We are pursuing a comprehensive strategy of growth and sustainability.

In spite of a challenging economic environment during the Financial Year 2011-12, Tata Steel focussed on mitigating the challenges of the global economy and implementing its strategic objectives. Through their consistent interactions with various stakeholders, **Mr. H. M. Nerurkar** (Managing Director, Tata Steel), **Dr. Karl-Ulrich Koehler** (Managing Director and Chief Executive Officer, Tata Steel Europe) and **Mr. Koushik Chatterjee** (Group Chief Financial Officer, Tata Steel) have shared the Company's response to the global economic scenario and its continued commitment to sustainability. These are a few key themes of the discussions.

The HIsarna plant at IJmuiden, the Netherlands.


Mr. H. M. Nerurkar,
Managing Director, Tata Steel Limited


Mr. Koushik Chatterjee,
Group Chief Financial Officer


Dr. Karl-Ulrich Koehler,
Managing Director and
Chief Executive Officer, Tata Steel Europe

Q1. In the backdrop of a volatile global economy, how would you briefly describe the operating environment in the last financial year across different geographies and its impact on the Tata Steel Group?

The global economy has been very volatile in the last twelve months. While the first half of 2011 showed definite signs of recovery, the Euro crisis clearly influenced the business sentiment of the underlying economy since August - September 2011. After a fairly steady first quarter of the financial year, the operating environment in Europe started to decelerate very significantly in the third quarter with contraction in the market demand for steel resulting in lower spread between raw material prices and steel prices. This affected the European performance in the third quarter specifically. However, the Company has undertaken a series of initiatives that involves re-orienting the business model towards better operating management of the existing facilities, renewal of assets, enhancing the supply chain strategy to serve our customers better with differentiated products and services, improving working capital management and reducing overheads and costs towards a more efficient cost structure across the business. This is a journey that has already started delivering results and this strategy would be the cornerstone of the future direction in Europe.

The South East Asian business has been less impacted by the Euro zone crisis, especially countries like Singapore, which have better positioned themselves through prudent policies to ride out the storm. Consequently, our Singapore facility, which is an efficient Electric Arc-based operation, has been fairly steady during the year. Our Thailand business has been affected by a slower domestic economy, high cost of raw materials for the Mini Blast Furnace operations and the adverse impact of the floods. In view of the adverse macro conditions, a turnaround strategy was developed, which focused on enhancing productivity and yields in the three operating units in Thailand, rationalising the portfolio, better scrap sourcing to improve the scrap–rebar spread and deriving a better market premium through a customer-centric strategy. These structural initiatives are aimed at delivering a sustainable value in the long term. The year ended with an improved performance in the last quarter.

In comparison, India was relatively better positioned for the first half of the fiscal year, though the domestic economy slowed down in the second half. Supply side issues on raw material availability and the sharp depreciation of the Rupee affected the operating environment of the industry. Tata Steel is focused on its operating performance, through the continuous improvement programmes, to remain one of the most competitive steel operations in the industry.

Q2. What has been Tata Steel Group's capital investment strategy in the last financial year?

The capital investment in Tata Steel is defined by the long term strategic plan of pursuing growth in the Indian market, raw material integration and downstream value addition. Majority of the capital outlay for the Group in the last financial year was directed towards the brownfield and greenfield growth projects in India. We also allocated capital to our overseas raw material projects in Mozambique and in Canada. In Europe, the capital outlay was mostly for sustenance, de-bottlenecking and efficiency improvement projects, apart from the commitment made towards the rebuild of Blast Furnace #4 at Port Talbot.

Q3. Can you articulate the Tata Steel Group's focus on sustainability?

While we address all aspects of social, environmental and economic performance, the issues of immediate material concern to Tata Steel are the safety and health of our people, resource conservation, development of innovative

(Right) Steel sheets manufactured in India; (Facing page) An overview of the 2.9 mtpa expansion project at Jamshedpur, India.

