

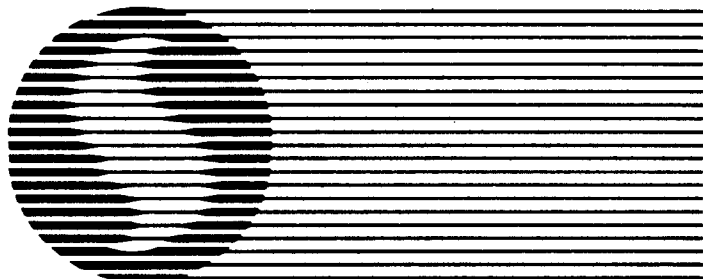
SESA GOA LIMITED

39th Annual Report

2003-2004



SESA GROUP



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SESA GOA LIMITED

REGISTERED OFFICE :

Sesa Ghor, 20 EDC Complex, Patto, Panaji, Goa – 403 001

DIRECTORS :

S. D. Kulkarni	Chairman
P. G. Kakodkar	
K. R. V. Subrahmanian	
S. Araki	
S. Nakura	
T. Miyachi	
K. Sakurai	
A. Pradhan	
M. D. Phal	
P. K. Mukherjee	Wholetime Director
A. K. Rai	Wholetime Director
L. A. Dean	Managing Director

SECRETARY :

C. D. Chitnis

AUDITORS :

S. J. Thaly & Co.
Chartered Accountants
Panaji, Goa – 403 001

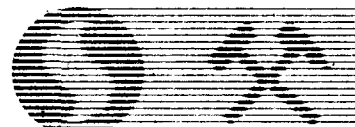
SOLICITORS :

T. Pooran & Co.
Taj Building
210, D. Naoroji Road
Mumbai – 400 001

BANKERS :

Canara Bank
State Bank of India
ICICI Bank Limited
UTI Bank Limited

SESA GROUP



SESA GOA

SESA GROUP



SESA INDUSTRIES

SESA GROUP



SESA KEMBLA



DIRECTORS' REPORT

To the Members,

The Board of Directors present herewith the Annual Report of the Company together with the Audited Statements of Accounts for the Financial Year ended 31st March, 2004.

FINANCIAL RESULTS

	2003-2004 (Rs. in million)	2002-2003 (Rs. in million)
Profit before provisions for depreciation and tax	1587.790	320.968
(Less): Depreciation	(159.959)	(141.112)
Provision for Tax		
– Current Tax	(423.000)	(39.000)
– Deferred Tax	(17.000)	(15.000)
Profit after depreciation & Tax	987.831	125.856
Add: Balance brought forward from the Preceding year	66.382	76.370
Balance of erstwhile A. Narrain Mines Ltd.		(0.337)
Profit available for appropriation	1054.213	201.889
Appropriations		
Interim Dividend	39.362	–
Proposed Final Dividend	157.448	49.203
Tax on Distributed Profit	25.216	6.304
General Reserve	750.000	80.000
Balance carried to Balance Sheet	82.187	66.382
	1054.213	201.889

The Company has also prepared a consolidated financial statement, as per requirements of the Listing Agreement and the same is included in this Annual Report. It will be heartening to note that consolidated profit after tax for the Group has reached Rs.1653.893 million for the year ended 31st March, 2004 as against the corresponding figure of Rs. 236.412 million for the previous year.

DIVIDEND

The Board of Directors recommends a final Dividend of Rs. 8/- per share for the year 2003-04. This, together with the interim dividend of Rs. 2/- per share declared and paid during the year, works out to total dividend of Rs.10/- per share for the year. You may be aware that while the dividend is tax free in the hands of the shareholders, the same is subject to dividend distribution tax to be borne by the Company.

OPERATIONS

A summary of the Sales Turnover and the working results is given below :

	2003-2004		2002-2003	
(All money values net of freight)	Qty. in million Tonnes or Nos.	Value Rs. in million	Qty. in million Tonnes or Nos.	Value Rs. in million
Sales of Iron Ore	8.558	5,492	6.881	3,480
Direct Exports	5.330	3,954	3.834	2,336
Indirect Exports (through local exporters)	2.776	1,295	2.540	874
Other Sales	0.452	243	0.507	270
Profit after Depreciation & Tax	–	988	–	126



As reported last year, the FOB prices of iron ore increased by 9% and 8.9% for fines and lumps respectively, while an increase of 18.98% for fines and 12.87% for lumps were realized on CFR shipments to Europe.

