CORPORATE PARTICIPANTS

T V Narendran, CEO & MD – Tata Steel Limited
Koushik Chatterjee, ED & CFO – Tata Steel Limited
Samita Shah, VP Corporate Finance, Treasury, & Risk Management – Tata Steel Limited

CONFERENCE CALL PARTICIPANTS

Amit Murarka, Axis Capital
Ashish Kejriwal, Nuvama
Ashish G. Jain, Macquarie Research
Gopal Sarda, SBI
Indrajit Agarwal, CLSA
Kirtan Mehta, BOB Capital
Satyadeep Jain, Ambit Capital
Sumangal Nevatia, Kotak Securities
Tarang Agarwal, OldBridge Capital

PRESENTATION

Operator:

Ladies and gentlemen, good day, and welcome to the Tata Steel call. Please note that this meeting is being recorded. All the attendees, audio and video has been disabled from the backend and will be enabled subsequently. I would now like to hand the conference over to Ms. Samita Shah. Thank you and over to you ma'am.

Samita Shah: ***VP CFTRM – Tata Steel Limited***

Thank you, Kinshuk. Thank you for joining us on this call, especially given the very short notice. You may have seen the press release, which we issued an hour or so back, which talked about our plans for our operations in the UK. We wanted to discuss and share some details with you all and also answer any questions that you may have in this regard. Before I hand it over to them, I would just like to mention that the safe harbour clause, which is normally included in our presentations, will cover the entire discussion. Thank you, and over to you, Naren.

T. V. Narendran: CEO & MD - Tata Steel Limited

Thanks, Samita. Good morning, good afternoon, good evening to everyone who has dialled in. We had some developments which we wanted to update all of you about. This is regarding our operations in the UK. You must have seen the press reports that we have come to an understanding with the government in the UK, with investments both from the UK government and from Tata Steel to secure the future of the site and build a more competitive and greener steel. I'll request Koushik to walk you through the details of the understanding that we've come to with the government. Also, this is to be followed by meaningful consultations with unions and then final conclusion on way forward. Over to you, Koushik.

Koushik Chatterjee: ED & CFO – Tata Steel Limited

Thank you, Naren. Good morning, good afternoon, and good evening to all those who have joined in at very short notice. As you would recall, we had in our earlier call, said that we are entering into a decisive phase for the future of Tata Steel UK, and we need to address the structural issues facing the [inaudible] business.
We have spoken in the past about the structural issues and challenges faced by Tata Steel UK essentially due to several assets approaching end of life, especially in Port Talbot on the heavy end. This results in higher outages, higher operating

costs, and pressure on quality of material produced. This has also adversely impacted the financial performance, which has deteriorated significantly over the years. In FY23, TSUK EBITDA was -ve £127 million and in the first quarter, the EBITDA loss was about £39 million while cash funding requirement was about £163 million. This is obviously not a position that is financially sustainable, and we have been working for some time now on crafting a sustainable path forward for this site and the business and have evaluated several options. Reinvestment in the existing asset is neither economically nor environmentally viable as the carbon cost currently is almost £70 million a year. Any other counterfactual would have been a long run process and would have resulted in significant cost with implications across the company.

In our discussions with the UK government, which Naren and I have been updating you in every call, we wanted to address three or four key outcomes. One, UK is a fairly stable and large geography of 9 million tons of steel consumption per annum with value-added product mix. We have a meaningful presence with a market share of over 50% in automotive, 43% in construction and about 62% in packaging [inaudible] in the UK. We have a strong and valued relationship with the customers and would be seeking to continue to serve them in the future. Second, we have to address the issue of decarbonisation as this has actually become a very important business driver for the future sustainability of the business. Third, we wanted to ensure that any solution enables the business to be competitive and ensures the future of TSUK [inaudible] both operationally and financially. And fourth, a solution, which would preserve a significant amount of employment in the business and the larger ecosystem in the UK, especially in South Wales.

We are thus embarking on a transition which helps address the issue at a structural level and sets up Tata Steel UK for a sustainable and profitable future. As you would have read in the press release, we have reached an arrangement with the UK government to set up a 3 MTPA electric arc furnace (EAF) based green steel making facility at Port Talbot with a capital cost of £1.25 billion. This is supported by up to £500 million of grant by the UK government, which is about 40% of the total project cost. This is to be finalised over the next few months post the consultation process. During the transition and depending on the outcome of the consultation with the unions, the business will also require restructuring cost support.

This will be one of the first significant green steel projects in the UK and indeed, amongst the first in the Europe. It will reduce Port Talbot site carbon emissions by around 5 MTPA, equivalent to about 7% reduction in the UK business sector. Once the EAF is commissioned, the Tata Steel UK carbon emission intensity is expected to move from 2.16 to about 0.4 tons of CO_{2e} per tonne of crude steel produced. The project will also include a high degree of circularity as it will use the locally available scrap. UK presently generates around 10 million tons of scrap on an annual basis, which is largely exported and then imported back as steel. This facility will enable UK to leverage its domestic resources and save around 5,000 jobs in the process. Subject to all the relevant information and consultation process, it is proposed that this investment would be operational within 36 months after receiving all the regulatory approvals and planning approvals.

