HINDALCO INDUSTRIES LIMITED

Performance Update
For the half year ended 30th September 2002

HINDALCO INDUSTRIES LIMITED

Regd. Off. : "Century Bhavan", Third Floor, Dr. Annie Besant Road, Worli, Mumbai - 400 025.

UNAUDITED FINANCIAL RESULTS (PROVISIONAL) FOR THE QUARTER ENDED 30TH SEPTEMBER, 2002

(Rupees in Million)

Particulars	Quarter ended 30/09/02	Quarter ended 30/09/01	Half-Year ended 30/09/02	Half year ended 30/09/01	Previous Accounting year ended 31/03/2002 (Audited)
1. Net Sales	**5,697**	**5,573**	**11,557**	**11,063**	**23,314**
2. Other Income	**502**	**438**	**817**	**764**	**2,109**
3. Total Expenditure	**3,897**	**3,039**	**7,488**	**6,009**	**13,374**
(a) (Increase)/Decrease in Stock in trade	(77)	(138)	(221)	(256)	(193)
(b) Consumption of Raw Materials	1,244	1,106	2,551	2,199	4,756
(c) Staff Cost	487	403	941	787	1,672
(d) Manufacturing Expenses	1,786	1,293	3,374	2,530	5,549
(e) Other expenditure	457	375	843	749	1,590
4. Interest	**53**	**102**	**132**	**206**	**456**
5. Gross Profit	**2,249**	**2,870**	**4,754**	**5,612**	**11,593**
6. Depreciation	**413**	**375**	**826**	**744**	**1,543**
7. Profit before Tax & Extraordinary item	**1,836**	**2,495**	**3,928**	**4,868**	**10,050**
8. (a) Provision for Current Tax	340	650	790	1,300	2,570
Profit before Deferred Tax	1,496	1,845	3,138	3,568	7,480
(b) Provision for Deferred Tax	245	174	485	285	620
9. Net Profit	**1,251**	**1,671**	**2,653**	**3,283**	**6,860**
10. Paid-up equity share capital					
(Face value of Rs.10-per share)	**737**	**745**	**737**	**745**	**745**
11. Reserves(excluding revaluation reserves)					**45,071**
12. Basic & Diluted EPS(Rs.)	**17**	**22**	**36**	**44**	**92**
13. Aggregate of non-promoters shareholding					
(a) Number of Shares			56,745,609	58,075,831	57,498,321
(b) Percentage of shareholding			76.99%	77.99%	77.22%
14. Metal Production (MT)	**63,665**	**62,330**	**130,532**	**123,915**	**261,338**

SEGMENT-WISE REVENUE, RESULTS AND CAPITAL EMPLOYED UNDER CLAUSE 41 OF THE LISTING AGREEMENT

(Rupees in Million)

Particulars	Half Year ended 30/09/02	Accounting Year ended 31/03/02 (Audited)
1. **Segment Revenue**		
Aluminium Business	11,557	23,314
Less: Inter Segment Revenue	--	--
Net Sales/ Income from operation	**11,557**	**23,314**
2. **Segment Results (Profit/Loss before Tax and interest from each Segment)**		
Aluminium Business	3,388	8,518
Less: Interest Paid	132	456
	3,256	8,062
Add: Other un-allocable Income net off un-allocable expenses	672	1,988
Profit before Tax	**3,928**	**10,050**
3. **Capital Employed (Segment assets-Segment Liabilities)**		
Aluminium Business	**34,801**	**33,148**

Notes :

