

ANNUAL REPORT 2009 - 2010



| | |
|-----------------------------|--|
| Directors | : Dr.Vijay Mallya, Chairman Deepak Anand, Managing Director S.R.Gupte, Director B.S.Patil, I.A.S. (Retd.), Independent Director Pratap Narayan, Independent Director Shrikant G.Ruparel, Independent Director N.Sunder Rajan, Independent Director K.Prabhakar Rao, Whole-time Director |
| Company Secretary | : S. Ramaprasad |
| Bankers | : Axis Bank Limited Corporation Bank State Bank of India HDFC Bank Limited |
| Auditors | : K.P.Rao & Company, Bangalore |
| Registered Office | : 5, Crescent Road High Grounds, Bangalore-560 001 Tel.No.080-2220 8990, Fax No. 080-2220 8989 e-mail: shares@mangalorechemicals.com |
| Corporate Office | : Level 11, UB Tower, UB City 24, Vittal Mallya Road Bangalore – 560 001 Tel.No.080-3985 5500 / 3985 6000 Fax No. 080-3985 5588 |
| Works Office | : Panambur, Mangalore-575 010 Tel No.0824-2220 600, Fax No.0824-2407 938 |
| Share Transfer Agent | : Cameo Corporate Services Limited 'Subramanian Building' 1, Club House Road, Chennai – 600 002 Tel.No.044-2846 0390, Fax No.044-2846 0129 e-mail: cameo@cameoindia.com |

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TEN YEAR RECORD

(Rs. Crores)

| | 09-10 | 08-09 | 07-08 | 06-07 | 05-06 | 04-05 | 03-04 | 02-03 | 01-02 | 00-01 |
|--------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Profit and Loss Account | | | | | | | | | | |
| Sales | 2,075.64 | 2,469.62 | 1,655.94 | 1,371.05 | 1082.32 | 878.02 | 614.21 | 562.79 | 571.18 | 680.63 |
| Other Income | 6.09 | 14.42 | 9.09 | 3.44 | 3.81 | 9.74 | 5.47 | 6.55 | 11.76 | 8.08 |
| Interest | 23.44 | 36.00 | 15.43 | 16.34 | 6.72 | 4.33 | 3.03 | 3.80 | 7.17 | 4.61 |
| Depreciation | 18.37 | 16.96 | 15.91 | 15.22 | 11.35 | 11.08 | 10.64 | 10.25 | 8.96 | 7.59 |
| Profit before Tax | 84.53 | 43.26 | 58.34 | 41.97 | 38.66 | 36.68 | 22.45 | 20.78 | 20.58 | 40.15 |
| Balance Sheet | | | | | | | | | | |
| Net Fixed Assets | 385.27 | 336.51 | 324.60 | 307.43 | 299.16 | 250.71 | 255.89 | 256.78 | 145.30 | 108.75 |
| Investments | 0.05 | 0.05 | 0.05 | 0.05 | - | - | - | - | - | - |
| Net Current Assets | 181.75 | 486.45 | 465.06 | 303.98 | 278.13 | 196.41 | 117.53 | 121.77 | 94.62 | 122.90 |
| Total | 567.07 | 823.01 | 789.71 | 611.46 | 577.29 | 447.12 | 373.42 | 378.55 | 239.92 | 231.65 |
| Share Capital | 118.55 | 118.55 | 118.55 | 118.55 | 118.55 | 118.55 | 118.55 | 118.55 | 123.36 | 123.36 |
| Reserves & Surplus | 311.06 | 270.65 | 254.25 | 228.87 | 212.07 | 197.70 | 178.10 | 167.33 | 48.21 | 48.67 |
| Loan Funds | 98.16 | 396.79 | 380.01 | 228.43 | 213.69 | 101.50 | 48.27 | 68.02 | 49.52 | 59.62 |
| Deferred Tax Liability | 39.30 | 37.02 | 36.90 | 35.61 | 32.98 | 29.37 | 28.50 | 24.65 | 18.83 | - |
| Total | 567.07 | 823.01 | 789.71 | 611.46 | 577.29 | 447.12 | 373.42 | 378.55 | 239.92 | 231.65 |