With the UK government support, the proposal has a strong business case and an investment case and its actually the best outcome for everybody, be it the company, the site, the employees, the shareholders, and every other stakeholder. We believe that this investment case is strong for a number of reasons. From an operating perspective, the problem has always been the legacy heavy end upstream. Due to the reasons I mentioned above, the cost of production of hot-rolled coil has been much higher, making the entire operations very challenging. At the same time, our downstream operations are deeply entrenched in the industrial chain in the UK. We are the largest steel producer and have a leading market share in our chosen segments. By replacing the aging and uncompetitive heavy end assets with new green facilities, the operations will be well positioned to be structurally competitive and avail the benefits of the UK's transition to a green and industrial economy. This includes the implementation of the carbon border leakage controls, which the UK government has already begun consultation in March 2023. This also includes the mandatory product standards and other policy measures, which will help the market to grow for low-carbon products. You are aware that the EU has outlined the carbon border adjustment mechanism and the transitional phase starts next month and it's expected to keep the steel prices higher across the region. TSUK's primary market is locally in the UK and in Western Europe. The UK government has also

introduced specific legislation for energy-intensive industries through the British Industry Supercharger scheme, which has drastically reduced the network cost and is making the industrial energy cost competitive in the UK.

Moving on to the impact on Tata Steel. As part of the transition, Tata Steel will also restructure its consolidated balance sheet, and that will reflect non-cash impairment of any legacy investments, including historical funding and support for the losses that have been incurred in Tata Steel UK. At the same time, the Tata Steel's financial outlook will improve on account of the elimination of steady cash losses once the transition happens and all the parental support that keeps ongoing for the UK business. As I have said, the spend on the proposed project supported by the UK government has a strong and robust investment case. And once we go through our consultation process, we will come to a definitive outcome. We are certainly focused on managing the consolidated cash flows of Tata Steel in such a manner so as to prioritise the growth in India while also pursuing decarbonisation aspirations in both the UK and the Netherlands.

In India, we remain on track to nearly double our steelmaking capacities to 40 million tonnes. As you are aware, we continue to prioritise the completion of the 5 MTPA capacity expansion in Kalinganagar. We're also focused on value-added downstream growth and product mix improvements. NINL, as we had reported earlier, has steadily ramped up its operation and is functioning close to rated capacity, and we remain committed to value accretive growth across all other chosen segments.

Separately, Tata Steel has a stated ambition to achieve global leadership in key technology areas and to leverage the broader ecosystem beyond its own research and development facilities. It is now entering into a memorandum of understanding to establish a centre for innovation at the Henry Royce Institute at the University of Manchester to focus on advanced materials for Tata Steel's current and future interest and another one at the Imperial College in London focused on sustainable manufacturing. Moving forward, these investments will further build Tata Steel's external collaboration network with academia in areas of interest to Tata Steel in the UK and across the world.

Tata Steel will continue to engage proactively and responsibly with its stakeholders over the coming months and will initiate formal consultation in relation to the proposed project as well as to the transition with its employee representatives as soon as possible. Tata Steel will also work to finalise the terms of the grant funding agreement with the U.K. government and engage with the Welsh government to seek requisite approvals and permits for the proposed project. The company will obviously disclose detailed transition and restructuring plans in due course, subject to the outcome of all applicable consultation process. With that, I'll complete my comments, and over to the floor for Q&A. Thank you.

QUESTIONS AND ANSWERS

Operator

The first question is from Sumangal Nevatia of Kotak Securities.

Sumangal Nevatia, *Kotak Securities:*

Firstly, congratulations to the team on this development. My first question is just to understand a little bit more on the grant. Is this grant a bit lower than what we were expecting because I believe the ask was somewhere around 50%? So one is that. And we were also talking about some grants on a regular basis as far as OpEx is concerned, so are there any such commitment [inaudible]? Also, I would like to understand what sort of commitments Tata Steel has given in exchange of this grant, especially in terms of employment in UK.

Koushik Chatterjee: *ED & CFO – Tata Steel Limited*

Sumangal, thank you for your questions. We have asked the government, as we ask everywhere, in Netherlands also, for a material grant. There is no finite number that we have always asked. We wanted this to be a collaborative and participative process. As you can see, 40% of the total capex is from the UK grant, which will come as we spend the money on the capital project. And that, I think, is very significant. And possibly the largest grant that the UK government has given in history. So, I think at least from steel industry perspective, this investment by itself will be the largest investment in many decades. The second part is opex grant. We have not asked for anything. What we have really requested is to look at the energy cost, and that has been asked for many years. And as I mentioned in my narrative, the energy network cost is a broader policy strategy that the government of UK has undertaken, which will result in the cost coming down significantly as it is happening anyway in the UK. We've also looked at and asked for policy support. The UK government has already moved on the carbon border adjustment mechanism, which is in some ways similar to Europe. And we are looking at policy support to ensure that the domestic scrap is value-added and a globally best-in-class ecosystem on scrap is developed in the UK. Beyond what we have disclosed, there aren't any further commitments from Tata Steel perspective. Tata Steel will go through the consultation, and based on the inputs from consultation and as the full meaningful process gets completed, we would look forward to this transition.

Sumangal Nevatia, *Kotak Securities:*

My second question, with respect to employment, what is the current count? What will the new configuration have if there is any visibility on that? What sort of timeline are we looking at for the consultation? At the same time, regarding the capex timeline, over what period this will be spent? When do we expect the plant to start?

