

Directors' Report

To,
The Members,

The Directors have pleasure in presenting the 33rd Annual Report of your Company together with audited accounts for the year ended 31st March, 2005.

FINANCIAL REVIEW

The year 2004-05 witnessed a growth of about 32% in sales turnover at Rs.31,800 crore (previous year Rs.24178 crore), which was the highest ever turnover achieved by your Company. Your company has recorded a Net Profit after Tax (PAT) of Rs.6817 crore during the year as compared to Rs.2512 crore in the previous year, recording an improvement of 171% mainly through increase in sales volume in the domestic market, improved product-mix, buoyancy in steel market, cost reduction measures and reduction in borrowings.

Thrust on reduction in borrowings continued and there was a reduction of Rs.2920 crore during the year. This has been achieved by all round improvement in sales and better cash management. Reduction in debt resulted in interest savings of Rs.296 crore. Debt equity ratio has improved to 0.58:1 (as on 31.03.05) from 1.87:1 (as on 31.03.04). Considering short term deposits with Banks of surplus funds of Rs. 5670 crore, your company is virtually a debt free company.

The Company continued its thrust on cost control management. Cost control measures focused on reduction in usage of coke rate/other raw materials, improvement in yields and techno-economic parameters, reduction in energy consumption and control on administrative expenditure etc. The Institute of Cost and Works Accountants of India (ICWAI) recognized SAIL's Cost Management efforts for the second year consecutively. The company has taken major IT initiatives and is planning to implement ERP in phases starting with the Bhilai Steel Plant.

Your Company paid maiden Interim Dividend @ 15% during the year and directors have further recommended a final dividend @18% of paid up equity capital subject to approval of shareholders, thus making the total dividend @ 33% of paid up equity capital for the year 2004-05, which is the highest ever since inception. A sum of Rs.700 crore has been transferred to the General Reserve during the year.

PRODUCTION REVIEW

Steel Authority of India Limited (SAIL) faced major challenge in operations as worldwide upsurge in steel production put tremendous pressure on availability of coking coal in 2004-05. SAIL plants converted the challenge into opportunity by optimizing operations, better value addition in downstream units and initiating measures to reduce coke consumption by adopting alternate fuels like tar and coal dust injection in Blast furnaces and using sponge iron and higher percentage of scrap. Further, production through efficient process route of continuous casting was maximized, product-mix was enriched by higher finished steel production and techno-economic parameters improved further to achieve all time best production performance during the year.

SAIL plants recorded the highest ever production of 12.10 million tonnes of crude steel and 11.03 million tonnes of saleable steel during the year. In the integrated steel plants, continuous casting units operated at 125% of capacity with best ever production of 7.52 million tonnes - an increase of 4% over previous year and forming 64% of crude steel - against 61% in the previous year. Energy consumption came down by 2% over previous year to the lowest ever 7.29 G.cal per tonne of crude steel(tcs). Coke rate reduced by 1% over previous year to the best ever 536 kg per tonne of hot metal. There was significant improvement in Basic Oxygen Furnace (BOF) lining life at all the plants with refractory consumption coming down to the lowest ever 16.5 kg/tcs, a reduction of 10% over previous year. Captive power generation in SAIL was the highest at 525 MW, a growth of 5.6% over previous year. SAIL became the first industrial enterprise to wheel its surplus power from captive power plant at Durgapur to its sister plant at Bhilai through Inter Regional Transmission Line, taking advantage of Open Access under the provision of Electricity Act 2003. Total of 82 million units of power were wheeled during the year.

The product-mix was further improved during the year. Finished steel production of the integrated steel

plants was the highest ever at 8.90 million tonnes, with a growth of 4%, forming 84% of saleable steel against 80% in 2003-04. Plate production rose by 15% to highest ever 2.12 million tonnes. Highest ever Rails production of 868 thousand tonnes was achieved, with a growth of 7% over last year. Bhilai steel plant started dispatch of 78 meter long rails to Indian Railways during the year and became the only producer of upto 260 meter welded rail panels in the world. Wheel & Axle production also went up by 34% to highest ever 28,400 tonnes during 2004-05.

There was a commensurate improvement in the performance of captive mines. During 2004-05, total Iron Ore production from captive mines of the Company was 19.84 million tonnes. The flux production and despatch during the year was a record 2.35 million tonnes and 2.31 million tonnes respectively. Iron Ore requirement of the integrated steel plants was fully met from captive sources.

