



MAHINDRA UGINE STEEL COMPANY LIMITED

44th
Annual Report
2006-2007

MAHINDRA UGINE STEEL COMPANY LIMITED

BOARD OF DIRECTORS

Keshub Mahindra — *Chairman*
Anand G. Mahindra — *Vice Chairman*
K. V. Ramarathnam — *Managing Director*
Deepak Dheer — *Executive Director*
w.e.f 20.10.2006
N. V. Khote
Homi N. Sethna
M. R. Ramachandran
Hemant Luthra
R. R. Krishnan
S. Ravi
Rajeev Dubey *w.e.f 20.10.2006*
C. S. Madhav Rao (*Nominee of L.I.C.*) *upto 25.01.2007*
K.B.Saha (*nominee of LIC*) *w.e.f. 25.01.2007*

EXECUTIVE VICE PRESIDENT – FINANCE & MIS

R. Sundaresan

DEPUTY COMPANY SECRETARY & COMPLIANCE OFFICER

Pradeep Salian

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BANKERS

State Bank of India
Dena Bank
Bank of Baroda
Bank of India
ING Vysya Bank Ltd.
UTI Bank Ltd.

AUDITORS

M/s. A. F. Ferguson & Co.

SOLICITORS

M/s. Khaitan & Co.

REGISTERED OFFICE

74, Ganesh Apartment,
Opp. Sitaladevi Temple,
L.J. Road, Mahim,
Mumbai - 400016.
Tel. No. : 022-24444287 Telefax : 022-24458196
website: www.muscoindia.com
E-mail: investors_relation@muscoindia.com
salian.pradeep@mahindra.com

WORKS

Steel:

Jagdishnagar, Khopoli - 410 216,
District Raigad, Maharashtra
Tel. No. : 02192-263318/347
Fax No. : 02192-263073/6

Stampings :

- 371, Takwe Road, At & Post: Kanhe,
Dist. Pune - 412 106.
Tel. No. : 02114-255289/294, Fax No. : 02114-255293
- Plot No. D-2, MIDC, Ambad, Nashik- 422 010.
Tel. No. : 0253-2387510/11/12/13,
Fax No. : 0253-2382876
- Maharajpur Road, Lalpur, Rudrapur
(U.S.Nagar), Uttarakhand - 263143
Tel No. : 05944-280921

REGISTRAR & TRANSFER AGENTS

Sharepro Services (India) Pvt. Ltd.

Satam Estate, 3rd Floor, Above Bank of Baroda,
Cardinal Gracious Road, Chakala, Andheri (East),
Mumbai - 400 099.
Tel.: 022-28215168

— Please bring your copy of the Annual Report to the Meeting.

MAHINDRA UGINE STEEL COMPANY LIMITED

DIRECTORS' REPORT

The Directors present their Forty-fourth Report together with the audited accounts of your Company for the year ended 31st March, 2007.

FINANCIAL RESULTS

	(Rupees in Lakhs)	
	2007	2006
Gross Income	71891	62476
Profit before Interest and Depreciation	9673	12361
Less: Interest Depreciation	1182	1115
	1673	1308
Profit before Tax and Exceptional Item	6818	9938
Less: Provision for Taxation		
- Current Tax	2482	3240
- Deferred Tax	(155)	(213)
Profit after tax and before exceptional items	4491	6911
Less: Exceptional items – Redemption premium on Preference Shares (net of tax)	—	405
Profit afterTax	4491	6506
Balance of profit and loss account acquired on account of amalgamation	—	2047
Balance of profit brought forward from earlier years	3733	1461
Profit available for Appropriation	8224	10014
Less: Proposed Dividend on Preference Shares	—	16
Less: Tax on Proposed Dividend on Preference shares	—	2
Less: Interim dividend paid on preference Shares	22	85
Less : Tax on Interim dividend paid on Pref. shares	3	12
Less: Interim Dividend paid on equity shares	650	—
Less: Tax on Interim dividend paid on Equity shares	91	—
Less: Proposed Final Dividend on Equity Shares	812	1462
Less: Tax on Proposed Final Dividend	139	204
Less: Transfer to General Reserves	1600	4500
Balance Carried Forward	4907	3733

DIVIDEND

Your Directors have paid an interim dividend as follows:

On Preference Shares:

4.08% on 546,000 7% Cumulative Redeemable Preference Shares of Rs.100/- each amounting to Rs.22.30 Lakhs and tax on distributable profits paid thereon amounting to Rs.3.13 Lakhs. These Preference shares were redeemed on 30th October, 2006.

On Equity Shares:

20% (i.e. Rs.2.00 per equity share) on Equity Shares of the face value of Rs.10/- each which together with tax on distributable profits has absorbed a sum of Rs.740.76 Lakhs.

Final Dividend on Equity Shares:

Your directors have recommended a final dividend of 25% (Rs.2.50 per share) which together with the interim dividend as above will aggregate 45% (Rs. 4.50 per share) as against 45% (Rs.4.50 per share) for the previous year. The dividend, together with the tax on distributed profits, will absorb a sum of Rs.1691 Lakhs (previous year Rs.1667 Lakhs) and will be paid to those shareholders whose names stand registered in the books of the Company as on the book closure date.

The total preference and equity dividend together with the tax on distributed profits (including interim dividend paid and tax thereon) will absorb Rs.1716 Lakhs.

PERFORMANCE

The Industry continued to benefit from the high economic growth in the country which brought about a robust demand. While the Company's operations continued to be profitable, the year under review witnessed substantial increases in the input and other costs which resulted in a lower profit for the year by nearly 31% as compared to the previous year. During the year under review, while the gross income grew by about 15% from Rs.62476 Lakhs to Rs.71891 Lakhs, the profit after tax for the year was Rs.4491 Lakhs as compared to Rs.6506 Lakhs for the previous year which included certain one time income such as profit on sale of investments, write-back of certain provisions which were no longer required etc. aggregating to Rs. 973 Lakhs.

STEEL BUSINESS:

Sales during the year increased from 110,627 tonnes to 121,099 tonnes registering a growth of about 10%. However, the profit was under pressure as the prices of critical raw materials increased substantially and there was a unprecedented increase in the power cost supplied by MSEB from Rs.3.6 per unit to approximately Rs. 5.35 per unit during the year under review. The Company was unable to get corresponding

increases in the selling price from their various customers which resulted in lower profits for the steel business.

The Company has installed a 50 tonnes Eccentric Bottom Tapping Furnace during the year. The continuous mill which was imported from the U.S. is in the process of being refurbished before commissioning. Work in terms of foundation and electricals are underway and it is hoped that the expansion scheme will be completed by end of March 2008. Some of the equipment required for setting up the project for manufacturing bearing races have been received and the remaining equipment are expected to be progressively dismantled from its present location and will be transported for installation at the Steel Plant at Khopoli.

The Company continues with its cost-saving exercises, improving its processes in order that it shows better performance in the years to come.

STAMPINGS BUSINESS:

Stampings business is presently located at Nashik and Kanhe, both in the State of Maharashtra. While the Nashik unit of the Company mainly caters to the requirement of the Nashik unit of the parent Company, Mahindra & Mahindra Limited, the Kanhe unit supplies metal pressing components to Companies like Tata Motors and Ashok Leyland besides M&M.

The operations of the stampings business continued to be profitable. During the period under review, the Company stepped up its business with own materials as it also experienced pressure on margins in this line of business. The Company made an entry in USA by exports of components.

The production and sales of the stampings business were as under:

In Tonnes		Rs. Lakhs
Production	Sales	Sales value
29,500	29,452	8608
(24,382)*	(24,427)*	(6876)*
21% growth	21% growth	25% growth

(* previous year figures)

The Company is also setting up a green-field metal pressing, painted sheet metal unit at Rudrapur in Uttarakhand. This project is expected to commence commercial production very soon.

A detailed analysis of the Company's performance is contained in the Management Discussion and Analysis Report, which forms part of this Annual Report.

FINANCE:

During the year under review, the liquidity position of the Company continued to be satisfactory. The Company successfully tied up its entire requirement of funding for the Capital Expenditure including through External Commercial Borrowings of US\$20 Million during the year. The year also witnessed a gradual increase in the borrowing costs making borrowed funds dearer.

STOCK OPTIONS

Under the Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999, the Remuneration Committee of your Company has granted 9,55,500 Stock Options to the Eligible Employees during the year under review. Out of the total granted options, the options which are in force as on 31st March, 2007 under the Scheme are 8,98,500. These options would vest in four equal instalments on the expiry of 12, 24, 36 & 48 months from the date of grant and can be exercised within a period of five years from the date of vesting of options.

Details required to be provided under the Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 are set out in Annexure 1, to this report.

INDUSTRIAL RELATIONS:

The relations with the workers and their respective unions during the year has been cordial. The Labour agreement with the union which is due for revision is expected to be signed shortly.

SAFETY, HEALTH AND ENVIRONMENTAL PERFORMANCE

The Company has a policy on general health, safety and environmental conservation through which every employee is responsible for the observance of the measures designed to prevent accidents, damage to health and to avoid environmental pollution.

Safety committee members comprising representatives from workers and executives from various departments meet periodically to review the situation.

DIRECTORS

Mr. Deepak Dheer was appointed by the Board as an Additional Director of the Company with effect from 20th October, 2006 and holds office up to the date of the Annual General Meeting. Mr. Deepak Dheer was also appointed as an Executive Director of the Company with effect from 20th October, 2006 for a period of three years for which the members' approval is being sought by the Company.

Mr. Rajeev Dubey was appointed by the Board as an Additional Director with effect from 20th October, 2006 and holds office up to the date of Annual General Meeting.

MAHINDRA UGINE STEEL COMPANY LIMITED

Due to withdrawal of nomination by Life Insurance Corporation of India (LIC), Mr.C.S.Madhav Rao ceased to be the Nominee Director of the Company w.e.f 25th January, 2007. Consequently, he ceased to be a member of Audit Committee of the Board. LIC has nominated Mr. K.B.Saha in place of Mr.C.S.Madhav Rao as a Nominee Director of the Company vide its letter dated 2nd November, 2006. Accordingly, Mr.K.B. Saha was appointed as Nominee Director with effect from 25th January, 2007. He holds Office upto the date of forthcoming Annual General Meeting. Notices have been received from members proposing Mr. Deepak Dheer, Mr. Rajeev Dubey and Mr.K. B. Saha for the office of the Director at the said Meeting.

Mr. Keshub Mahindra, Mr.M.R.Ramachandran and Mr.N.V.Khote retire by rotation and, being eligible, offer themselves for re-appointment.

DIRECTORS' RESPONSIBILITY STATEMENT

Pursuant to Section 217(2AA) of the Companies Act, 1956 your Directors, based on the representations received from the Operating Management and after due enquiry, confirm that:

- (i) In the preparation of the annual accounts, the applicable accounting standards have been followed;
- (ii) They have, in the selection of the accounting policies, consulted the Statutory Auditors and these have been applied consistently and reasonable and prudent judgments and estimates have been made so as to give a true and fair view of the state of affairs of the Company as at 31st March, 2007 and of the profit of the Company for the year ended on that date;
- (iii) Proper and sufficient care has been taken for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- (iv) The annual accounts have been prepared on a going concern basis.

SUBSIDIARIES

The Company has no subsidiary as on 31st March, 2007.

AUDITORS

M/s. A.F.Ferguson & Co., Chartered Accountants, retire as auditors of the Company and have given their consent for re-appointment.

As required pursuant to the provisions of Section 224 (1B) of the Companies Act, 1956, the Company has obtained a written certificate from the above auditors proposed to be re-appointed to the effect that their re-appointment, if made, would be in conformity with the limits specified in the said section.

PUBLIC DEPOSITS AND LOANS/ADVANCES

An amount of Rs. 9.32 Lakhs in the aggregate consisting of 100 matured fixed deposits had remained unpaid/unclaimed as at 31st March, 2007 pending instruction from the depositors concerned. Since then, 26 of them aggregating to Rs.2.61 Lakhs have been repaid.

The Company had, from 1st May, 2005 discontinued acceptance of and renewal of deposits from public and shareholders.

The Company has not made any loans / advances and investments which are required to be disclosed in the Annual Accounts of the Company pursuant to Clause 32 of the Listing Agreement.

CORPORATE SOCIAL RESPONSIBILITY INITIATIVES (CSR)

As a socially responsible citizen, the Mahindra Group has contributed not only to the economic well being of the communities it interacts with, but has also enhanced their social well being. Since inception, the Mahindra Group has engaged in activities which add value to the communities around it.

Your Company has, contributed a sum of Rs.48 Lakhs during the year towards Corporate Social Responsibility initiatives.

PARTICULARS OF EMPLOYEES

As required pursuant to Section 217(2A) of the Companies Act, 1956 and rules thereunder, a statement containing particulars of the company's employees who were in receipt of remuneration of not less than Rs. 24,00,000/- during the year ended 31st March, 2007 or of not less than Rs. 2,00,000/- per month during any part of the said period is given in the Annexure II to this Report.

ENERGY CONSERVATION, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE EARNINGS AND OUTGO

Particulars required to be disclosed under the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 are set out in the Annexure III to this Report.

ACKNOWLEDGEMENTS

Your Directors acknowledge the continued support and co-operation from the Banks, Financial Institutions, Government Departments, Vendors and customers, which helped in the growth of the Company.

The Directors also wish to place on record their appreciation of the services of the Company's Employees.

For and on behalf of the Board

**Keshub Mahindra
Chairman**

Mumbai: 27th April, 2007.

ANNEXURE I TO THE DIRECTORS' REPORT FOR THE YEAR ENDED 31ST MARCH, 2007.

Information to be disclosed under the Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines 1999:

(a)	Options granted	9,55,500
(b)	The Pricing Formula	The options were priced based on the average of the daily high and low of the prices for the company's equity shares quoted on Bombay Stock Exchange Limited during the fifteen days preceding the date on which the Remuneration Committee decided to grant Options to Eligible Employees.
(c)	Options vested	Nil
(d)	Options Exercised	Nil
(e)	The Total number of shares arising as a result of exercise of Options	Nil
(f)	Options Lapsed	57,000
(g)	Variation of terms of Options	Nil
(h)	Money realised by exercise of Options	Nil
(i)	Total number of Options in force	8,98,500
(j)	Employee-wise details of Options granted to:	
	(i) Senior Managerial personnel	As per Statement
	(ii) Any other employee who receives a grant in any one year of Option amounting to 5% or more of Option granted during that year	Nil
	(iii) Identified employees who were granted option, during any one year , equal to or exceeding 1% of the issued capital (excluding outstanding warrants and conversions) of the company at the time of grant	Nil
(k)	Diluted Earnings Per Shares (EPS) pursuant to issue of shares on exercise of option calculated in accordance with Accounting Standard (AS) 20 'Earnings per Share'	Rs. 13.71
(l)	Where the company has calculated employee compensation cost using the intrinsic value of the stock options, the difference between the employee compensation cost so computed and the employee compensation cost that shall have been recognised if it had used the fair value of the Options, shall be disclosed. The impact of this difference on profits and on EPS of the Company shall also be disclosed.	The Company has calculated the employee compensation cost using the intrinsic value of stock options. Had the fair value method been used, in respect of stock options granted on 18 th August, 2006, the employee compensation cost would have been higher by Rs.99.05 Lakhs. Profit after tax lower by Rs.65.71 Lakhs and the basic and diluted earnings per share would have been lower by Rs.0.21 and Rs.0.20 respectively.

MAHINDRA UGINE STEEL COMPANY LIMITED

(m)	Weighted – average exercise prices and weighted average fair values of options shall be disclosed separately for options whose exercise price either equals or exceeds or is less than the market price of the stock.	Options Grant Date	Exercise Price (Rs.)	Fair Value (Rs.)
		18 th August, 2006	99.00	67.25
(n)	A description of the method and significant assumptions used during the year to estimate the fair values of options, including the following weighted – average information :	The fair-value of the stock options granted on 18 th August, 2006 have been calculated using Black-Scholes Options pricing Formula and the significant assumptions made in this regard are as follows:		
	(i) risk-free interest rate,	7.27%		
	(ii) expected life	3.5 years		
	(iii) expected volatility,	73.54%		
	(iv) expected dividends, and	4.65%		
	(v) the price of the underlying share in market at the time of option grant.	Rs. 117.45		

STATEMENT ATTACHED TO ANNEXURE I TO THE DIRECTORS' REPORT FOR THE YEAR ENDED 31ST MARCH, 2007.

Name of Senior Managerial Persons to whom Stock Options have been granted	Options granted in August, 2006
Mr.K.V.Ramarathnam	100000
Mr.Deepak Dheer	75000
Mr.Hemant Luthra	125000
Mr.R.R.Krishnan	15000
Mr.M.R.Ramachandran	15000
Dr.H.N.Sethna	15000
Mr.N.V.Khote	15000
Mr.S.Ravi	15000
Mr. Rajeev Dubey	15000

ANNEXURE II FORMING PART OF THE DIRECTORS' REPORT

ADDITIONAL INFORMATION PURSUANT TO SECTION 217(2A) OF THE COMPANIES ACT, 1956 READ WITH COMPANIES (PARTICULARS OF EMPLOYEES) RULES, 1975 AND FORMING PART OF THE DIRECTORS' REPORT FOR THE YEAR ENDED 31ST MARCH, 2007.

Name of Employees	Designation	Qualification	Date of Employment	Age / (Experience)	Gross Remuneration	Last Employment held (Organisation/ Designation)
Mr. K. V. Ramarathnam	Managing Director	B.E.(Mech)	5-5-2003	59 (37)	81,36,102*	SBU Head (Steel Division) Perkasa Indobaja, Indonesia
Mr. Deepak Dheer	Executive Director	B.E (Mech), Dipl. in MBA (IIM A'bad)	20-10-2006	55(34)	39,06,390**	Managing Director, Tudor India Limited

Notes:

1. Nature of employment is contractual, subject to termination on 3 (three) month's notice from either side.
2. The above employees are not related to any Director of the Company.
3. *Remuneration received as shown in the statement includes Salary, House Rent Allowance or value of perquisites for accommodation, car perquisite value, reimbursement of medical expenses, employer's contribution to Provident Fund and Gratuity Fund, re-imbursement of medical and all other allowances/perquisites as applicable. The above remuneration includes Rs.5,86,560 paid as arrears for the year 2005-06. The above remuneration also includes Commission of Rs.18,50,000 payable to Mr.K.V.Ramarathnam for the year 2006-07. The above Remuneration also includes an amount of Rs.6,40,625/- being amortization of Options granted under Employees Stock Option Scheme of the Company.
4. ** Mr.Deepak Dheer was appointed by the Board on 20th October, 2006, subject to approval by the members at the ensuing Annual General Meeting. Remuneration paid to Mr.Deepak Dheer includes, Salary, House Rent Allowance, Motor car expenses, reimbursement of medical expenses, employer's contribution to Provident Fund and Gratuity Fund, medical, gas electricity and all other allowances/perquisites as applicable including Commission of Rs.16,25,000 for the year 2006-07. The above Remuneration also includes an amount of Rs.4,80,469 being amortization of Options granted under Employees Stock Option Scheme of the Company.
5. No employee holds by self along with his/her spouse and dependent children 2% or more of the equity shares of the Company.
6. Employment terms and conditions are as per the Company's rules.

For and on behalf of the Board

**Keshub Mahindra
Chairman**

Mumbai: 27th April, 2007.

MAHINDRA UGINE STEEL COMPANY LIMITED

ANNEXURE III

STATEMENT PURSUANT TO SECTION 217(1)(e) OF THE COMPANIES ACT, 1956 READ WITH THE COMPANIES (DISCLOSURE OF PARTICULARS IN THE REPORT OF BOARD OF DIRECTORS) RULES, 1988 AND FORMING PART OF THE DIRECTORS' REPORT FOR THE YEAR ENDED 31ST MARCH, 2007

Conservation of Energy

- (a) energy conservation measures taken.
- (b) additional investment and proposal, if any, being implemented for reduction of consumption of energy.
- (c) impact of measures taken.

