



SUSTAINABLE GROWTH

LIVES



The Madras Aluminium Company Limited | 49th Annual Report 2008-09

Forward-looking statement

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 realized, 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.



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CORPORATE INFORMATION

Board of Directors

Navin Agarwal *Chairman*
Agnivesh Agarwal *Whole-time Director*
A.R. Narayanaswamy
Haigreve Khaitan
Arun Todarwal
Ramesh Ramachandran Nair

Head Operations

Tarundeep Arora

Head Finance

C. Prabhakaran

Company Secretary & Head Legal

Rajiv Choubey

Auditors

Deloitte Haskins & Sells

Bankers

HDFC Bank
ICICI Bank
Indian Bank
Standard Chartered Bank
State Bank of India

Registered Office and Works

Mettur Dam R.S. 636 402.
Salem Dist, Tamil Nadu
Phone: 04298 222061-66
Fax: 04298 222215
E-mail: 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

For MALCO, 2008-09 was a year of inflection importance.

On the one hand for its unprecedented uncertainty, sectoral weakness and commodity volatility.

On the other for how we countered these realities through decisive initiatives.



**THE RESULT: A RS.458.63 MN NET PROFIT
IN WHAT WAS EASILY ONE OF THE MOST
CHALLENGING YEARS IN OUR EXISTENCE.**



Core values

Trustworthy, entrepreneurial and innovative; concern for the environment; respect and care for people; passion to excel.

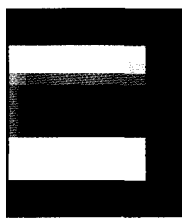
ABOUT US

The Madras Aluminium Company Limited is a part of Vedanta Resources Plc, a well-diversified metals and mining conglomerate listed on the London Stock Exchange.

The Company temporarily suspended its alumina and aluminium operations in view of sharply declining LME aluminium prices and a simultaneous increase in production cost from November 2008 onwards.

The Company addressed Tamil Nadu's growing power deficit with 100 percent supply of captively generated power to the state utility (Tamil Nadu Electricity Board) and a number of private sector customers, the more prominent being MRF, TVS, SFL, Cognizant Technologies and Spencers.

The Company's manufacturing and mining facilities are certified as per ISO-9001, ISO-14001 and OHSAS-18001:2007. The QL laboratory at the alumina facility was accredited with the NABL certification, the first Indian aluminium unit to be so recognised.



CHAIRMAN'S THOUGHTS

Dear Shareholders,

First things first. Your Company encountered an extraordinary chain of events and a difficult fiscal where we were challenged by an unprecedented escalation in cost of key raw materials and fluctuating aluminium prices which led to a suspension of aluminium operations and the sale of power which helped us report a Rs 458.64 mn post-tax profit on a turnover of Rs 4,920.77 mn in 2008-09.

Our alumina/aluminium business

We started the fiscal under review with aluminium LME prices of USD 2,959 per tonne in April and in the interim period, aluminium prices rose to an all-time high of USD 3,250 per tonne in July 2008 and then declined to a trough of USD 1,300 per tonne in January 2009. Never before in living memory have we seen such a sharp reversal in such a compressed time frame, compelling a suspension of our alumina and aluminium facilities from November 2008 onwards.

Being at the helm of your Company, it is my responsibility to explain the reasons behind this value-protecting decision.

One, aluminium prices extended their downward slide from August 2008 to October 2008, with average prices eroded to the extent of 35 percent from the year peak. Even as this decline was unforeseen, our experience indicated that a further decline was imminent and that it would be prudent to suspend operations from November 2008. As it turned out, aluminium prices continued their free-fall for three successive months from November 2008; had we sustained production in the hope that prices would recover we would have been compelled to market our product lower than our costs.

Two, our assets comprise the long-standing Soderberg aluminium manufacturing technology with a cost structure almost 30 percent higher than the modern pre-baked technology. The modest size of operations, weak techno-economic factors and an increase in input costs, particularly of imported coal led to a higher cost of production. The higher cost structure and a sharp fall in LME prices reduced our margins and contributed to a suspension of aluminium operations.