SALES & MARKETING REVIEW

During the financial year 2004-05, your Company achieved domestic sales of approximately 10.3 million tonnes achieving growth of 9% over the corresponding period last year. Exports were restricted to a level of approximately 4.6 lakh tonnes against 11.7 lakh tonnes in 2003-04 in order to boost the availability of steel in the domestic market.

During the year, significant increase in domestic sales was achieved in Railway materials, Plates, TMT, HR Coils and GC Sheets. Sales of value added special quality steel materials in 2004-05 increased by 38% over the corresponding period of last year. On Railway request, SAIL augmented the facilities at BSP's rail and structural mill for production of long rails which are safer due to less welding joints and also enable movement at higher speeds. During the year 2004-05, SAIL has successfully developed and supplied 1000 tonnes of special grade plates DMR 249 A to Indian Navy for manufacturing of Aircraft Carrier and Warships. The material was earlier being imported by the Indian Navy.

Upsurge in domestic sales brought down the inventory level of steel to its lowest ever level since inception. SAIL Consultancy Division (SAILCON) is the nodal agency for marketing of technical, management and training services available from SAIL plants and units to clients globally. In addition to executing consultancy work in India, SAILCON executed assignment during 2004-05 in Egypt, Saudi Arabia, Qatar, Nigeria and Georgia. Efforts were also made in non-steel sectors and orders were secured from petroleum sector besides steel sector. SAIL, a pioneer among Public Sector Undertakings (PSUs) in the country in introducing e-Commerce based procurements, has further widened its coverage in 2004-05 by doing e-Procurements worth Rs.298 crore and e-Selling worth Rs.1156 crore. All open tender documents are being hosted on the SAIL website with downloading option facilitating wider publicity. E-Payment implementation is in progress in both collection/release of payments.

HUMAN RESOURCES MANAGEMENT REVIEW

SAIL has always believed that human resource is the most important resource and continues to work for its development. The functioning and activities were further aligned to company's business objectives. The ongoing thrust on rationalization of manpower with focus on proper utilization, continued with implementation of Voluntary Retirement (VR) Scheme. The manpower strength as on 31st March, 2005 was 1,26,857 comprising 14,329 executives and 1,12,528 non-executives. The total reduction in manpower achieved during the year stood at 5053, which included separation of 1440 employees through VR. The labour productivity saw an improvement by around 5% over previous year to 144 Tonnes Crude Steel/Man/year.

The Human Resource Development activities focused on multi-skill training, performance improvement workshops, 'Learning from each other' training modules and basic engineering skills. Report on critical skill gap analysis was finalized and work towards enlisting skills needed to be addressed on urgent basis by the major plants/units of SAIL was also initiated. Providing opportunities for open interaction, communication and feed-back have been highlights of Human Resource Development (HRD) intervention at all plants/units. To encourage managerial excellence among the young managers of SAIL "Chairman's Trophy for Young Managers" was introduced in 2004-05. The inaugural trophy was won by the team from Bhilai Steel Plant. The pro-active interventions and close coordination through a process of mutual dialogue with different agencies including Trade Unions and Officers Associations, ensured conducive Industrial Relation climate. To keep up the morale of the employees, motivation measures such as payment of wage arrears arising out of wage/salary revision effective from 1.1.97, restoration of encashment of Earned Leave, review of House Building and Conveyance Advance, introduction/revision of Mining Allowance, revising rates of Local Travelling Expenses/Transport Expenses/Night Shift

Allowance, etc. were taken. To address the issue of stagnation and growth among the senior workmen of SAIL, S-11 grade was introduced.

The talent and innovation of all employees got recognition at the national level in the form of awards. In 2004, SAIL won 4 Prime Minister's Shram Awards – 2 Shram Veer and 2 Shram Shree. Besides, your company was selected amongst the best 4 organizations for presenting Excellence in HR Practices by ISTD-FICCI and it was the only Public Sector Organization to have been selected for presenting by DMA-Watson Wyatt for Innovative HR Practice. Further Rourkela Steel Plant of the company was awarded the 'Golden Peacock Award' for Innovative Product and Services by Institute of Directors.

Presidential Directives on Schedule Castes and Scheduled Tribes continued to be implemented and monitored on regular basis. Out of the total manpower, 15.44% were Scheduled Castes and 13.16% were Scheduled Tribes. The Company continued the thrust on implementation of Official Language Policy of Government of India. The Company has won four first prizes in the area of promoting the usage of Hindi in official work and its Hindi home magazine "Ispat Bhasha Bharti" bagged the first prize from the Town Official Languages Implementation Committee set up by Ministry of Home Affairs.

