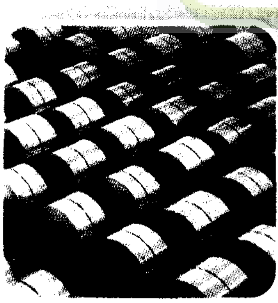

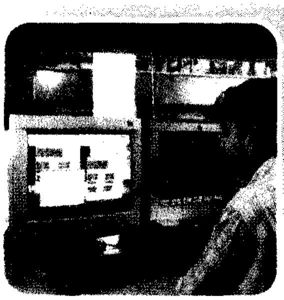

Essar Steel Limited

29th Annual Report 2004 - 2005

BOARD OF DIRECTORS

Shashi Ruia	*Chairman*
Ravi Ruia	*Vice-Chairman*
Prashant Ruia	*Managing Director*
Vikram Amin	*Director - Marketing*
V. G. Raghavan	*Director* - Finance
Jatinder Mehra	
S. V. Venkatesan	
Sanjeev Shriya	
Jitender Balakrishnan	*Nominee - IDBI*
G. A. Nayak	*Nominee - UTI*
G. D. Goswami	*Nominee - ICICI Bank Ltd.*
N. B. Vyas	*Company Secretary*

REGISTERED OFFICE
Post : Hazira Pin: 394 270
Dist : Surat
Gujarat
Tel.: 0261-558 2400 / 287 2400
Fax : 0261-559 2796 / 287 2796

CORPORATE OFFICE
Essar House
11 Keshavrao Khadye Marg
Mahalaxmi
Mumbai 400 034

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BANKERS
State Bank of India
Punjab National Bank
Bank of India
Allahabad Bank
State Bank of Patiala
State Bank of Mysore
Indian Bank
State Bank of Saurashtra
State Bank of Indore
Standard Chartered Bank
Export Import Bank of India

AUDITORS
M/s. B.P. Jain & Co.
Chartered Accountants
A-16, Everest, Tardeo Road
Tardeo, Mumbai 400 034

SOLICITORS
M/s. Crawford Bayley & Co.
State Bank Buildings
NGN Vaidya Marg, Fort
Mumbai 400 023

TRANSFER AGENTS
Data Software Research Co. Pvt. Ltd.
Sree Sovereign Complex
No. 22, 4th Cross Street
Trustpuram, Kodambakkam
Chennai 600 024
Tel.: 044-24834487/3738
Fax: 044-24834636
E-mail : dsrcmd@md3.vsnl.net.in

Visit us at our website
http://www.essar.com

Please send in your e-mail address to: webmaster@essar.com to keep you informed about the progress of the Company.

CHAIRMAN'S STATEMENT

Dear Shareholder,

It is now well accepted by economic pundits and studies conducted across the globe that India and China will dominate the world economy in the 21st century. India is today the fourth largest economy in terms of purchasing power parity and is expected to overtake Japan and become third largest economic power after the United States of America and China, before the end of this decade. As India prepares to become an economic super power, it must further quicken the pace of reform and liberalization by enabling the development of world class infrastructure, competitive manufacturing in scale and technology and sustainable development.

GDP growth of over 6.5%, significant investments in infrastructure, a good agricultural output and a spurt in consumer demand across all sectors augurs well for industry. If we are able to achieve a GDP growth of 8% annually, India will be the fastest growing free market democracy in the world.

Steel – the backbone of industry

The steel industry is crucial to a nation's economic competitiveness and security. Steel is integral to building of bridges, railroads, homes, automobiles, appliances and much more. Today's steels are radically different than what was available ten years ago. They are lighter, higher in strength and more versatile.

The industry has undergone a major transformation in the last few years with companies investing in new process and product technologies, capacity enhancements and customer service initiatives. Indian steel companies are at the "leading edge" of technology and spend considerable amounts on research and development. The industry and particularly your Company are able to compete internationally on technology, quality and price and have demonstrated that the India of tomorrow belongs to Indian entrepreneurs and Indian consumers. The Government needs to encourage and support the industry with a more realistic iron ore policy that creates a level playing field.

Essar Steel – an eventful year

Essar Steel's excellent results demonstrate the Company's success in structurally improving its operating performance as a result of strategic actions and timely execution of projects. We have seen some signs of over–supply in international markets, but we do not see this as a long term issue. Your Company is also much better prepared to manage cyclicality in markets due to its geographic coverage and product portfolio.

Essar Steel is now a fully integrated producer with end-to-end control of all operations related to steel making. The acquisition of Hy-Grade Pellets Ltd. and Steel Corporation of Gujarat Ltd. make your Company a totally integrated steel producer. The Company has taken a number of initiatives in its manufacturing facilities to fulfil its mission of being one of the most cost efficient producers of steel globally. From Bailadilla – where the iron ore beneficiation plant is located, close to the iron mines – to the final stage where the end products are dispatched to domestic and international destinations, your Company has ensured that every stage of manufacture is seamlessly integrated. This will enable us to offer high quality, customized products for use by a wide range of industries such as automobile and auto components, white goods, construction and consumer durables.

We focus on value addition at every stage of manufacture and also direct our efforts to high revenue generating markets. We do this by targeted marketing in specialized customer segments and technical and after market support. We expect these value added products to contribute over 35% of the Company's revenues in the coming year.

Looking Ahead

Currently we are producing at a capacity of 3 million tonnes and we have planned to augment this to 4.6 million tonnes by June 2006, making us the largest producer of flat steel in the private sector in India. This will involve an incremental investment of Rs. 2000 crore, which is much below industry average and will considerably reduce our cost of production. We also plan to increase the pellet making capacity at Visakhapatnam from 4 to 8 million tonnes in this fiscal year. The acquisitions, capacity expansions, technology upgradation and other productivity improvement measures will give your Company a significant competitive edge in domestic and international markets. Our thrust on maintaining cost leadership through integrated manufacturing processes, research and new innovation and high productivity will provide a hedge against cyclicality.

