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VISA STEEL LIMITED

ANNUAL REPORT 2004-05

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GROUP VISION

"EMERGE AS A LEADING MINERALS AND METALS GROUP, PARTNERING WITH STAKEHOLDERS TO GROW ACROSS AN EXTENDED VALUE CHAIN"

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In 2004-05, the VISA Group capitalised on the attractive industry environment to achieve a strong performance and positioned itself to attain sustainable growth and development.

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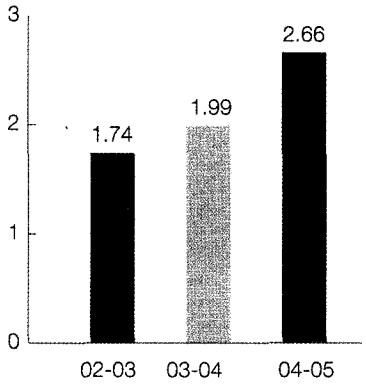
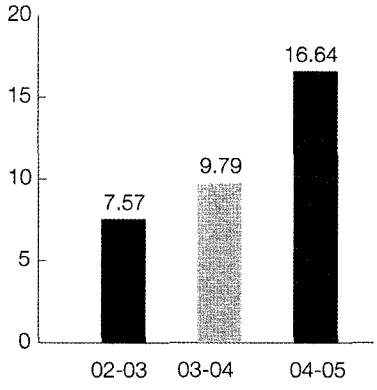
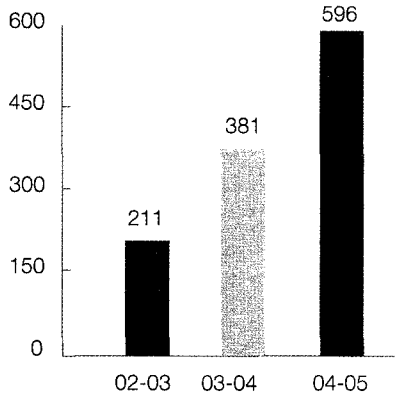
VOLUMES (million tonnes)



REVENUES (Rs. billion)



PROFIT AFTER TAX (Rs. million)



Chairman's overview

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Dear Shareholders

In 2004-05, as the global minerals and metals industry continued to expand in a significant way, the historical threshold of an annual production of a billion tonnes of steel was crossed with a nine per cent increase in production. This exceptional growth was derived largely due to an increased consumption coming out of China and other emerging economies, which translated into a greater pressure on raw material availability, leading to increased prices. The other big development was the growing consensus about India emerging as the next industry growth engine after China.

It was this encouraging scenario that prompted the VISA Group to capitalise on the existing and emerging opportunities.

PERFORMANCE REVIEW

By all accounts, 2004-05 was a landmark year in the VISA Group's history, when it responded with speed and foresight to create a strong and sustainable foundation.

• The Group turnover increased by 70 per cent from Rs. 9.79 billion in 2003-04 to Rs. 16.64 billion in 2004-05 and PAT increased by 56.48 per cent from Rs. 381 million in 2003-04 to Rs. 596.20 million in 2004-05, creating a bigger surplus for re-investment.

• Its volume of internationally traded minerals grew 33 per cent from 1.99 million tonnes to 2.66 million tonnes through an expanded product basket and wider geographic presence.

• VISA Steel Limited was created through the amalgamation of VISA Energy Resources Limited with VISA Industries Limited, enabling a single entity to focus better on the VISA Group's vision to extend its value chain and establish steel manufacturing interests in India.

• Its blast furnace was commissioned in March 2005 in a record 11 months, representing the first module of its 1.5 million tonne integrated steel and stainless steel plant at the Kalinganagar Industrial Complex in Orissa, India. The speed and success of this implementation put to rest any reservations about the ability of the Company to perform in a challenging manufacturing environment.

• The capacity of the Company's existing chrome ore beneficiation plant was increased to 100,000 mt/annum to reinforce its core competence.

• The equity share capital of VISA Steel Limited was increased from Rs. 70.5 million to Rs. 750 million to part-finance upcoming projects and reiterate the Group's commitment to invest in its future.

