Management Discussion and Analysis 2010-11

INDUSTRY STRUCTURE:

Global Steel industry: Global crude steel production reached a new height during 2010 at 1,414 million metric tonnes, up by 15% over 2009. While China maintained the lead position in terms of volume of steel produced, with a growth of 9.3%, most of the negative growths seen in the steel producing nations hit by the economic downturn in 2009 reversed during 2010 and they recorded positive double digit growths during the year. The following table shows the crude steel production volume of the top ten steel producing nations:

Figures in million tonnes

Rank	Country	2010	2009	Change %
1	China	626.7	573.6	9.3%
2	Japan	109.6	87.5	25.2%
3	United States	80.6	58.2	38.5%
4	Russia	67.0	60.0	11.7%
5	India	66.8	62.8	6.4%
6	South Korea	58.5	48.6	20.3%
7	Germany	43.8	32.7	34.1%
8	Ukraine	33.6	29.9	12.4%
9	Brazil	32.8	26.5	23.8%
10	Turkey	29.0	25.3	14.6%

Source: World Steel Association

In Asia, the annual production at 897.9 million tonnes in 2010 was up by 11.6% from 2009. The EU registered a growth of 24.5% over 2009 producing 172.9 million tonnes of crude steel in 2010. However, production in the UK (2010: 9.7 million tonnes, 2009: 10.1 million tonnes) and Greece (2010: 1.8 million tonnes, 2009: 2.0 million tonnes) continued to decline over previous years. The CIS countries recorded increase of 11.2% with a production volume of 108.5 million tonnes of crude steel in 2010 with Russia and Ukraine as the major contributors.

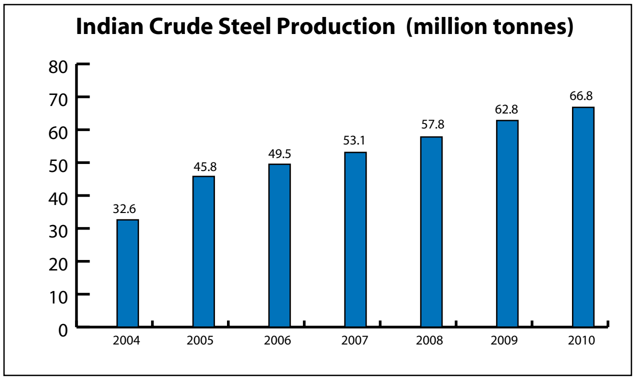
In 2010, Tata Steel ranks 11th among the top 12 steel makers of the world in terms of crude steel production. Most of the international steel companies witnessed a bounce back in their production level from the drops they experienced from the crisis of 2009. However, in many cases these companies could not reach their pre-crisis production levels. Chinese companies dominate the list with 7 of the top 12 being Chinese companies. The largest gainers in terms of percentage increase over 2009 production were ThyssenKrupp (52%), US Steel (46%), Nippon Steel, JFE, Nucor and Gerdau (all registering more than 30% increase).

	2010		2009		
Company	Crude Steel Output	Rank	Crude Steel Output	Rank	Change %
Arcelor Mittal	90.6	1	73.2	1	23.8%
Hebei Iron & Steel	52.9	2	49.7	2	6.4%
BaoSteel	44.5	3	38.9	3	14.4%
Angang Group	40.3	4	37.4	4	7.8%
Wuhan Iron & Steel	36.5	5	30.3	6	20.5%
Posco	35.4	6	31.1	5	13.8%
Nippon Steel	34.5	7	26.5	7	30.2%
JFE	31.1	8	23.8	9	30.7%
Jiangsu Shagang	30.1	9	26.4	8	14.0%
Shougang	25.8	10	19.5	12	32.3%
Tata Steel	23.5	11	21.9	10	7.3%
Shandong Iron & Steel	23.2	12	21.3	11	8.9%

Source: Steel Business Briefing

The Japanese crisis in March 2011 has caused some uncertainty over raw material prices and short-term end-user steel demand, although there is likely to be a medium-term increase in demand from reconstruction activity. In particular, the automotive and electronics industries may face shortages in supply where they are relying on Japan for manufacturing components.

Steel Industry in India: The trend of crude steel production in India is shown in the following chart:



Source: World Steel Association

Ranked 5th in terms of crude steel production in the steel producing countries, the country's production grew by around 6% in 2010 over 2009. There has been a diversification in the product mix of the steel industry in India to include sophisticated value-added steel used in the automotive sector, heavy machinery and physical infrastructure. However, the industry is suffering from high ash content of domestic coal and is dependent on supply of imported coal. The bottlenecks for green field expansion of the country are raw material security (getting iron ore mining lease), infrastructure (affecting logistics and transport), and uncertainties in land acquisition. 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 2010-11 when compared with the previous financial year. Steel consumption for FY 2010-11 for the flat products and long products grew by 6.7% and 10.6% respectively with flat products exports growing by 1.8%, while there was a decline of 33.7% in the exports of long products. There was a reduction in the imports of flat products and long products by 3.8% and 23.6% respectively. The steel prices during the financial year 2010-11 have increased from the average prices prevailing in the previous financial year as well as the quarter ended March 2010 driven primarily by the increase in the prices of input raw materials during the same period.

UK and European Steel Industry: Consequent to the collapse in demand in 2009, the crude steel production in the European Union (27) increased by 24.5% from 138.8 million tonnes in 2009 to 172.9 million tonnes in 2010. Imports of steel by EU were higher by 27% from 22 million tonnes in 2009 to 27.9 million tonnes in 2010. Russia remained the largest supplier of steel (24%) to the EU at 6.8 million tonnes, while 20% of the imports were from Ukraine (5.6 million tonnes) and imports from China were 3.9 million tonnes (14%). The product mix in the imports changed with more of flat products as compared to long products. EU exports however increased by 8.4% to 34.3 million tonnes with Turkey being the largest market (4.5 million tonnes – 13%) followed by the USA (3.7 million tonnes –11%) and Algeria (3 million tonnes – 8%).

South-East Asian Steel industry: As per the preliminary numbers obtained by South East Asia Iron & Steel Institute (SEAISI), the steel consumption in the Association of South-East Asian Nations (ASEAN) at 47.3 million tonnes in 2010 grew by 14% over 2009 and was higher by 1.3 million tonnes over the pre-crisis level of 2008. While production in the area at 26 million tonnes was higher than 2009 by 6%, imports grew significantly by 25% over 2009 to be at around 30 million tonnes. Exports volume at 8 million tonnes also witnessed an increase of 26% over 2009.

The apparent steel consumption (in million tonnes) in the ASEAN is shown below:

	2010	2009	Change %
Thailand	14.01	10.75	30.3%
Indonesia	9.44	7.42	27.2%
Philippines	3.79	3.52	7.7%
Malaysia	7.14	6.65	7.4%
Vietnam	10.28	10.47	(1.8%)
Singapore	2.64	2.80	(5.7%)
Total	47.30	41.61	13.7%

In **Thailand**, the increase in consumption was met by 60% higher imports (8 million tonnes) while the domestic steel output grew moderately by 8% to around 7.5 million tonnes with exports increasing by 0.4 million tonnes to 1.6 million tonnes. The Steel demand in **Indonesia** was met substantially by imports with domestic output at 5.1 million tonnes and exports rising by 22% to be at 1.3 million tonnes. **Philippines** demand growth was met mostly by imports (1.8 million tonnes) with stagnation in the domestic output and decline in exports. Similar situation was witnessed in **Malaysia** with an increase in imports (at 4 million tonnes) and decline in domestic production and exports. **Vietnam** steel demand declined by 1.8% in contrast to growth in the domestic output by 20% to 5.6 million tonnes to serve the export market. In **Singapore**, long product consumption declined by 4% from 1.83 million tonnes to 1.75 million tonnes mainly on account of completion of mega projects. In spite of a drop in the domestic long product output of the country, NatSteel managed a growth of 9% catering to exports market which grew from 0.29 million tonnes to 0.49 million tonnes. Flat product demand in Singapore fell by 6% to below 0.9 million tonnes.

TATA STEEL GROUP OPERATIONS:

Tata Steel Group deliveries in FY 11 at 23.5 million tonnes were almost at par with the previous year (23.6 million tonnes). The turnover for the Group at ₹118,753 crores during FY 11 was 16% higher than the turnover of FY 10 (₹102,393 crores) primarily due to higher prices across the Group. EBITDA for the Group in the financial year 2010-11 was ₹17,103 crores as compared to ₹9,340 crores of FY 10.

FY 11 EBITDA includes profit on sale of shares of Tata Power and Tata Motors by Tata Steel India, profit on sale of Southern Steel Berhard by NatSteel, partly offset by write-off of unamortised fees of old senior facility agreement at Tata Steel Europe which was repaid in October 2010 following refinancing of loans.

Similarly, in FY 10 EBITDA included profit on sale of shares by Tata Steel India and Kalimati Investments, profit on sale of Aluminium Smelter and other investments by Tata Steel Europe, partly offset by CARS restructuring expenses at Tata Steel India.

Excluding these items in both the years, the Group EBITDA doubled at ₹16,859 crores when compared to ₹8,447 crores in FY 10.

The Group turned around with a profit after taxes (after minority interest and share of profit of associates) of ₹8,983 crores during FY 11 after registering a loss of ₹ 2,009 crores in FY 10.

Tata Steel India:

Figures in ₹crores

	2010-11	2009-10
Turnover	29,396	25,022
Profit before tax (PBT)	9,777	7,214
Profit after tax (PAT)	6,866	5,047

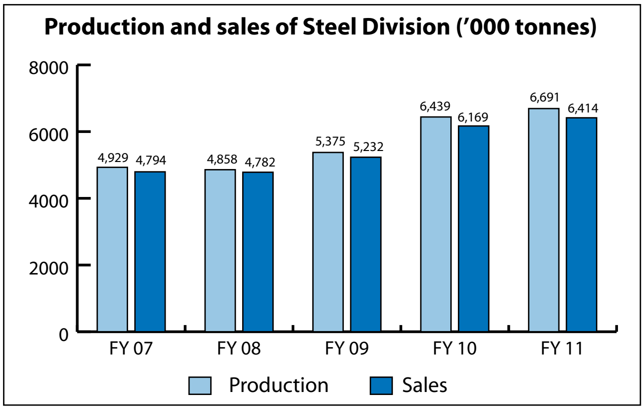
1. Steel division:

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

Figures in million tonnes

	FY 11	FY 10	Change %
Hot Metal	7.50	7.23	3.8%
Crude Steel	6.86	6.56	4.4%
Saleable Steel	6.69	6.44	3.9%
Sales	6.41	6.17	4.0%

A trend of steel production and sales is shown below:



The major production and sales highlights for the financial year 2010-11 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'11	Previous best
'G' Blast Furnace	Hot metal production	2.11	2.09 – FY 10
LD shop #2 & Slab Caster	Slab production	3.80	3.70 – FY 10
LD shop #1	Billet production	3.05	2.86 – FY 10
Hot Strip Mill	Production	3.73	3.65 – FY 10
New Bar Mill	Production	0.72	0.67 – FY 10
Merchant Mill	Production	0.37	0.34 – FY 10
West Bokaro (clean coal)	Production	2.20	2.15 – FY 10
OMQ	Production	13.09	12.04 – FY 10

Production in the Blast Furnaces was maximised by producing from bigger blast furnaces with higher productivity while in the two steel melting shops there was an increase in the vessel life and heat size which enhanced productivity.