Managing Financial Turnaround

Your Company has been able to build a platform for consolidation and sustain the rejuvenation of its performance. In October 2002, at the time of the announcement of the CDR package, the Company had a term debt of Rs.5371 crore, which has been reduced to Rs.4262 crore as at March 31, 2005, a reduction of over Rs.1100 crore. The significant financial turnaround by the Company in such a short period of time is indeed noteworthy. With all other parameters of financial performance showing considerable improvement, your Company is in a much stronger position to plan for more aggressive growth.

Our Driving Force

Essar Steel is today at a significant point in its history. The past has given us learnings that we have used to build a platform of security for the future. I must acknowledge the tremendous efforts put in by employees at all levels, who have so admirably risen to the challenges that change inevitably brings. Organizations must continuously change in order to survive and prosper. The Essar family has shown the capability and resilience to manage this change. We look to the future with confidence that arises out of our actions and the achievements of our people, as we prepare to face the "Brave New World".

I also take this opportunity to thank our customers, vendors, business associates and bankers who have helped us come this far and look forward to their continued support in our journey to globalization.

Thank you.

Shashi Ruia
Chairman

NOTICE

NOTICE is hereby given that the Twenty Ninth Annual General Meeting of the Members of Essar Steel Limited will be held at the Registered Office of the Company at Post: Hazira Pin: 394 270, Dist. Surat, Gujarat on Saturday, 17th September, 2005 at 2.30 pm to transact, the following business:

ORDINARY BUSINESS :

1. To consider and adopt the Audited Balance Sheet as at March 31, 2005 and the Profit and Loss Account for the year ended on that date and the Reports of the Directors and Auditors thereon.
2. To appoint a Director in the place of Shri. J. Mehra who retires by rotation as a Director and being eligible, offers himself for reappointment.
3. To appoint M/s. S.R. Batliboi & Co., Chartered Accountants, as Auditors of the Company in place of M/s B. P. Jain & Co. and to fix their remuneration.

SPECIAL BUSINESS

4. To consider and if thought fit to pass, with or without modification(s), the following resolution as a Special Resolution:

   "**RESOLVED THAT** subject to the provisions of the Companies Act, 1956, Memorandum of Association and Articles of Association of the Company, Foreign Exchange Management Act, 1999, Foreign Exchange Management (Transfer or Issue of Security by a Person Resident outside India) Regulations, 2000, and other applicable Rules, Regulations and Guidelines issued by Reserve Bank of India, Securities and Exchange Board of India and Stock Exchanges, the terms of the 5.59 crore 8% Cumulative Compulsorily Convertible Preference Shares of Rs.350 each (CCPS) be altered as follows:

   The dividend payable on the CCPS as prescribed under the existing term no. 2 be reduced from "8%" to "7%".

   Following text be inserted as term no.2.A. and 2.B after the altered term no.2 and before the term no.3 of the CCPS.

   2.A. Each outstanding CCPS shall be convertible into 10 equity shares of Rs.10/- each fully paidup at a premium of Rs.25/- per share at the option of the registered holder anytime after 2 months from the date of allotment.

   2.B. The Board shall be given fifteen days notice in writing for any conversion by the registered holder(s) of the CCPS.

   RESOLVED FURTHER THAT the Board of Directors (which terms shall include a duly constituted committee of the Board of Directors) be and is hereby authorised to do or cause to be done all acts and deeds as may be necessary for giving effect to this resolution for alteration in terms of the CCPS."

5. To consider and if thought fit to pass, with or without modification(s), the following resolution as a Special Resolution:

   "**RESOLVED THAT** subject to the provisions of the Companies Act, 1956, Memorandum of Association and Articles of Association of the Company, Foreign Exchange Management Act, 1999, Foreign Exchange Management (Transfer or Issue of Security by a Person Resident outside India) Regulations, 2000 and other applicable Rules, Regulations and Guidelines issued by Reserve Bank of India, Securities and Exchange Board of India and Stock Exchanges, the aggregate limit upto which Foreign Institutional Investors can purchase and hold equity capital in the Company be raised to 74% of the issued and paidup equity share capital of the Company."

6. To consider and if thought fit to pass, with or without modification(s), the following resolution as a Special Resolution:

   "**RESOLVED THAT** pursuant to Section 372A of the Companies Act, 1956 and other applicable provisions of the Companies Act, 1956 and subject to such other approvals, permissions, consents and sanctions as may be necessary, the consent of the members of the Company be and is hereby accorded to the Board of Directors to set up three subsidiaries outside India at one or more jurisdictions for undertaking expansion / acquisitions overseas and make investments by way of subscription to equity shares / preference shares/ convertible instruments in those subsidiaries for an amount not exceeding USD 1 million each notwithstanding that the aggregate of investments and loans so far made in or to be made in and guarantees so far given and securities so far provided to all bodies corporate exceed the limits laid down by the Act.

   RESOLVED FURTHER THAT for the purpose of giving effect to this resolution, the Board of Directors be and is hereby authorised to do all such acts, deeds, matters and things as the Board of Directors may, in its absolute discretion, consider necessary, proper, expedient, desirable or appropriate in this connection."

7. To consider and if thought fit to pass, with or without modification(s), the following resolution as a Special Resolution:

   "**RESOLVED THAT** pursuant to Section 372A of the Companies Act, 1956 and other applicable provisions of the Companies Act, 1956 and subject to such other approvals, permissions, consents and sanctions as may be necessary, the consent of the members of the Company be and is hereby accorded to the Board of Directors to make investments by way of subscription, purchase and acquisition of equity shares / preference shares/ convertible instruments in Clickforsteel Services Ltd. an Indian Company for an amount not exceeding Rs.5 crores notwithstanding that the aggregate of investments and loans so far made in or to be made in and guarantees so far given and securities so far provided to all bodies corporate exceed the limits laid down by the Act.

