



Contributing to the future

Safe Harbour

In this Annual Report we have disclosed forward-looking information to enable investors to comprehend our prospects and take informed investment decisions. This report and other statements – written and oral – that we periodically make contain forward-looking statements that set out anticipated results based on the management's plans and assumptions. We have tried wherever possible to identify such statements by using words such as 'anticipate', 'estimate', 'expects', 'projects', 'intends', 'plans', 'believes', and words of similar substance in connection with any discussion of future performance.

We cannot guarantee that these forward-looking statements will be realised, although we believe we have been prudent in assumptions. The achievement of results is subject to risks, uncertainties and even inaccurate assumptions. Should known or unknown risks or uncertainties materialise, or should underlying assumptions prove inaccurate, actual results could vary materially from those anticipated, estimated or projected. Readers should bear this in mind.

We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise.

This is what you will find in this annual report

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Corporate information

Board of Directors

Navin Agarwal

Chairman

Suresh Rathi

CEO and Whole-Time Director

Agnivesh Agarwal

Whole-Time Director

Pravin Agarwal

Tarun Jain

A. R. Narayanaswamy

Haigreve Khaitan

Arun Todarwal

Chief Financial Officer

Sushil Baid

Company Secretary

Rajiv Choubey

Bankers

Abn Amro Bank N.V.

HDFC Bank

ICICI Bank

Indian Bank

Kotak Mahindra Bank

Standard Chartered Bank

State Bank of India

Registered office and works

Mettur Dam R.S. 636 402.

Salem District, Tamil Nadu.

Phone : 04298 222061-66

Fax : 04298 222215

Email : masec@vedanta.co.in

Website : www.malco-india.com

Transfer agents

Karvy Computershare Private Limited

Plot No 17 - 24, Vittal Rao Nagar,

Cyberabad, Madhapur,

Hyderabad - 500 081.

Phone : 040 23420815-824

Fax : 040 23420814

E-mail : mailmanager@karvy.com

"Our success is the result of an unrelenting focus on excellence, ongoing change and continuous improvement."

Mr. Navin Agarwal, *Chairman*, The Madras Aluminium Company Limited (MALCO)



MALCO was referred to the BIFR, remaining shut for nearly three years beginning 1992. Finally, the Company was taken over by the Sterlite Group in 1995 and turned around in an year's time. The success story of MALCO, regarded as the jewel of the Vedanta Group, paved the way for further acquisitions of other non-ferrous entities.

In 2006-07 – the nine-month period ending March 31, 2007 – the Company reported gross sales of Rs. 4,689.57 Million and its highest-ever net profit of Rs. 1,353.56 Million.

Our vision today

To be the most admired integrated primary aluminium producer in the world which shall be the standard by which other similar producers measure quality and operational performance and build organisations that people are proud to associate with.

Purpose

Harnessing natural resources in harmony with nature to enhance economic well-being and quality of life.

Values

- Trustworthy
- Entrepreneurial and innovative
- Concern for the environment
- Respect and care for people
- Passion to excel

This is what we are proud of at MALCO ▶

Proud lineage

Subsidiary of Vedanta Resources Plc, a diversified metals and mining conglomerate listed on the London Stock Exchange.

Prominent status

- ▶ Fully-integrated primary aluminium producer, the only such in South India.
- ▶ Location of the mines in Yercaud and Kolli (aggregate proven bauxite reserves of nearly 0.75 Million tonnes), both within 85 – 145 kms from its plant near the Mettur Dam in Tamil Nadu.
- ▶ Captive power requirements fully addressed by the 3x25 MW captive power plant; rated amongst most efficient across the world.
- ▶ Stated objective to emerge as one of the 100 leading companies in India by 2007.

Pride-enhancing recognition

- ▶ Rare distinction of receiving a

certification (the manufacturing and mining facilities) for ISO-9001, ISO-14001 and OHSAS-18001 together in its maiden attempt.

- ▶ Was awarded the following:
 - First Prize for *Corporate Environmental Excellence and Innovative Practices* from TERI
 - *Golden Peacock Innovation Award* from IOD
 - *Commendation Award for Strong Commitment to Excel in Sustainable Development* from CII
 - *State Safety Award* – First prize from Inspectorate of Factories for Safety Performance
 - *Water Efficient Unit Award* from CII
 - *Finalist of the Golden Peacock Award for Excellence in Corporate Governance.*
- ▶ Company's mines conferred with awards for distinction in blasting and storage of

explosives, injury rate, welfare amenities and medical facilities, among other parameters.

