

**MEMORANDUM OF UNDERSTANDING**

**BETWEEN**

**HINDUSTAN COPPER LIMITED**

**AND**

**MINISTRY OF MINES**

**FOR**

**2006-2007**

**MEMORANDUM OF UNDERSTANDING(MOU)  
BETWEEN  
HINDUSTAN COPPER LIMITED  
AND  
MINISTRY OF MINES  
  
FOR  
  
2006-2007**

**The MOU has been structured in the following parts :**

**Part I** : MISSION AND OBJECTIVES

**Part II** : EXERCISE OF ENHANCED AUTONOMY AND DELEGATION OF FINANCIAL POWERS

**Part III** : PERFORMANCE EVALUATION PARAMETERS AND TARGETS

**Part IV** : COMMITMENTS/ASSISTANCE FROM THE GOVERNMENT

**Part V** : ACTION PLAN FOR IMPLEMENTATION AND MONITORING OF THE MOU

## PART – I

### **MISSION & OBJECTIVES**

#### **1. MISSION**

Sustainable development and utilization of available mineral resources for the national benefit and to be an efficient and viable corporate entity.

#### **2. OBJECTIVES**

- i) To develop available mine deposits, maximise utilization of existing mines and acquire new mines.
- ii) To ensure efficient and safe operations of mines and plants.
- iii) To improve the product mix including downstream products for value addition.
- iv) To widen the customer base by maximising sale and sales realisation.
- v) Systematic development of human resources in order to achieve competent, capable and motivated work force.
- vi) To enhance customer satisfaction by providing quality products and services.
- vii) To ensure continued protection and preservation of the natural environment.

### **Part II**

#### **EXERCISE OF ENHANCED AUTONOMY AND DELEGATION OF FINANCIAL POWERS**

No additional powers have been vested with HCL beyond what is already stipulated in the Articles of Association of the Company.

PART-III

PERFORMANCE EVALUATION PARAMETERS AND TARGETS

The physical and financial performance of HCL for 5 years is indicated in ANNEXURE- I. The performance indicators for 2006-2007 targets, and relative weights for each of the indicators for evaluation of the Company's performance during 2006-2007 are indicated below :

Sl. No.	Performance	Unit	B.E. 2005-2006	B.E 2006-2007	Weight	Performance Rating				
						Excellent	Very Good	Good	Average	Poor
<b>I.</b>	<b>Static Financial Parameters(50%) *</b>									
(a)	<b>Financial performance indicators</b>									
i.	Gross Margin/ Gross Block	%	9.43	15.02	02	31.72	23.28	19.81	16.38	12.97
ii.	Net Profit/ Net Worth	%	3.05	13.06	10	36.89	27.80	23.27	18.19	12.41
iii.	Gross Profit/ Capital Employed	%	17.07	24.60	10	48.89	40.40	36.01	30.99	25.13
(b)	<b>Financial indicators – Size</b>									
i.	Gross Margin	Rs. Crore	69.05	112.27	08	229.57	168.51	143.40	118.56	93.84
ii.	Gross Sales	Rs. crore	774.77	870.63	04	1153.56	1077.22	1038.89	1000.55	962.21
(c)	<b>Financial returns – Labour Productivity and Total Factor productivity</b>									
i.	PBDIT/Total Employment	Rs. Lac/ empl oyee	1.11	1.96	07	4.06	2.97	2.52	2.08	1.63
ii.	Added Value/ Gross Sales	%	33.22	37.92	09	39.40	35.73	34.22	32.62	30.90

\* Assumptions for MOU 2006-07 :-

On the basis of LME Price of US \$ 4000 per tonne and exchange rate of 1 US\$ = Rs 44.50. Further, calculations are based on 7.5% customs duty on different finished copper products.

