Management Discussion and Analysis 2009-10

INDUSTRY STRUCTURE

Global Steel industry: The crude steel production for 66 countries reporting to the World Steel Association was 1220 million metric tonnes for calendar year 2009, lower by 8% against that of 2008. Hit by the economic downturn, the drop in production was nearly in all steel producing countries barring positive growth recorded in China, India and the Middle East. In most countries including the developed steel markets of the EU, the U.S.A., Japan, Brazil, CIS deterioration in the economy resulted in a sharp decline of demand in key steel using sectors. The following table shows the growth in terms of crude steel production for the top ten steel producing nations:

Figures in million tonnes

Rank	Country	2009	2008	Change %
1	China	**567.8**	500.3	13.5
2	Japan	**87.5**	118.7	(26.3)
3	Russia	**59.9**	68.5	(12.5)
4	US	**58.1**	91.4	(36.4)
5	India	**56.6**	55.1	2.7
6	South Korea	**48.6**	53.6	(9.4)
7	Germany	**32.7**	45.8	(28.7)
8	Ukraine	**29.8**	37.3	(20.2)
9	Brazil	**26.5**	33.7	(21.4)
10	Turkey	**25.3**	26.8	(5.6)

Source: World Steel Association

As a result of the strong growth in China in sharp contrast to the decline in major parts of the globe, the list of the top ten steel producing companies during 2009 was dominated by Chinese companies.

	2009		2008		
Company	**Output**	**Rank**	**Output**	**Rank**	**Change %**
Arcelor Mittal	**73.2**	**1**	103.3	1	(29.1)
Hebei Iron & Steel	**40.2**	**2**	33.3	4	20.7
BaoSteel	**38.9**	**3**	35.4	3	9.9
Posco	**31.1**	**4**	33.1	5	(6.0)
Wuhan Iron & Steel	**30.3**	**5**	27.7	7	9.4
Anshan Benxi	**29.3**	**6**	23.4	9	25.2
Shagang	**26.4**	**7**	23.3	10	13.3
Nippon Steel	**24.3**	**8**	35.6	2	(31.7)
JFE	**23.5**	**9**	33.0	6	(28.8)
Tata Steel	**21.9**	**10**	24.4	8	(13.5)

Source: Steel Business Briefing

Steel Industry in India: The production of flat products and long products of major Indian companies is estimated to have grown by around 12% and 8% respectively during the financial year 2009-10 when compared with the previous financial year. While the long products exports were almost at the same level as that in the last year, flat products exports dipped by around 30% on account of the global slowdown. The imports on the other hand were higher for both flat products as well as long products by around 17% and 35% respectively as the flat products and long products segments experienced around 23% and 9% increase in steel consumption. In line with the fiscal stimulus package announced in the country, the Government of India removed export duty on all steel items, reintroduced import duty of 5% on steel, restored DEPB benefits, reduced excise duty to 8% for major part of the year, placed import of hot rolled coils on the 'restricted list' thus making them available to direct users only and withdrew countervailing duty on import of Thermo-Mechanically Treated (TMT) bars and structural. In order to ensure adequacy of availability of iron ore in domestic market, export duty on iron ore lumps has been increased from 5% to 10% and a 5% export duty has been imposed on iron ore fines to regulate the exports. The steel prices during the financial year 2009-10 have increased from the level prevailing in the quarter ended March 2009 driven primarily by the increase in the prices of input raw materials during the same period.

UK and European Steel Industry: In the EU, the apparent steel consumption dropped by around 35% during 2009. There was a decline of around 45% during the first half of 2009 driven by extremely weak activity in the steel using sectors and continuing sharp de-stocking. With the unprecedented drop in the activity levels, the production during 2009 reduced by around 20% over 2008 with sharp reduction experienced particularly during the first half of the year. The market downturn began to level out in the second half of the year as business conditions began to improve slowly, supported by government stimulus measures and improvements in international trade. With imports dropping by around 47% as compared to 2008, stable and low level of stocks through the supply chain and reduced levels of domestic steel business, the EU steel market supply and demand became much better balanced by the quarter ending December 2009. The exports during 2009 are estimated to have reduced by around 9% and the EU was a net exporter in long products.

South East Asian Steel Industry: Preliminary assessment suggests that the steel consumption in the Association of South East Asian Nations (ASEAN) picked up significantly in the second half of 2009. However, the increase was not sufficient to offset the sharp drop in the consumption in the first half of the year. As a result, the ASEAN apparent steel demand for 2009 is around 42.3 million tonnes which is 8% lower than the last year.

Production of flat products and long products during the year was stable at around 24.4 million tonnes. However imports and exports dropped significantly. Total imports reduced from 30 million tonnes in 2008 to 19.7 million tonnes in 2009 and exports dropped by 50% from 8 million tonnes in 2008 to 4 million tonnes in 2009.

Consumption of Long Products recorded at 20.1 million tonnes in 2009, reduced by 4% as compared to 2008. The production declined to 16.4 million tonnes while exports dropped to 5.9 million tonnes. The demand for long products seemed to pick up fast and at 11.8 million tonnes in the second half of 2009, was close to the pre-crisis levels resulting in domestic producers benefitting from the demand growth.

TATA STEEL GROUP OPERATIONS

During the financial year 2009-10, the Group recorded deliveries of 24 million tonnes against 28 million tonnes in the previous year, the decline being a reflection of the global economic slowdown mainly in the UK and European operations. The turnover for the Group at Rs. 102,393 crores during FY 10 was 30.5% lower, when compared to Rs. 147,329 crores in the previous year. EBITDA for the Group in FY 10 was Rs. 9,340 crores, lower by 49.5% against Rs. 18,495 crores in FY 09. The loss after taxes (after minority interest and share of profit of associates) of Rs. 2,009 crores during FY 10 registered a decline of 140.5% as compared to a profit of Rs. 4,951 crores in FY 09.

Tata Steel India

Figures in Rs. crores

	FY 10	FY 09
Turnover	**25,022**	24,316
Profit before tax (PBT)	**7,214**	7,316
Profit after tax (PAT)	**5,047**	5,202

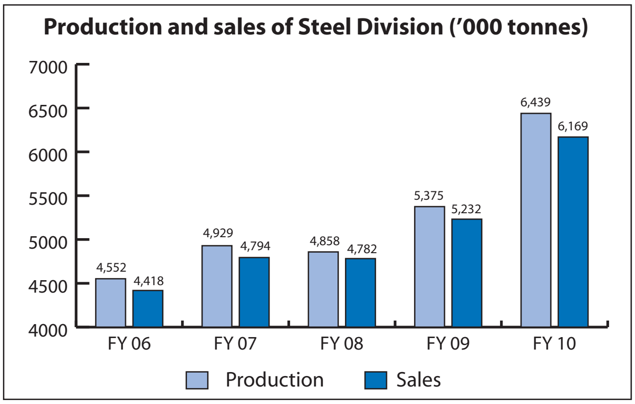
1. Steel division

The production and sales figures of the Steel division of the Company are shown in the following table:

Figures in million tonnes

	FY 10	FY 09	% Change
Hot Metal	**7.23**	6.25	16
Crude Steel	**6.56**	5.65	16
Saleable Steel	**6.44**	5.37	20
Sales	**6.17**	5.23	18

A trend of steel production and sales is shown below:



The major production and sales highlights for the financial year 2009-10 are shown below:

Production: Key highlights of the production performances of various units in the Steel Works are shown below:

Figures in million tonnes

	Best ever	FY 10	Previous best
'G' Blast Furnace	Hot metal production	**2.08**	2.04 – FY 09
LD shop #2 & Slab Caster	Slab production	**3.70**	3.51 – FY 09
LD shop #1	Billet production	**2.85**	2.105 – FY 09
Sinter Plant	Sinter production	**7.66**	6.53 – FY 09
	Solid waste utilisation	**90%**	89.61%
Hot Strip Mill	Production	**3.65**	3.27 – FY 08
Cold Rolling Mill	Production	**1.563**	1.534 – FY 08
New Bar Mill	Production	**0.672**	0.612 – FY 09
Wire Rod Mill	Production	**0.419**	0.416 – FY 06
Merchant Mill	Production	**0.341**	0.328 – FY 09

'H' Blast Furnace in the first full year of its operation achieved a production of 3.07 million tonnes which was 22% higher than its rated capacity of 2.50 million tonnes.

In line with Tata Steel's expansion plans, the 'C' Blast furnace with a capacity enhancement from 0.4 mtpa to 0.7 mtpa was commissioned in September 2009.

The production in the Blast Furnaces was maximised by producing from bigger blast furnaces with higher productivity with significant reduction in coke rate while in the two steel melting shops there was an increase in the vessel life.

Driven by the best ever performances at the various units in the Steel Works, Hot metal (7.23 million tonnes), Crude steel (6.56 million tonnes) and Saleable steel (6.44 million tonnes) production reached their individual peak during FY 10.

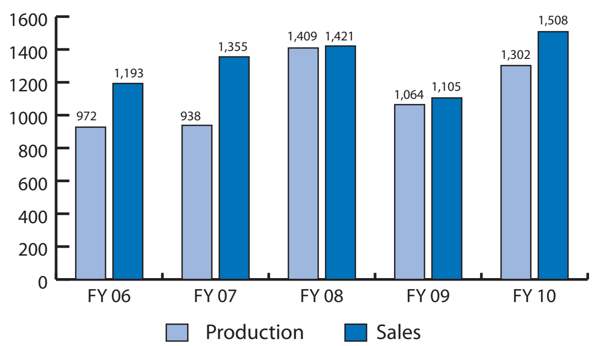
Sales:

- Overall sales at 6.170 million tonnes, grew by 18% over last year (5.232 million tonnes in FY 09).
- Long products sales at 2.697 million tonnes increased by 34% in FY 10 (2.006 million tonnes in FY 09).
- Flat products sales at 3.473 million tonnes increased by 8% in FY 10 (3.226 million tonnes in FY 09).