The crude steel production exceeded the name plate capacity of 6.8 mtpa project in the 2nd year after commissioning of the Project.

The special improvement initiative "Kar Vijay Har Shikhar" launched with a view to improve profitability, has yielded some quick results in the area of LD#1 reliability, and throughput improvement at West Bokaro besides improvements in Ferro Alloys & Minerals Division, iron ore mines etc.

Sales

- Overall sales at 6.42 million tonnes grew by 4% over last year (6.17 million tonnes in FY 10).
- Due date performance (which measures delivery compliance) improved significantly from 93% to 96% in flat products and from 87% to 91% in long products.

Flat Products

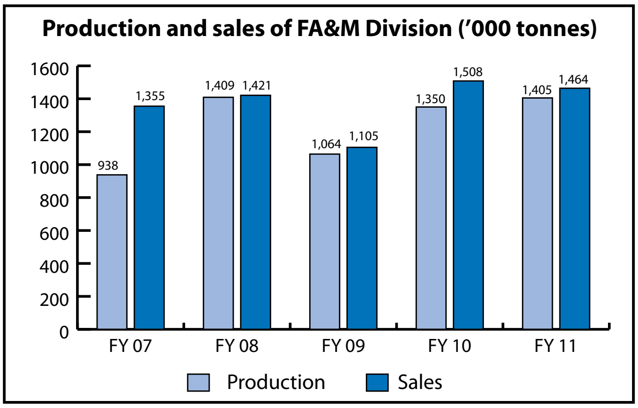
- The sales of flat products at 3.54 million tonnes increased by 2% in FY 11 (3.47 million tonnes in FY 10).
- The division crossed 1 million tonnes flat products sales to automotive segment (1.042 mt) and for the Branded Products (1.054 mt). The division also achieved the best ever sales performance in Skin Panel (0.49 mt) and Galvanised Annealed (0.83 mt).

Long Products

- Sales of Long products at 2.88 million tonnes increased by 7 % in FY 11 (2.70 million tonnes in FY 10).
- The division achieved best ever TISCON sales of 1.82 mt in FY 11 against the previous best of 1.57 mt in FY 10 thus becoming the market leader in retail sector of rebar.

2. Ferro Alloys & Minerals division:

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



Total sales volume in FY 11 was 1464k tonnes against 1508k tonnes of FY 10. While ferro alloys sales including minerals registered an increase of 8% during FY 11 (848 k tonnes) over FY 10 (788 k tonnes), flux sales declined by 15% in FY 11 over FY 10. (FY 11: 613k tonnes ; FY 10: 719k tonnes).

FY 11 saw a recovery, post the downturn in the FY 09 and the recession in the FY 10. Infrastructural investments in Asia (primarily in China, Korea, Taiwan, India & Japan) and increased automotive production in Asia & US resulted in improvement in the demand for steel and stainless steel. Global stainless steel production grew 25% in 2010 causing a rise in the demand for ferro alloys (Manganese Alloys: 14%, Chrome Alloys: 22%). Growth of Chrome Alloys is expected to slow down in FY 12 post tsunami in Japan (significant market for Ferro Chrome). Ferro alloys demand is likely to remain firm in other parts of the world and Asia (China, Korea, Taiwan).

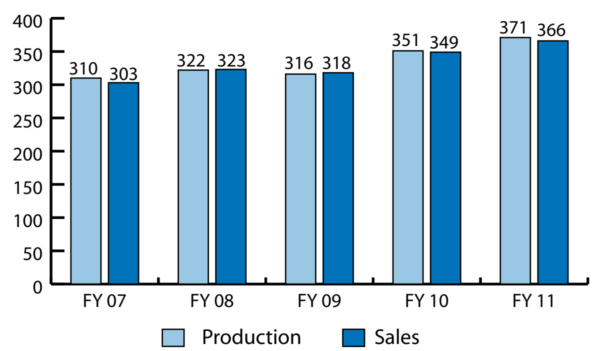
In Manganese Alloys, the division achieved almost 100% share in supplies of Manganese alloys to the Group's Asian operations. However, the production of Ferro Manganese was lower due to power restrictions.

The division was honoured with the CAPEXIL (Chemical and Allied Export Promotion Council of India) and EEPC (Engineering Export Promotion Council) awards for its export performance in the recent years.

3. Tubes division:

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

Production and sales of Tubes Division ('000 tonnes)



During FY 11, Tubes Division consolidated its position in the market place by registering a growth in production and sales by 6% and 5% respectively enabled by successful implementation of various improvement initiatives, under 'Kar Vijay Har Shikhar'.

The key performance highlights of the division are appended below:

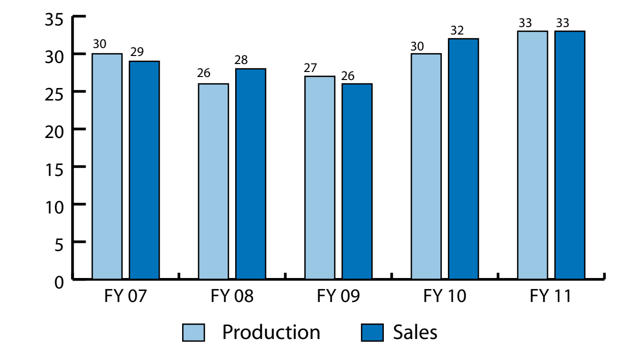
- 'Tata Pipes' continues to be one of the leading players in India in the conveyance business for the plumbing and irrigation segments. During FY 11 it has also made forays in the HVAC (Heating, Ventilating and Air-conditioning) segment and provided value added services through its channel partners.
- 'Tata Structura' is supplied to the infrastructure segment. This sector grew by 15% in FY 11 achieving a landmark of 0.1 million tonnes with its presence in the upcoming airports of Chennai and Kolkata.
- Precision Tubes are supplied to the Automotive, Process and Power sector. During FY 11, the production and sales of Precision Tubes grew by 13% each over the previous year using future focussed practices like EVI (Early Vendor Involvement), NPD (New product Development) and PAG (Product Application Group).

The Tubes Division won the Coveted JRD QV Award in the year. Along with long products, the division also won the EPC World Award 2010.

4. Bearings division:

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

Production and sales in Bearings Division (million numbers)



The division has posted a growth of 12% and 4% in production and sales in FY 11 over FY 10 respectively driven primarily by the demand in the domestic automotive segment.

The division adopted various improvement initiatives like TOC (Theory of Constraints) and took the next step in the TPM (Total Productivity Maintenance) activities. Cross-functional teams are working to challenge costs, increase throughput and productivity.

During FY 11, the division was bestowed with number of accolades from its customers like Bajaj Auto, Toyota Kirloskar Motors Ltd., Tata Motors etc.

Tata Steel Europe (TSE):

Figures in ₹ crores

	FY 11	FY 10
Turnover	**75,991**	65,843
Profit before tax (PBT)	**1,751**	(7,712)
Profit after tax (PAT)	**1,666**	(7,504)

Tata Steel Europe produces carbon steel by the basic oxygen steelmaking method at two integrated steelworks in the UK at Port Talbot and Scunthorpe, and at one in the Netherlands at IJmuiden. Engineering steels are produced in the UK at Rotherham using the electric arc furnace method. A number of rolling mills and process lines at TSE are on the same sites as the steelworks, but most of the operating sites do not have steelmaking facilities.

TSE has sales offices, stockholders, service centres and joint venture or associate arrangements in a number of markets for distribution and further processing of steel products supported by various agency agreements. There is an extensive network in the EU while outside the EU, the company has sales offices in over thirty countries, supported by a worldwide trading network.

Principal end markets for TSE's steel products are the construction, automotive, packaging, lifting and excavating, energy and power and rail sectors.

During the financial year under review, TSE adopted a new operating model consisting of:

Steelmaking operational hubs	Strip Products Mainland Europe
	Strip Products UK
	Long products Europe
Speciality Businesses	Colours
	Building Systems
	Packaging
	Tubes
	Kalzip
	Plating
	Cogent Power
	Speciality Steel
Distribution and Sales network	Distribution UK and Ireland
	Distribution Europe
	International

The earlier model of operations had three main operating divisions; Strip Products, Long Products and Distribution & Building Systems. TSE has adopted single sales and marketing function focussing on eight different industries as markets. The EU, is the most important market for the TSE Group, accounting for 84% of its total turnover in the financial year 2010-11. TSE has adopted the Tata Steel identity for trading purposes with effect from September 2010 and a progressive rebranding process is under way.

Teesside Cast Products unit was mothballed at the end of February 2010 and has since been disposed off in March 2011.

Crude steel production for TSE at 14.6 million tonnes in FY 2010-11 was almost at par with the previous year while the deliveries at 14.9 million tonnes in FY 2010-11 was higher by 3% over FY 2009-10. The production and sales performance of TSE are shown below:

Figures in million tonnes

	FY 11	FY 10	Change %
Crude steel production	**14.6**	14.4	1%
Deliveries	**14.9**	14.4	3%

In the financial year 2010-11, about 70% of TSE's crude steel production was rolled into hot rolled coils. The company also manufactured sections, plates, speciality steels and wire rods apart from selling semi-finished products. Approximately 20% of hot rolled coils manufactured were sold in the market without further processing and approximately 60% was further processed in cold rolling mills and coating lines, apart from using them in tube mills for the manufacture of welded tubes.

