68,843	68,843	**68,843**
Trade and other payables	229,301	-	229,301	4,388,533	-	4,388,533	**4,617,834**
Short-term running finances	784,778	-	784,778	-	-	-	**784,778**
	1,014,079	**-**	**1,014,079**	**4,388,533**	**68,843**	**4,457,376**	**5,471,455**
2005							
Financial Assets							
Loans to employees	-	-	-	3,935	11,754	15,689	15,689
Trade deposits	-	-	-	163,779	13,419	177,198	177,198
Trade receivables	-	-	-	2,597,760	375,413	2,973,173	2,973,173
Other receivables	-	-	-	152,820	-	152,820	152,820
Cash and bank balances	1,467,825	-	1,467,825	275,935	-	275,935	1,743,760
	1,467,825	-	1,467,825	3,194,229	400,586	3,594,815	5,062,640
Financial Liabilities							
Retention money payable	-	-	-	-	37,534	37,534	37,534
Trade and other payables	-	-	-	2,402,780	-	2,402,780	2,402,780
Short-term running finances	104,584	-	104,584	-	-	-	104,584
	104,584	-	104,584	2,402,780	37,534	2,440,314	2,544,898

36.1 Effective Mark-up Rates

	2006 %	2005 %
Trade deposit	**8.00**	-
Cash and bank balances	**9.29**	4.93
Trade and other payables	**10.00**	-
Short-term running finances	**9.30**	7.37

37. CREDIT RISK AND CONCENTRATIONS OF CREDIT RISK

Credit risk represents the accounting loss that would be recognised at the reporting date if counter parties fail completely to perform as contracted. To mitigate the credit risk, the Group has a system of assigning credit limits to its customers. The Group endeavors to cover the credit risks on government sector trade receivables by restricting credit facility to the projects which are financed by multilateral financial institutions and / or financed by special allocation of funds by the provincial / federal governments. Business with government sector customers is also secured by way of inland letters of credit where possible. Credit risk on private sector is covered to the maximum extent possible through letters of credit or legally binding contracts with availability of adequate finance for the project from the sponsors and lenders.

The sector wise analysis of receivables including trade receivables, advances to suppliers and trade deposits is given below:

	2006		2005	
	(Rupees in '000)	**%**	**(Rupees in '000)**	**%**
Government sector				
Energy	**2,735,364**	**42**	1,293,173	37
Communication	**607,712**	**9**	399,332	12
Health	**31,741**	**-**	31,008	1
Aviation	**8,617**	**-**	52,306	2
Others	**690,636**	**11**	289,364	8
Sub-total	**4,074,070**	**62**	2,065,183	60
Private sector				
Construction companies	**841,147**	**13**	567,961	16
Energy	**540,818**	**8**	100,381	3
Communication	**292,475**	**4**	194,425	6
Cement Industry	**62,111**	**1**	46,659	1
Dealers and agents	**42,621**	**1**	30,574	1
Aviation	**32,327**	**1**	24,111	-
Others	**660,520**	**10**	434,067	13
Sub-total	**2,472,019**	**38**	1,398,178	40
Total	**6,546,089**	**100**	3,463,361	100

38. FOREIGN EXCHANGE RISK MANAGEMENT

Foreign currency risk arises mainly where receivables and payables exist due to transactions with foreign undertakings, especially group companies. In respect of anticipated future transactions, the following forward exchange contracts have been taken at the balance sheet date to hedge the foreign currency liabilities to group companies and others.