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POSITIONED FOR SUSTAINABLE GROWTH

Over the last year, VISA Group demonstrated that its strategic foresight was matched by its implementation speed. Even as intending companies are still considering investments, VISA Steel Limited is the only new-age steel plant to have already commissioned a greenfield project in Orissa, India. This first mover advantage strengthened the Company's case for sustainable growth and reinforced investor confidence in the successful commissioning of its Phase I (0.5 mtpa capacity integrated steel plant) by 2007 and Phase II (the remaining 1 mtpa capacity) by 2010, faster than most of its competitors.

VISA Steel Limited is optimistic of enhancing value in a sustainable manner across the long term through a strategic differentiation that comprises the following features:

• Cost leadership: Low input costs through a direct control of mining operations and a vicinity to mines and ports. Low operations costs through prudent technological choices and the use of a multi-skilled workforce. Low overhead costs through better economies of scale. Low financing costs through an appropriate debt-equity mix, low interest rates and a de-risked commissioning in phases and modules.

• Product differentiation: Focus on specialised products that cater to growing industrial and consumer application segments. Diversified product range empowering us to participate in multiple markets and optimising realisations.

The VISA Group also strengthened its business through a number of initiatives. During the year, VISA Comtrade AG made its first investment in a coking coal mine being developed by Millennium Coal Pty Ltd in Australia. The Company signed a long-term agreement for sourcing coking coal for the coke oven plant coming up under VISA Steel Limited. These two initiatives in coking coal sourcing strengthened the Company's edge over peers who remained dependent on spot purchases of this vital raw material.

VISA is continuously capitalising on opportunities and positioning itself for sustainable growth. To reinforce its presence in the international trading of minerals, the Group expanded its geographic presence. VISA Coal Pty Ltd's establishment in Brisbane and VISA Comtrade (Asia) Ltd's presence in Jakarta proved to be timely and relevant for the growth of its coal business as Australia and Indonesia represented 95 per cent and 80 per cent of India's coking coal and steam coal imports respectively during the last year. These new offices strengthened the Company's presence in geographies critical to its business. VISA Limited invested in a new office in Beijing's central business district to underline its presence in China and accommodate a growing team in Beijing. Similarly, a new office in Mumbai will enable the Company to be positioned closer to a larger segment of customer decision-makers in India.

An inherent strength of the VISA Group is its ability to leverage existing partnerships for growth beyond its immediate area of influence. For example, while extending into the manufacture of pig iron, VISA Group leveraged the breadth and depth of its relationships with iron ore suppliers in India and LAM coke suppliers in China, reinforced by a rich understanding of the global pig iron industry. As a result, the ability to leverage synergies in one part of the business for the benefit of the Company's presence in others will not only strengthen its overall competence but also extend it to natural adjacencies, making all growth sure and sustainable.

GLOBAL MANAGEMENT STANDARDS

The VISA Group benchmarked its corporate governance standards with the prevailing global best practices through enhanced transparency and independence. In response to the impending demands, VISA Steel's Board was significantly strengthened during the last year with the induction of four eminent Independent Directors – Mr. Arvind Pande (former Chairman, SAIL), Mr. M S Verma (former Chairman, SBI), Mr. D P Bagchi (former Chief Secretary, Govt of Orissa) and Mr. Pinto Khaitan (Senior Partner, Khaitan & Co). These individuals not only brought to the Company the benefit of best practices from their respective areas of expertise but also enhanced a sense of independence in Board deliberations and decisions.

At the VISA Group, the presence of eminent Independent Directors was complemented by the creation of an executive management team comprising world-class professionals. Dr. S K Tamotia (former Chairman, NALCO and former CEO, Indal) joined the group as Vice-Chairman of VISA International Limited, based at Bhubaneswar. Besides, the management consolidated its manufacturing projects and operations teams in Orissa, leading to improved team work.