The situation is further aggravated due to the non-grant of bauxite mining leases and other statutory clearances. The available bauxite is of poor quality, which also contributed to the suspension of alumina and aluminium operations.

Even as LME prices are beyond our control, cost containment is within. Our cost rationalisation focus translated into lower energy consumption by around 300 units per tonne and an annualised substantial saving of around Rs. 17 mn in 2008-09.

Your Company quickly liquidated the inventory of aluminium thereby reducing the stock write down and realising cash, the need of the hour.

Our power business

To offset the suspension of our alumina and aluminium facilities, we switched our power generation from captive consumption to external sales. We were prepared for this eventuality; we had been considering a phased decline in our alumina/aluminium production in favour of wheeling a larger power output for external sale as this activity was more value-accretive.

To offset the suspension of our alumina and aluminium facilities, we switched our power generation from captive consumption to external sales.

This transition was facilitated by various external realities:

- Growing peak power deficit in Tamil Nadu and other states
- Keenness of the State Electricity Board to acquire surplus energy from independent/merchant power producers as well as a willingness among industrial entities looking to secure their energy requirements from reliable suppliers

We capitalised on this scenario and sold nearly 126 mn units of power wholly to third parties in the last four months of 2008-09. We operated the power plant in an efficient manner, which is evident from one of the highest PLFs in India on an installed capacity of 75 MW.

In doing so, we generated an EBIDTA of Rs. 562.28 mn, which is 103.76 percent of EBIDTA earned out of the full working of fiscal 2008-09. Hence in the present scenario, it made sense to sell surplus power rather than producing aluminium. We entered into agreements with State Electricity Boards and other third party industrial units. Two thirds of our output was sold to state electricity boards, while the rest was sold to others, leading to better realisations, stable cash flow and committed purchase.

We strengthened the viability of our power generation through low coal costs, high PLF standard operating practices and ongoing maintenance. The power team ensured that the power plant stays in peak condition for most part of the year. As a result, our specific coal consumption was maintained at the same levels of the previous year.

In 2009-10, we expect to reduce costs further by consolidating the synergies available with other Group



vedanta



companies for procuring coal and optimising logistics costs. The 25 MW of additional power capacity will go on stream in early 2009, enhancing our revenues and profitability.

Sustainable development and governance

The new wave of industrialisation has brought new challenges on the environment front, which calls for strong, sustainable development business models. Your Company strongly believes in and underlines the concept of sustainable development. Your Company has been able to dispose 100 percent of fly ash generated from the power plant and a sizable quantum of red mud. The Company is further working on ways and means to dispose maximum quantity of red mud. Your Company uses high caloric value, low ash coal, which ensures that emissions are lower. Your Company continues the CSR initiatives in the areas of education, health and livelihood.

The recent collapse of the financial markets in the West and especially in the United States, underlines the requirement of good governance and adhering to the fundamentals of managing funds responsibly. I am happy to share with you that the financial management of your Company has been in safe hands as we did not suffer from any extraordinary forex losses. The Company's internal control mechanism and risk management are in place to ensure that the Company is in safe hands.

We believe sustainable development and governance will be the key factors in determining corporate survival and growth.

Corporate Social Responsibility

Social welfare and community development is integral to MALCO's Corporate Social Responsibility (CSR) philosophy. Bonding and interaction with people and communities in and around MALCO has been our focus while endeavouring to bring around qualitative changes in supporting the underprivileged. Our contributions to the community are in the areas of health, education and infrastructure development (drinking water, improving village infrastructure, renovation of schools, etc).

Human resources

At MALCO, we have endured a number of challenges for a single reason – our people. Our people represent our most important resource. We enhanced our sensitivity in people management especially related to the suspension of our alumina/ aluminium operations. Manpower was rationalised by either offering attractive voluntary retirement schemes or redeploying them in other Group companies.

The Company continued with employee motivation initiatives and launched new employee engagement initiatives. We continued to help our members achieve a work-life balance. We are investing in our people and evolved a mission and set of values to help us achieve greater heights. At MALCO, we continue to focus on nurturing talent as well as enhancing skills and capabilities, building new leaders and making continuous learning a way of life.

