IRON ORE

Operational Review continued
Iron Ore

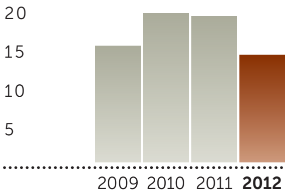
Key Achievements

- Acquired majority stake in WCL which is estimated to have over 1 billion tonnes of iron ore deposits
- Net addition of 68mt Reserves and Resources in Indian mines

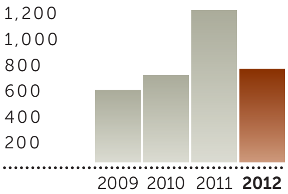
Strategic Priorities

- Resume mining and export from Karnataka
- Commissioning of 375kt pig iron expansion project along with sinter plant, expanded met coke capacity and power plant
- Continue to expand Reserves and Resources by active exploration and selective acquisitions
- Complete ongoing logistic improvement and debottlenecking programme
- Develop WCL as a large integrated mining operation and establish our presence in Liberia
- New phase of growth to 36mt p.a. in Indian operations

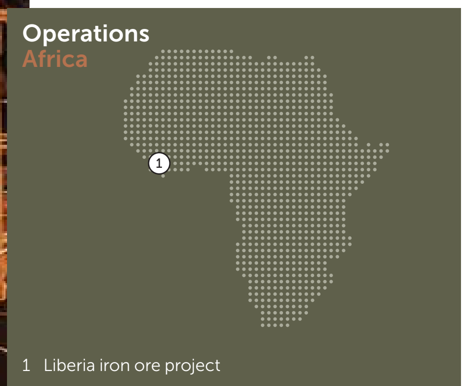
Production (dmt)



EBITDA (US$million)



Main image: Iron Ore beneficiation plant, Sesa.
Opposite right: Engineers meeting at mine, Sesa.



Maps not to scale

Market Overview

Demand for iron ore globally is linked primarily to the state of the global steel industry and, more specifically, to steel manufacturing in China. China is the largest steel producer and consumer in the world, accounting for more than two-thirds of global seaborne iron ore imports. In 2011, global steel production increased 6% to 1.5 billion tonnes, of which 683mt were produced in China, an increase of 7%. China's iron ore needs were also met by domestic iron ore production, which rose by approximately 7% to 305mt.

Recovery of steel demand in the world is expected to be slow while in the emerging and developing economies it should continue to enjoy moderate to robust growth. In 2012, it is forecast that world steel demand will grow further by 5.4%. In 2012, the emerging and developing economies will account for 73% of world steel demand in contrast to 61% in 2007.

In 2011, India's apparent steel use grew by 2.5% to reach 67.7mt in contrast to 2012, when the growth rate is forecast to accelerate to 6.9%. However, rises in export taxes and rail freight costs have significantly increased Indian export costs. With the continued ban on exports from Karnataka and high costs, iron ore exports from India dropped to 79mt in 2011, a drop of 18.5% as compared to the previous year which impacted the performance of our iron ore business.

Operations

Our iron ore operations were constrained during 2011–12, as the Supreme Court's revocation of the earlier state-wide ban on exports in Karnataka during April 2011 was subsequently followed by the imposition of iron ore mining ban in the State from August 2011. We also faced logistics constraints in Goa, which further impacted our operations. We are expanding existing roads and establishing dedicated road corridors in Goa to overcome these constraints.

As a result, production of saleable iron ore was lower at 13.8mt in FY 2011–12 as compared with 18.8mt in the previous year.

The Karnataka mining ban matter is being heard by the Supreme Court and we expect a resolution soon. The Court has directed that a Reclamation and Rehabilitation plan for each mine, including fixing capacities, has to be completed by the Indian Council of Forestry Research and Education ('ICFRE'), and then approved by the State Government and the Central Empowered Committee ('CEC'). The ICFRE has visited our mine and will issue their report. The CEC has informed the Court that Reclamation and Rehabilitation of all A and B category mines +50ha will be completed by mid June 2012.

Review of Performance

(In US$ millions, except as stated)	FY 2011–12	FY 2010–11	% change
Production			
Saleable ore (mt)	**13.8**	18.8	(26.6)%
Pig iron (kt)	**249**	276	(9.8)%
Sales (kt)			
Iron ore (mt)	**16.0**	18.1	(11.6)%
Goa	**13.3**	14.4	–
Karnataka	**2.7**	2.1	–
Orissa	**–**	1.7	–
Pig iron (kt)	**251**	266	(5.6)%
NSR	**76**	95	(20.0)%
Average exchange rate (INR per US$)	**47.9**	45.6	5.0%
Revenue	**1,690.9**	1,979.5	(14.6)%
EBITDA	**721.4**	1,174.1	(38.6)%
EBITDA margin	**42.7%**	59.3%	–
Operating profit	**481.3**	757.6	(36.5)%

The Court is now closed for the holiday period and will be hearing the case again after reopening.