Koushik Chatterjee: *ED & CFO – Tata Steel Limited*

Presently, TSUK employees, including downstream, constitutes about 8,000-plus people. Let the consultation happen. And once it gets completed, which typically takes around 45-60 days, maybe it's plus/minus because it's after all the conversation and meeting with the union representatives and understanding their views. It's ballpark in the region of 3 months. And that will give us the full sense of where the transition in terms of numbers. We are exploring all the options and discussing with the unions meaningfully. At the end of the process, we will certainly talk to you and disclose the details of that consultation process. Today is just the announcement where we are announcing the arrangement that we have entered with the government. The detailing will start from as soon as Monday, and then we will have to go through this process. Similarly, the capex, as I said, it should take 36 months from receipt of all approvals. There are some approvals that we will be initiating. We will be working with the Welsh government, the various other stakeholders, energy providers and so on and then come back again in due course of time. So, as I can say that this will be an update on every quarterly call and give you a sense of where we are headed and how we are heading.

Operator

The next question is from Indrajit Agarwal of CLSA.

Indrajit Agarwal, *CLSA*

I had a couple of questions. First, what would be the spread differential between a blast furnace-based operation that we currently have in UK and similar EAF based operation?

Koushik Chatterjee: *ED & CFO – Tata Steel Limited*

Typically, if I were to look at a steady state situation between our existing cost base and comparing it with steady state of this project, [inaudible] roughly about £150 to £170 per ton is the cost difference that we estimate when we shift to an EAF in the UK context.

T. V. Narendran: *CEO & MD - Tata Steel Limited*

To add, I think the point is our UK facility was not the perfectly balanced blast furnace operation because we did not have enough coke. We used to buy coke. We did not have enough gases. So, we used to buy more electricity from the grid than a typical blast furnace operation. The existing cost position for the Port Talbot plant is not really in the best quartile as far as the European steel producers are concerned, whereas with this shift in this configuration, we will be as competitive as anybody else in Europe. And the biggest advantage we have in the UK is that UK has its own scrap. It is one of the few European countries exporting a lot of scrap. We want to make use of that opportunity and add value from the scrap that is available locally.

Indrajit Agarwal, CLSA

So, the £150 to £175 per ton includes the savings on carbon cost as well?

Koushik Chatterjee: *ED & CFO – Tata Steel Limited*

It is the total cost. I think, as Naren mentioned, the U.K. plant, if you do a cost curve analysis on the existing blast furnace route, it will come in fourth quartile. And therefore, it has got its own cost disadvantages structurally and otherwise. The number of £150 – 175 per ton is essentially current cost position, including everything [inaudible] on a steady state basis.

Indrajit Agarwal, *CLSA*

My second question is on the restructuring costs. You mentioned about some restructuring costs that will be over and above this capex. Any quantification or any broad heads towards which this cost will be incurred?

Koushik Chatterjee: *ED & CFO – Tata Steel Limited*

This is what we will have to wait until the consultation gets done because after discussions with the unions, we will understand the kind of impact it will have, the timing and all of that. That is when we will be able to quantify the number, which as I said [inaudible], but we will have to go through it in the next couple of months. And maybe the next time we meet or very soon thereafter, we will be able to talk about it.

Indrajit Agarwal, *CLSA*

One more question, if I may. We have now entered into restructuring the UK asset and we have already initiated on the Netherlands asset as well. As of now, are we happy with the setup that we have in Europe or are we still looking for a partner or have any plans to hive off as of now?

Koushik Chatterjee: *ED & CFO – Tata Steel Limited*

We already have a partner in the UK government, and they have the funding. I guess that's where we are. And in due course of time, we are all optimistic that we'll have another partner in the Netherlands government. And as it happens, we will certainly be talking about it, too.

Operator

The next question from Kirtan Mehta of BOB Caps.

Kirtan Mehta, *BOB Caps*

Congratulations for arriving at a viable solution for UK. In terms of the £1.25 billion capex that we are committing, what would be the configuration of the units under this capex? What is the configuration that is envisaged around the EAF? And besides the EAF, what all components would it include?

Koushik Chatterjee: *ED & CFO – Tata Steel Limited*

Fundamentally, the EAF is the heart of the new configuration. What we also have is an upgradation program for two of the casters and the hot strip mill. It is simpler than in the blast furnace group from a configuration point of view. Majority or more than majority of the cost of this is on the EAF. And we have a balance of plant and essentially upgradation of the casters and hot strip mill, which is proposed to be retained in Port Talbot. We are also looking at where do we consolidate cold mill to ensure that the value-added products are also state-of-the-art.

Kirtan Mehta, *BOB Caps*

The second question was again about the configuration in terms of size at 3 million ton operations. So initially, the site had capacity of 9 million ton, which we had brought down to 3 million tons. So, are there any site constraints which restrict the operation at 3 million ton size? Or is it primarily the level of grant that can be supporting the current size? What has been the consideration to arrive at the 3 million ton size?

T. V. Narendran: *CEO & MD - Tata Steel Limited*

In Port Talbot, the capacity is about 3.5 million tons, but we produce about 3 million tons. When we were at 9 million tons, we had other sites as well, which are no longer with us. For this site, 3 million tons is the optimal size, and our proposal is to have one large electric arc furnace, which produces around 3 million tons. So that makes it very optimal for us. It would be amongst the largest electric arc furnaces in use. We will try to maximise on the electrical arc furnace size as well.