2. Ferro Alloys & Minerals division

The trend of production and sales volume of Ferro Alloys & Minerals Division is shown below:

Production and sales - FA & MD ('000 tonnes)



The dramatic and rapid slowdown in industrial production and destocking which began in the latter part of FY 09 continued to exert a significant influence over the Ferro Alloy Industry in FY 10. Infrastructural investment in Asia resulted in improvement in the demand for stainless steel. However, despite the improving trend, average commodity prices in FY 10 were significantly lower than that of FY 09. The full benefit of rising prices in the second half of FY 10 was also partially offset by the negative impact of progressive strengthening of the Indian Rupee during the same period.

The annual global stainless steel melt production at 24.3 million tonnes in 2009 was lower by 6% than 2008, with prices lower by 44%. However, commencement of re-stocking of stainless steel globally in the second half of the year led to rise in ferro chrome demand and prices in that period.

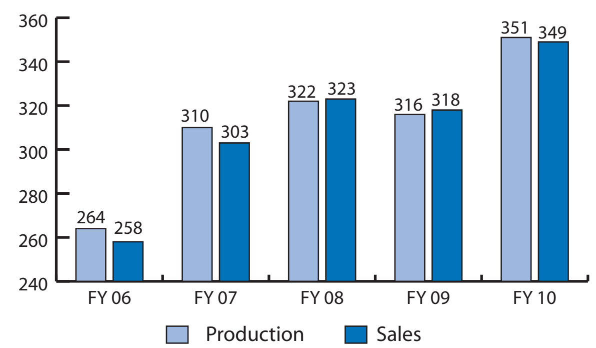
Chrome Alloys exports (including Charge chrome from Tata Steel KZN Pte Limited) touched an all time high and the division recorded its highest ever global market share of 6% in FY 10. The first overseas hub of TSL was established in South Korea. In India, our Ferro Alloys and Minerals division is the market leader in Ferro Chrome business with a market share of around 27%.

Manganese Alloys sales recorded an all time high in the financial year 2009-10 and Tata Steel attained the status of being the largest producer of Manganese Alloys in India.

3. Tubes division

The trend of production and sales volume of Tubes Division is shown below:

Production and sales in Tubes Division ('000 tonnes)



During the financial year 2009-10, tubes division consolidated its position in the market place by registering a growth in production and sales by 11% and 10% respectively enabled by successful implementation of various improvement initiatives.

Other key performance highlights of the division are appended below:

- The Tubes division has successfully launched and ramped up sales of Boron bearing steel tubes for the plumbing segment enabled by the stabilisation of the new state of art HF3 mill in a record time of six months.
- The 'Tata Structura' brand continued to grow through EVI (early vendor involvement) with leading infrastructure projects in airports and stadiums in preparation for the Delhi

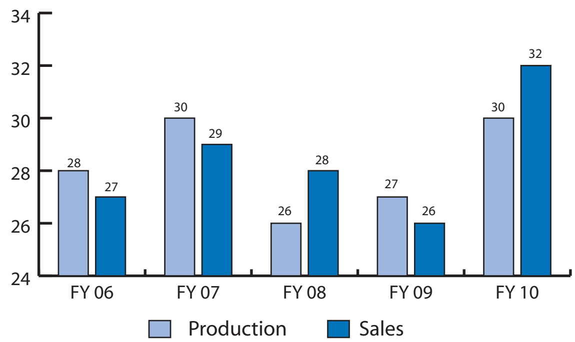
2010 Commonwealth Games. The brand crossed a milestone of 3 lakh tonnes since its launch in December 2005.

- In the high end automotive segment, the growth in sales of precision tubes was given a thrust with the ramp up of hydroforming and cold drawn tubes facilities.

4. Bearings division

The performance of the Bearings division in terms of production and sales volume is shown below:

Production and sales in Bearings Division (million numbers)



Driven primarily by the revival in demand in the domestic auto segment in 2009-10, sales and production of the Bearings division were higher by 23% and 8% respectively over the previous year.

Following are the highlights of the achievements of the division during the financial year 2009-10:

- The sales were higher by 9% over the previous best of 29 million numbers in the financial year 2006-07.
- In the Bearings industry, the division was the only one to win the Supplier Award from Bosch India Limited and the Silver Award for manufacturing and supply chain excellence from Economic Times and Frost & Sullivan.
- The Bearings division was awarded certification of upgraded version of ISO/TS 16949:2009 and ISO 9001:2008 Quality Management System and OHSAS 18001:2007 certifications by Underwriters Laboratories Inc.

Tata Steel Europe (TSE)

Figures in Rs. crores

	FY 10	FY 09
Turnover	**65,843**	109,570
Profit before tax (PBT)	**(7,712)**	(184)
Profit after tax (PAT)	**(7,504)**	138

TSE has three main operating divisions; Strip Products, Long Products and Distribution & Building Systems. The EU is the most important market for the TSE Group, accounting for 79% of its total turnover in the financial year 2009-10. TSE produces carbon steel by the basic oxygen steelmaking method at three integrated steelworks in the UK at Port Talbot, Scunthorpe and Teesside (Teesside Cast Products unit was partially mothballed at the end of February 2010), and one in the Netherlands at IJmuiden. Principal end markets for TSE's steel products are the construction, automotive, packaging, mechanical and electrical engineering, metal goods, and oil & gas industries.

The production and sales performance of TSE are shown below:

Figures in million tonnes

	FY 10	FY 09	Change %
Crude steel production	**14.4**	15.8	(9%)
Deliveries	**14.2**	19.0	(25%)

Deliveries and subsequently production were affected during the financial year 2009-10 by the economic down turn although there were early signs of recovery in the quarter ending December 2009. The deliveries of the various divisions of TSE is shown in the following table:

Figures in million tonnes

	FY 10	FY 09	Change %
Strip Products	**6.19**	6.82	(9%)
Long Products	**4.41**	6.57	(33%)
Distribution & Building systems	**3.58**	5.40	(34%)
Aluminium	–	0.21	–
Total	**14.17**	**19.00**	**(25%)**

The destination wise break up of the sales is shown below:

	FY 10	FY 09	Change %
UK	**3.85**	4.85	(21%)
Europe (excluding UK)	**7.21**	10.41	(31%)
North America	**0.81**	1.22	(34%)
Other Areas	**2.31**	2.52	(8%)
Total	**14.17**	**19.00**	**(25%)**

NatSteel Holdings

Figures in Rs. crores

	FY 10	FY 09
Turnover	**6,254**	8,416
Profit before tax (PBT)	**75**	67
Profit after tax (PAT)	**102**	7

The key Geographies of NatSteel's business are Singapore, China, Australia, Vietnam, Malaysia, Thailand and the Philippines. Most of the economies have done well coming out of the global financial crisis and the prognosis going forward is quite encouraging for the year.

The Singapore operations are EAF (Electric Arc Furnace)-based steel-making and rolling operations with a production capacity of about 0.750 million tonnes per annum. During the financial year 2009-10, sales of the Singapore operations at 0.75 million tonnes was 22% lower than that of last year.

The Chinese subsidiary of NatSteel sold 0.532 million tonnes of rolled products during FY 10, 25% higher than the previous year and has been one of the most profitable businesses for the NatSteel Group during FY 2009-10.

In Vietnam the steel demand was robust and the construction demand had increased in line with the GDP growth of around 6.5% in 2009, which is expected to grow to around 7% in 2010. Similar to the Chinese subsidiary, the venture in Vietnam performed well in line with the country's growth in demand. NatSteel Vina sold about 0.13 million tonnes of steel, 65% more than last year.

The Australian business suffered the most as the economy took time to recover from the global financial crisis. However the last quarter of FY 2009-10 has been encouraging for few units especially in western Australia where the demand has shown encouraging trend owing to various oil and gas projects. NatSteel Australia and Best Bar sold around 0.12 million tonnes (30% lower than FY 09) of steel in the form of straight length rebars, mesh, cut & bend and other accessories.

The wire plant at Thailand sold 0.152 million tonnes of wires, a growth of 20% in volumes as compared to the last year.

Tata Steel Thailand (TSTH)

Figures in Rs. crores

	FY 10	FY 09
Turnover	**3,157**	3,965
Profit before tax (PBT)	**(9)**	14
Profit after tax (PAT)	**(11)**	11

TSTH recorded billet production of 1.18 million tonnes during the financial year 2009-10 with an increase of 6% over the financial year 2008-09 (1.11 million tonnes). Finished Goods production at 1.21 million tonnes during the financial year 2009-10 increased by 12.5% over the financial year 2008-09 (1.07 million tonnes). Sales volume at 1.20 million tonnes during the financial year 2009-10 was higher by 8% as compared to financial year 2008-09 (1.11 million tonnes) with 6% and 9% growth in the company's domestic sales and exports volume. The Mini Blast Furnace was commissioned in October 2009. Along with the Mini Blast Furnace, all ancillary facilities have been progressively synchronised. Depressed prices driven by the recession and high metallic input costs resulted in the profit generated during FY 2008-09 turning into a loss during FY 2009-10.

Tata Metaliks

Figures in Rs. crores

	FY 10	FY 09
Turnover	**1,068**	1,021
Profit before tax (PBT)	**17**	(167)
Profit after tax, minority interest	**29**	(150)

Tata Metaliks Limited (TML) a subsidiary of Tata Steel Limited, is the largest producer of Foundry Grade Pig Iron in India with plants in Kharagpur (West Bengal) and Redi (Maharashtra) with a total capacity of 6.5 Lac tonnes per annum.

