Management Discussion and Analysis 2008-09

Business Review

Tata Steel Limited, Asia's first integrated private sector Steel Company, is the world's second most geographically diversified steel producer with major operations in India, Europe and South East Asia. Listed as a Fortune 500 company and with an annual crude steel capacity of around 31 million tonnes, the Company has manufacturing units in 26 countries and a strong presence in 50 European and Asian markets. Tata Steel India is the first integrated steel company in the world, outside of Japan, to be awarded the coveted Deming Application Prize 2008 for excellence in Total Quality Management.

Over the past decades, the Company has carried out several modernisation and expansion programmes – including the acquisition of businesses in Europe and South East Asia, which have helped it to grow and diversify.

The strategic focus of the Company has been to increase the steel making capacity in excess of 50 million tonnes by 2015 through organic and inorganic growth. The key enablers identified to achieve the strategic goal and to build a sustainable value centric culture are:

- Being the employer of choice
- Oneness with the society
- Leadership & talent management
- Adaptability to changes in the external environment
- Security of raw materials
- Research & development and technological upgradation
- Branding
- Financial prudence through capital stewardship & performance management

Tata Steel Group Performance

A. Business Overview

a. Tata Steel India:

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 09	FY 08	Change %
Hot Metal	**6.25**	5.51	14%
Crude Steel	**5.65**	5.01	13%
Saleable Steel	**5.37**	4.86	11%
Sales	**5.23**	**4.78**	**9%**

The division posted an increase of around 11% in its Finished Steel production and 9% in sales during the financial year 2008-09 owing to the newly commissioned 'H' Blast Furnace, Sinter Plant #4, Billet Caster #3 etc. The major production and sales highlights for the financial year 2008-09 are shown below:

Production

- Best ever Hot metal (6.25 million tonnes), Crude steel (5.65 million tonnes) and saleable steel (5.37 million tonnes) production.
- Newly commissioned Blast Furnace ('H' furnace) in its very first year of operation surpassed its yearly target and is running above the rated capacity.
- One of the Steel Melting Shops (LD#2 & Slab Caster) achieved the best ever slab production of 3.52 million tonnes (previous best 3.35 million tonnes in FY 08).

- LD#1, another Steel Melting Shop also achieved the best ever annual billet production of 2.12 million tonnes (previous best 1.76 million tonnes in FY 07).
- Sinter Plant produced 6.5 million tonnes sinter which is the best ever (previous best 5.88 million tonnes in FY 08). Highest ever solid waste utilisation at 90% (previous best 85.4% in FY 08).
- One of the finishing mills i.e. New Bar Mill achieved highest ever production of 0.611 million tonnes (previous best 0.549 million tonnes in FY 08).

Sales

- Overall sales at 5.231 million tonnes, grew by 9% over last year (4.782 million tonnes in FY 08).
- 25% increase in Long products sales at 2.00 million tonnes (1.60 million tonnes in FY 08).
- Highest ever sales of Flat products at 3.23 million tonnes (3.18 million tonnes in FY 08).

Other major highlights of the division were:

- Maximisation of production from bigger Blast Furnaces with higher productivity resulting in a significant reduction in the coke rate.
- Increased vessel life in both the steel making shops.
- The revenue generation through sale of by-products was enhanced as compared to the previous year.
- Reduction in dust emission per tonne of crude steel compared to FY 08.

2. Ferro Alloys and Minerals Division (FAMD):

The production and sales volume of Ferro Alloys and Minerals Division for the financial year 2008-09 against the last financial year are shown in the following tables:

Saleable Production

Figures in million tonnes

Products	FY 09	FY 08	Change %
Chrome Concentrate	**0.270**	0.379	(29)%
Ferro-chrome	**0.170**	0.202	(16)%
Ferro Manganese	**0.055**	0.055	(1)%
Pyroxenite	**0.229**	0.235	(3)%
Dolomite	**0.362**	0.467	(23)%
Silico Manganese	**0.071**	0.070	1%
Total	**1.157**	**1.409**	**(18)%**

Sales Performance

Figures in million tonnes

Products	FY 09	FY 08	Change %
Chrome Concentrate	**0.254**	0.392	(35)%
Ferro-chrome	**0.177**	0.186	(5)%
Ferro Manganese	**0.034**	0.041	(16)%
Dolomite	**0.342**	0.468	(27)%
Silico Manganese	**0.042**	0.040	(5)%
Total	**0.867**	**1.143**	**(24)%**

Robust demand for ferroalloys and consequent higher prices during the first half of FY 09 were affected by the market slowdown during the second half. In spite of the slowdown, the division ranked sixth among ferro-chrome producers in the world at the end of the financial year. Cost competitiveness and market and product developments were the key enablers in increasing the customer base and expanding the market reach.

Global ferro-chrome producers struggled to meet the soaring demand from consumers and for the first time in the history of its business, High Carbon Ferro-Chrome spot market prices crossed the level of US $2 / lb CIF in the first half of FY 09. The Company's ferro-chrome exports touched an all time high and the division recorded its highest ever global market share of 4% in FY 09. In India, FAMD is the market leader in the ferro-chrome business with a market share of around 36%.

Shortage of the High Grade Manganese Ore and rising costs led to a substantial appreciation in both Silico Manganese and Ferro Manganese prices in FY 09.

Manganese alloys sales recorded an all time high in FY 09. FAMD with its unique advantage of being the lowest cost Manganese alloy producer in India, has attained the status of being the largest producer of Manganese alloys in India with a market share of approximately 14%.

While the prices of Chrome Concentrate almost doubled over FY 08, ferro-chrome prices moved north by 35% and Ferro Manganese & Silico Manganese prices increased by 75% and 72% respectively over the last financial year.