Performance-driven financials

- ▶ Highest-ever cast metal production at 28,131 MT in the nine month period ending March 31, 2007 (36,868 MT reported in the 12 months of 2005-06).
- ▶ Record sales of 28,674 MT (higher than 36,432 MT reported in the 12 months of 2005-06).
- ▶ EBIDTA at Rs. 1,707.94 Million (higher than Rs. 1,569.63 Million reported in the 12 months of 2005-06).
- ▶ EBIDTA margin at 40.79% (631 basis points higher than in the 12 months of 2005-06).
- ▶ Post-tax profit at Rs. 1,353.56 Million (63% higher than the net profit reported in the 12 months of 2005-06).
- ▶ Highest-ever dividend of Rs. 9 per equity share (face value Rs. 10 each).

From the desk of the Chairman ►

Dear Shareholders

It gives me immense pleasure to report that your Company reported impressive financial results in a nine-month period ending on March 31, 2007. Our key financial achievements during the period comprised:

**Highest-ever EBITDA at
Rs. 1,707.94 Million**

**Highest-ever net profit at
Rs. 1,353.56 Million**

**Highest-ever EPS at
Rs. 60.16**

I am also happy to report that the triple-bottomline focus has been yielding consistent results, as exemplified by the awards received from The Energy Resources Institute (TERI), Confederation of Indian Industry and Institute of Directors on Environmental Excellence, Sustainability Development, Golden Peacock Innovation and Corporate Governance.

The growth achieved during the year was on account of increased product volume and sales realisations due to higher London Metal Exchange (LME) levels. However, more importantly, the factor contributing to the success of the organisation is the ability to capitalise on all the available opportunities through superior relationship management with all the stakeholders.

To reinstate our commitment to share our prosperity with stakeholders, an all-time highest dividend of 90% (interim) was declared during the year. It is only a question of time before we double the current market capitalisation, as the fundamentals of the Company are strong and attractively positioned to unleash our full potential. The Company is on the verge of becoming debt-free and shall make significant investments in forthcoming

expansion programmes.

The financial details, performance review and corporate growth drivers are provided in the subsequent pages of this report.

They will help stakeholders evaluate our performance better.

First things first

At MALCO, our priority is safety. We strongly believe that the entire sentiment of 'people being our most important asset' is meaningless if any member is injured and unable to work due to workplace conditions. From this perspective, we unambiguously announced our intention to reinforce our position as an injury-free workplace.

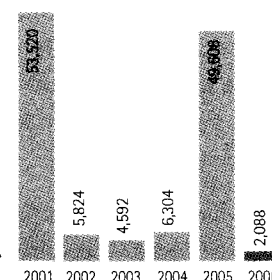
Following the enunciation of this objective, we embarked on extensive training in the area of best safety practices derived from our Group and other global organisations. We demonstrated the use of responsible team-working and coordination. We undertook extensive injury analyses to understand common causes associated with injuries. This created responsible performance expectations, leading to the elimination of a culture of excuses. We focused on a happy work-life balance,

making it our business to ensure that all our people returned home in the same condition as they were when they came to work.

Put together, these initiatives enhanced a sense of belonging, job satisfaction and a consequent decline in lost workdays.

Effects of enhanced safety

Lost workday rate (hours)



Broader implications

At MALCO, the safety focus is not an end in itself. In the process of demonstrating its safety commitment, the Company has showcased its team working capability, ideas development, project implementation and transformation mindset – from allowing the future to shape us to a point where we can start shaping the future.

The outlook of the industry is encouraging and positive on account of a robust infrastructure growth in India, which should sustain the Company's ongoing momentum.

MALCO has always invested an extra effort to promote its human capital. The Company has invested significantly in the knowledge, skill and competence of human resources. In order to identify and nurture deserving talent, the Company embarked on various initiatives like identifying Stars of Business and initiating entrepreneurship programmes. Various leadership initiatives were undertaken to empower its human resources for the next level. The Company remains an equal opportunity employer providing prominent career openings to a number of women.

The Long Term Incentive Plan (LTIP) & Short Term Incentive Plan (STIP) schemes provided to meritorious employees conveyed the Vedanta Group's intent to share its wealth with key stakeholders – its employees. This performance would not have been possible without their passion and commitment to make MALCO a world-class metals and mining company.