In the financial year 2009-10, production of hot metal at 5.06 lac tonnes was 34% higher than FY 2008-09. The sales of pig iron increased by 30% from 3.78 lac tonnes during FY 2008-09 to 4.90 lac tonnes during FY 2009-10 with an increase in market share from 13% in 2008-09 to 16% in 2009-10. During the year, the company has achieved a yield of more than 99% which is a benchmark in itself. Having suffered massive losses in the previous year mainly on account of high input prices and inventory write-down, the company rebounded to profits in the current financial year.

TM International Logistics Limited

Figures in Rs. crores

	FY 10	FY 09
Turnover	**612**	645
Profit before tax (PBT)	**45**	61
Profit after tax (PAT)	**37**	49

TM International Logistics Limited (TMILL) is involved in the activity of running port operations at the Ports of Haldia and

Paradip on the east coast of India backed by fully dedicated customs clearance and shipping agency services at both the ports. The company runs a clean dry cargo terminal at berth # 12 at Haldia, which is equipped with modern handling facilities including heavy equipments, shore cranes and vast open storage area as well as covered warehousing facilities.

The shipping arm of TMILL offers integrated solutions to customers by packaging Ocean freighting with other auxiliary services like transloading and barging for draft-restricted ports or with port handling and ship agency services. The company currently operates ships with a variety of dry bulk cargo including fertilizers, limestone, metallurgical coke, sulphur, steel, logs, agricultural products etc.

The Freight Forwarding arm of TMILL is in the business of facilitating global trade by being an intermediary between cargo carriers and suppliers/buyers. Going beyond its traditional domain, TMILL has now ventured into providing marine services to the upcoming port at Dhamra.

The key performance highlights of the company during the financial year 2009-10 are the following:

Division		FY 10	FY 09	Change
Port operations	Million tonnes	**8.02**	7.01	14%
Shipping	Million tonnes	**3.34**	2.28	46%
CHA & Inland Logistics	CIF in Rs. crores	**3,334**	4,047	(18%)
Freight forwarding	Volume in TEUs	**21,801**	25,495	(14%)

Tayo Rolls Limited

Figures in Rs. crores

	FY 10	FY 09
Turnover	**132**	42
Profit before tax (PBT)	**(12)**	(8)
Profit after tax (PAT)	**(12)**	(8)

Tayo Rolls Limited, a subsidiary of Tata Steel Limited, is a leading roll manufacturer in India, promoted by Tata Steel Limited, Yodogawa Steel Works, Japan and Sojitz Corporation Japan in 1968.

To maintain its leadership position in the Cast Rolls Segment, Tayo entered into a technology know-how and license agreement with Yodogawa Steel Works of Japan for transfer of technology to manufacture Hi-Speed Steel Rolls, Semi Hi-Speed Steel Rolls and Super Nickel Grain Rolls.

During the year under review, the steel industry reduced their rolls inventory resulting in lower off-take and deferment of delivery of confirmed orders. The sluggish casting market affected the pig iron off-take by various foundry units dependent on general casting and automobile casting. However, the pig iron demand and prices have picked up from the quarter ended December 2009. The operating performance of the company is shown below:

Figures in tonnes

	FY 10	FY 09	Change %
Rolls Production	**6,516**	8,333	(22%)
Rolls Sales	**6,594**	7,850	(16%)
Pig Iron Production	**22,604**	20,030	13%
Pig Iron Sales	**19,634**	17,761	11%

Tata Steel Processing & Distribution Limited

Figures in Rs. crores

	FY 10	FY 09
Turnover	**1,145**	649
Profit before tax (PBT)	**45**	11
Profit after tax (PAT)	**27**	7

Tata Steel Processing and Distribution Limited (erstwhile Tata Ryerson Limited) became a 100% subsidiary of Tata Steel Ltd. w.e.f. July 2009. The company with a steel processing capacity of around 2 million tonnes with 5 steel processing centres across India, is the largest steel service centre in the country.

The company has also started its business of manufacturing components for auto majors like Caterpillar and Tata Motors through its commissioned facilities at Tada (Andhra Pradesh) and Pantnagar (Uttarakhand) respectively.

During the financial year 2009-10, the company recorded an all time high tolling and distribution volume of around 1.4 million tonnes 27% higher than that of last year and recording the highest profit before tax in its history of operations.

Amongst several other achievements in the journey to Total Quality Management by the different units of the company, the most notable one was the coveted JIPM (Japan Institute of Plant Management) - TPM Excellence Award in Category - A won by the Company's Jamshedpur Business Unit. Safety has remained a primary area of attention and by following Du Pont Safety initiatives, the company achieved a 47.5% reduction in injury and a 42% reduction in LTIFR compared to the financial year 2008-09.

Tinplate Company of India Limited

Figures in Rs. crores

	FY 10	FY 09
Turnover	**792**	671
Profit before tax (PBT)	**102**	63
Profit after tax (PAT)	**67**	35

Tinplate Company of India Limited (TCIL) is the largest indigenous producer of tin coated and tin free steel sheets in India manufacturing various grades of electrolytic tinplates (ETP), tin-free steel (TFS) sheets and Full Hard Cold Rolled (FHCR) Sheets used for metal packaging. The company has been bonding with food processors and fillers by way of printing and lacquering facilities at the "Solution Centre".

Despite the delay in commissioning of the finishing units of the Cold Rolling Mill 2, the ETP production at 0.23 million tonnes in FY 10 was 22% higher from 0.19 million tonnes in FY 09, enabled by imports, stretching the capacity of the 6 hi Mill and improving efficiencies of the finishing units of the existing CRM.

The Solution Centre recorded the highest production since inception (about 10% higher than last year) particularly with a 61% increase in production of printed sheets as compared to the last year.

In order to improve the marketability of the increased capacity, TCIL has now been certified with ISO 22000 (Food Safety Certification). With over 70% of the products used for food cans, this certification is expected to significantly increase the acceptability of the products in the export markets which accounts for 25% of the company's production.

During the course of the financial year 2009-10, the company floated a simultaneous but unlinked Rights Issue of Rs. 374.32 crores consisting of Equity Shares and Fully Convertible Debentures to fund the companies ongoing expansion programmes at Jamshedpur, including repayment of term loans and bridge loans taken for the same purpose. Consequent upon the Rights Issue, the holding of Tata Steel in TCIL has increased from 32% as at March 2009 to 45% as at March 2010.

Tata NYK Shipping Pte Limited

Figures in Rs. crores

	FY 10	FY 09
Turnover	**352**	250
Profit before tax (PBT)	**(3)**	1
Profit after tax (PAT)	**(3)**	1

Tata NYK Shipping Pte Ltd., a 50:50 joint venture between Tata Steel Ltd., India and NYK Line, a Japanese shipping major, is primarily into the business of owning, operating and chartering of ships to carry dry bulk and break bulk cargo including coal, iron ore, bauxite & steel products mainly for Tata Group and Indian market.

Within three years of its inception, the company has grown its fleet size rapidly from 1 ship in May 2007 to 11 ships (1 owned and 10 chartered) adding diversity in terms of different cargo carrying capacities.

The vessels are classified into Supramax (45,000 DWT to 60,000 DWT), Panamax (65,000 DWT to 80,000 DWT) & Capesize (150,000 DWT and over) vessels based on the tonnage capacity carried and are deployed based on the available port facilities and cargo requirements across the geographies.

There was a growth of 52% in the cargo carried by the company during the financial year 2009-10 from 4.48 million tonnes in FY 2008-09 to 6.79 million tonnes in FY 2009-10 thereby increasing its revenues by 40%.

Tata Refractories Limited

Figures in Rs. crores

	FY 10	FY 09
Turnover	**899**	701
Profit before tax (PBT)	**63**	52
Profit after tax (PAT)	**42**	33

Tata Refractories Ltd. (TRL) is India's leading Refractories producer, producing a full range of refractories with a service backup for total refractory solutions. TRL China Limited, a subsidiary of the company has undertaken third phase of expansion during the current financial year, targeted to be completed by December 2010, to increase its capacity from 54,000 tonnes per annum to 90,000 tonnes per annum. With the wide range of refractory products

TRL has been meeting the growing needs of various industries like Steel, Cement, Glass, Copper, Zinc, Aluminium, Petro-Chemical etc. The Company has adopted a five year growth plan called "Mission 2000" to achieve a revenue of Rs. 2,000 crores by FY 2012-13.

During FY 10, the consolidated production was higher by 28% from 230k tonnes in FY 09 to 294k tonnes in FY 10. The consolidated sales were higher by 31% from 270k tonnes during FY 09 to 353k tonnes in FY 09. Exports were higher by 24% from Rs. 103 crores in FY 09 to Rs. 127 crores in FY 10.

Tata Sponge Iron Limited

Figures in Rs. crores

	FY 10	FY 09
Turnover	**520**	608
Profit before tax (PBT)	**126**	181
Profit after tax (PAT)	**85**	121

Tata Sponge Iron Limited manufactures sponge iron at its manufacturing facility at Bilaipada at Joda Block of Keonjhar District in Orissa. During the financial year 2009-10, all the three kilns were in operation and produced 0.359 million tonnes registering an increase of 5% as compared to 0.3423 million tonnes in financial year 2008-09. The capacity utilisation improved to 92% from 88% in the previous year. Sales during FY 2009-10 at 0.361 million tonnes improved by 5% over 0.343 million tonnes achieved during FY 2008-09 inspite of infrastructure bottlenecks such as berthing delays of ships, road transport disruptions and inadequacy of wagons. However, the prices of sponge iron fell as an effect of the economic slowdown.