3. Tubes Division:

The production and sales performance of the division are shown below:

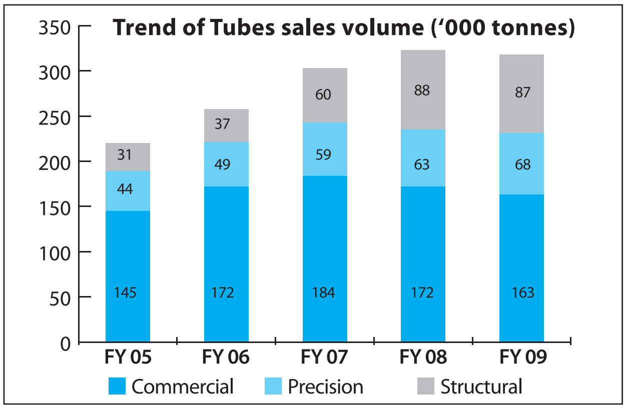
Figures in million tonnes

Production	FY 09	FY 08	Change %
Commercial Tubes	**0.163**	0.169	(4)%
Precision Tubes	**0.085**	0.087	(2)%
Structural Tubes	**0.068**	0.066	3%
Total	**0.316**	**0.322**	**(2)%**

Figures in million tonnes

Sales	FY 09	FY 08	Change %
Commercial Tubes	**0.163**	0.172	(5)%
Precision Tubes	**0.068**	0.063	8%
Structural Tubes	**0.087**	0.088	(1)%
Total	**0.318**	**0.323**	**(2)%**

Trend of Sales volume over the last few years is shown below:



The division commissioned a second state-of-the-art Mill during FY 09 in order to improve manpower productivity, lower energy consumption, increase operational efficiency and offer improved products. The division's thrust in High end Precision Tubes started to bear fruit, with the commissioning of the Hydroforming facilities and has recently initiated the supplies of Engine Cradles for the Tata Nano car, production of tubes for Telescopic Front Fork (TFF) & Propeller Shaft applications.

There was a substantial progress in Customer Relationship Building and IT based solutions. Some highlights include the implementation of web based VMI, replenishment system for all distributors and EVI with large construction companies. Inspite of the market slowdown especially in construction activities during the second half of FY 09, the sales volume remained at the same level as that of FY 08 mainly due to the development of new products and sizes for Structural applications under the "TATA STRUCTURA" brand.

While the tubes industry witnessed a negative growth of 3-4%, the Tubes division maintained its volume at FY 08 levels. In line with recent investments, the Precision tubes business of the division grew by 7% even though growth in the industry was largely stagnant. In the Commercial tubes segment, in spite of a drop in volumes, the market share grew by 2% over FY 08 in the retail trade.

4. Bearings Division:

The production and sales performance of the division are shown below:

Figures in million numbers

	FY 09	FY 08	Change	Change %
Production	**27.40**	26.36	1.04	4%
Sales	**26.34**	27.61	(1.27)	(5%)

A major customer segment for the Bearings Division of the Company is the automobile sector. In the first half of FY 09, the automotive segment saw a robust growth of 12.7% but witnessed a steep 13% negative growth in the third quarter before recovering to a 1% growth in the fourth quarter.

b. Tata Steel Europe (TSE):

Tata Steel Europe is Europe's second largest steel producer operating three main divisions — Strip Products, Long Products and Distribution & Building Systems. The fourth division — Primary Aluminium was hived off to Klesch & Company during February 2009.

The production and sales performance of TSE is shown below:

Figures in million tonnes

	FY 09	FY 08	Change	Change %
Liquid Steel Production	**16**	20	(4)	(20)%
Sales	**20**	23	(3)	(14)%

TSE's liquid steel production in FY 09 was around 16 million tonnes, 20% lower than FY 08. While during the first half of FY 09 the production was around 10 million tonnes, almost at the same level of FY 08, the production for the second half of FY 09 was 6 million tonnes against the level of around 10 million tonnes recorded during FY 08.

The sales for FY 09 at around 20 million tonnes were lower by 14% as compared to sales of 23 million tonnes registered during FY 08.

The demand for TSE's carbon steel products was around 8.9 million tonnes, lower by 15% than FY 08. The drop in demand was mainly due to the sharp downturn in steel consumption during the second half of the financial year along with the effects of the stock correction, particularly for strip products.

c. NatSteel Holdings:

The Singapore operations are an Electric Arc Furnace (EAF) based steel making and rolling operations with a production capacity of about 0.750 million tonnes per annum.

The first half of the financial year saw a rise in the prices and volume due to buoyant market conditions. However, in the second half of FY 09, South East Asia experienced the effects of the global slowdown bringing down the volume as well as prices significantly, offsetting the increases achieved during the first half.

During the year, the Singapore operations mainly focussed on yield improvement, reduction in power consumption and improvement in downstream tonnages.

The Singapore operations sold about 0.956 million tonnes of steel during FY 09, 6% more than the last financial year. Out of total sales, the sales of the downstream facility in Singapore, the world's largest single cut-and-bend operations facility, were around 0.475 million tonnes, 20% higher as compared to the previous year.

The Chinese subsidiary of NatSteel sold 0.426 million tonnes of rolled products during FY 09, 17% higher than the previous year.

In Australia, NatSteel Australia and Best Bar sold around 0.188 million tonnes (12% higher than FY 08) of steel in the form of straight length rebars, mesh, cut-and-bend and other accessories.

d. Tata Steel Thailand:

Production during FY 09 at 1.07 million tonnes was lower by 22% than FY 08 while sales at 1.1 million tonnes were about 20% lower compared to the previous year. While the first half of FY 09 witnessed a rise in demand, the latter half saw a drastic drop in the prices of domestic and international scrap, which in turn led to a decrease in prices for finished products. The high stocks in the supply chain also added to the adverse performance. During the year, the operations in Thailand focussed on cost reduction in the Rolling Process by optimising the roll consumption cost and in the Alloy Consumption at the steel shop.

e. Tata Refractories Ltd.:

Tata Refractories Ltd. (TRL), is India's No 1 Refractories Producer with service backup for Total Refractory Solutions (Design & Application) & Total Refractories Management. The company also has a manufacturing facility in China.