Safety, health and environment

When we say we care about our people, we back it up with proactive safety programmes. There were no reportable accidents during 2008-09 with the LTIFR (lost time injury frequency rate) standing at a low 0.84 compared with 2.49 in 2007-08. Moreover, the Severity Index (defined by the loss of person days on account of accidents) stood at a low 0.22 compared with 0.53 in 2007-08.

As part of the celebrations of the National Safety Day, your Company organised safety quiz, slogan and cartoon competitions to raise an awareness of the importance of safety practices.

MALCO environmental initiatives included energy conservation, industrial usage of solid waste generated from operations and external/internal greening programmes. During the full working of 2008-09, we disposed 23,000-plus MT of red mud and 19,000-plus MT of fly ash to cement and brick manufacturing industries. Your Company has also engaged the services of reputed external agencies to examine a scientific storage of red mud and explore complete disposal.

De-listing of shares

Aligned with our Group's belief of consolidating promoter holdings, MALCO is in the process of de-listing from stock exchanges; the process is expected to be completed in 2009-10. Twinstar Holdings Limited, the promoter company, has acquired 93.54 percent of the Company's outstanding equity shares. The rest are held by the public. As per the SEBI (Delisting Guidelines), the promoters will make a public announcement to the balance shareholders to acquire the shares at the exit price of Rs. 115 once the Stock Exchange formally considers the delisting of the Company's equity shares.

The promoters provided the shareholders with an attractive exit offer price of Rs. 115 per share when compared to the floor price of Rs. 74.77 per share based on SEBI Delisting Guidelines.

The road ahead

At MALCO, we are strengthening our business through a focus on our power business. We would like to derisk progressively our dependence on imported coal and would like to develop long-term contracts for the sale of power leading to the steady growth of our power business.

We are fortunate to have an experienced Board of Directors to navigate our Company through these challenging times. Your Board and management team are taking the necessary steps to lead the Company to sustainable growth.

I must assure shareholders that we are creating a competitive advantage to face the economic uncertainties. We are using this economic downturn to strengthen our sense of urgency to make changes that will secure our future. I am confident that together we will explore the opportunities of our times, unleash our potential and reinforce our image as a responsible corporate.