Defining issues – global warming

Global warming is now an issue of concern for companies, especially those engaged in energy-intensive processes dealing with greenhouse gas emissions. At MALCO, we are committed to play a responsible role in environment protection. It is our conviction that economic progress and sustainable environment must be reconciled; we deeply believe that corporate profit and community prosperity are the twin objectives of our existence.

Towards this direction, we invested Rs. 155 Million in dry scrubbing technology to

absorb noxious fumes directly from the potlines. Besides, red mud is treated following the refinery stage; the Company entered into an arrangement to deliver the entire fly ash that is generated to proximate cement manufacturing units for converting waste into wealth; extensive afforestation programmes were conducted at our mine locations. Besides, the Company is registered with the United Nations for complying with the Global Compact Principles, guiding its social and environmental interests.

Linking learning and livelihood

At MALCO, we believe in leading a quality life. We have provided a number of amenities and recreation facilities for our members, comprising a swimming pool, gymnasium and café. Our school MALCO Vidyalaya is a second home for nearly 2,800 children.

The Company engaged specialists and embarked on a survey to understand the needs of the communities around the areas of its operation. Based on the findings of concerns in the socio-economic profile, the Company invested in education, health, sanitation, drinking water and infrastructure as part of its corporate social responsibility to make communities sustainable. The Company facilitated the formation of self-help groups, furthering the cause of women with the objective of making them financially independent. These initiatives made it possible for the Company to extend its role and responsibility beyond its factory gates and strengthen its position as a committed

member of the community.

Outlook

The outlook of the industry is encouraging and positive on account of a robust infrastructure growth in India, which should sustain the Company's ongoing momentum. MALCO shall also continuously work in enhancing the long-term availability of bauxite and reducing cost of production.

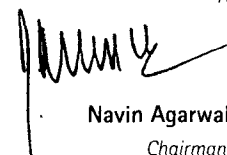
Six-Sigma methodology shall be used as a way of life in all spheres for continual improvement covering process capabilities and thereby improving the brand value of the organisation significantly and positioning it within the top hundred organisations of the country.

Acknowledgements

I put on record my sincere appreciation of the employee commitment as well as the support extended by our customers, financial partners and associates. With a continuous emphasis on quality production, we shall move ahead in translating our initiatives into growth opportunities and enhanced stakeholder value.

We will continue to serve your interests well!

Sincerely,



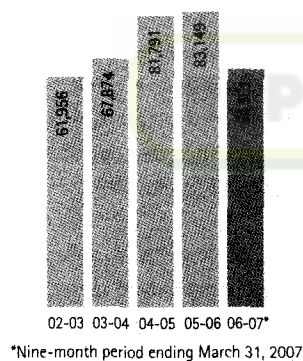
Navin Agarwal
Chairman,

The Madras Aluminium Company Limited

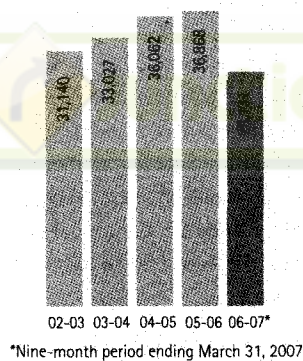
Value continues to grow at MALCO...

At MALCO, robust financial discipline, prudent resource management, systematic cost reduction programmes and an almost zero-debt status strengthen our ability to capture new opportunities leading to sustainable growth.

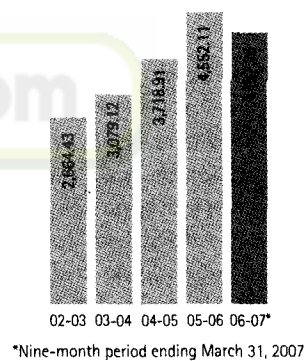
Alumina hydrate production (MT)



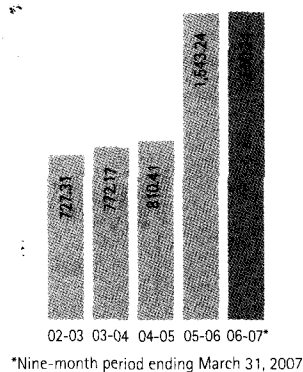
Aluminium production (MT)



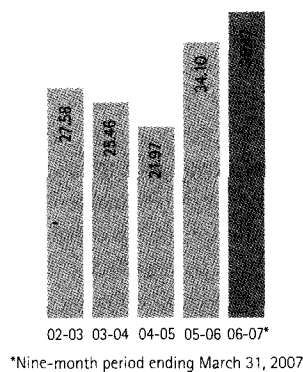
Gross revenues (Rs. in Million)