During the year under review there has been a gradual recovery in the global economy. While USA, Japan and Europe continue on course towards economic recovery, it is the growth in China that is one of the major factors that is currently driving the world economy. With a GDP growth of 9.1%, China is by far the fastest growing economy. The apparent finished steel consumption in China grew by about 25% during the year under review and consequently, there was unprecedented demand for raw materials including iron ore. The price of iron ore sky-rocketed on the spot market and in the process many speculators entered the market in India, causing severe pressure on the logistics, infrastructure and consequently, cost. Because of the sudden upsurge in demand, your Company also could increase its volume by increasing mine production and processing as is evident from the above figures. The price realization on long term contracts including that with Pakistan, for which shipment started during the year (under a five year contract), was higher than that in the previous year, as per the settled international prices. However, some of the contracts for indirect exports were re-negotiated for a higher price and a few spot shipments were also made when the quantities were available. The income would have been even higher but for the steep appreciation of the Indian Rupee against the U.S. Dollar from Rs.47.65 to Rs. 43.76 – an appreciation of more than 8% during the year.

On the cost front, your Company could gain owing to the economies of higher volumes in mine operations in Goa and Karnataka. However, due to the high price of iron ore in the spot market and sudden appearance of so many exporters, particularly from the East Coast of India and tremendous shortage of railway rakes, there was a sudden increase in road transport cost to a phenomenal level, which your Company could off-set to a large extent by re-negotiating the prices with the customers.

The growth in sales volume, as stated above, is mainly from Goa which was ably supported by the Company's captive barge fleet and transhipper M. V. Orissa. The continuous investment in barge fleet during the past couple of years and capacity upgradation of the transhipper during the year were the major enablers to achieve this growth.

The loading operations at Chennai Port and availability of rail transportation capacity were not only far below expectations, but of late, have become very uncertain. Your Company however is continuously taking various initiatives to minimize the impact thereof.

The Mineral Foundation of Goa continues to enjoy the confidence of most of the Goan exporters for undertaking several projects for enriching the environment and social help/developments in the mining belts of Goa. Your Company continues to be the single largest contributor to the said foundation.

OUTLOOK

The economic outlook for all the major world economies reflects a strong recovery. Economic activity in China is projected to remain buoyant, probably at a slightly lower speed as announced by the Chinese authorities of late, to slow the pace of the over-heated economy. The growth prospect of Indian Economy is also quite bright. In the back drop of the above, your Company foresees continuous growth of demand for iron ore in the medium term. In fact it had to regret its inability to supply additional quantities to some of its customers of late. The spot market price of iron ore has started showing signs of cooling off and consequently many of the speculating exporters have started departing from the stage. Your Company welcomes this scenario, which would help in orderly growth of the iron ore industry in the long run.

The new railway line in Orissa to connect the iron ore mining belt with Paradip Port is in an advanced stage of completion and appears to be a reality now. Barring unforeseen circumstances, it is expected to be commissioned by the end of the current fiscal year and it has the potential to increase the volume (provided the Port can match the capacity), besides reducing the railway cost owing to distance becoming shorter. The availability of rail rakes still remains a critical factor and the budgeted allocation of investments in additional rakes by the government should cater to the projected growth in volume.

Augmentation of iron ore reserves continues to remain the focus area of your Company. The allotment of green field mining lease by various state governments is a very lengthy and cumbersome process while brown field acquisitions in the current booming iron ore market are subject to very lengthy negotiations.

SESA GROUP

**SESA GOA****ISO CERTIFICATION**

The Company continues to maintain ISO 9001:2000 Quality Certification in all Goa and Karnataka mines and logistic operations and ISO 9001 Certification in the Shipbuilding Division.

The certificates under ISO 14001 for environmental management practices for mining operations and OHSAS 18001 for Safety Management in the Company's operations in Goa and Karnataka are also maintained.

All the above certificates are also subjected to periodical surveillance audits.

SUBSIDIARY COMPANIES

SESA INDUSTRIES LTD. (SIL) has now become a 88.25% subsidiary of your Company following the acquisition of additional shares at a price of Rs. 30/- per share pursuant to an offer made during the year under review. SIL has earned a net profit of Rs. 260 million and has proposed to declare a dividend @ 25% for the year 2003-04. The demand for pig iron in the domestic market was at its peak owing on the one hand, to reduced diversion of pig iron for sale by integrated steel mills like SAIL and RINL and on the other hand, stoppage of production intermittently by the secondary producers owing to non-availability of metallurgical coke. While there was a world wide shortage of metallurgical coke and consequently steep increase in its price (with availability getting uncertain), the increased price of pig iron could off-set the same. The productivity levels of both the blast furnaces were maintained at a high level and various cost reduction initiatives were also undertaken during the year.