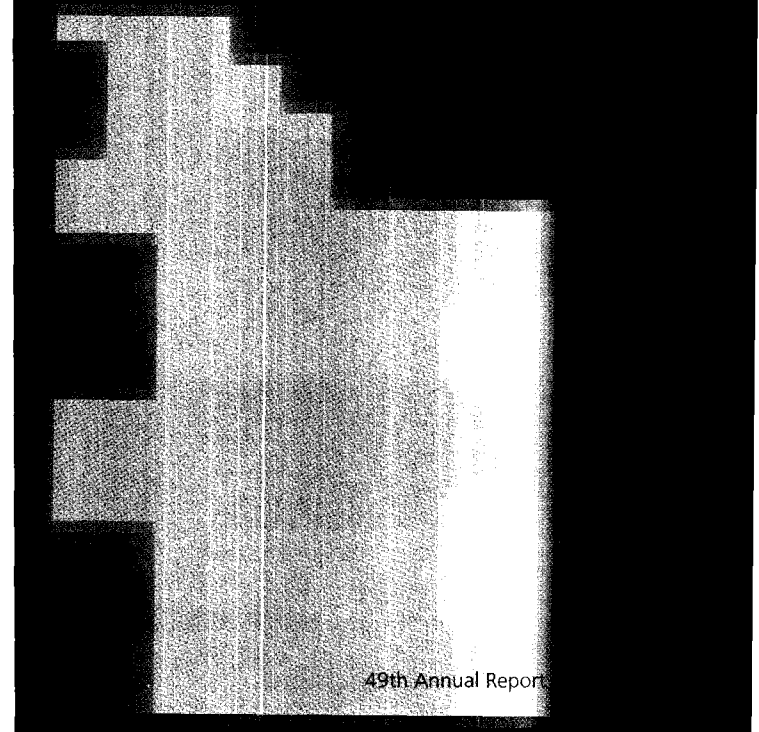
Sincerely,


Navin Agarwal
Chairman,

The Madras Aluminium Company Limited



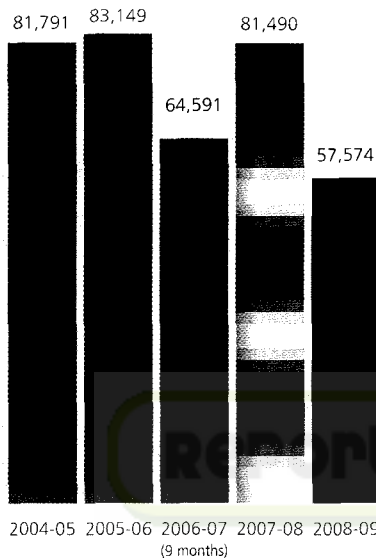
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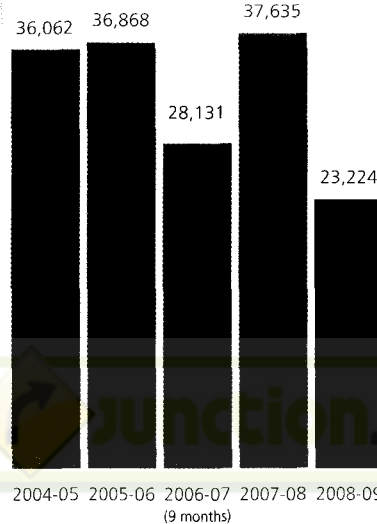
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KEY METRICS OF OUR FINANCIAL PERFORMANCE, 2008-09

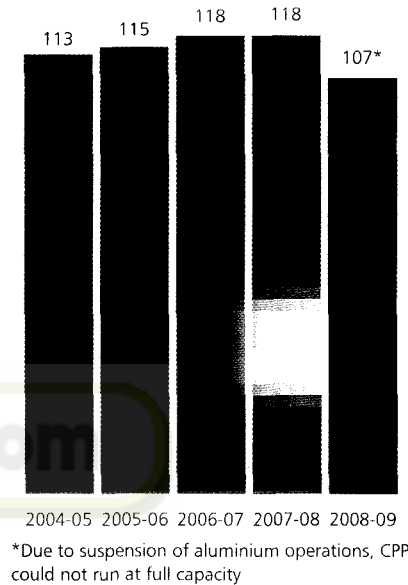
Alumina hydrate production (MT)



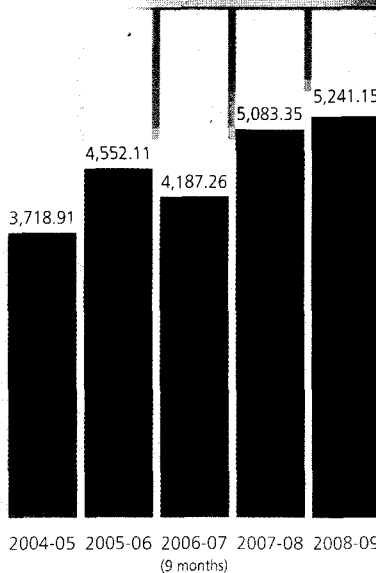
Aluminium production (MT)



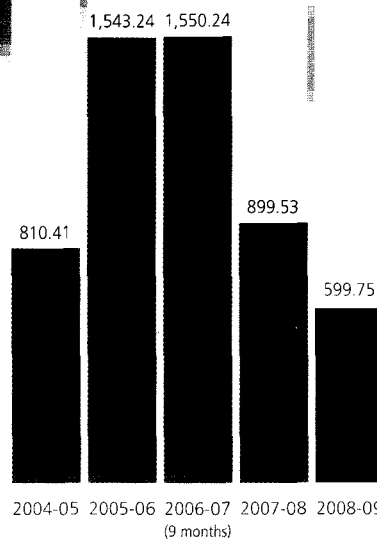
PLF (Percent)



Gross revenues (Rs in mn)



Operating profit (Rs in mn)



Operating profit margin (Percent)