1. At the Meeting convened as per directions of the Bombay High Court on 17th September, 2002, Shareholders of the Company have approved the scheme of arrangement for amalgamation of Indo Gulf Corporation Limited (comprising of remaining business after de-merger of fertiliser undertaking at Jagdishpur) with the Company. The hearing of the petition has been fixed on 31st October, 2002. After requisite approvals and sanctions, as per the scheme, the Company will issue one fully paid-up equity share for each twelve equity shares of Indo Gulf Corporation Limited and consequently the issued and paid-up share capital of the Company would increase to Rs.924.75 Million. Pending final approvals/sanctions, the above result does not include the result of Indo Gulf Corporation Limited, proposed to be amalgamated with effect from 1st April, 2002.
2. The SEBI has approved the Company's Open Offer for acquiring the remaining 18,182,507 equity shares of Indian Aluminium Company Limited (INDAL) at Rs. 120/- per share. The Open Offer has already commenced/opened on 14th October, 2002, which would be closed on 12th November, 2002. In the meantime Company has acquired from the Open Market 8,89,823 Shares for a total consideration of Rs. 10,56,26,320.
3. The Company has commissioned a new Potline in September, 2002 under its Brownfield expansion programme. The production of aluminium metal will increase gradually.
4. In September, 2002, due to serious power disruptions the Company's smelter operation was adversely affected. This has resulted in a production loss of about 6,000 MT of Aluminium metal. Vigorous efforts are on to normalise the smelter.
5. The Company has raised debts aggregating to Rs.1,000 million during August 2002 through issuance of secured non-convertible debentures of different maturities at varying fixed/floating interest rates for general corporate purposes.
6. i) The Company has entered into a Share Purchase Agreement with Oil and Natural Gas Corporation Limited for sale of its investments in 9,56,95,742 equity shares of Rs. 10/- each (fully paid-up) of Mangalore Refinery and Petrochemicals Ltd. @ Rs.2/- per equity share and the sale will be completed only after obtaining the necessary Government/statutory approvals. In the event of completion of the sales, the Company will incur a loss of Rs.132.76 Crores, which will be accounted for when the sale is completed.

   ii) In the event, the sale of the aforesaid equity shares is not completed before the end of the current financial year, the Company will determine the decline, other than temporary, in the value of the aforesaid equity shares and in accordance with past practice, the carrying amount of Long-term investments will be adjusted for such decline, at the time of preparation of the annual accounts.
7. The above results have been taken on record at the meeting of the Board of Directors of the Company held on Wednesday, 23rd October, 2002.
8. The half yearly results for the period ended 30th September, 2002 have been reviewed by the Auditors.

By and on behalf of the Board

A.K.Agarwala
Whole-time Director

Place : Mumbai
Dated: 23rd October, 2002

HINDALCO INDUSTRIES LIMITED

Regd. Off. : "Century Bhavan", Third Floor, Dr. Annie Besant Road, Worli, Mumbai - 400 025.

Dear Shareholders,

I am happy to write this update on the performance of your Company for the first half ended 30th September 2002.

LANDMARK PERIOD, STRATEGICALLY

Restructuring to Create a Non-Ferrous Metal Powerhouse

It was a landmark period strategically for the Company. Given the consolidating global non-ferrous environment, the importance of size and scale has assumed significance. Against this backdrop, towards creating a strong growth platform, your Board of Directors approved the merger of the copper business of Indo Gulf Corporation, another company of the Aditya Birla Group.

The Board of Indo Gulf, as part of a restructuring exercise, approved the de-merger of the fertiliser business into a separate company. Through a Scheme of Arrangement, the residual company, which includes the Copper, Precious Metal Refinery, Di-Ammonium Phosphate, Port and other assets will be merged with your company. In return, Hindalco will issue equity shares to the shareholders of Indo Gulf Corporation at the ratio of one equity share for every twelve shares held in Indo Gulf. The Scheme of Arrangement will be effective from 1st April 2002 and has been approved by the shareholders of Hindalco and Indo Gulf as well as the Hon'ble High Courts of Maharashtra and Uttar Pradesh. I expect the merger process to be completed in the next couple of months, paving the way for the creation of a non-ferrous metal powerhouse.