SIGNIFICANT FINANCIAL RATIOS

| | 09-10 | 08-09 | 07-08 | 06-07 | 05-06 | 04-05 | 03-04 | 02-03 | 01-02 | 00-01 |
|---|---------|---------|---------|---------|---------|---------|--------|--------|-------|-------|
| Return on Average Capital Employed [%] | 17.83 * | 11.09 * | 12.16 * | 11.70 * | 10.97 * | 13.27 * | 9.39 * | 9.60 * | 11.77 | 19.89 |
| Operating Profit to Sales [%] | 5.79 | 3.31 | 4.87 | 5.11 | 4.89 | 4.82 | 4.99 | 5.03 | 4.37 | 6.50 |
| Current Ratio [Times] | 1.56 | 2.61 | 2.57 | 2.32 | 2.33 | 2.86 | 1.76 | 2.18 | 1.84 | 2.46 |
| Quick Ratio [Times] | 1.06 | 2.05 | 2.00 | 1.70 | 1.65 | 1.97 | 1.23 | 1.25 | 1.25 | 1.63 |
| Sundry Debtors to Sales [Months] | 0.29 | 0.19 | 0.32 | 0.79 | 0.36 | 0.68 | 1.66 | 2.37 | 1.98 | 2.54 |
| Inventory of Finished Goods to Sales [Months] | 0.08 | 0.06 | 0.14 | 0.17 | 0.62 | 0.13 | 0.34 | 0.84 | 0.27 | 0.42 |

*Capital employed is excluding revaluation reserve.

NOTICE

To

The Members,

NOTICE is hereby given that the Forty Third Annual General Meeting of the Members of the Company will be held at 4.00 p.m on Wednesday, September 29, 2010, at Good Shepherd Auditorium, Opposite St. Joseph's Pre-University College, Field Marshal K.M Cariappa Road (Residency Road), Bangalore – 560 025, to transact the following business:

ORDINARY BUSINESS:

1. To consider and adopt the Balance Sheet as at March 31, 2010 and the Profit & Loss Account for the year ended on that date and the reports of the Board of Directors and the Statutory Auditors.
2. To declare a dividend.
3. To appoint a Director in place of Mr. B S Patil, who retires by rotation and being eligible, offers himself for re-appointment.
4. To appoint a Director in place of Mr. Pratap Narayan, who retires by rotation and being eligible, offers himself for re-appointment.
5. To appoint Statutory Auditors and in this connection, to pass, with or without modification, the following resolution as an Ordinary Resolution:
"RESOLVED THAT M/s. K P Rao & Company, Chartered Accountants, (registration number 003135S), be and are hereby appointed as Auditors of the Company to hold office from the conclusion of the Forty Third Annual General Meeting until the conclusion of the Forty Fourth Annual General Meeting, on a remuneration of such sum as may be fixed by the Board of Directors."

SPECIAL BUSINESS :

6. To consider and if thought fit, to pass, with or without modification, the following resolution as an Ordinary Resolution :
"RESOLVED THAT pursuant to the relevant provisions contained in the Articles of Association of the Company, as also, Sections 198, 269, 309, 310, Schedule XIII and all other applicable provisions, if any, of the Companies Act, 1956 (the Act), consent of the members be and is hereby accorded for the re-appointment of Mr. Deepak Anand as Managing Director of the Company for a further period of two years from April 27, 2010 or the date of his superannuation from the UB Group, whichever is earlier, on a token salary of Re.1/- per month."
"RESOLVED FURTHER THAT as the Managing Director, Mr. Deepak Anand be entrusted with substantial powers of management and shall be responsible for the general conduct and management of the business and affairs of the Company, subject to the superintendence, control and direction of the Board of Directors of the Company."
"RESOLVED FURTHER THAT the Board of Directors of the Company be and are hereby authorized to take all such steps as may be necessary, proper and expedient to give effect to this resolution."

By the Order of the Board

Place : Bangalore
Date : July 21, 2010

S. Ramaprasad
Vice President (HR & Legal) & Company Secretary

NOTES

1. **A member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and vote instead of himself and the proxy need not be a member.**
2. The Register of Members of the Company will remain closed from September 23, 2010 to September 29, 2010 (both days inclusive) for the purpose of determination of members who are entitled to receive the dividend for the financial year 2009-10.
3. Dividend as recommended by the Directors for the financial year ended March 31, 2010, if declared, will be payable to those members holding shares in physical form whose names appear in the Register of members of the Company, as at the close of business hours of September 22, 2010 and in respect of members holding shares in demat form, as per the list of beneficial owners furnished by NSDL and CDSL.
4. Pursuant to Section 109A of the Companies Act, 1956, members holding shares in demat form may file nomination in the prescribed Form 2B (in duplicate) with their Depository Participant and in respect of shares held in physical form, such nomination may be filed with the Company's Registrar and Share Transfer Agent.
5. Members should address all correspondence to the Company's Registrar and Share Transfer Agent at the following address quoting their Registered Folio Number or Demat Account Number & Depository Participant (DP) ID Number.
Cameo Corporate Services Limited
'Subramanian Building' 1, Club House Road, Chennai-600 002
Phone: 91-44-2846 0390 to 94 Fax : 91-44-2846 0129 e-mail: cameo@cameoindia.com
6. The equity shares of the Company are mandated by the Securities and Exchange Board of India for compulsory trading in demat form by all investors. The Company's shares have been admitted into both the depositories viz. National Securities Depository Limited [NSDL] and Central Depository Services (India) Limited [CDSL]. The ISIN allotted to the Company's equity shares is INE558B01017.
7. Members holding shares in physical form are requested to notify any change in their addresses, mandates/bank details immediately to the Company's Registrar and Share Transfer Agent, Cameo Corporate Services Limited, Chennai.