II. Dynamic Parameters (30%)										
Sl. No.	Performance	Unit	B.E. 2005-2006	B.E 2006-2007	Wei-ght	Performance Rating				
						Exce-llent	Very Good	Good	Aver-age	Poor
i.	<b>Quality</b> a) Net revert generation at KCC Smelter as % of new anode production	%			01	0	2	4	6	8
	b) Net revert generation at ICC Smelter as % of new anode production	%			01	0	0.5	0.53	0.55	0.58
	c) Acceptance % of CCR of TCP	%			01	96	87	83	78	73
ii.	Customers Satisfaction (To achieve complaint free quality standard)	%			02	100	95	90	85	80
iii.	HRD(Employee training & motivation)	Man-days			02	5500	5225	4964	4716	4480
iv.	Injury Severity Rate (no. of mandays lost/ million men hours worked)	No.			04	350	400	420	440	460
v	Maintenance cost to net block of Plant and Machinery	%	2.50	2.50	04	2.00	2.50	3.00	3.50	4.50
vi	Inventory holding of stores & spares	Mon-th's cons-umpti on	6	6	03	5	6	8	9	10
vii.	Average interest cost	%	10.75	10.75	03	10.50	10.75	11.00	12.00	13.00
viii	Precious metal (Gold & Silver) realisation	Rs in crore	30	35	03	38	35	33	31	29
ix.	a) Submission of Restructuring Proposal to Administrative Ministry based on Consultant's Report for onward placement before BRPSE	Month			02	15 <sup>th</sup> May, 2006	31 <sup>st</sup> May, 2006	15 <sup>th</sup> June, 2006	30 <sup>th</sup> June, 2006	15 <sup>th</sup> July, 2006
	b) Acceptance of Application by LME for LME registration	Month			03	30 <sup>th</sup> Nov, 2006	31 <sup>st</sup> Dec, 2006	31 <sup>st</sup> Jan, 2007	28 <sup>th</sup> Feb, 2007	31 <sup>st</sup> Mar, 2007
	c) Export of first consignment of product in connection with testing for LME registration	Month			01	28 <sup>th</sup> Feb, 2007	31 <sup>st</sup> Mar, 2007	-	-	-

Sl. No.	Performance	Unit	B.E. 2005-	B.E 2006-	Wei-ght	Performance Rating				
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			2006	2007		Exce- llent	Very Good	Good	Aver- age	Poor
III	<b>Sector Specific (10%)</b>									
	Production Performance									
a)	Excavation at MCP	LM <sup>3</sup>			02	39.00	36.00	34.20	32.40	30.60
b)	Ore Production	Million T			02	3.30	3.10	2.90	2.75	2.60
c)	Metal in concentrate	T	31000	32000	03	32500	29500	28000	26500	25000
d)	Cathode Copper	T	40000	42000	03	45000@	42000	40500	39000	37500
IV	<b>Enterprise – specific &amp; Efficiency parameters (10%)</b>									
a)	Power Consumption– Ore to concentrate at MCP	KWH/ T			01	17.5	19.5	20.5	21.5	22.5
b)	Oxygen Consumption – Per Ton of New Anode at KCC	NM <sup>3</sup>			01	675	750	785	825	865
c)	Oxygen Consumption – Per Ton of New Anode at ICC	NM <sup>3</sup>			01	385	425	445	465	490
d)	Fuel Consumption – Per Ton of New Anode at KCC Smelter	Lit.			01	630	700	730	760	800
e)	Fuel Consumption – Per Ton of New Anode at ICC Smelter	Lit.			01	395	440	460	480	500
f)	Yield at KCC Smelter – New Anode Prodn. per ton of fresh conc. Consumption	%			01	95	93	92.5	92	91.5
g)	Yield at ICC Smelter – New Anode Prodn. per ton of fresh conc. Consumption	%			01	95	93	92.5	92	91.5
h)	Power consumption per tonne of new anode at KCC Smelter	Kwh			01	810	900	945	990	1040
i)	Power consumption per tonne of new anode at ICC Smelter	Kwh			01	1050	1100	1150	1200	1250
j)	Anode Scrap Generation At KCC and ICC Refinery – as % of cathode copper production	%			01	21	23	24	25	26

@ Based on 7 parcel of imported concentrates equivalent to 21070 tonnes of MIC for supplementing the indigenous production.

