Management Discussion and Analysis

I) BUSINESS REVIEW

The Indian economy is projected to grow by 8.1% during the fiscal year ended 31st March, 2006, compared to 7.5% in the previous year. The industrial sector remained buoyant, with output expected to grow at 9%, driven by robust performances from manufacturing and construction sectors, as compared to 8.6% in the previous year. The services sector is expected to grow 8% as against 9.9% in the previous year. The macro economic indicators pointed to strong growth in most sectors. An area of concern has been the continued rise in the international prices of crude oil. The average inflation for 2005-06 (till end of January 2006) was 4.7%, as compared to 6.5% for the same period in the previous year.

Recently, international credit rating agencies Standard & Poor's (S & P) and Moodys have raised India's credit outlook from stable to positive, on witnessing accelerated economic growth and improvements in the Indian Government's handling of debt.

During 2005-06, benign interest rates in the international financial markets and the liberalised external commercial borrowings norms in India have enabled Indian companies to attract international capital for funding future growth projects. Increased foreign currency fund raising along with the strong inflows from Foreign Institutional Investors during the year further strengthened the foreign exchange reserves of the country, which increased to US$ 151.6 billion at the end of the fiscal year 2005-06.

The Management's discussions on the Steel Industry and the Company's performance are given below :

1. STEEL BUSINESS UNIT

a) Global Steel Industry Overview

The global economy experienced robust growth in 2005, despite significant concerns about the impact of higher world oil prices.

World GDP is estimated to have increased by 3.2% in the calendar year 2005, down from 3.8% in 2004.

In 2005, World Crude Steel output at 1129.4 million metric tonnes was 5.9% more than the previous year. (Source : IISI). The global steel industry suffered from structural deficiencies of large unutilised capacity, high degree of fragmentation and cyclical ups and downs of demand and prices. With consolidation in the industry gathering pace, this is now changing, albeit slowly. However, the industry is still fragmented, with the top ten steel producers controlling less than 30% of the world's steel output.

China remained the world's largest crude steel producer in 2005 (349.4 million metric tonnes) followed by Japan (112.47 million metric tonnes) and USA (93.89 million metric tonnes). India occupied the 8th position (38.08 million metric tonnes). (Source : IISI)

The International Iron & Steel Institute (IISI) in its forecast for 2006 has confirmed the trend of recent years of an increase in steel use in-line with general economic growth and with the fastest growth occurring in the countries with the highest GDP growth such as India and China. Apparent world-wide steel demand is forecast to grow to between 1,040 and 1,053 million tonnes in 2006 from a total of 972 million tonnes in 2004. This is a growth of 4-5% over the two year period. However, according to IISI the cost of raw materials and energy would continue to represent a major challenge for the world steel industry.

The surge of industrialisation in China and its emergence as a growing economic power has transformed the world steel scenario. While the more matured economies of the West and Japan have seen little change in their per capita consumption of steel, China's consumption of steel has been growing at over 20% in the last five years and it has become the most dominant factor in the world steel market so much so that in last five years the global steel production has increased by more than 30% (280 mt) and the bulk of that increase has been contributed by China (222 mt).

Globally, the average capacity utilisation of steel has increased significantly during the year. Global crude steel production grew by 5.6%. The apparent steel demand is estimated to have risen by 2.7% to 998 million tonnes in the calendar year 2005. The bulk of the increase in steel demand was contributed by China. China accounted for 30% of global steel demand and 31% of crude steel production in 2005.

During the year, most of the steel raw material shortages witnessed in earlier years have been eased out especially in the area of coking coal, coke and ocean freight which had an impact on the steel prices.

b) Domestic Steel Industry Overview

The industrial sector registered a strong growth during the year, primarily due to the growth of the manufacturing sector of 9%, compared to 8.69% in the previous year. During the year under review, domestic steel production and apparent steel consumption increased by 5.1% and 7.1% respectively, over the previous year. Demand in the domestic market was strong, with double digit growth in the automobiles, capital goods and consumer durable segments. Exports volume increased by 18% as compared to the previous year.

Domestic steel prices moved in tandem with the international prices showing a downward trend as compared to the previous year. Most agree that the Chinese role has been prominent in decline in steel prices.

November 2005 saw the release of National Steel Policy – the first Vision document for the Indian Iron and Steel Industry. The policy aims at hiking steel production to 110 million tonnes by 2019-20. The long-term goal is that India should become self-reliant and globally competitive in the steel sector in terms of cost, quality and product mix.

c) Macro Outlook for 2005-06

As per the World Bank, the World GDP growth will be at 3.2% in the calendar year 2006, at the same level as in 2005. Growth in the US, China, Russia and India is expected to remain strong. Even long-suffering Japan has seen relatively good performance lately, the result of strong demand from neighbouring China. And although some of the biggest countries of the European continent are stagnating, others are doing quite nicely. Finally, although the price of oil has risen substantially, oil consuming nations seem to have absorbed this shock reasonably well. Meanwhile, oil exporting nations are seeing their first major windfall in a generation. Inflation in most major countries remains low by historical standards and long-term interest rates are expected to remain low.

The International Iron and Steel Institute (IISI) forecasts that the total use of finished steel products continues to show strong growth in all regions of the world. While the main focus of the growth will be in China, total world steel demand is predicted to grow by 7.3% to 1,087 million metric tonnes (mmt) in 2006. Data for 2005 highlights the influence of inventory reduction by steel industry customers, which will turn positive in 2006 as steel companies replenish stocks. However, with a predicted growth of 5.8% to 1,150 mmt in 2007, the global outlook for steel demand remains positive. The largest factor in this growth is the influence of China. Even with a slowing of Chinese steel demand, double digit growth in China is still predicted in 2006 and 2007. This continued growth demonstrates the essential role that steel plays in the functioning of modern society.

IISI forecasts steel use in China will grow by 13% to 356 mmt this year, 32% of global steel demand in 2006. Along with China, India also shows a high steel demand growth with a predicted increase of 8% for 2006 and 2007.

In the European Union, apparent steel use fell by 4.6% in 2005 reflecting the reduction in steel stocks. However, IISI forecasts an increase of 3.9% in 2006. IISI expects economic growth in the USA will lift apparent steel use by 5% in 2006 and by a further 1.7% in 2007.

Growth in the construction and automotive sectors is underpinning an anticipated 3.2% growth in Russia's steel use in 2006 with an estimated growth of 1.6% in 2007. Similar growth rates are predicted for the Ukraine.

After a slow down of the market in 2005, the steel market in Brazil is predicted to recover in 2006 with a 9.5% increase in steel use. IISI expects a further increase of 10.9% in 2007. Figures for the whole of Central and South America show similar positive forecasts with increases of 7.6% in 2006 and 8.7% in 2007. Predictions suggest that the Japanese market will see growth of 3.3% in apparent steel demand in 2006 with a levelling-off in 2007. According to IISI the whole Asia-Pacific region may register a 3.9% growth in steel use during 2006 and a 2.1% increase in 2007.