8. As per the notification of the Reserve Bank of India, with effect from October 1, 2009, the remittance of money through ECS is replaced by National Electronic Clearing Services (NECS) and banks have been instructed to move to the NECS platform. This is in addition to the existing facility of ECS in other locations. NECS essentially operates on the new and unique bank account number, allotted by banks post implementation of Core Banking Solution (CBS) for centralized processing of inward instructions and efficiency in handling bulk transaction.
- In this regard, shareholders holding shares in electronic form are requested to furnish the new 10 digit Bank Account Number allotted to you by your bank, (after implementation of CBS), along with photocopy of a cheque pertaining to the concerned account, to your Depository Participant (DP). Please send these details immediately to the Company/Share Transfer Agent, only if the shares are held in physical form.
- Members who hold shares in electronic form and want to change/correct the bank account details should send the same immediately to their concerned DP along with the MICR Code
9. Members / Proxy holders are requested to produce the enclosed admission slip duly completed and signed at the entrance of the meeting venue.
10. Members who have not encashed the dividend warrants for the financial years 2005-06 onwards may send their request to the Company, along with the un-encashed dividend warrant, for arranging payment.
11. In continuation of Circular No.MRD/DoP/Cir-05/2009 dated May 20, 2009, directing all transferee(s) to furnish a copy of their PAN Card to the Company/RTA for registration of transfer of shares in physical form, SEBI vide circular no. SEBI/MRD/DoP/SE/RTA/Cir-03/2010 dated January 07, 2010, has extended the requirement of PAN Card to the following transactions as well.
- a) Deletion of name of the deceased shareholder, where the shares are held in the joint name.
 - b) Transmission of Shares
 - c) Transposition of Shares i.e. change in the order of names

EXPLANATORY STATEMENT PURSUANT TO SECTION 173 OF THE COMPANIES ACT, 1956

Resolution at Item No.6

The members of the Company at the Annual General Meeting held on September 23, 2005 approved the appointment of Mr. Deepak Anand as Managing Director of the Company for a period of five years with effect from April 27, 2005.

The Board of Directors approved, subject to the approval of the members of the Company, the re-appointment of Mr. Deepak Anand, as the Managing Director of the Company for a further period of two years from April 27, 2010 or the date of his superannuation from the UB Group, whichever is earlier, on a token salary of Re.1/- per month.

The re-appointment of Mr. Deepak Anand is in terms of the relevant provisions contained in the Articles of Association of the Company, as also, Sections 198, 269, 309, 310, Schedule XIII and all other applicable provisions, if any, of the Companies Act, 1956.

Mr. Deepak Anand shall be entrusted with substantial powers of management and shall be responsible for the general conduct and management of the business and affairs of the Company, subject to the superintendence, control and direction of the Board of Directors of the Company.

The resolutions are accordingly recommended for the approval of the members.

Mr. Deepak Anand is concerned and interested in the matter.

By the Order of the Board

Place : Bangalore
Date : July 21, 2010

S. Ramaprasad
Vice President (HR & Legal) & Company Secretary

**Details of Directors seeking appointment/re-appointment at the Forty Third Annual General Meeting
(Pursuant to Clause 49 of the Listing Agreement)**