Crude steel production at different facilities in TSE along with their capacity is shown below:

Figures in million tonnes

	Production capacity	Actual production
Port Talbot steelworks, West Glamorgan, Wales	4.9	3.8
Scunthorpe steelworks, South Humberside, England	4.5	3.4
Rotherham steelworks, South Yorkshire, England	1.3	0.6
IJmuiden steelworks, the Netherlands	7.7	6.8
Total	**18.4**	**14.6**

Excluding seasonal effects, sales volumes of TSE were reasonably flat for the first three quarters of FY 2010-11, before showing an improvement in the fourth quarter to the highest level of quarterly sales since FY 2008-09. The deliveries of the various divisions of TSE are shown in the following table:

Figures in million tonnes

	FY 11	FY 10	Change %
Strip Products Mainland Europe	**3.28**	**3.01**	9%
Strip Products UK	**1.19**	**1.15**	3%
Long Products Europe	**2.79**	**3.49**	(20%)
Speciality Steel	**3.68**	**3.29**	12%
Distribution & Sales Network	**3.93**	**3.48**	13%
Total	**14.87**	**14.42**	**3%**

NatSteel Holdings:

Figures in ₹ crores

	FY 11	FY 10
Turnover	**7,413**	6,254
Profit before tax (PBT)	**143**	75
Profit after tax (PAT)	**152**	102

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. During the financial year under review production at 1.585 million tonnes was almost at par with the previous year (1.595 million tonnes). Sales volume increased from 1.78 million tonnes in FY 10 to 1.80 million tonnes in FY 11. The performance of the major business operations of the company are discussed below.

The Singapore operations are EAF (Electric Arc Furnace)-based steelmaking and rolling operations with a production capacity of about 750 k tonnes per annum. During the financial year 2009-10, sales of the Singapore operations at 844k tonnes were 14% higher than that of last year and contributed most to the increase in profits of the company.

NatSteel Xiamen, the Chinese subsidiary of NatSteel sold 495 k tonnes of rolled products during FY 2010-11, volumes being lower than last year by 37 k tonnes. However, there was improvement in margin as cost increases were contained within the increase in prices and resulted in higher overall margin against last year. Sales Volume in SIW Thailand, NatSteel Australia and Best Bar Australia during the financial year 2010-11 at 179 k tonnes, 57 k tonnes and 106k tonnes increased by 27 k tonnes, 15 k tonnes and 20 k tonnes respectively over the financial year 2009-10. Sales in Vina (Vietnam) and Wuxi (China) units at 125 k tonnes and 71 k tonnes during the financial year under review were lower than the previous year by12 k tonnes each. Price increases in these units improved (other than the Australian units where prices deteriorated) but the cost increases more than offset the price increases and resulted in lower margins.

Tata Steel Thailand (TSTH):

Figures in ₹ crores

	FY 11	FY 10
Turnover	**3,911**	3,157
Profit/(loss) before tax	**(151)**	(9)
Profit/(loss) after tax	**(139)**	(11)

TSTH recorded billet production of 1.30 million tonnes during the financial year 2010-11 registering an increase of 10% over the financial year 2009-10 (1.18 million tonnes). Finished goods production at 1.28 million tonnes during the financial year 2010-11 increased by 6% over the financial year 2009-10 (1.20 million tonnes). Sales volume at 1.29 million tonnes during the financial year 2010-11 was higher by 8% as compared to financial year 2009-10 (1.19 million tonnes) with 7% and 13% growth in the company's domestic sales and exports volume. However, low capacity utilisation during the year, losses due to mothballing of Mini Blast Furnace during part of the year, steep increase in raw material prices leading to high metallic input costs, and resulted in an increased overall loss during FY 2010-11 for the company.

Tata Metaliks Limited:

Figures in ₹ crores

	FY 11	FY 10
Turnover	**1,347**	1,068
Profit/(loss) before tax	**(15)**	17
Profit/(loss) after tax	**1**	29

Tata Metaliks Limited (TML) a subsidiary of Tata Steel Limited, is a leading 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. Tata Metaliks Kubota Pipes Limited (TMKPL) engaged in the manufacturing of DI (Ductile Iron) Pipe, is a subsidiary of Tata Metaliks Limited with a total capacity of 1.10 lac tonnes per annum. The production and sales for the financial year 2010-11 and 2009-10 are shown below:

Production	2010-11 '000 tonnes	2009-10 '000 tonnes
Pig Iron	**477**	492
Ductile Iron Pipe	**20**	4

Sales	2010-11 '000 tonnes	2009-10 '000 tonnes
Pig Iron	**473**	484
Ductile Iron Pipe	**19**	3

During the financial year under review, lower production and unfavourable market resulted in lower sales volume. Although turnover improved driven by 25% increase in average realisations, higher raw material costs more than offset the increase in realisations lowering the margins. Profit made by the standalone entity was almost offset by losses incurred by the subsidiary TMKPL.

TML is striving to improve its operating margin by setting up Sinter Plant at Kharagpur, upgrading the Blast Furnace increasing the working volume. The capacity of the Kharagpur plant would be increased to 407 k tonnes. The company is also setting up Coke Oven plant in both locations at Kharagpur and Redi on BOOT (Built Operate Own & Transfer) basis.

TM International Logistics Limited:

Figures in ₹ crores

	FY 11	FY 10
Turnover	**978**	612
Profit before tax (PBT)	**72**	45
Profit after tax (PAT)	**57**	37

TM International Logistics Limited (TMILL) and its subsidiaries offer logistic services pertaining to port and terminal handling, maritime shipping, ship agency, custom clearance and freight forwarding.

The company is involved in the activity of handling port operations at Haldia and Paradip on the east coast of India backed by fully dedicated customs clearance and shipping agency services at both the ports. It runs a clean cargo terminal at berth number 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 business 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 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 and is acting as the operation and maintenance operator to the port of Dhamra.

During FY 11 there was a significant jump in the turnover and profit of the company due to increase in the volumes handled by the shipping business, increased tariff rate at Paradip Port, higher handling of cargo increasing the revenues of the CHA & Inland logistics, more TEUs (Twenty tonne equivalent units) handled by the freight forwarding business.

The key performance highlights of the company during the financial year 2010-11 are the following:

Division		FY 11	FY 10	Change %
Port operations	Million tonnes	**7.8**	8.0	(2.5%)
Shipping	Million tonnes	**5.2**	3.3	58%
CHA & Inland Logistics	CIF in ₹ crores	**6,094**	3,334	83%
Freight forwarding	Volume in TEUs	**28,240**	21,801	30%

Tayo Rolls Limited:

Figures in ₹ crores

	FY 11	FY 10
Turnover	**133**	132
Profit before tax (PBT)	**(30)**	(12)
Profit after tax (PAT)	**(30)**	(12)

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.

The rolls industry suffered due to poor offtake from the steel industry during the downturn in FY 10. The inventories are now reaching the reordering level and the deliveries are expected to pick up in FY 12. During the year under review the company has started to supply high-end Rolls in the form of Super Ni-Grain (SNG) rolls to its few customers. Other high end rolls like high-speed and semi high-speed rolls are on the anvil for supply to the customer.

The key highlights during the year is shown below:

Figures in k tonnes

	FY 11	FY 10	Change %
Rolls Production	**7.2**	6.4	13%
Rolls Sales	**7.5**	6.5	15%
Pig Iron Production	**10.7**	25.9	(59%)
Pig Iron Sales	**8.1**	19.6	(59%)
Ingot production	**2.4**	–	–
Ingot Sales	**1.6**	–	–

Rolls production and sales increased over the previous year due to better demand and during FY 11 commercial production of ingots was started in November 2010. The pig iron production was suspended from August 2010 as it was not economically viable to produce pig iron from the Mini Blast Furnace owing to high cost of inputs and sluggish casting market affecting the pig iron off-take thereby increasing the losses during the year.

Tata Steel Processing & Distribution Limited:

Figures in ₹ crores

	FY 11	FY 10
Turnover	**1,592**	1,261
Profit before tax (PBT)	**63**	52
Profit after tax (PAT)	**43**	32

Till Q1FY 10, TSPDL (erstwhile Tata Ryerson) was a Joint venture with Tata Steel's share being 50%. Accordingly only 50% of Q1FY 10's numbers were considered for financial consolidation.

Tata Steel Processing and Distribution Limited (TSPDL) is the leading steel service centre in India with a steel processing capacity of around 2 million tonnes and 5 steel processing centres across the country.

During the last three financial years, the company has diversified its business portfolio by entering into the high value-added business of manufacturing of auto components for Auto Majors like Caterpillar and Tata Motors through its commissioned facility at Tada, Andhra Pradesh and Pantnagar, Uttarakhand respectively.

During the financial year 2010-11, the company recorded an all-time high tolling and distribution production volume of 1.458 million tonnes as compared to 1.346 million tonnes in the previous year. Higher volumes, increase in average revenue per tonne more than made good the increase in input costs and other increases in expenditure and helped the company post the highest profit before tax in its history of operations. Different units of the company received reputable accolades notable amongst which are:

- Pantnagar Unit won the Northern Region Tata Innovista Award.
- Tada Unit was re-certified for the prestigious SQEP certification by Caterpillar.
- The Pune Unit received certification of OHSAS 18001 and EMS 14001:2004.
- The Jamshedpur Unit got recertified for TS 16949 and OHSAS 18001.
- The Faridabad Unit facilitated Tata Steel to get 'Best Supplier Award' from Maruti.

Safety has remained a primary area of attention and by following Du Pont Safety initiatives, the company achieved a 77% reduction in injury and a 58% reduction in LTIFR compared to the financial year 2009-10.

Tinplate Company of India Limited: (An associate company of Tata Steel)

Figures in ₹ crores

	FY 11	FY 10
Turnover	**810**	792
Profit before tax (PBT)	**51**	102
Profit after tax (PAT)	**36**	67

The Tinplate Company of India Limited (TCIL) is a leading indigenous producer of tin coated and tin free steel sheets in India manufacturing various grades of electrolytic tinplates (ETP) and tin-free steel (TFS) sheets used for metal packaging. TCIL has also been "value-adding" its ETP/TFS products by way of a providing printing and lacquering facility to reach closer to food processors / fillers.

During the year FY11 the production of 241 k tonnes was 6% higher as compared to 227 k tonnes in FY10. The Company is presently in the midst of setting up a Cold Rolling Mill to produce the feedstock required for full utilisation of its tinning lines. Better demand supported by higher producing capacity augmented in ETL-2 line helped the company achieve higher sales and production volumes with an increase in capacity utilisation from 60% in FY 10 to 64% in FY 11. However the profits declined as compared to the previous year the primary factor being steep increase in input steel and tin prices which more than offset the increase in revenues.

With effect from 1st April, 2011, TCIL became a subsidiary of Tata Steel Limited consequent upon the automatic and compulsory conversion of the 3% Fully Convertible Debentures (which were issued in September 2009) into Equity Shares.