Sr. No.	Energy conservation measure	Impact of the measure
1	A new Electric Arc Furnace with EBT has been commissioned. This is a latest generation furnace having 40 MVA transformer capacity which is double than that of the old furnace. This will reduce Tap-to-Tap time of EAF.	Electrical Energy consumption of the old furnace = 530 KWH / T Electrical Energy consumption of the new furnace = 490 KWH / T Tap-to-tap time of the old furnace = 120 mins Tap-to-tap time of the new furnace = 90 mins Primary slag carry over during tapping will be controlled. Redistribution of load of the new transformer will help operation with optimum efficiency
2.	The old Walking Beam Furnace was inefficient from the point of view of energy consumption. Hence, a new Walking Beam Furnace has been commissioned in the bar mill. This is fitted with on line oxygen analyzer.	Oil consumption in the old furnace = 62 litres / T Oil consumption in the new furnace = 45 litres / T
3.	Being implemented A continuous rolling mill is being commissioned.	The continuous rolling mill will eliminate double heating thereby reducing oil consumption. This will increase productivity.

FORM A

(Form for disclosure of particulars with respect to conservation of energy)

	Current Year 2006-2007			Previous Year 2005-2006		
	Steel	Stampings	Total	Steel	Stampings	Total
A) Power & Fuel Consumption						
1 Electricity						
a Purchased						
Units (KWH)	149,534,289	6,459,915	155,994,204	137,918,679	4,463,142	142,381,821
Total Amount (Rs.)	679,822,264	33,060,861	712,883,125	507,566,918	19,655,154	527,222,072
Rate/Unit (Rs.)	4.55	5.12	4.57	3.68	4.40	3.70
b Own Generation (KWH)	60,156	148,744	208,900	56,296	263,688	319,984
2 Coal	N.A	N.A	N.A.	N.A	N.A.	N.A.
3 Furnace Oil						
(K.Litres)	18,094	N.A	18,094	18,781	N.A	18,781
Total Amount (Rs.)	285,919,196	N.A	285,919,196	268,713,037	N.A	268,713,037
Rate/Unit (Rs.)	15,802	N.A	15,802	14,308	N.A	14,308
4 OTHER FUEL OIL (L.D.O.)						
Quantity (K.Litres)	10	N.A	10	5	N.A	5
Total Amount (Rs.)	291,814	N.A	291,814	85,065	N.A	85,065
Rate/Unit (Rs.)	29,181	N.A	29,181	16,679	N.A	16,679
B) Consumption Per Unit of Production						
1) Products *Unit - MT	121,318	29,397	150,715	111,188	24,458	135,646
2) Electricity (KWH/MT)	1,233	225	1,035	1,240	361	1,050
Total for the Plant						
3) Furnace Oil (K.Litres/MT)	0.149	N.A	0.120	0.169	N.A	0.138
Total for the Plant						
4) Coal	N.A	N.A	N.A.	N.A	N.A.	N.A.
5) Other Fuel Oil (K.Litres/MT)	0.00008	N.A	0.00007	0.00005	N.A	0.00004
Total for the Plant						
6) Total Fuel Oil (Furnace Oil+L.D.O.) (K.Litres/MT)	0.149	N.A	0.120	0.169	N.A	0.138

* Indicates in house production only.

MAHINDRA UGINE STEEL COMPANY LIMITED

FORM B

(Form of disclosure of particulars with respect to Technology Absorption)

RESEARCH & DEVELOPMENT

Specific areas in which R&D activities have been successfully completed during 2006 - 07:-

1. 13 new grades / modified have been developed.
2. Heat treatment cycles for four grades have been successfully developed.
3. Low Oxygen, low inclusion SAE 52100 for NSK Japan is being developed.
4. 20MnCr5 – B grade having good dynamic impact property is being developed for M/S. Ashok Leyland.
5. Jominy values of some forging grades have been improved to make consistent quality.

Sr. No.	Activity	Remarks
1.	To develop SAE 52100 steel to meet the requirements of NSK, Japan. Oxygen < 12 ppm. Low inclusions rating.	R&D work is in progress. Trial heats with process improvements have been conducted which showed good result.
2.	H11 grade is conventionally made through ingot route, but attempt has been made to make it through CC route.	One heat has been successfully made through CC route. Further work is in progress.
3.	Development of a new grade of Bearing steel for SKF for export application 100CrMnSi6.	One heat of this grade has been successfully made. Further work is in progress. Titanium, Oxygen and Inclusions are the key parameters to be controlled.

TECHNOLOGY ABSORPTION, ADAPTATION AND INNOVATION

(Efforts in brief towards technology absorption)

Benefit derived as a result of R&D activities:-

- Improvement in the quality of steel.
- Customer satisfaction.
- Continuous improvement in the process and products.

Future Plan of action:-

Further improvement in quality such as inclusion level, gases, microstructure, decarb etc.

A full fledged new department for the Research and development has been constituted. This will enable the company to aim at new product developments and applications in a structured manner.

Expenditure on R&D

(Rupees in Lakhs)

	2006 – 07	2005 – 06
a) Capital	20.24	53.35
b) Recurring	63.77	42.04
c) Total	84.01	95.39
d) Total R&D expenditure as percentage of total turnover	0.117	0.155

During the last five years there has not been any Import of Technology.

FOREIGN EXCHANGE EARNINGS AND OUTGO

The information of foreign exchange earnings and outgo is furnished in the notes to the accounts.

For and on behalf of the Board

**Keshub Mahindra
Chairman**

Mumbai: 27th April, 2007.

MAHINDRA UGINE STEEL COMPANY LIMITED

MANAGEMENT DISCUSSION AND ANALYSIS (MDA)

Overview

Mahindra Ugine Steel Company Limited (MUSCO) has two lines of business, one for the Manufacture of alloy steel with its plant at Khopoli, and the other relating to Stampings business at its units at Kanhe, Nashik and Rudrapur. Except the new Plant at Rudrapur, which is in State of Uttarakhand, all the other units are located in the State of Maharashtra. M&M through its 100% subsidiary Mahindra Holdings and Finance Company Limited presently holds 50.69% in the share holding of the Company.

Industry Structure and Development

Steel business

The period between 2004-05 and 2006-07 has seen demand for alloy steel grow by 15% . With buoyant growth of the target markets that it serves, the demand for the niche products that your Company manufactures is expected to grow by 67% to 5 Million tonnes from current levels of 3 Million tonnes. With the current expansion program, our market share is expected to move up from about 5% to 6%.

At its steel division, your Company manufactures alloy steels through Electric Arc Furnace (EAF) route and its products include alloy, tool and die steel, ball bearing steels, engineering alloy & construction steels, and steels used in off shore oil fields. The steel division at Khopoli is TS16949 certified by RWUTV of Germany.

Over the years of its existence the company has obtained several approvals and awards for the quality of its steel used in aircraft engines, bearings, power steering assembly gears for off the road vehicles and other auto components. The consistent focus on process improvement and expansion of the product range has been enhanced to leverage MUSCO's outstanding reputation for quality and innovation. This quality has been acclaimed by leading bearing manufacturers and MUSCO is now considered an international source of supply.

During the last year, SKF has accorded MUSCO Global Supply Approval which should help increase its off take from the Company. The Company's other customers include Bharat Forge, Cummins, Timken and Tata Steel all of whom are leaders in their respective fields and whose demand for your Company's products has been growing consistently.

Encouraged by a healthy demand for the product, the company is implementing an expansion scheme at a

cost of about Rs.105 crore to increase productivity and balance its capacity. After the completion of the scheme, the Company's output is expected to double to 240,000 tonnes from the present level. Conscious efforts are also being taken to secure more marquee customers.

Under the scheme, the company has already completed the installation of oxygen lancing, walking beam furnace (WBF) and the Eccentrically Bottom tapping furnace (EBT) and is in the process of stabilization. The new WBF and EBT are equipped with environmental control and energy efficient systems and have already started giving the desired results. The Company has submitted the requisite data and is being evaluated for carbon credits. Full capacity is expected to be achieved by March 08, when the Continuous mill, which will strengthen and enhance the rolling mill operations gets commissioned. The Company is evaluating a long term plan to insulate itself from the cyclicalities of the steel markets by protecting itself upstream with long term arrangements for the supply of metallics, and adding downstream by setting up facilities for the manufacture of bearing races at Khopoli leading to value addition by way of forged and machined rings. Part of the equipment in this regard has already been received and the balance equipment is expected to be received in a phased manner from August, 2007 onwards. The plant is expected to be commissioned by December, 2007.

In the meanwhile, the Company is focusing on reducing its cost structure and is evaluating several continuous improvement plans. In order to improve its competitiveness, it has strengthened the management team to cope with all the initiatives outlined above.

Stampings Business

The growth of Stampings Business in India is primarily related to the growth of Auto Sector. It is expected that auto sector and auto component sector are expected to grow at 15% &17% CAGR respectively in the next ten years.

However there are only 5-6 big players in this field and rest of the market is crowded by medium & small scale companies. In view of the competition offered by the medium and small scale operators, the bigger players like us will need to add value to the products. In line with this strategy, the stampings business has expanded its capacity by commissioning a state of the art unit at Rudrapur, which includes Cathode Electrode Deposition (CED) paint shop - a first of its kind in our business.

The business profile of the company is changing from a mere conversion contractor to a regular manufacturer of the press metal components and assemblies.

While traditionally OEM business was done in-house, growth in business, and increasing cost pressures are driving the industry to outsourcing. While this presents an opportunity, it is incumbent on units like ours to invest in quality equipment and processes, leverage our ability to capitalize ourselves adequately and take advantage of the process of consolidation in the industry that seems inevitable as more and more international auto OEMs migrate to low cost country manufacturing expecting a quality output.

The recent joint venture of M&M with ITEC for the truck and other commercial vehicles and with Renault for the internationally acclaimed Logan (and follow on Nissan and Renault products) is expected to create greater opportunities for the quality stampings business and the creation of value for MUSCO shareholders.

While the capacity utilization is close to 100% in Nashik there is scope for further improving the capacity utilization at Kanhe.

The stampings business has been able to move up the value chain and with group support, developed the capabilities to produce sub assemblies for Mahindra & Mahindra (M&M), Tata Motors and Ashok Leyland. The Company's green field expansion of the stamping business at Rudrapur has been completed and the trial operations have since begun.

Opportunities, threats and risks

Steel Business

The demand for steel is expected to grow significantly by the year 2008-09. As outlined above, planned capacity enhancement will ensure your company is fully geared to meet this increased demand. The inclusion of bearing races in the product mix will provide incremental revenue in the coming years due to additional realization by moving up the value chain.

The Company has good potential to make stainless steel, steels for open die forging, wire rods and high value ESR steels. We are evaluating various business opportunities to exploit this capability.

The business faces unprecedented increase in the cost of power and also risk of steep increase in the cost of metallics and ferro alloys. After having taken steps to enhance the capacity and balancing, the company has now decided to address the issues relating to metallics and power. Long term arrangements for pig iron are being explored, which includes consideration for setting

up a pig iron manufacturing plant closer to the ore belt. Similarly, options to reduce dependence on purchased power are being explored including but not limited to a possible joint venture with an existing company, generating captive power and/or entering into a long term wheeling arrangement with an existing power producer. The company is also in the process of identifying measures that will reduce power cost.

Stampings Business

The investment of the global OEMs such as Volks Wagen at Chakan and GM at Talegaon offers additional opportunities to us. However, it also puts pressure on us to improve our productivity and quality. We are planning limited automation at Kanhe and low cost automation at all our plants. We are also exploring the possibility of vertical integration through setting up a state of the art tool room which will help us to deliver "art" to "part" parts to the customers.

We have expanded our product offering to include Tractors, Three wheelers, Cars and Trucks to de-risk the business from the cyclicity of any particular segment.

Operations

Steel Business

The Company's products continue to be received well in the market. In the face of competitive pressures, there is an ongoing effort to improve our performance with respect to quality and customer satisfaction and have instituted steps to measure such satisfaction consistent with the philosophy of Customer Centricity espoused by the Mahindra & Mahindra Group. While the production of tool, alloy and special steel increased from 111,188 tonnes (for April- Mar 06) to 121,317 tonnes (for April-Mar 07) registering a growth @8.35%, for the same period the sales registered an increase from 110,627 tonnes (as at Mar '06) to 121,099 tonnes (as at Mar '07) with a growth @ 9.5%. The overall revenue moved up from Rs.5,310 Million (for the year ended March '06) to Rs.5,980 Million (for the year ended March '07).

However at the same time, due to unprecedented increase in the power costs from Rs.2,660 per tonne in the financial year 2005-06 to Rs.3,570 per tonne in 2006-07 and the cost of metallics moving up from Rs.15,800 per tonne to Rs.17,147 per tonne, the margins came under pressure as we could not pass this impact to the customer. The Company is therefore taking steps to address both issues by making long term arrangement for the Procurement of Pig iron and to enter into a long term contracts with new power

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plants while incorporating captive power into our proposed metallics facility. The bearing races project mentioned earlier will help cushion the operations from commodity volatility in times to come.

Stampings Business

The production of the stampings business comprising pressed sheet metal components and assemblies increased from 24,382 tonnes (for the financial year 2005-06) to 29,500 tonnes (for the financial year 2006-07) and corresponding sales moved up from 24,427 tonnes in financial year ending Mar '06 to 29,452 tonnes in financial year ending Mar '07 - an increase of about 21%.

Multi tasking and the introduction of robotic hands is helping us optimize utilization of labour and the emphasis on cost reduction will help improve operating margins of the Company.

Quality initiative such as introduction of 5"S" (Seiri or tidiness, Seiton or orderliness, Seiso or systemized cleanliness, Seiketsu or standards and Shitsuke or sustaining discipline) will improve productivity losses, once again improving overall operating margins.

Financial Performance

Continuing with details provided above, summary of financial performance is presented below:

Summary of Financial Performance						
Amount in (Rs.) Million						
Particulars	Steel		Stamping		Total	
	2006- 07	2005- 06	2006- 07	2005-06	2006- 07	2005- 06
Sales	5970	5310	1200	840	7170	6150
Other Income	10	89	9	9	19	98
Total Income	5980	5399	1209	849	7189	6248
Expenses	5460	4580	750	430	6210	5010
EBIDTA	520	820	460	420	980	1240
PBT	340	672	342	322	682	994
PAT	-	-	-	-	449	650

Material Development in Human Resources/ Industrial Relations

As at 31st March 07, the company had 749 employees in Steel and 648 in Stamping business. Regular Training Programme in various areas of operations at different levels in the organization which are considered essential are conducted and at the same time we have programmes to effectively collect employee feedback and improve overall engagement. We continue to work with employees to have very cordial and healthy labor relationships.

Internal control system and their adequacy:

The Company at all its locations has well established internal audit and internal control systems commensurate with the size of its operations with a view to ensure that all the assets are safeguarded and protected against losses and that all the transactions are appropriately authorized, correctly recorded and disclosed in the financial statements. Based on these duly authorized documentations, the financial statements are prepared. The internal audit of the company is carried out by a reputed and experienced firm of Chartered Accountants. They periodically evaluate the internal controls which provide reasonable assurance regarding the effectiveness and the efficiency of operations. Independence of the Audit and compliance function is ensured by the direct reporting of the Internal Audits to the Audit Committee of the Board. Details on the composition and functions of the Audit Committee can be found in the chapter on Corporate Governance.

Outlook

The expansion activities in the steel business would be completed during the year ending March 31, 2008. The EBT which was commissioned during the year will be in operation for the full year bringing with it the associated increase in productivity, quality etc. The continuous mill which is presently under refurbishing is expected to be commissioned during the year financial year ending 2008. The full utilization of the walking beam furnace and the ladle furnace will improve the operating efficacy. The Rudrapur unit for making the pressed metal components will be in operation during financial year 2008 and is expected to contribute further to the business of the company.

Cautionary Statement

Certain statements in the Management Discussion & Analysis describing the Company's objectives, projections, estimates, expectations or predictions may be "forward looking statements" within the meaning of applicable securities laws and regulations. Actual results could differ from those express or implied. Important factors that could make a difference to the Company's operations include raw material availability and prices, cyclical demand and pricing in the Company's principal markets, changes in Government regulations, tax regimes, economic developments within India and the countries in which the Company conducts business and other incidental factors.

CORPORATE GOVERNANCE

Corporate Governance comprises of the moral, ethical and value frameworks within which a company takes decisions. It has wide ramifications and goes beyond corporate performance, human resource management and financial propriety. Your Company's Corporate Governance practices are to promote the long term goals, which will necessarily enhance the value for the shareholders. Your Company has consistently made its efforts in ensuring values of quality, commitment, discipline, integrity, transparency and responsibility in dealing in with its employees, customers and the community at large.

Your Company always believes that good corporate governance should be an internally driven need and is not to be merely looked upon as a matter of compliance dictated by statutory requirements. Your Company strictly follows the procedures to ensure that it remains fully compliant with all mandated regulations. The stipulations mandated by Clause 49 of the Listing Agreement have been fully complied. This chapter, along with the chapters on Management Discussion and Analysis reports your Company's compliance with the said Clause 49.

I. BOARD OF DIRECTORS:

The Company has a Non – Executive Chairman and the number of Independent Directors is more than 1/3rd of the total number of Directors. The number of Non-Executive Directors is more than 50% of the total number of Directors. The composition of the Board is in conformity with Clause 49 of the Listing Agreement.

The management of the Company, is entrusted in the hands of the Key Management Personnel of the Company and is headed by the Managing Director who functions under the supervision and control of the Board. The Board reviews and approves strategy and oversees the actions and results of management to ensure that the long term objectives of enhancing stakeholder value are met.

The Chairman and the Vice-Chairman of the Company, though professional Directors in their own individual capacity, belong to the promoter group of the ultimate holding company Mahindra & Mahindra Limited (M&M).

Mr. Hemant Luthra and Mr. Rajeev Dubey, Non-Executive Directors of the Company, are in the whole time employment of M&M, and draw remuneration from it. Mr. R. R. Krishnan, a Non-Executive Director of your Company is a consultant with M&M and draws remuneration from it.

Apart from the above and apart from the reimbursement of expenses incurred in the discharge of their duties and the remuneration that these Directors would be entitled to under the Companies Act, 1956 as Non-Executive Directors and the remuneration that some of the Directors may receive for professional services as an advisor, none of these Directors has any other material pecuniary relationship or transaction with the Company, its Promoters, its Directors, its Senior Management which, in their judgement, would affect their independence.

The Senior Management have made disclosures to the Board confirming that there are no material, financial and/or commercial transactions between them and the Company which could have potential conflict of interest with the Company at large.

A. Composition of Board

The Company presently has twelve Directors, out of which one is the Managing Director and one is an Executive Director. There are five Non-Independent Non-Executive Directors. Life Insurance Corporation of India (LIC), as an equity investor, with effect from 25th January, 2007 nominated Mr. K. B. Saha as nominee Director in place of Mr. C. S. Madhav Rao whose nomination has been withdrawn by LIC from that date. The remaining five Non-Executive Directors (including the Nominee Director) are Independent Directors and professionals, with expertise and experience in general corporate management, finance, banking and other allied fields.

The names and categories of Directors, the number of Directorships and Committee positions held by them in the Companies are given below. None of the Directors on the Board is a Member on more than 10 Committees and Chairman of more than 5 Committees (as specified in Clause 49 of the Listing Agreement), across all the companies in which he is a Director.

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❖ The Constitution of the Board as on 31st March, 2007 is as under:

Directors	Category	Total number of Committee Memberships+ of Public Companies as on 31 st March, 2007.	Total number of Chairmanships of Committees of Public Companies as on 31st March, 2007.	Total number of Directorships* of Public Companies as on 31st March, 2007.
Non-Executive				
Mr. Keshub Mahindra Chairman	Non Independent	NIL	1	6
Mr. Anand G. Mahindra Vice-Chairman	Non Independent	1	None	12
Mr. N. V. Khote	Independent	NIL	1	2
Dr. H. N. Sethna	Independent	1	2	5
Mr. Hemant Luthra	Non Independent	3	None	9
Mr. M. R. Ramachandran	Independent	2	None	1
Mr. R. R. Krishnan	Non Independent	2	1	3
Mr. Rajeev Dubey w.e.f. 20-10-2006	Non Independent	None	None	6
Mr. K. B. Saha (Nominee of LIC) w. e. f. 25-01-2007.	Independent	1	None	1
Mr. C. S. Madhav Rao Up to 25-01-2007	Independent	1	None	1
Mr. S. Ravi	Independent	1	4	11
Executive				
Mr. K. V. Ramarathnam Managing Director	Non Independent	1	None	1
Mr. Deepak Dheer Executive Director w.e.f. 20-10-2006	Non Independent	None	None	1

* Excludes Directorships in Private Companies, Foreign Companies, Companies registered under Section 25 of the Companies Act 1956 and Government Bodies but includes Directorships in Mahindra UGINE Steel Company Limited.