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GROUP FINANCIALS

Indian Rupees in million

	VISA International Ltd., Kolkata	VISA Comtrade AG, Zug	Subsidiaries of VISA Comtrade – Brisbane, Hong Kong, London	VISA Steel Ltd., Bhubaneswar	Group Total
Revenue	15.01	7,153.11	6,952.91	2,520.48	16,641.51
Expenditure	6.89	6,629.25	6,943.83	2,389.94	15,969.91
Interest	–	2.16	–	7.19	9.35
Depreciation	2.41	1.88	0.83	4.68	9.80
Profit Before Tax	5.71	519.82	8.25	118.67	652.45
Provision for tax (incl. Deferred tax)	0.44	2.78	–	53.03	56.25
Profit After Tax	5.27	517.04	8.25	65.64	596.20
Equity Share Capital	173.85	18.25	38.32	750.00	980.42
Reserve and Surplus	286.17	1,074.98	12.14	91.23	1,464.52

Note: Exchange rate as on 31st March 2005 – 1 GBP = INR 82.39; 1 USD = INR 43.75; 1 CHF = INR 36.50 and 1 AUD = INR 33.71

The VISA Group seeks to maintain a prudent balance between the maturity of experience and the enthusiasm of youth, representing a professional and transparent management style with empowered decision-making with the objective of creating a global management benchmark.

LOOKING AHEAD

The fundamentals of the steel industry remain encouraging for increasing investments. While the Chinese growth engine continues to roll, albeit slower, the Indian growth engine has begun to accelerate. Even though India is the second-most populous market and the fourth-largest economy in the world (in terms of purchasing power parity), it represents one of the most under-penetrated markets for steel consumption. India's per capita steel consumption is a meagre 31 kgs/capita compared to a global average of 150 kgs and a developed world average of 450 kgs. With increasing investment in infrastructure, construction, urbanisation and automobile / white goods consumption, India seems clearly likely to emerge as the 'next China'.

It is in anticipation of this market that the VISA Group has positioned itself as a manufacturer of value-added steel with ambitious goals.

VISA Steel's immediate goal is to maximise its blast furnace productivity and commission its coke oven plant within the budgeted cost and time. Concurrently, the Company will implement the other modules that are a part of the 0.5 million tonne Phase I, namely its ferro chrome plant, DRI kilns, captive power plant and steel melt shop. Success in these modules will bode well for the Company's plan to achieve a steel capacity of 1.5 million tonnes by 2010 and subsequently expand to 5 million tonnes by 2015. Extensions into mining and steel making in Chhattisgarh and Jharkhand also represent long-term goals for the Company.

VISA Comtrade AG's immediate goal is to leverage its expanded product and geographic presence to achieve growth in volumes and capture a larger share of its growing trade lanes. The Company needs to build on its strong track record and strengthen its risk management to counter the volatility in market forces.

As a whole, the VISA Group shall continue in the direction of its vision to emerge as a leading minerals and metals group, partnering with stakeholders to grow across an extended value chain. For this, the VISA Group has taken decisive steps in entering the aluminium, coal, power and shipping sectors, extending its core competence into natural adjacencies to achieve sustainable growth.

On behalf of the Board, I thank our employees for their hard work and unfailing commitment to the success of the VISA Group as well as to our banks and associates for their valued support.

Yours sincerely,

VISHAMBHAR SARAN
Chairman, VISA Group

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Highlights, 2004-05

- 70 per cent increase in revenues and 56.48 per cent increase in profit after tax.
- Consolidation of Indian operations through the amalgamation of VISA Industries and VISA Eneregy Resources into VISA Industries followed by a change in name to VISA Steel Ltd.
- Commissioning of the first blast furnace in a record 11 months in March 2005 by VISA Steel Ltd.
- Financial closure of the 4 x 100,000 tpa coke oven project.
- Commissioning of the Jakarta office for sourcing Indonesian coal.
- Investment in a coking coal mine in Australia.
- 33 per cent increase in the VISA Group's total volume of trading business.
- Opening of the New Mumbai office to service customers in the western markets better.
- Timely broad-basing of the management team in response to growing demands of organisational growth.

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