

APPENDIX -II

With reference to observations of Statutory Auditors in para 5 (d)(i), 5(d)(ii), 5(d)(iii) and 5(e) of the Auditor's Report, Management comments are as given below:-

Auditor's Observations	Management Replies
5 (d) (i) Non - Compliance of disclosure requirements of Accounting Standard -7- Construction Contracts.	The Company has been exempted by the Company Law Board from disclosing the information under provisions of Para 3(i)(a), 3(ii)(a)(1) and (2), 4C and 4D of Part II of Schedule VI of the Companies Act 1956(as amended)
5 (d) (ii) Non-Compliance of Accounting Standard -16- Borrowing Costs towards assets acquired / under acquisition. This has no material impact on profit of the Company for the year and	Based on suspended period of operation vide AS 16 Para No. 17, a definite view will be taken in 2012-13 accounts suitably by which time the 6000 t press will be commissioned and capitalization will be done.
5 (d) (iii) Non-Compliance of Accounting Standard -17 - segment reporting as referred in Note on basis for preparation of accounts forming part of financial statements	In accordance with Section 211 (3B) of the Companies Act,1956, it is to state that in view of the confidential nature of the information pertaining to defence products, Segment Reporting AS-17 of the Institute of Chartered Accountants of India) as required under Section211(3A)of the Companies Act, 1956, is not made. There is no effect on the Accounts, due to such deviation.
5(e)Cash flow statement dealt with by this report has not been modified consequent to revision of certified accounts.	As per the arrangement made with the respective banks for availing short term overdraft against fixed deposits the original FD receipts are duly discharged by putting signature of authorized signatories and handed over to the banks for their physical possession. Therefore in practical sense the cash/bank balances held by the Company are only the net amount which reflects true picture of the state of the affairs. Hence bank deposits are netted off to the extent of overdraft taken for the cash flow purpose.

REPORT ON CORPORATE GOVERNANCE

[AS ON DATE OF THIS REPORT]

1.0 COMPANY'S PHILOSOPHY ON CORPORATE GOVERNANCE.

1.1 MISHRA DHATU NIGAM LIMITED (MIDHANI), a MINI-RATNA-Category - I company, believes that its business role needs to be performed by observing the fundamental principles of Corporate Governance like honesty, integrity, accountability, adequate disclosures, legal compliances, decision making without conflict of interest. As a Good Corporate Citizen the Company also strives to carry out its Mission, Objectives and Business obligations with good Corporate Values, highest standards of ethics in all spheres of its activities. The good Governance, its practices, is based on its stated belief and the guidelines of the Government of India issued from time to time which enables the Company to go a long way in enhancing values for all those who are associated with the Company- Owners, Customers, Suppliers, Creditors, Govt. agencies and society at large. Towards this direction, the Board exercises its fiduciary role towards the Company with effective accountability, respect for law, maintaining Corporate Governance standard beyond law, putting systems in place for planning, budget, internal controls, risk-management, communication policy on various facets of Company's operations including creation of environment for growth and development of human resources.

2.0 BOARD OF DIRECTORS

2.1 Composition & Details of the Board Members

In accordance with the provisions of Articles of Association of the Company, as amended from time to time, the minimum and maximum strength of the Board of MIDHANI is 2 and 15 respectively. The directors need not hold any qualification shares.

During the year under report, the composition of the Board was in accordance with guidelines issued by Dept. of Public Enterprises (DPE) and the provisions of Companies Act '56. As on the date of this report, the Board of MIDHANI consisted of **EIGHT (8)** Directors including Chairman & Managing Director. In addition to this, one (1) Permanent Special Invitee was nominated on the Board by Ministry of Defence thereby taking the Board's composition as under.

(a) Functional/Whole time Directors **3 (Three)**

- (i) Shri. M. Narayana Rao,
Chairman & Managing Director
- (ii) Shri V.S. Krishna Murthy,
Director (Finance)
- (iii) Dr. D.K. Likhi [From:01.09.2011]
Director (Prodn. & Mktg.)
- (iv) Shri. V.S. Verma [Upto 31.08.2011]
Director (Prodn.& Mktg.)