+ Committees considered are Audit Committee and Investors' Grievance Committee, including in Mahindra UGINE Steel Company Limited.

B. Board Procedure

A detailed Agenda folder is sent to each Director in advance of Board and Committee meetings. To enable the Board to discharge its responsibilities effectively, the Managing Director briefs the Board at every meeting on the overall performance of the Company, followed by presentations by the other Senior Executives of the Company. A detailed functional report

is also placed at Board meetings. The Board also *inter alia* reviews strategy and business plans, annual operating and capital expenditure budgets, investment and exposure limits, compliance reports of all laws applicable to the Company, as well as steps taken by the Company to rectify instances of non-compliances, review of major legal issues, adoption of quarterly/half-yearly/annual results, significant labour issues,

transactions pertaining to purchase/disposal of property, major accounting provisions and write-offs, corporate restructuring, minutes of meetings of the Audit and other Committees of the Board, information on recruitment of Officers just below the Board level, including the Compliance Officer.

C. Number of Board Meetings, attendance record of the Directors at Meetings of the Board and at the last Annual General Meeting.

Five board meetings were held during the period from 1st April, 2006 to 31st March, 2007 on the following dates:

- 24th April, 2006 - 25th January, 2007
- 24th July, 2006 - 23rd March, 2007
- 20th October, 2006

The gap between two meetings did not exceed four months. These were well attended.

The Forty -Third Annual General Meeting was held on 24th July, 2006.

The attendance of the Directors at these meetings is as under:

Director	No. of Board Meeting Attended	Attendance at the AGM
Mr. Keshub Mahindra	5	Yes
Mr. Anand G. Mahindra	3	Yes
Mr. K. V. Ramarathnam	5	Yes
Mr. Deepak Dheer *	3	-
Mr. N. V. Khote	4	No
Dr. H. N. Sethna	4	Yes
Mr. M. R. Ramachandran	3	Yes
Mr. Hemant Luthra	5	Yes
Mr. R. R. Krishnan	4	Yes
Mr. Rajeev Dubey*	3	-
Mr. C. S. Madhav Rao**	3	Yes
Mr. K. B. Saha***	2	-
Mr. S. Ravi	-	No

* Appointed as Additional Directors of the Company with effect from 20th October, 2006.

** Resigned as Nominee Director of LIC with effect from 25th January, 2007.

*** Appointed as Additional Director and Nominee Director of LIC with effect from 25th January, 2007.

D. Directors seeking appointment / re-appointment

Mr. Keshub Mahindra, Mr. M. R. Ramachandran, Mr. N. V. Khote retire by rotation and being eligible have offered themselves for re-appointment.

Mr. Deepak Dheer and Mr. Rajeev Dubey who have been appointed as Additional Directors of the Company with effect from 20th October, 2006, and hold office upto the date of the Annual General Meeting. Notices have been duly received from members proposing the candidatures of Mr. Deepak Dheer and Mr Rajeev Dubey for the office of the Directors at the said meeting.

Mr. K. B. Saha, a Nominee of Life Insurance Corporation of India, has been appointed as an Additional Director of the Company w. e. f. 25th January, 2007, holds office upto the date of the Annual General Meeting. A notice has been duly received from a member proposing the candidature of Mr. K. B. Saha for the office of the Director at the said meeting.

Mr. Keshub Mahindra

Mr. Keshub Mahindra has been the Chairman of Mahindra & Mahindra Ltd. since 1963. A graduate from Wharton, University of Pennsylvania, he joined the Company as a Director in 1963 and became Chairman of the Company in 1999. Mr. Mahindra is Chairman of the Board of Governors of Mahindra United World College of India, Vice-Chairman of Housing Development Finance Corporation Limited and Director of United World Colleges International Limited (UK) amongst other companies. Mr. Mahindra is associated with several committees. He is a Member of the Prime Minister's Council on Trade & Industry, New Delhi, Member of the Apex Advisory Council of ASSOCHAM, a Member of the Governing Board of Bombay First and President of the Governing Council of the University of Pennsylvania Institute for the Advanced Study of India, among others.

Mr. Mahindra was the President of the Bombay Chamber of Commerce and Industry, ASSOCHAM, the Indo-American Society and the Employers' Federation of India. He was also the Chairman of Indian Institute of Management, Ahmedabad, and was appointed by the Government to serve on a number of high level Committees including the Sachar Commission on Company Law & MRTP and the Central Advisory Council of Industries.

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Mr. Mahindra has received several national and international awards for his contribution to public life and industry, including the Chevalier De La Legion D'honneur, the Businessman of the Year 1989 of Business India Award, The Sir Jehangir Ghandy Medal for Industrial Peace 1994 of XLRI, Jamshedpur, the IMC Diamond Jubilee Endowment Trust Award in 1998, Dadabhai Naoroji International Award for Excellence & Lifetime Achievement, All India Management Association Lifetime Achievement Award for Management in 2003 and the "Lakshya Business Visionary Award 2006" instituted by NITIE and Indian Business School (IBS), Kolkata Lifetime Achievement Award presented by The Institute of Chartered Financial Analysts of India (ICFAI) in 2007.

Directorships held in other companies is as follows:

Mahindra & Mahindra Ltd.	Mahindra Holdings & Finance Ltd.	Mahindra United World College of India
Kema Services (International) Pvt. Ltd.	Housing Development Finance Corpn. Ltd.	The Bombay Dyeing & Manufacturing Co. Ltd.
Bombay Burmah Trading Corpn. Ltd.	Rodal Investments Pvt. Ltd.	United World Colleges International Ltd. U. K.
Pratham -India Education Initiative.		

Mr. Keshub Mahindra is a member of the following Board Committees:

Sr. No.	Name of the Company	Name of the Committee	Position held
1.	Mahindra & Mahindra Ltd.	Share Transfer and Shareholders/Investors Grievance Committee.	Chairman
		Loans & Investment Committee	Chairman
		Remuneration/ Compensation Committee	Member
2.	Housing Development Finance Corporation Ltd.	Compensation Committee	Chairman
3.	The Bombay Dyeing & Mfg. Co. Ltd.	Remuneration Committee	Chairman

Mr. Keshub Mahindra holds 1231 shares in the Company.

Mr. M.R. Ramachandran

Mr. M. R. Ramachandran is a Cost Accountant and has worked for Mahindra & Mahindra Ltd. (M&M) for 40 years since 1961.

During this period he has handled several diverse assignments with excellence in the areas of finance, accounts and information technology.

The assignments included setting up of financial, cost and management accounting systems, Corporate Finance Management, Foreign Exchange Management etc. He has successfully negotiated several borrowing arrangements with the domestic as well as foreign Institutions and Banks. He has also actively participated in Market Mobilisation of Rupee/Foreign Currency Resources, which included GDR issues.

He has played an important role in setting up of the Corporate Centre of M&M, which involved setting up financial policy/guidelines to the Strategic Business Units as well, controls and financial performance measurement systems.

He has played a major role in the efforts towards revival of sick and marginal units in M&M Group.

He spearheaded the significant strategic initiatives of M&M towards harnessing the Information Technology for enabling optimal business processes to provide value for money to the end customer. An important change, which was achieved through these initiatives, was the total involvement of the users in selection, installation and owning of appropriate software systems. He directed the efforts towards the extremely successful implementation of SAP, a robust ERP system. He was elected as the President of the Association of the Indian users of SAP.

As a part of the IT initiatives, he directed the efforts in the formation of a separate company to manage the IT Facilities of M&M. He was a Director in several companies in the group.

Mr. M. R. Ramachandran does not hold any shares in the Company.

He is not a Director in any other Company.

He is a member of the following Board Committees:

Sr. No.	Name of the Company	Name of the Committee	Position held
1.	Mahindra Ugine Steel Co. Ltd.	Audit Committee	Member
2.	Mahindra Ugine Steel Co. Ltd.	Remuneration Committee	Member
3.	Mahindra Ugine Steel Co. Ltd.	Investors' Grievance Committee	Member

Mr. N. V. Khote

Mr. N. V. Khote is a Business & Management Consultant and specialised in areas of Corporate Organisation, Planning and Systems, Economic environment and regulations, Export Market development, Project Planning and Appraisal. He is also having International experience in respect of commercial and licensing negotiations in all the major countries of Western Europe, North America and Japan.

Mr. Khote is having Consultancies with ALCAN Montreal, Canada and AQUA International, New York, U.S.A. Mr. Khote is also on the Board of Empire Industries Ltd. and Christian Dior Trading India Pvt. Ltd.

Prior to his assignment as Business and Management Consultant he was Managing Director of Tata Fison Industries Ltd., Joint Managing Director of Rallis India Ltd. and Vice President –Planning of Air India.

He is a member of the following Board Committees :

Sr. No.	Name of the Company	Name of the Committee	Position held
1.	Mahindra Ugine Steel Co. Ltd.	Audit Committee	Chairman
2.	Mahindra Ugine Steel Co. Ltd.	Remuneration Committee	Member

Mr. N. V. Khote holds 720 shares in the Company.

Mr. Deepak Dheer

Mr. Deepak Dheer is a Graduate in Mechanical Engineering from IIT Chennai, and has done his Post Graduate Diploma in Business Management from IIM, Ahmedabad, one of the premier Management Institutes in India. He is having a vast experience of 34 years in various industries. As a Depute from Mahindra &

Mahindra Ltd., Mr. Deepak Dheer, was earlier working as CEO of the Stampings business of the Company. Before joining Mahindra Group, Mr. Dheer was working as Managing Director of Tudor India Ltd., a wholly owned subsidiary of Exide Technologies, USA for 8 years. He has held various senior positions in several reputed companies. Mr. Deepak Dheer worked for Tata Motors Ltd. and Tata Robins Ltd., Jamshedpur in various capacities. He was project incharge of Siingrauli Coal Handling Plant & Chief of diversification. Mr. Deepk Dheer worked as Business development manager with Guest Keen & Williams for setting up of joint venture Tungsten Carbide Project in India. Mr. Deepak Dheer also worked as Chief Project Manager with Times of India Group for setting up of joint Venture with US Company for construction of Chemicals and export of software to Atari Corporation, USA. He had also worked with HMT, Bangalore as General Manager – Corporate Planning, Incharge of restructuring of HMT with the help of World Bank and Sumotomo Business Group. He joined Ranbaxy Laboratory as CEO of Biotech and became Vice President of –Pharma Division in the Sales, Marketing & Distribution of Pharmaceutical Dosage forms in India & Abroad. He had worked with UNIGLOVE, Bangkok as CEO and handled Exports to USA and European countries. Mr. Deepak Dheer has widely travelled on different assignments and is an effective team leader. Mr. Deepak Dheer does not hold any shares in the Company.

He does not hold any directorship position in any other Company nor he holds any Committee positions.

Mr. Rajeev Dubey

Mr. Rajeev Dubey obtained first rank in the country in the Science stream of the Indian School Certificate Examination. He then studied Economics at St. Stephens College, Delhi University, where he was ranked first in the University, and at the Delhi School of Economics, where he received a National Scholarship. He went on to do his MBA from the Yale School of Management, USA as a J N Tata scholar, and was selected as a Distinguished Alumnus of the School.

Mr. Rajeev Dubey has done the Advanced Management Programme at Cedep-INSEAD, France, and the Harvard Business School-TMTC Tata Strategic Leadership Course, in addition to management programs at the Ashridge Strategic Management Centre, UK, the National Institute of Advanced Studies, Bangalore and CII-Aspen Institute, USA.

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Mr. Rajeev Dubey is presently the President (HR & Corporate Services) and Member of Group Management Board of Mahindra & Mahindra Limited. His key focus area is to drive HR initiatives for the Mahindra Group. He is also responsible for the Spares Business Unit, Corporate Communications and Corporate Infrastructure and Services for the Group.

Mr. Rajeev Dubey joined Mahindra & Mahindra Ltd. in January 2004 after a career spanning 29 years in the Tata Group, of which 7 years were as Managing Director firstly of Tata Metaliks and then of Rallis India.

Mr. Rajeev Dubey does not hold any shares in the Company.

Mr. Rajeev Dubey is a Director of the following companies:

1. Mahindra Intertrade Ltd. 2. Automartindia Ltd. 3. Mahindra Insurance Brokers Limited. 4. Officemart India.Com Ltd. 5. Mahindra Steel Service Centre Ltd.

Mr. Rajeev Dubey is a member of Remuneration / Compensation Committee of Automartindia Limited and Mahindra Intertrade Limited.

Mr. K.B. Saha

Mr. K.B. Saha is the Executive Director of LIC and a Professor at NIA (on deputation). Mr. K.B. Saha holds a Master's Degree in English Literature. After a brief stint in IFCI, he joined LIC in 1977. An Alumnus of ASCI & ISB, Mr.K.B.Saha has a penchant for turning around people and organizations. As Senior Divisional Manger of a till then stagnant and non-performing Division like Jalpaiguri (comprising a part of West Bengal and the entire state of Sikkim), he brought this division upto number one position in All – India in terms of growth and contribution of New Business. As Regional Manager (Pension & Group Schemes), Mr.K.B.Saha was in charge of Eastern Zone comprising of West Bengal, Bihar Jharkhand, Orissa, Assam and the entire North East. Within a period of 3 years, he brought this zone to number one position in terms of profitability. His areas of specialisation are Life Insurance, Pensions, Social Security, Marketing, HR, Training & Development of Trainers ad Ethics and Corporate Governance. He has organized International Seminars on Life Insurance and Trained Trainers with International Participants.

Mr. K.B.Saha does not hold any shares in the company.

He does not hold any directorship position in any other Company. He is a member of Audit Committee of the Board.

E. Code of Conduct

The Board has laid down two separate Codes of Conduct- one for Board Members and other for Senior Management and Employees of the Company. These Codes have been posted on the Company's website www.muscoindia.com. All Board Members and Senior Management Personnel have affirmed compliance with these Codes of Conduct. A declaration signed by the Managing Director to this effect is enclosed at the end of this report.

II. Remuneration to Directors

A. Remuneration Policy

While deciding on the remuneration for Directors, the Board/Remuneration Committee (Committee) considers the performance of the Company, the current trends in the industry, the qualification of the appointee(s), their experience, past performance and other relevant factors. The Board/ Remuneration Committee regularly keeps track of the market trends in terms of compensation levels and practices in relevant industries through participation in structured surveys. This information is used to review the Company's remuneration policies.

B. Remuneration to Non-Executive Directors for the year ended 31st March, 2007.

In the Annual General Meeting held on 24th July, 2006, the members had approved the payment of Commission upto 1% of the net profits of the Company to the Non-executive Directors.

The Board of Directors at its Meeting held on 27th April, 2007, has decided that no commission would be paid to the Non-executive Directors for the financial year 2006-07.

Non-Executive Directors are paid sitting fee of Rs.7,500/- for every meeting of the Board or Audit Committee attended and sitting fee of Rs.3,750/- is paid per meeting in case of Investors' Grievance/ Remuneration Committee meetings. The fees paid to Non-Executive Directors for the year ended 31st March, 2007 alongwith their shareholdings are as under:

Director	Sitting Fees for Board and Committee Meetings Paid during the year (Rs.)	No. of Equity shares held as on 31st March, 2007
Mr. Keshub Mahindra	37,500	1,231
Mr. Anand G. Mahindra	26,250	-
Dr. Homi N. Sethna	67,500	1,200
Mr. N. V. Khote	63,750	720
Mr. M. R. Ramachandran	63,750	-
Mr. Hemant Luthra	37,500	50,000
Mr. R. R. Krishnan	60,000	-
Mr. Rajeev Dubey	22,500	-
Mr. K. B. Saha*	22,500	-
Mr. C. S. Madhav Rao	45,000	-
Mr. S. Ravi	-	-

* Sitting fees paid to LIC.

2,15,000 Stock Options had been granted to Non-Executive Directors under the company's Stock Option Scheme on 18th August, 2006. Details of these are given in the Statement attached to Annexure I to the Directors' Report.

C. Remuneration to the Managing Director and Executive Director for the year ended 31st March, 2007.

Remuneration payable to the Managing Director is fixed by the Remuneration Committee and thereafter approved by the shareholders at a General meeting.

Following is the Remuneration paid/payable to the Managing Director and Executive Director during the year ended 31st March, 2007.

Director	Salary (Rs.)	Company's contribution to funds* (Rs.)	Perquisites and allowances (Rs.)	Total (Rs.)	Contract Period
Mr. K.V. Ramarathnam Managing Director	2,688,000	725,760	4,722,342	8,136,102*	5 th May, 2003 to 4 th May, 2008.
Mr. Deepak Dheer Executive Director	952,583	257,197	2,696,610	3,906,390**	20 th October, 2006 to 19 th October, 2009.

Note:

- * The Remuneration Committee and the Board of Directors at its meeting held on 27th April, 2007 have approved the payment of commission of Rs.18.50 Lakhs to Mr. K. V. Ramarathnam, Managing Director of the Company. Accordingly the said amount has been provided in the Books and same is included in the above remuneration. The above remuneration includes an arrears Rs.5,86,560/- paid to Mr. K. V. Ramarathnam for the year 2005-06. The above perquisite includes an amount of Rs.6,40,625/- being an amortization of options granted under Employees Stock Options Scheme of the Company.
- **Remuneration payable to Mr. Deepak Dheer, approved by the Remuneration Committee and Board of Directors at its meeting held 20th October, 2006, subject to approval by the shareholders in the ensuing Annual General Meeting. The Remuneration Committee and the Board at its meetings held on 27th April, 2007 also approved the payment of commission of Rs.16.25 Lakhs payable to Mr. Deepak Dheer, subject to approval of the members at the ensuing Annual General Meeting. Accordingly, the said amount has been provided in the Books and included in the above remuneration. The perquisites includes an amount of Rs.4,80,469/- being an amortization of options granted under Employees Stock Options Scheme of the Company.
- The above Remuneration paid to the Managing Director and Executive Director excludes charge for Gratuity and Leave encashment as the actuarial valuation are done for the Company as a whole and separate valuation figures are not available.
- Notice period applicable to Managing Director and the Executive Director is three months.
- The overall remuneration to the Managing Director and the Executive Director is approved by the Remuneration Committee.
- Commission is the only component of remuneration that is performance linked. All other components are fixed.
- Mr. K.V. Ramarathnam, Managing Director and Mr. Deepak Dheer, Executive Director do not hold any shares in the Company.

III. RISK MANAGEMENT

Your Company has a well-defined risk management framework in place. The risk management framework adopted by the Company is discussed in detail in the Management Discussion and Analysis chapter of this Annual Report. Your Company has established procedures to periodically place before the Board the risk assessment and minimisation procedures being followed by the Company and steps taken by it to mitigate these risks.

IV. COMMITTEES OF BOARD

A. Audit Committee

The Audit Committee was constituted by the Board of Directors at its Meeting held on 14th February, 2001 and presently it comprises of Mr. N. V. Khote, Dr. Homi N. Sethna, Mr. M. R. Ramachandran, Mr. R. R. Krishnan, Mr. S. Ravi (appointed as member of audit committee w.e.f. 24th July, 2006), Mr. C. S. Madhav Rao (resigned with effect from 25th January, 2007) and Mr. K. B. Saha (appointed with effect from 25th January, 2007) all being independent Non-Executive Directors except Mr. R. R. Krishnan, who is a Non-Executive Director.

Mr. N. V. Khote is the Chairman of the Committee.