According to The International Iron and Steel Institute (IISI), global apparent steel demand grew by 4% at 1,013 million tonnes in 2005 as compared to 973.6 million tonnes in 2004. IISI forecasts world steel demand is likely to grow @ 7.3% to 1,087 million metric tonnes (mmt) in 2006 and 5.8% at 1,150 mmt in 2007.

IISI forecasts apparent steel demand in China will grow @ 13% at 356 mmt in 2006, accounting for 32% of total steel demand in 2006. Along with China, India also shows a high steel demand growth with a predicted increase of 8% for 2006 and 2007. In other areas of the world, growth is forecast to be around 4.7% or 33 mmt, followed by reduced growth in 2007 of 2.7%.

IISI expects economic growth in the USA will lift apparent steel use by 5% in 2006 and by a further 1.7% in 2007. After a slow down of the market in 2005, the steel market in Brazil is predicted to recover in 2006 with a 9.5% increase in steel use. IISI expects a further increase of 10.9% in 2007. IISI forecasts apparent steel demand in European Union will increase by 3.9% in 2006 and 1.5% in 2007.

					Annual Growth (%)		
	2004	2005	2006	2007	04/05	05/06	06/07
EU (25)	168.1	160.4	166.6	169.0	-4.6	+3.9	+1.5
CIS & Other Europe	68.6	72.7	76.0	78.5	+6.0	+4.5	+3.3
NAFTA	149.0	135.8	142.6	145.0	-8.8	+5.0	+1.7
Central & South America	32.7	32.5	35.0	38.0	-0.7	+7.6	+8.7
Africa	20.5	22.4	24.1	25.4	+9.4	+7.5	+5.4
Middle East	30.6	34.7	37.6	40.7	+13.2	+8.4	+8.3
Asia-Pacific	504.1	554.9	605.2	653.4	+10.1	+9.1	+8.0
World	973.6	1013.4	1087.0	1150.0	+4.1	+7.3	+5.8

SOURCE : IISI

d) Company's Growth Strategy

Steel consumption in India in the next decade is expected to grow by 7-8% per annum. It is expected that production will grow to 66 mtpa in 2011-12 compared to 41 million tonnes in 2005-06. The steel consumption may touch 57 million tonnes by 2011-12 against 36 million tonnes in 2005-06.

To maintain its dominant position in the key segments in the domestic market and to establish an international presence, the Company is aiming to enhance steel capacity to about 30 million tonnes per annum by 2015. This is planned by maximizing the potential of Jamshedpur works, setting up greenfield capacity in Orissa, Chhattisgarh, Jharkhand and Bangladesh. This is in line with our belief that maximum value can be created by making semi-finished products (slabs/billets) at locations where raw materials are available (or can be competitively assembled) and by finishing them at locations where customers/markets currently exist or will grow in future.

In our endeavour to be a dominant player in the construction solutions sector, the Company has signed a JV Agreement with BlueScope of Australia. The construction sector in India is beginning to emerge as a large market for high value added coated (metal and/or colour coated) flat products and the concept of pre-engineered building solutions is gaining acceptance. BlueScope Steel Limited, Australia has significant presence in the coated steel and building solutions markets in Asia. BlueScope would bring the expertise from building solutions to technology in Zincalume and experience in colour coating lines. To take advantage of the emerging market opportunities in India in construction solutions segment, the joint venture company in India with 50:50 equity participation is being formed. The JV would invest in the building solutions facilities as well as in the coating lines. The Building Solutions manufacturing units are being set up at Pune, Bhiwandi and Chennai.

Specific initiatives to execute strategy

FY 06 has witnessed definite steps taken by Tata Steel in the direction of Growth and Globalization. Several opportunities and options were evaluated along the lines of our growth strategy and concrete steps taken to cement the future of Tata Steel as an International Company.

In May 2005, Tata Steel expanded its steel-making capacity from 4 to 5 million tonnes per annum at its Jamshedpur works. Tata Steel has already initiated expansion of its Jamshedpur works to 6.8 million tonnes by 2007/2008.

Tata steel has signed MoU for setting up 12 mtpa Greenfield Steel Plant in the state of Jharkhand in two phases.

There are plans for a 6 million tonnes integrated steel project at Duburi in Orissa, half way between Paradeep port and Jamshedpur. The project will consist of two phases of 3 million tonnes per annum each. And an all-weather port at Dhamra is to be jointly developed with Larsen & Toubro.

A memorandum of understanding has been signed with the Chhattisgarh State Government to set up a 5 million tonnes per annum steel complex in two phases.

We are planning to set up a steel plant in neighbouring Bangladesh, of 2.4 mtpa. The Company is considering acquisitions of other international steelmakers.

International Investments : After the acquisition of Singapore-based NatSteel in 2005, with a rolling capacity of 2 mtpa the Company has invested in Millennium Steel, Thailand to acquire 67.11% of equity stake for Thai Baht (THB) 6500 million (around Rs. 780 crores).

The investment was completed on 4th April, 2006 through a combination of preferential allotment of 24.99% equity shares to Tata Steel and 42.12% equity shares through open tender offer. The investment was made by the Company and its wholly owned subsidiary NatSteel Asia Pte Limited, Singapore.

Millennium Steel is one of the largest steel companies in Thailand accounting for 24% of the Longs market share in the country. Listed on the Stock Exchange of Thailand (SET), it is a holding company for three operating subsidiaries which are located in Thailand. It has a nameplate capacity to produce 1.2 mtpa of steel through the Electric Arc Furnace (EAF) route and capacity to finish 1.7 mtpa of long products which includes rebars, wirerods and small sections. The transaction was concluded on 4th April, 2006.

Long product marketing & sales surpassed one million tonnes of sales (1.027 million tonnes, excluding wires sales) in FY 06 up by 17% as against 0.88 million tonnes in FY 05. Long product export decreased by 5% to 0.44 lakh tonnes during the year as compared to 0.47 lakh tonnes in the previous year.

Financing Strategy

The key objectives of the future financing strategy of the Company are as follows :

(i) To raise cost efficient funds for the growth plans of the Company

(ii) To maintain the credit rating of the Company

(iii) To comply with the expectations of various lenders in terms of financial covenants

(iv) To provide financial flexibility in the Balance Sheet for contingencies

(v) To manage the foreign exchange exposure effectively

(vi) To develop funding strategy to focus on EPS accretion

The Company's funding philosophy for its expansion in the last decade has been largely focussed on internal generation and debt. The Company in the last few years has significantly de-leveraged its Balance Sheet by repayment of the existing loans. This has resulted in the reduction of its Debt : Equity ratio to 0.26.

The entire requirement of funds for the one million tonnes expansion has been funded from internal generation. However, in order to finance the future growth plans, the Company will require additional external capital. At the Extra Ordinary General Meeting held on 24th March, 2005, the Company's proposal for additional borrowings of Rs. 5,000 crores, enhancing the borrowing limit to Rs. 10,500 crores and creation of security thereof was approved by the shareholders.