#### Part IV : COMMITMENTS/ASSISTANCE FROM THE GOVERNMENT

1. To facilitate the early transfer of Mosaboni and Rakha townships of HCL located in the east Singhbhum district of Jharkhand to the State Govt. of Jharkhand for which a Notification dated 7.6.2005 has been issued by the State Govt. regarding appointment of Receiver for taking over of the twin townships.

2. To consider and issue Govt. guarantee for the term loan of Rs.150 crore to be availed by HCL from Banks for repayment of 10.65% Govt. guaranteed bonds of Rs. 150 crore due for redemption in two instalments of Rs. 75 crore each on 1.4.2006 and 1.7.2006.
3. To persuade the State Govt. of Madhya Pradesh to resolve the pending issues pertaining to :
  - i) Imposition of excess Govt. duty on power supplied to MCP.
  - ii) Exemption of MCP from payment of export duty for movement of Concentrate out of the State.
4. To enable the Company to stop attrition of experienced and skilled human resource, Ministry may kindly consider and convey Govt. approval in respect of the following proposals submitted to the Ministry after due approval of the Board of HCL :
  - i) Proposal for restoration of retirement age to 60 years.
  - ii) Proposal for pay revision of the employees of the Company fallen due since 1.1.1997.

**Part V : ACTION PLAN FOR IMPLEMENTATION AND MONITORING OF THE MOU**

HCL undertake to submit the quarterly reports on the various performance areas regularly. Board/ Committee of Directors of the Company will review the progress of the MOU every month.

To ensure that MOU system is properly monitored in the DPE, the following activities would be taken into consideration in MOU for the year 2006-07 :

- (i) Timely submission of Draft MOU for 2007-2008 after due discussion with Administrative Ministry/ Department with the target date of 30<sup>th</sup> November ,2006.
- (ii) Timely submission of Performance Evaluation Report (composite score) for the year 2005-2006 on the basis of the provisional data with adjustments, if any, through administrative Ministries/Departments with proper justification by target date of 30<sup>th</sup> April, 2006.
- (iii) Timely signing of MOU for the year 2006-07 with the target date of 31<sup>st</sup> March, 2006.
- (iv) Timely submission of Performance Evaluation Report (composite score) for the year 2005-06 on the basis of Audited data with target date of 15<sup>th</sup> October, 2006.
- (v) The data for compilation of Public Enterprise Survey 2005-06 including flash results for the six months ending 30<sup>th</sup> September,2006 should be submitted timely by the PSEs with the target date of 15<sup>th</sup> October,2006.

**(Satish C. Gupta)**  
**Chairman-cum-MD**  
**HINDUSTAN COPPER LIMITED**

**( A K D Jadhav)**  
**Secretary**  
**MINISTRY OF MINES**

**FIVE YEARS DATA FOR THE PERFORMANCE INDICATORS INCLUDED IN MOU OF HCL**

Particulars	2005-2006 (Prov.)	2004-2005	2003-2004	2002-2003	2001-2002
Metal in Concentrate (Tonnes)	24788	28926	28306	30824	34282
Refined Copper (Cathode)(Tonnes)	38368	24186	30598	36575	40218
Gross Margin (Rs.in Crore)	167.47	127.79	33.73	(53.03)	(57.61)
Net Profit/(Loss) (Rs.in Crore)	110.07	52.06	(56.16)	(147.70)	(184.04)
LME Average(US \$)	4000.00	3000.18	2045.93	1586.12	1526.52
Customs Duty (%)	10%	20/15%	25/20%	25%	35%