The terms of reference of this Committee are very wide. Besides having access to all the required information from within the Company, the Committee can obtain external professional advice whenever required. The Committee acts as a link between the Statutory and the Internal Auditors and the Board of Directors of the Company. It is authorised to select and establish accounting policies, review reports of the Statutory and the Internal Auditors and meet with them to discuss their findings, suggestions and other related matters. The Committee is empowered *inter alia* to review the remuneration payable to the Statutory Auditors and to recommend a change in Auditors, if felt necessary. It is also empowered to review Financial Statements, Management Discussion & Analysis, Material individual transactions with related parties not in normal course of business or which are not on an arm's length basis. Generally all items listed in Clause 49 II D of the Listing Agreement are covered in the terms of reference. The Audit Committee has been granted powers as prescribed under Clause 49 II C.

The Committee held 5 meetings during the year 2006-07. The gap between two meetings did not exceed four months. The attendance at the meetings was as under:

Sr. No.	Members	Meetings Attended	Remarks
1	Mr. N. V. Khote (Chairman)	4	—
2	Mr. M. R. Ramachandran	3	—
3	Mr. C. S. Madhav Rao	3	(resigned as Director w.e.f. 25 th January, 2007)
4	Dr. H. N. Sethna	4	—
5	Mr. R. R. Krishnan	4	—
6	Mr. S. Ravi	—	(appointed as a member of Audit Committee w. e. f. 24 th July, 2006)
7	Mr. K. B. Saha	1	(appointed as a member of Audit Committee w. e. f. 25 th January, 2007)

MAHINDRA UGINE STEEL COMPANY LIMITED

The meetings of the Audit Committee were also attended by the Managing Director, Executive Vice-President (Finance) & MIS, Deputy Company Secretary who acts as Secretary to the committee, the Statutory Auditors and the Internal Auditors.

All the members of the Audit Committee possess strong Accounting and Financial Management knowledge.

B. INVESTORS' GRIEVANCE COMMITTEE

The Investors' Grievance Committee was constituted by the Board of Directors at its meeting held on 27th July, 2001 and the Committee functions under the Chairmanship of Mr. M.R.Ramachandran, a Non-Executive Director. Mr. S. Ravi and Mr. K.V.Ramarathnam are also on the Committee. The Deputy Company Secretary is the Compliance Officer of the Company.

The Committee meets as and when required, to deal with matters relating to transfers/transmissions of shares and monitors redressal of complaints from shareholders relating to transfers, non-receipt of balance-sheet, non-receipt of dividends declared, etc.

The Committee held 4 meetings during the year 2006-07. The attendance at these meetings was as under:

Sr. No.	Members	Meetings Attended
1.	Mr. S. Ravi	-
2.	Mr. M. R. Ramachandran	4
3.	Mr. K. V. Ramarathnam	4

The Company also has Share Transfer Sub-Committee consisting of the following Members:

Mr. K. V. Ramarathnam — Managing Director
Mr. R. Sundaresan — Executive Vice President (Finance) & MIS

Normally Share Transfer Committee Meetings are held twice in a month to approve share transfers and other related matters and are attended by the Managing Director, Executive Vice President (Finance) & MIS and Deputy Company Secretary of the Company. Share Transfer Sub-Committee meetings are chaired by the Managing Director of the Company.

During the year, 119 letters / complaints were received from the shareholders, all of which were attended to / resolved to date.

As on 31st March, 2007, there were no pending share transfers pertaining to the year under review.

C. Remuneration Committee.

The role of the Remuneration Committee is to review market practices and to decide on remuneration

packages applicable to the Managing Director/ Executive Director. During the course of its review, the Committee also decides on the Commission and/ or other incentives payable, taking into account the individual's performance as well as that of the Company. The Remuneration Committee is also empowered to decide on the matters relating to Employee Stock Option Scheme of the Company.

The Remuneration Committee comprises of Mr. Anand G. Mahindra, Dr. H. N. Sethna, Mr. N. V. Khote and Mr. M. R. Ramachandran.

Dr. H. N. Sethna is the Chairman of the Committee.

The Committee held 2 meetings during 2006-07. The attendance at the meetings was as under:

Sr. No.	Members	Meetings Attended
1.	Dr. H. N. Sethna	2
2.	Mr. Anand G. Mahindra	1
3.	Mr. N. V. Khote	1
4.	Mr. M. R. Ramachandran	1

V. MANAGEMENT

A. Disclosures relating to related party

During the financial year 2006-07, there were no materially significant transactions entered into between the Company and its promoters, Directors or its management, relatives, etc. that may have potential conflict with the interests of the Company at large. Further, details of related party transactions are presented in note no. "24" in Schedule "L" to Annual Accounts of the Annual Report.

B. Disclosure of Accounting Treatment in Preparation of Financial Statements

The Company has followed the Guidelines of Accounting Standards laid down by The Institute of Chartered Accountants of India (ICAI) in preparation of its financial statements.

C. Code for Prevention of Insider-Trading Practices

In compliance with SEBI's regulation on prevention of insider trading, the Company has instituted a comprehensive Code of Conduct for prevention of Insider Trading for its designated employees. The Code lays down Guidelines, which advises them on procedures to be followed and disclosures to be made, while dealing with shares of Company, and cautioning them of the consequences of violations.

VI. SHAREHOLDER INFORMATION

(i) Annual General Meeting

The Forty Fourth Annual General Meeting of the Company will be held on Thursday, 26th July, 2007 at 3.30 p.m. at Amar Gian Grover Auditorium, Lala Lajpat Rai Marg, Haji Ali, Mumbai-400 034 to transact such business as stated in the Notice of the Meeting.

(ii) Financial Year of the Company

The financial year covers the period 1st April to 31st March.

Reporting of Unaudited Financial Results with Limited Review for quarter ended:

- 30.06.2007 - by end of July, 2007.
- 30.09.2007 - by end of October, 2007.
- 31.12.2007 - by end of January, 2008.
- Audited financial results for the year ended 31.03.2008 - by end of April, 2008.
- AGM for the year ended 31.03.2008 - by end of July, 2008.

Note : The above dates are indicative.

(iii) Date of Book Closure

13th July, 2007 to 26th July, 2007 (both days inclusive).

(iv) Dividend Payment date

On or after 26th July, 2007.

(v) Listing of Equity Shares on Stock Exchanges

1. Bombay Stock Exchange Limited.
2. National Stock Exchange of India Limited
3. Calcutta Stock Exchange Association Limited*

(*Applied for delisting on 14th September, 2004 and approval is still awaited).

The Company has paid the Listing Fees to Bombay Stock Exchange Limited and National Stock Exchange of India Limited in full.

(vi) Stock Codes:

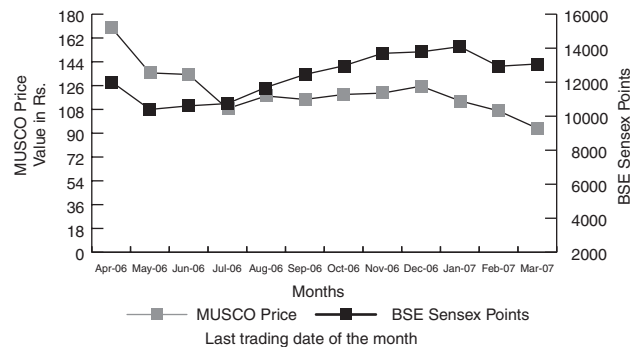
- (a) Bombay Stock Exchange Limited (BSE)-504823
- (b) National Stock Exchange of India Ltd. (NSE) - MAHINDUGIN EQ
- (c) Demat International Securities Identification Number (ISIN) in NSDL and CDSL for Equity Shares - INE 850A01010

(vii) Stock Market price data:

High/low prices during each month in last financial year on Bombay Stock Exchange Limited / National Stock Exchange of India Limited.

Month	Bombay Stock Exchange Ltd.		National Stock Exchange Ltd.	
	High (Rs.)	Low (Rs.)	High (Rs.)	Low (Rs.)
April 2006	173.40	129.10	172.00	129.50
May 2006	178.40	112.40	177.00	110.00
June 2006	140.00	85.15	139.95	85.00
July 2006	140.00	100.10	141.80	100.10
August 2006	127.80	107.00	130.00	107.30
September 2006	124.00	110.50	134.00	110.50
October 2006	124.95	113.15	124.00	114.20
November 2006	131.90	115.00	132.00	115.20
December 2006	129.40	113.10	129.00	113.10
January 2007	144.60	114.10	150.30	115.00
February 2007	140.00	105.00	130.00	102.00
March 2007	109.80	87.00	110.90	87.00

(viii) Stock Performance in comparison to BSE Sensitive Index.



ix) Registrar and Transfer Agents-

M/s. Sharepro Services (India) Private Limited.

Unit: Mahindra Ugine Steel Co. Limited.

Satam Estate, 3rd floor, Above Bank of Baroda, Cardinal Gracious Road, Chakala, Andheri (East), Mumbai- 400 099.

Tel. No. 022-28215168/28329828

Fax No. 022-28375646

E-mail : sharepro@vsnl.com

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(x) Share Transfer System

All the Transfers received are processed and approved by the Share Transfer Sub-Committee, which normally meets twice in a month or more depending on the volume of Transfers and the committee reports to the Investors' Grievance Committee.

(xi) Pattern of shareholding as on 31st March, 2007

Sr. No.	Description	Number of Shares	% to capital
1	Promoters	18,037,879	55.53
2	Public Financial Institutions	2,335,421	7.19
3	Banks	31,123	0.10
4	Mutual Funds	203,911	0.63
5	Foreign Institutional Investors	5,822,658	17.92
6	Non Resident Indian / Foreigner	108,094	0.33
7	Bodies Corporate	953,870	2.94
8	Public	4,989,573	15.36
	TOTAL	32,482,529	100.00

(xii) Distribution of shareholding as on 31st March, 2007

Shares Held	No. of Share holders	% to Share holders	No. of Shares	% to Capital
Up to - 500	18,815	92.09	2,019,248	6.22
501 - 1000	849	4.16	683,803	2.10
1001 - 2000	393	1.92	616,973	1.90
2001 - 3000	116	0.57	299,277	0.92
3001 - 4000	48	0.24	172,457	0.53
4001 - 5000	64	0.31	307,214	0.95
5001 - 10000	65	0.31	497,533	1.53
10001 - and above	82	0.40	27,886,024	85.85
TOTAL	20,432	100.00	32,482,529	100.00

(xiii) Dematerialization of Shares and Liquidity as on 31st March, 2007.

Physical Form : 7.35%

Dematerialized Form : 92.65%

Trading in equity shares of the Company is permitted in dematerialized form only as per the notification issued by Securities and Exchange Board of India (SEBI).

(xiv) Outstanding ADRs/GDRs/ Warrants or any Convertible Instruments, conversion date and likely impact on Equity.

The Company has not issued any ADRs/ GDRs/Warrants or any convertible instruments.

(xv) Plant Locations :

1. Steel Division

Jagdish Nagar,
Khopoli- 410 216,
District-Raigad, Maharashtra.

2. Stampings Division

- 371, Takwe Road,
At & Post-Kanhe, Tal. Maval,
Dist. Pune- 412 106.
- D-2, MIDC, Ambad, Nashik- 422 010.
- Maharajapur Road, Lalpur, Rudrapur,
(U.S. Nagar), Uttarakhand.

(xvi) Address for correspondence

Registered Office:-

74, Ganesh Apartment,
Opp. Sitaladevi Temple, L. J. Road,
Mahim(W), Mumbai-400 016.

Tel.: 022-24444287

Telefax: 022-24458196

E-mail: investors_relation@muscoindia.com

For all investor related matters, Mr. R. Sundaresan Executive Vice-President - Finance & MIS or Mr. Pradeep Salian, Deputy Company Secretary & Compliance Officer can be contacted at the above address. Email:pradeep@muscoindia.com; salian.pradeep@mahindra.com.

VII. OTHER DISCLOSURES

- Annual General Meetings held during the past three years:

Year	Date	Time
2003-04	29.07.2004	3.45 p.m.
2004-05	29.07.2005	11.30 a.m.
2005-06	24.07.2006	3.45 p.m.

All the meetings were held at Amar Gian Grover Auditorium, Lala Lajpatrai Marg, Mahalaxmi, Mumbai - 400 034.

The following Special Resolutions were passed in the previous 3 Annual General Meetings:

Financial Year	Date of Meeting	Special Resolutions passed
2003-2004	29.07.2004	1. Consent accorded to the Board to delist the Company's Equity Shares from stock exchanges at Ahmedabad, Kolkata, New Delhi and Chennai and
		2. Approval for new Registrar and Share Transfer Agents M/s. Sharepro Services to be appointed with effect from 1 st August, 2004.
2004-2005	29.07.2005	Approval for revision in remuneration payable to Mr. K. V. Ramarathnam as the Managing Director of the Company with effect from 1 st April, 2004 for the remainder of his term of office.
2005-2006	24.07.2006	1. Approval for payment of Commission to Mr. K.V. Ramarathnam- Managing Director for the year 2004-05. 2. Approval for revision in remuneration payable to Mr. K. V. Ramarathnam as the Managing Director of the Company with effect from 1 st April, 2005 for the remainder of his term of office. 3. Approval for payment of Commission to Non- Executive Directors of the Company. 4. Approval for issue of Shares to Employees/Directors of the Company under Employee Stock Option Scheme (ESOS). 5. Approval for issue of Shares to Employees of Holding/ Subsidiary Companies of the Company under Employees Stock Option Scheme (ESOS).

Postal Ballot

The Company has not proposed any special resolution to be conducted through postal ballot. No resolutions were passed by the Postal Ballot in the year under review.

2. Details of non-compliance etc.

The Company has complied with all the requirements of regulatory authorities. During the last three years, there were no instances of non-compliance by the Company and no penalty or strictures were imposed on the Company by the Stock Exchanges or SEBI or any statutory authority, on any matter related to the capital markets.

3. Means of Communication

The quarterly, half yearly & yearly results are published in The Economic Times, The Free Press Journal, Business Standard, Maharashtra Times and Navashakti which are national and local dailies. These are not sent individually to the Shareholders. The Company results and official news releases are displayed on the Company's website <http://www.muscoindia.com>.

4. The Management Discussion and Analysis Report (MDA) has been attached and forms part of this Annual Report.

5. Compliance with mandatory & non-mandatory requirements

The Company has complied with all the mandatory requirements of Clause 49 of the Listing Agreement relating to Corporate Governance. Further, the Company has adopted the following non-mandatory requirements of the Clause:

- The Company has set up the Remuneration Committee.
- The financial statements of the Company are unqualified.

The Company has not adopted the other non-mandatory requirements as specified in Annexure ID of the clause 49.

Mumbai: 27th April, 2007.

MAHINDRA UGINE STEEL COMPANY LIMITED

DECLARATION BY THE MANAGING DIRECTOR PURSUANT TO CLAUSE 49 OF THE LISTING AGREEMENT

To

The Members of Mahindra UGINE Steel Company Limited

I, K.V.Ramarathnam, Managing Director of Mahindra UGINE Steel Company Limited, declare that all the members of the Board of Directors and Senior Management Personnel have affirmed compliance with the Codes of Conduct.

K.V. Ramarathnam
Managing Director

Place : Mumbai
Date : 27th April, 2007.

CERTIFICATE

To the Members of Mahindra UGINE Steel Company Limited.

We have examined the compliance of conditions of Corporate Governance by Mahindra UGINE Steel Company Limited for the year ended 31st March, 2007 as stipulated in Clause 49 of the Listing Agreement of the said Company with stock exchanges in India.

The compliance of conditions of Corporate Governance is the responsibility of the Management. Our examination was limited to procedures and implementation thereof, adopted by the Company for ensuring the compliance of the conditions of Corporate Governance. It is neither an audit nor an expression of opinion of the financial statements of the Company.

In our opinion and to the best of our information and according to the explanations given to us, we certify that the Company has complied with the conditions of Corporate Governance as stipulated in the above mentioned Listing Agreement.

We state that such compliance is neither an assurance as to the future viability of the Company nor the efficiency or effectiveness with which the management has conducted the affairs of the Company.

For A. F. Ferguson & Co.
Chartered Accountants

B. P. Shroff
Partner
Membership Number: 34382

Place : Mumbai
Date : 3rd May, 2007

AT A GLANCE

	(Rupees in Crores)									
Financial Summary	2006-07	2005-06	2004-05	2003-04	2002-03	2001-02	2000-01	1999-2000	1998-99	1997-98
Sales	717.23	615.04	522.00	356.57	242.67	256.21	238.93	273.12	238.90	259.11
Other Income	1.68	9.73	1.05	2.47	2.56	0.96	3.68	3.17	3.22	5.05
Increase/(Decrease) in stocks	-4.38	24.92	6.79	-1.45	-5.90	8.34	-5.08	3.97	-3.97	1.26
Manufacturing and other expenses	617.79	526.07	443.46	328.19	233.23	247.06	226.37	265.36	236.88	259.07
Depreciation	16.73	13.08	9.62	9.26	9.61	9.29	9.19	10.35	10.10	9.69
Interest	11.82	11.15	11.38	13.51	13.71	15.40	16.21	20.26	17.90	13.58
Profit/(Loss) for the year before tax	68.18	99.38	65.38	6.63	-17.22	-6.23	-14.23	-15.72	-26.73	-16.92
Provision for Taxation - Current Tax	24.82	32.40	5.13	0.53	—	-0.57	—	—	—	—
- Deferred Tax	-1.55	-2.13	12.09	—	—	—	—	—	—	—
Premium on redemption of Pref.Shares	—	4.04	—	—	—	—	—	—	—	—
Profit/(Loss) after tax	44.91	65.06	48.16	6.10	-17.22	-5.67	-14.23	-15.72	-26.73	-16.92
Equity Dividend	14.62	14.62*	9.28	—	—	—	—	—	—	—
Preference Dividend	0.22	1.01	1.91	—	1.87	1.07	1.44	—	—	—
Gross Fixed Assets	317.05	269.63	200.09	200.85	202.11	200.05	194.85	190.74	183.15	182.97
Net Fixed Assets	233.00	115.82	68.61	70.34	81.24	87.26	92.31	99.24	103.96	105.22
Investments	0.52	0.52	3.09	3.11	3.29	3.34	3.34	3.19	3.29	3.36
Net Current Assets	156.94	146.04	95.08	73.17	44.98	52.91	46.50	58.01	67.43	77.85
Miscellaneous Expenditure	0.20	0.59	1.04	1.82	2.31	4.55	7.83	10.78	15.10	8.45
Equity Share Capital	32.48	32.48	30.93	30.93	30.93	30.93	30.93	30.93	30.93	30.93
Share Capital	32.48	37.94	47.39	47.39	47.39	47.39	43.93	43.93	42.43	42.43
Reserves and Surplus	137.31	110.77	43.92	8.78	6.10	71.30	74.82	74.82	78.44	86.62
Profit & Loss Balance c/f	—	—	—	—	-3.68	-51.66	-45.99	-31.76	-18.54	—
Net Worth	170.17	148.12	90.28	54.35	47.5	62.48	64.93	76.21	87.22	120.60
Borrowings	207.42	99.55	64.41	92.26	82.00	81.02	77.22	84.22	87.45	65.83
Profit before tax as a % of sales	9.51	16.16	12.52	1.86	—	—	—	—	—	—
Profit after tax as a % of sales	6.26	10.58	9.22	1.71	—	—	—	—	—	—
Earnings - Rs. per Equity Share	13.75	19.68	15.03	1.81	-6.17	-2.18	-5.07	-5.08	-8.64	—
Dividend - Rs. per Equity Share	4.50	4.50	3.00	—	—	—	—	—	—	—
Book Value - Rs. per Equity Share	52.39	43.93	23.86	12.26	10.03	14.88	16.79	20.43+	24.48+	35.27+

* Including dividend proposed on new equity shares issued under merger of Pranay, Valueline & Console with the Company .

+ After adjusting for Preference Share Capital.

