

# Directors' Speak

To the Members,

Your Directors are pleased to present Sterlite Technologies' Annual Report, together with the audited accounts of your Company for the year ended March 31, 2010.



## RESULTS OF OPERATIONS

(Rs. in Crores)

| Particulars  | 2009-10  | 2008-09  |
|--|----------|----------|
| Net Revenues   | 2,431.63 | 2,289.23 |
| Profit / (Loss) before Interest, Depreciation & Tax                          | 403.83   | 240.31   |
| Less: Interest   | 38.12    | 88.00    |
| Less: Depreciation   | 48.27    | 42.52    |
| Net Profit/(Loss) before taxation  | 317.45   | 107.31   |
| Provision for Taxation:  | -        | -        |
| Current Tax  | 58.24    | 12.51    |
| Earlier Year Tax / (Written Back)  | 10.93    | 0.83     |
| Minimum Alternative Tax eligible for Set Off                                 | (2.00)   | (11.66)  |
| Deferred Tax (Credit)  | 4.21     | 16.73    |
| Fringe Benefit Tax   | -        | 0.88     |
| Net Profit / (Loss) for the year after tax                                   | 246.07   | 88.02    |
| Net Profit / (Loss) for the year after tax (after prior period depreciation) | 246.07   | 90.15    |
| Balance carried forward from previous year                                   | 407.39   | 335.70   |
| Amount available for appropriation   | 653.46   | 425.85   |
| <b>APPROPRIATIONS</b>  |          |          |
| Transfer to General Reserve  | 24.61    | 9.02     |
| Proposed Dividend  | 17.78    | 8.07     |
| Provision for Tax for Dividend   | 3.02     | 1.37     |
| Balance carried forward to the next year                                     | 608.05   | 407.39   |

## PERFORMANCE

During the year, your Company registered net revenues of Rs. 2,432 Crores as against Rs. 2,289 Crores in the previous year. The revenue from the power business was Rs. 1,525 Crores in the current year vis-à-vis Rs. 1,473 Crores in the previous financial year. The revenue from the telecom business increased to Rs. 907 Crores in the current year, from Rs. 816 Crores in the previous fiscal.

The EBITDA of your Company showed a significant growth rate of 68% year on year, growing to Rs. 404 Crores from Rs. 240 Crores in the previous year. The profits of your Company after providing for interest, depreciation and tax increased to Rs. 246 Crores in the current year; a very impressive increase from Rs. 90 Crores in the previous fiscal.

The ongoing capital projects for expansion of the optical fiber manufacturing capacity to 12 million-fkm per annum is nearing completion and is expected to be fully commissioned during the

fiscal year 2010-11. The capacity expansion for power conductors to 160,000 Metric Tons is also expected to be completed in early FY11.

Your Company continued to focus on global market penetration and increase in market share by enhancing the manufacturing capacities in the existing businesses. In line with this, during the year 2009-10, your Company announced a further capacity enhancement of optical fiber from 12 million-fkm per annum to 20 million-fkm per annum. This capacity expansion is anticipated to complete by the end of FY 2011-12, making your Company the third largest manufacturing capacity in the world.

As a part of aforesaid Optical Fiber expansion plans, your Company also floated a new wholly owned subsidiary named Sterlite Infra Tech Limited, with the objective of setting up a green field facility for optical fiber at Aurangabad in a Special Economic Zone (SEZ).

## INDEPENDENT POWER TRANSMISSION BUSINESS

The Ministry of Power, Government of India, has initiated a scheme for development of Independent Power Transmission projects through private sector participation, for evacuation of power from the generation stations, strengthening of the grid and transmission of power from pooling stations to the other grid stations and load centres. This offers a good opportunity for business and due to Company's understanding of the power sector, there is a unique synergy of this business and the Company's existing business line in power conductors.

The Company had participated in some of these business opportunities during the year and was successful in winning India's first mega independent power transmission project.

The East-North Interconnection Mega Transmission Project, which aims to evacuate power from the North-East and Eastern states to the Northern region of India, is the first Mega Independent Power Transmission Project awarded in India. The project involves establishment of two 400KV double circuit transmission lines that would respectively connect the Indian states of Assam with West Bengal and Bihar. This project was awarded to Sterlite Technologies on a 'Build, Own, Operate and Maintain' (BOOM) basis.