   RESOLVED FURTHER THAT for the purpose of giving effect to this resolution, the Board of Directors be and is hereby authorised to do all such acts, deeds, matters and things as the Board of Directors may, in its absolute discretion, consider necessary, proper, expedient, desirable or appropriate in this connection."

Notes:

1. The Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956 relating to the Special Business under Item Nos. 4 to 7 is annexed herewith.
2. A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT A PROXY AND VOTE INSTEAD OF HIMSELF ON A POLL ONLY AND THE PROXY NEED NOT BE A MEMBER OF THE COMPANY. Proxy forms should be deposited at the Registered Office of the Company not less than 48 hours before the time fixed for the meeting.
3. Register of Members and Share Transfer Books of the Company will remain closed from **16th September, 2005 till 17th September, 2005 (Both days inclusive)**.
4. The Chairman of the Audit Committee of Directors shall be present at the Annual General Meeting to answer queries of shareholders on the Accounts of the Company.
5. All the documents referred to in the accompanying notice and the explanatory statement are open for inspection at the Registered Office of the Company on all working days between 11.00 a.m. and 1.00 p.m. upto the date of the Annual General Meeting.
6. The Company's shares are listed with The Stock Exchange, Mumbai and National Stock Exchange of India Limited. Further, Company's application for delisting of its shares is pending with The Vadodara Stock Exchange Ltd. and Calcutta Stock Exchange Association Limited. The Company has paid the listing fees for the year 2005-2006 to all the aforesaid Stock Exchanges.
7. **Members are requested to intimate the Registrar and Share Transfer Agents of the Company - Data Software Research Co. Pvt. Ltd., Sree Sovereign Complex, No. 22, 4th Cross Street, Trustpuram, Kodambakkam, Chennai 600 024, immediately of any change in their address in respect of shares held in physical mode and to their Depository Participants (DPs) in respect of shares held in dematerialised form.**
8. Members/Proxies should bring the Attendance Slip duly filled in for attending the meeting. Corporate Members intending to send their authorised representatives to attend the meeting are requested to send a certified copy of the Board Resolution authorising their representative to attend and vote on their behalf at the Meeting.
9. Members who hold shares in physical form in multiple folios in identical names or joint accounts in the same order of names are requested to send the share certificates to the Company's Registrar and Transfer Agents Data Software Research Co. Pvt. Ltd., for consolidation into a single folio.
10. Non – Resident Indian Members are requested to inform the Company's Registrars and Transfer Agents, Data Software Research Co. Pvt. Ltd., immediately of the change in their residential status.
11. Members desiring any information as regards the Accounts are requested to write to the Company at least 15 days before the date of the meeting, as to enable the management to keep the information ready.

By Order of the Board of Directors

N B Vyas
Company Secretary

Mumbai, 27th July, 2005.

ANNEXURE TO NOTICE

EXPLANATORY STATEMENT

Pursuant to Section 173(2) of the Companies Act, 1956 the following Explanatory Statement sets out the material facts relating to item nos. 4 to 7 mentioned under SPECIAL BUSINESS:

Item No.4 :

The Company has issued 5.59 crores 8% Cumulative Compulsorily Convertible Preference Shares of Rs.350 each (CCPS) to Overseas entities in June, 2005. This issue of CCPS was made in terms of Special Resolution passed by the members at the Extra-Ordinary General Meeting of the Company held on January 15, 2005 and approval from Reserve Bank of India. The CCPS have been issued on the following terms and conditions.

1. The Compulsorily Convertible Preference Shares (CCPS) shall have a face value of Rs.350/- per share.
2. The CCPS shall carry a cumulative dividend @ 8% p.a. from the date of allotment upto redemption / conversion.
3. The Company shall have option to redeem the CCPS at par in one or more tranches (each such tranche being minimum of 10% of total CCPS issued or in multiples of 10%) pro-rata from the existing holders, anytime after 6 months but before 18 months from the date of allotment provided that atleast one interim / final dividend is paid before such redemption.
4. Each outstanding CCPS shall get converted into 10 equity shares of Rs.10/- each fully paid up at a premium of Rs.25/- per share at the end of eighteen months from the date of allotment without any act on the part of the registered holders or the Company.
5. The Board of Directors shall give one month's notice for any redemption in terms of clause 3 above to registered holders of the CCPS.
6. The Company shall not issue any new shares, other than on conversion of existing securities, by way of a rights issue or in any other manner during the currency of the CCPS without obtaining consent in writing from registered holders for atleast 90% of the CCPS outstanding.
7. Any changes in the share capital of the Company during the currency of these CCPS shall not result in change in terms of conversion of these CCPS except a bonus issue or sub-division of existing shares, in which case the entitlement of the equity shares upon conversion of each outstanding CCPS shall get adjusted accordingly.
8. The day of the expiry of 18 months from the date of allotment of the CCPS shall be the deemed date of allotment of new equity shares.

The holders of the CCPS have made a representation to the Board of Directors that they be given option to convert the CCPS into equity shares during the tenor of the CCPS till eighteen months. This will give them more flexibility in connection with the financing and other related issues.

In the opinion of the Board of Directors, as the CCPS are compulsorily convertible into equity at the expiry of eighteen months, giving an option to the holders for conversion will not result in any change in estimated shareholding pattern at the expiry of eighteen months from the date of allotment. Further, as a tradeoff the Board of Directors has negotiated for reduction in the rate of dividend payable on CCPS by 1% which will result in a benefit of Rs.29.37 crores to the Company.

Accordingly, resolution for reduction in the rate of dividend and insertion of additional terms of conversion is placed before the members for their approval.

Your Directors recommend passing of the resolution.