On 10th June, 2005, the Company has signed a loan agreement with The International Finance Corporation (IFC), Washington, the private sector arm of the World Bank Group, for raising a corporate loan of US$ 400 million, which consists of an A-loan of US$ 100 million directly given by IFC and a syndicated B-loan of US$ 300 million. A-loan and B-loan have door to door maturities of 10 years and 6 years respectively. The syndicated loan has thirty participating banks. The IFC loan will help Tata Steel to finance its future growth projects by way of long-term funding and is an important component of Tata Steel's financing strategy. IFC (W) has syndicated B-loan with 30 participating Banks. The blended coupon rate of the IFC 'A' and IFC 'B' (syndicated) loans is 67.5 bps over Libor.

On 7th March, 2006, the Company has signed an external commercial borrowing agreement of US$ 500 million (Japanese Yen equivalent of US$ 495 million and US$ 5 million) for funding its growth projects and acquisitions.

The syndicated term loan facility was for US$ 400 million (or its equivalent in JPY) with a Greenshoe Option of further US$ 100 million (or its equivalent in JPY). The issue was oversubscribed and the Company exercised the Greenshoe Option. The loan has a door-to door maturity of 7 years. The coupon of the loan will be Libor plus 45 basis points.

As the expansion projects involve significant import of equipments, design and drawings etc., the Company is also considering raising funds through Buyer's Credit provided by Export Credit Agencies (ECAs) of countries which supply the equipment for the projects. On 13th March, 2006, the Company has signed two external commercial borrowing agreements of EUR 49,925,915 and EUR 11,494,507.70 at Frankfurt for funding its ongoing expansion projects at Jamshedpur. This comprises a blast furnace which will produce 2.5 million tonnes of hot metal per annum to be supplied by Paul Wurth Italia. It also includes a Sinter Plant (2.3 million tonnes per annum) from Outokumpu Technology GmbH of Germany. The ECA covered facilities were signed with Deutsche Bank Aktiengesellschaft, Frankfurt am Main as Original Lender. These facilities are insured by SACE S.p.A. (Servizi Assicurativi per il Commercio Estero) of Italy and Euler HERMES Kreditversicherungs-Aktiengesellschaft of Germany. The loans have a repayment period of 10 years and an availability period of approximately three and two years respectively. The coupon on the loans will be Euribor plus 12 basis points.

On 4th November, 2005, Standard & Poor's (S & P) has upgraded Tata Steel's Foreign Currency Rating by two notches above India's sovereign rating from 'BB+' to 'BBB' with stable outlook. Therefore, Tata Steel is now in the investment grade for any foreign currency debt issuance. S & P has commented, amongst other factors, the Company is well insulated from direct and indirect sovereign risks since it demonstrates moderate leverage, strong free cash flow generation and a competitive business profile.

e) Review of Operations – Steel Division FY 06

The Company recorded best ever production of hot metal, crude steel and saleable steel, though the operation of the steel plant was characterized by number of shutdowns of production units. Hot metal at 5.177 mt, crude steel at 4.730 mt and saleable steel at 4.520 mt, mean an increase of 19%, 15% and 10%, respectively, as compared to the figures of the last financial year. The increase in crude steel production over last year was achieved even though one of the casters at LD1 was shut down for upgradation. LD2 produced 3.24 million tonnes of crude steel as compared to 2.85 million tonnes in the last year. Most of the other divisions/departments also attained their best ever annual production. The overall productivity in FY 06 was 326 tcs/man/year, an increase of 21% as compared to that of last year.

The hot metal production crossed the 5 million tonnes milestone on 20th March. The upgraded "G" Blast Furnace which was blown in on 6th April, 2005, made significant contribution. This furnace operated at the rate of 2 mtpa in the last four months of FY 06 as compared to its rated capacity of 1.8 mtpa.

A combination of initiatives undertaken to reduce the ash content of West Bokaro clean coal produced striking results in FY 06. Ash level came down from 15% to 14% and then to 13% from 1st January, 2006. This helped the Company to reduce the proportion of imported coal in coke making. The imported coal in total coal blend was reduced from 46% in FY 05 to 31% in FY 06. The mines division achieved the best ever iron ore production and despatch of 10.3 and 10.5 mt respectively in FY 06. A Jigging plant was commissioned at Noamundi to reduce the alumina content in fine ore - the feed material for sinter making. The benefit of the reduced alumina will accrue in FY 07 in terms of reduction in slag volume in the blast furnaces. Trial with low alumina ore had shown encouraging results. The slag volume in the largest two furnaces, F and G, was brought down to internationally acceptable level of just over 260 kg/thm by the month of March.

Gases, oxygen, nitrogen and argon from a new oxygen plant, flowed into the plant, under a long-term gas supply agreement from the month of October 2005. Production of our blast furnaces could be increased with increase in the level of oxygen enrichment of the blast. As a result, use of purchased metallics could be substantially brought down towards the end of FY 06.

Flat products and long products constituted 69% and 31% respectively, of gross saleable steel production. HSM surpassed 3 million tonnes milestone on 22nd March, 2006 and finished the year with 3.08 million tonnes as compared to 2.796 million tonnes . CRM saleable production has increased to 1.495 million tonnes in FY 06 from 1.44 million tonnes in FY 05. WRM achieved a production of 0.416 million tonnes as compared to 0.412 million tonnes last year. MM production was 0.2964 million tonnes as compared to 0.2935 million tonnes in the last year. A 0.6 mtpa New Bar Mill, commissioned in September 2005 to produce only rebars to cope with the increased demand of the construction and infrastructure sector and pressed into commercial production from January 2006 after stabilization, has produced 0.08 mt in FY 06.

There was a reduction of 3.4% in the saleable steel cost in FY 06 as compared to FY 05.

f) Marketing and Sales

Flat Products :

The year FY 06 was characterised by lower profitability for the steel makers compared to the past year on account of lower prices and sustained high prices of raw materials. The HR prices peaked to an all time high in April 2005, before dropping by more than 25% leading to a squeeze on margins for the steel makers, although apparent steel consumption in India continued to grow at a healthy rate of 15% from 13.5 to 15.6 million tonnes.

In FY 06, the finished steel production in India is estimated at 38 million tonnes, of which Flat products would be 17.35 million tonnes. The flat product supply growth is estimated to be around 8.4% in FY 06 over FY 05.

The year FY 06 has seen a surge of flat products imports at an all time high of 3.2 million tonnes. With import options becoming far easier, traders and stand alone cold rollers/galvanizers, including the Automotive majors queued up for imports. The stock levels of HR with the Integrated Steel Producers increased to an alarming high level in July 2005 end, up by 0.7 million tonnes over the beginning of the year. For the first time the country became a net importer of HR in FY 06.