During the financial year 2009-10, the power plants (of 7.5 MW and 18.5 MW capacity) produced 181.39 million KWH of power as compared to 181.01 million KWH generated in FY 2008-09 while the sales of surplus power during FY 2009-10 were at 125.01 million KWH when compared with 124.82 million KWH sold in the previous year.

Tata Steel KZN Pte Limited

Figures in Rs. crores

	FY 10	FY 09
Turnover	**522**	231
Profit before tax (PBT)	**43**	(180)
Profit after tax (PAT)	**43**	(180)

Tata Steel KZN, located at Richards Bay on the KwaZulu-Natal coast of South Africa, is in the business of making high carbon ferrochrome. During the financial year 2009-10, production volume at 118,327 tonnes increased by 86% as compared to 63,479 tonnes registered during FY 2008-09, driven by 96.27% furnace availability. The sales were higher by 212% from 41,537 tonnes in FY 2008-09 to 129,473 tonnes in FY 2009-10.

The operational highlights of the company during the year were the following:

- Major remedial work was carried out on the furnace wet scrubber and water treatment plants to improve furnace availabilities and utilisation.
- Improved furnace stability and increased production achieved through better metallurgical control and superior quality ore.
- TSKZN increased the throughput of the Metal Recovery Plant to 150% of design capacity during the last two months of the financial year. This plant will remain an area of focus as it is critical to treat the current slag stockpile in order to adhere to the conditions set out by the Department of Environmental Affairs.

STRATEGY

Tata Steel Group remains committed to its vision of being a global benchmark in value creation and corporate citizenship. However, it is under no illusion of the challenges it would have to face in implementing this vision while steel markets in Europe remain under pressure, supply of raw material is at historically high prices and climate change is becoming a pressing issue.

Benchmark in value creation

The value creation strategy is centered around two elements of which the first is to increase the quality of earnings of our existing assets.

Tata Steel Limited retained good profitability levels in India throughout the downturn and recovered faster than most its competitors, reflecting the strategic advantages of the Indian operations, including access to growth markets, raw material integration and cost competitiveness.

Restoring profitability was a priority for the European operations, which were faced with some of the largest contractions in steel demand in history. Tata Steel Europe acted swiftly to respond to the downturn by launching two initiatives, 'Weathering the Storm' and 'Fit for the Future'. The combined savings of these initiatives totalled approximately £1bn for the year under review.

To better position itself for the future, Tata Steel Group is re-aligning its organisation to serve its customers better and to leverage its scale of operations.

– Functions across the Group have been consolidated into Group-wide functions such as procurement, quality management, health and safety, environment and global information services. A Group Corporate Centre management team was set up to oversee the Group functions.
– The Tata Steel International network is being optimised to increase market reach and channel Group products to different geographies.
– To further improve the competitive position in Europe and to transform Tata Steel Europe into a customer focused company, the 'Customer First' Programme has been initiated to serve our customers' needs by developing a customer sector focused marketing organisation. Parallely, Tata Steel Europe is also investing in systems to improve the supply chain in order to improve customer service and reduce working capital requirements.

The second element of its value creation strategy is selective growth in emerging markets where the Group has a competitive advantage. The Group therefore continues to selectively invest for the future with an aim to strengthen its position in emerging markets like India and increase the level of raw material integration and energy self-sufficiency across the Group.

Investment programmes to grow and strengthen the operations include the following:

– The 2.9 mtpa project will increase the crude steel capacity at Jamshedpur from 6.8 mtpa to 9.7 mtpa.
– In January 2010, Tata Steel Board approved a proposed joint venture between Tata Steel and Nippon Steel Corporation for the production and sale of automotive cold-rolled flat products at Jamshedpur.
– In light of the longer term growth expected in the Indian and South East Asian steel markets, Tata Steel Group continues to work on its projects in pipe-line in India and Vietnam.
– The greenfield project at Kalinganagar, will be developed in two phases of 3 mtpa each.
– In October 2009 Tata Steel Europe announced a €35 million investment in its rail facility at Hayange in France primarily to supply rails on a six-year contract to SNCF the French railway operator.

During the past year the Group has also made progress in extending its exploration and mining portfolio.

Benchmark in corporate citizenship

Tata Steel Group believes its corporate citizenship responsibilities are of strategic importance for the Group. These include providing a safe working place, respecting the environment, caring for communities and demonstrating high ethical standards. The Group therefore gives these responsibilities priority in the allocation of capital and management time.

INTEGRATION

During the year, progress was made in integrating approaches in key functional areas to improve synergies across the Group. Total Quality Management, Information Services and Procurement functions were integrated as one organisation across Tata Steel Group. Performance Improvement Teams (PITs) strengthened the area of manufacturing during FY 2009-10 by implementing several projects in multiple locations of the Group. These are detailed on pages 24 and 25 of this Report.

The following major Improvement Projects were undertaken in the area of Procurement:

- Consolidation and cross-sourcing of Contracts for bulk-shipping, coal, Raw Materials, IT, etc.
- Maximising procurement from within Tata Steel Group.

The integrated Procurement function intends to combine the skills of procurement across the group and work with a strong business alignment while strengthening the earlier established processes like lead buying. During the year the concept of Lead Buyers was also extended to the South East Asian (SEA) operations and the efforts were focused on maximising the buy within the Tata Steel Group companies.

Tata Business Excellence Model (TBEM), based on the Malcolm Baldridge Model of the US, is being rolled out in various business units of Tata Steel Europe.

OUTLOOK

The global economic downturn is set to recover at a faster and stronger rate than expected earlier although the pace of recovery is anticipated to vary across geographies and economies. The Asian countries, in particular China and India, are leading the turnaround in the world economy as demand for commodities, intermediates and consumer goods in China is propelling economic activity in the rest of the region. The emerging countries have started to tighten their monetary policies to manage the recovery while inflationary pressures and rising asset prices are resurfacing as a challenge in those countries. The inflationary pressures in the developed economies remain subdued although they are expected to be at a level higher than 2009 resulting in lower interest rates in particular in the United States and European countries. World GDP is expected to grow at 3.5% in 2010.

The recovery in most of the economies will result from a turnaround in domestic demand with export momentum picking up for the developing countries and a modest export demand in developed economies. There is a global challenge of managing fiscal imbalances with large public debts in the developed economies. Debt problems in Greece and other East European countries pose a challenge to the European recovery and also to the global financial market stability.

World consumption of steel is expected to be 1.23 billion tonnes in 2010 registering a growth of 10% over 2009. EU steel market is expected to slowly recover in 2010 with the inventory cycle being the main driver for increased demand during the first half and increase in consumption is anticipated to pick up in the middle of 2010. Crude steel production in the EU is accordingly expected to rise from the low of 2009 and be around 75-80% of the level of 2007-08. The exports during 2010 are expected to be higher by around 4% as compared to 2009 while imports in 2010 are also anticipated to increase by around 12.5% with rise in demand during the year. With economic and steel market conditions becoming more favourable and the steel producers needing to recover the rise in input costs. It is anticipated that there will be a strong rise in the steel prices in 2010-11.

Buoyed by expected strong performances from consuming segments like automotive, construction, infrastructure and capital goods, carbon steel apparent consumption is expected to increase by more than 10% in FY 11. The Flat products' consumption is expected to increase in FY 11 by 10.7% and that of long products by 10.3%. High disposable income, emphasis on infrastructure growth and India's growing position as a manufacturing hub are primary drivers for the consumption. However, significant raw material price increases, interest rate tightening and inflation may provide some downsides to an otherwise positive outlook for the industry.

FINANCE

FY 10 has been a period of great economic difficulty in Europe and other developed markets. A very gradual economic recovery has started to take shape after a temporary but very sharp recession. In the second half of FY 09, a sharp decline in steel demand and prices, and reduced capacity utilisation had severely eroded the profitability of Tata Steel Europe (TSE).

In May 2009, TSE's lenders consented to an amendment and waiver proposal with regard to financial performance covenants. While TSE would continue to meet interest and repayment obligations, testing of earnings related covenants was largely suspended till March 2010. The testing of covenants resumed in March 2010 and TSE is compliant with the same. As part of these amendments, Tata Steel infused £200 mn into TSE in June 2009 and £225 mn in September 2009.

In the second half of FY 09 and the first quarter of FY 10, the Company had focused on raising additional debt in order to maintain a liquidity buffer given the uncertain nature of the steel markets. As a result in April 2009, the Company raised Rs. 2,000 crores from a term loan and in May 2009, it privately placed Rs. 2,150 crores of Non-Convertible Debentures repayable after 10 years. It also contracted a term loan of Rs. 650 crores for 10 years and one of Rs. 199 crores for 7 years. In July 2010, the Company issued GDRs (Global Depository Receipts) worth US$500 Million at US$7.644/ share (each GDR equals one share). This was one of the largest GDR offerings by an Indian Company on the London Stock Exchange.

In the second half of FY 10, having weathered the liquidity crisis, the Company focused on restructuring liabilities and prepaying some of the debt in order to minimise finance charge costs and repayment risks.

In November 2009, the Company launched an exchange offer of new Foreign Currency Convertible Bonds (FCCBs) for any or all of its existing US$875,000,000 Convertible Alternative Reference Securities. The CARS carry a Yield To Maturity (YTM) of 5.15% p.a. (coupon of 1% p.a. and a one-time redemption premium of 23.3419%), due to mature in September 2012 and are convertible into underlying shares at Rs. 733.1318 per share. The new convertible bonds have a coupon (YTM) of 4.5%, maturing in November 2014 and are convertible into ordinary shares of the Company at Rs. 605.5325 per share.