The company has a wide range of refractory products like Basic refractories, Dolomite refractories, Flow Control refractories, High Alumina refractories, Monolithic refractories and Silica Refractories. With operations in China, Gujarat, Jamshedpur, Salem and Belpahar, TRL has been meeting the growing needs of a wide variety of customers in different markets viz., Steel, Cement, Glass, Copper, Zinc, Aluminium, and the Petrochemical industry.

During FY 09, the production was lower by 1% from 234 k tonnes during FY 08 to 231 k tonnes in FY 09 while the sales were higher by 1% from 264 k tonnes during FY 08 to 267 k tonnes in FY 09.

f. TM International Logistics Limited:

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

The main performance highlights of the company during the financial year 2008-09 are the following:

		FY 09	FY 08	Growth
Port Operations	Million tonnes	**7.01**	6.04	16%
Shipping	Million tonnes	**2.28**	1.87	22%
Clearing & Inland Logistics	Rs. crore	**4,047**	3,667	10%
Freight forwarding	Volume in TEUs	**25,495**	26,106	(2%)

g. Tata Metaliks Limited:

Tata Metaliks Limited became a subsidiary of Tata Steel Ltd. w.e.f 1st Februrary, 2008 and is the largest producer of foundry grade Pig Iron in the country. The company, which has an annual total capacity of 650,000 tonnes, is the largest producer of foundry grade Pig Iron in the country and has two plants: one at Kharagpur, West Bengal and the other at Redi, Maharashtra. The company also has a joint venture Tata Metaliks Kubota Pipes Limited with M/s. Kubota Corporation, Japan for producing ductile iron pipes with an annual capacity of 110,000 tonnes.

During the last two financial years, the company has graduated from low-end ballast weight castings to high-end crank case castings. The operational highlights of the company during the financial year 2008-09 are shown below:

Figures in '000 tonnes

Hot Metal Production	387
Pig Iron (capacity)	650
Pig Iron Production	378
Sales	379

During FY 09, while the Kharagpur unit of the company operated at 78% of the total capacity (92% in the first half and 62% in the second half), the Redi unit operated at 20% of its capacity primarily due to the complete shutdown of one furnace throughout the year and slowdown of automotive sector during the second half of the financial year.

Raw Materials:

India:

Tata Steel India is self-sufficient in iron ore due to its captive mines. With regard to coking coal, the company is self-sufficient to an extent of 52%, the balance amount being procured mostly through imports largely covered by annual contracts. At the Jharia collieries, the raw coal production was slightly higher than FY 08 (1.582 million tonnes) at 1.587 million tonnes with flexibility in ash% between 16.5% to 17.0% in Jamadoba and 15.5% to 17.0% in Bhelatand. The West Bokaro division achieved the highest ever raw coal production at 5.68 million tonnes (1.96 million tonnes of clean coal at 13.96% ash). The iron ore sized production was 4.14 million tonnes and the fines production was higher by 8% to reach a level of 5.91 million tonnes.

Europe:

During FY 09, approximately 22 million tonnes of iron ore and 11 million tonnes of coal were imported by TSE. While iron ore was imported mainly from Australia, Canada, South Africa and South America, coal was principally imported from Australia, Canada and the US.

Supply contracts lasting typically anywhere between three and ten years are entered into for certain raw materials for steel production wherein the prices are generally agreed upon on an annual basis. The TSE policy for these raw materials is to ensure that at least 60% of the requirement is accounted for by long-term contracts. The remaining raw materials are purchased through one year contracts, options and spot purchases at market rates providing flexibility and commercial leverage.

The market reference price of iron ore fines for the calendar year 2008 saw increases of around 65% as compared to 2007. This significant increase in price was driven by growth in demand, predominantly from China. The price of hard coking coal increased even more significantly, by more than 200% in 2008 compared to 2007. Severe flooding in Australia, which resulted in a massive under supply of coal further exacerbated the unprecedented increase in price. During the second half of 2008, the global demand for steel and therefore, steel making raw materials deteriorated sharply and spot prices fell. As a result, significant contract price reductions are anticipated for both iron ore and coal in 2009.

B. STRATEGY:

In February 2008, the Tata Steel Group launched a new Vision with the aim of setting a world benchmark in Value Creation and Corporate Citizenship.

With regard to Value Creation, the Tata Steel Group set itself a target of increasing the return on invested capital of its existing assets to 30% by 2012-13 and to generate selective growth. In order to meet this target, the Group has developed a two-fold strategy:

- In order to increase the quality of earnings of its existing assets, the Group will pursue the optimisation of its European assets, restructure low profitability assets and continue to derive benefits through continuous improvement and synergies across the Group.

- In order to generate selective growth, the Group will pursue capacity expansions and securing access to raw materials. The Group is increasing its capacity in India, through expansion of its current operations in Jamshedpur and through the construction of a greenfield site in Orissa, and assessment of raw material investment opportunities as and when they arise.

Corporate citizenship involves providing a safe working place, respecting the environment, caring for its communities and demonstrating high ethical standards.

The Group wants to be a part of the climate change solution and has set a target to reduce its CO_2 emission from the current 2.07 tonnes of CO_2 per tonne of liquid steel to 1.5 tonnes of CO_2 per tonne of liquid steel by 2012 through process improvements, breakthrough technologies and development of new products and services. More specifically, the emission target is planned to be achieved through:

- Large investments including BOS gas recovery and back pressure valves at Port Talbot and a new ladle furnace at IJmuiden.