**DETAILS OF  
FINANCIAL ANALYSIS**

LME US \$	4000	MOU 2006-07						
		B.E. 2006-07	B.E. 2005-06	EXCELLENT	VERY GOOD	GOOD	AVERAGE	POOR
Gross Sales	Rs Cr	870.63	774.77	1153.56	1077.22	1038.89	1000.55	962.21
Gross Margin	Rs Cr	112.27	69.05	229.57	168.51	143.40	118.56	93.84
Gross Profit/(Loss)	Rs Cr	91.56	43.15	208.86	147.80	122.69	97.85	73.13
Net Profit/(Loss)	Rs Cr	59.91	6.99	179.71	118.35	93.20	68.33	43.57
<b>PBDIT</b>								
Net Profit/(Loss)	Rs Cr	59.91	6.99	179.71	118.35	93.20	68.33	43.57
Add:Interest	Rs Cr	31.65	36.16	29.15	29.45	29.49	29.53	29.56
Add:Depreciation	Rs Cr	18.05	18.05	18.05	18.05	18.05	18.05	18.05
<b>PBDIT</b>	<b>Rs Cr</b>	<b>109.61</b>	<b>61.20</b>	<b>226.91</b>	<b>165.85</b>	<b>140.74</b>	<b>115.90</b>	<b>91.18</b>
<b>Total Employment</b>	<b>No.</b>	<b>5601</b>	<b>5500</b>	<b>5583</b>	<b>5583</b>	<b>5583</b>	<b>5583</b>	<b>5583</b>
<b>Added Value</b>								
Gross sales	Rs Cr	870.63	774.77	1153.56	1077.22	1038.89	1000.55	962.21
Less: Excise duty	Rs Cr	116.06	100.68	157.24	146.77	141.54	136.31	131.07
Less: Discounts	Rs Cr	9.38	36.74	49.98	46.45	44.69	42.92	41.16
Add:Stock Incr/(Decr)	Rs Cr	(36.26)	(42.30)	0.00	0.00	0.00	0.00	0.00
Less:Raw Material	Rs Cr	137.96	103.76	248.19	261.10	263.01	264.67	266.08
Less:Power,Fuel & Oxygen	Rs Cr	174.43	174.35	176.31	175.35	173.81	172.23	170.80
Less:Stores & Spares	Rs Cr	66.40	59.57	67.34	62.70	60.38	58.05	55.73
<b>Added Value</b>	<b>Rs Cr</b>	<b>330.14</b>	<b>257.36</b>	<b>454.49</b>	<b>384.85</b>	<b>355.47</b>	<b>326.36</b>	<b>297.37</b>
Gross Block	Rs Cr	747.35	732.54	723.73	723.73	723.73	723.73	723.73
<b>Net Worth</b>								
Share Capital	Rs Cr	1070.45	1013.95	978.95	978.95	978.95	978.95	978.95
Accumulated Profit/(Loss)	Rs Cr	(611.66)	(777.62)	(491.86)	(553.22)	(578.37)	(603.24)	(628.00)
Deferred Expenditure	Rs Cr	0.00	6.95	0.00	0.00	0.00	0.00	0.00
<b>Net worth</b>	<b>Rs Cr</b>	<b>458.79</b>	<b>229.38</b>	<b>487.09</b>	<b>425.73</b>	<b>400.58</b>	<b>375.71</b>	<b>350.95</b>
<b>Capital Employed</b>								
Net block	Rs Cr	232.73	213.09	209.11	209.11	209.11	209.11	209.11
Net working capital	Rs Cr	139.43	39.67	218.07	156.71	131.56	106.69	81.93
<b>Capital Employed</b>	<b>Rs Cr</b>	<b>372.16</b>	<b>252.76</b>	<b>427.18</b>	<b>365.82</b>	<b>340.67</b>	<b>315.80</b>	<b>291.04</b>
Net Block of Plant & Machinery	Rs Cr			155.00	155.00	155.00	155.00	155.00
Maintenance Cost of Plant & Machinery	Rs Cr			3.10	3.88	4.65	5.43	6.98
Stores & Spares Inventory	Rs Cr			32.00	32.00	32.00	32.00	32.00
Stores & Spares Consumption	Rs Cr			67.34	62.70	60.38	58.05	55.73

**HINDUSTAN COPPER LIMITED****BALANCE SHEET PARTICULARS**

(RS IN CRORE)