The market prices of HR Coil (2 mm) dropped to Rs. 24,500 per tonnes in June ’05 from Rs. 29,000 per tonnes in April 2005 and further dropped to a low of Rs. 21,000 per tonnes by February 2006 before showing a slight upturn in March 2006.

For the first time international galvanized prices dipped below Cold Rolled resulting in unprofitable export realization for stand alone galvanizers in India. However, soaring prices of zinc towards end of FY 06, led to a correction in the gap between Galvanized and HR realisations thus making galvanized exports viable. In FY 07 this gap is likely to go beyond traditional levels of 140-160 USD.

The drop in CRCA prices was not commensurate with the drop in HR prices in the beginning of the year, thus making CR products lucrative. The availability within the country increased by 11% primarily from Essar and stand alone cold rollers, thus correcting the prices towards the end of the year.

Market Segment

The focus segments for Flat Products Profit Center in FY 06 were in the Automotive, General Engineering and Construction sectors.

Auto Sector

The demand growth for automobiles in FY 06 was only 14% from the projected growth of 20%. This is largely due to lower than projected growth in the Commercial Vehicle segment which grew by 10% led by the newly launched mini truck “ACE” from the Tata Motors Stable and the Passenger Car Segment growth which was only 8% implying steel growth of only 11% in the Automotive sector. In FY 06 imports of wheel rims from China by Automotive majors impacted the total auto steel market size by 10,000-15,000 MT.

Looking back, factors which had significant adverse impact on Industry growth were, implementation of BS II / BS III norms, coupled with supply constraints of some components, slow progress on road projects, increase in fuel prices and introduction of Fringe Benefit Tax.

Distribution

Tata Steel continued its focus on branded products in FY 06. Tata Steel wanted to further leverage the Tata Shaktee brand in expanding reach, gaining market share and fetching price premium for GC roofing sheets. The Tata Shaktee brand initiatives focused on increase in share of Wide GC in mix, to 52% in FY 06. There was increase in branded exclusive outlets to 115 in FY 06, which is expected to increase footfall and sales by 30%.

Initiatives in Tata Steelium would focus on mix enrichment and sustaining premium by enhancing the capability of the distributors by professional training, ensuring dedicated service centers.

Long Products

Sales of branded product Tata Tiscon increased by 15% to 0.30 million tonnes during the year as compared to 0.26 million tonnes in the previous year. Speciality wire rods (high carbon wire rods and low carbon wire rods) sales to domestic institutional customers increased by 8% to 0.25 million tonnes during the year as compared to 0.23 million tonnes in the previous year.

In retail business of long product, TATA TISCON “Atoot Jod” won the Gold award in the Calcutta Ad Club Awards Ceremony for the consumer durable category for the best conceptualized advertisement. As per Brand Health Study conducted by AC Nielsen ORG Marg for 2005, TATA TISCON emerged as the brand with the highest brand equity amongst all brands in the rebar category in the country. A new format of retail consumer meets with the theme ‘APNA GHAR’ was launched for improving consumer awareness with influencers.

In project business of long product, builder – promoter segment was targeted – a mid way segment between retail business and construction companies. For PC strand wires, wire rods meeting international standards were delivered to NAT Steel. Super ductile rebar suitable for seismic application for earthquake prone areas in the country was launched. Export trial order was received from Carrington, U.K. for supply of high carbon wire rods for critical spring application.

2. OTHER BUSINESS UNITS

a) Ferro Alloys and Minerals Division (FAMD)

FAMD produces two types of chrome ore, namely lumpy ore and friable ore, from its mines located in the Sukinda Valley of Orissa. Chrome concentrate, a beneficiated product is produced in the chrome ore beneficiation plant at Sukinda. Chrome ore is used in the Ferro Alloys plant at Bamnipal and other conversion plants to produce high carbon Ferro chrome. The Division also produces Manganese Ore from the Manganese Mines in Joda, which is sold in the domestic and international markets and also used in making Ferro Manganese at the Ferro Alloys Plant at Joda and Silico Manganese at other Conversion Agents.

Industry Overview

The first half of 2005 was characterized by strong growth in stainless steel melt, accounting for approximately 80% of global ferro-chrome consumption and subsequently, an increase in ferro-chrome demand. As a result, ferro-chrome contract prices rose to 78 cents per lb in the second quarter of 2005. In the second half, high stainless steel stocks and hardening of nickel prices lowered the demand for stainless steel, resulting in a slow down in stainless melt production. Although globally, stainless steel melt production in 2005 remained at the same level as in 2004, Europe witnessed a fall in production by almost 4.8% to 8.3 million tonnes. Production of stainless melt also fell in the United States by 7%, Taiwan by 4%, while in Japan, production declined by around 2.5% year-on-year. China was the only exception, witnessing a significant growth of 33%, having produced 3.7 million tonnes.

Ferro chrome production grew by 3.6% in FY 06 over FY 05. The global demand was 5.7 million tonnes in FY 2005, up from 5.5 million tonnes in 2004, primarily due to increase in production of ferritic grades of stainless steel. As the correction in stainless melt production translated into lower ferro chrome demand in the second half of 2005, ferro chrome prices came under pressure and the base price fell, to end the year at 68 cents per lb. Yet, the average quoted price for 2005 was 73 cents per pound, 7.3% higher than the published average of 68 cents per pound in 2004.

Operational performance

The Operations of FAMD registered the best-ever performance during the year under review in respect of Mineral and Ferro Alloys production. The gross production of chrome ore and concentrate increased by 18% to 2.43 million tonnes during the year as compared to 1.98 million tonnes in the previous year. The overall production of minerals (chrome ore, concentrate and pyroxenite) increased by 10% to 2.6 million tonnes during the year as compared to 2.18 million tonnes in the previous year. While the Ferro Alloys Plant at Bamnipal achieved its rated capacity of 50,000 tonnes during the year, an improvement of 21% over the previous year which was at 41,410 tonnes, FY 06 witnessed the highest-ever Alloys production through conversion at 0.126 million tonnes, which is an improvement of 8% over 0.116 million tonnes in the previous year.

Sales of Manganese Ore (domestic plus exports), increased by 37% at 0.31 million tonnes during the year as compared to 0.23 million tonnes in the previous year. Total manganese alloys sales (Domestic plus Exports), increased by 9% at 0.046 million tonnes during the year, compared to 0.042 million tonnes in the previous year.

The Division achieved the highest exports of chrome ore and concentrate during the year. Exports of chrome ore and concentrate increased by 10% to 0.62 million tonnes during the year as compared to 0.56 million tonnes in the previous year. Exports of ferro/charge chrome are also the highest ever, which increased by 46% to 0.093 million tonnes during the year, compared to 0.064 million tonnes in the previous year.

b) Tubes Division

Overview

The Tubes produced by the division are broadly categorized into Commercial Tubes (CT) and Precision Tubes (PT). The Commercial Tube industry with a market size of 1.4 million tonnes had a growth rate of about 3-4%. The growth is primarily in the process industry and tubular structural. The Precision Tube industry with a market size of 0.4 million tonnes registered a growth of 13% riding on healthy growth of the Auto sector.