- Burden optimisation, e.g. through switching to pellet feed, increased scrap ratio, reduced slag volume and increased coal injection.

- Smaller investments and housekeeping actions e.g. yield improvements, lighting efficiency and variable speed drives across all entities.

During the year, the Group has continued to execute its long-term strategy and the tactical planning for development of new markets is well underway. South East Asia is one of the key growth regions and the Group is focussed on developing a greenfield expansion in Vietnam and optimising operations in both NatSteel and Tata Steel Thailand. In the construction sector, the Group is exploring options to develop strong positions in India and in South East Asia through leveraging its European expertise. The Group also continued to explore raw material opportunities to improve the cost competitiveness of its European and South East Asian operations.

C. FINANCIAL ANALYSIS OF TATA STEEL INDIAN OPERATIONS (Standalone entity in India):

1. Net Sales / Income from Operations:

Figures in Rs. crore

	FY 09	FY 08	Change	Change %
Sale of products	**25,945**	21,392	4,553	21%
Sale of power and water	**566**	546	20	4%
Income from town, medical and other services	**41**	41	(0)	0%
Other operating income	**291**	210	81	39%
Total Sale of products and services	**26,844**	22,190	4,654	21%
Less: Excise Duty	**2,528**	2,499	29	1%
Net sales/Income from Operations	**24,316**	**19,691**	**4,625**	**23%**

The net sales increased by 23% during FY 09 over FY 08 mainly due to higher prices realised on Steel as well as other products during the first half of the financial year. While realisation declined following the global economic slowdown, Steel volumes improved significantly in the second half as can be seen from the following table:

Figures in million tonnes

Steel volume	H1	H2	Change %
FY 09	2.38	2.85	20%
FY 08	2.26	2.52	12%

The divisional net sales of the Company are shown below:

Figures in Rs. crore

Net Sales	FY 09	FY 08	Change	Change %
Steel	**20,456**	16,539	3,917	24%
Tubes	**1,410**	1,217	193	16%
Ferroalloys and Minerals	**2,324**	1,808	516	29%
Bearings	**127**	127	(0)	0%
Total	**24,316**	**19,691**	**4,625**	**23%**

As explained above net sales in the Steel division increased by 23% due to increase in prices in the first half of FY 09 and increase in volume in the second half of FY 09. Similarly sales of Tubes and Ferroalloys improved mainly due to higher realisations experienced during the year on account of increase in prices with lower volumes as compared to the last year.

2. Raw Materials Consumed:

Figures in Rs. crore

	FY 09	FY 08	Change	Change %
Raw Materials consumed	**5,710**	3,355	2,355	70%

Raw Materials consumption showed significant increase over the previous year mainly due to higher prices of Coal and Coke and also due to higher production resulting from the commissioning of 'H' Blast Furnace as well as other facilities and operational improvements. Increase in the prices of Ferroalloys also contributed to the increase in raw materials consumed.

3. Payments to and Provisions for Employees:

Figures in Rs. crore

	FY 09	FY 08	Change	Change %
Payments to and provisions for employees	**2,306**	1,816	490	27%

The increase of staff cost over last financial year represents the revised wages, arrears and impact of change in discounting rate for valuation of employee benefits as per Accounting Standards (AS15).

4. Conversion Charges:

Figures in Rs. crore

	FY 09	FY 08	Change	Change %
Conversion charges	**1,042**	857	185	22%

Conversion charges increased by 22% over FY 08 mainly due to an increase in the conversion activities at the Long Products division as well as an increase in the conversion of tin coated products.

5. Stores and Spares Consumed:

Figures in Rs. crore

	FY 09	FY 08	Change	Change %
Stores consumed	**1,249**	936	313	33%

Stores consumption has gone up by 33% as compared to FY 08 primarily on account of higher production which was due to the commissioning of 'H' Blast Furnace as well as other facilities and operational improvements and an increase in the price of operational refractories in Steel melting shops.

6. Purchase of Power:

Figures in Rs. crore

	FY 09	FY 08	Change	Change %
Purchase of Power	**1,091**	933	159	17%

There was an increase in expenses related to the purchase of power at the Jamshedpur Works during the year as fourth unit of Tata Power was shutdown for maintenance activities and the Company (Tata Steel) had to purchase power at higher rate from alternate sources. Increase in production, increase in sale of power to other consumers also led to higher purchase of power.

7. Other Expenses:

Figures in Rs. crore

	FY 09	FY 08	Change	Change %
Other expenses	**1,266**	1,069	196	18%

Other expenses have gone up mainly due to consultancy charges, exchange fluctuation on raw material supplies, port charges due to increased exports, increase in brand equity payment, software development charges, packing charges due to increase in prices of steel packing materials and higher payments for contractual jobs.

8. Net Finance Charges:

Figures in Rs. crore

	FY 09	FY 08	Change	Change %
Net Finance charges	**1,153**	787	366	47%

The net finance charges were higher by 47% over the previous financial year mainly due to interest on new non-convertible debentures issued during the year, interest on fresh term loans taken during the year, interest on working capital loans partly offset by the increase in interest income from current investments, advances, and deposits.

9. Fixed Assets:

Figures in Rs. crore

	FY 09	FY 08	Change	Change %
Gross Block	**23,545**	20,847	2,698	13%
Less: Impairment	**100**	100	—	0%
Less: Depreciation	**8,962**	8,123	839	10%
Net Block	**14,482**	12,624	1,859	15%

The Gross Block increased during the year primarily on account of the 1.8 million tonne steel expansion programme and the 3 million tonne steel expansion programme (commenced in the last quarter of FY 09) at Jamshedpur.