Your Company will be exploring similar opportunities in independent power transmission projects, thereby leveraging the inherent expertise in project execution, to build a sustainable stream of revenue in the long-term and enhance shareholder value.

The detailed analysis of Company's operations and segment-wise performance is covered under the 'Management Discussion & Analysis Report'.

## SUB-DIVISION (SPLIT) OF EQUITY SHARES AND ISSUE OF BONUS SHARES

During the year, the equity shares of your Company of the face value of Rs. 5/- each were sub-divided into face value of Rs. 2/- each and subsequently, bonus shares were allotted in the ratio of one equity share for one equity share held. This is in line with your Company's philosophy of creating value for its shareholders and sharing the benefits of growth on a sustained basis.

## DIVIDEND

Your Board of Directors is pleased to recommend a dividend of 25% (Rs. 0.50 per share of Rs. 2/- each) for the financial year 2009-10. The distribution of dividend will result in payout of Rs. 17.78 Crores excluding tax on dividend.

## SHIFTING OF REGISTERED OFFICE FROM THE STATE OF MAHARASHTRA TO THE UNION TERRITORY OF DADRA AND NAGAR HAVELI

Subject to the approval of the Central Government (Company Law Board), the shareholders of your Company had approved through postal ballot, the shifting of the registered office from the State of Maharashtra to the Union Territory of Dadra and Nagar Haveli. Your Company is awaiting approval from Company Law Board, Mumbai for the same and expects to complete the process in the near future.

## PREFERENTIAL ALLOTMENT

As approved by the shareholders, your Company has made a preferential allotment of 64,50,000 share warrants and 73,00,000 share warrants to Twinstar Overseas Limited, a Promoter of the Company, on August 8, 2009 and October 8, 2009, respectively.

Of this, 6,450,000 (16,125,000 after considering share split from face value of Rs. 5 each to Rs. 2 each) share warrants have been converted into an equal number of equity shares on March 29, 2010. Bonus shares in the ratio of 1:1 have also been allotted on these shares. The balance warrants outstanding as at March 31, 2010 aggregating 7,300,000 (18,250,000 after considering share split from face value of Rs. 5 each to Rs. 2 each) are convertible within a period of 18 months from the date of allotment, and are entitled to equal number of bonus shares.

## EMPLOYEES STOCK OPTION SCHEME

As the members are aware, your Company had launched an Employee Stock Option Scheme in June 2006 (ESOP-2006). The details of the options granted, vested is provided in Annexure-II to this report, as required under Clause 12 of the Securities and Exchange Board of India (Employees Stock Option Scheme and Employees Stock Purchase Scheme) Guidelines, 1999.

Your Company will continue to drive growth of the organisation whilst sharing of the fruits of growth with employees in the form of stock options. It is proposed to obtain fresh approval of shareholders for the new scheme of ESOP for which suitable resolutions are proposed for approval of shareholders in the notice of forthcoming Annual General Meeting.

## SUBSIDIARY COMPANIES

Sterlite Infrastructure Private Limited (SIPL), a subsidiary of your Company has at present not commenced any commercial activity. The Company had applied for Pan-India access licenses to provide telecom service, allotment of which is awaited from Department of Telecommunication.

During the year, your Company floated a wholly owned subsidiary viz. Sterlite Infra-Tech Limited (SITL) for capacity expansion of Optical Fibers in Aurangabad under SEZ scheme. SITL is expected to begin commercial production in the third quarter of current financial year.

As a part of implementation of mega independent power transmission project to establish two 400KV Double Circuit transmission lines in Assam with West Bengal and Bihar, your Company has acquired 100% holding of 'East-North Interconnection Company Limited' (ENICL), from Power Finance Corporation Limited. ENICL is the Special Purpose Vehicle (SPV) floated by Power Finance Corporation for the purpose of execution of this project.

## EXPLANATION ON AUDITOR'S COMMENT

The remark of Auditors at Para 5 (vi) & (vii) of the Auditors' Report over Note No. 8 in Schedule 21 on Notes to Accounts regarding demand of excise duty and penalty amounting to Rs. 188 Crores is self-explanatory and does not require further comment.