(b) Part-time Official/Government Directors **2 (Two)**

- (i) Shri Gyanesh Kumar
Joint Secretary (Naval Systems),
Dept. of Def. Production
Ministry of Defence, Govt. of India.
- (ii) Dr. G. Malakondaiah
Distinguished Scientist
Director, DMRL,DRDO
Ministry of Defence, Govt. of India.

(c) Part-time Non-Official Directors**3 (Three)**

- (i) Mrs. Indu Liberhan
Ex-Secretary.
Ministry of Defence (Fin.)
Govt. of India.
- (ii) Dr. Dipankar Banerjee
Professor,
Department of Materials
Engineering, Indian Institute
of Science, Bangalore.
- (iii) Dr. Kota Bhanu Sankara Rao [From :27.04.2011]
Dean School of Engineering
Sciences & Technology ,
University of Hyderabad,
Hyderabad.

(d) Permanent Special Invitee to Board**1 (One)**

- (i) Shri P.K. Kataria [From : 28.04.2011]
Addl. FA & Jt. Secy.
Ministry of Defence (Fin.)
Govt. of India.
- (ii) Shri P.K. Mishra [Upto : 28.04.2011]
Addl. FA & Jt. Secy.
Ministry of Defence (Fin.)
Govt. of India.

- 2.2 The existing Articles of Association of the Company provides for appointment of all Directors by the President of India. The Directors appointed were persons of eminence in respective fields of their activity. The bio-data in respect of the new Director(s)

appointed during the year under report is given in the ***Annex- I***. The required Training on Corporate Governance for the benefit of New Directors is being arranged from time to time.

- 2.3 The Chairman & Managing Director and Functional Directors were appointed by Govt. of India, initially for a period of 5 years or till the age of superannuation or until further orders whichever is earlier. The extension of service thereafter, shall be with the approval of Appointment Committee of Cabinet (ACC). The Independent Directors are normally appointed by ACC, initially for a period of 3 years or until further orders whichever is earlier. Any extension or re-appointment shall be to the extent of guidelines issued by Govt. of India in this behalf.

3.0 MEETINGS OF THE BOARD AND ATTENDANCE THERE OF:

- 3.1 The Board met, six (6) times during the financial year under report as compared to statutory minimum requirement of four (4) meetings per year. The dates and attendance of directors and those required to attend at such meetings are given below:

SL. NO.	NAME OF THE MEETING	DATE	BOARD STRENGTH	NO. OF DIRECTORS PRESENT
1	196	24.05.2011	8	7
2	197	22.07.2011	8	8
3	198	21.09.2011	8	8
4	199	19.11.2011	8	7
5	200	08.02.2012	8	7
6	201	17.03.2012	8	7
Leave of absences were recorded at every Meeting in case of inability expressed by any Director due to unavoidable reasons				
The Attendance of individual Directors is placed at: <i>Annex: II</i>				
The special invitee(s) for board meetings has / have attended 9 meetings as against 9 meetings required to be attended				

- 3.2 As per guidelines of DPE, the Company has nominated Chairperson of Audit Committee and/or another Member of the Audit Committee for the purpose of according prior approval in respect of related party transactions under Accounting Standard-18. The Revision of Pay scales and Perks & Allowances to functional Directors has been approved by Audit Committee before the same is submitted to Board for approval. The interested Directors did not participate in proceedings of Board when such items are taken up.
- 3.3 All Board Members had disclosed to Board about the personnel, official and other pecuniary interests, held by them in any proprietary, partnership or Company, whether singly or together with their relatives not only at the time of their appointment on the Board but also as and when such appointments were held. Such disclosures are being renewed every year, in the manner prescribed under Sections 297, 299 and other applicable provisions of the Companies Act, 1956. Such disclosures made at the meeting of the Board at the end of the year 2011-'12 are furnished hereunder:

SL. NO.	NAME OF THE DIRECTOR	BODIES CORPORATE IN WHICH THE DIRECTOR IS INTERESTED.	NATURE OF INTEREST AND THE DATE FROM WHICH INTERESTED
1	Shri. Gyanesh Kumar	1) M/s Mazagon Docks Ltd., Mumbai	Part-time Official Director, w.e.f 31-12-2007
		2) M/s Garden Reach Ship Builders & Engineers Ltd., Kolkata	- do-
		3) M/s Hindustan Shipyard Ltd. Vizag.	- do- w.e.f 22-02-2010