10. Investments:

Figures in Rs. crore

	FY 09	FY 08	Change	Change %
Trade investments	**1,744**	1,152	592	51%
Investment in subsidiary companies	**37,359**	1,914	35,444	1852%
Investment in mutual funds	**3,269**	1,028	2,241	218%
Other current investments	—	9	(9)	(100%)
Total investments	**42,372**	**4,103**	**38,269**	**933%**

Increase in Investments in subsidiary companies was due to conversion of advance against equity to Tata Steel Holdings (included in loans and advances as on 31.3.08) and also on account of further contributions to the capital of Tata Steel Holdings apart from contributions to equity of some subsidiary companies in India.

11. Stock-in-trade and Stores & Spares:

Figures in Rs. crore

	FY 09	FY 08	Change	Change %
Stock-in-trade	**2,868**	2,047	821	40%
Stores & Spares	**612**	558	55	10%
Total inventories	**3,480**	**2,605**	**875**	**34%**

The Stock-in-trade as on 31st March, 2009 was higher than the level of 31st March, 2008 by Rs. 821 crore primarily due to increase in the stock of finished and semi-finished materials (Rs. 289 crore) as well as increase in stock of raw materials (Rs. 532 crore).

The finished, semi-finished and scrap inventory went up at the Works and Conversion agents. The raw materials inventory was higher than last year for the steel works and at the Ferro Alloys and Minerals Division due to a significant increase in the prices of imported coal and coke as on

31st March, 2009 as compared to prices as on 31st March, 2008. The increase was also partly due to increase in the stock level to support higher volume of operations.

The stores stock has gone up by Rs. 55 crore as on 31st March, 2009 over 31st March, 2008 mainly due to an increase in stores and spares required to support the upgraded Steel Melting Shops and Hot Strip Mill, new facilities like the 'H' Blast Furnace and Sinter Plant #4 etc.

12. Sundry Debtors:

Figures in Rs. crore

	FY 09	FY 08	Change	Change %
Gross Debtors	**662**	577	85	15%
Less: Provision for doubtful debts	**26**	34	(8)	(23%)
Net Debtors	**636**	543	93	17%

The debtors as on 31st March, 2009 was higher by Rs. 93 crore than the level of 31st March, 2008. The increase is in line with the increase in turnover.

13. Loans and Advances:

Figures in Rs. Crore

	FY 09	FY 08	Change	Change %
Loans and advances	**4,578**	33,349	(28,771)	(86%)

The loans and advances reduced substantially as the advance against equity was converted into investments during the financial year and accordingly there was an increase in the investments.

14. Cash Flow and Net Debt:

Net cash flow from operating activities: The net cash from operating activities was Rs. 7,397 crore during FY 09 as compared to Rs. 6,254 crore during FY 08. The cash operating profit before working capital changes and direct taxes during FY 09 was Rs. 9,457 crore, as compared to Rs. 8,138 crore during the previous year (Depreciation was Rs. 973 crore in FY 09, FY 08: Rs. 835 crore). The change in working capital, during the financial year, was mainly due to increase in inventories on account of volumes and prices partly offset by an increase in creditors. The payment of income taxes during FY 09 was higher than in FY 08 by Rs. 737 crore.

Net cash from investing activities: The net cash outflow from investing activities amounted to Rs. 9,428 crore in FY 09. The outflow broadly represents a capex of Rs. 2,786 crore, increase in investments in mutual funds of Rs. 2,241 crore and an incremental investment in Tata Steel Holdings of Rs. 4,286 crore.

Net cash from financing activities: The net cash from financing activities was Rs. 3,156 crore during FY 09 as compared to Rs. 15,848 crore during FY 08. The incremental borrowing of Rs. 6,494 crore in the current year is mainly from the issue of non-convertible debentures and term loans from Banks partly offset by interest payment of Rs. 1,214 crore and a dividend payment of Rs. 1,187 crore .

Net Debt:

Figures in Rs. crore

	FY 09	FY 08	Change
Secured loans	**3,913**	3,521	392
Unsecured loans	**23,033**	14,501	8,532
Total Debt	**26,946**	**18,022**	**8,924**
Less : Cash and Bank balances	**1,591**	465	1,126
Less: Current investments	**3,269**	1,037	2,233
Net Debt	**22,086**	**16,520**	**5,566**

Net debt as on 31st March, 2009 stood at Rs. 22,086 crore as compared to Rs. 16,520 crore as on 31st March, 2008. During the current fiscal year, the secured and unsecured loans increased by Rs. 8,924 crore as compared to the balances as on 31st March, 2008 mainly due to issue of privately placed non-convertible debentures, term loans taken from Banks and other short term borrowings.

D. FINANCIAL ANALYSIS OF THE TATA STEEL GROUP:

1. Net Sales/Income from Operations:

Figures in Rs. crore

	FY 09	FY 08	Change
Tata Steel	**24,316**	19,691	4,625
Tata Steel Europe	**109,570**	100,218	9,351
NatSteel	**13,468**	7,658	5,811
Tata Steel Thailand	**3,965**	4,077	(112)
Others	**4,606**	3,327	1,279
Eliminations & Adjustments	**(8,596)**	(3,438)	(5,159)
Total	**147,329**	**131,534**	**15,796**

Sales (net of duties) increased by 12% during FY 09 primarily due to higher sales during the first six months partly offset by lower sales in the second half on account of the impact of the global slowdown. Other than Tata Steel India, all other steel units had a lower volume of sales during FY 09 as compared to FY 08. NatSteel had higher sales from the minerals business. Tata Metaliks Limited, which became a subsidiary of Tata Steel in Q4FY 08 contributed Rs. 805 crore to the increase in net sales.