PARTICULARS	AS ON 31.03.2002 (ACTUAL)	AS ON 31.03.2003 (ACTUAL)	AS ON 31.03.2004 (ACTUAL)	AS ON 31.03.2005 (ACTUAL)	AS ON 31.03.2006 (Prov./RE)	AS ON 31.03.2007 (Proj)
<b><u>NET FIXED ASSETS</u></b>						
OPENING BALANCE	265.08	241.79	231.36	217.09	202.15	204.76
ADDITIONS(net)	(1.35)	10.17	5.81	4.99	23.72	25.00
DEPRECIATION DURING THE YEAR	21.94	20.60	20.08	19.93	21.11	20.65
CLOSING BALANCE	241.79	231.36	217.09	202.15	204.76	209.11
<b><u>WORKING CAPITAL</u></b>						
CURRENT ASSETS :-						
INVENTORIES	200.82	173.90	169.96	225.64	264.30	289.26
SUNDRY DEBTORS	20.95	6.18	18.07	11.55	17.84	15.00
CASH & BANK BALANCE	79.35	128.82	17.03	7.55	10.32	10.50
OTHER CURRENT ASSETS	2.53	2.04	1.32	1.06	1.01	0.96
LOANS & ADVANCES	53.15	49.24	48.78	55.55	49.05	45.55
<b>TOTAL CURRENT ASSETS</b>	<b>356.80</b>	<b>360.18</b>	<b>255.16</b>	<b>301.35</b>	<b>342.52</b>	<b>361.27</b>
CURRENT LIABILITIES :-						
SUNDRY CREDITORS & OTHER LIABILITIES	316.58	347.15	216.71	224.42	174.42	148.80
PROVISIONS	32.71	38.98	39.47	42.99	50.10	55.76
<b>TOTAL CURRENT LIABILITIES</b>	<b>349.29</b>	<b>386.13</b>	<b>256.18</b>	<b>267.41</b>	<b>224.52</b>	<b>204.56</b>
<b>NET WORKING CAPITAL</b>	<b>7.51</b>	<b>(25.95)</b>	<b>(1.02)</b>	<b>33.94</b>	<b>118.00</b>	<b>156.71</b>
<b>TOTAL CAPITAL EMPLOYED</b>	<b>249.30</b>	<b>205.41</b>	<b>216.07</b>	<b>236.09</b>	<b>322.76</b>	<b>365.82</b>
PAID UP CAPITAL	710.11	795.11	908.95	948.95	948.95	978.95
RESERVE & SURPLUS	(632.40)	(780.06)	(836.19)	(781.64)	(671.57)	(553.22)
DEFERRED REVENUE EXPDR	7.41	0.00	3.37	0.00	0.00	0.00
<b>TOTAL NET WORTH</b>	<b>70.30</b>	<b>15.05</b>	<b>69.39</b>	<b>167.31</b>	<b>277.38</b>	<b>425.73</b>

**HINDUSTAN COPPER LIMITED****PROFIT/(LOSS) PARTICULARS**

(RS IN CRORE)