Kirtan Mehta, *BOB Caps*

Just one more question. You talked about UK government taking a broader look at the energy network cost, and that would bring down the cost. Could you give us a bit more sort of understanding about what exactly is being undertaken and what would be changing there?

Koushik Chatterjee: *ED & CFO – Tata Steel Limited*

There are two parts normally. There is a generative cost, which is reflected in the wholesale price. Then there is the network cost, which is the transmission cost and then that lands up into the users' industrial or consumer space. Because of the cost differential that used to exist, the UK government undertook a supercharger scheme whereby the network cost of large consumers has been reduced very significantly, so making the landed cost more equivalent to the wholesale price, and that's been a huge benefit. The second thing that is also happening is that UK is getting more and more into renewables, and it is going to be one of the top 3 or 4 largest producers of offshore energy. I think those are the ways in which the cost is also coming down. I think that is the migration that you can see if you track the UK energy cost, which picked up during the Russia Ukraine crisis when natural gas prices had shot up. But over the last year, it has kept trending down. With more and more offshore energy coming in, the grid prices are expected to come down further.

Operator

The next question is from Ashish Jain of Macquarie.

Ashish Jain, *Macquarie*

The first question is in terms of the assumptions we have made to be comfortable with the £500 million grant. Is there any underlying assumption on power cost or employee cost? Historically, they have always been referred to as some of the key reasons for our cost structure in the UK. And secondly, earlier in the call, you gave a number of £30 million EBITDA loss in UK, in the first quarter. We are also giving a commitment that we will continue to supply to UK until the time the plant is commissioned from some source or the other. So, how should we think about that because if the current run rate of profitability sustains, then the grant might just get wiped out purely on the back of the losses. So how should we think about that?

Koushik Chatterjee: *ED & CFO – Tata Steel Limited*

You have got multiple questions so, let me break this up. As I said that starting Monday, we will first have to look at having the conversation with the unions on the project and the proposal and where our current challenges are, what we can do in the medium term and what can we do in the long term. This is an engagement that we are proposing to do, and we are talking to the unions to ensure that they are aware, and we will exchange our thoughts and views and risks and opportunities that will come about.

Once that is done, there will be a positioning of what would the restructuring of TSUK mean? What would be the timing? How would it impact us? Will it impact everybody else? If you look at the press release also, we have mentioned what are we going to do during the transition time. Within the transition time, we may have to import hot rolled coil from elsewhere. All of those are part of this exercise. Our intention is to move beyond the capex and the restructuring to a cash-neutral position so that we can sustain the business and continue supply of our products to the customers on an uninterrupted basis, which is critical because of our very meaningful market share. And then as the project comes in line, we do the transition back into integrated steelmaking. So, this is the phasing of it. As I said that there is some due process that we must go through. Once the due process, which will not take endless time is done, we will come and give you the full picture, including the business assumptions that we have considered. This presents a very attractive business case because the carbon cost itself is about £70 - 80 million per year. And I think many of these assumptions will hold true when we do the migration. From an energy point of view, yes, energy was an issue. But the world of energy is also changing very fast. The regulatory framework is changing very fast. So those benefits will flow on into the transited view.

Ashish Jain, *Macquarie*

Is it safe to assume that purely as a part of the negotiation with the government we are only getting this as one time amount? Because a lot of energy stuff you said is anyway a part of the broader process that the government is taking. Labour seems like it is left to us to negotiate and discuss and settle. So probably from a government point of view, the £500 million is all we are getting? Or is there something else which is a part of the broader deal?

Koushik Chatterjee: *ED & CFO – Tata Steel Limited*

The government is not only giving £500 million, but there is also a lot of policy support that is coming in, which are critical enablers to make this transition. Our employees are our responsibility always. So that will remain with us.

T. V. Narendran: *CEO & MD - Tata Steel Limited*

Regarding the power infrastructure, the government will help in that because the power infrastructure, which supplies the energy to an EAF-based operation, needs to get upgraded. And on that, the government is also working with us, not only to expedite it, but to make sure that it happens.

Ashish Jain, *Macquarie*

Just one last question I had. As per the FY2023 annual report at the Tata Steel Europe level, there was a £1.3 billion loan to Tata Steel Europe from the parent. As a part of this restructuring, will write off in the books [inaudible]? Is that the way we should think?

Koushik Chatterjee: *ED & CFO – Tata Steel Limited*

I will come to you in end October when we do the 2Q results, I will come and give you specific answers as to what restructuring we are going to do. The £1.3 billion represents 3 parts. Just to give you a clarity, it's not on UK only. There is some amount of working capital loan, which is on Tata Steel Netherlands, which is effectively trade finance, which is securitisation etc. There is some amount of the legacy senior facilities debt, which is about €300 million, which is on the old acquisition cost, which is still there. Then there are leases of around, I think, £200 million on that £1.3 billion, and then there is working capital loan of TSUK. While you are seeing consolidated Tata Steel Europe, these are 3 or 4 things. Some of it will continue. Some of it will get restructured. And when we talk about it in the 2Q results, I will give you specific inputs on what happened to each of them.

Operator

The next question is from Ashish Kejriwal of Nuvama.