Tata NYK Shipping Pte Limited:

Figures in ₹ crores

	FY 11	FY 10
Turnover	**660**	703
Profit before tax (PBT)	**3**	(6)
Profit after tax (PAT)	**3**	(6)

Tata NYK Shipping Pte Ltd., a 50:50 joint venture between Tata Steel Ltd., India and NYK Line, a Japanese shipping major has been incorporated to meet the growing sea-borne trade for the Tata group and the Indian markets.

The company is primarily into the business of owning, operating and chartering of ships to carry dry bulk and break bulk cargo including coal, iron ore, limestone & steel products.

Since four years of its inception, the company has grown its fleet from only 2 ships in 2007 to a current fleet size of 14 ships (2 owned and 12 chartered).

The company has a diversified fleet ranging from Supramax (56,000 DWT), Panamax (75,000 DWT) & Capesize (180,000 DWT) vessels. The vessels are deployed for the Tata Group and Indian dry bulk cargo based on the available port facilities and cargo requirements across geographies.

Cargo handled increased from 6.79 million tonnes in FY 10 to 7.85 million tonnes in FY 11 with increase in number of shipments from 110 to 119. However, due to expiry / deferment of certain cape contracts with higher per day charter base the turnover declined over the previous year. During the financial year addition of a second own vessel in the fleet significantly improved the operating margins and the profits of the business as compared to a loss in the previous year.

Tata Refractories Limited:

Figures in ₹ crores

	FY 11	FY 10
Turnover	**926**	899
Profit before tax (PBT)	**67**	63
Profit after tax (PAT)	**44**	42

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 completed third phase of expansion during the current financial year, which has increased 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.

During FY 11, production was lower by 8% from 295k tonnes during FY 10 to 272 k tonnes during FY 11. Sales were lower by 3% from 351k tonnes during FY 10 to 342k tonnes in FY 11. Despite lower sales volume, revenue was higher mainly due to higher average realisations and better product mix. The profits increased slightly over FY 10 as the revenue increases were almost offset by cost increases on account of increase in input material and power costs and effect of lower volumes.

Tata Steel and Krosaki Harima Corporation (KHC), an associate of Nippon Steel Corporation of Japan have signed definitive agreements on 21st April, 2011 to induct KHC as a strategic partner in Tata Refractories Limited (TRL). Under this arrangement, KHC will acquire 51% equity stake out of Tata Steel's current 77.46% stake in TRL.

Tata Sponge Iron Limited:

Figures in ₹ crores

	FY 11	FY 10
Turnover	**683**	534
Profit before tax (PBT)	**150**	126
Profit after tax (PAT)	**101**	85

Tata Sponge Iron Limited, a manufacturer of sponge iron and producer of power is located at Joda, Odisha. During the financial year 2010-11, the Company achieved record production of 383 k tonnes of Sponge Iron as compared to 359 k tonnes in the previous year, registering a growth of 7%.

The capacity utilisation during 2010-11 zoomed upto 98% as compared to 92% in the previous year. The Company also achieved record sales of 380 k tonnes as against 361 k tonnes in the previous year, thus growing by 5%.

In the power business, the Company achieved a generation of 191.39 million kwh of power in FY 2010-11 as compared to 181.39 million kwh in FY 2009-10. The sale of surplus power during the FY 2010-11 was 133.77 million kwh against with 125.01 million kwh sold in the previous year.

The increase in turnover during 2010-11 is mainly due to increase in prices of Sponge Iron along with increases in volumes. These increases were partly offset by increases in higher costs with imported coal mix being higher in order to improve the specific consumption of coal.

Tata Steel KZN Pte Limited:

Figures in ₹ crores

	FY 11	FY 10
Turnover	**597**	522
Profit before tax (PBT)	**(55)**	43
Profit after tax (PAT)	**(55)**	43

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 2010-11, production volume at 107 k tonnes decreased by 9% as compared to 118 k tonnes registered during FY 2009-10 as the furnaces were shut for 1.5 months during the high cost electricity period. The sales were lower by 9% from 129 k tonnes in FY 2009-10 to 117 k tonnes in FY 2010-11. Prices improved over the previous year but high raw material costs, steep increase in electricity costs, lower volumes resulted in losses during FY 11 in contrast to the profits earned during FY 10.

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

- Improved furnace performance and efficiencies towards the latter part of the year due to the utilisation of better quality ore and pellets
- Improved furnace and gas plant availability due to preventative maintenance system implementation
- Elimination of the backlog untreated slag and satisfactory performance of the metal recovery plant
- Successful completion of the two major capital projects on time and below budget
- Very positive safety performance and major strides taken in anticipation of the first ISO audits to be conducted in the new financial year

STRATEGY:

Tata Steel Group remains committed to its vision of being a global benchmark in value creation and corporate citizenship despite the challenges of a slow European recovery, high raw material cost and the looming introduction of EU ETS (Phase III).

In line with the vision, the Group's strategy is focused on value creation with the pillars of quality of earnings and growth.

Quality of earnings:

Tata Steel in India continues to be one of the most profitable steel operations in the world. It has several continuous improvement initiatives in place. Cumulative cost savings of ₹1,061 crores was achieved during the last financial year with areas such as slag rate reduction, raw material optimisation and shared services being addressed.

'Kar Vijay Har Shikhar' ('conquer every peak') is a new initiative launched during the year, focused on Tata Steel's aspiration to improve its EBITDA. It is a multi-unit, multi-location, cross functional improvement programme that aims to excel across the entire steel value chain all the way from the raw materials mining to marketing and sales of finished steel.

'Kar Vijay Har Shikhar' Operations, the operational improvement programme will be rolled out in three phases:

- Phase-1 covers blast furnaces, Haldiya Met coke and FAMD.
- Phase-2 includes the coke plant, West Bokaro and the sinter plant.
- Phase-3 looks at the coal and coke value chain, cold rolling, hot metal and scrap, the Jharia clean coal throughput unit and hot metal logistics.

'Kar Vijay Har Shikhar' Marketing and Sales is pursuing value creation in the Small and Medium Enterprise market space and has been launched in flat products, long products, the wires and tubes divisions. This marketing and sales initiative aim to provide Tata Steel with an additional growth lever, improve the group's product offering and ability to achieve premium prices and enhance the service capability of the marketing and sales organisation in India.

As part of its efforts to enhance its product mix and market presence in India, the Group continues to look at ways to strengthen its downstream capability. In January 2011 Tata Steel and Nippon Steel have signed a joint venture (51:49) agreement to set up India's first Continuous Annealing and Processing Line (CAPL) for the production of 600,000 tonnes per annum of automotive cold rolled steel at Jamshedpur. The project is expected to come on stream in 2013 and will significantly improve our automotive offering in India.

In Europe, market conditions remain more challenging and improving quality of earnings remain an even more pressing objective. In light of this, Tata Steel Europe's management has identified the following focus areas:

Firstly, to serve customers better, it has adopted a single sales and marketing function with eight industry-focused marketing sectors with sector focused commercial teams. The following programs have been put in place to better serve customer needs:

- £81 million Supply Chain Transformation project aimed to reduce inventory levels by 16%, with ongoing improvements in Customer Service levels.
- €35 million investment in the rail facility at Hayange in France to supply a six-year contract secured with SNCF, the French railway operator, is expected to be completed to budget for July 2011.
- Engineering work is underway at Redcar to develop a new £32 million facility to produce steel foundation structures – called monopiles – used to secure offshore wind turbines to the seabed.

Secondly, TSE is continuously working towards higher levels of operational excellence through improving asset performance in regards to quality, reliability and lower costs. An initiative of £100 million of short payback capital projects to improve operational efficiency across Europe was launched this year while the £185 million rebuild of the No. 4 furnace will improve operational efficiency at Port Talbot.

TSE's third priority is to achieve cost leadership. Since 2009 the group has been working on its 'Fit for the future' initiatives to reduce cost and will build on this to further reduce cost through productivity improvement, creating flexibility and potential upstream integration. The number of full time employees in Tata Steel Europe has reduced by 7,500 since September 2008 at the start of the crisis to 34,900 at end March 2011. 1,400 of the job losses related to the mothballing of Teesside and the remaining 6,100 relates to cost reduction initiatives.

Tata Steel Group manages its portfolio to improve returns on capital employed. It sold Teesside Cast Products to Sahaviriya Steel Industries, Thailand's largest steel producer, on 24th March, 2011 in a transaction valued at approximately £434 million (US$700 million). The assets covered by the transaction include the Redcar and South Bank coke ovens, TCP's power generation facilities and sinter plant, the Redcar Blast Furnace and the Lackenby Steelmaking facilities.

The Group is thriving towards technological leadership by continuous research and development. We currently employ close to 800 researchers in five technological centres, four in Europe and one India. During the last financial year the Research and Development project portfolio has been tailored to meet customer needs and to align with our market sector needs.

Growth:

The second pillar of Tata Steel Group's value creation strategy is selective growth 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.

- The Indian Steel market is growing rapidly and Tata Steel is expanding to continue to serve its customers. The 2.9 mtpa project to expand crude steel capacity at Jamshedpur from 6.8 mtpa to 9.7 mtpa is making good progress and is scheduled for completion in FY 2011-12. The project involves the installation of a 3 million tonne Blast Furnace, a 6 million tonne Pellet plant, two 700 k tonne stamp-charged coke oven batteries and a 2.4 million tonne thin slab casting and rolling facility. Total estimated project cost is projected at around US $3.3 billion.
- Tata Steel Group continues to work on its project pipeline in India and South East Asia. The greenfield project at Kalinganagar, to be developed in two 3 million tonne phases, is the most advanced. The Company has executed a land lease deed for the location of the plant, obtained final environmental clearances and statutory clearances for rail transportation, power and water and has executed contracts for the construction of the iron and steel making facilities and the slab caster. The construction activities at the site are progressing satisfactorily.

  The project also contemplates leasing iron ore and coal mines in India to meet the new plant's raw material requirements, as well as the development of townships for the employees of the plant. Any coal or iron requirements that are not met through the procurement from the captive mines will be sourced from third parties. The Company has also obtained an allocation of a coal block at Jharkhand and the associated approvals for environment clearance and the mine plan. The Company's application for an iron ore mine lease is still awaiting government approval.

Another growth area for the group is to leverage its current mining capability to invest in mining projects outside India to increase the group's level of self-sufficiency in raw materials, as raw materials prices remain at all time highs. Currently Tata Steel's most significant interests include:

- A joint venture with Riversdale Mining Limited for the development of the Benga and Tete coking coal tenements in Mozambique. The project is planned to be executed in three phases with planned production of 5.3 million tonne of run of mine coal in Phase I, 10.6 million tonne of run of mine coal per annum in Phase II and 20 million tonne of run of mine coal per annum in Phase III.
- A joint venture with New Millennium Capital Corporation, a listed entity in Canada, for development of Direct Shipping Ore Project in Canada was incorporated in October 2010. Tata Steel holds 80% stake in the JVC and has 100% off-take rights. It is expected that the JV will produce 4 million tonnes per year of iron ore products commencing in 2012.