In the year 2004-05 CESTAT upheld the demand of Rs. 188 Crores and interest thereon for alleged breach of norms pertaining to

Export Oriented Unit (EOU). Your Company had filed an appeal before the Hon'ble High Court of Bombay against this order. Your Company's appeal against this order was dismissed by the Hon'ble High Court Bombay during the year on the grounds that appeal is not maintainable in High Court, however without prejudice to the rights of the Company. Your Company subsequently filed a Special Leave Petition (SLP) and appeal with the Supreme Court of India which has been admitted by the Court. Hon'ble Supreme Court has also maintained the stay granted by Hon'ble High Court Bombay.

Based on merits of the case and the legal opinion obtained, the management believes that your Company has a strong case and it has been carrying adequate provisions for contingencies in the Books of Account in this matter and does not require any further provisioning.

### FIXED DEPOSITS

During the year, your Company has not accepted any deposits from the public or otherwise in terms of Section 58A of the Companies Act, 1956 read with Companies (Acceptance of Deposit) Rules, 1975.

### DIRECTORS

By virtue of Section 255 of the Companies Act, 1956 and the Articles of Association of the Company, Mr. AR Narayanaswamy and Mr. ArunTodarwal retire by rotation at the ensuing Annual General Meeting. A brief resume, expertise, shareholding in your Company and details of other directorships of these directors are given in the Corporate Governance Report.

### MANAGEMENT DISCUSSION AND ANALYSIS

The report on Management Discussion and Analysis has been attached and forms part of the Annual Report.

### CORPORATE GOVERNANCE

The report on Corporate Governance along with the Certificate from the Statutory Auditors certifying the compliance of Corporate Governance enumerated in Clause 49 of the Listing Agreement with the Stock Exchanges is included in the Annual Report.

### DIRECTORS' RESPONSIBILITY STATEMENT

Your Directors confirm that:

- i) In the preparation of the annual accounts, the applicable accounting standards have been followed;
- ii) They have selected such accounting policies and applied them consistently, and made judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of your Company as at March 31, 2010 and of the profit of the Company for the financial year ended March 31, 2010;
- iii) They have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of your Company and for preventing and detecting fraud and other irregularities;
- iv) They have prepared the accounts on a 'going concern' basis.

### GROUP

Your Company is controlled by the Agarwal Group; being a Group as defined under the Monopolies and Restrictive Trade Practices Act, 1969. The list of entities in the Group is as under:

- i) Volcan Investments Limited, Bahamas
- ii) Twin Star Overseas Limited, Mauritius
- iii) Mr. Dwarkaprasad Agarwal
- iv) Mr. Agnivesh Agarwal

### AUDITORS

M/s. S. R. Batliboi & Co., Chartered Accountants hold office till the conclusion of the forthcoming Annual General Meeting and being eligible, offer themselves for re-appointment. Your Company has received intimation to the effect that, proposed re-appointment, if made, would be within the prescribed limit under Section 224(1B) of the Companies Act, 1956.

### PARTICULARS OF CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION, FOREIGN EXCHANGE EARNINGS AND OUTGO

The particulars of conservation of energy, technology absorption, foreign exchange earnings and outgo as prescribed under Section 217(1)(e) of the Companies Act, 1956 read with the Companies (Disclosures of Particulars in the Report of Directors) Rules 1988, is given as Annexure-I and forms a part of the Directors' Report.

### PARTICULARS OF EMPLOYEES

The particulars of employees as required under the provisions of Section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975 is annexed hereto and forms a part of the Directors' Report. However, as per the provisions of Section 219(1)(b)(iv) of the Companies Act, 1956, the report and the Accounts are being sent to all shareholders of your Company excluding the aforesaid information. Any shareholder interested in obtaining such particulars may write to the "Company Secretary" at the Registered Office of the Company.

### ACKNOWLEDGEMENT

It has been an impressive year for your Company especially with the expectations of continuing with the sterling performance it had displayed last year and of holding on to its domestic market share while at the same time expanding its global footprint.