None of the Directors is concerned or interested in this resolution.

Item No. 5 :

Current limit upto which Foreign Institutional Investors in aggregate can purchase and hold equity capital in the Company is 30%. As per Foreign Exchange Management (Transfer or Issue of Security by a Person Resident Outside India) Regulations, 2000; this aggregate limit can be increased by the Company with the approval of the Members by way of a Special Resolution in General Meeting. As per requirements of Sectoral Cap prescribed under the FEMA Regulations, Foreign entities in aggregate can purchase or hold upto 100% of the capital in the Company. The Company in terms of Special Resolution passed by the Members at the Extra-Ordinary General Meeting of the Company held on January 15, 2005 and approval from Reserve Bank of India has issued 5.59 crore 8% Cumulative Compulsorily Convertible Preference Shares of Rs. 350 each (CCPS) to overseas entities in June, 2005. Further, participation of Foreign Institutional Investors in Indian equities is increasing.

Accordingly, the resolution for increasing the limit of aggregate holding of Foreign Institutional Investors is placed before the members for approval.

Your Directors recommend passing of the resolution.

None of the Directors is concerned or interested in this resolution.

Item No. 6 :

The Company is exploring setting up manufacturing facilities overseas / acquisition of entities, overseas to achieve horizontal growth. In the opinion of the Board of Directors, setting up of overseas subsidiaries in various jurisdictions is a pre-requisite for any overseas operations and financing thereof. Initially, the Company intends to set up three such subsidiaries with a capital of USD 1 million each. The investment will be financed from internal accruals.

As per the provisions of section 372A of the Companies Act, 1956, the proposed investment, being in excess of the prescribed limits under that section, requires prior approval of the members by way of a Special Resolution in General Meeting.

Accordingly, the resolution is placed before the members for their approval.

Your Directors recommend passing of the resolution.

None of the Directors is concerned or interested in this resolution.

Item No. 7 :

The Company, after acquisition of Hy-Grade Pellets Ltd. and Steel Corporation of Gujarat Ltd., is able to produce wide range of products almost covering the entire value chain in steel industry. The Company intends to have a trading arm, which will be dedicated for identifying customers' needs and providing support. Clickforsteel Services Ltd. is a Company having trading operations. The Company already has operational relationship with Clickforsteel Services Ltd. The Company intends to acquire this company, which will give a readymade trading arm to the Company instead of setting up a new arm. The acquisition of 100% stake in Clickforsteel Services Ltd. will serve the purpose. The networth of Clickforsteel Services Ltd. as at 31st March 2005 is more than Rs.4 crores. The total investment required for this purpose will be Rs.5 crores. The investment will be financed from internal accruals.

As per the provisions of section 372A of the Companies Act, 1956, the proposed investment, being in excess of the prescribed limits under that section, requires prior approval of members by way of a Special Resolution in General Meeting.

Accordingly, the resolution is placed before the members for their approval.

Your Directors recommend passing of the resolution.

Shri S N Ruia, Shri R N Ruia and Shri P S Ruia may be deemed to be interested or concerned in the proposed resolution as Shri R N Ruia and Shri P S Ruia are directors of Essar Global Ltd., the holding company of Clickforsteel Services Ltd.

By Order of the Board of Directors

N B Vyas
Company Secretary

Mumbai, 27th July, 2005.

DIRECTORS' REPORT

To the Members of **ESSAR STEEL LIMITED**

Your Directors have pleasure in presenting the 29th Annual Report of your Company together with the Audited Statement of Accounts for the year ended 31st March, 2005.

FINANCIALS

The Financial Results

(Rs. in crores)

Particulars	Year ended 31st, March 2005	Year ended 31st, March 2004
Sales and other Income	6537.81	4041.30
Profit before Finance Cost (net), Depreciation, Charges pertaining to earlier years, Extra ordinary item and Taxation	1936.75	875.52
Less: Finance Cost (Net)	550.73	397.68
Profit before Depreciation, Charges pertaining to earlier years, Extraordinary items and Taxation	1386.02	477.84
Less: Depreciation	394.29	403.27
Profit before charges pertaining to earlier years and taxation	991.73	74.57
Add /(Less) : charges pertaining to earlier years net of gains on settlement of debts	(197.63)	19.50
Profit before Taxation	794.10	94.07
Less Provision for Deferred tax	195.87	34.08
Less : Provision for Taxation	8.08	—
Profit after taxation	590.15	59.99
Less Balance brought forward from previous period	(1474.68)	(1442.92)
Add: Unpaid dividend written back on forfeiture of shares	9.75	—
Add: Transfer from Securities premium account	1356.30	—
Less Amortisation of Deferred Revenue Expenditure	—	(91.75)
Less Transfer to Debenture Redemption Reserve	(329.04)	—
Balance carried forward to next year	152.48	(1474.68)

The Board of Directors are pleased to state that during the year ended March 31, 2005, profits of the Company have increased substantially as compared to the previous year. There has been an all-around improvement in the performance of the Company. This along with various positive measures undertaken by the management has resulted in substantial improvement in the net worth of the Company. The outlook for the current year continues to be good.

DIVIDEND

Your Board of Directors do not recommend any dividend on equity shares and preference shares, in order to conserve the resources.