Operational Performance

The Division surpassed the Rs. 1,000 crores turnover mark during the current fiscal. It achieved significant improvements in the following areas :

- Overall Sales increased by 17% to 0.260 million tonnes
- Overall Production including conversion increased by 21% to 0.264 million tonnes
- Commercial tube sales increased by 19% to 0.21 million tonnes
- Precision tube sales increased by 10% to .05 million tonnes

The process/productivity improvement programme initiated in the last fiscal yielded good results in increasing the in-house productivity by almost 15% along with stabilization of HFIW modernization. In the area of supply chain and distribution, the division implemented 'Replenishment Model' for its Commercial Tubes which enabled us to achieve superior compliance and customer satisfaction.

A series of marketing initiatives were undertaken for achieving better customer service and market focus. These include :

- Launch of new brand – with the objective to have a greater focus in the tubular construction segment, a new brand for our Tubular hollow sections called "Tata Structura" was launched at the Architects, Engineering and Construction (AEC) Expo at Mumbai in December 2005.
- Customer Value Management (CVM) and Customer Product Optimization (CPO) are being carried out with Precision Tube customers promising value for both the parties.
- Retail Value Management has enabled optimal restructuring of the retail network leading to enhanced reach. This resulted in increase in market share from 14% in FY 05 to 16% in FY 06.
- Other initiatives such as Aajeewan, Cold Storage Scheme and Influencers Meet resulted in enhancing our consumer connect.

Growth Plan

The Division has put in place ambitious plans to consolidate its position as a leading tube producer in the country.

Presence in plumbing and irrigation segments is planned to be doubled over the next two years. The division is also investing to build capability in the Precision Tubes industry. Presence in Structural tube segment will also more than double within the next two years.

The above is going to be possible with brown field investments in the latest pipe making technology, modernised galvanizing and cold drawing facilities. With the execution of projects in hand, the in-house capacity will increase from the present level of 1,80,000 TPA to 2,60,000 TPA in CT Business and from 40,000 TPA to 80,000 TPA in

PT business. In addition, the total capacity will be augmented to the extent of 1,00,000 TPA through external processing.

c) Bearings Division

The Bearings Industry in India has an installed capacity of 250 million nos. and is worth Rs. 3,000 crores. The organized sector of the domestic Bearings industry is estimated to have grown by over 10% in terms of volumes during the year as compared to the previous year. The prime demand driver was the 2-wheeler sub-segment of the automobile segment.

The Division achieved a capacity utilization of 112% during the financial year and produced 28.0 million nos. as compared to 25.01 million nos. in the previous year, an increase of 12%. Sales increased by 8.3% from 25.30 million nos. in FY 05 to 27.38 million nos. during the current year. In terms of value, growth was even better at 9.5% due to improved product mix. Costs of raw materials and power had increased during the year, but the effect was mitigated to a great extent through various cost control measures such as improvement in labour productivity (8.5%↑) and reduction in power consumption per bearing (10.2%↓) .

3. ANALYSIS OF THE FINANCIAL PERFORMANCE OF THE COMPANY

a) Net sales/Income from operations

Figures in Rs. Crores

	FY 2005-06	FY 2004-05	Change	Change %
Sales of products	**16,521.44**	15,250.69	1,270.75	8%
Sale of power and water	**393.50**	348.49	45.01	13%
Income from services, sale of miscellaneous goods, stores and rent etc.	**229.28**	277.69	(48.41)	-17%
Total sale of products and services	**17,144.22**	15,876.87	1,267.35	8%
Less : Excise Duty	**2,004.83**	1,377.92	626.91	45%
Net sales/income from operations	**15,139.39**	14,498.95	640.44	4%

Sale of products increased by 8% from Rs. 15,250.69 crores in FY 05 to Rs. 16,521.44 crores in FY 06 due to increase in sale of products in most of the divisions of the Company. In Steel division, the domestic sales went up by 17% to Rs. 9,958.34 crores in FY 06 as compared to Rs. 8,494.21 crores in FY 05, whereas, the export sales (in terms of CIF value) reduced by 14% to Rs. 1,213.56 crores in FY 06 as compared to Rs. 1,415.67 crores in FY 05. Tubes division sales increased by 15% to Rs. 1,006.19 crores in FY 06 from Rs. 877.90 crores in FY 05. Ferro Alloys and Minerals Division sales reduced by 1% to Rs. 1,342.84 crores in FY 06 from Rs. 1,350.46 crores in FY 05. Bearings division sales increased by 9% to Rs. 154.18 crores in FY 06 from Rs. 141.60 crores in FY 05.

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

Figures in Rs. Crores

	FY 2005-06	FY 2004-05	Change	Change %
Purchase of finished, semi-finished steel and other products	**656.08**	1,305.28	(649.20)	-50%

The purchase of finished and semi-finished steel reduced by 50% to Rs. 656.08 crores in FY 06 from Rs. 1,305.28 crores in FY 05. In FY 06, the Company used converted pig iron and sponge iron instead of buying them from the market, in the Blast Furnaces and in the Steel melting shops to increase fuel efficiency. With improved availability of hot metal from "blown in" G Blast Furnace in April 2005, requirement of pig iron and sponge iron had come down during FY 06. Also, due to the shut down of G Blast Furnace in the last year, there were purchases of HR Coils to meet the requirement of Cold Rolling Mill at Tarapore and Tubes Division and Billets to feed WRM and Merchant Mill. In addition, in FY 06, the Company used converted pig and sponge iron in place of purchased materials which had reduced the purchase cost as compared to the previous year.

c) Raw Materials consumed

Figures in Rs. Crores

	FY 2005-06	FY 2004-05	Change	Change %
Raw Materials consumed	**2,368.30**	1,715.14	653.16	38%

The raw materials consumed increased by 39% to Rs. 2,368.30 crores in FY 06 from Rs. 1,715.14 crores in FY 05 mainly due to the increase in the cost of imported coal, ferro alloys and zinc and also the increase in volume of operations. G Blast Furnace was shutdown from 3rd December, 2004 till 1st week of April 2005. After being 'blown in' and with an increased capacity of 1.80 million tonnes as compared to an earlier 1.20 million tonnes, the consumption of raw materials, including imported coke/converted coke, for the purpose of production of hot metal increased substantially.

d) Payments to and provisions for employees

Figures in Rs. Crores

	FY 2005-06	FY 2004-05	Change	Change %
Payments to and provisions for employees	**1,351.51**	1,291.00	60.51	5%

The staff cost increased in FY 06 by 5% to Rs. 1,351.51 crores from Rs. 1,291 crores in FY 05. The increase due to annual increments and dearness allowance was partly offset by reduction in the manpower by 1,466 from 39,648 in FY 06 to 38,182 in FY 05.