The Board of Directors take on record their sincere appreciation to the contributions made by the employees through their hard work, dedication, competence, support and co-operation towards the success of your Company. Last but not the least, your Directors are also thankful for consistent co-operation and assistance received from its investors, business associates, customers, vendors, bankers, regulatory and government authorities.

For and on behalf of the Board of Directors

Place: Mumbai  
Date : April 22, 2010

Anil Agarwal  
Chairman

## Annexure I to the Directors' Report

Particulars of Conservation of Energy, Technology Absorption and Foreign Exchange Earnings and Outgo as per Section 217 (1) (a) of the Companies Act, 1956 read with Companies (Disclosure of Particulars in the report of Directors) Rules, 1988 for the year ended March 31, 2010.

### 1. CONSERVATION OF ENERGY

#### A. THE COMPANY ADOPTED THE FOLLOWING MEASURES ON ENERGY CONSERVATION:

- 1) Conservation in electricity consumption: Implementation of various energy saving mechanisms such as roof insulation, CFL lamps, additional capacitors, auto timers for air-conditioning and street lighting. Additional mechanisms were implemented to effectively curtail energy losses such as the installation of variable frequency drives, etc.
- 2) Optimisation of energy consumption: Various efforts were made to assess energy consumption during various manufacturing sub-processes and to optimise the same.
- 3) Conservation of furnace oil: Various engineering and process efficiency improvements were implemented across locations, that saved a cumulative of more than 200 kilolitres of furnace oil per annum.

#### B. ADDITIONAL INVESTMENTS AND PROPOSAL, IF ANY, BEING IMPLEMENTED FOR REDUCTION OF CONSUMPTION OF ENERGY

- 1) Implementation of Energy Management Systems and energy audits to assess scope of further reduction in energy consumption.
- 2) Improve carbon footprint by 10% per year from current levels by implementation of concepts of 'jumbo packs' of raw materials and by encouraging suppliers to follow carbon reduction at their facilities.
- 3) Implementation of various energy saving mechanisms such as forced air draft plant ventilation system and harmonics filters to reduce usage of localised air conditioners.

### 2. TECHNOLOGY ABSORPTION

#### A. SPECIFIC AREAS IN WHICH THE COMPANY CARRIED OUT R&D

- 1) Development of a range of high ampacity bare overhead conductors (AL-59, TACSR, ACSS and STACIR) manufactured from specialty alloys, that offer superior thermal resistance and improve the efficiency in high current transmission.

- 2) Development of very small diameter, lightweight and flexible fiber optic cables (ie: Microduct Fiber Optic Cables) that are suitable for indoor-outdoor duct installation in subducts within existing ducts.
- 3) Development of specialised fiber optic cables for tamper-proof installation in high security application sectors, such as defence.
- 4) Introduction of dry fiber optic cables.
- 5) Development of OPGW Cables which are a revolutionary solution that enables synergies between efficient power distribution grids and high-speed optical fiber based SCADA networks.

#### B. BENEFITS DERIVED AS A RESULT OF ABOVE R&D

##### Benefits to customers

- 1) High ampacity offer superior thermal resistance and improve the efficiency in high current transmission.
- 2) Microduct Fiber Optic Cables save about 8% of the total capex for the customer, on account of reduced installation costs.
- 3) Dry fiber optic cables save about 10% of installation time for the customer, thereby reducing their capex costs.
- 4) OPGW cables give power utility companies the unique capabilities of a telecom carrier or service provider.

##### Benefits to Sterlite

Introduction of specialised products developed through the year, have enabled Sterlite gain market access through product differentiation.

#### C. FUTURE PLAN ON R&D

- 1) Focus on improving efficiency of manufacturing processes of existing product lines.
- 2) Develop products that would serve the needs of customers' product deployment and applications.
- 3) Proactively assess future market applications and initiate development of products to meet customers' future needs.

#### D. EXPENDITURE OF R&D

|  | <i>Rs. Crores</i> |
|--|-------------------|
| 1 Capital  | Nil               |
| 2 Recurring                                      | 5.98              |
| 3 Total  | 5.98              |
| 4 Total R&D expenditure as a % of total turnover | 0.25%             |

### 3. TECHNOLOGY ABSORPTION, ADOPTION AND INNOVATION

- i) Efforts, in brief, made towards technology absorption, adoption and innovation: The technology used for manufacture of various products of the Company is fully absorbed and new innovations in process control, product development, cost reduction and quality improvements are being made on a continuous basis.
- ii) Benefits derived as a result of the efforts e.g., product improvement, cost reduction, product development: The Company is engaged in that business where product obsolescence is inherent. The efforts made for product improvement/development help Company not only to offer better value added products to its customers but also gain access to new markets.