OPERATIONS & PERFORMANCE

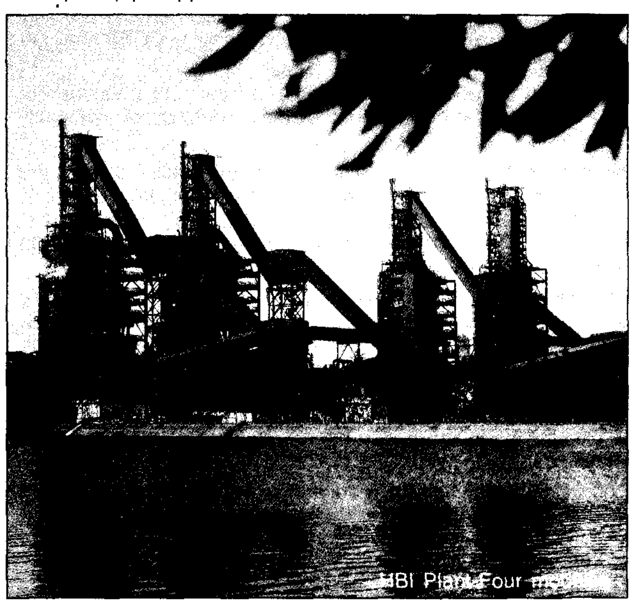
A. SALES & MARKETING HIGHLIGHTS

- The Company achieved a growth of 62% in the sales value during the year 2004-2005 by registering a total sales value of Rs 6533.25 crore as against a value of Rs 4024.60 crore during the corresponding period previous year.
- Total sales volume grew by 17.76% to 2,265,599 MT during the period from 1,923,974 MT in the corresponding period previous year.
- The growth in Domestic sales was 16.48% to 1,477,555 MT during the period from 1,268,514 MT in the previous year.
- There was a jump of 20.23% in the export volume to 788,044 MT during the year, from a level of 655,460 MT in the previous year.
- The average sales realisation was at a record Rs 26,832 PMT, an increase of Rs 7,967 PMT compared to the previous year's average realisation of Rs 18,865 PMT.

B. EXPORT PERFORMANCE HIGHLIGHTS

Continuing with its leadership in Hot Rolled Coils (HRC) exports, your Company exported 34% of the total production during the year. The exports were not dependent on a single country/ region, achieving a good geographical spread across various markets, viz. EU, NAFTA, ME, N Africa, China, SE Asia & neighbouring countries. Your Company's focus continued to be on specialty & value added segments like API, Corten & Hi Tensile, thus capturing maximum value. The broad strategies employed by the Company are:

- A diverse product offering with focus on specialty and value added grades. The share of specialty products was increased to 45%, wherein the share of API grades was 30%, with long term contracts entered into with pipe mills in the Middle East.
- Diversifying into new products, your Company started exports of Cold Rolled (CR) Full Hard & Hot Dipped Galvanized steel, in addition to the existing HR products, as a part of bundled offering strategy.
- With continued focus on key accounts, your Company is trying to enter into long term contracts with almost 70% of its Customers to minimize the business portfolio risks.
- The Company re-entered the Chinese market for high tensile spiral pipe applications.


HBI Plant Four modules

C. DOMESTIC PERFORMANCE HIGHLIGHTS

- During the year, your Company continued its focus on sales to customers in the west zone, which comprised 75% of the total domestic sales.

- Moving up the value chain, your Company has successfully initiated production and sales of HR Pickled and Oiled, Cold Rolled and Galvanised products. P&O sheets were positioned as an import substitute in major auto companies and ancillaries. Similar products were developed and supplied on a regular basis for white goods and compressor manufacturers.
- In its endeavour to supply customised and ready to use products, your Company successfully launched 'shot blasted and primer coated plates' for the first time in India for shipbuilding and general engineering applications.

MANAGEMENT DISCUSSION & ANALYSIS AS REQUIRED UNDER PART V OF CLAUSE 49 OF THE LISTING AGREEMENT.

The Indian economy is expected to grow by 6.5% during the next year. India is expected to consolidate its position further in the next few years with increasing focus on becoming a hub for global production and services. This should result in sustained growth of the Indian economy with strong donomestic demand providing a cushion in case of a global slowdown. In 2004, as per international data (Source: Worldsteel.org) global steel demand grew by 8.8% and demand is expected to grow by 5% over next 2-3 years. As such the medium term outlook for steel is still positive. Further, the much awaited Indo-Iranian Pipeline has received 'in principle' consent from the participating countries. All these factors will result in steady increase in the demand for steel in global as well as domestic markets.

The steel industry constantly faces threat of replacement from other metals like aluminium especially in the automobile, railway carrier and construction industry.

Slab caster

Your Company has an installed capacity of 2.4 million mtpa of Hot Rolled Coils (HRC) and 3.4 million mtpa of Hot Briquette Iron (HBI). The Company plans to increase the capacity to 4.6 million mtpa in next 2 years. The year 2004-05 saw continued trend of higher prices of steel. The Company has been able to make use of this opportunity and achieved further increase in all areas of operations.

Your Company was able to achieve production of HRC at 2.32 mmtpa for the financial year 2004-2005 as compared to 1.93 mmtpa during 2003-2004. The electric arc furnace technology adopted by the Company for manufacture lends an advantage in quality. Your Company achieved exports of 0.79 mmtpa which is again the highest by any Indian steel company and is higher by 20% over the previous year.

In view of automated production processes and effective software support, the internal control systems prevalent in the Company are considered adequate by the management.

71% of the cost of production of the company is raw material and energy. During the year Company's dependence on naptha and external metallics was reduced because of the use of natural gas and the commissioning of HBI module IV.

As the members are already aware, the Company has firmed up plans for acquisition of Hy-Grade Pellets Ltd. which has a long term contract with the Government of India for supply of ore. This acquisition will result in uninterrupted supply of this key raw material to the Company. Further, the Company has signed a Facility Use Agreement with Bhander Power Ltd. which will supply 155 MW power to the Company. With the tie-up of these two key inputs the Company has favourably positioned itself to tackle the high input cost era faced by steel industry.

During the year the Company re-appointed Shri Vikram Amin as Director (Marketing). The Company employs 1,770 employees and has highest production per employee amongst Indian steel companies.