| Name of the Director | B.S. Patil | Pratap Narayan | Deepak Anand |
|---|---|--|---|
| Date of Birth | 20.01.1944 | 11.05.1935 | 29.08.1949 |
| Date of Appointment | 31.03.2006 | 31.01.2002 | 27.04.2005 |
| Brief resume / Expertise in specific functional areas | <p>Mr. B S Patil, retired as Chief Secretary to Government of Karnataka and held important assignments. He has wide ranging experience from heading state financial institutions to industrial development. The industrial and IT development in Karnataka owes a great deal to him for initiating imaginative policies for attracting investments</p> | <p>Mr. Pratap Narayan, started his career in the Sales Tax Department of Madhya Pradesh. He worked in Indian Railways in various capacities before taking over as Deputy Director and Joint Director – Planning in Railway Board. He has travelled extensively in connection with various international projects.</p> <p>He was the first Executive Director of Fertilizer Industry Co-ordination Committee. Thereafter worked for about a year as CMD, HFC and retired as a Director General of the Fertilizer Association of India.</p> <p>Mr. Narayan has taken up various international assignments and was member of various committees appointed by the Government on policy issues such as Gokak Committee, to review pricing of phosphates and energy consumption norms under Stage II of new pricing scheme for Indian Urea Industry etc.,</p> <p>Mr. Narayan has also presented papers on Policy issues and has co-authored a book with Dr. H L S Tandon on Indian Agriculture, Past, Present and Future.</p> | <p>Mr. Deepak Anand, has over 36 years senior managerial experience in India and overseas with large companies.</p> <p>He started his career in the management consultancy division of A.F.Ferguson & Co. (AFF), the then largest firm of chartered accountants and management consultants in India. During his 15 years (1973-1988) with AFF, he rose to become a Director in the Firm and directed assignments in India and abroad.</p> <p>Mr. Anand joined the UB Group in 1988 as Senior Vice President, Corporate Planning and Coordination. He held various senior management positions in the group including Head of Liquor manufacturing, CEO of Kissan Food Products and CEO of UB Global Corporation Ltd.</p> <p>Mr. Deepak Anand, took over as Managing Director of Mangalore Chemicals & Fertilizers Limited, in April 2005. The Company has been growing rapidly under his leadership. Mr. Anand is now charting out a new vision and growth strategy for the Company.</p> |
| Qualification | Indian Administrative Service [Retd.] | M. Sc., (Zoology), IRTS(Retd.) | Fellow of the Institute of Chartered Accountants of India |
| Directorship in other Public Limited Companies | 1. UB International Trading Ltd. 2. Sadashiv Sugars Ltd. 3. Shetron Ltd. 4. UB [Holdings] Ltd. 5. Suprajit Engineering Ltd. 6. Grover Vineyards Ltd. 7. Surana Industries Ltd. 8. AMR Constructions Ltd. 9. Scotts Garments Ltd. | Nil | 1. UB Electronic Instruments Ltd. 2. MCF International Ltd. |
| Membership of Committees in other Public Limited Companies | <p>Chairman: Audit Committee of Shetron Ltd.</p> <p>Member : Audit Committee and Shareholders / Investors' Grievance Committees of UB [Holdings] Ltd.</p> | Nil | Nil |
| Shareholding in the Company (Equity shares of Rs.10/- each) | Nil | Nil | 25,000 |

Note: none of the Directors is related to the other.



DIRECTORS' REPORT

The Directors are pleased to present your Company's Forty Third Annual Report together with the audited statement of accounts for the year ended March 31, 2010.

FINANCIAL HIGHLIGHTS

The financial highlights for the year under review are given below:

| | (Rs. Crores) | |
|--|----------------|---------|
| | 2009-10 | 2008-09 |
| Sales (including other income) | 2081.73 | 2484.04 |
| EBITDA | 130.61 | 131.85 |
| Interest | 23.44 | 36.00 |
| Depreciation | 18.37 | 16.96 |
| Profit before Tax before exceptional items | 88.80 | 78.89 |
| Loss on sale / diminution in value of Fertilizer Companies GOI Special Bonds | 4.27 | 35.63 |
| Profit before Tax | 84.53 | 43.26 |
| Provision for Tax | 28.04 | 15.09 |
| Profit after Tax | 56.49 | 28.17 |
| Net Worth | 429.61* | 389.20* |

* includes Revaluation Reserve of Rs. 88.35 Crores and Rs. 90.57 Crores respectively.

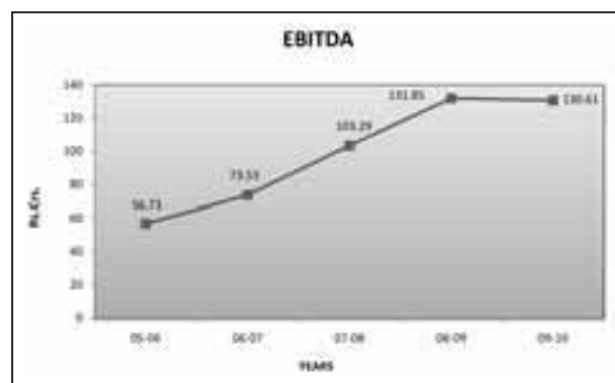
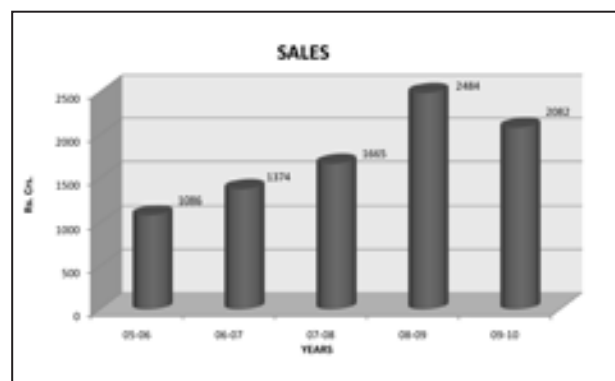
DIVIDEND

The Board of Directors recommended a dividend of Re.1/- per equity share of Rs.10/- each.