Of late, some pressure on pig iron prices is building up due to reduction in the price of scrap. However, owing to consistent quality, assured supply of raw materials and loyal customer base, SIL doesn't have any cause of concern for marketing its product at an above average market price.

SESA KEMBLA COKE CO. LTD. (SKCC) has wiped off its accumulated loss after posting a profit of Rs. 473 million for the year 2003-04. The continuous increase of price of metallurgical coke worldwide, owing to upsurge in steel production, has out stripped the increase in landed cost of its raw material i.e. metallurgical coal, and is the single most important factor for achieving the high level of profitability. The import duty on metallurgical coal and coke has recently been reduced to 5% and NIL respectively, keeping the differential constant.

SKCC has commissioned the project for recycling the low value coke breeze during the year and has started the work on the project of compact charging, by which the production capacity will go up on the one hand and cost of coal blend will come down on the other, when the project is commissioned in about two years period. SKCC has also booked revenue from first effective sale of its environment friendly coke making technology and a few more are in an advanced stage of negotiation. Overall, the prospects for the current year appear to be quite good.

Further details of the operations of the subsidiary companies are available in the Directors' Report of the respective companies appended to this report.

SESA COMMUNITY DEVELOPMENT FOUNDATION

The Company contributed Rs. 6.700 million during the year under review to the activities of this foundation consisting of two units viz. Sesa Technical School (STS) and Sesa Football Academy (SFA).

The students of STS and the trainees of SFA continue to bring laurels in the name of Sesa. While the passed out students from the Technical School are great in demand from the local industry including multinationals, the boys of SFA are some of the footballers of promise while playing for various professional clubs in Goa after completing their tenure in the Academy. SFA boys also won the State Level Tournament for the age group of Under-17 during the year.



CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION, FOREIGN EXCHANGE EARNINGS AND OUTGO

Particulars prescribed under Section 217(1) (e) of the Companies Act, 1956, are given in Annexure A which forms part of this Report.

ECOLOGY

Being ISO 14001 certified, one of the primary operating objective of the Company is to maintain the environment and ecology. The Company's efforts in this area is appreciated at all levels and considered as a benchmark by various other mining companies. Recently, your Company has sponsored a Research Project on mine land reclamation to utilize a fungus specie to supplement soil nutrition. This research will be conducted in association with Goa University.

About 287,000 tree saplings of different native varieties were planted at various mining sites and around stacking yards during the year under review.

The Company is the largest individual contributor to the **Mineral Foundation of Goa**, a charitable organization, with the objects of environmental enhancement and social help/development in the mining districts of the State of Goa.

FIXED DEPOSITS

The company's Fixed Deposit Scheme continues to enjoy public confidence whenever it is opened for subscription. On 31st March, 2004, the Company held Rs. 240.395 million on account of deposits received from the public and shareholders/employees. 53 Deposits aggregating to Rs. 0.693 million matured and were unclaimed as on 31st March, 2004, of which 13 Deposits amounting to Rs. 0.127 million have since been repaid.

SAFETY

The safety performance was as under :-

Division		FSI	
		2003-04	2002-03
Mining	Employees	0.93	3.74
	Contractors	0.49	0.35
Shipbuilding Division	Employees	Nil	3.54
	Contractors	0.41	Nil

The FSI is an index which takes both the frequency of accidents and severity of accidents together into account.

DIRECTORS RESPONSIBILITY STATEMENT

Your Directors confirm that:

- (i) the applicable accounting standards have been followed along with proper explanations relating to material departures, if any, for preparation of the annual accounts;
- (ii) the accounting policies have been selected and applied consistently (except the changes made as a matter of rationalisation and duly disclosed) 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 ended 31st March, 2004 and of the profits of the Company for that year;
- (iii) proper and sufficient care has been taken to maintain 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 or other irregularities;
- (iv) the annual accounts have been prepared on a going concern basis.



DIRECTORS

Mr. P. G. Kakodkar, Mr. K. R. V. Subrahmanian and Mr. M. D. Phal will retire by rotation and being eligible, offer themselves for re-appointment as Directors.

The Board of Directors at its meeting held on 29th January, 2004 re-appointed Mr. A. K. Rai as Wholetime Director, with effect from 1st February, 2004 for a period of five years, subject to the approval by the shareholders at the ensuing Annual General Meeting.