Ashish Kejriwal, *Nuvama*

You spoke about £150 - 170 per ton cost saving between the existing blast furnace and proposed EAF. If you do the math, 3 million tons is just 1 - 1.5 years of cost, which we can easily accrue from our own operation. Then why have we waited for so long and tried to discuss with the government for a grant of £500 million only. Second, during the transition period, will we continue to operate the same way as we have been doing until the new capacity comes in?

Koushik Chatterjee: *ED & CFO – Tata Steel Limited*

We are going to the union on the deep restructuring, especially in the context of the fact that the heavy end is unsustainable and carbon-intensive and financially challenging for us to continue. So, you can do your own inference, but I can talk specifically once the consultation is over because there is a due process that we need to follow. As far as waiting too long, there is always wating for all the stars to get aligned. £500 million is not a small number. It is a very significant number in the context of the capital estimates that we are doing. It is just not the £500 million grant, but it is also a lot of policy supports that has to emerge, which is what I mentioned and Naren also talked about. All of these had to come to fruition. That is the reason [inaudible] the project configuration earlier was slightly different. It was more capex heavy. We reworked it, and it took some time and came to something which is fit for purpose and creates value for everybody. It is not that time was wasted on anything. In between, you also had FY2021 and FY2022 in which the business was self-sufficient.

T. V. Narendran: *CEO & MD - Tata Steel Limited*

I think it should be kept in mind that until 5 years back, carbon cost was not significant. So today, the carbon cost is significant. And going forward, the free allowances will get phased out as a carbon border adjustment mechanism comes in. So, what did not make sense 5 years back makes more sense today.

Ashish Kejriwal, *Nuvama*

So, just to get a sense, you said £70 million carbon cost per year, which we incur for UK operation?

Koushik Chatterjee: *ED & CFO – Tata Steel Limited*

Yes. That's correct. You see it is all dependent on the price of the carbon because there is generation of carbon, then there are free allowances that come, which, as Naren mentioned, is also going to keep coming down. So, the gap will continue to increase. And then you have the market price of carbon, which is what you have to purchase or pay for.

Ashish Kejriwal, *Nuvama*

Just to clarify on the Capex part, this £700 million we have to incur, and government will simultaneously supplement that. Or will it be once we commission [inaudible]?

Koushik Chatterjee: *ED & CFO – Tata Steel Limited*

No, this is paid in arear of maybe a quarter or so. That's what we are talking about.

Operator

The next question is from Tarang Agarwal of Old Bridge Capital.

Tarang Agrawal, *OldBridge Capital*

I know it is under consultation right now, but do you anticipate significant restructuring cash outflows in this process?

Koushik Chatterjee: *ED & CFO – Tata Steel Limited*

Based on the transition plan, there will be cash outflow depending on how we look at the transition and the restructuring. But whether it will be significant or not depends on where we stand. If you hold on until the completion of the consultation process, it would be more appropriate to give those numbers and the detail behind it. But fundamentally, it is the cost of the restructuring and the scope and nature and timing of the restructuring. That is what we are looking at.

Tarang Agrawal, *OldBridge Capital*

When you say that the cost per ton would come off by about £150 – 170 per ton. Is this assuming that the facility was in existence today? Or are you considering what would have been our costs 3 year hence of our current setup versus the proposed setup?

Koushik Chatterjee: *ED & CFO – Tata Steel Limited*

I am comparing what our current state is versus the investment case that we have built based on the state that we will be in. And we are looking at the fundamentals, then that is where the differences are. As Naren mentioned, structurally, the current state has fair bit of deficiencies in cost because of the age of the plant and various other stuff. Post restructuring, post transition, post new assets what will be the cost structure and that difference on a steady state is what I mentioned.

Operator

The next question is from Ritesh Shah of Investec.

Ritesh Shah, *Investec*

First, sir, you gave a number £160 per ton. The carbon intensity for electric arc furnace, did you indicate around 0.4 versus what we have right now of 2.2? Are these numbers broadly, right?

Koushik Chatterjee: *ED & CFO – Tata Steel Limited*

Yes, you are right.

Ritesh Shah, *Investec*

If you look at the differential its 1.8, if you assume the carbon price right now, I don't know what it is, but if you assume say $100, are we looking at straightway a differential of $180 per ton?

Koushik Chatterjee: *ED & CFO – Tata Steel Limited*

There is a free allowance still continuing until 2032. When you emit and net off against free allowances, the carbon will be a very small portion because there is no coal consumption in the scrap, it is only the energy related. I think the equation which I compared to was not related to carbon, it was related to the raw materials, the power cost, the utilities, the employment costs, and maintenance costs and so on. So, it's a complete list and not just a carbon differential.

Ritesh Shah, *Investec*

If we remove the carbon part, allowances and the carbon intensity differential and the carbon price, how much will be the cost differential instead of £160 per ton, if you just strip out carbon as an element?

Koushik Chatterjee: *ED & CFO – Tata Steel Limited*

That's why I said that it is the total cost, so the carbon will be about £50 - £60 per ton. So at least £100 per ton differential will continue to remain.

Ritesh Shah, *Investec*

Right. So that's £100 per ton, excluding carbon. Now if you look at our last published UK sustainability report, I think we have very categorically indicated that the UK energy prices are 60% higher. And this is despite, I think, the prevailing two schemes, wherein the company is already availing the benefit. So, in your remarks, you indicated that we would continue to benefit from the ongoing government schemes. The question is then why do we say that our energy prices are 60% higher compared to rest of Europe? Does it give us a level playing field, given we are also categorically indicating that we are not looking at any opex subsidies? So how does this change the cost curve line, specifically for energy cost?