IMPLEMENTATION OF CORPORATE DEBT RESTRUCTURING SCHEME

The Company implemented the balance recommendations of the Corporate Debt Restructuring Cell (CDR). The Company arrived at a one-time settlement with the Unit Trust of India which was not a participating institution under the CDR package. Consequently, the Company withdrew the petition filed u/s 391 of the Companies Act, 1956, before the Honourable High Court, Gujarat for binding implementation of the CDR Scheme on Unit Trust of India.

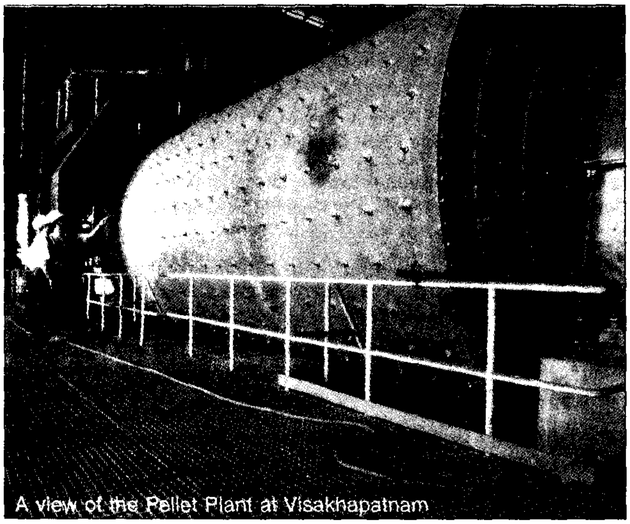
During the year the company also has received the order from the Honourable High Court of Gujarat confirming the Special Resolution passed by the members at the 27th Annual General Meeting held on 19th July, 2003 in accordance with the directions of the Corporate Debt Restructuring Cell (CDR) appointed by Reserve Bank of India for reduction of equity capital by 40% and issue of 0.01% Cumulative Redeemable Preference Shares in lieu thereof redeemable in four equal quarterly instalments starting from 1st October, 2017. The record date for this purpose was fixed as 2nd May, 2005 and accordingly the Company on 18th May, 2005 reduced the equity capital by 40% and issued 0.01% Cumulative Redeemable Preference Shares. The newly issued 0.01% Cumulative Redeemable Preference Shares are also listed on the Stock Exchange, Mumbai and National Stock Exchange of India Ltd.

Post reduction, the equity capital of the Company stands at Rs.304.30 crores.

ACQUISITION OF HY-GRADE PELLETS LTD. AND STEEL CORPORATION OF GUJARAT LTD.

During the year the Company embarked upon plans for backward as well as forward integration. The Company, in order to secure steady supply of major raw material, acquired the balance 51% equity stake in Hy-Grade Pellets Ltd. The Company also acquired 100% equity stake in Steel Corporation of Gujarat Ltd.(SCGL), which is nearing completion of its 1.2 million tonne Cold Rolling Mill next to the steel plant at Hazira. SCGL is a major customer of Company's product, Hot Rolled Coil. Stemcor Group of U.K. had the management control and equity stakes in both these companies. The Company for the said acquisitions received approval from members of the Company at the Extra-Ordinary General Meeting held on 15th January, 2005. The Company also obtained approval of Term Lending Financial Institutions for the acquisitions.

In June, 2005, the Company completed the acquisitions by acquiring the balance 51% stake in Hy-Grade Pellets Ltd. for Rupees equivalent to US dollar 300 million and 100% stake in Steel Corporation of Gujarat Ltd. for Rupees equivalent to US dollar 150 million.



A view of the Pellet Plant at Visakhapatnam

The Board has also proposed amalgamation of both these subsidiaries with the Company with effect from 1st April, 2005. Necessary formalities in this regard are being initiated.

ISSUE OF 8% COMPULSORILY CONVERTIBLE PREFERENCE SHARES TO THE EXTENT OF USD 450 MILLION OVERSEAS

The Company, in order to finance acquisition of balance 51% equity stake in Hy-Grade Pellets Ltd. and 100% equity stake in Steel Corporation of Gujarat Ltd., obtained approval from members in the Extra-Ordinary General Meeting held on 15th January, 2005 for issue of Convertible Instruments upto Rupees equivalent to US dollars 500 million during the current quarter. The Company received approval from Reserve Bank of India for the issue. Accordingly the Company in June, 2005 allotted 8% Compulsorily Convertible Preference Shares for an aggregate amount of Rs.1958 crores equivalent to US dollars 450 million to Promoters and Non-Promoters in the ratio of 75 : 25.

DIRECTORS

As aforesaid, the Board of Directors has re-appointed Shri Vikram Amin with a change in designation from Executive Director to Director (Marketing). He will draw remuneration from the Company as approved by the Members of the Company in the Extra-Ordinary General Meeting held on 15th January, 2005.

Shri J. Mehra retires by rotation at the ensuing Annual General Meeting and, being eligible, offers himself for reappointment. The Board recommend his reappointment.

DIRECTORS' RESPONSIBILITY STATEMENT

Pursuant to the requirements under Section 217(2AA) of the Companies Act, 1956, the Board of Directors of the Company hereby state and confirm that

i. in the preparation of the Annual Accounts, applicable accounting standards have been followed along with proper explanation relating to material departures.

ii. directors have selected accounting policies and applied them consistently and made judgements 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 the year under review.

iii. directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities.

iv. directors have arranged preparation of the accounts for the year ended March 31, 2005 on a "going concern" basis.