Mr. M. Kahezashi resigned effective from 19th May, 2004. The Board accepted the resignation and recorded its appreciation of services rendered by Mr. M. Kanezashi during his tenure.

The Board of Directors at its meeting held on 19th May, 2004 appointed Mr. T. Miyachi in the casual vacancy created by the resignation of Mr. M. Kanezashi.

AUDITORS

The Company's Auditor, Messrs. S.J. Thaly & Co., Chartered Accountants, Panaji, Goa, retire at the ensuing Annual General Meeting and are eligible for re-appointment.

COMPLIANCE CERTIFICATE

A certificate from the auditors of the company regarding compliance of conditions of Corporate Governance as stipulated under Clause 49 of the Listing Agreement is attached to this Report.

LISTING

As stipulated under Clause 32 of the Listing Agreement the names and addresses of Stock Exchange on which the Company's equity shares are listed, are as under :-

- 1) The Stock Exchange, Mumbai
Phiroze Jeejeebhoy Towers
Dalal Street, Mumbai - 400 001
- 2) National Stock Exchange of India Ltd.
Exchange Plaza
Bandra Kurla Complex
Bandra East, Mumbai - 400 051

Your company confirms that Annual Listing Fees for the year 2004-05 have been paid.

The Company's equity shares have been de-listed from the Mangalore Stock Exchange during the year.

EMPLOYEES

The Directors are glad to appreciate the unstinted efforts put in by all employees of the Company in achieving the ever increasing productivity levels and maintaining a cordial work atmosphere.

In accordance with the provisions of Section 217 (2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules 1975, as amended, a statement giving the required information relating to the employees covered by the said Section is given in Annexure B.

For and on behalf of the Board of Directors

Place : Panaji, Goa - 403 001
Dated : 19th May, 2004

S. D. KULKARNI
CHAIRMAN



ANNEXURE – A TO DIRECTORS' REPORT

Information as per Section 217 (1) (e) read with the Companies (Disclosure of particulars in the Report of Board of Directors) Rules, 1988 and forming part of the Directors' Report for the year ended 31st March, 2004.

(A) CONSERVATION OF ENERGY

The energy conservation continues to be the focus area of the management. Continuous monitoring of the fuel consumption of the barge fleet, transport vehicles and earth moving equipments and the monitoring / optimization of electrical energy consumption in all Group activities are being done.

(B) TECHNOLOGICAL ABSORPTION

Particulars with respect to Technology Absorption are given below in the prescribed Form B:

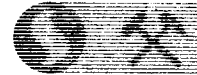
Research and Development (R & D)

1. Specific areas in which R & D carried out by the Company:
Continued work on new designs and applications of machinery for iron ore mining and beneficiation in close association with vendors. Process development work on the recovery of pellet feed from tailings alongwith optimization of blend of various grades to achieve customer satisfaction on one hand and to conserve the depleting mining reserve on the other.
2. Benefits derived as a result of the above R & D:
Developmental activities have resulted in reductions in capital and operating cost and environmental control improvement, besides optimizing the product mix.
3. Future plans of action:
Developmental work will continue to be carried out in all the above areas.
4. Expenditure on R & D:

	2003-2004 (Rs. in million)	2002-2003 (Rs. in million)
a) Capital	-	0.309
b) Recurring (revenue)	0.740	0.624
c) Total	0.740	0.933
d) Total R & D expenditure as a percentage of total turnover	0.013%	0.026%

Technology Absorption, Adaptation and Innovation

1. Efforts made towards technology absorption, adaptation and innovation are outlined briefly:
The Company maintains a close contact and continuous interaction with its principal shareholder, other consultants and its foreign associates as well as with the suppliers of specialized equipment.
2. Benefits derived as a result of the above efforts are inter alia:
 - a) Improved mining efficiencies and product quality control.
 - b) Improvement in pollution control system.
3. In conjunction with NEERI, extensively conducting trials for the biological treatment of overburden storage areas to enhance reforestation. The company is also undertaking research project for mine land reclamation.

**(C) FOREIGN EXCHANGE EARNINGS AND OUTGO**

The major portion of the iron ore produced by the company is for export either directly or indirectly. The Foreign Exchange earnings of the Company during the year under report amounted to Rs. 3,976 million. The Foreign Exchange outgo (Details given in Schedule 19) amounted to Rs. 548 million. The Company thus earned net foreign exchange of Rs. 3,428 million during the year.

For and on behalf of the Board of Directors

Place : Panaji, Goa – 403 001
Dated : 19th May, 2004

S. D. KULKARNI
CHAIRMAN

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