Open offer for acquisition of balance shareholding in Indal

As you are aware, subsequent to the acquisition of a 74.48% stake in Indal, your Company has made significant progress on the integration and synergy realisation front. However, the Company needed to eliminate the perceived conflict of minority shareholder interest to ensue full realisation of potential synergies. Also, your Company was concerned with the low valuation of Indal as well as non-reflection of Indal's earnings in Hindalco's valuation. To overcome these issues, your Company evaluated several options and decided on an open offer for the acquisition of the balance shareholding in Indal.

The open offer was made to all existing shareholders of Indal at a price of Rs. 120 per share. The offer closed on 12th November 2002 and has enabled your Company to increase its stake in Indal from 74.48% to 95.03%, at a cost of Rs.1,757 million. In line with regulatory requirements, your Company will now make the second mandatory open offer for the remaining shareholding in Indal prior to its de-listing from all the stock exchanges.

Buy-back of shares

Following the restructuring moves, the Board of Directors chose to stop the buy-back scheme approved earlier. Through the buy-back scheme, your Company has bought back 758,530 shares at a cost of Rs.546 million, representing about 1% of your Company's share capital. Consequently, your Company's paid-up capital stands reduced to Rs.737.1 million, represented by 73.71 million shares of Rs.10 each. However, with the proposed issue of fresh equity to existing shareholders of Indo Gulf Corporation, in line with the terms of the Scheme of Arrangement, your Company's equity capital will stand raised to Rs. 924.75 million by the year-end.

I am confident that these moves and the resultant creation of a single listed non-ferrous entity will leverage the strength of the combined balance sheet and provide financial muscle and flexibility to seize opportunities in the non-ferrous sector, both in India and abroad. It will also help in ensuring a balanced earnings profile and reduced volatility. These, I believe, will contribute significantly towards ensuring sustained delivery of superior value to shareholders.

10th Potline Commissioned

I am happy to inform you of the successful commissioning of the 10th Potline (2nd of the 3 potlines in the Brownfield expansion) in September 2002. The construction and installation work for the expanded Alumina Refinery was largely completed and commissioned in October 2002 and is under stabilisation. I am confident that the enhanced output from the Alumina Refinery will support higher metal output during the second half. The expected commissioning of the first power generating unit at Renusagar Power Plant with a capacity of 75 MW in December 2002 should also help in ensuring higher metal output during the current fiscal.

The remainder of Rs.18 billion Brownfield expansion is expected to be completed in phases by mid FY04. On completion, the smelter capacity will stand raised by 100,000 MTPA to 342,000 MTPA, Alumina refining capacity by 210,000 MTPA to 660,000 MTPA and captive power generation capacity by 150 MW to 769 MW.

The phased commissioning of the Brownfield expansion will increase volumes substantially, enabling your Company to consolidate domestic market leadership while also strengthening its presence in the international markets. Importantly, the advantages of low capital cost, in-house engineering expertise, adoption of new technology in selected areas and upgraded processes will further augment its globally competitive cost structure - a key success driver of your Company.

OPERATIONAL REVIEW AND ANALYSIS

Operationally, it has been one of the most difficult periods due to the unfavourable external environment and unusual electrical power supply problems that had significant negative impact on the operations of your Company.

The year began with heightened hopes of an economic recovery in the US and resultant positive impact on other global economies. Despite having shown encouraging signs during the early part of the year, the US recovery has not gained enough momentum. On the contrary, fears of a double dip recession gained prominence. This coupled with weak capital markets led to negative sentiment and weak consumer demand across sectors, including key aluminium consuming sectors. Thus, the global aluminium sector witnessed sluggish demand recovery, excess supplies and inventory accumulation leading to weak prices. On top of this, your Company faced problems on account of a substantial rise in power costs and disruptions to the smelter operations in September 2002.

Notwithstanding these pressures, your Company has reported satisfactory performance. Sales revenues grew by 4.5% to Rs.11,557 million, aided by a 7.9% rise in volumes at 129,894 MT in H1FY03. However, reflecting lower prices and rising costs, operating margins declined and dragged operating profit by 19.5% to Rs.4,069 million. Net profit was lower by 19.2% YoY at Rs.2,653 million in H1FY03.