2. Purchase of Finished, Semi-finished and Other Products:

Figures in Rs. crore

	FY 09	FY 08	Change
Tata Steel	**359**	388	(29)
Tata Steel Europe	**23,513**	19,151	4,362
NatSteel	**6,817**	4,876	1,941
Tata Steel Thailand	**2,652**	2,500	152
Others	**795**	1,063	(268)
Eliminations & Adjustments	**(2,731)**	(1,009)	(1,722)
Total	**31,406**	**26,969**	**4,437**

The purchase of finished and semi-finished products increased by 16% during FY 09 over FY 08 mainly on account of increases in prices experienced in Tata Steel Europe, NatSteel and Tata Steel Thailand (TSTH), especially during the first half year of the current fiscal partly offset during Q3 and Q4 of FY 09 by lower volume of operations on account of pullback of demand.

3. Raw Materials consumed:

Figures in Rs. crore

	FY 09	FY 08	Change
Tata Steel	**5,710**	3,355	2,355
Tata Steel Europe	**34,063**	29,317	4,746
NatSteel	**4,907**	1,694	3,213
Tata Steel Thailand	**225**	165	60
Others	**1,498**	428	1,071
Eliminations & Adjustments	**(4,872)**	(1,700)	(3,172)
Total	**41,532**	**33,259**	**8,272**

Raw Materials consumed increased by 25% primarily due to an increase in the prices of raw materials (especially iron ore, coal, and coke) partly offset by the reduction in the production volume of TSE and South East Asia.

4. Payments to and Provisions for Employees:

Figures in Rs. crore

	FY 09	FY 08	Change
Tata Steel	**2,306**	1,816	490
Tata Steel Europe	**14,931**	14,513	418
NatSteel	**364**	303	61
Tata Steel Thailand	**79**	75	4
Others	**295**	193	102
Eliminations & Adjustments	**—**	0	(0)
Total	**17,975**	**16,900**	**1,075**

The staff cost increased by 6% mainly due to the increase of Rs. 418 crore in Tata Steel Europe and Rs. 490 crore in Tata Steel India. The increases in Tata Steel Europe were on account of increase in the average number of employees in the first half of the year, offset by the fall in employment costs experienced in Q4FY 09 as a result of the production cutbacks. The increases in Tata Steel Indian operations were for revised wages, arrears and impact of change in discounting rate for valuation of employee benefits as per Accounting Standards (AS15).

5. Purchase of Power:

Figures in Rs. crore

	FY 09	FY 08	Change
Tata Steel	**1,091**	933	159
Tata Steel Europe	**4,288**	3,448	840
NatSteel	**212**	211	0
Tata Steel Thailand	**237**	271	(34)
Others	**150**	83	67
Eliminations & Adjustments	**(20)**	(16)	(4)
Total	**5,957**	**4,929**	**1,028**

Power charges increased by 21% mainly due to increase in electricity prices over the last 12 months in Tata Steel Europe and in the Indian Operations due to higher purchase of power expenses at the Jamshedpur Works as a fourth unit of Tata Power was shutdown for maintenance activities and the company (Tata Steel) had to purchase power at higher rates from alternate sources. Increase in production, increase in sale of power to other consumers also led to higher consumption of power at the Indian operations.

6. Freight and Handling Charges:

Figures in Rs. crore

	FY 09	FY 08	Change
Tata Steel	**1,251**	1,141	111
Tata Steel Europe	**4,134**	4,269	(135)
NatSteel	**257**	218	39
Tata Steel Thailand	**29**	50	(21)
Others	**613**	545	68
Eliminations & Adjustments	**(260)**	(184)	(76)
Total	**6,025**	**6,039**	**(14)**

Increase in freight and handling charges on account of increase in sales volume for Indian operations was offset by reduction in volume at Tata Steel Europe.

7. Other Expenditure:

Figures in Rs. crore

	FY 09	FY 08	Change
Tata Steel	**4,754**	4,083	671
Tata Steel Europe	**17,882**	21,978	(4,097)
NatSteel	**577**	531	46
Tata Steel Thailand	**411**	525	(114)
Others	**1,378**	712	666
Eliminations & Adjustments	**(672)**	(526)	(146)
Total	**24,331**	**27,304**	**(2,974)**

Other Expenditure represents the following expenses:

Figures in Rs. crore

	FY 09	FY 08	Change
Stores and Spares consumed	**9,520**	8,413	1,107
Fuel Oil Consumed	**1,028**	719	309
Repairs to Buildings	**576**	432	144
Repairs to Machinery	**5,817**	6,345	(528)
Relining Expenses	**101**	63	38
Conversion Charges	**1,086**	880	206
Rent	**3,689**	3,757	(68)
Royalty	**235**	178	57
Rates and Taxes	**627**	571	56
Others(*)	**1,652**	5,947	(4,294)
Total	**24,331**	**27,304**	**(2,974)**

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

The other expenditure during FY 09 was lower by 11% as compared to FY 08. Decrease in other expenditure of Tata Steel Europe was due to Gains on financial derivatives and foreign exchange fluctuation more than offsetting increases in stores consumption (on account of increase in energy costs), repairs, rent and rates, legal and professional fees and other administrative expenses, resulting in overall decrease in other expenses. Increases in Other Expenditure for Tata Steel India were mainly on account of increase in stores consumption on account of increase in volume of operations, higher maintenance expenses, conversion charges for Ferroalloys and tin coated products, export duty on steel exports, higher royalty charges, exchange fluctuation on supplies etc.