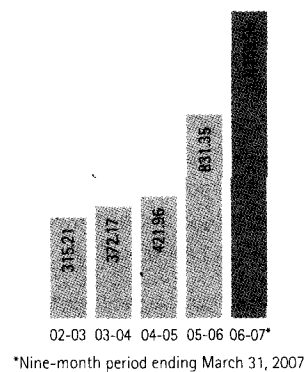
Operating profit (Rs. in Million)



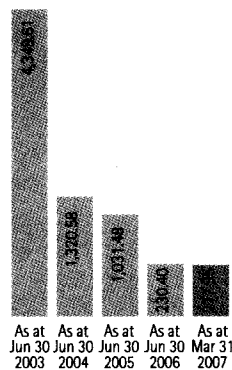
Operating profit margin (%)



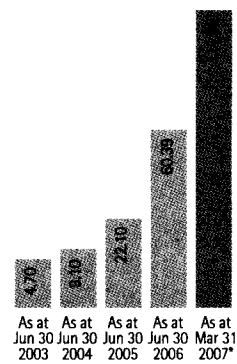
Post-tax profit (Rs. in Million)



Debt on the books (Rs. in Million)

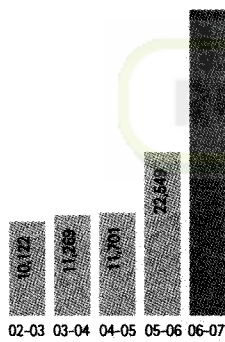


Interest cover (times)



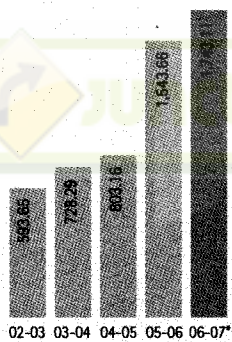
*Nine-month period ending March 31, 2007

Net profit per tonne of aluminium produced (Rs.)



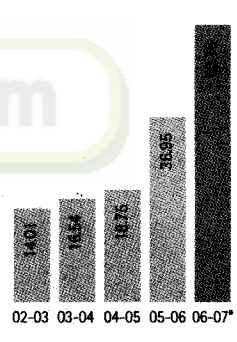
*Nine-month period ending March 31, 2007

Cash profit (Rs. in Million)



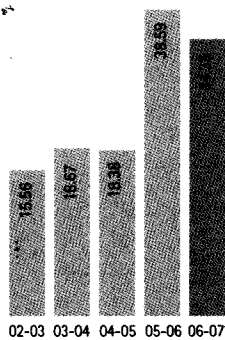
*Nine-month period ending March 31, 2007

Basic EPS (Rs.)



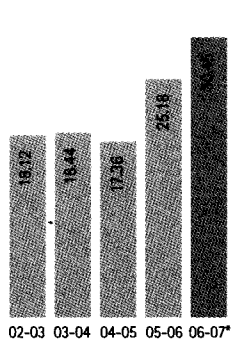
*Nine-month period ending March 31, 2007

Return on capital employed (%)



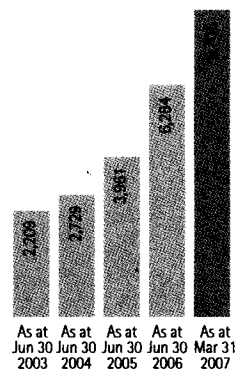
*Nine-month period ending March 31, 2007

Return on net worth (%)



*Nine-month period ending March 31, 2007

Market capitalisation (Rs. in Million)



Performance review by the CEO

"Demonstrating excellence in the way we think, perform and achieve"

Mr. Suresh Rathi, CEO & Whole-Time Director, The Madras Aluminium Company Limited (MALCO).



It gives me great pleasure and privilege to present yet another unique achievement of MALCO, with a sense of pride. MALCO has always risen up to the expectations of all its stakeholders and has successfully met the challenges in an ever-changing business environment. The focused and untiring efforts of a young and vibrant team of motivated employees ensure that all the available resources are effectively used in the best possible manner.

The Company's profitability improved significantly due to higher product volume and higher sales realisation, apart from an improvement in operating efficiencies.

Strategy for growth

Growth in all its forms is an objective that challenges each member at MALCO to perform better and quicker. Over the years, this objective and consequent reality have been driven by a number of strategies.