Production performance

Production	Unit	H1FY03	H1FY02	%Change	FY02
Alumina	MT	236,703	239,576	(1.2)	494,724
Aluminium Metal	MT	130,532	123,915	5.3	261,338
Wire Rod	MT	25,943	25,223	2.9	52,203
Rolled Products	MT	36,671	35,588	3.0	70,113
Extruded Products	MT	9,688	8,260	17.3	16,250
Aluminium Foils	MT	9,084	7,957	14.2	17,209
Aluminium Alloy Wheels	No.	27,125	13,298	104.0	22,889
Net Power Availability					
Renusagar	MU	2,095	1,940	8.0	4,053
Co-generation	MU	124	107	15.6	242

Metal production grew by 5.3% to 130,532 MT during the first half despite interruptions to the Smelter operations in September 2002.

The performance of downstream products has also been encouraging. Wire Rod output is up by 2.9% to 25,943 MT, reflecting improved demand from the electrical sector. The production of Rolled Products was higher by 3.0% at 36,671 MT. Extrusions production soared by 17.3% to 9,688 MT, supported by improved demand from construction and strategic sectors. Foils continued with its impressive growth of a 14.2% higher production at 9,084 MT. Production of Aluminium Alloy Wheels gained further momentum.

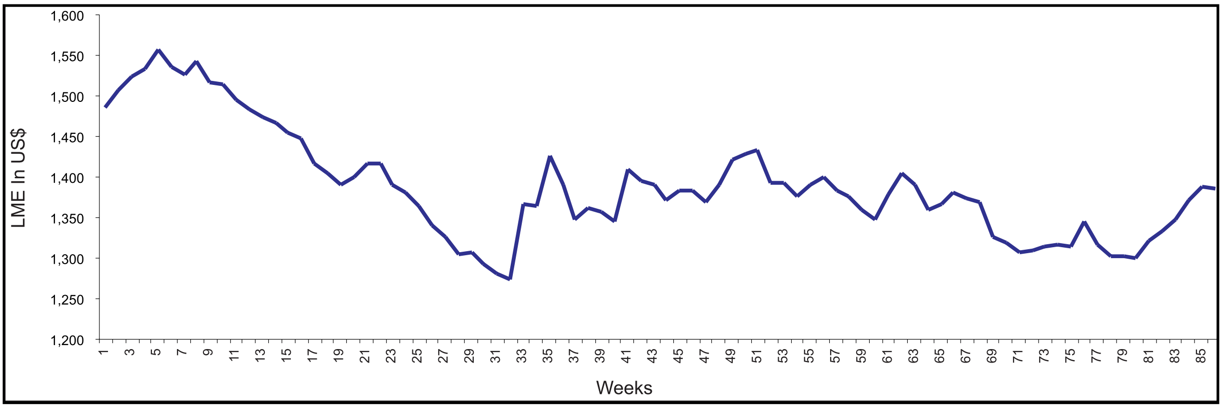
Sales Performance

Products	Sales Volume (MT)			Net Sales (Rs. Million)		
	H1FY03	H1FY02	%Change	H1FY03	H1FY02	%Change
Ingots	47,078	41,436	13.6	3,631	3,400	6.8
Billets	5,876	3,572	64.5	458	286	59.9
Wire Rods	25,831	24,397	5.9	2,113	2,131	(0.8)
Rolled	25,225	25,106	0.5	2,501	2,587	(3.3)
Extrusion	9,806	7,984	22.8	973	803	21.2
Foil	8,849	7,904	12.0	1,205	1,048	15.0
Conversions	6,552	9,436	(30.6)	391	558	(30.0)
Others (including Aluminium Alloy Wheels*)	677	570	18.7	285	250	14.0
Total	**129,894**	**120,405**	**7.9**	**11,557**	**11,063**	**4.5**
Exports	**22,512**	**15,990**	**40.8**	**1,800**	**1,337**	**34.6**
**Aluminium Alloy Wheel Nos*	24,942	8,681	187.3	41	11	264.0

Despite challenging market conditions, sales volumes grew by 7.9% to 129,894 MT in H1FY03. Proactive marketing efforts coupled with renewed focus on exports helped in ensuring strong volume growth matching production volumes, notwithstanding demand pressures in the user segment. Exports grew by 40.8% YoY to 22,512 MT in H1FY03. Aggregate revenues however rose by only 4.5% to Rs.11,557 million due to lower average realisation. The average realisation declined by 3.2% reflecting weak LME prices throughout this period.