	2006	2005
	(Rupees in '000)	
Forward exchange contracts		
- Purchased value	**2,093,321**	1,059,321
- Fair value	**2,079,682**	1,028,943

39. INFORMATION ABOUT BUSINESS SEGMENTS

2006	**Energy**	**Rotary machines and products**	**Industry automation and services**	**Communication**	**Other operations**	**Eliminations**	**Consolidated**
	(Rupees in '000)						
REVENUE							
External sales	9,443,137	1,202,889	2,483,604	6,946,782	719,435		**20,795,847**
Inter-segment sales	476,349	557,787	243,859	226,364	1,190	(1,505,549)	-
Total revenue	9,919,486	1,760,676	2,727,463	7,173,146	720,625	(1,505,549)	**20,795,847**
RESULT							
Segment result	58,503	83,776	247,464	1,234,108	30,898	-	**1,654,749**
Unallocated corporate expenses							**(118,913)**
							1,535,836
Interest expense							**(109,738)**
Interest income							**82,222**
Income tax							**(783,784)**
Profit for the year							**724,536**
OTHER INFORMATION							
Capital expenditure	130,399	16,341	41,545	27,998	8,092		
Depreciation and amortisation	49,287	11,282	22,840	75,112	5,228		
Non-cash expenses other than depreciation and amortisation	59,533	24,610	16,064	31,462	1,668		
ASSETS AND LIABILITIES							
Segment assets	5,197,501	675,539	966,284	2,707,125	251,301	-	**9,797,750**
Unallocated corporate assets							**3,089,046**
Consolidated total assets							**12,886,796**
Segment liabilities	3,968,901	593,888	893,346	1,071,344	103,926	-	**6,631,405**
Unallocated corporate liabilities							**3,186,075**
Consolidated total liabilities							**9,817,480**
2005							
REVENUE							
External sales	6,278,633	928,615	2,170,468	3,292,508	462,595	-	13,132,819
Inter-segment sales	534,296	182,174	63,134	131,768	2,487	(913,859)	-
Total revenue	6,812,929	1,110,789	2,233,602	3,424,276	465,082	(913,859)	13,132,819
RESULT							
Segment result	475,739	38,780	189,824	529,169	74,425	-	1,307,937
Unallocated corporate expenses							(75,773)
							1,232,164
Interest expense							(29,357)
Interest income							30,092
Income tax							(454,053)
Profit for the year							778,846
OTHER INFORMATION							
Capital expenditure	54,378	27,981	15,990	66,163	9,549		
Depreciation and amortisation	37,533	7,949	25,513	23,849	4,060		
Non-cash expenses other than depreciation and amortisation	(29,408)	11,028	6,762	35,050	878		
ASSETS AND LIABILITIES							
Segment assets	2,880,614	370,012	687,326	772,716	90,829	-	4,801,497
Unallocated corporate assets							3,086,998
Consolidated total assets							7,888,495
Segment liabilities	1,859,213	278,550	690,787	533,185	69,071	-	3,430,806
Unallocated corporate liabilities							1,996,707
Consolidated total liabilities							5,427,513

39.1 Included in total sales is an amount of Rs 4,657.654 million (2005: Rs 3,271.416 million) in respect of sales made in the region of United Arab Emirates. The carrying value of segment assets in that region as at September 30, 2006 was Rs 2,964.430 million (2005: Rs 1,239.375 million). The cost to acquire property, plant and equipment during the year in that region was Rs 9.702 million (2005: Rs 12.670 million).

39.2 In order to comply with the requirements of International Accounting Standard 14 "Segment Reporting" the activities of Company have been grouped into five segments of related products and services. The energy segment mainly relates to supply and installation of transformers, switchboards, and other related power generation, transmission, and distribution equipment and related services. Rotary machines and product segment includes diesel generating sets, motors, alternators and drives etc. Industry automation and services segment includes designing, engineering and construction services in electrical field, mechanical field and information technology services. Communication segment covers supply and installation of telecommunication and other related equipment and services. The operations of subsidiary have also been classified in Communication. Other operations include supply and services of health care equipment and home appliances.

39.3 The above mentioned segments do not necessarily match with the organisational structure of the Group.

39.4 Segment assets include all operating assets used by a segment and consist principally of receivables, inventories and property, plant and equipment, net of allowances and provisions but do not include deferred income taxes. Segment liabilities include all operating liabilities and consist principally of accounts payable, advances and accrued and other liabilities.