MAHINDRA UGINE STEEL COMPANY LIMITED

AUDITORS' REPORT TO THE MEMBERS OF MAHINDRA UGINE STEEL COMPANY LIMITED

1. We have audited the attached balance sheet of Mahindra UGINE Steel Company Limited, as at 31st March, 2007 and also the profit and loss account and the cash flow statement for the year ended on that date annexed thereto. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with the auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. As required by the Companies (Auditor's Report) Order, 2003 issued by the Central Government of India in terms of sub-section (4A) of Section 227 of the Companies Act, 1956, we enclose in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.
4. Further to our comments in the Annexure referred to in paragraph 3 above, we report that:
 - (a) 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;
 - (b) in our opinion, proper books of account as required by law have been kept by the company so far as appears from our examination of those books;
 - (c) the balance sheet, profit and loss account and cash flow statement dealt with by this report are in agreement with the books of account;
 - (d) in our opinion, the balance sheet, profit and loss account and cash flow statement dealt with by this report comply with the accounting standards referred to in sub-section (3C) of Section 211 of the Companies Act, 1956;
 - (e) on the basis of the written representations received from the directors, as on 31st March, 2007, and taken on record by the Board of Directors, we report that none of the directors is disqualified as on 31st March, 2007 from being appointed as a director in terms of clause (g) of sub-section (1) of Section 274 of the Companies Act, 1956;
 - (f) in our opinion and to the best of our information and according to the explanations given to us, the said accounts give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:
 - (i) in the case of the balance sheet, of the state of affairs of the company as at 31st March, 2007;
 - (ii) in the case of the profit and loss account, of the profit for the year ended on that date; and
 - (iii) in the case of the cash flow statement, of the cash flows for the year ended on that date.

For A.F.Ferguson & Co.
Chartered Accountants

B.P. SHROFF
(Partner)

Membership Number: 34382

Mumbai: 3rd May, 2007

ANNEXURE TO THE AUDITORS' REPORT TO THE MEMBERS OF MAHINDRA UGINE STEEL COMPANY LIMITED

(Referred to in paragraph 3 thereof)

- (i) (a) The company is maintaining proper records showing full particulars, including quantitative details and situation of fixed assets. In respect of furniture, fixtures and office equipment, location is broadly indicated unit-wise.
- (b) As explained to us, the company has a phased programme designed to verify all fixed assets over a period of three years. Accordingly, certain class of assets at Khopoli and Kanhe were verified by the management during the year. No material discrepancies between the book records and the physical inventory were noticed in respect of the assets physically verified. In our opinion the frequency of verification is reasonable.
- (c) During the year, in our opinion, a substantial part of fixed assets has not been disposed off by the company.
- (ii) (a) The inventory of the company has been physically verified by the management during the year, and at the year end or after the year end. The stock of scrap, having regard to its nature and manner of storage, was verified at the year end by the management by visual estimation (relied upon by us). In respect of materials lying with third parties, these have been confirmed by them. In our opinion the frequency of verification is reasonable.
- (b) In our opinion and according to the information and explanations given to us, having regard to the comment in respect of scrap in (ii) (a) above, the procedure of physical verification of stocks are reasonable and adequate in relation to the size of the company and the nature of its business.
- (c) On the basis of our examination of records of inventory, in our opinion, the company has maintained proper records of inventory. As stock of scrap is verified by visual estimation (relied upon by us), no adjustments have been made for the difference between the stocks so determined and the book records as it has been explained to us by the management that such an adjustment would not be proper having regard to the method of verification and the quantum of discrepancy noticed. The discrepancies noticed on physical verification between the physical stocks and book records were not material in relation to the operations of the company.
- (iii) (a) The company has not granted any loans secured or unsecured to companies, firms or other parties covered in the register maintained under Section 301 of the Companies Act, 1956, and accordingly paragraphs (iii)(b), (c) and (d) of the Order are not applicable.
- (b) In our opinion, and according to the information and explanations given to us, the company has, during the year, not taken any loans secured or unsecured from companies, firms or other parties covered in the register maintained under Section 301 of the Companies Act, 1956 and therefore paragraph (iii)(f) and (g) of the Order are not applicable. During the year the maximum amount of loan outstanding from a company taken in an earlier year and repaid during the year was Rs. 2 crores.
- (iv) In our opinion and according to the information and explanations given to us, having regard to the explanations that some of the items are of a special nature or are at negotiated prices and therefore alternative quotations are not available, there are adequate internal control procedures commensurate with the size of the company and the nature of its business for the purchase of inventory, fixed assets and for the sale of goods and services. Further, on the basis of our examination, and according to the information and explanations given to us, we have neither come across nor have we been informed of any instance of major weaknesses in the aforesaid internal control system.
- (v) (a) In our opinion and according to the information and explanations given to us, the particulars of contracts or arrangements referred to in Section 301 of the Companies

MAHINDRA UGINE STEEL COMPANY LIMITED

Act, 1956, have been entered in the register required to be maintained under that Section.

- (b) In our opinion and according to the information and explanations given to us, having regard to the comments in (iv) above, where there have been transactions with other parties, the transactions made in pursuance of such contracts or arrangements and exceeding the value of rupees five Lakhs in respect of any such party during the year have been made at prices, which are reasonable having regard to the prevailing market prices for such goods, materials or services at the relevant time.
- (vi) In our opinion and according to the information and explanations given to us, the company has complied with the provisions of Sections 58A, 58AA and other relevant provisions of the Companies Act, 1956 and the Companies (Acceptance of Deposits) Rules, 1975 as applicable, with regard to the deposits accepted from the public. According to the information and explanations given to us, no order under the aforesaid Sections has been passed by the Company Law Board or National Company Law Tribunal or Reserve Bank of India or any Court or any other Tribunal, on the company.
- (vii) In our opinion, the company has an internal audit system commensurate with its size and nature of its business.
- (viii) We have broadly reviewed the books of account maintained by the company relating to the manufacture of steel and automotive parts and

accessories pursuant to the rules made by the Central Government for the maintenance of cost records under Section 209 (1) (d) of the Companies Act, 1956 and we are of the opinion that prima facie the prescribed accounts and records have been maintained and are being made up. We have not, however, made a detailed examination of the records with a view of determining whether they are accurate or complete.

- (ix) (a) According to the information and explanations given to us and according to the books and records as produced and examined by us, in our opinion, the undisputed statutory dues including provident fund, investor education and protection fund, employees' state insurance, income-tax, sales-tax, wealth tax, service tax, customs duty, excise duty, cess and other material statutory dues as applicable have generally been regularly deposited by the company during the year with the appropriate authorities. According to the information and explanations given to us, there are no arrears of outstanding statutory dues as mentioned above as at 31st March, 2007 for a period of more than six months from the date they became payable.
- (b) As at 31st March, 2007, according to the records of the company and the information and explanations given to us, the following are the particulars of disputed dues on account of income tax, sales tax, wealth tax, service tax, custom duty, excise duty and cess matters that have not been deposited on account of any dispute.

Name of the statute	Nature of the dues	Amount disputed Rs.	Period to which the amount relates	Forum where pending [some of these can be clubbed]
Sales Tax Laws	Sales Tax	4,285,246	1995-96	Tribunal
Income Tax Laws	Income Tax	861,316	F.Y.1989-90	Income Tax Appellate Tribunal
	Income Tax	1,348,021	F.Y.2000-01	Income Tax Appellate Tribunal
	Income Tax	941,279	F.Y. 2002-03	Commissioner of Income Tax (Appeal)
Customs Duty Laws	Custom duty	41,519,887@	February 1994	Custom, Excise & Service Tax Appellate Tribunal
Excise Duty Laws	Excise	49,331,591	April 1999 to May 2005	Deputy Commissioner
	Excise	23,254,355	1996-1999	High Court
	Excise	6,993,282	September 1998 to September 2000	Commissioner (Appeals)
	Excise	4,326,406	2001-2005	Custom, Excise & Service Tax Appellate Tribunal

@ The amount has been stayed for recovery by the relevant authority.

- (x) The company does not have accumulated losses as at 31st March 2007 and has not incurred cash losses during the financial year ended on that date or in the immediately preceding financial year.
- (xi) In our opinion and according to the information and explanations given to us, the company has not defaulted in repayment of its dues to a financial institution, bank or debenture holders during the year.
- (xii) In our opinion and according to the information and explanations given to us, the company has not granted any loans and advances on the basis of security by way of pledge of shares, debentures and other securities.
- (xiii) The provisions of any special statute as specified under Clause (xiii) of the Order are not applicable to the company.
- (xiv) In our opinion and according to the information and explanations given to us, the company is not a dealer or trader in securities.
- (xv) According to the information and explanations given to us, the company has not given any guarantees for loans taken by others from banks or financial institutions, the terms and conditions, whereof, in our opinion, are prejudicial to the interest of the company.
- (xvi) In our opinion and according to the information and explanations given to us, the term loans were applied for the purpose for which the loans were obtained.
- (xvii) Based on the information and explanations given to us and on an overall examination of the balance sheet of the company, in our opinion, there are no funds raised on a short term basis which have been used for long term investments.
- (xviii) The company has not made any preferential allotment of shares to parties and companies covered in the register maintained under Section 301 of the Companies Act, 1956, during the year.
- (xix) As the company has no debentures outstanding at any time during the year, clause 4 (xix) of the Order is not applicable to the company.
- (xx) The company has not raised any money by public issue during the year.
- (xxi) According to the information and explanations given to us, during the year, no fraud on or by the company has been noticed or reported.

For A. F. FERGUSON & CO.
Chartered Accountants

B. P. SHROFF
(Partner)
Membership No.34382

Mumbai: 3rd May, 2007

MAHINDRA UGINE STEEL COMPANY LIMITED

BALANCE SHEET AS AT 31ST MARCH, 2007

	Schedule	Rupees	31st March, 2007 Rupees	31st March, 2006 Rupees
SOURCES OF FUNDS				
SHAREHOLDERS' FUNDS				
SHARE CAPITAL	A	324,825,290		379,425,290
EMPLOYEES STOCK OPTIONS OUTSTANDING		5,756,016		—
RESERVES AND SURPLUS	B	1,373,064,491		1,107,716,103
			1,703,645,797	1,487,141,393
LOAN FUNDS				
SECURED LOANS	C	1,060,672,378		443,839,812
UNSECURED LOANS	D	1,013,545,017		551,680,218
			2,074,217,395	995,520,030
Deferred Tax Liability [Net] (see note 22)			128,680,770	150,410,940
			3,906,543,962	2,633,072,363
APPLICATION OF FUNDS				
FIXED ASSETS				
Gross Block	E	3,170,482,197		2,696,250,154
Less : Depreciation		1,837,996,580		1,674,967,328
Net Block		1,332,485,617		1,021,282,826
Capital Work-in-progress		997,563,433		136,890,690
			2,330,049,050	1,158,173,516
INVESTMENTS				
CURRENT ASSETS, LOANS AND ADVANCES	F		5,186,393	5,186,393
Inventories	G	1,241,647,400		1,005,340,499
Sundry Debtors		1,650,185,428		1,452,348,945
Cash and Bank Balances		208,442,668		153,591,786
Loans and Advances		385,746,018		281,538,153
		3,486,021,514		2,892,819,383
LESS : CURRENT LIABILITIES AND PROVISIONS				
Current Liabilities	H	1,681,448,817		1,172,106,810
Provisions		235,220,067		256,857,382
		1,916,668,884		1,428,964,192
Net Current Assets			1,569,352,630	1,463,855,191
MISCELLANEOUS EXPENDITURE (See note 25) (to the extent not written off or adjusted)				
Building renovation and repairs expenses		—		2,474
Special payments under Voluntary Retirement Scheme		1,955,889		5,854,789
			1,955,889	5,857,263
			3,906,543,962	2,633,072,363
Notes to the Accounts	L			
Significant Accounting Policies	M			

The Schedules referred to herein form an integral part of the Balance Sheet

As per our report of even date attached
For **A. F. Ferguson & Co.**
Chartered Accountants

B. P. Shroff
Partner
Mumbai : 3rd May, 2007

R. Sundaresan
Executive Vice President
- Finance & MIS

P.S. Salian
Dy. Company Secretary
Mumbai : 27th April, 2007

Keshub Mahindra
Anand G. Mahindra
K. V. Ramarathnam
Deepak Dheer
Hemant Luthra
Rajeev Dubey
R. R. Krishnan
S. Ravi
K. B. Saha
N. V. Khote

Chairman
Vice Chairman
Managing Director
Executive Director

Directors

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 2007

	Schedule	Rupees	31st March, 2007 Rupees	31st March, 2006 Rupees
INCOME				
SALE OF PRODUCTS/OTHER INCOME FROM OPERATIONS				
Sale of products (Gross) (see note 12)		7,291,499,842		6,331,805,949
Less : Excise Duty		1,020,225,232		875,681,182
			6,271,274,610	5,456,124,767
Income from processing (Gross) (see note 12)		807,338,016		764,674,031
Less : Excise Duty		347,961,240		309,590,027
			459,376,776	455,084,004
Arising and other sales (Gross)		489,730,684		245,575,263
Less : Excise Duty		71,336,420		52,981,625
			418,394,264	192,593,638
Miscellaneous Receipts (see note 13)			23,247,254	46,566,280
			7,172,292,904	6,150,368,689
Other Income	I		16,793,163	97,279,006
Increase / (decrease) in stocks	J		(43,833,045)	249,209,546
			7,145,253,022	6,496,857,241
EXPENDITURE				
Manufacturing and other expenses	K		6,177,906,007	5,260,729,483
Depreciation	E		167,347,361	130,849,059
Interest (see note 8)			118,225,089	111,478,716
			6,463,478,457	5,503,057,258
PROFIT BEFORE TAX AND EXCEPTIONAL ITEM			681,774,565	993,799,983
Provision for tax (see note 22)				
-Current Tax (includes interest Rs.1,300,000 (previous year nil) and Fringe Benefit Tax)			248,200,000	324,000,000
-Deferred Tax			(15,500,000)	(21,300,000)
			232,700,000	302,700,000
PROFIT AFTER TAX AND BEFORE EXCEPTIONAL ITEM			449,074,565	691,099,983
Less : Exceptional items				
Premium on Redemption of Preference Shares (Net of tax)			-	40,456,673
PROFIT AFTER TAX			449,074,565	650,643,310
Balance of profit for earlier year			373,278,066	146,118,451
Balance of profit and loss account acquired on account of amalgamation			-	204,660,780
PROFIT AVAILABLE FOR APPROPRIATION			822,352,631	1,001,422,541
Proposed Dividend on Equity Shares			81,206,323	146,171,381
Interim Dividend Paid on Equity Shares			64,965,058	-
Proposed Dividend on Preference Shares			-	1,581,156
Interim Dividend Paid on Preference Shares			2,230,373	8,480,285
Tax on Dividend			23,225,175	21,911,653
Transfer to General Reserve Account			160,000,000	450,000,000
BALANCE CARRIED FORWARD			490,725,702	373,278,066
Earnings per share (basic) before exceptional item (face value Rs.10)			13.75	20.92
Earnings per share (diluted) before exceptional item (face value Rs.10)			13.71	20.92
Earnings per share (basic) after exceptional item (face value Rs.10)			13.75	19.68
Earnings per share (diluted) after exceptional item (face value Rs.10) (see note 23)			13.71	19.68
Notes to the Accounts	L			
Significant Accounting Policies	M			

The Schedules referred to herein form an integral part of the Balance Sheet

As per our report of even date attached to the Balance Sheet
For A. F. Ferguson & Co.
Chartered Accountants

B. P. Shroff
Partner

Mumbai : 3rd May, 2007

R. Sundaresan
Executive Vice President
- Finance & MIS

P.S. Salian
Dy. Company Secretary

Mumbai : 27th April, 2007

Keshub Mahindra
Anand G. Mahindra
K. V. Ramarathnam
Deepak Dheer
Hemant Luthra
Rajeev Dubey
R. R. Krishnan
S. Ravi
K. B. Saha
N. V. Khote

Chairman
Vice Chairman
Managing Director
Executive Director

Directors

MAHINDRA UGINE STEEL COMPANY LIMITED

CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST MARCH, 2007

	Rupees	31st March, 2007 Rupees	31st March, 2006 Rupees
A. CASH FLOW FROM OPERATING ACTIVITIES			
Net Profit before tax and exceptional item		681,774,565	993,799,983
Adjustment for:			
Depreciation	167,347,361		130,849,059
Dividend Income	(1,830)		(361,786)
Interest and commitment charges	118,225,089		111,478,716
Amortisation of expenses	9,657,390		4,544,595
Profit on sale of investment	-		(82,289,148)
(Profit) / Loss on sale of fixed assets (net)	2,068,042		(259,199)
Interest income	(7,536,586)		(5,450,283)
Provision for premium payable on redemption of cumulative preference shares	2,042,000		3,500,000
Provision for Diminution in value of investment (written back)	-		(1,010,000)
		<u>291,801,466</u>	<u>161,001,954</u>
Operating Profit before Working Capital changes		973,576,031	1,154,801,937
Changes in			
Trade and other receivables	(216,786,710)		(435,378,072)
Inventories	(236,306,901)		(21,131,635)
Trade and other Payables	472,227,820		(1,835,161)
		<u>19,134,209</u>	<u>(458,344,868)</u>
Cash generated from operations		992,710,240	696,457,069
Income-tax paid		(220,775,652)	(302,917,669)
NET CASH FROM OPERATING ACTIVITIES		<u>771,934,588</u>	<u>393,539,400</u>
B. CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of fixed assets		(1,422,975,453)	(279,105,403)
Sale of fixed assets		1,604,387	909,045
Sale of investments		-	93,693,447
Dividends received		1,830	361,786
Interest received		8,836,771	3,828,299
NET CASH (USED IN)/FROM INVESTING ACTIVITIES		<u>(1,412,532,465)</u>	<u>(180,312,826)</u>
C. CASH FLOW FROM FINANCING ACTIVITIES			
Redemption of Preference Shares		(54,600,000)	(110,000,000)
Premium on redemption of Preference Shares		(10,500,000)	(40,456,673)
Proceeds from borrowings		1,616,402,344	930,702,981
Repayment of borrowings		(537,704,979)	(703,999,899)
Dividends paid		(206,046,450)	(136,571,388)
Interest and commitment charges paid		(112,102,156)	(98,888,155)
NET CASH (USED IN)/ FROM FINANCING ACTIVITIES		<u>695,448,759</u>	<u>(159,213,134)</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		54,850,882	54,013,440
CASH AND CASH EQUIVALENTS :			
Opening Balance		153,591,786	90,965,081
Opening Balance on amalgamation		-	8,613,265
Closing Balance		<u>208,442,668</u>	<u>153,591,786</u>
See notes attached			

NOTES TO CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST MARCH, 2007

	31st March, 2007	31st March, 2006
	Rupees	Rupees
1 Cash and cash equivalents include:		
Cash and cheques on hand	27,276,397	7,398,375
Balance with scheduled banks:		
In Current Accounts	178,045,678	136,931,639
In Deposit Accounts	3,120,593	9,261,772
Total cash and cash equivalents	<u>208,442,668</u>	<u>153,591,786</u>

2 Previous year's figures have been regrouped wherever necessary to conform to this year's classifications.

As per our report of even date attached
For A. F. Ferguson & Co.
Chartered Accountants

B. P. Shroff
Partner

Mumbai : 3rd May, 2007

R. Sundaresan
Executive Vice President
- Finance & MIS

P.S. Salian
Dy. Company Secretary

Mumbai : 27th April, 2007

Keshub Mahindra
Anand G. Mahindra
K. V. Ramarathnam
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Rajeev Dubey
R. R. Krishnan
S. Ravi
K. B. Saha
N. V. Khote

Chairman
Vice Chairman
Managing Director
Executive Director

} Directors

MAHINDRA UGINE STEEL COMPANY LIMITED

SCHEDULES ANNEXED TO AND FORMING PART OF THE BALANCE SHEET

	Rupees	31st March, 2007 Rupees	31st March, 2006 Rupees
SCHEDULE 'A' - SHARE CAPITAL			
<u>AUTHORISED:</u>			
34,000,000	Equity Shares of Rs.10 each	340,000,000	340,000,000
100,000	11% Redeemable Cumulative Preference Shares of Rs. 100 each	10,000,000	10,000,000
3,000,000	Redeemable Cumulative Preference Shares of Rs. 100 each	300,000,000	300,000,000
		<u>650,000,000</u>	<u>650,000,000</u>
<u>ISSUED, SUBSCRIBED AND PAID-UP (see note 1 and 2)</u>			
32,482,529	Equity Shares of Rs.10 each, fully paid-up	324,825,290	324,825,290
	7% Redeemable Cumulative Preference Shares of Rs. 100 each (2005-06 : 546000)	—	54,600,000
		<u>324,825,290</u>	<u>379,425,290</u>
(16,466,789 equity shares (2005-06: 16,466,789) are held by Mahindra Holdings & Finance Ltd, the holding company and the ultimate holding company is Mahindra & Mahindra Ltd.)			
SCHEDULE 'B' - RESERVES AND SURPLUS			
Capital Reserve (on redemption of preference shares, being the amount originally paid-up on shares forfeited) :			
	- As per last Balance Sheet	375	375
Capital Redemption Reserve Account			
	As per last Balance Sheet	110,002,000	—
	Add: Transferred from General Reserve Account	54,600,000	110,000,000
	On amalgamation *	—	2,000
		<u>164,602,000</u>	<u>110,002,000</u>
Special Reserve (in terms of Section 45IC of the Reserve Bank Of India Act, 1934) (on amalgamation)			
		1,705,695	1,705,695
General Reserve			
	As per last Balance Sheet	622,729,967	293,125,209
	Add : Transfer from Profit and Loss Account	160,000,000	450,000,000
	Less : Charge up to 31.3.2006 on adoption of Revised Accounting Standard 15 Employee Benefits (net of tax Rs.6,230,170) (see note 29)	12,099,248	—
	Less : Transferred to Capital Redemption Reserve Account	54,600,000	110,000,000
	On amalgamation *	—	10,395,242
		<u>716,030,719</u>	<u>622,729,967</u>
	Balance as per profit and loss account	490,725,702	373,278,066
		<u>1,373,064,491</u>	<u>1,107,716,103</u>

* Reserves (net of adjustments) taken over consequent to the Scheme of Amalgamation of Pranay Sheetmetal Stampings Limited (Pranay), Valueline Hotels and Resorts Limited (Valueline) and Console Estate and Investments Limited (Console) with the Company.