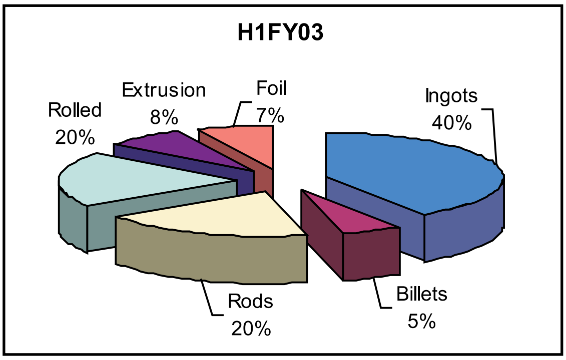
The average LME Aluminium prices fell from the level of US$1,370/MT in April 2002 to a low of US$1,292/MT in August and recovered marginally to close at US$1,318/MT in September 2002. This led to an average LME price of only US$1,351/MT in H1FY03, which reflected a fall of 7.5% YoY and had a cascading impact on downstream product prices. Coupled with intense competition in the domestic markets, average realisation for your Company declined by 3.2% to Rs. 88,971/MT in H1FY03 despite rising share of value added products.

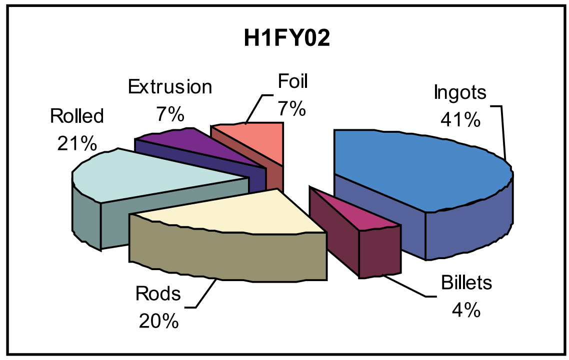
Average Weekly LME Prices from April 2002.



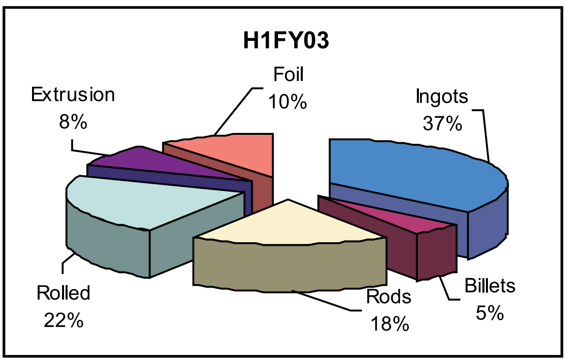
Product-wise sales performance

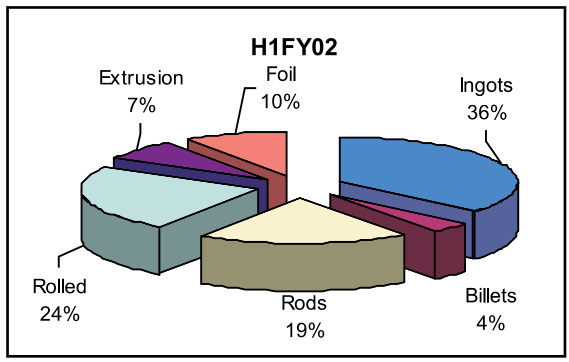
- **Sales Volume Mix**





- **Sales Value Mix**





- **Ingots**

  Ingots sales have been commendable, riding on the back of higher metal production, and despite intense competition in a weak market environment. Ingot sales volumes are up 13.6% YoY to 47,078 MT in H1FY03. Ingot revenues grew only by 6.8% reflecting weakness in prices in the domestic and export markets.