PERFORMANCE

2009-2010 has been yet another year of records, with your Company achieving sales of 1 million metric tonnes of fertilizer sales, highest ever sales of Phosphatics and highest ever profit after tax (PAT).

Sales (including other income) of your Company during the year 2009-2010 aggregated to Rs. 2081.73 Crores against Rs. 2484.04 Crores in the previous year. Despite a higher sales volume, the turnover was lower, attributable to decrease in the prices of raw materials as well as finished goods. The EBITDA for the year was Rs.130.61 Crores compared to Rs.131.85 Crores during the previous year.



PRODUCTION

Urea

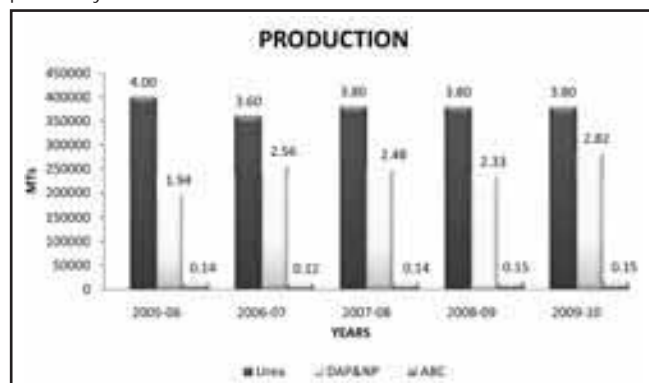
Your Company achieved production of the full re-assessed capacity of 3,79,500 MTs.

Di-Ammonium Phosphate (DAP) and Complex Fertilisers

Your Company achieved the highest ever annual production of 2,82,173 MTs of DAP and NP (20:20:0:13) during the year compared to 2,33,343 MTs in the previous year.

Ammonium Bi-carbonate (ABC)

Production of 15,330 MTs of ABC achieved by your Company was also the highest ever compared to the production of 15,121 MTs during the previous year.



SALES

Your Company achieved a record sale of One Million Metric Tonnes of Fertilizers for the year 2009-10. During the year, your Company sold 3,83,338 MTs of Urea compared to 3,86,836 MTs in the previous year. Sales of DAP and NP [20:20:0:13] amounted to 2,80,413 MTs as against 2,35,566 MTs in the previous year. Sales of traded products also registered significant growth, especially imported DAP at 1,74,670 MTs as against 64,126 MTs in the previous year.

INTEGRATED NUTRIENT MANAGEMENT

Under its Integrated Nutrient Management (INM) initiative, your Company continued its efforts to create awareness about the advantages of balanced use of fertilizers. As a result of the sustained focus of your Company over the last few years, sales from this initiative for the year under review stood at Rs. 72 Crores, representing an increase of 33% over Rs.54 Crores in the previous year.

In addition to providing extension support to farmers and dealers, the INM unit of your Company at Hassan continued with its research activities and produced soil and crop specific grades of fertilizers and soil health enhancers. Farmers using the recommended soil and crop specific products reported better crop quality and significant increase in yields. Your Company will continue its efforts to ensure that awareness of balanced use of fertilizers further increases amongst the farming community.

WORKING CAPITAL

During the year, domestic production as well as imports of phosphatic fertilizers were substantially higher than in the previous year. Nevertheless, on account of lower prices of raw materials as well as of finished products, the overall requirements of working capital limits did not increase. Further, in order to meet its working capital needs, your Company availed of short term loans from banks that carried lower rates of interest compared to normal cash credit limits. Settlement of subsidy claims was also relatively better during the year. All these factors contributed to reduction in interest costs.

During the year under review, the Government of India did not issue any Fertilizer Bonds. However, in order to meet working capital needs, your Company had to liquidate the Fertilizer Bonds issued during the previous year, at a discount, resulting in a loss of Rs.4.27 crores.

FERTILIZER POLICY

Stage-III of the New Pricing Scheme (NPS) for Urea announced by the Government of India in March 2007 expired on March 31, 2010. As the new policy is yet to be finalized and announced, the existing scheme has been extended provisionally.

As per the existing policy, all Naphtha/Furnace Oil/LSHS based units were to convert to gas by March 31, 2010. Your Company is in readiness for conversion, subject to availability of gas. Conclusion of agreements with Indian Oil Corporation, Gas Authority of India Limited for supply of gas and its transportation is in final stages. Based on latest indications, supply of gas to Mangalore is expected to commence by end 2012. Your Company has commissioned a basic engineering study for the purpose of conversion to gas.