SCHEDULES ANNEXED TO AND FORMING PART OF THE BALANCE SHEET

	Rupees	31st March, 2007 Rupees	31st March, 2006 Rupees
SCHEDULE 'C' - SECURED LOANS (see note 9)			
Term loan from Banks (repayable within one year Rs. 237,999,996 2005-06 : Rs.137,729,660)		798,336,829	316,020,552
Advances from banks		262,335,549	127,819,260
		<u>1,060,672,378</u>	<u>443,839,812</u>
SCHEDULE 'D' - UNSECURED LOANS			
Fixed Deposits (repayable within a year Rs. 27,357,000 2005-06: Rs. 15,982,000)		33,231,000	49,496,000
Short Term Advances			
- from Banks	406,127,937		326,184,218
- from Others	—		20,000,000
		<u>406,127,937</u>	<u>346,184,218</u>
Other Loans			
- from Banks	574,186,080		100,000,000
- from Others	—		56,000,000
		<u>574,186,080</u>	<u>156,000,000</u>
		<u>1,013,545,017</u>	<u>551,680,218</u>

SCHEDULE 'E' - FIXED ASSETS

ASSETS	COST				DEPRECIATION						WRITTEN DOWN VALUE	
	As On 1-4-2006	Taken over consequent to amalgamation	Additions and adjustments	Deductions and adjustments	As On 31.3.2007	Up To 31-3-2006	Taken over consequent to amalgamation	For the year	Adjustments	Upto 31-3-2007	As on 31-3-2007	As on 31-3-2006
	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees
Freehold land	11,140,888	—	—	—	11,140,888	—	—	—	—	—	11,140,888	11,140,888
Leasehold land	6,164,084	—	—	—	6,164,084	526,204	—	75,171	—	601,375	5,562,709	5,637,880
Buildings	367,463,997	—	21,961,089	—	389,425,086	139,327,142	—	11,705,157	—	151,032,299	238,392,787	228,136,855
Plant and Machinery	2,218,199,068	—	444,134,121	1,602,071	2,660,731,118	1,482,548,444	—	145,433,391	1,417,405	1,626,564,430	1,034,166,688	735,650,624
Furniture, fixtures and office equipments	65,194,446	—	6,102,192	1,375,040	69,921,598	39,511,708	—	5,744,177	1,040,981	44,214,904	25,706,694	25,682,738
Vehicles	25,290,569	—	7,985,070	5,013,427	28,262,212	12,748,670	—	3,251,621	1,859,723	14,140,568	14,121,644	12,541,899
Software Expenditure	2,797,102	—	2,040,109	—	4,837,211	305,160	—	1,137,844	—	1,443,004	3,394,207	2,491,942
	<u>2,696,250,154</u>	<u>—</u>	<u>482,222,581</u>	<u>7,990,538</u>	<u>3,170,482,197</u>	<u>1,674,967,328</u>	<u>—</u>	<u>167,347,361</u>	<u>4,318,109</u>	<u>1,837,996,580</u>	<u>1,332,485,617</u>	
Previous year	2,000,962,048	536,956,337	164,876,853	6,545,084	2,696,250,154	1,384,848,672	165,164,835	130,849,059	5,895,238	1,674,967,328		1,021,282,826
Capital work-in-progress											997,563,433	136,890,690
											<u>2,330,049,050</u>	<u>1,158,173,516</u>

Notes :

Plant & Machinery includes exchange difference of Rs. 891,868 (2005-06 : Nil)

Plant & Machinery and Capital work in progress includes interest capitalised of Rs. 29,457,572 (2005-06 : Nil)

MAHINDRA UGINE STEEL COMPANY LIMITED

SCHEDULES ANNEXED TO AND FORMING PART OF THE BALANCE SHEET

	31st March, 2007 Rupees	31st March, 2006 Rupees
SCHEDULE 'F' - INVESTMENTS (at cost - Long term)		
(Unquoted, unless otherwise stated)		
Trade :		
— Shares (fully paid up)		
Orissa Sponge Iron Ltd. 21,739 equity shares of Rs. 10 each, (quoted)	296,445	296,445
— Dena Bank 34,500 equity shares of Rs. 10 each, (quoted)	1,035,000	1,035,000
Non -Trade :		
Shares (fully paid up)		
In other companies :		
— Mahindra Hotels and Resorts Ltd. 49,990 equity shares of Rs. 10 each	499,900	499,900
— Mahindra & Mahindra Contech Ltd. 35,000 equity shares of Rs. 10 each	350,000	350,000
— Window of the World Motels Pvt. Ltd. 2 equity shares of Rs. 100 each	200	200
— Mahindra Construction Co. Ltd. 300,000 equity shares of Rs. 10 each	3,000,000	3,000,000
— Kotak Mahindra Bank 3,000 equity shares of Rs. 10 each (quoted)	31,723	31,723
— The Indian and Eastern Engineer Co. Ltd. 3 ordinary shares of Rs. 10 each 10,000 equity shares of Rs.10 each	45 150,000	45 150,000
Other Investments :		
— Unit Trust of India — 33,230 6.75% Tax free Bonds of Rs.100 each (quoted)	3,323,080	3,323,080
	8,686,393	8,686,393
Less : Provision for diminution in value of investments	3,500,000	3,500,000
	5,186,393	5,186,393
Notes : (1) Aggregate of quoted investments :		
— Cost	4,686,248	4,686,248
— Market Value	6,521,372	6,078,738
(2) Aggregate of unquoted investments :		
— Cost	4,000,145	4,000,145
SCHEDULE 'G' - CURRENT ASSETS, LOANS AND ADVANCES		
Inventories :		
Stores and spare parts	280,196,625	232,677,383
Loose tools	1,369,762	1,323,904
Raw materials	499,352,584	266,777,738
Semi-finished goods	404,480,185	468,401,955
Finished goods	56,248,244	36,159,519
	1,241,647,400	1,005,340,499
Sundry Debtors : (unsecured)		
Over six months		
- considered good	57,005,923	104,310,058
- considered doubtful	57,199,871	38,250,453
Others		
- considered good	1,593,179,505	1,348,038,887
	1,707,385,299	1,490,599,398
Less : Provision for doubtful debts	57,199,871	38,250,453
	1,650,185,428	1,452,348,945

SCHEDULES ANNEXED TO AND FORMING PART OF THE BALANCE SHEET

	31st March, 2007 Rupees	31st March, 2006 Rupees
SCHEDULE 'G' - (Contd)		
Cash and Bank Balances :		
Cash on hand	471,429	869,518
Cheques on hand	26,804,968	6,528,857
Balances with Scheduled Banks		
— in Current accounts	178,045,678	136,931,639
— in Fixed Deposit accounts	3,120,593	2,975,972
— in Deposit accounts as margin money	—	6,285,800
	<u>181,166,271</u>	<u>146,193,411</u>
	208,442,668	153,591,786
Loans and Advances :		
(unsecured)		
Advances recoverable in cash or in kind or for value to be received -		
— considered good	348,161,077	253,229,779
— considered doubtful	29,631,435	32,453,064
	<u>*377,792,512</u>	<u>285,682,843</u>
Less : Provision for doubtful advances	29,631,435	32,453,064
	<u>348,161,077</u>	<u>253,229,779</u>
Taxation - advance payments less provision	33,104,903	26,627,209
Balances - Excise, Port Trust, etc.	4,480,038	1,681,165
	<u>385,746,018</u>	<u>281,538,153</u>
	3,486,021,514	2,892,819,383
* including capital advance of	80,080,129	80,668,771
SCHEDULE 'H' - CURRENT LIABILITIES AND PROVISIONS		
CURRENT LIABILITIES : **		
Acceptances	779,801,664	386,337,181
Sundry Creditors (see note 19)		
Total outstanding dues of :		
— small scale industrial undertakings (see note 20)	11,256,565	7,894,165
— creditors other than small scale industrial undertakings	<u>845,113,361</u>	<u>773,502,678</u>
	856,369,926	781,396,843
Dividend warrants posted but not encashed	30,637,658	701,037
Interest warrants posted but not encashed	1,840,181	2,614,751
Interest accrued but not due on loans	<u>12,799,388</u>	<u>1,056,998</u>
	1,681,448,817	1,172,106,810
PROVISIONS :		
Provision for taxation (net of payments)	59,087,594	25,185,552
Provision for Employee Benefits (See note 29)	37,393,785	18,209,000
Provision for contingencies (See note 21)	34,620,000	36,530,000
Provision for premium payable on redemption of Cumulative Preference Shares	—	8,458,000
Provision for dividend on equity shares	81,206,323	146,171,381
Provision for dividend on preference shares	—	1,581,156
Provision for tax on dividend	<u>22,912,365</u>	<u>20,722,293</u>
	235,220,067	256,857,382
	<u>1,916,668,884</u>	<u>1,428,964,192</u>

**There is no amount due and outstanding to be credited to the Investor Education and Protection Fund.

MAHINDRA UGINE STEEL COMPANY LIMITED

SCHEDULES ANNEXED TO AND FORMING PART OF THE PROFIT AND LOSS ACCOUNT

	Rupees	31st March, 2007 Rupees	31st March, 2006 Rupees
SCHEDULE 'I' - OTHER INCOME			
OTHER INCOME			
Profit/(Loss) on sale, etc. of stock in trade (shares) - net *		—	3,031,644
Dividends on shares held in stock in trade		30	1,513,347
Dividends from long term investments:			
— Trade	—		36,786
— Non Trade - Others	1,800		325,000
		1,800	361,786
Interest :			
— On long term investments			
— Non Trade		280,378	336,454
— Others [including tax deducted/deductible at source Rs.1,574,189 (2005-06: Rs. 576,941)]		7,256,208	5,113,829
Rent		1,981,759	304,770
Profit on sale of assets (net)		—	259,199
Profit on sale of long term - Non trade investment		—	82,289,148
Miscellaneous Income (Includes credit balance write back of earlier years of Rs. 5,498,488)		7,272,988	4,068,829
		16,793,163	97,279,006
* Profit/(Loss) on sale, etc. of stock in trade (shares) - net			
Sales		—	3,855,352
Less: Purchase		—	—
		—	3,855,352
Increase / (Decrease) stock in trade		—	(823,708)
Profit on stock in trade		—	3,031,644
SCHEDULE 'J' - INCREASE/(DECREASE) IN STOCKS			
Increase / (Decrease) in stock of			
Finished goods and Semi-finished goods			
Opening stock :			
Semi-finished goods	468,401,955		243,031,162
Finished goods	36,159,519		6,738,525
Total		504,561,474	249,769,687
Add :Stock taken over on amalgamation			
Semi-finished goods	—		1,889,240
Finished goods	—		3,693,001
		—	5,582,241
Total		—	255,351,928
Less:			
Closing stock :			
Semi-finished goods	404,480,185		468,401,955
Finished goods	56,248,244		36,159,519
		460,728,429	504,561,474
Increase/(Decrease) in Stocks		(43,833,045)	249,209,546

SCHEDULES ANNEXED TO AND FORMING PART OF THE PROFIT AND LOSS ACCOUNT

	Rupees	31st March, 2007 Rupees	31st March, 2006 Rupees
SCHEDULE 'K' - MANUFACTURING AND OTHER EXPENSES			
1. Raw materials and bought out components consumed [including outside processing costs Rs. 66,690,612 (2005-06 - Rs. 60,567,802) (see note 10(a))]		3,761,373,048	3,266,197,724
2. Goods purchased for resale [see note 12(B)]		15,455,542	1,454,550
3. Payment to and provision for employees :			
(a) salaries, wages, bonus, etc.*	319,797,586		258,759,638
(b) company's contribution to provident and other funds	21,579,034		18,146,890
(c) staff welfare expenses	59,679,432		39,034,599
(d) gratuity	10,948,906		594,875
		412,004,958	316,536,002
* [including provision for contingencies of Rs. 17,351,866 (net of write back of Rs.11,993,134) : (2005-06: Rs. 36,530,000)]			
4. Operating and other expenses:			
(a) stores consumed	459,529,696		439,918,142
(b) repairs and maintenance to buildings (including stores consumed : Rs. 9,790,014 (2005-06 : Rs.13,745,131))	44,059,758		47,223,332
(c) repairs and maintenance to machinery (including stores and spare parts consumed Rs.127,979,158 ; (2005-06 : Rs. 77,317,424))	174,511,629		115,280,351
(d) repairs and maintenance to others	26,309,791		22,549,818
(e) power and fuel	1,008,290,472		800,113,814
(f) rent (net)	900,523		981,704
(g) rates and taxes (net)	16,623,933		15,515,677
(h) insurance charges	6,843,256		6,070,705
(i) bad debts/advances written off	—		9,373,842
Less : provision written back	2,950,000		6,960,561
		(2,950,000)	2,413,281
(j) provision for doubtful debts/advances (net)	19,077,790		(35,737,705)
(k) provision for diminution in value of long term investments (net)	—		(1,010,000)
(l) other expenses (see note 5)	227,912,840		241,043,537
(m) amortisation of deferred revenue expenditure : Building renovation and repairs expenses	2,474		64,298
Special payments under Voluntary Retirement Scheme	3,898,900		4,480,297
		1,985,011,062	1,658,907,251
5. Loss on sale of assets (net)		2,068,042	—
6. Excise duty		(48,645)	14,133,956
7. Provision for premium payable on redemption of cumulative preference shares		2,042,000	3,500,000
		<u>6,177,906,007</u>	<u>5,260,729,483</u>

MAHINDRA UGINE STEEL COMPANY LIMITED

SCHEDULE 'L' NOTES TO ACCOUNTS

1. The Subscribed Capital includes:
 - a) 30,000 Equity shares allotted as fully paid-up pursuant to contracts without payment having been received in cash;
 - b) 600,000 Equity shares allotted consequent to the Scheme of Amalgamation with Bank of Baroda Ltd.;
 - c) 821,319 Equity shares allotted on conversion of 10% Convertible Series 'G' Debentures of the face value of Rs. 20,532,975 at a premium of Rs.15 per share. These debentures were originally issued consequent to the Scheme of Amalgamation with Bank of Baroda Ltd.;
 - d) 11,000,000 Equity shares allotted as fully paid-up (at a premium of Rs. 35 per share) pursuant to a contract to discharge part of the consideration for acquisition of the Company's Stampings Unit at Kanhe;
 - e) 3,650,866 Equity shares allotted as fully paid-up Bonus shares by way of capitalisation of share premium account and accumulated profits;
 - f) 15,50,840 Equity shares allotted consequent to the Scheme of Amalgamation of Pranay Sheetmetal Stampings Limited (Pranay), Valueline Hotels and Resorts Limited (Valueline) and Console Estate and Investments Limited (Console) with the Company.
2. The Company has redeemed 546,000 – 7% Redeemable Cumulative Preference Shares of Rs. 100/- each issued in October, 2003, on the redemption date i.e. 30th October, 2006.
3. Estimated amount of contracts remaining to be executed on capital account and not provided for as on 31st March, 2007 Rs. 214,802,262 (2005-2006 : Rs. 656,956,354).
4. Invoices raised during the period for price differences/interest on delayed payments, which are under negotiation, are accounted for if and when realised.
5. Other expenses in Schedule 'K' include :

	31st March 2007	31st March 2006
	Rupees	Rupees
(a) Remuneration of auditors		
Audit fees	1,571,360	1,571,360
Company Law Matters	11,224	121,220
Other services	813,740	631,100
Reimbursement of out of pocket expenses	86,957	42,540
(b) (i) Cash discount on sales	3,231,350	6,423,165
(ii) Commission to other selling agents	7,718,014	1,878,253
(c) Donation to NCP National Relief Fund	—	1,000,000

6. Managerial remuneration for directors included in the Profit and Loss Account is Rs. 12,488,743 (including in respect of previous year Rs. 586,560); (2005-2006 : Rs. 8,913,227) including contribution to provident fund and other funds Rs. 982,957 (2005-2006 : Rs. 356,400), perquisites Rs. 3,942,952 (2005-2006 Rs. 1,327,827), and commission Rs. 3,475,000 (2005-2006 : Rs. 5,500,000) and sitting fees payable to non-whole-time directors Rs. 446,250 (2005-2006 : Rs. 409,000). The above perquisites include amortisation of Employees Stock Option amounting to Rs. 1,121,094 (2005-2006 : Nil). Managerial remuneration aggregating Rs. 3,425,921 is pending Annual General Meeting approval.

Computation of Net Profit in accordance with Section 309(5) of the Companies Act, 1956 for the year ended 31st March, 2007

	2006-07	2005-06
	Rupees	Rupees
Profit before taxation and after exceptional item as per Profit and Loss Account	681,774,565	953,343,310
Add : Directors' Remuneration including Directors' Fees	12,488,743	8,913,227
	694,263,308	962,256,537
Less : Excess of expenditure over income carried forward from previous year	—	66,179,165
: Profit on sale of Investments (net)	—	82,289,148
: Provision for diminution in value of long term investment written back	—	1,010,000
	—	149,478,313
Profit for the purpose of Director's commission :	694,263,308	812,778,224
Commission payable to whole time directors	3,475,000	3,000,000

7. Contingent Liabilities not provided for in respect of :

- a) Bills discounted but not matured Rs. 47,084,862 (2005-2006 : Rs. 14,897,818).
 - Represents customers' bills discounted.

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b) Excise duty:

- i) Claims against the Company not acknowledged as debts Rs. 6,993,282 (2005-2006 : Rs. 6,993,282).
- ii) Other Excise matters for which the company is contingently liable Rs. 83,736,457 (2005-2006 : Rs. 63,999,857). This includes:
 - a) Rs. 6,223,476 (2005-2006 : Rs. 6,223,476) - relating to the method of valuation of customer processed finished goods for the purpose of discharge of excise duty, where the customer supplies raw material. This matter has been settled by Custom, Excise & Service Tax Appellate Tribunal (CESTAT) in favour of the company. The Department has gone in further appeal in the Supreme Court.
 - b) Rs. 23,254,355 (2005-2006 : Rs. 36,508,710) - relating to inclusion of scrap credit in the assessable value for the purpose of payment of Excise Duty. The Supreme Court has remanded the case back to CESTAT who has decided against the company. The Company has filed a writ petition in the High Court.
 - c) Rs. 600,629 (2005-2006 : Rs. 600,629) - being other matters.