The Company made the Exchange Offer with the objective of lengthening its debt maturity profile, reducing cost and potentially reducing future repayment obligations. CARS worth US$493 million were tendered for exchange into FCCBs worth US$546.935 million.

The Company also prepaid Rs. 2,000 crores of its term debt in Dec'09 and Jan'10. It prepaid US$300 Million of foreign currency term loans in February and March 2010. In addition, Tata Steel Europe prepaid £100 Million of its term debt in June 2009.

The Company achieved financial closure for its expansion of 2.9 MTPA in Jamshedpur for which it contracted long-term rupee borrowing aggregating to Rs. 9,339 crores in Tata Steel Limited and its subsidiary, to be drawn over over the next three years years and to be repaid over a period of seven years. The Company also tied up ECA backed long term buyer's credit (import financing) of Euro 264 mn to be drawn over the next two and half years and repaid over the next ten years. The Company is also in the process of obtaining an additional Euro 70 mn by way of further ECA backed long term buyer's credit.

The Company's Credit Ratings remained stable in FY 10. In FY 09, Moody's, S&P & Fitch had downgraded Tata Steel to below investment grade, largely on the back of increased leverage post acquisition of Corus and a depressed outlook for earnings. Moody's has placed Tata Steel at a rating of Ba3 with a stable outlook, while both S&P and Fitch have retained their ratings of BB- and BB+ respectively with a negative outlook.

As on 31st March, 2010, the cash and cash equivalent in Tata Steel Limited, India was Rs. 3,234 crores and Rs. 6,788 crores for the Group.

FINANCIAL PERFORMANCE

Tata Steel Standalone

Tata Steel recorded a profit after tax of Rs. 5,047 crores during the financial year ended 31st March 2010 (FY 09: Rs. 5,202 crores). The diluted earnings per share was at Rs. 57.31 for FY 10 (FY 09: Rs. 62.94) while the basic earnings per share for FY 10 was at Rs. 60.26 (FY 09: Rs. 69.45).

Hooghly Metcoke & Power Company Limited was merged with the Company with effect from 1st April, 2009 as per the court order dated 20th March, 2010. Accordingly, the Profit and Loss Account and the Balance Sheet of Tata Steel Limited will have an impact of incorporation of accounts of Hooghly Metcoke during FY 10.

The analysis of major items of the financial statements is shown below:

a) Net sales and other operating income

Figures in Rs. crores

	FY 10	FY 09	Change	Change %
Sale of product	**25,756**	25,945	(190)	(1%)
Sale of power and water	**657**	566	90	16%
Income from town, medical and other services	**40**	41	(0)	(1%)
Other operating income	**305**	291	14	5%
Sales and operating income	**26,758**	26,844	(86)	0%
Less: Excise Duty	**1,736**	2,528	(792)	(31%)
Net sales and other operating income	**25,022**	24,316	706	3%

Net sales and other operating income was higher by 3% as compared to FY 09 as the volume of steel sales during FY 10 was higher by around one million tonnes (18%) over FY 09 (6.17 million tonnes in FY 10 against 5.23 million tonnes in FY 09) with lower prices of Steel, Ferro Alloys and other products. The division wise net sales are shown below:

Figures in Rs. crores

	FY 10	FY 09	Change	Change %
Steel	**21,928**	20,456	1,472	7%
Tubes	**1,387**	1,410	(22)	(2%)
Ferro Alloys and Minerals	**1,553**	2,324	(771)	(33%)
Bearings	**153**	127	27	21%
Total	**25,022**	**24,316**	**706**	**3%**

b) Purchase of finished, semi-finished steel and other products

Figures in Rs. crores

	FY 10	FY 09	Change	Change %
Purchase of finished, semi-finished steel and other products	**169**	359	(190)	(53%)

During FY 10, purchase of finished and semi-finished products was much lower compared to previous year as requirements of Agrico and Wires Division were fully met from our steel works in the current year as against partial purchases from outside suppliers/imports in the previous year. Non purchase of sponge iron also contributed to lower value of purchase of finished and semi-finished products.

c) Raw materials consumed

Figures in Rs. crores

	FY 10	FY 09	Change	Change %
Raw Materials consumed	**5,495**	5,710	(215)	(4%)

There was a drop of 4% in the 'Raw materials consumed' driven primarily by non-usage of imported coke. After commissioning of the 'H' blast furnace the direct injection of coal has increased considerably and the additional requirement of coal was met mostly through imports. Although there was an increase in volume, prices of imported coal were at a level lower than the last year. The raw materials consumed increased in Ferro Alloys and Minerals division due to the higher cost of imported manganese ore.

d) Payments to and provisions for employees

Figures in Rs. crores

	FY 10	FY 09	Change	Change %
Payments to and provisions for employees	**2,361**	2,306	56	2%

Staff cost was higher during the current financial year mainly due to annual increases in salary and allowances partly offset by lower charges of employee benefits towards gratuity and ESS on account of higher discounting rates applied for actuarial valuation.

e) Stores consumed

Figures in Rs. crores

	FY 10	FY 09	Change	Change %
Stores consumed	**1,335**	1,249	87	7%

Stores including industrials gases and spares consumed increased by 7% over FY 09 primarily on account of higher volume of production and associated requirements of operational refractories and industrial gases.

f) Repairs to machinery

Figures in Rs. crores

	FY 10	FY 09	Change	Change %
Repairs to Machinery	**979**	810	169	21%

Repairs to machinery increased by 21% as compared to FY 09 mainly on account of increase in maintenance costs in various units of the company and as a result of the incorporation of accounts of Hooghly Metcoke.

g) Conversion charges

Figures in Rs. crores

	FY 10	FY 09	Change	Change %
Conversion charges	**1,133**	1,042	91	9%

Conversion charges increased by 9% over FY 09 primarily due to increase in conversion activities in long products by 87%, increase in flat products sales through service centres by 17%, tin coated products, Tubes division and Wires division partly offset by lower conversion volume at Ferro Alloys and Minerals division.

h) Purchase of power

Figures in Rs. crores

	FY 10	FY 09	Change	Change %
Purchase of power	**1,268**	1,091	177	16%

Increase in purchase of power is mainly due to additional volumes of purchased power to cater to our requirement for additional production, sale to associated companies and also due to revision of fuel surcharge rates by DVC and increase in purchased power tariff by the Jharkhand State Electricity Regulatory Committee

(JSERC). These increases were partly offset by low-cost power from Industrial Energy Limited (IEL) where Blast Furnace gas, a by-product, is used for generating power.

i) Freight and handling charges

Figures in Rs. crores

	FY 10	FY 09	Change	Change %
Freight and handling charges	**1,357**	1,251	106	8%

The increase in Freight and handling charges was mainly on account of higher volume of steel despatches by both rail and road, change in rates and destination mix compensated partly by lower demurrage charges due to reduced wagon turn-around time and lower expenses on ocean freight.

j) Royalty

Figures in Rs. crores

	FY 10	FY 09	Change	Change %
Royalty	**276**	228	48	21%

Royalty charges increased by 21% as compared to FY 09 due to change in royalty rates on iron ore from specific rate basis to ad-valorem basis coupled with an increase in the volume of operations as well as a change in tariff and payment of royalty on processed coal instead of raw coal at our West Bokaro collieries.

k) Other expenses

Figures in Rs. crores

	FY 10	FY 09	Change	Change %
Other expenses	**1,285**	1,266	19	2%

Other expenses increased as compared to the previous comparative period primarily on account of increase in bank charges, port charges & overburden removal expenses incurred at our Ferro Alloys and Minerals division. The increases were partly offset by forex gains during the year.

l) Net Finance charges

Figures in Rs. crores

	FY 10	FY 09	Change	Change %
Net Finance charges	**1,508**	1,153	356	31%

Increase in Net Finance charges was mainly due to the interest on the new Non-Convertible Debentures and term loans from banks partly offset by increase in interest capitalised and reduction in interest costs due to repayment of forex and other loans during the year.

m) Fixed Assets

Figures in Rs. crores

	FY 10	FY 09	Change	Change %
Gross Block	**26,150**	23,545	2,605	11%
Less: Impairment	**106**	100	6	6%
Less: Depreciation	**10,038**	8,962	1,076	12%
Net Block	**16,006**	**14,482**	**1,524**	**11%**

The increase in fixed assets represents primarily the 1.8 mtpa expansion and 3 mtpa expansion projects at Jamshedpur Works.

n) Investments

Figures in Rs. crores

	FY 10	FY 09	Change	Change %
Trade investments	**1,781**	1,744	37	2%
Investment in subsidiary companies	**41,480**	37,359	4,121	11%
Investment in mutual funds	**1,719**	3,269	(1,550)	(47%)
Total investments	**44,980**	**42,372**	**2,608**	**6%**

Investment in subsidiary companies increased due to purchase of additional stake in Tata Steel Processing and Distribution Limited (formerly Tata Ryerson Limited). There was also an increase in other long-term investments in the form of purchase of shares of Tata Steel Holdings as well as an increase in stake in Tinplate Company of India Limited, partly offset by the sale of shares of Tata Motors.

o) Stores and spares and Stock-in-trade

Figures in Rs. crores

	FY 10	FY 09	Change	Change %
Stores & Spares	**624**	612	12	2%
Stock-in-trade	**2,454**	2,868	(414)	(14%)
Total inventories	**3,078**	**3,480**	**(403)**	**(12%)**

While the stock of stores and spares as on 31st March, 2010 remained almost at the same level as on 31st March, 2009, the inventories of finished, semi-finished goods, scrap and raw materials was lower by 14% than that of last year.