The policy in regard to concessions for Phosphatic and Potassic fertilizers was based on import parity price during the year 2009-10. With effect from April 1, 2010, the Government has introduced the Nutrient Based Subsidy (NBS) policy for these fertilizers. In terms of this policy, each nutrient content in fertilizer, is assigned a value and the aggregate of these values is considered to arrive at the concession rates. Besides, an additional subsidy on fortified subsidized fertilizers carrying secondary and micro-nutrients as per the Fertilizer (Control) Order, 1985 [FCO] has also been announced. The Government of India has also issued guidelines for the manufacture and sale of customized fertilizers under clause 20B of FCO to promote balanced plant nutrition and maximize fertilizer use efficiency.

SUBSIDIARY COMPANY

Besides being one of the world's largest producers of food grains, India ranks second in the world in the production of fruits and vegetables. However, lack of adequate processing, preservation and storage facilities and inadequate supply chain management lead to high post-harvest losses on account of spoilage, wastages and quality deficiencies. On the other hand, increased urbanization and improved standards of living have led to increase in demand for food and food products.

Recognizing the need to improve efficiencies and to address the issue of inadequate post-harvest processing, storage, packing and distribution facilities, your Company's subsidiary MCF International Limited had embarked on an innovative AGRI project to address some of these problems by leveraging its linkages with farmers.

The number of farmers enrolled and the area of coverage under the project increased to 3900 and 13500 acres respectively during the year and the Company achieved vegetable sales of 30MTs per day by the end of the financial year.

The Ministry of Corporate Affairs, Government of India, has exempted your Company from the requirement of attaching the audited accounts of the subsidiary Company to its annual accounts for the year ended March 31, 2010. The annual accounts of the subsidiary Company and the related detailed information will be made available to the holding and subsidiary Company's investors seeking such information at any point of time. The annual accounts of the subsidiary Company is also available for inspection by any investor at the Registered Office of the subsidiary Company as well as your Company and the accounts of the subsidiary Company is also uploaded on the website of your Company.

SAFETY, HEALTH, ENVIRONMENT AND POLLUTION CONTROL

Your Company had obtained Occupational Health and Safety Management System certification OHSAS 18001 as part of its commitment to continuous improvement. The certifying agency, DNV, has recertified the OHSAS 18001 system conforming to the latest version. In addition to the periodic audits carried out under the integrated system, a statutory safety audit was also carried out by Chemical Design Company, Hyderabad.

Extensive training programs including rescue operations, usage of personal protective equipment, emergency management, safe handling of LPG at home, awareness training on near miss incident reporting, S,H&E management system, internal auditor training by DNV were organized for employees and regular mock drills were conducted to review the emergency preparedness.

As in the past, periodic medical examination was conducted for all the employees, which included general physical examination and laboratory tests for blood sugar and lipid profile. Special tests like pulmonary function test for the employees who are exposed to dust and chemicals, audiometry test for those exposed to noise and vision test for those who require high visual acuity at the workplace were also performed.

Effluent Treatment

During the year, the company established a facility to treat, recycle and reuse as process water the entire quantity of sewage and process effluent water, thereby achieving the status of zero liquid discharge. As an ISO 14001 certified company, many environmental management programs were implemented to improve the environmental performance of the Company.

Your company received the "Third Best Safe Industry Award in the Large Sector" instituted by the Directorate of Factories and Boilers, Govt. of Karnataka.

SOCIAL RESPONSIBILITY

The Company has formulated a comprehensive CSR policy covering all areas of its operations. Some of the CSR activities/programs undertaken during the year are set out below:

Flood Relief : During September 2009, several districts of Northern Karnataka experienced the worst ever floods in the history of the State. The heavy torrential rains caused extensive damage to infrastructure and standing crops and resulted in loss of human lives. Your Company, being in the service of the farming community for over three decades in Karnataka, immediately initiated flood relief measures in several villages of North Karnataka by organizing food camps, distributing bare necessities such as utensils, clothes, and blankets in collaboration with the district administration, NGOs as well as Mangala Dealer associations. In addition, several flood affected rural schools were provided with basic requirements like bags, books, sweaters, water filters etc.,

Community Development: Your Company organized various cultural and religious activities, sponsored community development programmes, health awareness camps, sports events, provided financial assistance, uniforms, computers and sanitation facilities to the neighborhood schools and adopted "Sambar Deer" at Pilikula Biological Park.

"The United Kingdom – Mangalore Chemicals & Fertilizers – Tungabhadra Gramin Bank Gram Vikas Trust" was established in 1986. During the year the trust sponsored the provision of desks, writing boards, furniture, cupboards, computers and drinking water facilities to various schools. Your Company provided health care equipments, furniture for the emergency / casualty ward of Vijayanagar Institute of Medical Sciences, Bellary and sponsored a learning center for the female child in Raichur district. Your Company also sponsored a project on Environmental Education and Protection in Rural Area in Ramnagar district.