- **Billets**

  Billet sales volume jumped by 64.5% to 5,876 MT over the lower base of the corresponding period last year. A quantum jump in domestic sales volumes and an impressive rise in exports has been the key contributor to the strong Billet performance. However, with a major portion of Billet sales in the export markets, reflecting weak LME, average realisation declined marginally. Aggregate product revenues have thus grown by 59.9% to Rs 458 million.

- **Wire Rods**

  Wire Rods benefited from the aggressive marketing efforts and improvement in demand from the electrical sector. Sales volumes thus grew by 5.9% to 25,831 MT in H1FY03. Realisations came under significant pressure, declining by 6.3% and led to 0.8% fall in product revenues to Rs.2,113 million in H1FY03.

- **Rolled Products**

  Rolled Products volumes rose marginally to 25,225 MT. Keeping in mind the increased demand from the foils plant and opportunity for further value addition, your Company maintained third-party sales and utilised higher quantities of Rolled Products at the Foils Plant. Consequent to this and lower realisation, product revenues declined by 3.3% to Rs.2,501 million.

- **Extrusions**

  Extrusion sales volumes grew by an impressive 22.8% to 9,806 MT on the back of improved demand from the strategic and construction sectors. Average realisation declined marginally, by 1.3% to Rs.99,197/MT, reflecting weak LME prices. We attribute this outperformance to the benefits of the Company's efforts to improve the product mix in recent years.

- **Foils**

  The Foil performance has remained excellent even during this period. Sales volumes have grown by 12% to 8,849 MT. Aggressive marketing and promotional efforts as well as better penetration into quality conscious user segments have spurred volumes. Importantly, the product mix has become richer with increased share of high value foils, used in pharma and packaging sectors. Reflecting this, the average realisation improved by 2.7%, which is significant considering the weak LME and prevailing price competition in this fragmented sector. Foil revenues have thus grown by 15% YoY to Rs. 1,205 million in H1FY03.

- **Wheels**

  Persistent efforts to market aluminium alloy wheels are beginning to yield results. The Company has positioned its product under the brand "AURA", which is gaining acceptance. Alongside an improved order flow from the OEMs as well as customers in the export market, have led to an increase in Aluminium Alloy Wheel sales volumes from 8681 pieces in H1FY02 to 24,942 pieces in H1FY03. Revenues have grown impressively from Rs.11 million to Rs.41 million in H1FY03.

- **Exports**

  Aggregate exports soared by 40.8% YoY to 22,512 tonnes regardless of the slump in the global markets. This reflects a conscious decision taken by your Company to optimise capacities while also refraining from any unhealthy competition in the domestic market. Importantly, the export of value added products, viz., Rolled, Extrusions and Foils, have risen by an impressive 66.3% to 9,264 MT. Export revenues grew by 34.6% to Rs.1,800 million notwithstanding sustained weakness in LME, lower premium and resultant pricing pressure across products. This speaks of the strengthening quality of products and services and bodes well for the future.

Financial Review and Analysis

(In Rs. Millions)	**H1FY03**	**H1FY02**	**% Change**	**FY02**
Net Sales	11,557	11,063	4.5	23,314
Total Expenditure	7,488	6,009	24.6	13,374
Operating Profit	4,069	5,054	(19.5)	9,940
Other Income	817	764	6.9	2,109
Interest	132	206	(36.2)	456
Depreciation	826	744	10.9	1,543
Profit before Tax & Extraordinary Item	3,928	4,868	(19.3)	10,050
Provision for Current Tax	790	1,300	(39.2)	2,570
Profit before Deferred Tax	3,138	3,568	(12.0)	7,480
Provision for Deferred Tax	485	285	70.0	620
Net Profit	2,653	3,283	(19.2)	6,860
EPS for the Period (Rs.)	36	44	(18.3)	92
Cash EPS for the Period (Rs.)	47	54	(12.7)	113