The Company's focus has been on downstream and value-added products through new investments and product development.

products and processes which lead to a low carbon future, minimising the carbon footprint, value creation for all stakeholders and contributing to the prosperity of the communities and nations where we operate.

Given the nature of steel-manufacturing operations, our relentless focus on the safety and health of the employees is evident from the launch of an interminable Safety Excellence Journey, to which new aspects of safety are added every year, and the Wellness@Workplace programme. They are designed to provide an injury-free working environment for a healthy and happy workforce.

The global steel industry faces the challenge of reducing CO_2 emissions and utilising finite resources efficiently. The effort to develop sustainable steel solutions for a shared sustainable future has led Tata Steel to continuously increase its focus on Research and Development.

Our Continuous Improvement journey has provided direction and served as an enabler in identifying solutions to the many challenges we face. We have a robust framework of experiential learning through the Performance Improvement Teams across the Group that act as forums for sharing good practices. Our Quality Assurance systems have accelerated the adoption of new solutions and improved delivery cycles for new products. Tata Steel's long term strategy is focused on sustainability and value creation in an interdependent manner. It is our endeavour to align all actions in the Company on the above principles.

Q4. How do you view the demand scenario in India especially after the sluggish growth witnessed in Financial Year 2011-12?

During Financial Year 2011-12, India had its own set of unique challenges. Fuelled by inflation and increasing

(Above) Iron ore being transported at Noamundi, India;
(Right) Steel manufactured for rail projects in Europe.

Tata Steel's long term strategy is focused on sustainability and value creation in an interdependent manner.

oil prices, the Fiscal and Current Account Deficit touched record highs in recent years. The exchange rate volatility increased significantly in the second half of the year. This impacted the underlying sentiment and uncertainty in the economic environment. While India recorded growth in apparent steel use, it was well below the expectations due to challenging macro conditions.

India's GDP growth eased to 6.9% in real terms in Financial Year 2011-12, in comparison to preceding two years, suggesting a slowdown primarily due to deceleration in the country's industrial growth. Steel intensity correspondingly grew at 5.5% as opposed to 10% in the previous year, signifying below-potential growth. The Reserve Bank of India, in a bid to contain inflation, tightened its monetary policy, resulting in reduced consumer demand and slowing industrial activity. Reduction in interest rates and cash reserve requirement ratios are supportive of creating additional steel demand, as it supports demand creation in interest rate-sensitive sectors like construction, infrastructure and automobiles. We hope that the infrastructure spend as envisaged in the 12th Five Year Plan of the Government of India, coupled with growing disposable incomes and rising urbanisation underpins steel makers' plans to augment capacity. As per the Government of India estimates, Indian steel demand is set to grow structurally over the next decade, though downside risks of slower than anticipated growth in the short term is possible given the current macro economic uncertainties.

Q5. As major capacity additions, primarily in the flats segment, are being planned in India, how is Tata Steel poised to defend its market position?

Tata Steel has been pursuing growth in India through brownfield and new greenfield expansion projects as also through strategic partnerships. We are in the final phase of commissioning the 2.9 mtpa project at Jamshedpur and are currently executing the 6 mtpa greenfield plant at Odisha in two phases of 3 mtpa each.

India has been a net importer of steel especially at the high value-added end product portfolio and is likely to continue to do so. The steel demand in India will continue to grow given the significant need for infrastructure growth and the increasing urbanisation of the population. Over the last decade, Tata Steel's strategy has been to move up the value chain towards differentiated products and services. Therefore, the Company's focus has been on downstream and value-added products through new investments and product development. Our upstream growth in capacity is synchronised with the downstream expansion of the product portfolio in several areas like Tubes, Packaging and high-end automotive steels. Therefore, our capacity growth is integrated with value-added downstream products. Apart from focussing on developing a pipeline of new products through robust product development, we also have a very strong service focus on the retail and distribution network, which is also a big differentiator in the market place. The above philosophy is very well integrated with the growth strategy and therefore we expect to continue to differentiate ourselves in the market, as we keep growing and adding new capacities.