PROFIT & LOSS PARTICULARS	2001-02		2002-03		2003-04		2004-05		2005-06		2006-07
	MOU TARGET	AUDITED ACTUALS	MOU TARGET	AUDITED ACTUALS	MOU TARGET	AUDITED ACTUALS	MOU TARGET	AUDITED ACTUALS	MOU TARGET	ANTICI- PATED	MOU TARGET
											<b>V. GOOD</b>
<b>INCOME</b>											
GROSS SALES	697.79	604.98	623.16	505.68	535.61	518.87	410.60	559.11	774.77	973.50	1077.22
OTHER INCOME	7.09	26.17	6.91	10.49	5.60	12.96	5.60	12.49	6.00	33.51	11.96
ACCRETION/(DEPLETION) OF FINISHED STOCKS & WORK- IN-PROGRESS	0.00	(44.50)	0.00	(14.64)	0.63	2.60	0.00	59.64	(42.30)	5.83	0.00
<b>TOTAL</b>	<b>704.88</b>	<b>586.65</b>	<b>630.07</b>	<b>501.53</b>	<b>541.84</b>	<b>534.43</b>	<b>416.20</b>	<b>631.24</b>	<b>738.47</b>	<b>1012.84</b>	<b>1089.18</b>
<b>EXPENDITURE</b>											
RAW MATERIALS	100.61	106.48	122.89	78.15	118.28	49.05	0.00	30.35	103.76	216.31	261.10
EXCISE DUTY	95.80	77.92	87.62	71.27	75.94	66.80	56.71	76.36	100.68	129.18	146.77
POWER & FUEL	164.08	168.42	166.65	150.29	161.87	131.45	131.41	105.97	174.35	163.86	175.35
SALARIES & WAGES	121.34	130.49	102.02	114.75	87.61	91.84	80.66	86.92	94.58	110.68	112.63
OTHER MFG. & OVERHEAD	152.61	160.95	149.81	140.10	149.27	161.56	138.86	203.86	196.04	225.34	224.82
<b>TOTAL</b>	<b>634.44</b>	<b>644.26</b>	<b>628.99</b>	<b>554.56</b>	<b>592.97</b>	<b>500.70</b>	<b>407.64</b>	<b>503.46</b>	<b>669.41</b>	<b>845.37</b>	<b>920.68</b>
<b>GROSS MARGIN</b>	<b>70.44</b>	<b>(57.61)</b>	<b>1.08</b>	<b>(53.03)</b>	<b>(51.13)</b>	<b>33.73</b>	<b>8.56</b>	<b>127.79</b>	<b>69.05</b>	<b>167.47</b>	<b>168.51</b>
PROVISIONS & WRITE OFFS	10.27	39.63	9.42	17.10	0.91	12.56	6.50	15.37	7.85	4.11	2.66
DEPRECIATION	22.25	19.37	19.13	18.00	19.13	17.70	18.35	17.37	18.05	18.51	18.05
<b>GROSS PROFIT/(LOSS)</b>	<b>37.92</b>	<b>(116.61)</b>	<b>(27.47)</b>	<b>(88.13)</b>	<b>(71.17)</b>	<b>3.47</b>	<b>(16.29)</b>	<b>95.05</b>	<b>43.15</b>	<b>144.85</b>	<b>147.80</b>
INTEREST	90.21	67.43	64.55	59.57	58.34	59.63	51.38	42.99	36.16	34.78	29.45
<b>NET PROFIT/(LOSS)</b>	<b>(52.29)</b>	<b>(184.04)</b>	<b>(92.02)</b>	<b>(147.70)</b>	<b>(129.51)</b>	<b>(56.16)</b>	<b>(67.67)</b>	<b>52.06</b>	<b>6.99</b>	<b>110.07</b>	<b>118.35</b>
<b>CAPITAL EMPLOYED</b>	<b>222.27</b>	<b>249.30</b>	<b>222.27</b>	<b>205.41</b>	<b>24.93</b>	<b>216.07</b>	<b>199.18</b>	<b>236.09</b>	<b>252.76</b>	<b>322.76</b>	<b>365.82</b>
<b>NET WORTH</b>	<b>(343.47)</b>	<b>70.30</b>	<b>(138.14)</b>	<b>15.05</b>	<b>(84.61)</b>	<b>69.39</b>	<b>123.50</b>	<b>167.31</b>	<b>229.38</b>	<b>277.38</b>	<b>425.73</b>

CAPACITIES AND 2006 – 07 BE TARGETS

Parameter	Capacity	2006-07 MOU (Very Good)	
MCP Excavation(M <sup>3</sup> )	Not Applicable	36.00	Lakh/annum

MinesOre Production(MT)

Khetri Mine	4.0 Lakh/annum	4.50	Lakh/annum
Kolihan Mine	6.0 Lakh/annum	5.50	Lakh/annum
MCP	20.0 Lakh/annum	21.00	Lakh/annum
Total :	30.0 Lakh/annum	31.00	Lakh/annum

ConcentratorOre Milling (MT)

Khetri	18.15 Lakh/annum	10.65	Lakh/annum
MCP	20.00 Lakh/annum	21.00	Lakh/annum
Total :	38.15 Lakh/annum	31.65	Lakh/annum

Metal in Concentrate (MT)

Khetri	Not Applicable	9500	/annum
MCP	Not Applicable	20000	/annum
Total :	Not Applicable	29500	/annum

Smelter & RefineryCathode(MT)

KCC	31,000/annum	26000	/annum
ICC	16,500/annum	16000	/annum
Total :	47,500/annum	42000	/annum

Wire Rod

TCP	60,000/annum	52000	/annum
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