The raw materials inventory was also lower due to lower prices of coal and coke along with lower volume of coke. The raw material stocks in the Company's Ferro Alloys & Minerals division was also lower than the last year level.

p) Sundry Debtors

Figures in Rs. crores

	FY 10	FY 09	Change	Change %
Gross Debtors	**456**	662	(206)	(31%)
Less: Provision for doubtful debts	**21**	26	(5)	(19%)
Net Debtors	**435**	636	(201)	(32%)

Debtors as on 31st March, 2010 was lower by 32% as compared to 31st March, 2009 primarily due to stringent credit control measures and lower exports.

q) Loans and Advances

Figures in Rs. crores

	FY 10	FY 09	Change	Change %
Loans and advances	**5,500**	4,561	939	21%

The increase of Rs. 939 crores in loans and advances represents increase in advance against equity (to Centennial Steel) and advances to subsidiary companies (to Tata Steel KZN) partly offset by reduction in the amount receivable against forward covers.

r) Cash flow and Net debt

Cash Flow

Net cash flow from operating activities: The net cash from operating activities was Rs. 8,369 crores during the financial year ended 31st March, 2010 as compared to Rs. 7,550 crores during financial year 2008-09. In line with lower profit during the current year, operating profit before working capital changes at Rs. 9,267 crores is lower than Rs. 9,457 crores in previous year. Better working capital management reduced the working capital during the year by Rs. 1,182 crores (Rs. 890 crores in previous year) largely due to reduction in trade and other receivables, and inventories supported by an increase in trade payables and other liabilities. This has improved the cash generated from operations in the current year to Rs. 10,449 crores against Rs. 10,348 crores in the previous year. Direct taxes paid during the current year at Rs. 2,079 crores is lower than Rs. 2,798 crores in previous year, thus resulting in improvement over previous year in cash generated from operating activities.

Net cash from investing activities: The net cash outflow from investing activities amounted to Rs. 5,255 crores during FY 10 as compared to Rs. 9,581 crores during FY 09. The outflow during the current year broadly represents an incremental investment in subsidiaries and capex partly offset by sale of shares and investments in liquid mutual funds.

Net cash from financing activities: The net cash outflow from financing activities was Rs. 1,473 crores during FY 10 as compared to an inflow of Rs. 3,156 crores during FY 09. The outflow is mainly on account of repayment of borrowings, interest and dividends paid which were partly offset by fresh drawals and proceeds from GDR issue.

Net debt

Figures in Rs. crores

	FY 10	FY 09	Change
Secured loans	**2,259**	3,913	(1,654)
Unsecured loans	**22,980**	23,033	(53)
Total Debt	**25,239**	**26,946**	**(1,707)**
Less: Cash and Bank balances	**3,234**	1,591	1,644
Less: Current investments	**1,719**	3,269	(1,550)
Net Debt	**20,286**	**22,086**	**(1,800)**

Net debt as on 31st March, 2010 at Rs. 20,286 crores was lower by Rs. 1,800 crores against 31st March, 2009. During the current fiscal year, the secured and unsecured loans decreased by Rs. 1,654 crores and Rs. 53 crores respectively as compared to the balances as on 31st March, 2009 due to repayments of term loans and other repayments partly offset by issue of Non-Convertible Debentures, fresh term loans and other drawals. Current investment was lower by Rs. 1,550 crores which was offset by increase of Rs. 1,644 crores in the cash & bank balances.

Tata Steel Group

Tata Steel Group recorded a loss after tax (after minority interest and share of profit of associates) of Rs. 2,009 crores during FY 10 as compared to a profit of Rs. 4,951 crores recorded during the previous financial year. The loss was driven by the effects of global economic slowdown during major part of the year although there have been recoveries in India and South East Asia along with early signs of recovery in the UK & European markets.

Net Sales/ income from operations

Figures in Rs. crores

	FY 10	FY 09	Inc./(Dec)
Tata Steel	**25,022**	24,316	706
TS Europe	**65,843**	1,09,570	(43,727)
NatSteel Holdings	**6,254**	8,416	(2,162)
TS Thailand	**3,157**	3,965	(808)
Others	**9,944**	9,709	234
Eliminations & adjustments	**(7,827)**	(8,647)	821
Group Total	**1,02,393**	**1,47,329**	**(44,936)**

Turnover decreased primarily in TSE and South East Asia affected by the recessionary conditions prevalent there for major part of the financial year, offset partly by increase in Tata Steel India.

Purchase of finished, semi-finished and other products

Figures in Rs. crores

	FY 10	FY 09	Inc./(Dec)
Tata Steel	**169**	359	(190)
TS Europe	**7,946**	23,513	(15,567)
NatSteel Holdings	**4,257**	6,672	(2,415)
TS Thailand	**1,837**	2,652	(815)
Others	**1,304**	795	509
Eliminations & adjustments	**(2,426)**	(2,585)	158
Group Total	**13,087**	**31,406**	**(18,319)**

The purchase of finished and semi-finished products was lower by 58% during FY 10 over FY 09 mainly due to lower volume of operations at Tata Steel Europe, NatSteel and TSTH coupled with lower prices of billets and scrap at NatSteel and TSTH. The commissioning of Mini Blast Furnace at TSTH also contributed to lower purchase requirement. In Tata Steel India, the requirement of purchased billets reduced due to higher availability of billets after the ramping up of Billet Caster #3.

Raw Materials consumed

Figures in Rs. crores

	FY 10	FY 09	Inc./(Dec)
Tata Steel	**5,495**	5,710	(215)
TS Europe	**23,700**	34,063	(10,364)
NatSteel Holdings	**101**	89	12
TS Thailand	**464**	225	239
Others	**5,803**	6,507	(704)
Eliminations & adjustments	**(4,558)**	(5,062)	505
Group Total	**31,004**	**41,532**	**(10,527)**

Raw Materials consumed decreased by 25% primarily due to decline in the volume of operations at TSE along with reduction in prices of major raw materials. In Tata Steel India, the raw material consumption was lower due to non usage of imported coke during the current fiscal along with lower prices of imported coal partly offset by increase in coal consumption to support increased production in Blast Furnaces. Raw materials consumed were higher in Tata Steel Thailand to support higher production. "Others" primarily represent the drop in raw materials purchased at the minerals business of NatSteel.

Payments to and Provisions for Employees

Figures in Rs. crores

	FY 10	FY 09	Inc./(Dec)
Tata Steel	**2,361**	2,306	56
TS Europe	**13,269**	14,931	(1,662)
NatSteel Holdings	**376**	360	16
TS Thailand	**88**	79	8
Others	**369**	299	70
Eliminations & adjustments	**–**	(0)	0
Group Total	**16,463**	**17,975**	**(1,512)**

Staff cost reduced by 8% mainly due to reduction at Tata Steel Europe arising from the cost improvement programme viz. 'Weathering The Storm' and restructuring programme viz. 'Fit for the Future'.

Purchase of Power

Figures in Rs. crores

	FY 10	FY 09	Inc./(Dec)
Tata Steel	**1,268**	1,091	177
TS Europe	**2,022**	4,288	(2,266)
NatSteel Holdings	**250**	212	39
TS Thailand	**291**	237	54
Others	**247**	146	101
Eliminations & adjustments	**(27)**	(20)	(7)
Group Total	**4,052**	**5,953**	**(1,902)**

Purchase of power was lower mainly at Tata Steel Europe due to lower volume of operations and savings arising from the use of off-peak energy as part of the "Weathering the Storm' programme. In the last financial year the power expenses of Aluminium Division of Tata Steel Europe (hived off now) were also included in the financial statements. In Tata Steel India, higher power consumption to support increased production along with revision of fuel surcharge by DVC, a power supplying unit and increase in purchased power tariff by regulatory committee at Jharkhand India increased the purchased power expenses.

Freight and handling charges

Figures in Rs. crores

	FY 10	FY 09	Inc./(Dec)
Tata Steel	**1,357**	1,251	106
TS Europe	**3,380**	4,134	(754)
NatSteel Holdings	**143**	199	(56)
TS Thailand	**26**	29	(4)
Others	**701**	676	25
Eliminations & adjustments	**(58)**	(263)	205
Group Total	**5,549**	**6,027**	**(478)**

Reduction in freight and handling charges at TSE was on account of lower deliveries partly offset by increase in fuel rates. In NatSteel, charges were lower due to lower volumes and lower freight rates, while in Tata Steel India, higher volume of sales led to increase in the freight and handling charges.

Other Expenditure

Figures in Rs. crores

	FY 10	FY 09	Inc./(Dec)
Tata Steel	**5,284**	4,754	530
TS Europe	**16,813**	17,882	(1,069)
NatSteel Holdings	**562**	590	(29)
TS Thailand	**438**	411	27
Others	**1,160**	1,391	(231)
Eliminations & adjustments	**(722)**	(697)	(26)
Group Total	**23,535**	**24,332**	**(797)**

Other Expenditure represents the following expenses:

Figures in Rs. crores

	FY 10	FY 09	Inc./(Dec)
Stores and spares consumed	**7,764**	9,520	(1,756)
Fuel oil consumed	**833**	1,028	(194)
Repairs to building	**358**	576	(218)
Repairs to machinery	**4,690**	5,817	(1,128)
Relining expenses	**91**	101	(10)
Conversion charges	**1,083**	1,096	(14)
Rent	**2,534**	3,689	(1,155)
Royalty	**281**	235	46
Rates and taxes	**682**	632	51
Others (*)	**5,219**	1,639	3,581
Total	**23,535**	**24,332**	**(797)**

(*) includes insurance charges, commissions, discounts and rebates, provision for wealth tax, adjustments relating to previous years, other expenses, provision for doubtful debts and advances, excise duty and expenditure transferred to capital.