40. GENERAL

40.1 Previous year's figures have been rearranged and reclassified wherever necessary for the purposes of comparison. Major change represents reclassification due to change in presentation of amounts due against construction work in progress from 'inventories' to 'trade receivables'. The related amounts in the cash flow statement have also been reclassified. This change was made for better presentation of transactions in the financial statements of the Group.

40.2 The consolidated financial statements were authorised for issue by the Board of Directors of Siemens (Pakistan) Engineering Company Limited in their meeting held on November 20, 2006.

40.3 These consolidated financial statements are presented in Pakistan Rupees which is the functional currency and figures are rounded off to the nearest thousand of rupees.

Sohail Wajahat H. Siddiqui
Chief Executive Officer

Gerhard Wilcke
Chief Financial Officer & Director

Siemens (Pakistan) Engineering Company Limited
Pattern of holding of the Shares held by the Shareholders
As at September 30, 2006

Number of Share holders	Shareholding From	To		Total Shares held
292	1	100	shares	11,979
409	101	500	shares	94,136
53	501	1,000	shares	39,578
41	1,001	5,000	shares	89,695
9	5,001	10,000	shares	67,870
3	10,001	15,000	shares	35,160
2	15,001	20,000	shares	35,900
1	65,001	70,000	shares	67,720
1	170,001	175,000	shares	173,430
1	195,001	200,000	shares	200,000
1	1,980,001	1,985,000	shares	1,982,810
1	4,970,001	4,975,000	shares	4,973,680
807				7,769,597

Categories of shareholders			Number	Shares held	Percentage
Directors, Chief Executive Officer and their spouse and minor children					
Director	Mr. S. Babar Ali		**1**	**500**	**0.01**
Chief Executive Officer			**Nil**		
Executives			**Nil**		
Associated Companies,Undertakings and related parties			1		
Siemens AG,Germany				4,973,680	64.02
NIT and ICP					
National Bank of Pakistan-Trustee Deptt. (NIT)			**1**	**1,982,810**	**25.52**
Investment Corporation of Pakistan			**Nil**		
Banks,Development Financial Institutions & Non Banking Financial Institutions, Modarabas and Mutual Funds			**6**	**243,400**	**3.13**
National Bank of Pakistan		200,000			
Habibsons Bank Ltd		4,000			
Pakistan Premier Fund Ltd		19,900			
Golden Arrow Selected Stocks Fund Ltd		12,500			
CDC Trustee-Pakistan Capital Market Fund		5,000			
Trustee AKD Index Tracker Fund		2,000			
Insurance Companies			**3**	**241,160**	**3.10**
Adamjee Insurance Co Ltd		173,430			
IGI Insurance Co Ltd		67,720			
The Crescent Star Insurance Co Ltd		10			
Public Sector Companies and Corporations			**1**		
Pakistan National Shipping Corporation				**6,930**	**0.09**
Shareholders holding 10% or more voting interest					
Siemens AG,Germany		4,973,680			
National Bank of Pakistan-Trustee Deptt..(NIT)		1,982,810			
Individuals			**785**	**286,227**	**3.68**
Others			**9**	**34,890**	**0.45**
Habib Bank Ltd, A/C Mohammed Amin					
Wakf Estate		11,790			
Trustees Al-Bader Welfare Trust		8,200			
Trustees Adamjee Foundation		7,000			
Crescent Steel & Allied Products Ltd		5,200			
Eastern Carpets Pak (Pvt) Ltd		1,100			
Sapphire Textile Mills Ltd		800			
Aslam Sons (Pvt) Ltd		500			
Clicktrade Ltd		200			
Y.S. Securities & Services (Pvt) Ltd		100			
		Total	**807**	**7,769,597**	**100**