- iii) Information regarding technology imported during last 5 years: The Company has not imported any technology.

### 4. FOREIGN EXCHANGE EARNING AND OUTGO

Discussion on activities relating to exports development of exports is covered in Directors' Report and Management Discussion & Analysis Report.

Foreign Exchange Earned : Rs. 554.22 Crores

Foreign Exchange Outgo : Rs. 44.16 Crores

The Company does not fall in the list of industries which are required to give details of power and fuel consumption as per "Form A" of Companies (Disclosure of Particulars in the Report of Directors) Rules, 1998.

## Annexure II to the Directors' Report

Statement as at March 31, 2010 as required under Clause 12 of the Securities and Exchange Board of India (Employees Stock Option Scheme and Employees Stock Purchase Scheme) Guidelines, 1999.

|    |   |  |
|----|---|--|
| 1  | Options granted   | Total 69,46,750 options were granted as on March 31, 2010<br><ul style="list-style-type: none"> <li>• 23,28,500 options were granted on June 14, 2006</li> <li>• 6,36,000 options were granted on March 19, 2007</li> <li>• 13,07,750 options were granted on September 28, 2007</li> <li>• 2,55,500 options were granted on June 14, 2008</li> <li>• 24,19,000 options were granted on June 26, 2009</li> </ul> |
| 2  | Pricing formula   | Options vest at a nominal value i.e. Rs. 2 per option  |
| 3  | Options vested  | 13,83,770  |
| 4  | Options exercised   | 12,95,675  |
| 5  | Total number of ordinary shares arising as a result of exercise of options  | 12,95,675  |
| 6  | Options lapsed  | 31,43,980  |
| 7  | Variation of terms of option  | None   |
| 8  | Money raised by exercise of option  | Rs. 12,95,675.00   |
| 9  | Total number of options in force  | 1,70,595   |
| 10 | Number of options granted to Senior Managerial Personnel<br>Dr. Anand Agarwal, CEO & Whole-time Director  | 3,79,500   |
| 11 | Identified employees who were granted options during any one year, equal to or exceeding 1% of issued capital (excluding outstanding warrants and conversions) of the Company at the time of grant. | None   |
| 12 | Diluted earnings per share pursuant to issue of ordinary shares on exercise of Options calculated in accordance with Accounting Standard (AS) 20 "Earnings Per Share"                               | Rs. 7.34   |
| 13 | Method of calculation of Employee Compensation Cost The Company has used fair market value method for calculation of compensation cost, using the Black Scholes Option Pricing Model.               |  |
| 14 | Weighted average exercise price and weighted average fair values of Options granted for options whose exercise price either equals or exceeds or is less than the market price of the stock.        | Weighted Average exercise price (per option): Rs. 2.00<br>Weighted Average Fair value (per option): Rs. 35.23  |
| 15 | A description of method and significant assumptions used during the year to estimate the fair values of options   | The fair value of each option is estimate using the Black Scholes Option Pricing Model after applying following weighted average Assumptions (with reference to Grant dated June 26, 2009):  |
|    | 1. Market Price (Rs.)   | 36.65  |
|    | 2. Risk Free Interest rate(%)   | 5.61   |
|    | 3. Expected Life (years)  | 1.50   |
|    | 4. Expected Volatility(%)   | 97.30  |
|    | 5. Expected Dividend Yield (%)  | 0.60   |
|    | 6. The price of underlying share at the time of grant (Rs.)   | 35.23  |

### Note:

As per the approval of the Shareholders in the Extra Ordinary General Meeting (EGM) held on February 25, 2010, the Company during the year made sub-division of the face value of its equity share from Rs. 5 to Rs. 2 per share. Further, the shareholders in the same meeting has approved bonus in the ratio of 1:1. The figures in this annexure have been recalculated and presented after considering the impact of the sub-division and bonus.