AUDITORS

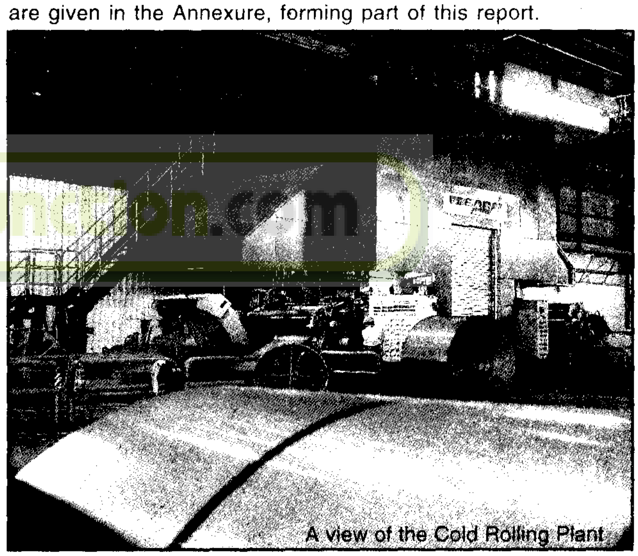
Your Company's auditors, M/s. B P Jain & Co, Chartered Accountants, has expressed their unwillingness to be reappointed as the Statutory Auditors at the forthcoming Annual General Meeting. No representation from retiring Auditors referred to in section 225 (3) has been received. It is proposed to appoint M/s. S.R. Batliboi & Co., Chartered Accountants as Statutory Auditors of the Company for the financial year 2005-06. The Company has received a certificate under Section 224 (1- B) confirming that if appointed their appointment will be within the limit prescribed under that section.

PERSONNEL

As required by the provisions of Section 217(2A) of the Companies Act, 1956 read with Companies (Particulars of Employees) Rules, 1975, as amended the names and other particulars of the employees are set out in the Annexure to the Directors' Report. However, as per the provisions of section 219(1)(b)(iv) of the Companies Act, 1956, the Report and Accounts are being sent to all shareholders of the Company excluding the aforesaid information. Any shareholder interested in obtaining a copy of the particulars of the employees may write to the Company Secretary at the Registered Office of the Company.

ENERGY, TECHNOLOGY & FOREIGN EXCHANGE

Details of energy conservation and research and development activities undertaken by the Company along with the 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 the Board of Directors) Rules, 1988, are given in the Annexure, forming part of this report.



A view of the Cold Rolling Plant

CORPORATE GOVERNANCE

Your Company attaches considerable significance to good corporate governance as an important step towards building investor confidence, improve investors' protection and maximise long term shareholder value. Pursuant to Clause 49 of the Listing Agreement with the Stock Exchanges, a compliance report on the Corporate Governance forms part of the Annual Report along with Auditors' Certificate on its compliance.

ACKNOWLEDGEMENT

Your directors would like to express their grateful appreciation for the assistance and cooperation received from the Financial Institutions, Banks, Government Authorities and Shareholders during the year under review. Your Directors wish to place on record their deep sense of appreciation to all the employees for their commendable teamwork, exemplary professionalism and enthusiastic contribution during the year.

For and on behalf of the Board

S N Ruia

Mumbai, 27th July, 2005 Chairman

ANNEXURE TO DIRECTORS' REPORT

Particulars required under the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988

A. CONSERVATION OF ENERGY:

a) Energy Conservation measures taken:

1. Company has been able to increase production level from 1.9 to 2.3 MTPA. This has helped in reducing the fuel consumption per ton by 2.6% and power consumption per ton by 11% at Hot Strip Mill.

2. Hot DRI charging: 1.26 million MT (45%) of HBI plant product was discharged in form of Hot DRI during the FY 2004-05. The power saving due to Hot DRI charging is observed about 100 kWh for each ton of Hot DRI charged at EAF.

3. New design of recuperator at Module IV resulting in about 7 to 8 SM3/MT of Natural Gas saving due to better waste heat recovery and about 7 kWh/MT power saving.

4. At Module III & IV, Partial oxidation injection system commissioned to improve gas quality for higher production, thereby decreasing specific power consumption.

5. At Module III, PG Compressor discharge block valve replaced with greater diameter (1000 mm) to reduce pressure drop and hence less specific power consumption.

6. Metallic blades of three cooling tower fans replaced with FRP blades. Power saving of about 42500 units per fan per year.

7. New generation super sonic with modified fume exhaust system to reduce the fugitive level was commissioned successfully in December 04 at no 3 EAF. On streamlining of the process, it will reduce the furnace power from existing level to 480-500 kwh / t.

8. Additional seg. in caster no. 2 was commissioned in December 04 which will result in increased productivity and improved quality thereby reduction in power consumption.

b) Additional Investments and proposals being implemented for reduction in consumption of energy:

1. Upgradation of Finishing Mill, New Level-2 model for controlling inter stand sprays has resulted in increasing the plant productivity by 8% at Hot Strip Mill.

2. Metallic blades of six cooling tower fans will be replaced with FRP blades. Power saving of about 42500 units per fan per year.

3. Partial oxidation injection system will be introduced in Module 1 & 2 to improve gas quality for higher production, thereby decreasing specific power consumption.

4. PG Compressor discharge block valve will be replaced with greater diameter (1000 mm) at Module 1 & 2, to reduce pressure drop and hence less specific power consumption.

5. Water system up-gradation: Counter current flow cooling towers with RCC structure and splash bar modification to run the plant at optimum load.

6. Feasibility study of fluid coupling for Dust collection fan to run at no-load when briquetting is off.

c) Impact of measures at (a) and (b) above for reduction of energy conservation and on the cost of production of goods:

As mentioned in (a) & (b) above

B. TECHNOLOGY ABSORPTION:

The Company has fully absorbed the MIDREX technology obtained from Voest Alpine, Austria for the production of HBI. It has also absorbed technology supplied by METCHEM for HRC plant including DC-Electric Arc Furnace(s), Continuous Casters and the Hot Strip Mill. The Company has emerged as the largest user of HBI in DC EAF and developed satisfactory technology for the same.