- Tata Steel signed an additional heads of agreement with New Millennium Capital Corporation on 6th March, 2011 for the development of the LabMag and KéMag iron ore deposits, known collectively as the Taconite Project. Under the heads of agreement, Tata Steel shall participate in the development of a feasibility study of the Taconite Project and contribute towards 64% of the costs related thereto. The parties would enter into a binding joint venture agreement upon the successful completion of the Feasibility Study and Tata Steel electing to develop one or both of the deposits. After formation of the joint venture, New Millennium Capital Corporation is expected to hold a 36% equity interest in the Taconite Project, including a 20% free carry equity interest.
- 5% interest in the Carborough Downs Coal Project located in Queensland Australia with an off-take agreement.

INTEGRATION:

Performance Improvement Teams (PITs) contributed in the area of manufacturing during the financial year 2010-11 by implementing improvement projects in multiple locations of the Tata Steel Group.

As of April 2011, 21 Performance Improvement Teams (PIT) are operating effectively across the Group as against 17 in the financial year 2009-10. 14 PITs have dedicated work streams for focused problem solving, targeting areas of importance for the group. New PITs in Billet Casting and Tubes have been introduced during the year.

With most of Europe gradually coming out of recession, PITs have concentrated on improving manufacturing effectiveness and efficiency of operations.

Notable contributions of the PITs have been on:

(a) Using higher percent low cost coals with reduced coking times in coke making,

(b) Increased usage of reverts thus saving on cost of iron ore, cost of landfill while meeting the environmental regulations;

(c) Improvements in steelmaking and casting by reducing process variations, improving yield, etc;

(d) Improving quality and yield while reducing cost in rolling.

In the financial year 2011-12, efforts are being made to extend PITs to other functions like Supply Chain, Commercial, etc.

As an overall integrating tool, the Tata Business Excellence Model (TBEM), a business assessment model based on the Malcolm Baldridge Model of US, which has been adopted by most of the Tata Group Companies, is being rolled out across Tata Steel Europe. The TBEM methodology has been designed to help improve organisational performance practice, capabilities and results.

OUTLOOK:

As reported by the 'World Economic Outlook' (WEO) issued by the International Monetary Fund in April 2011, the world economy is expected to grow at 4.5% in the years 2011 as well as 2012. The advanced economies are projected to grow at 2.5% while the emerging and developing economies will be growing at a higher level of 6.5%.

The recovery from the global economic downturn remains unbalanced. In the advanced economies, output is far below potential and the unemployment continues to be high, with a risk of having a lower growth in these economies fuelling the unemployment issue further. In the US, the fiscal consolidation is ongoing with the housing market remaining depressed. In Japan, the immediate focus is on reconstruction and there will be an effort to link the reconstruction spending to a fiscal strategy to bring down the public debt ratio over the medium term. In the EU, recovery is proceeding in a modest pace with the output still below potential and unemployment high. WEO reports that Germany and France are expected to grow at 2.5% and 1.5% respectively during 2012 while rapid growth is expected to continue in Asia with a growth projection of 6.7% in 2011 and 6.8% in 2012. China and India, as a part of the developing Asia are set to grow at 9.6% and 8.2% respectively during 2011 and 9.5% and 7.8% in 2012 with private demand growing in China while infrastructure remains a key contributor to growth in India.

The World Steel Association (WSA) in its short range outlook issued in April 2011 states that the world consumption of steel is expected to be 1.359 billion tonnes in 2011 registering a growth of 6% over 2010, following a growth of 13.2% growth in 2010. Steel demand is expected to grow further by 6% to 1.441 billion tonnes in 2012. The forecast of WSA suggests that the steel demand in China in 2011 is set to rise by 5% to 605 million tonnes while that in India it is expected to reach 68.7 million tonnes, registering a growth of 13.3%. In 2012, China is expected to maintain the growth of 5% while India is expected to accelerate by 14.3%. The recovery in the US estimated to lead the steel consumption to 13% growth to be at 90.5 million tonnes with the construction market remaining weak. The forecast of steel consumption in Japan is yet to be firmed up after the tragic earthquake and Tsunami. Apparent steel use in the EU is forecast to grow by 4.9% in 2011 to be at 151.8 million tonnes with Germany and France the leading economies which are expected to lead the steel use recovery particularly in the automotive and machine building sectors.

FINANCE:

In FY 11, the world emerged from the depths of the financial crisis as most economies moved out of technical recession or negative growth. Governments and monetary bodies, through large fiscal spending, zero interest rate policies and easy credit have averted the possibility of mass banking collapse and financial crisis. The developed world has now entered a period of slow and uncertain growth, which cannot be accelerated by relying on the same policies without creating a fresh crisis in the shape of sovereign defaults and an inflationary spiral. Emerging markets which have robust growth are importing inflation from the rest of the world and though they are raising interest rates, local monetary tightening has been of limited benefit so far.

During the financial crisis, the Company had focused on raising additional debt in order to maintain a liquidity buffer given the uncertain nature of the steel markets. However, given the lower level of earnings and increased debt, the leverage position of the Company had become sub-optimal. Therefore in FY 11, the Company continued on its journey of deleveraging. It repaid ₹ 4,258 crores of borrowings during the year.

At the same time, given the substantial improvement in liquidity in financing markets, the Company in FY 11 refinanced the entire acquisition debt in Tata Steel Europe. Tata Steel UK Holdings, on 29th September, 2010, signed a Senior Facility Agreement with a syndicate of 13 banks for a £3.53 billion term loan and revolving credit facility which replaced in full the term loan and revolving credit facilities entered into at the time of the acquisition of Corus Group plc in 2007. The new facilities have been designed to achieve certain key financing and business objectives for the company: the syndicate comprises a smaller, co-ordinated group of Banks with long-term relationships with Tata Steel; repayment obligations for the next 5 years have been minimised; there is flexibility to incur higher capital expenditure in Europe and to raise working capital depending on business needs; and the new financing arrangements carry lighter financial covenant obligations.

However, given the business environment and earnings profile of the Company, there was a need for a further rebalancing of the capital structure. This needed to be achieved by a combination of disposals of non-core assets, raising of equity and quasi equity funds. The Company is continuing to dispose of stake in other Tata Group Companies which are unrelated to its business. In addition, the Company completed the sale of the Teesside Cast Products unit of Tata Steel Europe in a deal valuing the business at around £434 million in March 2011 and 51% of its 77.46% stake in Tata Refractories Limited in a deal valuing the equity of TRL at ₹ 1,130 crores in April 2011. In January 2011, the Company completed a further public offer for ordinary shares in the domestic markets aggregating ₹ 3,477 crores. In December 2010 and January 2011, it drew ₹ 3,000 crores via issuance of 20 year Non-Convertible Debentures, where the Company will have no cash outgo on account of interest for the first 3 years. In March 2011, the Company also successfully completed India's first ever offering of Corporate Hybrid Securities with an issuance of ₹ 1,500 crores (US$ 332 million). These securities rank senior only to share capital, are perpetual in nature with no maturity or redemption and are callable only at the option of the Company thereby incorporating equity characteristics.

As part of the financing of the imports for the 2.9 mtpa expansion in Jamshedpur, the Company also tied up long-term ECA backed buyer's credit of €72.85 million to be drawn over the next 18 months and repaid over the next ten years.

As on 31st March, 2011, the cash and cash equivalent in Tata Steel Limited, India was ₹ 4,142 crores and ₹ 10,893 crores for the Group.

FINANCIAL PERFORMANCE:

Tata Steel Standalone:

Profit after tax at ₹ 6,866 crores during the financial year 2010-11 was higher by 36% as compared to the financial year 2009-10 (₹ 5,047 crores). The diluted earnings per share was at ₹ 70.99 for FY 11 (FY 10: ₹ 57.31) while the basic earnings per share for FY 11 was at ₹ 75.63 (FY 10: ₹ 60.26).

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

a) Net sales and other operating income:

Figures in ₹ crores

	FY 11	FY 10	Change	Change %
Sale of product	**30,748**	25,756	4,992	19%
Sale of power and water	**796**	657	139	21%
Income from town, medical and other services	**36**	40	(4)	(10%)
Other operating income	**323**	305	18	6%
Sales and other operating income	**31,902**	26,758	5,144	19%
Less: Excise Duty	**2,506**	1,736	770	44%
Net sales and other operating income	**29,396**	**25,022**	**4,374**	**17%**

Steel sales volume during FY 11 at 6.42 million tonnes recorded an increase of 4% over FY 10 (6.17 million tonnes). Higher prices across all divisions and higher volumes in Tubes, Wires and Bearings divisions also contributed to the increase in net sales. The division wise net sales are shown below:

Figures in ₹ crores

Net Sales	FY 11	FY 10	Change	Change %
Steel	**25,568**	21,928	3,639	17%
Tubes	**1,616**	1,387	229	16%
Ferro Alloys and Minerals	**2,045**	1,553	492	32%
Bearings	**167**	153	14	9%
Total	**29,396**	**25,022**	**4,374**	**17%**

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

Figures in ₹ crores

	FY 11	FY 10	Change	Change %
Purchase of finished, semi-finished steel and other products	**180**	169	11	7%

The purchase of finished and semi-finished products were almost at par with the previous year with higher purchases at Bearings division and Agrico units to support higher volumes. These increases were partly offset by lower purchases for captive consumption (repairs etc.) by the Steel Works.

c) **Raw materials consumed:**

Figures in ₹ crores

	FY 11	FY 10	Change	Change %
Raw Materials consumed	**6,244**	5,495	749	14%

Increase in production, steep increase in cost of imported coal, use of purchased / imported coke during the year, higher cost and consumption of imported limestone, higher zinc cost, higher consumption and cost of ferro alloys were the primary factors increasing the 'Raw materials consumed' for the company. These increases were partly compensated by lower raw materials consumed at Ferro Alloys & Minerals Division and lower consumption of zinc and pyroxenite at the Steel Works.

d) **Payments to and provisions for employees:**

Figures in ₹ crores

	FY 11	FY 10	Change	Change %
Payments to and provisions for employees	**2,618**	2,361	257	11%