Consistent efforts were made by SAIL Safety Organization for improving safety standards in the Company by taking measures like intensive safety drives in works area; introduction of Risk Control Grading System in Bhilai, Durgapur and Rourkela Steel Plants; conducting safety audit, workshop & training etc. Safety audits were conducted in hazardous departments of different plants and mines. In addition, specific workshops on safety aspects were organized in the areas like Coke Ovens, Blast Furnace, Sintering Plant, Steel Melting Shop etc. at various SAIL Steel Plants wherein learning through experience sharing took place.

PROJECT MANAGEMENT

Projects worth over Rs. 3,000 crore are at various stages of implementation and approval in the Company.

The major ongoing schemes are:

Bhilai Steel Plant (BSP)

- Rebuilding of Coke Oven Battery – 5
- Upgradation of Blast Furnace-7
- Revamping of B-Strand of Wire Rod Mill

Durgapur Steel Plant (DSP)

- Bloom Caster with Associated facilities

Rourkela Steel Plant (RSP)

- Rebuilding of Coke Oven Battery – 1
- Capital repair of BF-4
- Upgradation of ERW Pipe Plant

Bokaro Steel Plant (BSL)

- Rebuilding of Coke Oven Battery – 5
- Revamping/modification of Mae West Block System and housing machining in Finishing Stands F6-F12.

The major schemes which have been accorded 'in principle' approval are:

Bhilai Steel Plant (BSP)

- Upgradation of Slab Caster, RH Degassing and Ladle Furnace
- Modernisation of Sinter Plant-II.
- Desulphurisation Unit in SMS-II

Durgapur Steel Plant (DSP)

- Coal Dust Injection in Blast Furnace (3 & 4)

Rourkela Steel Plant (RSP)

- Installation of Hot Metal Desulphurisation Unit at SMS-II.

Bokaro Steel Plant (BSL)

- Upgradation of Tandem Mill & Pickling Line in Cold Rolling Mill (CRM)
- Installation of Coal Dust Injection in Blast Furnace (2 & 3).

CORPORATE PLAN-2012

To ensure long term growth, with cost and quality competitiveness, SAIL has drawn a Corporate Plan with perspective upto 2012. The plan envisages maintaining the market leadership of SAIL and growing in identified growth segment. SAIL shall achieve a growth in production to about 20 MT of hot metal with commensurate enhancement in the production of crude steel and saleable steel and increase the percentage of finished steel in its product-mix, by de-bottlenecking and selective investments. Further, to improve competitiveness the focus would be on Cost competitiveness and Quality enhancement. Further, functional strategies in the areas of Marketing, Operations, Human Resources, Finance and Information Technology have been evolved to support the key strategy of growth with cost and quality competitiveness.

STRATEGIC ALLIANCES

An MOU was signed between SAIL and BHPB on 28th September, 2004 to forge a strategic alliance between the two companies in the field of coal and iron ore. Through this alliance, SAIL will get equity of the BHPB's coking coal mine abroad, and both would work together to develop iron ore mines in India. An MOU was signed with KIOCL on 28th September, 2004 for development of iron ore mines of SAIL at Taldih, Kalta & Barsua. Natural gas is an alternative auxiliary fuel for which Heads of Agreement (HOA) was signed between SAIL & GAIL on 10th February, 2005 for supply of 3.563 MMSCMD of natural gas for SAIL ISPs. SAIL has also signed an MOU with MTNL & BSNL on 19th August, 2004 to enable BSNL and MTNL to provide SAIL the full gamut of telecom services, including but not limited to basic telephony, mobile telephony, leased line circuit, broad band services, internet services etc.

ENVIRONMENT MANAGEMENT

Your company continued to give thrust to environmental compliance in its Plants and Mines during 2004-05. Implementation of SAIL's commitment to Ministry of Environment & Forests (MoEF)/Central Pollution Control Board (CPCB) for fulfilment of the charter of Corporate Responsibility for Environment Protection (CREP) was the major thrust area during the year. Overall environmental scenario has further improved over the previous year in the following areas:-

- Pollution load has reduced by 16%.
- Fugitive emissions in Coke Ovens declined. This will further go down after commissioning of the on-going re-building programmes.
- Specific water consumption in the plants is well below the CREP norms for long (5 m³/TCS) and flat (8 m³/TCS) products.