C. FOREIGN EXCHANGE EARNINGS AND OUTGO:

I) *Activities relating to exports, initiatives to increase exports, developments of new export markets for products and services and export plan.*

"During year 2004-05, the performance in exports has been phenomenal. Exports have been 7.88 lac MTs, which accounted for more than one third of its production. Apart from the existing products, the Company exported CR Full Hard and Galvanized steel also.

The Company continued with its strategy of not depending on any single country or region by exporting its products across markets ranging from USA, EU, Korea, Middle East, China, South East Asia and neighbouring countries.

The focus on value added segments continued with 45% share of the total sales in this segment of which API grades constituted for 30%. The Company continued with its long-term contracts with Pipe mills in Middle East.

The Company is focusing itself for entering into MoU's for almost 70% of its customers thus minimizing the business portfolio risks."

II) Total Foreign exchange used and earned

(Rs. in Crores)

a) Foreign exchange directly earned through export	2,075.39
b) Others	98.73
Total foreign exchange earned (a + b)	2,174.12
c) Total foreign exchange used	
i) For import of plant and machinery/ technical know-how	26.22
ii) Others including raw materials and interest	1,016.70
Total foreign exchange used (c)	1,042.92

Particulars with respect to Conservation of Energy:

FORM A

A. Power and Fuel Consumption

Sr. No.	Particulars	Current year	Previous year
1.	Electricity		
	a) Purchased		
	Unit (Lakhs)	**107.80**	330.64
	Total Amount (Rs. in crores)	**21.80**	29.63
	Rate/Unit (Rs.)	**20.22**	8.96
	b) Own generation		
	(i) Through diesel generator		
	Unit	—	—
	Units per ltr. of diesel oil	—	—
	Cost/Unit (Rs.)	**N.A.**	N.A.
	(ii) Through gas turbine / generator		
	Unit (Lakhs)	**2,551.92**	1,051.73
	Units / SM3 of gas	**3.72**	5.22
	Cost of fuel/Unit (Rs.)	**1.49**	0.98
	(iii) Through third party on conversion basis		
	Unit (Lakhs)	**18,179.26**	18,605.36
	Units / Ltr of NGL/HSD/NG	**4.16**	5.50
	Cost of fuel/Unit (Rs.)	**2.02**	2.25
2.	Coal		
	Quantity (tones)	—	—
	Total Cost	—	—
	Average Rate	**N.A.**	N.A.
3.	Furnace Oil		
	Quantity(k. ltrs)	—	—
	Total Cost (Rs. crs)	—	—
	Average Rate (Net of Modvat)	**N.A.**	N.A.
4.	Others		
	Quantity.(NGL) - MT	**195.69**	27,267.60
	Total Cost (Rs.Crs)	**0.37**	38.68
	Rate/Unit	**19,068**	14,185
	Quantity.(NG) - '000 SM3	**115,166.23**	63,830.88
	Total Cost (Rs. Crs)	**66.16**	17.71
	Rate/Unit	**5.73**	2.77

B. Consumption per unit of Production

Particulars	Standard (if any)	Current Year	Previous Year
Product: Hot Briquetted Iron	Unit Per MT	**Unit Per MT**	Unit Per MT
Electricity	125	**125**	125
Furnace Oil	—	—	—
Coal	—	—	—
Diesel Oil	—	—	—
Others - Natural Gas (SM3)	**325**	**304**	311
Others- Naptha (Kg)	—	—	—
Product: Hot Rolled Coils	Unit Per MT	**Unit Per MT**	Unit Per MT
Electricity	—	**745**	890
Furnace Oil	—	—	—
Coal (specify quality)	—	—	—
Diesel Oil	—	—	—
Others - NGL (Ltr)	—	**29**	10
Other - NG (SM3)	—	**50**	50

FORM B

RESEARCH AND DEVELOPMENT (R & D):

The Company has well equipped Laboratory facilities with a highly qualified team of engineers and technologists who are conducting developmental work continuously.

1. **Specific areas in which R & D was carried out by the Company and benefits derived**
   (a) Oxide Analysis: Started study of relative reducibility and thermal reduction disintegration of oxide feed.
   (b) Plant trial for Dual Phase (DP) steel carried out.
   (c) EAF - Change in the process route on low carbon finish steel to reduce the process time , hence the productivity in secondary metallurgy area, EDD02 grade (almost 3% of total volume)
   (d) Caster Modification in the secondary cooling system to improve the surface quality of slabs. This will reduce the load of scarfing and in turn increase percentage of hot charging.

2. **Future Plan of action**
   (a) Technical Tie-up with M/s Thyssen Krup Consultant to improve Hot Strip Mill plant performance.
   (b) Further upgradation of Rolling Mill equipment & automation with the help of SMS & TMEIC GE, Augmentation of roll grinding facility to improve Mill Productivity, Utilization, Quality to achieve 3 Mil T Hot Rolled Coil production in the next financial year.
   (c) Profile & flatness gauge from IMS to improve quality.
   (d) Software for control of re-heating furnaces for optimizing fuel consumption and scale reduction.
   (e) Progress gas after cooler: To improve product carbon and process performance.
   (f) Feasibility study of waste heat recovery unit to improve heat recovery at Module 1, 2 and 3.

TECHNOLOGY ABSORPTION, ADAPTATION AND INNOVATION:

1. **Efforts, in brief made towards technology absorption, adaptation and innovation**
   (a) The Company has fully absorbed the MIDREX technology obtained from Voest Alpine, Austria for the production of HBI.
   (b) The Company has fully absorbed the METCHEM technology obtained from METCHEM Inc. Canada for the production of HRC.

2. **Imported technology**

Product	Technology from	Year of import	Status of absorption/ adaptation
HBI (Sponge Iron)	MIDREX Corpn. U.S.A./Voest Alpine, Austria	1989-90	Fully absorbed
HRC	METCHEM Inc. Canada	1991-94	Fully absorbed