In respect of (b)(ii)(b) above and other valuation issues, the Department has continued to issue show cause cum demand notices for subsequent periods aggregating Rs. 53,657,997 (2005-2006 : Rs. 20,667,042).

- c) Taxation demands against which the Company is in appeal Rs. 18,527,696 (2005-2006 : Rs. 19,738,817) and, decisions in favour of the Company against which the Department is in appeal Rs. 15,041,926 (2005-2006 : Rs. 15,041,926).
- d) Other claims against the Company not acknowledged as debts Rs. 41,519,887 (2005-2006 : Rs. 43,472,887). These include:
 - i) Rs. 41,519,887 (2005-2006 : Rs. 41,519,887) pertaining to show cause notice for payment of custom duty in respect of the Value Based Advance Licenses (VBAL) purchased by the company and used for import of goods. As the export obligation against the above VBAL was already fulfilled by the seller of the license, the company appealed against the said notice with CESTAT who has granted a stay.
 - ii) Rs. 3,153,000 (2005-2006 : Rs. 1,953,000) being other matter.
- e) Other matter for which the company is contingently liable is Rs. 174,947,673 (2005-2006 : Rs. 146,346,951). This represents the dispute in the rate of water charges demanded by the Irrigation Department based on an unilateral increase in rates and the amount which the company has been paying. The above amount includes an initial demand raised by the Irrigation Department of Rs. 5,673,638 up to 31st March, 1995 which was decided in favour of the company in the court of the Civil Judge, Senior Division Panvel. The balance of Rs. 169,271,035 (2005-2006 : Rs. 140,673,313) represents differential demands raised by the Irrigation Department for subsequent periods.

8. Interest:

	31st March, 2007 Rupees	31st March, 2006 Rupees
On fixed loans	33,961,637	40,761,660
On others	84,263,452	70,717,056
	118,225,089	111,478,716

- 9. (a) Term loans from Banks are secured by a first equitable mortgage on all immovable property and plant and machinery attached to the earth, both present and future, ranking pari-passu.
- (b) Advances for working capital from banks are secured by hypothecation of raw materials, finished goods, goods in process, stores, book debts, specified movable assets, etc. These advances are also secured by a joint equitable mortgage on the immovable properties of the Company situated at Khopoli and Kanhe, the mortgage to rank second and subservient to the mortgage created in respect of (a) above.

10. Raw materials and bought out components consumed.

	31st March, 2007		31st March, 2006	
	Qty M/T	Value Rupees	Qty M/T	Value Rupees
a) 1) Ferrous scrap	133,734	2,026,015,175	131,892	1,911,830,366
2) Ferro alloys	5,930	1,178,867,767	5,685	1,052,054,613
3) Other metals	1,815	82,233,591	1,643	63,737,307
4) Slag making materials	10,676	43,853,447	11,477	43,471,836
5) Metal Sheets	7,427	278,942,818	3,484	110,269,690
6) Components	—	87,738,000	—	55,125,839
7) Processing charges	—	63,722,250	—	29,708,073
		3,761,373,048		3,266,197,724

MAHINDRA UGINE STEEL COMPANY LIMITED

	31st March, 2007		31st March, 2006	
	Rupees	%	Rupees	%
b) Imported – at landed cost	1,234,019,672	33	1,451,943,995	44
Indigenously obtained	2,527,353,376	67	1,814,253,729	56
	3,761,373,048	100	3,266,197,724	100

11. Stores and spares consumed :

	31st March, 2007		31st March, 2006	
	Rupees	%	Rupees	%
Imported – at landed cost	58,586,110	10	48,822,828	9
Indigenously obtained	538,712,758	90	482,157,869	91
	597,298,868	100	530,980,697	100

Consumption in value is after adjusting excesses and shortages ascertained on physical verification and write off for deterioration, unserviceable items, etc.

12. Information for class of goods manufactured, traded in :

A. Particulars in respect of goods manufactured :

Class of Goods	Unit of Measurement	Licensed Capacity Per Annum [see note (i) and (ii)]	Installed Capacity Per Annum [see note (iii)]	Actual production [see note (iv)]	Opening Stock		Closing Stock		Sales [see note (iv)]	
					Qty	Value Rupees	Qty	Value Rupees	Qty	Value Rupees
Tool, alloy and Special steel	M/T	180,000	180,000	121,317	561	26,040,519	779	36,276,755	121,099	5,855,490,310
	M/T	(150,000)	(90,000)	(111,188)	(—)	(—)	(561)	(26,040,519)	(110,627)	(5,222,111,644)
Pressed Sheet metal components and assemblies	M/T	31,000	31,000	29,500	407	10,119,000	455	19,971,489	29,452	860,816,117
	M/T	(31,000)	(31,000)	(24,382)	(452)*	(10,431,526)*	(407)	(10,119,000)	(24,427)	(687,617,387)

* Includes stocks as on 1st April, 2005 of Pranay Sheetmetal Stampings Limited taken over consequent to Scheme of Amalgamation; Pressed sheetmetal components and assemblies – 268 MT; Rs. 3,693,001.

Notes :

- In respect of Tool, alloy and Special Steel, the industrial licence permits manufacture of castings and forgings up to 2000 M/T within the above overall licensed capacity.
- In respect of Pressed Sheet metal components and assemblies, the licensed capacity is as per the Memorandum filed with, and duly acknowledged by the Secretariat for Industrial Assistance.
- Installed capacity on an integrated basis is certified by the Managing Director and not verified by the auditors since this is a technical matter.
- Production and sales in respect of Pressed Sheet metal components and assemblies includes customer's materials processed.

B. Particulars in respect of goods traded in :

Class of Goods	Unit of Measurement	Purchase		Closing Stock		Sales	
		Qty.	Value Rupees	Qty.	Value Rupees	Qty.	Value Rupees
	M/T	(—)	(—)	(—)	(—)	(—)	(—)
Others	Mix	—	15,455,542	—	—	—	14,344,959
	Mix	—	(1,454,550)	—	—	—	(1,479,740)
Total		—	15,455,542	—	—	—	14,344,959
		(—)	(1,454,550)			(—)	(1,479,740)

Previous year's figures have been disclosed in parenthesis.

13. Miscellaneous receipts includes :

	31st March, 2007 Rupees	31st March, 2006 Rupees
Income from services rendered	15,265,916	38,302,851
Credit Balance Written back	7,981,338	—

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14. C.I.F. Value of Imports

	31st March, 2007	31st March, 2006
	Rupees	Rupees
(a) Raw materials	1,448,376,162	1,169,946,836
(b) Stores and spares	59,305,180	50,842,545
(c) Capital goods	219,807,015	29,635,485
These include imports on :		
	Raw Materials	Stores & Spares
i) C&F Basis	137,905,173	1,292,311
	(78,320,303)	(176,713)
ii) F.O.B. Basis	—	10,658,218
	(—)	(410,014)
iii) High Seas	817,728,775	6,455,362
	(1,041,936,053)	(—)
Total	955,633,948	18,405,891
	(1,120,256,356)	(586,727)
	216,952,323	837,246
		(—)
		(—)
		(—)

Previous year's figures have been disclosed in parenthesis.

15. Expenditure in foreign currency (on payment basis)

	31st March, 2007	31st March, 2006
	Rupees	Rupees
Interest	9,368,856	2,275,542
Others	1,510,518	1,971,931

16. Earning in foreign exchange

	31st March, 2007	31st March, 2006
	Rupees	Rupees
(a) F.O.B. Value of exports	20,059,841	Nil
(b) Freight and insurance	1,519,151	Nil

17. Research and Development expenditure debited to Profit and Loss Account aggregates Rs. 6,377,399 (2005-2006 Rs. 4,203,653) consisting of salaries and power, based on allocations made by the Company, and materials.

18. The net difference in foreign exchange (i.e. the differences between the spot rates on the date of the transactions and the actual rates at which the transactions are settled/appropriate rates applicable at the year end) credited to the Profit and Loss Account is Rs. 14,805,419 (2005-2006 – Credit of Rs. 3,791,718).

19. Sundry creditors include credit balances in current accounts with directors Rs. 2,403 (2005-2006 Rs. 2,403).

20. The identification of suppliers as Small Scale Industrial undertakings (SSIs) has been done on the basis of the information provided by the suppliers to the Company. On this basis, the total outstanding dues of SSIs have been disclosed in Schedule 'H' and the names of SSIs, to whom the Company owes any sum and which are outstanding for more than 30 days are given below :

1 Apidor Abrasive Products P. Ltd.	16 Sam Alloys Pvt. Ltd.
2 Joglekar Refra. & Ceramics P. Ltd.	17 Zellol Enterprises
3 Maruti Bahu-Udheshiya A.G.V Sanstha	18 Kanda Pressings Pvt. Ltd.
4 Metaflux Co. Pvt. Ltd.	19 Mak Glit Chem (I) Pvt. Ltd.
5 Paramount Abrasives Pvt. Ltd.	20 Paramount Engineers
6 Precision Engineering Products	21 Quality Pattern Works
7 Premier Alloys & Chemicals	22 R.R. Metal Pressing Co.
8 Ranchi Refractories	23 Sanghi Gases
9 Shetty Chem. & Engg. Works Pvt. Ltd.	24 Sujit Engineers
10 Shinde Engineering Works	25 Suraj Auto Parts
11 Shiv Casting & Fabricators	26 Swapnil Auto Engg. Pvt. Ltd.
12 Super Lime Industries	27 TMC Measuring Instruments Pvt. Ltd.
13 Swastik Lime Industries	28 Toe Industries
14 Vidarbha Ceramics Pvt. Ltd.	29 Zodiac Powder Coaters
15 Refra Industries	

The Company is in the process of identifying suppliers falling under the Micro, Small and Medium Enterprises Development Act, 2006. However, no confirmation as regards to the status has been received by the Company.

The above disclosure is made to the extent such information is available with the Company.

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21. (a) Provision for contingencies Rs. 34,620,000 (2005-06 : Rs. 36,530,000) is in respect of employees. Labour demands are under negotiations at certain locations of the Company. The ultimate settlement is contingent on the conclusion of negotiations.

- (b) The movement in above provision is as follows:

Provisions	Rupees
Balance as at 1st April, 2006	36,530,000
Add : Provision made during the year	29,345,000
Less : Utilisation during the year	19,261,866
Less : Provision reversed	11,993,134
Balance as at 31st March, 2007	34,620,000

22. The components of Deferred tax liability and assets as at 31st March, 2007 are as under:

	31st March, 2007	31st March, 2006
	Rupees	Rupees
Deferred tax liability:		
— On fiscal allowances on fixed assets	170,472,154	176,370,648
— On other timing differences	841	21,643
	170,472,995	176,392,291
Less: Deferred tax assets		
— On employee separation and retirement	* 13,106,439	2,836,192
— On provision for doubtful debts	16,888,276	10,345,938
— On provision for Contingencies	11,797,510	12,295,998
— On other timing differences	—	503,223
	41,792,225	25,981,351
Net Liability	128,680,770	150,410,940

* Includes Deferred Tax Asset of Rs. 6,230,170 taken to general reserve. (Also refer note 29 (D))

23. Earnings per share have been computed as under:

	31st March, 2007	31st March, 2006
	Rupees	Rupees
a) Net Profit for the year after tax and before exceptional item	449,074,565	691,099,983
Less: Preference Dividend for the year 2006-07 (2005-06) including tax thereon	2,543,183	11,472,558
Adjusted profit before exceptional item (A)	446,531,382	679,627,425
Less: Exceptional item	—	40,456,673
Adjusted profit after exceptional item (B)	446,531,382	639,170,752
b) Weighted Average Equity Shares (Nos.)	32,482,529	32,482,529
c) Diluted Equity Shares (Nos.)	32,569,922	32,482,529
d) i) Basic Earnings per share before exceptional item (Rs.) (A)/(b)	13.75	20.92
ii) Basic Earnings per share after exceptional item (Rs.) (B)/(b)	13.75	19.68
iii) Diluted Earnings per share before exceptional items (Rs.) (A)/(c)	13.71	20.92
iv) Diluted Earnings per share after exceptional items (Rs.) (B)/(c)	13.71	19.68

24. Related parties disclosures:

- a) Related parties where Control exists:

Holding Company	Mahindra Holdings and Finance Limited
Ultimate Holding Company	Mahindra & Mahindra Limited

- b) Names of other related parties with whom transactions have taken place during the year

1) Fellow Subsidiaries	Mahindra Intertrade Limited
	Mahindra Renault Private Limited
	Mahindra International Limited
	Mahindra Steel Service Centre Limited
	Bristlecone India Limited

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2) Associate Companies

Mahindra Forgings Limited (Formerly Mahindra Automotive Steels Limited)

3) Key Management Personnel

Mr. K.V. Ramarathnam, Managing Director

Mr. Deepak Dheer, Executive Director w.e.f. 20-10-2006

c) Transactions carried out with the related parties referred in (a),(b) and (c) above in the ordinary course of business:

Sr. No.	Particulars	Associate Company		Holding Company	Ultimate Holding Company	Fellow Subsidiaries						Key Management Personnel
		Mahindra & Mahindra Ltd upto 20-06-05	Mahindra Forgings Ltd from 1-04-06			Mahindra Holding & Finance Ltd	Mahindra & Mahindra Ltd	Mahindra Forgings Ltd	Mahindra Intertrade Ltd	Bristlecone India Ltd	Mahindra International Ltd	
1	Purchases of Goods or Services	— (—)	189,367,625 (—)	— (—)	— (622,657)	— (130,851,161)	836,925,463 (674,994,911)	— (—)	— (—)	— (—)	— (—)	— (—)
2	Receiving of Services	— (80,714)	— (—)	— (—)	12,883,674 (1,987,710)	— (—)	— (—)	5,851,264 (3,232,444)	— (—)	28,620 (—)	— (—)	— (—)
3	Sale of Goods	— (1,805,453)	474,716,567 (—)	— (—)	27,121,424 (5,767,713)	— (610,286,322)	360,550,896 (451,825,049)	— (—)	— (5,018,043)	— (—)	— (—)	— (—)
4	Rendering of Services	— (158,311,078)	1,248,000 (—)	— (—)	797,503,947 (601,695,133)	— (2,250,000)	— (—)	— (—)	22,470,564 (—)	— (—)	5,937,566 (—)	— (—)
5	Deputation of Personnel charge	— (321,275)	— (—)	— (—)	9,739,852 (3,792,090)	— (—)	— (—)	— (—)	— (—)	— (—)	— (—)	— (—)
6	Remuneration to key managerial personnel	— (—)	— (—)	— (—)	— (—)	— (—)	— (—)	— (—)	— (—)	— (—)	— (—)	12,042,493 (8,504,227)
7	Finance:											
	Inter Corporate Deposits Repaid	— (20,000,000)	— (—)	— (—)	20,000,000 (50,000,000)	— (—)	— (—)	— (—)	— (—)	— (—)	— (—)	— (—)
	Equity Dividend Paid	— (—)	— (—)	107,034,129 (49,400,367)	— (—)	— (—)	— (—)	— (—)	— (—)	— (—)	— (—)	— (—)
	Equity Dividend Received	— (—)	— (—)	— (—)	— (1,768,442)	— (—)	— (—)	— (—)	— (—)	— (—)	— (—)	— (—)
	Preference Dividend Paid	— (—)	— (—)	3,811,529 (7,664,943)	— (19,927,997)	— (—)	— (—)	— (—)	— (—)	— (—)	— (—)	— (—)
	Interest expenses	— (3,163,014)	— (—)	— (—)	2,265,205 (6,183,561)	— (—)	17,643,922 (18,701,149)	— (—)	— (—)	— (—)	— (—)	— (—)
	Interest income	— (—)	— (—)	— (—)	— (—)	— (—)	248,035 (—)	— (—)	— (—)	— (—)	— (—)	— (—)
	Preference Shares issued	— (110,000,000)	— (—)	— (—)	— (—)	— (—)	— (—)	— (—)	— (—)	— (—)	— (—)	— (—)
	Redemption of Preference Shares Including Premium	— (—)	— (—)	65,100,000 (—)	— (150,456,673)	— (—)	— (—)	— (—)	— (—)	— (—)	— (—)	— (—)
8	Guarantees & Collaterals lapsed / returned	— (—)	— (—)	— (—)	340,000,000 (150,000,000)	— (—)	— (—)	— (—)	— (—)	— (—)	— (—)	— (—)
9	Outstandings											
	Payables											
	i) Inter Corporate Deposits taken (including interest)	— (—)	— (—)	— (—)	— (20,000,000)	— (—)	— (—)	— (—)	— (—)	— (—)	— (—)	— (—)
	ii) Other payables	— (—)	15,575,104 (—)	— (—)	19,118,780 (103,764,798)	— (14,578,918)	151,413,582 (183,936,174)	2,753,976 (1,143,663)	— (—)	— (—)	6,135,136 (—)	— (—)
	Receivables											
	i) Other receivables	— (—)	122,031,780 (—)	— (—)	144,119,561 (164,737,721)	— (2,165,483)	— (6,049)	331 (331)	4,722,250 (636,183)	— (58,915)	5,833,686 (—)	— (—)
	ii) Provision for doubtful debts and advances	— (—)	4,129,556 (—)	— (—)	— (—)	— (2,113,483)	— (—)	— (—)	— (—)	— (—)	— (—)	— (—)
	Guarantees & Collaterals Received	— (—)	— (—)	— (—)	100,000,000 (440,000,000)	— (—)	— (—)	— (—)	— (—)	— (—)	— (—)	— (—)

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25. Miscellaneous Expenditure (to the extent not written off or adjusted)

Sr. No.	Particulars	Opening Balance	Incurred During the Year	Amortisation	Closing Balance
1	Building Renovation and repair expenses	2,474	—	2,474	—
		(66,772)	—	(64,298)	(2,474)
2	Special payments under Voluntary Retirement Scheme	5,854,789	—	3,898,900	1,955,889
		(10,335,086)	—	(4,480,297)	(5,854,789)
	Total	5,857,263	—	3,901,374	1,955,889
		(10,401,858)	—	(4,544,595)	(5,857,263)

Previous year's figures have been disclosed in parenthesis.

26. Derivative Instruments:

The company has entered into Forward Exchange Contracts [being a derivative instrument], which are not intended for trading or speculative purpose, but for hedge purpose, to establish the amount of reporting currency required or available at the settlement date of certain payables and receivables. The following are the outstanding Foreign Exchange Contracts entered into by the Company as on 31st March, 2007:

Currency	Amount	Buy/Sell	Gross Currency
(US Dollar)	(31,728.10)	(Buy)	(Rupees)

The year end foreign currency exposures that have not been hedged by a derivative instrument or otherwise are given below:

a. Amounts payable in foreign currency on account of the following:

• Import of goods and services	Rs 476,150,221	US \$ 10,923,382
	Rs. 121,895	GBP 1,425
	Rs. 298,310	EURO 5,130
	(Rs. 33,798,685)	(US \$ 757,464.14)
	(Rs 1,639,044)	(Euro 30,200)
• Capital Imports (including intangibles)	Nil	Nil
	(Rs. 2,930,850)	(Euro 54,000)

b. Amounts receivable in foreign currency on account of the following:

• Export of goods and services	Rs. 8,113,594	US \$ 186,177
	(Nil)	(Nil)

The Company has outstanding borrowings of JPY 12,274.83 lakhs and US \$ 104.85 lakhs under the External Commercial Borrowing facility. These Foreign Currency Loans have been completely hedged using a currency swap structure converting the liability into a full fledged Rupee Liability.

Previous year's figures have been disclosed in parenthesis.

