A DIALOGUE WITH MANAGEMENT

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How do you see state of the global economy today? And where does India stand?

The global economy today is confronted with increased geopolitical risks and fast paced disruptions in technology. This trend increases the risks of protectionism, unemployment and global trade war that could have a material impact on global economy and the financial markets. In the year gone by, while the broad economic parameters have shown signs of stability, the underlying fragility of the global economy continues to be very high. Policy makers, regulators and the political eco system both in developing and developed economies will have to address the imminent challenges of inequality, job creation and climate change through sharper and sustainable policy framework. Countries like India with stable and progressive political climate and superior economic performance compared to the rest of the world is seen to be an attractive destination for global capital. The World Bank's annual ranking of business friendliness of countries indicates that India has improved its standing in "Ease of Doing Business" over the last two years.

Tata Steel Group has shown significant improvement in performance in 2016-17. How would you assess the performance?

Yes, the performance of Tata Steel Group improved very significantly during the year under review on the back of enhanced performance of Jamshedpur operations, ramping up of capacity in Kalinganagar and very critical restructuring initiatives and performance transformation programme in Europe. Our revenues increased to ₹1,17,420 crore during the year compared to ₹1,06,340 crore in the previous year which was a growth of 10.4% compared to the previous year. The earnings increase was much more significant with the EBITDA for the year at ₹17,025 crore that was 114% over the previous year. During the year under review, the company focused on enhancing operating performance and productivity, undertook several restructuring of the portfolio, introduced new and differentiated products and solutions for the customers and optimised working capital management under volatile market conditions to turnaround the company's performance. We will continue to pursue the performance improvement programme in the future to create a more sustainable, profitable and value creating enterprise across the commodity cycle.

Where do you both see the future growth of Tata Steel?

We are of the belief that given the current stage of development of the Indian economy and the likely growth path for the country's economy in the next decade, especially in automotive and infrastructure sector, the steel demand in India will witness significant growth in the next decade. While there is currently financial stress in the Steel sector in India, the Government of India and the Reserve Bank of India are deeply engaged to provide a policy enabled structural resolution for the future. Steel is a critical material for the future growth of India and

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the Indian Steel industry is very well poised to leverage the opportunities and serve the country's needs.

Tata Steel has doubled its India capacity in the last decade and it will continue its endeavour to grow significantly in the future in line with the market demands. The focus will be on delivering value added and differentiated products and solutions to its customers. It is with great pride that we report to you that the new greenfield Kalinganagar Plant in Odisha is ramping up the operations to its rated capacity within a very short span of time. This demonstrates Tata Steel's commitment to execute large and complex projects, its capability to quickly stabilise and scale up operations and the strength of its commercial network to service new customer segments profitably. Apart from potential inorganic growth options in India, Kalinganagar will be one of the most competitive growth opportunities for Tata Steel in the future.

How would you analyse the turnaround in Europe?

The European business of Tata Steel showed very significant turnaround in its performance during FY2016-17 compared to the previous year. The EBITDA for the business was ₹4,705 crore compared to a loss of ₹5,218 crore in FY2015-16. This was the result of the significant restructuring undertaken by the company to simplify the portfolio and the hard work by every member of the European team to pursue the profit improvement programme both in the UK and the Netherlands. Tata Steel Europe is currently pursuing the pension restructuring programme in the UK and based on our ongoing assessment of the risks and opportunities of the European portfolio, the company will continue to pursue initiatives to strengthen the business profile of Tata Steel Europe in the European steel industry. We are also investing in improving the asset reliability and product mix especially in Netherlands through the Strategic Asset Roadmap (STAR Programme). This will enable us to focus on creating high strength steel and polymer capability, enhance productivity, strengthen the downstream business and increase the share of high value products.

How was the performance of the subsidiary companies of Tata Steel in India and South East Asia?

Most of our subsidiaries in India, including Tata Metaliks and Tata Sponge Iron, and joint venture companies like Tata Bluescope and JAMIPOL have performed very well during the year.

In South-East Asia, both NatSteel Holdings and Tata Steel Thailand also delivered better performance owing to improved realisations, better spread management and cost rationalisation initiatives. The EBITDA in FY2016-17 increased by 138% over the previous FY2015-16.

What is your broad outlook for the coming year FY2018?

The global steel industry continues to face structural overcapacity but we see recovery in developed economies like Europe, gradual improvement in demand in India and better industry condition in China. At the same time, risk of uncertainty is likely to remain at elevated levels due to structural issues like geo-political uncertainty especially in the USA and UK and rising trend of protectionism.

Broadly the prospects for the industry in the financial year 2018 are mildly positive. The steel demand revival is fundamentally dependent on improving private consumption and investment while supply side discipline will also be critical enabler that will determine the future of the industry performance in the near term.

What are the new initiatives of Tata Steel Group?

Tata Steel has identified 'Industry 4.0' as strategic imperative to attain 'Smart Factory' status with enhanced productivity, customer centricity and sustainable performance. Our new initiatives across India, Europe and other geographies are aligned to pursue operational excellence through programmes like Shikhar25 in India, Delivering our Future in the UK and Sustainable Profit Programme in the Netherlands. Adoption of digital technology is also one of the key priorities. Our digital marketing initiatives like eShop, Electronic data interchange connections, Industrial By-products Management Division (IBMD) Sahaj and Samadhan (which manages solid waste across the value chain) are also critical initiatives.

At the same time, we are committed to improving our customer service to ensure long term partnership with them by developing new products like rust preventive coating using Graphene based technologies and innovative solutions like 'Pravesh Doors' – steel doors with the elegance of wood. Tata Steel is also investing in new technology like HIsarna in Netherlands, a more flexible new smelting reduction technology to produce steel from lower grade raw materials without the need for coke making or agglomeration processes and which positively impacts the CO_2 footprint.

Our research initaitives are aimed at developing cutting-edge manufacturing and product technology so as to improve the

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sustainability of steel products through their life cycles like Protact®, a safe packaging material which is infinitely recyclable with no loss of quality. Moreover, Tata Steel's sustainability principles are embedded in its new product development process, which focusses on lowering greenhouse gas emissions over the life cycle of steel and optimises total cost of ownership.

How does Tata Steel view challenges on sustainability & climate change?

We foresee challenges of climate change are real and will affect everyone in the society including large and small businesses across sectors. Therefore, it is incumbent on us to evaluate the risks and opportunities of climate change to enable us to develop our strategy to future proof our society and businesses. Tata Steel is working actively to reduce the carbon footprints and water intake, switch to renewals to the extent possible and embrace circular economy all of which help in tackling this universal challenge of climate change.

To mitigate the risk of climate change and to be sustainable, Tata Steel is focussing on innovative technologies that can significantly lower emissions over the long-term. The GHG issues and the Company's responses are integrated into the Company's strategy and planning, capital investment reviews, and risk management tools.

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Finally, can you elaborate a little bit on the Integrated report?

The <IR> framework helps embed corporate responsibility and sustainability into the business measurement framework. Integrated reporting demonstrates the linkage between an organisation's strategy, governance, financial performance and the social, environmental and economic context within which it operates. The framework also integrates sustainability into a company's core business. The <IR> framework ensures a common understanding of value creation process by reflecting integrated thinking and approach in utilising six capitals (Financial, Manufactured, Intellectual, Human, Social & Relationship and Natural) to create sustainable value to stakeholders. This is a principle based framework that helps companies to focus on the long term and create sustainable value for all its stakeholders.

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