Various Environment Impact Assessment (EIA)/Environment Management Plan (EMP) studies for the mines and plants of SAIL have been undertaken by Environment Management Division. Out of these studies, Environmental Clearance from MoEF has been obtained for capacity augmentation of Hirri Dolomite Mine. The Company is coordinating with NEERI, ZSI, BSI & other statutory bodies regarding the EIA/EMP studies for Chiria and Rowghat mine projects. The company has signed an agreement with Delhi University and the Department of Technology (DBT), Government of India for environmental protection and ecological rehabilitation of mined out areas in various locations.

CORPORATE SOCIAL RESPONSIBILITY

In keeping with the glorious tradition, SAIL continued its contribution to the society as a socially responsive organization through various initiatives such as national HIV/AIDS campaign etc. As you are aware, the company is associated with National AIDS Control Organization (NACO) and is actively implementing the Information, Education and Communication (IEC) campaign on Prevention and Control of HIV/AIDS. During 2004-2005 around 30,000 employees have been covered under IEC campaign for awareness of HIV/AIDS. Till date, over 75,000 employees have been covered under this programme which has been in operation since January, 2000. In addition, more than 1 lakh non-employees have also been covered under the massive IEC programme.

SAIL has been pursuing a well planned sports policy. The accent is on promoting sports in potential areas by nurturing young cadets through its 4 academies in steel townships at Bhilai, Durgapur, Rourkela and

Bokaro. The hockey academy at Rourkela has been upgraded by installing synthetic turf. Some of the Cadets from the academy are representing at the national and state levels. In order to promote sports in and around Steel Plants, a Day Boarding Sports Centre has been set-up and it has started functioning. The company participated in prestigious sports event like Indian Football Association (IFA) League, Subroto Cup, Independence Cup, All India Public Sector Tournaments etc.

CORPORATE COMMUNICATION

While the wide media coverage boosted the image of the company, there was a planned effort to support it through limited advertising campaign focusing on spectacular turnaround of the company. Other advertisement campaigns viz. 'STEEL GREEN', 'Steel in Need SAIL in Deed' etc. were carried on to promote the corporate brand image for the company. The company re-launched the electronic media campaign, 'There's a little bit of SAIL in everybody's life', which retained a high recall value. The effort to re-establish SAIL brand reached a new high with SAIL successfully supporting the major international events such as Chennai Tennis Open and Indian team for the Davis Cup, ITF Junior Tennis Tournament and One Day India Pakistan Veterans' International cricket match at Patna.

VIGILANCE ACTIVITIES

The Company adopted a pro-active approach to bring vigilance awareness among employees, vendors & customers. For this purpose, large number of programmes were organized in the Plants, Units and different marketing offices across the country. Thrust has been given to e-Commerce and e-Payment. This has increased transparency in company's mode of conducting business.

System improvement and intensive examination of high value contracts and purchases continued to be the thrust area for the Vigilance Administration during the year. Important Procedures were reviewed and wherever required further simplification has been undertaken for faster and transparent decision-making.

DE-LISTING OF SHARES

Your company is listed on National Stock Exchange of India (NSE), the Mumbai Stock Exchange (BSE) besides on London Stock Exchange, London. As approved by the members in the last Annual General Meeting (AGM), the Company has got its shares delisted from the Madras Stock Exchange, Chennai (MSE), Ahmedabad Stock Exchange (ASE), Delhi Stock Exchange Association Limited (DSE). The delisting approval is awaited from the Calcutta Stock Exchange Association Limited, Kolkata (CSE).

SUBSIDIARIES

The Indian Iron & Steel Company Limited (IISCO)

The Company recorded a turnover of Rs.1487.29 crore. The net profit for the year after charging depreciation of Rs. 27.25 crore and interest and finance charges of Rs. 24.58 crore was Rs. 46.59 crore. The company produced 357 thousand tonnes of crude steel, 287 thousand tonnes of saleable steel and 182 thousand tonnes of pig iron during the year.

IISCO was declared a sick industrial company by the Board for Industrial & Financial Reconstruction (BIFR) on 17th August, 1994. The Government of India (GOI) in June, 2002 had approved a revival plan of IISCO. The BIFR approved Rehabilitation package is under implementation. Operations of Kulti works have been closed. Two of the Blast Furnaces have been relined. A new Twin Hearth Furnace has been lighted up. Jobs on the Rolling Mill area are being taken up progressively.

Keeping in view, SAIL's financial and managerial capabilities and availability of potential of IISCO, the Government of India has approved the proposal of merger of IISCO with SAIL. Subsequently, SAIL and IISCO Boards have also approved the merger, subject to approval by BIFR/Ministry of Company Affairs. Actions to give effect to the merger are in progress. With the merger, there would be greater synergy for exploiting the resources at optimum level for achieving higher production of steel.