8. Net Finance Charges:

Figures in Rs. crore

	FY 09	FY 08	Change
Tata Steel	**1,153**	786	366
Tata Steel Europe	**2,043**	2,760	(718)
NatSteel	**74**	56	17
Tata Steel Thailand	**23**	32	(9)
Others	**(2)**	450	(453)
Total	**3,290**	**4,085**	**(795)**

The reduction in net finance charges is primarily on account of benefit of interest rate reduction achieved in Tata Steel Europe as a part of redenomination of the senior loan facilities during end 2007 partly offset by the term loans taken and NCDs issued during the year by Tata Steel India.

9. Stock-in-trade:

Figures in Rs. crore

Stock-in-trade	FY 09	FY 08	Inc./(Dec.)
Tata Steel	**2,868**	2,047	821
Tata Steel Europe	**14,931**	17,447	(2,516)
NatSteel	**1,115**	1,005	110
Tata Steel Thailand	**428**	450	(22)
Others	**474**	460	14
Total	**19,816**	**21,409**	**(1,593)**

Stock-in-trade (Raw materials, WIP and Finished and semi finished) for the Group was lower on 31st March, 2009 as compared to 31st March, 2008, primarily on account of a net realisable value provision at TSE. The stock value was higher in Tata Steel India primarily due to higher valued raw material stock (imported coal and coke) and increase in finished, semi-finished and scrap inventory at Works and with conversion agents.

10. Stores and Spares Stock:

Figures in Rs. crore

Stores and Spaces	FY 09	FY 08	Inc./(Dec.)
Tata Steel	**612**	558	55
Tata Steel Europe	**780**	845	(65)
NatSteel	**77**	55	23
Tata Steel Thailand	**298**	158	140
Others	**85**	39	46
Total	**1,853**	**1,655**	**198**

The Stores stock was higher in Indian operations due to an increase in stores and spares for new and upgraded facilities (CC3 in LD1, Hot Strip Mill (rolls), 'H' Blast Furnace etc.). Tata Steel Thailand experienced stock increases due to a decrease in stores consumption on account of lower volume.

11. Debtors:

Figures in Rs. crore

Debtors	FY 09	FY 08	Inc./(Dec.)
Tata Steel	**636**	543	93
Tata Steel Europe	**11,480**	16,951	(5,471)
NatSteel	**924**	648	276
Tata Steel Thailand	**73**	305	(232)
Others	**(81)**	251	(331)
Total	**13,032**	**18,698**	**(5,666)**

The debtors balances for the Group decreased by Rs. 5,666 crore at the end of March, 2009 over the level at the end of March 2008 mainly due to a decrease in debtors balances in Tata Steel Europe on account of lower sales during the fourth quarter.

12. Cash Flow and Net Debt:

Net cash flow from operating activities: The net cash from operating activities was Rs. 15,630 crore during FY 09 as compared to Rs. 13,394 crore during FY 08. The cash operating profit before working capital changes and direct taxes during FY 09 was Rs. 18,792 crore as compared to Rs. 18,302 crore during FY 08. The working capital during FY 09 reduced by Rs. 225 crore, mainly due to a reduction in Inventory (with reduction in finished and semi-finished inventory and increase in raw materials inventory) and Debtors.

Net cash from investing activities: The net cash outflow from investing activities amounted to Rs. 10,757 crore in FY 09 as against an outflow of Rs. 46,198 crore in FY 08. The outflow during the current year represents capital expenditure of Rs. 8,433 crore and investments in mutual funds of Rs. 2,825 crore (net of sale). The outflow in the previous year was on account of capital expenditure of Rs. 8,420 crore and Rs. 40,740 crore towards acquisition of Corus Group plc.

Net cash from financing activities: The net cash outflow from financing activities was Rs. 2,754 crore during FY 09 as compared to inflow of Rs. 20,543 crore during FY 08. There is a net borrowing (net of payments) of Rs. 2,052 crore during the current year mainly from the issue of debentures, term loan from Banks and other borrowings partly offset by repayment of external debts and other repayments. The last year's borrowings represent the loans taken for funding the acquisition of Corus Group Plc.

Net Debt:

Figures in Rs. crore

	FY 09	FY 08	Change
Secured loans	**34,329**	35,415	(1,086)
Unsecured loans	**25,571**	18,210	7,361
Total Debt	**59,901**	**53,625**	**6,276**
Less: Cash and Bank Balances	**6,148**	4,232	1,917
Less: Current investments	**3,398**	1,134	2,264
Net Debt	**50,354**	**48,259**	**2,095**

The increase in net debt by Rs. 2,095 crore represents an increase in the gross debt by Rs. 6,276 crore due to the issue of non-convertible debentures and term loans taken from Banks, by Tata Steel India, partly compensated by repayment of external debts at Tata Steel Europe. The increase in gross debts was offset by an increase in current investments (in growth funds) by Rs. 2,264 crore and an increase in the cash and bank balance by Rs. 1,917 crore.

E. INTERNAL CONTROLS & SYSTEMS:

Indian Operations:

The Company has adequate internal control systems and procedures in place commensurate with the size and nature of its business. The effectiveness of the internal controls is continuously monitored by the Corporate Audit Division of the Company. Corporate Audit's main objective is 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. Corporate Audit also assesses opportunities for improvement in business processes, systems & controls and may provide recommendations, designed to add value to the organisation. The division also 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 focussed on the following objectives:

- Review of the identification and management of Risks.
- All operational and related activities are performed efficiently and effectively.
- Significant financial, managerial and operating information is relevant, accurate, reliable and is provided timely.
- Resources are acquired economically, used efficiently and safeguarded adequately.
- Employees' actions are in accordance with the Company's policies and procedures, the 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.

The audit activities are undertaken as per the Annual Audit Plan developed by Corporate Audit based on the risk profile of business processes/sub-processes of various functions. The Audit Plan is approved by the Audit Committee which regularly reviews compliance to the Plan.