Koushik Chatterjee: *ED & CFO – Tata Steel Limited*

I'm not sure whether we are comparing the right numbers. And maybe offline, I can explain to you what has been given in the sustainability report of TSUK because the British Supercharge scheme came after that. We can do the numbers and give you the full details. That is not a problem. But I stay with the differential on the cost. I think the energy cost is coming down. And our purchased electricity will significantly increase compared to currently because we do have coal generation at this point in time. That will keep going down. The electricity purchase per [inaudible] will increase, but the cost per unit will continue to keep coming down because of the way in which the mix in the grid electricity costs in Europe are happening. In FY23, [inaudible] had a higher energy cost. As I said, it is more a last 12 month phenomenon that is happening. Those details we can discuss when we talk specifically on the assumptions that we have considered.

Ritesh Shah, *Investec*

Last question. How is EAF a solution? Because if you look at eventually scope 1, 2 and 3, effectively the power what you are getting, it is probably not green power. Specifically, what we intend to do for Netherlands based on my reading, I understand we are effectively going for green hydrogen based DRI, while the capex intensity is significantly higher. So EAF, it looks good on the face of it. But does it solve the problem? Or are we looking at further capex wherein the eventual goal is green hydrogen based DRI? So, are we looking at something beyond £1.2 billion?

T. V. Narendran: *CEO & MD - Tata Steel Limited*

See, on a like-to-like basis, irrespective of the source of energy, the carbon footprint, assuming a lot of the power is coming from coal, the carbon footprint of an EAF operation is typically 20% of our blast furnace operation. So, it's 0.4. Now on top of that, if you use green energy, you can bring down that from 0.4 - 0.5 to lower levels. So, when Koushik said 0.4 compared to 2.1, that's assuming the existing grid mix. What we are hearing from the UK government is also that over a period of time, the green sources of energy will be a bigger and bigger part of the mix. And if that is so, the carbon footprint can come down even further. So that's a natural advantage of EAF because it does not use coal directly in the process. And even if you use scope 1, 2, 3, this difference exists.

Ritesh Shah, *Investec*

We won't go for green hydrogen based DRI?

T. V. Narendran: *CEO & MD - Tata Steel Limited*

That is when you talk of Netherlands. The difference between Netherlands and the UK is that UK has a lot of scrap, which it is exporting. So that is why we are trying to use that scrap because that's a natural strategic advantage UK has just like India has iron ore. So, you leverage that. You can add green DRI into the EAF. Nobody stops you from doing that. But for that, you need to have green hydrogen available in plenty and cheap. In Netherlands, the government is planning to make available a lot of green hydrogen over a period of time. Hence, planning there is to have a gas-based DRI and eventually green hydrogen-based DRI. In fact, the Netherlands government is also expecting us to provide a lot of the base load for the green hydrogen. It's a mutual benefit in some sense of the term. In the UK, as of now, there is no green hydrogen available in plenty and cheap. This is the best option, particularly given that we have scrap in the UK.

Ritesh Shah, *Investec*

If I just push a little further, sir. Are we looking at scope 1, 2 and 3 eventually? Or we are assuming that CBAM will be scope 1 and 2 and assume that eventually government will supply us with green power and scope 3 won't matter. So, I'm asking this question because I just wanted to have some comfort that there won't be any incremental capex beyond £1.2 billion. If eventually CBAM changes its regulation and it includes scope 3, which I believe [inaudible], it puts us back to a situation 5 years out wherein we have to do more Capex.

Koushik Chatterjee: *ED & CFO – Tata Steel Limited*

Ritesh let's talk straight then. The renewable power component in the UK today is getting to be the third largest renewable power offshore. The cost of power in UK and some countries in EU, like Spain, will be the lowest in that region. In our assumption, we have not taken those cost reductions. We have assumed an average base, which is consensus based on the energy consultants in that place. I think that the UK energy competitiveness will continue to increase. That is one. There are also single source suppliers both from nuclear as well as offshore, who are willing to do 20 - 25 year power purchase contracts. We will have to go through that process and evaluate as we are currently in the first stage of that full transition. I think you don't have to worry about the capex cost on this. I think the capex cost we talked about is diligent enough to ensure that it uses competitive source of power even on grid or on a captive basis. When I say captive, it is on a power purchase basis like what we do in India. As far as CBAM is concerned, it is clearly scope 1 and 2. If scope 1, 2 and 3 is involved, Scope 3 is mired around duplicate and double counting. So that first has to be sorted out, and we will stand in the front row as far as the cost competitiveness is concerned.

T. V. Narendran: *CEO & MD - Tata Steel Limited*

Also, in steelmaking, the main carbon footprint is in scope 1. If you can reduce the scope 1 percentage significantly, that more than makes up for anything else.

Operator

The next question is from Satyadeep Jain of Ambit Capital.

Satyadeep Jain, *Ambit Capital:*

A couple of questions. One on the capex of £700 million. Could you indicate how that is going to be funded? In the interim 3 years, you are going to use substrate using the existing downstream mills. If I understood correctly, that is expected to be a positive cash flow, right?