Iron ore sales were 16.0mt, down by 11.6% as compared to the previous year due to the reasons mentioned above.

Export sales were 13.0mt in FY 2011–12 as compared to 16.3mt in FY 2010–11. Domestic sales were 3.0mt in FY 2011–12 compared with 1.9mt in the previous year.

The production of pig iron was 249kt during FY 2011–12, lower than FY 2010–11 by 9.8%. This shortfall was due to fluctuating demand throughout the year, as well as a lack of supply of high grade iron ore from Karnataka.

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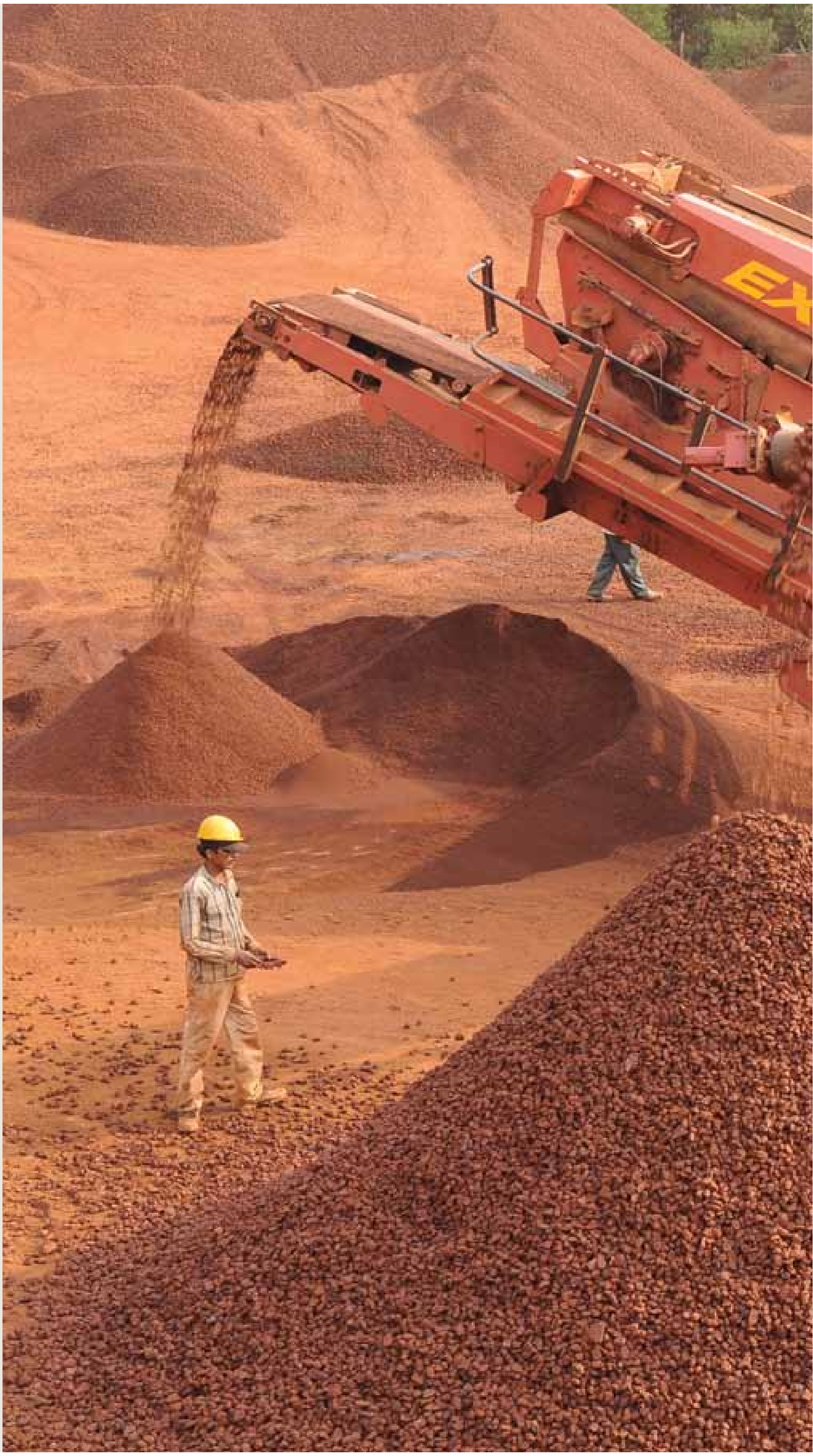
Debottlenecking iron ore transportation at Sesa Goa

Sesa Goa operations have the unique advantage of access to the river to transport iron ore from the Company's mines to the port. As a result, transportation logistics are critical to overall capacity, particularly the effective use of the Company's fleet of barges.