SL. NO.	NAME OF THE DIRECTOR	BODIES CORPORATE IN WHICH THE DIRECTOR IS INTERESTED.	NATURE OF INTEREST AND THE DATE FROM WHICH INTERESTED
		4) M/s Goa Ship Yard Limited, Goa.	Permanent Special Invitee on Board of Directors, w.e.f 31-12-2007
2	Shri. M. Narayana Rao	1) Andhra Pradesh Gas Power Corporation Limited, Hyderabad. 2) International Advanced Research Centre for Powder Metallurgy & New Materials (ARCI), Hyderabad. 3) Nuclear Fuel Complex, Hyderabad.	Part-time Director, w.e.f. 30.09.2010 Member on the Governing Council As Member on Board of Management
3	Dr. Dipankar Banerjee, Director	The Scientific Instrument Co. Ltd. Allahabad	Share holder (No.of Shares :1375)
4	Other Members of the Board	NIL	NIL

- 3.4 One (1) resolution was passed through circulation amongst Directors during the year under report.

4.0 ANNUAL GENERAL MEETINGS:

- a) All the Annual General Meetings of the Company were held at a place where the Registered Office of the Company is situated. The details of such meetings for the last 3 years is as under:

No.of AGM	Financial Year	Date of the Meeting	Time of the Meeting	Venue of the Meeting
35	2008-'09	25.09.'09	1000 Hours	M/s. Mishra Dhatu Nigam Ltd. Regd. Office, P.O. Kanchan Bagh, Hyderabad -500 058.
36	2009-'10	25.08.'10	1000 Hours	
37	2010-'11	20.09.'11	1100 Hours	

- b) During the year under report and previous two (2) financial years, 1 (one) Special Resolution was passed in the EGM held on 28.10.2009 amending the provisions of Articles of Association of the company enabling the Board of Directors of the Company to exercise the enhanced powers conferred on Mini-Ratna Category-I PSUs.

- 4.1 The Company has not passed any Resolution through "Postal Ballot" during the year under report.

5.0 BOARD'S COMMITTEES THEIR SCOPE & MEETINGS THEREOF

5.1. MIDHANI has the following **Eight (8)** Committees of the Board functioning as on date of the report:

5.2 Audit Committee (AC)

5.2.1 The AC was originally constituted by Board of Directors of the Company in the year 2001 in accordance with the instructions issued by Administrative Ministry. Later it was functioning by virtue of guidelines issued by Department of Public Enterprises (DPE), Ministry of Heavy Industries & Public Enterprises, Govt. of India.

5.2.2 The terms of reference to AC was broadly on the guidelines suggested by DPE applicable to Central Public Sector Undertakings (CPSUs). Such Terms of reference are being upgraded, professionalized and adopted by the Board of Directors of the Company from time to time. A copy of such terms of reference was placed at **Annx: III (i)**

5.2.3 The AC has been functioning with three (3) Members who are independent directors on the Board. All the members of AC and in particular, the Chairperson AC have good knowledge of accounting and related financial Management expertise. It regularly interacts with the representatives of external audit firms carrying out Internal Audit work of the Company to ensure that there were no system lapses exists in the working of the Company. The details of constitution of Audit Committee as on the date of the report is as under:

5.2.4 **The constitution of the Audit Committee as on the date of the report is furnished hereunder:**

Sl. No.	Name of the Director	Status	Date of Appointment or change in the Committee
1	Smt. Indu Liberhan, Part-time Non Official Director	Chairperson	24.01.2011
2	Dr. D. Banerjee, Part-time-Non-Official Director	Member	24.01.2011
3	Dr. G. Malakondaiah Part-time Official Director	Member	from 24.01.2011 To: 22.07.2011
4	Dr. K. Bhanu Sankara Rao Part-time-Non-Official Director	Member	22.07.2011
5	Director (Prod. & Mktg.)	Permanent Invitee	01.09.2011
6	Shri. V.S. Verma, Director (Prod. & Mktg.)	Member	Up to 23.01.2011
		Permanent Invitee	wef. 24.01.2011 31.08.2011
7	Rep. of Statutory Audit Firm	-do-	Since formation of the Committee
8	Director (Finance)	-do-	-do-
9	Rep. of External Chartered Accountant firms doing Internal Audit work	On Invitation	-do-
The Company Secretary acts as Secretary of the Committee.			