Koushik Chatterjee: *ED & CFO – Tata Steel Limited*

The funding of the £700 million will happen largely through equity, internal equity that is, and we will contribute to that equity. It will be spent over 4 years' time. So, that is our current assumption. Although this business on a standalone basis can service a debt at a later point, we will figure that out.

As far as substrate is concerned, I did not get your full question, but all that I can say that once the entire consultation process is completed and we have understood or agreed on the transition, until the time the new facilities are built, we have mentioned that we will be looking at import of substrate beyond UK. We will look at sources outside and we will come and clarify that, but I think it will be important to do so only after the consultation is over.

Satyadeep Jain, *AMBIT Capital:*

Second question on the scrap. You mentioned 10 million ton scrap market. How much of that is prime scrap. And when you look at your sourcing, would you be looking at more prime scrap and what would that mean for the quality of products and the product mix realisation?

T. V. Narendran: *CEO & MD - Tata Steel Limited*

I think we will obviously have to segregate the scrap that we use depending on the product mix that we want to make. And UK has a strong manufacturing industry and a reasonably strong auto industry to whom we supply to as well. So, there will be a lot of good quality scrap, which is available in the UK, which we can use. The other option available to you when you use an electric arc furnace operation is to change the percentage of scrap and DRI depending on the product mix that you want to achieve. So, I think there are options available, and we will be fine tuning all this as we go forward.

Operator

The next question is from Amit Murarka of Axis Capital.

Amit Murarka, *Axis Capital:*

Just on the cost guidance that you have shared, wanted to clarify that this cost saving is indicated largely on the savings from raw material, which is coking coal and iron ore. There's no saving in this estimate you're contemplating from, employee cost savings or anything like that.

Koushik Chatterjee: *ED & CFO – Tata Steel Limited*

It is a total cost saving. It is not just raw materials because raw materials, what we currently put into the furnaces includes coal, iron ore, coke, etc. which is going to get replaced by scrap. We will have a differential on the purchase of electricity. There are other fixed cost reductions. Then there are utilities, maintenance, employee cost. It is a reconfigured cost base and cost position. It is not just the raw material cost. Somebody asks whether it's only the carbon cost or whether it is only the employee cost. It is a combined cost base differential. I think I was replying to a question which said that compared to where you are, where you would be, and that is the essentially the answer that I gave.

Amit Murarka, *Axis Capital:*

This does build in some traction in employee cost in that sense as well. Okay, got it. Also, will there be any tax benefit that you could avail from this investment at least of £750 million that you will be putting in. Will there be any tied fiscal incentives as well to that in later years?

Koushik Chatterjee: *ED & CFO – Tata Steel Limited*

First of all, I must say that TSUK sits on more than £2 billion of tax losses. So, we would certainly want to utilise that. The company must utilise that from the profit. So that itself is inherent in Tata Steel. In fact, the number is possibly much larger, and I think this is certainly more than £2 billion. And therefore, due to this underlying fiscal part, you would see a much more profitable business going forward once the transition happened. Our focus and challenge are essentially to get to that transition as quickly as expected.

Operator

The next question is from Gopal Sarda of SBI.

Gopal Sarda, *SBI:*

My question is, in your previous annual report of 2022, and I quote, it was mentioned that customers and society as a whole should recognize that decarbonisation is likely to involve higher cost. And in this direction, I think you were also looking at support from the government and cheaper imports from geographies, which are not subject to the same level of carbon taxes. And where do we stand on this?

Koushik Chatterjee: *ED & CFO – Tata Steel Limited*

I mentioned, I think in some of the earlier question that in my narrative that the CBAM consultation has got initiated in the UK already since March 2023, and we have the support of the government not only for us, but for the industry in general. CBAM structure similar to the one that exists or coming into being in European Union will be put in place. That is obviously the one which will make a difference as far as ensuring that the import into UK has the same carbon tax as in Europe. So, I think that is specifically answered in the proposal and our proposition for this project.

Gopal Sarda, *SBI:*

Will the customers be willing to bear this higher cost?

Koushik Chatterjee: *ED & CFO – Tata Steel Limited*

Well, that is the way in which customers are looking at green steel in Europe as well as elsewhere. Customers are looking at ensuring the very question that was asked on the carbon footprint of companies and every ton of steel or for that matter, every kind of material as inputs that goes into the final consumer. That is in the direction of travel as far as decarbonisation is concerned, everywhere else in the world. UK is no different.

Operator

I would now like hand over the conference to Ms. Samita Shah for chat questions. Over to you ma'am.

Samita Shah: *VP CFTRM – Tata Steel Limited*

Thanks, Kinshuk. I think there is a question in terms of the kind of support we are receiving from the government on the opex side, which we've already clarified that it's not really expected. We are looking at broader policy support, but not specific from an opex perspective. A lot of questions on the transition phase and maybe we could address them. Will we continue to operate the same way we have been doing until the new capacity comes in? How will the operations run? I

think a little bit of clarity on how we will manage during the transition phase. Will we continue to operate upstream assets? Will it reach end of life before that? Many questions around that.

Koushik Chatterjee: ***ED & CFO – Tata Steel Limited***

As I said that if you read the press release, it is very clear where we are saying that the upstream assets are coming to end of life. They are not just going to be sustainable. Our consultation process is precisely on that. The immediate issues that we face are in terms of physical age of the assets and its impact on the business and the financials. So, it would not be that we will be able to continue in the same way because it is just not sustainable. That's the reason why we have said that in the transition, we will be looking to import so that we can continue to supply our customers and keep the supply chain uninterrupted.