The payments to and provisions for employees were higher by 11% over the previous year primarily on account of increase in dearness and other allowances, normal increments and increases in retirement gratuity and leave salary liability on actuarial valuation allowance . These increases were partially compensated by lower charge on account of Employee separation scheme in the current year as the amortisation of the expenses completed by March 2010.

e) **Stores consumed:**

Figures in ₹ crores

	FY 11	FY 10	Change	Change %
Stores consumed	**1,431**	1,335	96	7%

Stores including industrial gases and spares consumed increased over FY 10 by 7% primarily on account of higher price and consumption of operational refractories, industrial gases, and other stores & spares consumed to support higher production across different divisions, partly offset by lower consumption at Growth Shop.

f) **Repairs to machinery:**

Figures in ₹ crores

	FY 11	FY 10	Change	Change %
Repairs to Machinery	**1,066**	979	87	9%

Repairs to machinery increased by 9% as compared to FY 10 mainly on account of increase in civil contract jobs, overhauling and other equipment maintenance, electrical and mechanical maintenance activities at mines and collieries, various steel-making and finishing mills in the Steel Works and Ferro Alloys & Minerals division.

g) **Conversion charges:**

Figures in ₹ crores

	FY 11	FY 10	Change	Change %
Conversion charges	**1,193**	1,133	60	5%

There was an increase in the Conversion charges by 5% over FY 10 primarily due to increases in conversion activities in Long products, Tubes and Agrico divisions, higher rates in Long products, Tubes and Ferro Alloys & Minerals division partly compensated by lower conversion charges for the tin coated products.

h) **Purchase of power:**

Figures in ₹ crores

	FY 11	FY 10	Change	Change %
Purchase of power	**1,405**	1,268	137	11%

While the purchase of power for own use was lower as compared to the previous year, higher purchases for sale to outside customers led to the increase in overall purchase of power for the company. There was also an increase in cost of power at the Ferro Alloys and Minerals division and Wires division.

i) **Freight and handling charges:**

Figures in ₹ crores

	FY 11	FY 10	Change	Change %
Freight and handling charges	**1,541**	1,357	184	14%

Higher volumes of Steel, Tubes, Ferro Alloys and minerals despatches along with increase in rates and change in destination mix for steel products, higher handling charges and demurrage charges led to the 14% increase in Freight and handling charges.

j) Royalty:

Figures in ₹ crores

	FY 11	FY 10	Change	Change %
Royalty	**615**	276	339	123%

Royalty charges more than doubled during the current year due to increase in royalty rates on iron ore and also due to full year impact of change in tariff and payment of royalty on processed coal instead of raw coal at our collieries.

k) Rates and Taxes:

Figures in ₹ crores

	FY 11	FY 10	Change	Change %
Rates & Taxes	**291**	237	54	23%

Rates and taxes during FY 11 increased primarily on account of introduction clean energy cess on coal and increase in export duty for Ferro Alloys & Minerals division due to increase in volume of exports.

l) Other expenses:

Figures in ₹ crores

	FY 11	FY 10	Change	Change %
Other expenses	**1,270**	1,285	(15)	(1%)

Other expenses in FY 11 remained almost at the level of FY 10 with increase in post retirement medical benefits in accordance with AS-15, higher expenditure on research and development and other operational expenses, almost offset by foreign exchange gain and lower bank charges due to partial conversion of CARS into FCCBs.

m) Net Finance charges:

Figures in ₹ crores

	FY 11	FY 10	Change	Change %
Net Finance charges	**1,300**	1,508	(208)	(14%)

The decline in net finance charges represents lower interest on term loans due to repayments partly offset by interest on Non-convertible Debentures issued during the year.

n) Fixed Assets:

Figures in ₹ crores

	FY 11	FY 10	Change	Change %
Gross Block	**29,816**	26,150	3,666	14%
Less: Impairment	**126**	106	20	19%
Less: Depreciation	**10,915**	10,038	877	9%
Net Block	**18,774**	**16,006**	**2,768**	**17%**

The increase in fixed assets represents primarily the 1.8 mtpa expansion and 2.9 mtpa expansion projects at Jamshedpur Works.

o) Investments:

Figures in ₹ crores

	FY 11	FY 10	Change	Change %
Trade investments	**1,889**	1,781	108	6%
Investment in subsidiary companies	**41,676**	41,480	196	0%
Investment in mutual funds	**3,000**	1,719	1,281	75%
Total investments	**46,565**	**44,980**	**1,585**	**4%**

Investments increased by 4% over March 2010 primarily due to increase in current investments (in mutual funds). Increase in trade investments include investment in Dhamra Port, Tata Industries partly offset by sale of shares in Tata Power and Tata Motors. Increases in investments in subsidiary companies represent investment in Tata Steel Holdings Pte Ltd., TS Alloys Ltd. and TM Mining Ltd.

p) Stores and spares and Stock-in-trade:

Figures in ₹ crores

	FY 11	FY 10	Change	Change %
Stores & Spares	**716**	624	92	15%
Stock-in-trade	**3,238**	2,454	784	32%
Total inventories	**3,954**	**3,078**	**876**	**28%**

The stock of stores and spares inventory was kept higher primarily due to requirements during planned shutdowns in various units in the Steel Works during the first quarter of FY 2011-12.

The raw materials stock increased due to increases in volume and value of imported coal, iron ore, limestone and ferro alloys. Increase in prices of raw materials led to the increase in value of finished and semi-finished products.

q) Sundry Debtors:

Figures in ₹ crores

	FY 11	FY 10	Change	Change %
Gross Debtors	**450**	456	(6)	(1%)
Less: Provision for doubtful debts	**22**	21	1	3%
Net Debtors	**428**	**435**	(7)	(2%)

Debtors as on 31st March, 2011 declined marginally over the level as at end March 2010 due to stringent credit control measures and lower steel exports.

r) **Loans and Advances:**

Figures in ₹ crores

	FY 11	FY 10	Change	Change %
Loans and advances	**15,689**	5,504	10,185	185%

The increase primarily represents advance against equity and Shareholders' loans to Tata Steel Holdings and Centennial Steel, and amount receivable against forward covers.

s) **Cash flow and Net debt:**

Cash Flow:

Figures in ₹ crores

	FY 11	FY 10	Change
Net Cash flow from operating activities	**8,543**	8,369	174
Net Cash flow from investing activities	**(13,288)**	(5,255)	(8,033)
Net Cash flow from financing activities	**5,653**	(1,473)	7,126
Net increase / (decrease) in cash & cash equivalents	**907**	1.641	(734)

Net cash flow from operating activities: Net cash generated from operating activities was ₹ 8,543 crores during the year ended 31st March, 2011 as compared to ₹ 8,369 crores during April to March 2010. The cash operating profit before working capital changes and direct taxes during FY 11 was ₹ 11,229 crores, as compared to ₹ 9,049 crores during FY 10, as a result of higher profits during the current year. Increase in inventories and receivables in the current year were more than compensated by increase in creditors resulting in a decrease in working capital. The payment of income taxes (including the dividend distribution tax) during FY 11 was ₹ 2,870 crores as compared to ₹ 2,079 crores during the same period last year.

Net cash from investing activities: Net cash outflow from investing activities amounted to ₹ 13,288 crores in FY 11. The outflow broadly represents an incremental investment in subsidiaries (₹ 5,312 crores), inter-corporate deposits/ shareholders' loan (₹ 3,707 crores) and capex (₹ 4,322 crores), sale of fixed assets (₹ 387 crores), interest and dividend income received (₹ 256 crores).

Net cash from financing activities: Net cash inflow from financing activities was ₹ 5,653 crores during FY 11 as compared to an outflow of ₹ 1,473 crores during FY 10. The inflow was primarily from issue of Perpetual securities (₹ 1,500 crores), issue of equity (₹ 4,546 crores) and fresh borrowings net of repayments (₹ 2,155 crores). The outflows during the current year were represented mainly by interest and dividend payments of ₹ 1,610 crores and ₹ 708 crores respectively.

Net debt:

Figures in ₹ crores

	FY 11	FY 10	Change
Secured loans	**2,009**	2,259	(250)
Unsecured loans	**26,292**	22,980	3,312
Total Debt	**28,301**	**25,239**	**3,062**
Less: Cash and Bank balances	**4,142**	3,234	907
Less: Current investments	**3,000**	1,719	1,281
Net Debt	**21,160**	**20,286**	**874**

During the current fiscal year, net debt increased by ₹ 874 crores as compared to the balances as on 31st March, 2010. The increase in Gross debts by ₹ 3,062 crores primarily includes NCDs of ₹ 3,073 crores, and exchange fluctuation of ₹ 833 crores partly offset by repayment of loans. Current investment and cash balance was higher by ₹ 1,281 crores and by ₹ 907 crores respectively as compared to 31st March, 2010.

Tata Steel Group:

Tata Steel Group turned around in FY 11 by posting a profit after tax (after minority interest and share of profit of associates) of ₹ 8,983 crores against a loss of ₹ 2,009 crores in the previous year, the primary highlights being higher gross deliveries and prices across the Group and profit on disposal of Teesside Cast Products at TSE, partly offset by increasing input cost.

Net sales and other operating income:

Figures in ₹ crores

	FY 11	FY 10	Inc./(Dec.)
Tata Steel	**29,396**	25,022	4,374
TS Europe	**75,991**	65,843	10,148
NatSteel Holdings	**7,413**	6,254	1,159
TS Thailand	**3,911**	3,157	754
Others	**14,105**	9,944	4,161
Eliminations & adjustments	**(12,063)**	(7,827)	(4,236)
Group Total	**1,18,753**	**1,02,393**	**16,360**

Turnover for the Group improved by 16% during the current financial year as compared to FY 10 due to better prices and gross deliveries across the Group. Increase in the Group turnover was also contributed by higher turnovers registered by NatSteel Asia (minerals business), Tata Steel Processing & Distribution Limited (TSPDL), Tata Steel KZN Pte Ltd., Tata Metaliks Limited (TML), Jamshedpur Utilities and Services Company (JUSCO), TM International Logistics Limited (TMILL), Indian Steel and Wire Products Limited (ISWPL).

Purchase of finished, semi-finished and other products:

Figures in ₹ crores

	FY 11	FY 10	Inc./(Dec.)
Tata Steel	**180**	169	11
TS Europe	**9,472**	7,946	1,526
NatSteel Holdings	**5,613**	4,281	1,332
TS Thailand	**2,141**	1,837	304
Others	**1,808**	1,304	504
Eliminations & adjustments	**(3,324)**	(2,426)	(898)
Group Total	**15,890**	**13,111**	**2,779**

The purchase of finished and semi-finished products increased by 21% over FY 10 mainly due to increases in TSE, NatSteel Holdings and TSTH representing higher volumes purchased to support increase in volume of operations / resale as well as higher prices. Included in 'others' is higher volumes purchased at TSPDL and Tata BlueScope (a Joint Venture) to support increased operations and also the accounting effect of treating TSPDL as a JV (50%) in last year's Q1 as opposed to a 100% subsidiary now.