IISCO-Ujjain Pipe & Foundry Company Limited, a wholly owned subsidiary of IISCO, was decided to be wound up by the Board for Industrial & Financial Reconstruction (BIFR). The Official Liquidator has initiated the liquidation process.

Maharashtra Elektros melt Limited (MEL)

The Company recorded a turnover of Rs.262.39 crore. The net profit (PAT) for the year after charging depreciation of Rs. 1.95 crore and interest/finance charges of Rs. 2.26 crore was Rs. 52.23 crore. The Company produced 65245 tonnes of High Carbon Ferro Manganese and 33078 tonnes of Silico Manganese during the year.

Audited Accounts of Subsidiaries

Audited Accounts of the Indian Iron & Steel Company Limited, Maharashtra Elektros melt Limited and Bhilai Oxygen Limited for the year ended 31st March, 2005 are enclosed.

Auditors' Report

The Statutory Auditors' Report on the Accounts of the Company for the financial year ended 31st March, 2005 along with Management's replies, and the comments and the review on accounts for the year ended 31st March, 2005 by the Comptroller & Auditor General of India under Section 619 (4) of the Companies Act, 1956 are enclosed to the Directors' Report as Annexure-I & II respectively.

Report on Conservation of Energy, Technology Absorption, etc.

Information in accordance with the provisions of Section 217(1)(e) of the Companies Act, 1956 read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 regarding Conservation of Energy, Technology Absorption and Foreign Exchange Earnings and Outgo is given at Annexure-III to this report.

Particulars of Employees

There was no employee of the Company who received remuneration in excess of the limits prescribed under Section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975.

Directors' Responsibility Statement

Pursuant to Section 217(2AA) of the Companies Act, 1956, it is hereby confirmed:

- (i) that in the preparation of the annual accounts, the applicable accounting standards had been followed along with proper explanation relating to material departures;
- (ii) that the directors had selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the company at the end of the financial year and of the profit or loss of the company for that period;
- (iii) that the directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities;
- (iv) that the directors had prepared the annual accounts on a going concern basis.

Corporate Governance

In terms of listing agreement with the Stock Exchanges, a compliance report on Corporate Governance is given at Annexure-IV. The Management Discussion & Analysis Report is given at Annexure-V. A certificate from Auditors of the company regarding compliance of conditions of Corporate Governance is placed at Annexure-VI.

Consolidated Financial Statements

In terms of listing agreement with the Stock Exchanges, the duly audited consolidated financial statements are placed at Annexure-VII.

Directors

Shri S.C.K. Patne, Director (Technical) ceased to be Director w.e.f. 30.4.2004 (A.N.) on attaining the age of superannuation.

Shri D.V. Singh ceased to be Director with effect from 12.8.2004 (A.N.) on his transfer from Ministry of Steel.

Dr. S.Y. Quraishi ceased to be Director w.e.f. 13.9.2004 (F.N.) on transfer from Ministry of Steel.

Shri Y.R.K. Reddy ceased to be Director w.e.f. 22.9.2004 (A.N.) on completion of tenure.

Dr. S.N. Dash who was appointed as Director on 24.8.2004 ceased to be Director with effect from 5.10.2004.

Shri Ajoy Kumar who was appointed as Director on 25.10.2004 ceased to be Director with effect from 20th July, 2005.

Shri Arun Kumar Rath has been appointed as Director w.e.f. 9.12.2004.

Shri S.N. Mishra ceased to be Director w.e.f. 25.12.2004 (A.N.) on completion of tenure.

Shri A.H. Jung ceased to be Director with effect from 23.2.2005 (A.N.) on resignation.

Shri J.P. Singh who held Directorship of SAIL from 5th October, 2004 to 25th October, 2004 has been reappointed as Director w.e.f. 20th July, 2005.

Acknowledgement

The Board of Directors wish to place on record their appreciation for the support and cooperation extended by every member of the SAIL family. The Directors are thankful to the State Governments, Electricity Boards, Railways, Banks, Suppliers, Customers and Shareholders for their continued cooperation. The Directors also wish to acknowledge the continued support and guidance received from the different wings of the Government of India, particularly from the Ministry of Steel.

For and on behalf of the Board of Directors

New Delhi

Dated: 2nd August, 2005

(V.S. JAIN)
Chairman