For the benefit of the farming community and their families in times of distress, the Company has taken an accident insurance for farmers in its operating territory under a Group Insurance Scheme. The scheme covers over 1.7 Lakh farmers and provides insurance cover of Rs.25,000 in cases of death and permanent disability.

During the year, your Company conducted several training programs, field demonstrations, crop seminars and krishi melas and organized rural sports and health camps for farmers/ dealers.

As a part of its corporate responsibility, the Company implemented the rainwater harvesting system at its township in Mangalore and installed a sewage treatment plant to treat the sewage generated. The treated sewage water is used for gardening. The Company has also planted 3000 saplings in the green belt area.

CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION, FOREIGN EXCHANGE, ETC.

A report in respect of conservation of energy, technology absorption,

foreign exchange earnings and outgo as required under Section 217(1) (e) read with the Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules, 1988, is set out as Annexure-1 to this report.

PARTICULARS OF EMPLOYEES

Information in accordance with sub-section (2A) of Section 217 of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975, is provided in Annexure-2 to this report.

CORPORATE GOVERNANCE

The Company has fully complied with the requirements relating to Corporate Governance as mandated by the Listing Agreements with the Stock Exchanges. A detailed report on Corporate Governance is contained in Annexure-3 to this report.

MANAGEMENT DISCUSSION AND ANALYSIS

The Management Discussion and Analysis report is annexed to this report (Annexure-4).

DIRECTORS' RESPONSIBILITY

Pursuant to Section 217 (2AA) of the Companies Act, 1956, your Directors confirm that:

- the applicable accounting standards have been followed in the preparation of the annual accounts and there are no material departures.
- the accounting policies are in conformity with those generally accepted and have consistently been followed and the judgements and estimates made are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the Profit for the year under review.
- proper and sufficient care has been taken for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities.
- the annual accounts have been prepared on a going concern basis.

BOARD OF DIRECTORS

In accordance with the provisions of the Companies Act, 1956 and the Company's Articles of Association, Mr. B S Patil and Mr. Pratap Narayan retire by rotation at the ensuing Annual General Meeting and being eligible, offer themselves for re-appointment.

AUDITORS

M/s.K.P.Rao & Company, Chartered Accountants, retire as Statutory Auditors of the Company at the conclusion of the ensuing forty third annual general meeting, and being eligible offer themselves for re-appointment.

COST AUDITORS

Mr. P.R.Tantri, Cost Auditor has submitted the report for the financial year 2009-2010 which has been considered by your Directors.

ACKNOWLEDGEMENT

Your Directors wish to place on record their appreciation for the excellent performance of the employees of the Company during the year.

Your Directors also express their gratitude to the bankers, government agencies, customers, business Associates and shareholders for their co-operation and look forward to their continued support in the future.

On behalf of the Board of Directors

Bangalore
July 21, 2010

Vijay Malliya
Chairman

FORM A (See Rule 2)

CONSERVATION OF ENERGY

A. Power and Fuel Consumption

| Sl. No. | Description | Unit | Current Year 2009-10 | Previous Year 2008-09 |
|---------|---|----------------|----------------------|-----------------------|
| 1. | Electricity: | | | |
| | A. Purchased Units | Lakhs kwh | 132.39 | 82.63 |
| | Total Amount (including minimum demand charges) | Rs. Lakhs | 723.08 | 477.47 |
| | Minimum Demand Charges | Rs. Lakhs | 115.25 | 112.46 |
| | Unit Rate: (Excluding minimum demand charges) | Rs./kwh | 4.59 | 4.42 |
| | B. Own Generation | | | |
| | Through Generator (Diesel) | | | |
| | Units | Lakh kwh (Net) | 2499.54 | 2516.29 |
| | Units per litre of furnace oil | kwh/L | 4.12 | 4.09 |
| | Unit Cost | Rs./kwh | 8.17 | 8.42 |
| 2. | Furnace Oil: | kl | 60,602.34 | 61,557.23 |
| | Total Amount | Rs. Lakhs | 18,007.60 | 19,201.33 |
| | Average Rate | Rs./kl | 29,714.37 | 31,192.64 |

B. Consumption per unit of Production

| Description | Unit | Current Year 2009-10 | Previous Year 2008-09 |
|-------------------------------------|------|----------------------|-----------------------|
| Products (with details) | | | |
| Electricity (per metric ton) – Urea | kwh | 658 | 672 |
| – DAP | kwh | 39 | 41 |
| – 20:20:00:13 | kwh | 39 | 35 |
| Furnace Oil (per metric ton) – Urea | kl | 0.059 | 0.063 |
| – DAP | kl | 0.004 | 0.004 |
| – 20:20:00:13 | kl | 0.006 | 0.006 |