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

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

UK & European Operations:

TSE 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.

The Board of Directors is responsible for TSE's system of internal control and reviewing its effectiveness.

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

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

F. RISK MANAGEMENT:

Industry Cyclicality:

The steel industry is subject to cyclical swings arising from factors such as excessive capacity expansion, volatile demand swings etc.

The current global economic crisis which accelerated during the second half of the financial year resulted in a sharp contraction in global steel demand, especially in the construction and automotive sectors of the developed economies of UK, Europe and United States. To align with significantly lower demand, TSE quickly implemented reductions in output and put in place programmes aimed at short term cost reduction as well as streamlining operations and assets with a view to positioning the operational readiness for the eventual market recovery. Such measures are now substantially in place and are already accruing savings and have allowed the Group to avert the worst effects of this sharp and sudden downturn.

The Group has profitable operations in India that are expected to experience positive growth in steel demand and in South East Asia which are expected to recover more quickly from the current downturn and this diversity will help the Group to cushion the shortfall in the UK and European sphere.

Raw Materials Security and Price Volatility:

During the first half of FY 09 strong economic growth experienced by the global economies, led by China and India led to strong demand for steel worldwide. Even as the mining and shipping industry struggled to respond to the massive growth in demand, prices for iron making materials like iron ore, coal, Ferroalloys, scrap and freight climbed relentlessly. Although the economic downturn has dampened short-term sentiments, the underlying demand for scarce resources is expected to resume once the world economies progressively recover.

The Group has therefore identified it as a priority to increase its overall raw material security threshold from its current level of 25% to 60% within the next few years. To this end, the group's 35% stake in the Benga Coal Project with Riversdale Mining in Mozambique is a major step. The Government of Mozambique has approved the Mining Contract for the tenements which represents a significant step towards commencement of the project. Under the offtake agreement with Riversdale, the Group has rights to 40% of the mine's output. Tata Steel also holds 14.99% equity stake in the parent company Riversdale Mining Limited. The Group is also well positioned to benefit from the Direct Shipping Ore ("DSO") project with New Millennium Capital Corp ("NML") in Canada.

Operationally, the Group enters into long-term contracts and annual benchmark pricing contracts for its key raw material requirements. This approach provides price certainty and an objective basis for the recovery of cost increases from its customers.

Growth Strategy:

The Company's growth strategy comprises of various capital expenditure programmes and/or acquisitions in different locations. Integration and project execution risks therefore exist.

In light of the current economic situation, except for critical raw material related investments and those approved capital expenditure programmes at the Jamshedpur site which are expected to deliver immediate incremental earnings on completion, all other major group investments and capital projects have been put on hold. This prudent approach will allow the accumulation of cash resources and its subsequent deployment will be based on new priorities of profit contributions and quick time to market principles.

The integration of TSE post 2007 is critical to achieving the promised synergies for the Tata Steel Group. It is now two years in the making and the integration process is proceeding well at all levels of interaction.

Health, Safety & Environmental Risks:

The manufacture of steel involves steps that are potentially hazardous and which are likely to cause disruptions to normal operations if not executed with due care. The Company'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. These rules are becoming more stringent.

The Group has set specific goals to be achieved by 2012 in the areas of CO_2 emissions (1.5 tonnes per tonne of liquid steel) and LTIF (below 0.4).

Technology Risks:

One of the biggest risks before the Group is to ensure that the its plants are equipped with upto date technologies that can give it cost competitiveness and R & D leadership.

For this purpose, the Group has not cut back the necessary capital investments in relation to the same and continues to enhance and deploy R & D capabilities.

Regulatory & Compliance Risks:

Global operations require compliance with multiple and complex laws and regulations. In countries where the political systems are still evolving, frequent changes in economic policy are common, investment guarantees and property rights are secured, any unforeseen changes can expose the Group's businesses to uncertainties.

The Group operations are primarily in countries where investment flows are freer and where there are established political, business and legal frameworks in place. There is an established due process to independently evaluate country risk exposures for investments in emerging economies.

Financing:

The Company funded the acquisition of Corus with a significant level of debt that was assumed at the acquired company level. Sharp decline in steel demand and prices particularly during the second half of the financial year has adversely affected the cash flow generation of TSE and potentially put a strain on its ability to meet the current scheduled debt repayment obligations under the existing Senior Facility Agreement.

The Group has successfully renegotiated specific terms relating to debt repayments and financial covenant measurements. Unless the current economic crisis does not get protracted, these reset criteria are expected to provide TSE with the necessary space and time to work towards returning to sustainable profit levels.

Pensions:

The Tata Steel business in Europe provides retirement benefits for substantially all of its employees, including defined benefit plans. The market value of pension assets and liabilities is significantly greater than the net assets of TSE and therefore, any change can have a material impact on the financial statements as well as impacting the level of company pension contributions.

Despite the steep decline encountered in the financial markets, none of the Group's funded schemes are in under-funded positions. In its continuing search to ensure that pension obligations remain sustainable and affordable, it was decided to close the UK defined benefit scheme to new members and replace it with a defined contribution arrangement.

Forex, Credit, Liquidity and Counterparty Risks:

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 and Sterling pound. Any major fluctuations or change in currency trends can greatly affect not only the Group's short-term trading positions but the long-term economic competitive position vis-à-vis imports. The current economic crisis has also raised credit and counterparty risks, especially with the withdrawal of credit insurance.

The Group has a hedging policy in place to protect its trading and manufacturing margins against rapid and significant movements in its major trading currencies. Under current market conditions, all cash is swept into regional centres for more effective concentration and deployment. The Group does not enter into leveraged derivative instruments.

G. 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.

H. CAUTIONARY STATEMENT:

Statements in the Management Discussion and Analysis 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.