Other expenditure was lower by 3% during FY 10 as compared to FY 09 mainly due to lower stores, spares and fuel consumed, repair and other expenses in TSE owing to lower volume of operations. Increase in Tata Steel India was on account of higher volume of operations, repair expenses, bank charges and conversion charges.

Net Finance Charges

Figures in Rs. crores

	FY 10	FY 09	Inc./(Dec)
Tata Steel	**1,508**	1,153	356
TS Europe	**1,626**	2,043	(417)
NatSteel Holdings	**40**	71	(31)
TS Thailand	**21**	23	(2)
Others	**(173)**	0	(174)
Group Total	**3,022**	**3,290**	**(268)**

The reduction in Tata Steel Europe through debt repayments and reduced interest rates on variable components of senior debt facility was partly offset by increase in interest cost in Tata Steel India on new term loans and NCDs.

Stores and Spares Stock

Figures in Rs. crores

	FY 10	FY 09	Inc./ (Dec)
Tata Steel	**624**	612	12
TS Europe	**688**	780	(92)
NatSteel Holdings	**66**	77	(11)
TS Thailand	**249**	298	(50)
Others	**90**	86	4
Eliminations & adjustments	**(1)**	(2)	0
Group Total	**1,715**	**1,853**	**(138)**

Stores and Spares stock were in consistence with the consumption requirements of individual entities.

Stock-in-trade

Figures in Rs. crores

	FY 10	FY 09	Inc./ (Dec)
Tata Steel	**2,454**	2,868	(414)
TS Europe	**12,471**	14,931	(2,460)
NatSteel Holdings	**737**	1,115	(378)
TS Thailand	**649**	428	221
Others	**665**	461	204
Eliminations & adjustments	**(4)**	12	(17)
Group Total	**16,972**	**19,816**	**(2,844)**

Stock-in-trade (Raw materials, WIP and Finished & semi-finished products) for the Group decreased by Rs. 2,844 crores at end March 2010 over end March 2009 primarily due to lower input material costs at Tata Steel India, TSE and NatSteel. In Thailand, the increases were due to purchase of raw material stocks required for initial consumption at the Mini Blast Furnace.

Sundry Debtors

Figures in Rs. crores

	FY 10	FY 09	Inc./ (Dec)
Tata Steel	**435**	636	(201)
TS Europe	**10,142**	11,480	(1,337)
NatSteel Holdings	**543**	548	(5)
TS Thailand	**123**	73	50
Others	**1,283**	1,073	211
Eliminations & adjustments	**(902)**	(778)	(124)
Group Total	**11,624**	**13,032**	**(1,408)**

The debtors balances for the Group decreased by Rs. 1,408 crores in end March 2010 over the level of end March 2009 mainly due to decreases in debtors balances in Tata Steel Europe primarily on account of lower sales during the current financial year along with implementation of working capital improvement measures.

Cash Flow and Net debt

Cash Flow

Net cash flow from operating activities: The net cash flow from operating activities was Rs. 10,471 crores during April-March 2010 as compared to Rs. 15,696 crores during FY 09. The cash operating profit before working capital changes and direct taxes during FY 10 was Rs. 8,283 crores as compared to Rs. 18,792 crores during FY 09. The working capital during the current year reduced by Rs. 4,647 crores mainly due to reduction in Inventory and Debtors.

Net cash from investing activities: The net cash outflow from investing activities amounted to Rs. 4,696 crores in FY 10 against an outflow of Rs. 10,822 crores in FY 09. The outflow during the current year represents capital expenditure of Rs. 7,150 crores partly offset by sale of investments (net of purchases) of Rs. 2,107 crores. The outflow of the previous year represented capital expenditure of Rs. 8,434 crores and Rs. 2,688 crores towards purchase of investments (net of sales).

Net cash from financing activities: The net cash outflow from financing activities was Rs. 5,135 crores during FY 10 as compared to an outflow of Rs. 2,755 crores during FY 09. There is a net repayment of borrowing (net of fresh borrowings) of Rs. 2,687 crores during the current year mainly towards repayment of external debts primarily in TS Europe and Tata Steel India partly offset by issue of debentures, term loan from banks and other borrowings. Dividend and Interest payments during FY 10 were Rs. 1,321 crores and Rs. 3,266 crores respectively (FY 09 Dividend payment Rs. 1,227 crores, Interest payment Rs. 3,547 crores).

Net Debt

Figures in Rs. crores

	FY 10	FY 09	Inc./(Dec)
Secured Loans	**28,059**	34,244	(6,185)
Unsecured Loans	**25,041**	25,657	(616)
Total Loans	**53,100**	**59,901**	**(6,800)**
Less: Cash and Bank Balances	**6,788**	6,148	639
Less: Current Investments	**1,931**	3,398	(1,467)
Net Debt	**44,381**	**50,354**	**(5,973)**

Net Debt at Rs. 44,381 crores at end March 2010 was lower than March 2010 by Rs. 5,973 crores. The decrease represents repayments of borrowings of Rs. 12,725 crores principally at Tata Steel Europe and Tata Steel India partly offset by fresh debts drawn during the period (amounting to Rs. 10,038 crores) in the form of non-convertible debentures, term loans taken from Banks, etc. There was a reduction in the current investments over March 2009 (in growth funds) by Rs. 1,467 crores mostly in Tata Steel India while the Cash and Bank balances were higher by Rs. 639 crores.

RISKS, OPPORTUNITIES AND THREATS

Over the years, the Tata Steel Group (TSG) has encountered several risks and concerns during the process of its business. In keeping with the problem-solving approach that characterises the Group, it has taken several steps to counter and mitigate these, while simultaneously pursuing every underlying opportunity. Tata Steel's response to its risks, opportunities and threats have been discussed in the section below.

Growth Strategy

Since 2005, the Group embarked on an aggressive overseas acquisition strategy that added a steel capacity of 25 million tonnes across South East Asia, the United Kingdom and Europe. An additional capacity of 3 million tonnes was added on at its existing steel plant in Jamshedpur. Enhanced capacities, new opportunities that the acquisitions generated and the benefits of the synergies have borne fruit and the Tata Steel Group today ranks amongst the top 10 steel producers in the world.

With the challenges of the financial crisis of the last two years abating, the Tata Steel Group has reviewed its growth strategy. Its installed capacity in Tata Steel Europe (TSE) is sufficient to address the demand in the European market for the next 2 to 3 years, and hence the emphasis at TSE is now on capital projects that will strengthen its cost position. Additionally, there are substantial market opportunities in India and South East Asia that warrant immediate expansion of steel capacity. There is however, a potential risk in the area of plant expansion in India, especially with greenfield projects, which have a longer gestation period because of possible delays that may arise on issues of land, rehabilitation, forestry and environment.

Industry Cyclicality

The steel industry is subject to cyclical swings arising from factors such as excess capacity, regional demand & supply imbalances and volatile swings in market demand.

After the steep decline in steel demand in the previous year, the industry witnessed a stabilisation phase followed by gradual restocking. Market confidence gradually returned and with it, we witnessed some signs of recovery in steel prices. By the end of the financial year, the industry recovery was strong in China, India and the emerging markets, while it recovered at a more modest and uneven pace in Europe and the United States.

During this period, Tata Steel Europe undertook several mitigating actions, initially to align the utilisation of its installed capacity with the lower demand, and subsequently to meet the gradually rising demand by restarting idle capacity. This deliberate approach has helped to avoid new demand/supply imbalances and a double dip in prices. This, coupled with the benefits from the "Fit for the Future" initiative, is expected to enable the European operations overcome the effects of the financial crisis. In Asia, steel demand in India, China and the SEA region continued to grow and the new challenge will be to cope with the inherent risks of periodic overheating that continued rapid growth can unleash. To this end, the Group seeks to minimise any adverse consequences through appropriate sales contracting strategies and tighter procurement and working capital management.

Raw Materials Security and Price Volatility

During the financial year 2009-10, Tata Steel Group reinforced its strategy towards greater raw material security in order to insulate the Group from swings in raw material prices. This strategy was driven by several factors. These included the high raw material demand in China and India, further consolidation among the few mining majors and the recent displacement of the longstanding annual benchmarking iron ore pricing system with spot-based quarterly pricing.

Quarterly contracts based on spot-pricing, if fully implemented and sustained, would imply shorter procurement cycles and greater volatility in iron ore and coking coal prices. This would give rise to a potential mismatch in timing between raw material and customer pricing for an industry that has traditionally been accustomed to long-term contracts and annual benchmark pricing for its key raw materials. TSG plans to formulate operating and hedging strategies to counter this threat.

Health, Safety & Environmental Risks

The manufacture of steel involves steps that are potentially hazardous which are likely to cause disruptions to normal operations if not executed with due care. The Group's businesses are subject to numerous laws, regulations and contractual commitments relating to health, safety and the environment in the countries in which it operates and these rules are becoming more stringent.

For the ongoing 2.9 million tonnes per annum expansion in Jamshedpur, stringent, timely and intensive project management processes are being applied to ensure minimal disruptions to existing plant operations. Monitoring of dust emission levels related to the higher activity levels arising from the construction works has been stepped up to ensure they stay within permissible limits. In the mines and collieries, extra efforts are being taken to ensure workplace safety.

Technology Risks

A key challenge of the Group is to ensure that its plants are equipped with updated technologies in order to serve clients, secure cost competitiveness and maintain R&D leadership.

Through the financial crisis, the Group did not cut back on investment in human resources so that it could continue to develop technologies that could advance the Group's cost competitive position, while also reducing $C0_2$ emissions from ore based steelmaking. R&D efforts are also being made to advance the Group's proprietary knowledge in order to produce new generation high strength steel, advanced and Photovoltaic coating systems etc.