Raw Materials consumed:

Figures in ₹ crores

	FY 11	FY 10	Inc./(Dec.)
Tata Steel	**6,244**	5,495	749
TS Europe	**29,624**	23,700	5,924
NatSteel Holdings	**105**	101	4
TS Thailand	**783**	464	319
Others	**8,429**	5,802	2,627
Eliminations & adjustments	**(7,141)**	(4,558)	(2,583)
Group Total	**38,044**	**31,004**	**7,040**

Raw materials consumed for the Group increased by 23% over FY 10 primarily due to steep increases in the cost of raw materials in general. Apart from the increase in prices higher volumes also led to the increase in 'Raw materials consumed'. Increase in 'Others' reflect the increases primarily at NSA (minerals business) and Tata Metaliks Limited.

Payments to and Provisions for Employees:

Figures in ₹ crores

	FY 11	FY 10	Inc./(Dec.)
Tata Steel	**2,618**	2,361	257
TS Europe	**11,691**	13,269	(1,578)
NatSteel Holdings	**450**	388	62
TS Thailand	**95**	88	7
Others	**477**	369	108
Eliminations & adjustments	**(44)**	–	(44)
Group Total	**15,287**	**16,475**	**(1,188)**

Staff cost for the Group in FY 11 was lower by 7% over FY 10. Reduction in TSE was mainly due to fall in head count arising from the 'Fit for the Future' initiative and lower pension costs at Netherlands. Staff cost increased in the Indian operations during the current year primarily on account of normal wage increases, change in actuarial assumptions and steep increase in dearness allowance partly offset by lower charges on ESS. Increase in NSH was due to normal wage increases and an increase in head count. 'Others' include the effect of arrear wages in JUSCO.

Purchase of Power:

Figures in ₹ crores

	FY 11	FY 10	Inc./(Dec.)
Tata Steel	**1,405**	1,268	137
TS Europe	**1,758**	2,022	(264)
NatSteel Holdings	**312**	250	62
TS Thailand	**325**	291	34
Others	**319**	247	72
Eliminations & adjustments	**(104)**	(27)	(77)
Group Total	**4,015**	**4,051**	**(36)**

Purchase of Power for the Group in FY 11 was almost at par with power purchased in FY 10. Reduction in TSE was primarily due to ongoing energy saving initiatives. This was partly offset by increase in Tata Steel India (due to increase in power tariff and higher purchases for sale to other consumers, partly compensated by lower volumes purchased for own use), NSH (primarily higher power costs), TSTH (higher volumes) and 'Others' (increase in rates for TS Alloys and JUSCO).

Freight and handling charges:

Figures in ₹ crores

	FY 11	FY 10	Inc./(Dec.)
Tata Steel	**1,541**	1,357	184
TS Europe	**3,704**	3,380	324
NatSteel Holdings	**156**	148	8
TS Thailand	**31**	26	5
Others	**1,028**	701	327
Eliminations & adjustments	**(70)**	(58)	(12)
Group Total	**6,390**	**5,554**	**836**

Freight and Handling charges were higher by 15% in FY 11 over FY 10 mainly on account of increase in deliveries by all entities and higher freight rates. "Others" include TMILL, a group logistics company, where the charges were higher than the last year mainly due to increase in volume of operations.

Other Expenditure:

Figures in ₹ crores

	FY 11	FY 10	Inc./(Dec.)
Tata Steel	**6,149**	5,284	865
TS Europe	**16,736**	16,813	(77)
NatSteel Holdings	**565**	522	43
TS Thailand	**509**	438	71
Others	**1,576**	1,160	416
Eliminations & adjustments	**(1,047)**	(722)	(325)
Group Total	**24,488**	**23,495**	**993**

Other Expenditure represents the following expenses:

Figures in ₹ crores

	FY 11	FY 10	Inc./(Dec.)
Stores and spares consumed	**7,259**	7,764	(505)
Fuel oil consumed	**875**	833	42
Repairs to buildings	**415**	358	57
Repairs to machinery	**4,860**	4,690	170
Relining Expenses	**87**	91	(4)
Conversion charges	**1,125**	1,083	42
Rent	**2,833**	2,544	289
Royalty	**622**	281	341
Rates and Taxes	**728**	682	46
Insurance charges	**311**	266	45
Commission, Rebates and Discounts	**229**	262	(33)
Loss on Discarded Assets	**—**	—	—
Provision for Wealth Tax	**1**	1	(0)
Short / Excess Provision in Previous years (Net)	**(19)**	(15)	(4)
Other Expenses	**5,567**	5,291	276
Provision for Doubtful Debts and Advances	**189**	104	85
Excise Duty	**94**	87	7
Less: Exp (other than inter-est) trfd to capital and other accounts	**688**	827	(139)
Other Expenditure	**24,488**	23,495	993

Other Expenditure in FY 11 was 4% higher than FY 10. Increase in production, higher repairs, higher post retirement medical benefits, increase in royalty rates on iron ore, introduction of clean energy cess on coal, higher conversion activities are the principal reasons for increase in other expenses in Tata Steel India. "Others" includes the effect of unfavourable exchange fluctuation on loans at Tata Steel KZN, higher expenses at TSPDL and JUSCO due to higher volume of operations.

Net Finance Charges:

Figures in ₹ crores

	FY 11	FY 10	Inc./(Dec.)
Tata Steel	**1,300**	1,508	(208)
TS Europe	**1,910**	1,626	284
NatSteel Holdings	**34**	40	(6)
TS Thailand	**43**	21	22
Others	**(210)**	(173)	(37)
Eliminations & Adjustments	**(307)**	0	(307)
Group Total	**2,770**	**3,022**	**(252)**

Net finance charges for FY 11 was lower than FY 10 with the reduction in Tata Steel India's Net finance charges representing primarily lower interest on term loans arising out of repayments, higher interest income on short-term deposits partly offset by lower capitalisation of interest. This reduction was partly offset by increase in TSE due to interest on NSFA (New Senior Facility Agreement) and increased drawdowns on the revolving credit facilities in the UK and Netherlands. "Others" include the impact of interest income at Tata Steel Global Holdings for loan provided to TSE.

Stores and Spares Stock:

Figures in ₹ crores

	FY 11	FY 10	Change
Tata Steel	**716**	624	92
TS Europe	**715**	688	27
NatSteel Holdings	**71**	66	5
TS Thailand	**237**	249	(12)
Others	**105**	89	16
Eliminations & adjustments	**(2)**	(1)	(1)
Group Total	**1,842**	**1,715**	**127**

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

Stock-in-trade:

Figures in ₹ crores

	FY 11	FY 10	Change
Finished Goods	**8,137**	6,655	1,482
WIP	**4,046**	3,685	361
Raw Materials	**10,031**	6,632	3,399
Total Inventory	**22,214**	**16,972**	**5,242**

	FY 11	FY 10	Change
Tata Steel	**3,238**	2,454	784
TS Europe	**16,804**	12,471	4,333
NatSteel Holdings	**748**	737	11
TS Thailand	**782**	649	133
Others	**675**	665	10
Eliminations & adjustments	**(33)**	(4)	(29)
Group Total	**22,214**	**16,972**	**5,242**

Finished Goods inventory has gone up across the group mainly due to higher valuations of inventory driven by steep increases in raw material prices while the volumes have come down in all entities. Inventory of raw materials increased due to increase in volumes and prices of coal and iron ore.

Sundry Debtors:

Figures in ₹ crores

	FY 11	FY 10	Change
Tata Steel	**428**	435	(7)
TS Europe	**10,862**	10,030	832
NatSteel Holdings	**484**	543	(59)
TS Thailand	**187**	123	64
Others	**8,489**	1,283	7,206
Eliminations & adjustments	**(5,634)**	(902)	(4,732)
Group Total	**14,816**	**11,512**	**3,304**

Overall debtors balance for the Group at end March 2011 was higher by ₹ 3,304 crores than end March'10. Debtors in India were maintained almost at last year's level in spite of increase in turnover due to stricter credit control and better collections. Considering debtors of ₹ 4,405 crores of TSE securitised by ProCo, debtors of TSE have gone up by around ₹ 5,237 crores. ProCo debtors included in 'Others' are receivable from TSE on account of securitisation of debtors as mentioned above and coal supplies and advance against sale of coke.

Cash Flow and Net debt:

Cash Flow:

Net cash flow from operating activities: The Group generated ₹ 6,463 crores from operations during FY 11 as compared to ₹ 10,502 crores in FY 10. While the consolidated profit in the financial year 2010-11 at ₹ 8,983 crores was higher than FY 10, cash from operations was lower than the last year due to increase in working capital in FY 11, whereas during the last year there was reduction of working capital thus releasing cash into operations. In FY 11 working capital has gone up by ₹ 7,175 crores mainly due to increase in TSE's working capital (including working capital infused during the year through Global ProCo), the increase being in inventories (due to increase in prices) and also in receivables.

Net cash from investing activities: A sum of ₹ 8,379 crores was applied in the current year towards investing activities including capex of ₹ 10,416 crores partly offset by sale proceeds of TCP.

Net cash from financing activities: Cash from financing activities (equity raised / loans availed net of repayments and interest payments) amounted to ₹ 5,993 crores in the current year as compared to ₹ 5,135 crores of cash applied during last year. Current year cash from financing include ₹ 1,500 crores from issue of perpetual securities and ₹ 5,309 crores raised from other loans (net of repayments).

Thus, the net increase in cash and cash equivalents was ₹ 4,077 crores in the year 2010-11 with a balance of ₹ 10,893 crores as on 31st March. 2011 against a balance of ₹ 6,815 crores as on 31st March. 2010.

Net Debt

Figures in ₹ crores

	FY 11	FY 10	Change
Secured Loans	**28,604**	28,059	545
Unsecured Loans	**32,080**	25,041	7,039
Total Debts	**60,684**	**53,100**	**7,584**
Less: Cash and Bank Balances	**(10,893)**	(6,815)	(4,078)
Less: Current Investments	**(3,159)**	(1,931)	(1,228)
Net Debt	**46,632**	**44,354**	**2,278**

Gross Debt at ₹ 60,684 crores at end March 2011 was higher than March 2010 by ₹ 7,584 crores mainly due to fresh loans (net of repayments) primarily at Tata Steel India, TSE, and Centennial Steel. The increase in gross debts was partly offset by higher cash balances and increase in liquid fund investments in Tata Steel India. The net debt at end March 2011 was ₹ 46,632 crores as compared to ₹ 44,354 crores at end March 2010.