e) Stores consumed and Repairs to Machinery

Figures in Rs. Crores

	FY 2005-06	FY 2004-05	Change	Change %
Stores consumed	**737.74**	621.33	116.41	19%
Repairs to machinery	**624.27**	636.97	(12.70)	-2%

The stores consumption increased by 19% mainly due to the increase in volume of production of saleable steel to 4.52 million tonnes in FY 06 from 4.11 million tonnes in FY 05. The repairs to machinery reduced in FY 06 by 2% to Rs. 624.26 crores from Rs. 636.97 crores in FY 05. The repairs to machinery expenditure was higher in FY 05 in the areas of Basic Level Automation system, Quality Control System and maintenance of the Demag Blower for the Blast Furnaces in Hot strip mill, Cold rolling mill and the Utility facilities.

f) Conversion charges

Figures in Rs. Crores

	FY 2005-06	FY 2004-05	Change	Change %
Conversion charges	**640.52**	629.65	10.87	2%

The conversion charges for steel materials increased by Rs. 10.87 crores from Rs. 629.65 crores in FY 05 to Rs. 640.52 crores in FY 06 due to increase in volume of conversion at the rerollers.

g) Other expenses

Figures in Rs. Crores

	FY 2005-06	FY 2004-05	Change	Change %
Other expenses	**757.15**	682.30	74.85	11%

The other expenses increased to Rs. 757.15 crores in FY 06 from Rs. 682.30 crores in FY 05 mainly due to payments made to consultants, expenditure of techno-economic feasibility studies and payments towards miscellaneous contracts in connection with increased mining activities.

h) Freight and handling charges

Figures in Rs. Crores

	FY 2005-06	FY 2004-05	Change	Change %
Freight and handling expenses	**1,004.32**	936.68	67.64	7%

Due to increase in volume of sales both the road as well as rail freight went up in value terms during the year. The ocean freight had come down due to a drop in the exports.

i) Interest

Figures in Rs. Crores

	FY 2005-06	FY 2004-05	Change	Change %
Gross interest	**172.20**	228.80	(56.60)	-25%
Less : Interest capitalised	**3.76**		3.76	100%
Less : Interest received on sundry advances, receipts and others	**50.00**	42.00	8.00	19%
Net Interest	**118.44**	186.80	(68.36)	-37%

Net interest charges reduced from Rs. 186.80 crores in FY 05 to Rs.118.44 crores in FY 06 mainly due to the additional interest on SDF loans of Rs. 32.25 crores in FY 05 and redemption of non convertible debentures during FY 06.

j) Employee Separation Compensation

Figures in Rs. Crores

	FY 2005-06	FY 2004-05	Change	Change %
Employee Separation Compensation	**52.77**	119.11	(66.34)	-56%

In accordance to the guidelines of Accounting Standard on Employee Benefits AS-15 (revised 2005), the rate used to discount provision for employee separation compensation has been aligned to market yields on government bonds as on 31st March, 2006. Consequently the ESS charge for the year is lower by Rs. 95 crores.

During the year 1,141 employees were separated under the Employee separation scheme of the Company. As a result the ESS charges went up by Rs. 31.41 crores. Due to the reduction in the old cases there has been a decrease in the charge to the extent of Rs. 2.79 crores.

k) Fixed Assets

Figures in Rs. Crores

	FY 2005-06	FY 2004-05	Change	Change %
Gross Block	**16,564.90**	15,055.25	1,509.65	10%
Less : Provision for depreciation and impairment	**6,699.85**	5,943.01	756.84	100%
Net Block	**9,865.05**	9,112.24	752.81	8%

The Company incurred a capital expenditure of Rs. 1,527.58 crores during FY 06 mainly on the completion of 1 million tonnes and 2.4 million tonnes steel capacity expansion programmes and development expansion in mines and collieries.

l) Investments

Figures in Rs. Crores

	FY 2005-06	FY 2004-05	Change	Change %
Trade investments	**1,055.52**	678.61	376.91	56%
Investments in subsidiary companies	**978.85**	271.13	707.72	261%
Other investments	**8.96**	8.96	—	—
Investments in Mutual Funds				
a) Income Funds	**734.65**	440.60	294.05	67%
b) Liquid Funds	**1,291.98**	1,033.35	258.63	25%
Net investments in Mutual Funds	**2,026.63**	1,473.95	552.68	37%
Total Investments	**4,069.96**	2,432.65	1,637.31	67%

During FY 06, the Company invested Rs. 279.68 crores for purchasing 2,104,543,058 shares in Millennium Steel Public Co. Ltd., Rs. 540.55 crores in NatSteel Asia Pte Ltd. for purchasing 5,00,00,000 shares and

15,00,00,000 shares allotted on conversion of bridge loan. The Company has liquid investments of Rs. 2,026.63 crores as on 31st March, 2006 as compared to Rs.1,473.95 crores as on 31st March, 2005.

m) Stores & Spares and Stock-in-Trade

Figures in Rs. Crores

	FY 2005-06	FY 2004-05	Change	Change %
Stores and spare parts	**442.66**	349.07	93.59	27%
Stock-in-trade	**1,732.09**	1,523.34	208.75	14%

The value of inventory has increased on 31st March, 2006 as compared to 31st March, 2005 due to the increase in the prices of the input materials. The average turnover in terms of number of days sales for the year was 46 days as compared to 42 days in the last year.

n) Sundry Debtors

Figures in Rs. Crores

	FY 2005-06	FY 2004-05	Change	Change %
Gross Debtors	**571.58**	621.67	(50.09)	-8%
Less : Provisions for doubtful debts	**32.18**	39.85	(7.67)	-19%
Net Debtors	**539.40**	581.82	(42.42)	-7%

There was an increase in the sale of products and services of the Company by 8% in FY 06 from FY 05. However, there has been a reduction in the gross debtors by 8% over previous year. Stringent Credit Management and further extension of Channel Finance and other financial packages to various institutional customers and distributors across all Profit Centers, have contributed to the reduction in the overall debtors. Consequent to the above factors the average days sales outstanding has come down to 11 days from 13 days as compared to previous year.

o) Loans and Advances

Figures in Rs. Crores

	FY 2005-06	FY 2004-05	Change	Change %
Loans and Advances	**1,234.86**	1,382.44	(147.58)	-11%

The loans and advances as on 31st March, 2006 reduced by 11% as compared to 31st March, 2005. In FY 05 there had been a shareholder's loan of Rs. 673.04 crores given to NatSteel Asia Pte Ltd. towards part of the purchase consideration for acquisition of steel business in NatSteel Ltd. During FY 06 the Company advanced Rs. 150 crores to the State Government of Jharkhand for building stadium for the National Games 2007.

p) Current Liabilities

Figures in Rs. Crores

	FY 2005-06	FY 2004-05	Change	Change %
Current Liabilities	**2,835.99**	2,689.83	146.16	5%