Q6. In the last twelve months, how have the raw material prices impacted the Tata Steel Group?

Raw material prices are one of the determinants of global steel price but not the only one. Various factors combine to determine steel price; such as underlying demand and the competitive advantage of local steel manufacturers. Global raw material dynamics should be read in conjunction with changes taking place within the Indian steel scene. Curtailment of iron ore

(Right) A trench mesh machine at NatSteel, Singapore;
(Facing page) Port Talbot, Wales, UK.

The South East Asian business has been less impacted by the Euro zone crisis, as countries have positioned themselves through prudent policies.

production due to reduced exports, increase in price of ore due to e-auction, reduced coal availability due to its diversion for power generation coupled with increased power and freight costs has led to declining profitability of the Indian steel makers. Tata Steel continues to focus on its captive mining operations in a sustainable manner. European operations were particularly impacted in the second and the third quarter of the financial year due to high raw material costs in the seaborne market and the customers timing their purchases in line with spot price movements in the raw material market. However, raw material prices softened towards the end of 2011 and the "zero lag" pricing mechanism offered by suppliers for iron ore helped in reducing the time lag between spot prices and its impact in product costing. The Company has made efforts to reduce the inventory levels, in order to minimise the "lag effect" and consequently lessen the impact of raw material price volatility.

Q7. How has Tata Steel managed its Balance Sheet and liquidity in the last financial year?

Tata Steel has judiciously maintained its debt level despite ongoing capex outlay. Gross debt at the end of Financial Year 2011-12 was lower than that at the end of Financial Year 2010-11, in spite of ₹12,138 crores (US$ 2,386 million) capex spend. This was achieved through proactively prepaying debt and assuming new debt only to the extent required. Total liquidity at the end of Financial Year 2011-12 was ₹17,087 crores (US$ 3,359 million) including ₹4,887 crores (US$ 961 million) in undrawn credit lines, facilitating the planned capex programme of the Company. The Net Debt to Equity ratio for the Tata Steel Group reduced to 1.16 at the end of Financial Year 2011-12 from 1.55 at the end of the previous year.

Q8. How does cash contributions to Pension funds impact Company's financials?

The British Steel Pension Scheme (BSPS) is the largest defined benefit scheme within Tata Steel Europe's portfolio, where detailed valuation of its assets and liabilities is undertaken every three years. As part of the triennial valuation cycle of the pension funds' assets and liabilities, the future service cost of the pension scheme is also reviewed, especially if the fund is likely to be in the deficit. This leads to discussion about cash contribution rates and a benefits package to be made available to the scheme members. The triennial funding valuation is based on parameters, such as long-term investment return, mortality rates and company covenants. The triennial valuation may result in surplus or in deficit and, if there is a deficit, the same becomes a subject matter of negotiation between the Company and the Trustees, culminating in a plan to recover the shortfall, as agreed upon, mutually.

Pension accounting standards require an employer company to estimate the amount by which the discounted pension scheme liabilities will increase over the year, known as the service cost that represents the costs of additional benefits earned by employees for their service in the relevant period. The company also estimates at the start of the year the amount by which the net present value of pension scheme liabilities will increase during the year, based on assumed discount rate. The expected return on fund assets is based on assumptions of investment performance and reflects changes in the fair value of fund assets taking into account the contributions made and expected benefits paid out of the fund. The combined impact of these movements is reflected in Reserves. Hence, there is no significant correlation in the short term between the cash contributions made into the scheme and its accounting treatment.

REVIEW OF OPERATIONS

CONTINUOUS IMPROVEMENT PROGRAMMES

- Kar Vijay Har Shikhar
- OGSM
- Improvement Initiatives at NatSteel
- The Turnaround Plan at Tata Steel Thailand

The Year in Review

2011-2012

Clockwise from top-left: Raw materials; Coated steel manufactured by Tata BlueScope Steel; An employee with safety gear at Tata Steel Europe; Expansion at the Jamshedpur Steel Works, India; A training session in Jamshedpur, India; The application of steel in construction.