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27. SEGMENT REPORTING

a) PRIMARY SEGMENT INFORMATION (BUSINESS SEGMENT)

	2006-07	2005-06	2006-07	2005-06	2006-07	2005-06
	External Sales		Inter-segment Sales		Total	
1 Segment Revenue (Net)						
-Steel	5,975,675,666	5,310,667,882	-	-	5,975,675,666	5,310,667,882
-Stamping	1,196,617,238	839,700,807	-	-	1,196,617,238	839,700,807
-Others	-	4,544,991	-	-	-	4,544,991
-Segment Total	7,172,292,904	6,154,913,680	-	-	7,172,292,904	6,154,913,680
-Elimination	-	-	-	-	-	-
-Total	7,172,292,904	6,154,913,680	-	-	7,172,292,904	6,154,913,680
2 Segment Result						
-Steel	-	-	-	-	476,438,132	702,246,796
-Stamping	-	-	-	-	355,805,597	334,425,217
-Others	-	-	-	-	-	4,160,597
-Segment Total	-	-	-	-	832,243,729	1,040,832,610
Unallocated corporate expenses net of Unallocated income	-	-	-	-	(39,780,660)	58,995,806
Profit before interest & taxation	-	-	-	-	792,463,069	1,099,828,416
Interest expenditure	-	-	-	-	(118,225,089)	(111,478,716)
Interest Income	-	-	-	-	7,536,585	5,450,283
Provision for Taxation	-	-	-	-	(232,700,000)	(302,700,000)
3 Profit/(loss) After Taxation	-	-	-	-	449,074,565	691,099,983
Other Information						
1 Segment Assets						
-Steel	-	-	-	-	4,101,779,247	3,021,179,408
-Stamping	-	-	-	-	1,623,231,198	980,227,982
-Others	-	-	-	-	-	31,723
-Segment Total	-	-	-	-	5,725,010,445	4,001,439,113
Unallocated corporate assets	-	-	-	-	96,246,512	80,721,530
Total Assets	-	-	-	-	5,821,256,957	4,082,160,643
2 Segment Liabilities						
-Steel	-	-	-	-	1,562,595,318	1,104,099,137
-Stamping	-	-	-	-	139,108,586	105,078,305
-Others	-	-	-	-	-	26,707
-Segment Total	-	-	-	-	1,701,703,904	1,209,204,149
Unallocated corporate liabilities	-	-	-	-	2,322,855,807	1,391,672,364
Total Liabilities	-	-	-	-	4,024,559,711	2,600,876,513
3 Capital Expenditure						
-Steel	-	-	-	-	773,503,441	203,904,019
-Stamping	-	-	-	-	569,391,891	27,831,657
-Others	-	-	-	-	-	-
-Segment Total	-	-	-	-	1,342,895,332	231,735,676
4 Depreciation						
-Steel	-	-	-	-	55,693,406	46,287,617
-Stamping	-	-	-	-	111,572,945	84,472,028
-Others	-	-	-	-	-	-
-Segment Total	-	-	-	-	167,266,351	130,759,645
5 Non cash expenditure other than depreciation						
-Steel	-	-	-	-	20,029,164	15,785,755
-Stamping	-	-	-	-	-	-
-Others	-	-	-	-	-	-
-Segment Total	-	-	-	-	20,029,164	15,785,755
b) SECONDARY SEGMENT INFORMATION (GEOGRAPHICAL SEGMENT)						
1 Segment Revenue						
-Within India					7,150,713,912	6,154,913,680
-Outside India					21,578,992	-
-Total Revenue					7,172,292,904	6,154,913,680
2 Segment Assets						
-Within India					5,725,010,445	4,001,439,113
-Outside India					-	-
3 Capital Expenditure						
-Within India					1,342,895,332	231,735,676
-Outside India					-	-

MAHINDRA UGINE STEEL COMPANY LIMITED

NOTES:

- The Company has considered business segment as primary segment for disclosure. The segments have been identified taking into account the organisational structure as well as the differing risk and returns of the segments. Steel segment comprises sale of alloy steel. Stamping segment comprises sale of pressed metal components. Other segment comprises of activities related to dealing in shares. Inter segment revenue is market led.
- The geographical segments considered for disclosure are
 - Sales within India
 - Sales outside India

3. Segment Revenue comprises of :	2006-07	2005-06
Sales *	Rs. 7,172,292,904	Rs. 6,150,368,689
Profit/(Loss) on sale, etc. of stock in trade – net	—	Rs. 3,031,644
Dividend on shares held in stock in trade	—	Rs. 1,513,347

* Sales includes income from processing, arising and other sales and miscellaneous receipts.

- The Company had granted 955,500 options during the year ended 31st March, 2007, to eligible employees including Directors of the Company. Out of the above options granted, 57,000 Options have lapsed during the year, consequent to employee resignations. The equity settled options vest one year from the date of the grant and are exercisable on specified dates in 4 tranches within a period of 5 years from the date of vesting. The eligible Employee must exercise a minimum of 50 (Fifty Only) Options or Options vested, whichever is lower; and the Options in respect of each tranche may be exercised on the date of vesting or at the end of each year from the date of vesting, provided that at the end of five (5) years from the date of vesting (or such extended period as may be decided by the Remuneration Committee), the eligible Employee may exercise all options vested but not exercised by him/her failing which all the unexercised Options shall lapse. The Compensation costs of stock options granted to employees are accounted by the Company using the intrinsic value method.

Summary of stock option	No. of stock options	Weighted average exercise price (Rs.)
Options outstanding on 1st April, 2006	—	—
Options granted during the year	955,500	99.00
Options forfeited/lapsed during the year	57,000	99.00
Options exercised during the year	—	—
Options outstanding on 31st March, 2007	898,500	99.00
Options vested but not exercised on 31st March, 2007	—	—

Information in respect of options outstanding as at 31st March, 2007:

Exercise price	Number of Options	Weighted averaged Remaining life
Rs. 99.00	898,500	3.5 Yrs

The fair value of options granted during the year on 18th August, 2006 is Rs. 67.25 per share.

The fair value has been calculated using the Black Scholes Options Pricing model and the significant assumptions made in this regards are as follows:

	Grant dated 18th August, 2006
Risk free interest rate	7.27%
Expected Life	3.5 Yrs
Expected Volatility	73.54%
Expected dividend yield	4.65%
Exercise price	Rs. 99.00
Stock Price	Rs. 117.45

In respect of options granted under the Employee Stock Options Plan, in accordance with guidelines issued by the SEBI, the accounting value of the options is accounted as deferred employee compensation, which is amortized on a straight line basis over a period between the date of grant of options and eligible dates for conversion into equity shares. Consequently, salaries, wages, bonus, etc. includes Rs. 57.56 Lacs being the amortization of deferred employees compensation, after adjusting for reversals on account of options lapsed.

Had the Company adopted fair value method in respect of Options granted on or after 1st April, 2006, the employee compensation cost would have been higher by Rs. 99.05 Lacs, Profit after Tax lower by Rs. 65.71 Lacs and the diluted earning per share would have been lower by Rs. 0.20

The above disclosures have been made consequent to the issue of Guidance Note on Accounting for Employee Share-based Payments issued by the Institute of Chartered Accountants of India in the year 2005 and applicable for the period on or after 1st April, 2005.

29 A Defined Benefit Plans – As per Actuarial Valuation on March 31, 2007:	GRATUITY	
	2006-07	
	Rs.	
I Expenses recognised in the statement of Profit & Loss Account for the year ended 31 st March, 2007		
1. Current Service Cost	4,273,765	
2. Interest Cost	6,429,639	
3. Expected return on plan assets	(6,993,529)	
4. Actuarial (Gains)/Losses	(415,708)	
5. Total Expenses	3,294,167	
II Net Assets/(Liability) recognised in the balance Sheet as at March 31, 2007		
1. Present Value of Defined Benefit Obligation as at March 31, 2007	94,936,196	
2. Fair value of plan assets as at March 31, 2007	(98,903,902)	
3. Funded Status [Surplus/(Deficit)]	3,967,706	
4. Net Assets/(liability) as at March 31, 2007	3,967,706	
III Change in Obligation during the year ended March 31, 2007		
1. Present Value of Defined Benefit Obligation at the beginning of the year	90,499,120	
2. Current Service Cost	4,273,765	
3. Interest Cost	6,429,639	
4. Actuarial(Gains)/Losses	(1,708,809)	
5. Benefit Payments	(4,557,519)	
6. Present Value of Defined Benefit Obligation as at the end of the year	94,936,196	
IV Change in Assets during the year ended March 31, 2007		
1. Plan assets at the beginning of the year	97,442,294	
2. Expected return on plan assets	6,993,529	
3. Contributions by employer	318,699	
4. Actual benefits paid	(4,557,519)	
5. Actuarial gains/(losses)	(1,293,101)	
6. Plan assets at the end of the year	98,903,902	
V The major categories of plan assets as a percentage of total plan Funded with LIC of India		100%
VI Actuarial Assumptions:	As at March 31, 2007	
1. Discount rate		8.0%
2. Expected rate of return on plan assets		7.5%
3. Mortality pre-retirement	1994-96 Mortality base	
4. Mortality post- retirement		-
5. Turnover rate		1 to 2%
VII Amount expected to be contributed to fund administered by LIC of India		-

B Basis used to determine expected rate of return on assets:

This is based on expectation of the average long term rate of return expected on investments of the Fund during the estimated term of the obligation.

C The estimates of future salary increases, considered takes into account the inflation, seniority, promotion and other relevant factors.

D Hitherto the company was recognising the provisions for the employee retirement benefits as per the Accounting Standard 15 "Accounting for retirement benefits", during the year, the Company has undertaken an early adoption of Accounting Standard 15 (Revised 2005) "Employee Benefits", in accordance with the transitional provision in the revised Accounting Standard, Rs. 120.99 lacs (Net of deferred tax Asset of Rs. 62.30 lacs) has been adjusted to the general reserves. This change does not have a material impact on the profit of the current year.

E Previous year figures have not been disclosed since the figures have not been ascertained.

30. Additional information pursuant to the provisions of Part IV of Schedule VI to the Companies Act, 1956 (See Schedule 'N')

31. Previous year's figures have been regrouped wherever necessary to conform to this year's classification.

MAHINDRA UGINE STEEL COMPANY LIMITED

SCHEDULE 'M' - SIGNIFICANT ACCOUNTING POLICIES

1. Basis for preparation of accounts :

The accounts have been prepared to comply in all material respects with applicable accounting principles in India, the Accounting Standards issued by the Institute of Chartered Accountants of India and the relevant provisions of the Companies Act, 1956.

2. (A) Fixed Assets :

Fixed assets are recorded at historical cost of purchase and do not reflect current values. Cost includes interest and other financial charges attributable to the acquisition of fixed assets. Foreign exchange differences relating to the acquisition of fixed assets from a country outside India are adjusted to the cost of the asset.

Fixed assets acquired under finance leases are recognised at the lower of fair value of the leased assets at inception and the present value of minimum lease payment. Lease payment are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to periods during the lease term at a constant periodic rate of interest on the remaining balance of the liability.

Depreciation is provided for as follows:

- a) In respect of the assets of the Company's Stampings Units at Kanhe and Nasik, depreciation is provided on Straight Line Method at the rates and in the manner prescribed in Schedule XIV to the Companies Act, 1956, except as stated in note b(ii) below.
- b) In respect of all other units / divisions :
 - i) The Company provides depreciation on Straight Line Method in respect of buildings, railway sidings and plant and machinery, heavy vehicles, other vehicles and data processing equipment, and on reducing balance method in respect of furniture, fixtures and office equipment at the rates and in the manner specified in Schedule XIV to the Companies Act, 1956, except as stated in note b(ii).
 - ii) The Company provides depreciation on straight line method on heavy vehicles, other vehicles and data processing equipment at 25%, 20% and 33% of cost respectively.
 - iii) In respect of extra shift, depreciation is provided on the basis of the actual utilisation of assets. In determining actual utilisation, it has been assumed that the individual items of plant in each shop have worked for the same number of hours as the main plant in that shop, except where separate records are maintained for any item.

When an asset is disposed off, the cost and related depreciation are removed from the books of account and the resultant profit (including capital profit) or loss is reflected in the profit and loss account.

(B) Intangible Assets

Software expenditure incurred is amortised over the period of 36 months equally commencing from the year in which the expenditure is incurred.

3. Investments :

All long term investments are valued at cost. Provision for diminution is made to recognise a decline, other than temporary, in the value of long term investments. Dividend income is recognised when the right to receive payment is established.

4. Inventories :

Inventories are stated at cost or net realisable value, whichever is lower. Cost of inventories is arrived at on a weighted average basis and is inclusive of overheads and duties, where appropriate.

5. Foreign Exchange Transactions :

All assets and liabilities in foreign currencies are translated at the relevant rates of exchange prevailing at the year end. In respect of forward contracts, the premium or discount arising at the inception of such a contract is amortised as expense or income over the life of the contract.

In case of monetary assets and monetary liabilities (other than those for acquisition of fixed assets acquired from a country outside India), the exchange differences are recognised in the Profit and Loss Account.

In case of liabilities incurred for acquisition of fixed assets acquired from a country out side India, the exchange differences are adjusted to the cost of such assets.

6. Miscellaneous Expenditure
(to the extent not written off or adjusted)

- i. Special payments under Voluntary Retirement Scheme are amortised over a period of five years from the accounting year in which the liability is incurred.
- ii. Expenditure incurred on major renovation and repairs of buildings is being written off over a period of five years from the year in which the expenditure is incurred.

7. Revenue Recognition :

Sales of products and services are recognised when the products are shipped or the services rendered.

Excise Duties (including education cess) recovered are included in the Sale of Products (Gross). Excise Duty (including education cess) in respect of Finished Goods are shown seperately as an item of Manufacturing and Other Expenses and included in the valuation of finished goods.

8. Retirement Benefits :

i) Defined Contribution Plan:

Company's contributions paid/payable during the year to Provident Fund, Officer's Superannuation Fund, ESIC and Labour Welfare Fund are recognised in the Profit and Loss Account.

ii) Defined Benefit Plan:

Company's liability towards gratuity is determined using the projected unit credit method which considers each period of service as giving rights to an additional unit of benefit entitlement and measure each unit separately to build up the final obligation. Past services are recognised on straight line basis over the average period until the benefits become vested. Actuarial gain and losses are recognised immediately in the statement of profit & loss account as income or expense. Obligation is measured at the present value of estimated future cash flow using discounted rate i.e., determined by reference to market yield at the balance sheet date on government bonds where the currency and terms of the government bonds are consistent with the currency and the estimated terms of the defined benefit obligation.

9. Taxes on income :

Current tax is determined as the amount of tax payable in respect of taxable income for the year. Deferred tax assets and liabilities are recognised, subject to consideration of prudence, on timing differences, being the difference between taxable income and accounting income, that originate in one period and are capable of reversal in one or more subsequent periods. Deferred tax assets arising on account of unabsorbed depreciation or carry forward of losses under tax laws are recognised only to the extent that there is virtual certainty supported by convincing evidence that sufficient future taxable income will be available against which such deferred tax assets can be realised. Deferred tax assets on account of other timing differences are recognised to the extent that there is a reasonable certainty of its realisation.

10. Segment Reporting :

The accounting policies adopted for segment reporting are in line with the accounting policies of the Company and are identified having regard to the dominant nature of risks and returns and internal organisation and management structure.

Revenues and expenses have been identified to the segments based on their relationship to the business activity of the segment. Expenses relating to the enterprise as a whole and not allocable on a reasonable basis to the business segments are reflected as unallocated corporate expenses.

MAHINDRA UGINE STEEL COMPANY LIMITED

SCHEDULE 'N' ADDITIONAL INFORMATION PURSUANT TO THE PROVISIONS OF PART IV OF SCHEDULE VI TO THE COMPANIES ACT, 1956. Balance Sheet Abstract and Company's General Business Profile:

I. Registration Details

Registration No.

1	2	5	4	2
---	---	---	---	---

 State Code

1	1
---	---

Balance Sheet Date

3	1
---	---

0	3
---	---

2	0	0	7
---	---	---	---

Date Month Year

II. Capital raised during the year (Amount in Rs. Thousands)

Public Issue

N	I	L
---	---	---

 Rights Issue

N	I	L
---	---	---

Bonus Issue

N	I	L
---	---	---

 Private Placement

N	I	L
---	---	---

III. Position of Mobilisation and Deployment of funds (Amount in Rs. Thousands)

Total Liabilities (including Shareholders' Funds)

5	8	6	5	0	0	5
---	---	---	---	---	---	---

 Total Assets (including Miscellaneous Expenditure not written-off and adverse balance of profit and loss account)

5	8	6	5	0	0	5
---	---	---	---	---	---	---

Sources of Funds :
Paid-up Capital

3	2	4	8	2	5
---	---	---	---	---	---

 Reserves & Surplus

1	3	7	3	0	6	4
---	---	---	---	---	---	---

Secured Loans

1	0	6	0	6	7	2
---	---	---	---	---	---	---

 Unsecured Loans

1	0	1	3	5	4	5
---	---	---	---	---	---	---

Application of Funds :
Net Fixed Assets

2	3	3	0	0	4	9
---	---	---	---	---	---	---

 Investments

5	1	8	6
---	---	---	---

Net Current Assets

1	5	6	9	3	5	3
---	---	---	---	---	---	---

 Miscellaneous Expenditure

1	9	5	6
---	---	---	---

Accumulated Losses

N	I	L
---	---	---

IV. Performance of Company (Amount in Rs. Thousands) :

Turnover (Sales and Other income)

7	1	8	9	0	8	6
---	---	---	---	---	---	---

 Total Expenditure [Including decrease/(increase) in Stocks]

6	5	0	7	3	1	2
---	---	---	---	---	---	---

+/- Profit/Loss before Tax

6	8	1	7	7	5
---	---	---	---	---	---

 +/- Profit/Loss after Tax (after exceptional item)

4	4	9	0	7	5
---	---	---	---	---	---

Earnings per Share in Rupees

1	3	.	7	5
---	---	---	---	---

 Dividend Rate %

4	5
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V. Generic Names of Three Principal Products/Services of Company (as per monetary terms) :

Item Code No. (ITC Code)	7228
Product Description	Other bars and rods of other alloy steel
Item Code No. (ITC Code)	8708
Product Description	Parts and accessories of motor vehicles
Item Code No. (ITC Code)	7214
Product Description	Other bars and rods of iron or non-alloy steel

Signature to Schedules 'A' to 'N'

R. Sundaresan
Executive Vice President - Finance & MIS
Mumbai : 27th April, 2007.

P. S. Sallian
Dy. Company Secretary

Keshub Mahindra
Anand G. Mahindra
K. V. Ramarathnam
Deepak Dheer
Hemant Luthra
Rajeev Dubey
R. R. Krishnan
S. Ravi
K. B. Saha
N. V. Khote

Chairman
Vice Chairman
Managing Director
Executive Director

Directors



MAHINDRA UGINE STEEL COMPANY LIMITED

Registered Office : 74, Ganesh Apartment, Opp. Sitaladevi Temple,
L. J. Road, Mahim, Mumbai - 400 016.

Attendance Slip

I hereby record my presence at the 44th Annual General Meeting of the Company at Amar Gian Grover Auditorium, Lala Lajpat Rai Memorial Trust, Lala Lajpat Rai Marg, Haji Ali, Mumbai – 400 034 on Thursday, the 26th July, 2007 at 3.30 p.m.

Name of the Member	
Registered Folio No.	No. of Shares
Client ID No.	
DP ID No.	
Name of the Proxy	
Signature of the Member or Proxy	

Note: The Member/Proxy/Representative attending the 44th Annual General Meeting is requested to bring this slip duly filled in and present the same at the entrance to the Meeting.



MAHINDRA UGINE STEEL COMPANY LIMITED

Registered Office : 74, Ganesh Apartment, Opp. Sitaladevi Temple,
L. J. Road, Mahim, Mumbai - 400 016.

Proxy Form

I/We of
in the District of being a member/members of the above named Company
hereby appoint of
in the District of or failing him/her
of in the district of as
my/our proxy/proxies to vote for me/us on my/our behalf at the 44th Annual General Meeting of the Company to be held at Amar Gian Grover Auditorium, Lala Lajpat Rai Memorial Trust, Lala Lajpat Rai Marg, Haji Ali, Mumbai – 400 034 on Thursday, the 26th July, 2007 at 3.30 p.m. and at any adjournment thereof.

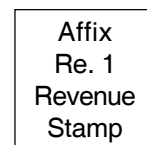
Signed thisday of2007

Registered Folio No.

Client ID No.

DP ID No.

No. of Shares



Signature of the Member

Note : This Proxy Form in order to be effective should be duly filled in, stamped and signed and must be deposited at the Registered Office of the Company not less than 48 hours before the time for holding the meeting. The Proxy need not be a member of the Company.