RISKS, OPPORTUNITIES AND THREATS:

Tata Steel Group aims to address the opportunities offered and threats posed by its business environment strategically by maintaining sustainable and robust business models and further improving on them. Tata Steel's response to its risks, opportunities and threats is discussed in the sections below.

Growth Strategy:

Since FY 2004-05, the Group has added capacity of 25 million tonnes across South-East Asia, the United Kingdom and Europe through acquisitions. The crude steel capacity at its existing steel plant in Jamshedpur will have increased by almost 3 million tonnes to 9.7 million tonnes in the financial year 2011-12 (production in FY 2010-11: 6.855 million tonnes). There are substantial market opportunities, in India particularly, those warrant further expansion of steel capacity.

The greenfield project in Odisha, India, is progressing and capacity is planned to increase by 6 million tonnes in two phases of 3 million tonnes each, the first phase to become operational by 2014. The opening of the Dhamra port, a 50%-50% joint venture with Larsen & Toubro, will to improve the logistics for the Indian operations.

Tata Steel's installed capacity in Europe is sufficient to address regional demand. Growth in this region is planned to take place via technical innovation and diversified product offerings to identified market sectors. Initiatives supporting this include a strategic review of the asset portfolio, business specific improvement plans and securing access to cost-effective raw materials.

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 and prices, more recently exacerbated by quarterly pricing for iron ore and metallurgical coal.

Global demand surpassed the pre-crisis peak in the financial year 2010-11, driven by strong demand in the developing economies, notably China. Prices for iron ore and metallurgical coal spiked, exacerbated by supply disruptions due to flooding in Queensland, Australia. The Indian operations benefitted from strong domestic demand and achieved record output at 6.855 million tonnes. The South East Asian plants also benefitted from good demand and operated close to full capacity.

Steel demand has not recovered to pre-crisis levels in the developed countries. Tata Steel Europe continued to calibrate its production at levels consistent with market demand in the UK and Europe.

Raw Materials Security and Price Volatility:

During the financial year 2010-11, high raw material prices have only reinforced the validity of the strategic objective to achieve greater raw material security to insulate the Group from swings in prices. Further steps have been taken to achieve this.

The development of the Benga project in Mozambique, a 35%-65% joint venture with Riversdale, continues and first production is expected by the second half of 2011; after taking control of Riversdale, Rio Tinto has indicated to accelerate the development of this project. A decision to invest in the Direct Shipping Ore project in Labrador, Canada, through the joint venture with NML was taken during the financial year and first production is expected by the second quarter of 2012. In addition, a feasibility study will be undertaken with regard to the adjacent LabMag and KéMag projects; together, these contain an estimated 5.6 billion tonnes of iron ore reserves.

Quarterly contracts, for iron ore based on spot-pricing, have now become the norm and these have resulted in shorter procurement cycles and greater volatility in iron ore and metallurgical coal prices. The Group, in particular Tata Steel Europe, is working with suppliers to achieve competitive prices and has agreed a range of pricing bases, whilst adjusting its commercial policy to maximise opportunities presented by moves to shorter-term pricing, and has long-term supply contracts sufficient to cover its requirements. Furthermore, programmes are in place to more flexibly operate the existing capacity.

Health, Safety & Environmental Risks:

The manufacture of steel involves steps that are potentially hazardous 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. In Europe, auction based proposals by the EU Commission for Phase 3 of the Emission Trading Scheme ('ETS') could, as they currently stand, have a significant negative financial impact post 2012.

Regarding Health & Safety, the Group's philosophy is that all injuries can be prevented. The Group aims to reduce the lost time injury frequency to 0.4 per million hours worked by 2012. Due to the nature of these operations, extra efforts are being taken to ensure workplace safety in the mines and collieries in India.

To meet environmental standards, dust and other emission levels are monitored to ensure they stay within permissible limits. The Group continues to invest to reduce CO_2 emissions in accordance with its goal to reduce CO_2 emissions to 1.9 tonne per tonne of liquid steel by 2012. The commissioning of the HIsarna™ pilot plant is a further step to come to a commercially viable technology to significantly reduce CO_2 emissions from ore based steelmaking.

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.

To that effect, the Group's R&D efforts have continued to be geared at improving existing processes to advance the Group's cost competitive position.

R&D efforts are also being made to advance the Group's proprietary knowledge in order to produce new generations of steel products.

Furthermore, the Group has engaged in a 600 k tonnes Continuous Annealing Processing Line Joint Venture with Nippon Steel Corporation ('NSC'). This JV will benefit from NSC's world class technology for production of high-grade cold-rolled steel sheet and Tata Steel's leadership position in the Indian automotive industry to serve its customers with innovative products & services.

Financing:

Tata Steel Group's expansion is dependent on sufficient cash generation and attracting fresh equity and loans to that effect.

The debt for the Corus acquisition in 2007 that resides in Tata Steel Europe's balance sheet is a specific risk to the Group in the light of a set of covenants to be met. In September 2010, £3,670 m of senior secured facilities arranged for this purpose were refinanced with new senior secured facilities comprising €3,400 m of term loans and a £690 m revolving credit facility, to provide future working capital for Tata Steel Europe. These facilities have final maturities of between five and seven years, and minimise repayment obligations over the next five years.

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 as well as on the level of company pension contributions.

TSE has put in place a framework to manage pension risks and works with schemes' trustees to ensure that obligations remain affordable and sustainable. As part of this framework proposals have been announced to close the UK defined benefit scheme to new recruits, and to cap the contribution rate for future service for existing members at an affordable and sustainable level. A range of measures has already been adopted by the principal schemes in TSE to manage liabilities and to protect against investment market risk exposure, whilst maintaining asset performance. Further actions will be considered as and when appropriate.

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.

Related to its pro-active funding strategies (see 'Financing'), cash and bank balances of the Group stood at ₹ 10,893 crores as at 31st March, 2011.

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. Protecting the reputation of Tata Steel and the wider Tata Group is an integral part of this.

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 activities of the organisation and the business activities are prioritised for audit accordingly. The audit plan is approved by the Audit Committee which regularly reviews the 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 financial statements, including the financial reporting system, compliance to accounting policies and procedures, the adequacy and effectiveness of the internal controls and systems followed by the Company. 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.

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

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.

The company is on a growth path along with the domestic steel and mining industry and rise in competition. The human resources team has been continually focusing on the means to achieve the company's goals of meeting such growth targets through external recruitment & right skilling and by improving the capabilities of existing people through people development initiatives.

With the expansion plans of Tata Steel at Jamshedpur by another 2.9 mtpa by 2012, there was an increased need of highly skilled and qualified workforce to support construction & quick ramp up of the new technology plants. One of the key challenges, therefore, was to build the capability of its existing workforce to meet the higher level skill requirements. Tata Steel geared up to meet the challenge of growth by recruiting technically qualified persons and maximising utilisation of the existing employees through instituting programs to right skill them and improve the overall skill mix of employees. A focused training & development approach was adopted to achieve this task.

As a result of such focused approach, there has been a significant increase in the percentage of skilled employees and also a simultaneous increase in the workforce. The employees' strength in Indian operations increased to 34,912 as on 31st March, 2011 as against 34,440 as on 31st March, 2010.

Major highlights of the people development process in Tata Steel India during the financial year under review were:

- 70:20:10 framework for Learning and Development was expanded to a much larger number of officers. This approach has greater focus on on-the-job and coaching and mentoring components of leaning.
- In an effort towards building a culture of coaching & mentoring, over 600 officers were trained in several batches of workshops through internal & external faculty.
- Focus on wider coverage for class room training (Percentage of unique officers trained increased from 41% in FY 10 to 70% in FY 11) which included some unique offerings of programs for different customer segments like laterals, lady officers, etc.
- Train maximum possible people on TQM.
- Over and above the normal training for employees, close to about 1000 persons recruited for the 2.9 mtpa expansion have been provided induction training.
- On skill development front, focus has shifted towards more hands on training. Many of the programs were restructured keeping in view the needs of tomorrow.
- Introduction of "Value Education" for the young recruits. To create fun at work environment functions like Technical Exhibition for all cadre trainees, "Parichay" for fresh MTTs, "Varshikotsav" for fresh TAs and "FROLICA" to celebrate mentors day have been organised.

Two initiatives were undertaken principally to improve the HR practices of the company:

- Employee Connect Program (ECP): An Initiative to build employee connect, understand concerns and follow up action plans. Employees from across levels and Business areas have been met individually on a monthly basis to gauge engagement levels and to understand concerns.
- Job Rotation & Career Planning (JRCP): An Initiative to provide career opportunities for officers through planned movement across functions and also to build functional expertise in the organisation. In FY 2010-11 19% of all Lateral movements were through JRCP and this process is being further strengthened in FY 2011-12.

Tata Steel India reached the milestone of 82 years of industrial harmony and peace. During the financial year 2010-11 industrial relations remained normal at all locations. Market based new wage series (lower than the existing wage series but higher than the market median) was introduced after arriving at a settlement with the Union during FY 2010-11. All the new recruitment for the expansion units have been done in the new series of wages.

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 34,200 as compared to 35,400 on 31st March 2010. The reduction mainly resulted from restructuring measures taken during the economic downturn.

Following the failure in 2009 of four international slab buyers to fulfil their obligations under a ten-year Offtake Framework Agreement, TCP's Redcar blast furnace and Lackenby steelmaking facilities were partially mothballed in March 2010 (with the loss of around 1,350 jobs), while TSE explored options for a long-term solution for the future of these facilities. In February 2011 an agreement was signed to sell certain assets of TCP to SSI. The assets covered by the sale included the Redcar blast furnace, the Redcar and South Bank coke ovens, TCP's power generation facilities and sinter plant, and the Lackenby steelmaking and casting facilities. The deal also included TSUK and SSI entering into a joint venture to operate Redcar wharf, TCP's bulk terminal. The sale was completed on 24th March, 2011. Approximately 850 employees transferred to SSI and it is expected that further jobs will be created. The Group also remains committed to the region, employing more than 1,800 people in operations at Hartlepool, Skinningrove, the Teesside beam mill and the 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, delivered a package of support measures in the wake of the job losses at Teesside, including grant and loan funding for over one hundred new businesses in the region and an expansion of The Innovation Centre on Hartlepool's Queens Meadow Business Park. Additional funding has been provided to a variety of businesses across all steel areas of the UK to help them create new job opportunities for steel communities.

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.