The liabilities increased on account of capital supplies, retention and deposits due to the 1 million tonnes expansion and 2.4 million tonnes expansion programmes. The purchase of raw materials also increased during the year, due to the increase in production, thereby increasing the current liabilities for the year.

q) Secured and Unsecured loans

Figures in Rs. Crores

	FY 2005-06	FY 2004-05	Change	Change %
Secured Loans	**2,191.74**	2,468.18	(276.44)	-11%
Unsecured Loans	**324.41**	271.52	52.89	19%
Total	**2,516.15**	2,739.70	(223.55)	-8%
Breakup				
Foreign Currency Loan	**278.07**	404.70	(126.63)	-31%
Rupee Loan	**2,238.08**	2,335.00	(96.92)	-4%

The loan balances reduced as the company redeemed Debentures during the year. The foreign currency loan as a percentage to the total loans reduced from 15% in FY 05 to 11% FY 06. The total Debt to EBITDA reduced to 0.40 x times for the year as compared to 0.44 x times for the previous year. The Fund from operations/Total debt improved to 1.44 x times in the year as compared to 1.39 x times in the last year.

r) Appropriation

The Company has transferred Rs. 1,500 crores to the General Reserve during the FY 06 (FY 05 : Rs.1,500 crores).

u) Dividend

The Board of Directors of the Company has declared a dividend @ 130% (Rs. 13 per share) for the year ended 31st March, 2006, subject to the approval by the Shareholders. The dividend will be paid on 553,472,856 Ordinary Shares at Rs. 13 per share (2004-05 : On 553,472,856 Ordinary Shares at Rs. 13 per share). The total payout on account of the above dividend would be Rs. 820.43 crores (including tax on dividend).

v) EVA

The Company in pursuance of its Vision, has embraced the EVA based methodology for performance management and capital expenditure evaluation based on the recommendation of Stern Stewart & Co.

Economic Value Added (EVA) is defined as the excess of Return on Invested Capital (ROIC) over weighted average cost of Capital (WACC); viz

Return on Invested Capital (ROIC)

$$= \frac{\text{Net Operating Profit after Taxes but before interest costs (NOPAT)}}{\text{Average Invested Capital}}$$

Weighted average cost of Capital (post tax)

$$= \frac{\text{Average Adjusted Equity * Cost of Equity (\%) + Average debts (including deferred tax liability) *Cost of Debts (\%)}}{\text{Average Adjusted Equity + Average debts}}$$

The Cost of Equity is determined under the CAPM method while the cost of debt is based on the actual cost of borrowings.

The EVA spread in FY 06 was 24.31% as compared to 26.80% in FY 05. The calculation of EVA spread for the FY 2005-06 and FY 2004-05 is as follows :

Particulars	**FY 2005-06**	FY 2004-05	Change
Return on Invested Capital	**36.93%**	38.95%	(2.02)%
Weighted Average cost of Capital	**12. 62%**	12.15%	0.47%
EVA Spread (%)	**24.31%**	26.80%	(2.49)%
EVA - Rs. Crores	**2,336**	2,373	(37)

The Return on Invested Capital was 36.93% during the year as compared to 38.95% in the previous year. The Net Operating Profit After Tax (NOPAT) to sales was 20.70% during the year as compared to 21.72% in the previous year. The NOPAT has increased by 3% during the year as compared to the previous year due to higher volumes and operating cost management. Sales to average invested capital was 1.78 times during the year as compared to 1.79 times in the previous year. This was sustained mainly due to sustenance of better utilisation of invested capital which resulted in increased sales during the year as compared to the previous year.

The weighted average cost of capital has increased to 12.62% during the year as compared to 12.53% in the previous year. The average cost of debts has come down to 3.87% during the year as compared to 4.19% during the previous year due to the repayment of loans. However, cost of equity being higher than cost of debts and with the same level of profit after tax during the year as compared to the previous year, the proportion of equity in the invested capital has increased which resulted in higher weighted average cost of capital.

Summary of key Financial Ratios for the FY 2005-06 as compared to FY 2004-05 is given below :

	FY 2005-06	FY 2004-05
EBIDTA as % of Net Turnover (Gross sales + Other Income - Excise Duty)	**40%**	42%
Profit After Tax as % of Net Turnover (Gross sales + Other Income - Excise Duty)	**23%**	24%
Return on average Equity (ROE) (%)	**41%**	62%
Net Worth per share (Rs./share)	**171.68**	123.68
Earning per share (EPS) (Rs./share)	**63.35**	62.77
Market Capitalization (Rs. crores) as on 31st March	**29,688**	22,189

4. PERFORMANCE OF THE SUBSIDIARY COMPANIES

The combined revenue of the subsidiary companies increased by 194.50% to Rs. 5,545.36 crores in FY 06 from Rs. 1,882.95 crores in FY 05. The increase in combined revenues is mainly due to considering the full year's revenue of NatSteel Asia Pte Ltd. as compared to 45 days' revenue of last year. NatSteel Asia Pte Ltd. became the wholly owned subsidiary of Tata Steel on 16th February, 2005.

The major contributors of the combined revenues of Rs. 5,545.36 crores for FY 06 as compared to Rs. 1,882.95 crores in FY 05 - an increase of Rs. 3,662.41 crores, were NatSteel Asia Pte Ltd. (Rs. 3,508.13 crores increase over FY 05), TM International Logistics Ltd. (Rs. 59.57 crores increase over FY 05), Tata Refractories Ltd (Rs. 54.85 crores increase over FY 05), Jamshedpur Utilities and Services Company Ltd. (Rs. 49.20 crores increase over FY 05), Sila Eastern Limited (Rs. 32.28 crores increase over FY 05), The Indian Steel and Wire Products Limited (Rs. 17.43 crores increase over FY 05), Lanka Special Steels Limited (Rs. 4.27 crores increase over FY 05).

The profit after taxes increased to Rs. 232.79 crores in FY 06 as compared to Rs. 120.20 crores in FY 05 – an increase of Rs. 112.59 crores mainly due to the increase in the profit after taxes of NatSteel Asia Pte Ltd. (Rs.121.00 crores increase over FY 05), Indian Steel and Wire Products Limited (Rs. 3.33 crores increase over FY 05), Tata Refractories Limited (Rs. 6.33 crores increase over FY 05). The comparative performances of the subsidiaries for FY 06 and FY 05 are shown below :

Figures in Rs. Crores.