For upgrading plant and equipment, funds are being made available to ensure that the Group remains technologically updated in order to meet the increasingly demanding requirements from customers across all its sectors – particularly in the fast growing automotive sector in India.

Financing

The debt for the Corus acquisition in 2008 that resides in Tata Steel Europe's Balance Sheet is a specific risk to the Group, especially in the light of the financial crisis which adversely affected its operating performance.

The modified financial covenants negotiated in May 2009 have all been met in the financial year with a reduction in TSE's working capital. Nevertheless, going forward, the increasing loan amortisation obligations and adherence to stricter financial covenants under the existing Senior Facility Agreement represent specific risks to TSE. Improving cash generation prospects and working capital benefits derived from initiatives taken through the entire supply chain are being closely monitored to ensure that both bank loan obligations and the business financing needs are met. Efforts are ongoing to further extend the debt maturity profile of Tata Steel Europe.

The Group's operations in India and South East Asia continue to generate cash flows and have ample headroom in committed loans to fund plant expansions and higher working capital requirements in those geographies.

Pensions

Tata Steel Europe has significant pension obligations arising from the provision of retirement benefits including defined benefit plans to virtually all its employees. The market value of its net pension assets substantially exceed the net assets of Tata Steel Europe and thus any adverse change can have a material impact on its financial statements and affect its ability to fund company pension contributions. All the Group funded schemes are independently managed and have stringent guidelines to protect it against market risk exposure. Currently all funded schemes are in surplus.

Forex, Credit, Liquidity and Counterparty Risk

Through its global operations, the Group operates in several currency areas. The major currencies used in its sales and procurement activities are the US Dollar, Euro, Sterling and the Indian Rupee. Volatility in the currency markets can adversely affect the outcome of commercial transactions and cause trading uncertainties. The Group has foreign exchange hedging policies in place to protect its trading and manufacturing margins against rapid and significant foreign exchange movements.

In the course of the financial year, liquidity from the global banking system gradually has returned to some normalcy with the cash and bank balances of the Group at Rs. 6,788 crores as at 31st March, 2010.

The Group imposes strict approval procedures and limits to contain counterparty risks and does not enter into leveraged derivative instruments.

Regulatory & Compliance Risks

The Group operates in multiple geographies and thus has compliance obligations with diverse and complex laws and regulations. In countries where the political systems are still evolving, frequent changes to investment and economic policies are common and any unforeseen changes can expose the Group's businesses.

To limit such exposures, the Group operates primarily in countries where investment flows are free and where well-established political, business and legal frameworks are in place. For new investments into emerging economies, country risk assessments are conducted as part of the investment evaluation.

INTERNAL CONTROL SYSTEMS

In Tata Steel India, the Corporate Audit division continuously monitors the effectiveness of the internal controls with an objective to provide to the Audit Committee and the Board of Directors, an independent, objective and reasonable assurance of the adequacy and effectiveness of the organisation's risk management, control and governance processes. The division also assesses opportunities for improvement in business processes, systems & controls; provides recommendations, designed to add value to the organisation and follows up on the implementation of corrective actions and improvements in business processes after review by the Audit Committee and Senior Management.

The scope and authority of the Corporate Audit division is derived from the Audit Charter approved by the Audit Committee. The Charter is designed in a manner that the Audit Plan is focused on the following objectives:

- All operational and related activities are performed efficiently and effectively.
- Significant financial, managerial and operating information that is relevant, accurate, and reliable is provided on time.
- Review of identification and management of Risks.
- Resources are acquired economically, used efficiently and safeguarded adequately.
- Employees' actions are in accordance with the Company's policies and procedures, Tata Code of Conduct and applicable laws and regulations.
- Significant legislative and regulatory provisions impacting the organisation are recognised and addressed appropriately.
- Opportunities identified during audits, for improving management control, business targets and profitability, process efficiency and the organisation's image, are communicated to the appropriate level of management.
- Shareholders' and other Stakeholders' wealth and welfare are preserved, protected and enhanced.

Corporate Audit division develops an annual audit plan based on the risk profile of business processes/sub-processes of various functions and the audit activities are undertaken accordingly. The audit plan is approved by the Audit Committee which regularly reviews compliance to the plan.

During the year, the Audit Committee met regularly to review the reports submitted by the Corporate Audit Division. All significant audit observations and follow-up actions thereon were reported to the Audit Committee.

The Audit Committee also met the Company's Statutory Auditors to ascertain their views on the adequacy of internal control systems in the Company and their observations on financial reports. The Audit Committee's observations and suggestions were acted upon by the Management.

In Tata Steel Europe, The Board of directors is responsible for TSE's system of internal control and reviewing its effectiveness. The company has a well-established internal audit function that reports to the Director Finance on a day-to-day basis and has direct access to the chairman of the Audit committee, who meets with the Director Audit several times each year. The Audit committee receives reports from the internal audit function four times a year and also considers the terms of reference, plans and effectiveness of the function. The internal audit function works closely with the external auditors. It provides independent and objective assurance to the Board, the Audit committee and the Executive committee on the systems of internal control employed in the Group, and provides a systematic, disciplined approach to evaluating and improving the effectiveness of risk management, control and governance procedures.

There were no changes in internal control over financial reporting that occurred during the period under review that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting. However, the asset protection function has been reorganised and strengthened during the year.

TSE's system of internal control has been designed in order to provide the directors with reasonable assurance that its assets are safeguarded, transactions are properly authorised and recorded and material errors and irregularities are either timely prevented or detected.

HUMAN RESOURCES AND INDUSTRIAL RELATIONS

Tata Steel Group recognises people as the primary source of its competitiveness and continues to focus on people development by leveraging technology and developing a continuously learning human resource base to unleash their potential and fulfill their aspirations.

Tata Steel India reached the milestone of 81st year of industrial harmony and peace. Employee productivity during the financial year 2009-10 increased to 510 tonnes of crude steel per man per year as compared to 429 tonnes of crude steel per man per year in the financial year 2008-09. As a result of the ongoing endeavour of rationalising and rightsizing the workforce the employees' strength came down to 34,101 as on 31st March, 2010 against 34,918 as on 31st March, 2009.

The year under review saw free and fair elections of the unions in various units of the Company. Wage settlements agreements were signed at most of the units during the year 2009-10.

The following steps are taken in the human resources front to ensure that the Company in India can continuously cater to the changing business adversities and opportunities:

- Leadership development and succession planning.
- Career planning and job rotation.
- Customer orientation - "Employee Contact Program" has been initiated and reviewed on a monthly basis to improve on the HR connect with the Line functioning. This program helps in capturing employee concerns on an on-going basis, analyse their concerns to identify need for policy changes, establish one to one connect with officers and create a repository of the employee ideas/concerns.
- Learning and development process through 70:20:10 where 70 per cent of learning & development takes place from real life and on-the job experiences, tasks, problem solving and self study; 20 per cent takes place through coaching, mentoring, technical discussions, shadowing, working under guidance by superiors or experts while 10 per cent of the learning comes from formal class room training.
- E-learning – 137 e-learning modules have been developed indigenously to impart computer literacy classes to 11,000 employees during the financial year 2009-10. More than 3,300 employees have been provided basic Hindi literacy and 28 e-learning centres have been opened in various locations of the Company in India and around 300 PCs have been provided for these e-Learning centres.

The European operations have not experienced any significant industrial relations problems during the year. The number of employees in TSE at the end of March 2010 was 35,400 as compared to 40,700 on 31st March, 2009. The reduction in the number of employees resulted mainly from the actions taken to align the business with the significant reduction in demand and accordingly TSE took a decision to mothball Teesside Cast Products as a part of the strategic measures.

However, TSE mothballed the site partially, continuing to operate a number of activities including the Redcar wharf, Redcar coke ovens, South Bank coke ovens and some of the power generating capacity. TSE also continues to have a substantial wider presence in the Teesside area, employing more than 2,000 people at its operations in Hartlepool, Skinningrove, Teesside Beam Mill and Teesside Technology Centre.

UK Steel Enterprise Limited (UKSE), the Company's subsidiary that helps the economic regeneration of communities affected by changes in the steel industry, has announced a package of support measures in the wake of the job losses at Teesside. The package will include doubling the level of UKSE investment into new and growing businesses in the region, an expansion of the Innovation Centre on Hartlepool's Queens Meadow Business Park supported by 'One North East', a new Regeneration Fund offering a combination of grants and loans designed specifically for start-up and fledgling businesses and extra funds for UKSE's special community support fund, which will back local projects and fund business support initiatives.

TSE has two major pension schemes viz., The British Steel Pension Scheme (BSPS) in the UK and the Stichting Pensioenfonds Hoogovens (SPH) at the Netherlands where the members along with the company contribute to meet the cost of future service benefits subject to review at the future actuarial valuations.

STATUTORY COMPLIANCE

The Managing Director makes a declaration at each Board Meeting regarding the compliance with provisions of various statutes after obtaining confirmation from all the units of the company. The Company Secretary ensures compliance with the SEBI regulations and provisions of the Listing Agreement. The Group Chief Financial Officer as the Compliance Officer ensures compliance with the guidelines on the insider trading for prevention of insider trading.

CAUTIONARY STATEMENT

Statements made in this report describing the Company's objectives, projections, estimates, expectations may be "forward-looking statements" within the meaning of applicable securities laws and regulations. Actual results could differ materially from those expressed or implied. Important factors that could make a difference to the Company's operations include economic conditions affecting demand/supply and price conditions in the domestic and overseas markets in which the Company operates, changes in the Government regulations, tax laws and other statutes and incidental factors.