Samita Shah: ***VP CFTRM – Tata Steel Limited***

The next question is in terms of the grant where it says you've mentioned up to £500 million. Does this mean that the grant can be lower? And if yes, in what cases will it be lower?

Koushik Chatterjee: ***ED & CFO – Tata Steel Limited***

No, I think it's a fair thing to say that the grant being approved is £500 million. If you are spending less, then obviously, the grant will be lower. But I think the understanding is at £1.25 billion project, the grant will be £500 million.

Samita Shah: ***VP CFTRM – Tata Steel Limited***

There are some questions in terms of the spend and what assets it will be spent on in £1.25 billion.

Koushik Chatterjee: ***ED & CFO – Tata Steel Limited***

I mentioned that the bulk of the spend will be on the EAF. Apart from that, there is the upgradation of the casters and there is upgradation of the hot strip mill and consolidation of the cold rolling mill whenever we plan to do it.

Samita Shah: ***VP CFTRM – Tata Steel Limited***

Is the EAF a replacement for blast furnace 5, while our blast furnace 4 will continue until its end of life to 2030?

Koushik Chatterjee: ***ED & CFO – Tata Steel Limited***

I don't know where that has come from, but we have not mentioned anything about it. I don’t know whether it is mixed up with Tata Steel Netherlands, but I think in UK, we have never mentioned about the end of life of individual blast furnaces.

Samita Shah: ***VP CFTRM – Tata Steel Limited***

There is a question on the maintenance capex we have been incurring. How much of the maintenance capex have we been incurring over the last couple of years? Will that be saved because of scrapping of some of the capacity?

Koushik Chatterjee: ED & CFO – Tata Steel Limited

When the transition happens and the upstream is kind of transited to a downstream only facilities, obviously, the maintenance capex and the entire cost structure will change.

Samita Shah: ***VP CFTRM – Tata Steel Limited***

Where would you be on the European cost curve post the move to the EAF site?

Koushik Chatterjee: ED & CFO – Tata Steel Limited

I think from an EAF cost curve basis because normally the EAF and the blast furnace have different cost curves generally. So, on the EAF cost curve basis, we would certainly be more towards the left and one of the most competitive sites from an EAF perspective and in general from our hot rolled coil perspective too.

Samita Shah: *VP CFTRM – Tata Steel Limited*

What kind of IRR or ROCE will this project generate over the long term?

Koushik Chatterjee: ED & CFO – Tata Steel Limited

I think there is a diligence going on, but it will be safe to say that it is something which will certainly meet our cost of capital and the total project on a steady-state basis over its useful life should be meeting the cost and should be more than the cost of capital and should be in the region of 15% - 16%.

Samita Shah: *VP CFTRM – Tata Steel Limited*

Is there any risk to the grant if there is a change in government?

Koushik Chatterjee: ED & CFO – Tata Steel Limited

We don't think so, that's why I mentioned that the next stage is to contractually get into a grant funding agreement to take out any risks that may or may not exist, but more importantly to get into a finality because we will be putting in capital on a firm basis and therefore, the grant also needs to be on a firm basis, which is what has been indicated by the government.

Samita Shah: VP CFTRM – Tata Steel Limited

Will there be as a part of the overall scheme, any impairment cost? Can you give us a sense of what that amount is?

Koushik Chatterjee: ED & CFO – Tata Steel Limited

Since we will move into a separate profile of the business model [inaudible] the current assets and the PPE, which exists in TSUK will be restructured and therefore, there will be impairment and this is a pending discussion with our auditors, post the announcement. We will disclose it separately when we close the financials for 2Q, but there is going to be impairment of material nature regarding the legacy investments that has been done in this company.

Samita Shah: *VP CFTRM – Tata Steel Limited*

There is a question on funding. Will the funding be front loaded? Or will it be received in phases over 3 years?

Koushik Chatterjee: ED & CFO – Tata Steel Limited

The capex funding will be over a period of 3 years. It is not front loaded because unlike an acquisition, this is as much like a brownfield expansion that we have been doing in India. It has got its own normal curve of investments, and it will be over a period of 3 - 3.5 years. And as you know that 15% - 20% of the total funding is required post the performance guarantee and commissioning. So, it is phased spending. The restructuring may be more front ended, but the Capex spending will certainly be over a period of time.

Samita Shah: *VP CFTRM – Tata Steel Limited*

Thank you. And with that, I think we've ended with the chat questions. I'll hand it over to you, Kinshuk.

Operator

Ma'am, there are no more questions in the audio queue. That was the last question for today. I would now like to hand the conference back to you for closing comments. Over to you, ma'am.

Samita Shah: ***VP CFTRM – Tata Steel Limited***

Thank you, Kinshuk. thank you, everybody, for dialling in and for joining us on this call. We hope we've provided you the clarity. I know a lot of points are still open, but that is because we just started the process, and it will take us some time to work through these issues. On subsequent calls, the quarterly calls and any of the subsequent calls, we will keep sharing information as and when it gets finalised. Thank you once again and have a good evening.

T. V. Narendran: ***CEO & MD - Tata Steel Limited***

Thank you.

Koushik Chatterjee: ***ED & CFO – Tata Steel Limited***

Thank you.