With the aim of extending the Company's capability to handle higher volumes, Sesa's River Fleet Services team targeted barge turnaround times as a key contributor to improving transportation efficiency. Analysis using LEAN industrial engineering techniques – mapping processes combined with root cause analysis and cross functional brain storming sessions – identified areas for improvement in the process. New barge management software was rolled out to track, monitor and schedule barges in real time using a Global Positioning System ('GPS').

As a result, barge turnaround time has been reduced by an impressive 37%, down from 38 hours to 24 hours, maximising barge utilisation and optimising barge capacity.



Main image: Dry processing of iron ore, Sesa.

Above left: Loading/unloading of ore at mid-sea by transhipper, Sesa.

Opposite right: Hot metal casting at pig iron plant, Sesa.

EBITDA in FY 2011–12 was lower at US$721.4 million compared with US$1,174.1 million in the previous year. Lower EBITDA was mainly due to the increase in export duty, sales volume impact due to the mining ban, logistics constraints and lower mine grade of iron ore. The export duty on iron ore fines and lumps was increased by the Government of India from 5% and 15%, respectively, to 20% on both fines and lumps effective from March 2011; and subsequently this was increased from 20% to 30% with effect from the end of December 2011 which impacted EBITDA by US$201 million.

Operating profit was lower at US$481.3 million in FY 2011–12 as compared with US$757.6 million in FY 2010–11, reflecting the fall in EBITDA.

Projects

Expansion of Iron Ore Mining Capacity

We remain committed to expand iron ore mine capacity and have taken multiple steps to upgrade the infrastructure and enhance mining capacity to attain 36mt capacity. However, due to the uncertain environment, there may be delays in getting the requisite approvals.

Expanding Pig Iron and Met Coke Production Capacity

Expansion of the pig iron capacity to 625ktpa and metallurgical coke capacity to 560ktpa is progressing well and will be commissioned in the first quarter of FY 2012–13.

Exploration

The Company's strong focus on exploration activities at its operations at Goa and Karnataka has yielded significant Reserves and Resources accretion, with a net addition of 68mt to the Reserves and Resources base during the year.

Total Reserves and Resources as at 31 March 2012 stands at 374mt (at the mines that the Company holds on lease and/or right to mine) as compared with 306mt as at 31 March 2011.

Acquisition of Western Cluster Limited (WCL)

We acquired 51% of the equity of WCL, which is a company registered in Liberia for a total consideration of US$90 million. In addition US$25 million licence fees were paid to the Government of Liberia. WCL is an iron ore project comprising three deposits – Bomi Hills, Bea Mountain and Mano River with Bea Mountain (923mt), Mano River (80mt) and Bomi Hills (50mt) located at a distance of 70-140 km from Monrovia port. The Company has been given right of access to an old rail corridor to Monrovia port and two piers in Monrovia port. WCL will develop the Western Cluster Iron ore project in Liberia, and the Group is committed for the development and operation of this asset. It is envisaged that the project will be executed in phases starting with the brownfield mines at Bomi Hills. The mines at Bomi Hills and Mano River are brownfield in nature and were major producers of iron ore in 1980s. The presence of significant resources in close proximity to the port positions Sesa strongly in West Africa. We have completed an aeromagnetic survey of the deposits which has indicated a significant potential upside to the existing estimated resource base of little over 1 billion tonnes. We are in the process of completing the project scoping study and commencing exploration activity. We expect the first shipment from these Liberian assets by end of FY 2013-14.

The presence of significant resources in close proximity to these logistics facilities positions Sesa strongly in West Africa. We have completed an aeromagnetic survey of the deposits which has indicated a significant potential upside to the existing resource base of 1 billion tonnes. We are in the process of completing the project scoping study and commencing exploration activity. We expect the first shipment from these Liberian assets by FY 2013–14.

Outlook

We expect the Karnataka mining ban to be resolved soon, in line with the observations made by the CEC and Supreme Court. A multi-faceted approach covering mining, infrastructure upgrade initiatives and securing regulatory approvals is progressing well and should result in a healthy growth rate.