FORM B

Form for disclosure of particulars with respect to Technology Absorption, Research and Development (R&D)

A. Research and Development

- Specific areas in which R&D were carried out by the Company : 1. Knockout pots were provided in refrigeration compressor main oil vent and degasser tank vent to drain the oil to the main tank.
2. Sulphonated Naphthalene Formaldehyde powder to solution conversion unit.
3. The imported equipment viz. Heat exchangers, BEL valve spares, Relief valves, Burner blocks, Rupture discs, Demister pads etc. were indigenized.
- Benefits derived as a result of the above R&D : 1. Oil recovery/avoidance of oil spillage resulted in savings and better house keeping.
2. In house project, as a result, savings in cost was achieved due to avoidance of issuing contract to engineering consultant.
3. Indigenization of imported equipment and spare parts.
- Future plan of action : Indigenization of imported spare parts
- Expenditure on R&D : No separate account is maintained.

B. Technology absorption, adaptation and innovation

- Efforts, in brief, made towards technology absorption, adaptation and innovation : 1. Painting of fuel oil tank T 1002 with black paint.
2. IJT boiler Fuel oil heater bypass line was provided to make BHEL boiler oil heater to operate independently.
3. Hookup lines are provided from P365 Ammonia plant) and P1012 (Utilities) respectively to P1112/P921 (Urea plant) common discharge line to DAP plant.
4. Pumps P1002 A/B (Ammonia plant) bearing cooling water is diverted to cooling tower basin.
5. Suction filters were installed in the suction line for pumps P205/P207 (Ammonia plant)
- Benefits derived as a result of the above efforts e.g. product improvement, cost reduction, product development, import substitution etc., : 1. The tank is painted in black colour as a result of which steam consumption in Fuel oil steam heater during the day time is reduced.
2. Cleaning of both the heaters can be done independently.
3. Pump P921 was stopped resulting in energy savings of Rs.2.2 lakhs per year.
4. Around 20 m3 of water is recovered every day.
5. Choking of pump ports are avoided and dirt is prevented from entering and damaging the pump internals.
- In case of imported technology following information may be furnished. : Not applicable

C. Foreign Exchange earnings & outgo

Foreign Exchange Used : Rs. 763.31 Crores
Foreign Exchange Earned : Rs. 0.16 Crore

ANNEXURE – 2

Information as per Section 217 (2A) read with Companies (Particulars of Employees) Rules, 1975 and forming part of the Directors' Report for the year ended March 31, 2010:

| Sl. No. | Name and Designation of the Employee | Remuneration Received Rs. | Nature of Duties of the Employee | Qualifications & Experience | Date of Commencement of Employment | Age (Yrs.) | Last Employment held before joining the Company |
|---------|---|---------------------------|---|---|------------------------------------|------------|---|
| a | b | c | d | e | f | g | h |
| 1. | Mr. K Prabhakar Rao - Whole time Director | 30,72,624 | Overall in charge of Works | B.E.-Chemical Engg. Exp : 31 years | 31-07-1978 | 55 | – |
| 2. | Mr. A Rudrachary - Sr. Vice President – Strategic Initiatives | 38,68,286 | Strategic Initiatives | B.Com., AICWA. Exp : 41 years | 03-04-1995 | 61 | NGEF Ltd |
| 3. | Mr. H M Kshetrapalaiah, - Sr. Vice President – Marketing, Agri Business | 36,72,605 | Marketing, Agri Business | B.Sc (Ag). Exp : 41 years | 01-09-1973 | 61 | Central Bank of India |
| 4. | *Mr. Apollo Fernandes Vice President - HR | 17,36,102 | HR Management | B.Com (Honors) PG Hons Diploma in HRM. Exp : 37 years | 03-03-2004 | 60 | HR Consultant |
| 5. | Mr. K Raghuveeran, Vice President - Finance | 25,84,713 | Finance | B.Com, ACA, ACS. Exp : 35 years | 10-12-2007 | 56 | BPL Ltd |
| 6. | Mr. S Ramaprasad, Vice President (HR & Legal) & Company Secretary | 25,51,090 | HR Management, Legal, & Company Secretary | DCE, B.Com., LLB, AIII, ACIS, FCS Exp : 23 years | 01-11-2005 | 44 | Kennametal India Ltd |

*Employed for part of the year

- Mr. K Prabhakar Rao is the Whole time Director of the Company and is not related to any of the other Directors of the Company. Other employees are not related to any of the Directors of the Company.
- The above appointments are contractual and the conditions of employment are governed by individual terms and conditions of service.
- None of the employees own more than 2% of the outstanding shares of the Company as on March 31, 2010.
- Company's car wherever provided is valued as per Income Tax rules