	Gross Revenue			Profit after taxes		
	FY 06	FY 05	Inc/Dec	**FY 06**	FY 05	Inc/Dec
Subsidiaries						
Tata Refractories Ltd.	**457.09**	402.24	54.85	**35.39**	29.06	6.33
Tata Pigments Ltd.	**22.87**	22.74	0.13	**1.91**	1.63	0.28
Kalimati Investments	**30.89**	47.04	(16.15)	**30.84**	46.04	(15.20)
TM International Logistics Ltd.	**261.07**	201.50	59.57	**20.61**	20.72	(0.11)
Tata Incorporated	**397.89**	445.20	(47.31)	**4.64**	7.42	(2.78)
Tata Korf Engineering Services Ltd.	**0.01**	—	0.01	**(0.09)**	(0.46)	0.37
Lanka Special Steels Ltd.	**24.53**	20.26	4.27	**0.10**	0.02	0.08
The Indian Steel & Wire Products Ltd.	**105.38**	87.95	17.43	**5.75**	2.42	3.33
NatSteel Asia Pte Ltd.	**4,052.08**	543.95	3,508.13	**128.49**	7.49	121.00
Sila Eastern Limited	**37.08**	4.80	32.28	**0.98**	0.29	0.69
Jamshedpur Utilities and Services Company Ltd.	**156.47**	107.27	49.20	**4.17**	5.57	(1.40)
Total	**5,545.36**	1,882.95	3,662.41	**232.79**	120.20	112.59

II) INTERNAL CONTROLS & SYSTEMS

The Company has in place adequate internal control systems and procedures commensurate with the size and nature of business. These procedures are designed to ensure that :

- all assets and resources are acquired economically, used efficiently and are adequately protected;
- significant financial, managerial and operating information is accurate, reliable and is provided timely; and
- all internal policies and statutory guidelines are complied with.

The effectiveness of internal controls is continuously monitored by the Corporate Audit Division.

The scope and authority of Corporate Audit Division is derived from the Corporate Audit Charter approved by the Audit Committee and Managing Director. The audit activities are undertaken as per the Annual Audit Plan developed by Corporate Audit based on the risk profile of business process/sub-process. The Audit plan is approved by the Audit Committee and Managing Director and compliance to the Plan is also reviewed by them.

The Company has an Audit Committee which regularly reviews the reports submitted by Corporate Audit Division. All significant audit observations and follow-up actions thereon are reported to the Audit Committee. The Committee also met the Company's Statutory Auditors to ascertain their views on the adequacy of internal control systems in the Company and their observations on financial reports. The Audit Committee's observations are acted upon by the Management.

III) RISK MANAGEMENT

The current financial year witnessed a downturn in the steel prices as compared to the previous year. In order to reduce the impact of the reduction in prices the Company utilised the increase in coverage of branded products and Long term contracts/relationships with OEM customers. For expanding its presence over wider horizons the Company initiated actions for acquisitions outside the country, formation of joint ventures with experts in construction industry and also laid down plans of new projects in various regions within India, entering into memorandum of agreements with various state governments.

As the Company is becoming multi-locational, the availability of raw materials is becoming a constraint. The strength of the Company lies in having the captive mines and collieries. In line with the increase in capacity, the Company is laying stress on the availability of raw material for its business.

Statutory Compliance

On obtaining confirmation from the various units of the Company of having complied with all the statutory requirements, a declaration regarding compliance with the provisions of the various statutes is made by the Managing Director at each Board Meeting. The Company Secretary, as Compliance Officer, ensures compliance with the SEBI regulations and provisions of the Listing Agreements. The Chief Financial Officer, as the Compliance Officer for prevention of insider trading ensures compliance with the Tata guidelines on Insider Trading.

Contingent Liabilities

Details of contingent liabilities are given in Schedule M of the Notes on Balance Sheet and Profit and Loss Account.

IV) ENVIRONMENT MANAGEMENT

The Company assesses the impact of its activities, products and services on environment and takes improvement measures through well-established systems of Environmental Management System (ISO 14001), Occupational Health & Safety Management System (OHSAS 18001) and Social Accountability Standard (SA 8000). Concerns of various stakeholders are identified, prioritized and addressed through the organisation's leadership system.

In its commitment to improve the quality of life in its areas of operations, Tata Steel is striving to go beyond the applicable Indian Environmental Legislations and reach the International Standards. Energy efficient and waste minimizing technologies are being introduced. The improved performance of pollution control facilities and operational discipline were also the focus areas during the review period.

Initiatives undertaken for improvement resulted in reduction of specific energy consumption to 6.959 Gcal/tcs in FY 06 from 6.965 Gcal/tcs in FY 05 and total water pollutant discharge to 0.181 kg/tcs in FY 06 from 0.205 kg/tcs in FY 05.

Tata Steel has shown its commitment to address climate change issues by continuously reducing Carbon-dioxide (CO_2) emissions in the last decade. The CO_2 emissions were brought down to a level of 2.28 t/tcs in FY 06, a reduction of 1.7% over FY 05. Tata Steel has taken up several projects to improve its energy efficiency and avail carbon credits under Clean Development Mechanism (CDM) under Kyoto Protocol. The Designated National Authority of India has already approved two projects having potential to reduce 1.1 million tonnes of CO_2 per annum. Several other projects are in the pipeline for CO_2 reduction to the tune of 2 million tonnes per annum.

The Company is committed to introduce the state-of-the-art technology in its proposed greenfield projects and control the pollutants discharge conforming to International Standards.

Fifth (5th) Corporate Sustainability Report 2004-05 was adjudged by United Nations and Standard & Poor's as the best in the developing country economies. Corporate Sustainability Management System continued to be integrated in the business processes to meet the future challenges for sustainable growth.

V) INDUSTRIAL RELATIONS AND HUMAN RESOURCE MANAGEMENT

Industrial relations remained normal at all locations. The men on roll in the Company as on 31st March, 2006 were 38,182 as compared to 39,648 as on 31st March, 2005. The development of human resources is a key strategic challenge in order to prepare people for future responsibilities in terms of professional skills as well as business skills. Company is investing in the modernisation of the plant and training of manpower for upgrading their skills. Further, it is planned to redeploy the surplus manpower to various Greenfield projects being undertaken.

VI) AWARDS AND RECOGNITIONS

- Tata Steel conferred CII - ITC Sustainability Awards 2006
- Tata Steel ranked World's Best Steel Maker for the third time
- Paper on Redefining Retail of Steel in India wins the prestigious SP Jain Marketing Impact Award
- Tata Steel takeover of NatSteel wins accolade in The Asset Triple A Awards
- Tata Steel Family Initiatives Foundation wins FICCI AWARD

- Tata Steel - Bearings Division receives the recent Environmental Management System accreditation ISO 14001:2004 version from UL India for its operations.
- Tata Steel conferred CAPEXIL Special Award for Outstanding Chrome Concentrate Exports
- Maple Leaf International Award for Tata Steel
- Tata Steel wins MIS ASIA IT EXCELLENCE AWARD 2005 for Best IT Governance
- Tata Sons Chairman Marks 60 Years of Tata Operations in the United States and receives Distinguished Achievement Award from Global Human Rights Organisation
- Tata Steel's ITS Department awarded "BS 15000 Part 1:2002" Certificate for IT Service Management
- Tata Steel bagged the CII Productivity Award
- Tata Tiscon won Gold at The Calcutta Ad Club Awards

CAUTIONARY STATEMENT

Statements in the Management Discussion and Analysis describing the Company's objective, 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 other incidental factors.