- Supported by a 7.9% YoY growth in sales volumes, as mentioned earlier, net revenues grew by 4.5% from Rs.11,063 million to Rs.11,557 million. It would have been higher but for a marginal fall in average realisation, in turn caused by weak LME prices and resultant pressures in the domestic and export markets.
- Operating expenses grew by 24.6% largely due to the increased cost of power, CP coke, salary and wages, etc.

  Insufficient quantity and poor quality of coal supplies from Northern Coal Fields Limited necessitated higher consumption and increased outsourcing of coal, which pushed cost of captive power generation significantly. Given that the power costs account for nearly one third of production costs, the rising cost of captive power affected operating costs and margins significantly.

In addition, your Company's operations were impaired due to major disruptions of power supplies during September 2002.

Consequent to rising costs and production loss arising from the disruption in power supplies, operating margins declined from 45.7% in H1FY02 to 35.2% in H1FY03 and dragged operating profits down by 19.5% to Rs. 4,069 million during this period.

- Other Income has grown 6.9% YoY with the recognition of dividend income in tandem with Accounting Standard AS-25. Treasury returns declined on account of lower interest rates during this period.
- Net interest charges are lower by over 36.2% to Rs.132 million due to gains in interest rate swaps and higher capitalisation. A sum of Rs.172 million was capitalised during H1FY03 vis-a-vis Rs.129 million capitalised during the corresponding period of last year.

  Gross interest charges stood at Rs.453 million in H1FY03, mirroring a growth of 9.2% YoY. Higher gross interest charges are attributed to the fresh loan of Rs.2,000 million raised by your Company at benchmark rates during the period under review.
- The part commissioning of the Brownfield expansion and resultant capitalisation of new assets has pushed depreciation charges by 10.9% to Rs. 826 million during H1FY03.
- Reflecting lower operating profits, despite lower net interest charges, pre tax profits have gone down by 19.3% to Rs.3,928 million in H1FY03. Consequent to this and benefits of higher asset capitalisation (resulting in enhanced WDV Depreciation), the effective tax rate declined from 26.7% to 20.1% and led to a 39.2% fall in current tax provisions at Rs.790 million in H1FY03. The effective tax rate would have been even lower but for reduced export benefits and non-availability of capital gain on mutual funds income during this period.
- The deferred tax provision has increased 70.0% YoY to Rs.485 million on account of higher WDV depreciation, associated with asset capitalisation during this period.
- Consequent to these, your Company's net profit for the first six months stood at Rs.2,653 million, reflecting a fall of 19.2% YoY.

Coal supply problems at the captive power plant

Your Company's captive power plant at Renusagar has been facing problems of coal supplies since FY01. A natural calamity in the coal mine affected quantity and quality of coal supplied by Northern Coal Fields Limited. The deterioration in quality of coal necessitated higher consumption, which coupled with problems of insufficient quantities of coal supply forced your company to resort to market purchases. These pushed up costs significantly over the last year and the problem intensified during the first half of current financial year.

Towards resolving this problem on a permanent basis, your Company has been pursuing with the authorities over the last year. Your Company has since been granted linkages for additional quantities of coal from Northern Coal Fields Ltd and an agreement is being put in place. We expect supplies to increase gradually during the second half. In the interim, your Company will focus on cost efficient procurement of coal.

Power disruptions at the Smelter in September '02

Your Company also suffered a substantial setback on account of disruption in power supplies in September 2002.

The heavy rains and consequent flooding of the coal feeding area in the captive power plant as well as the supply points at the coal mines affected supplies of coal from the linked mines to your Company. The problem was further compounded by a serious fault in the connected grid network, which led to tripping of the generating units at Renusagar. These caused major power supply disruptions and a total power failure resulting in the closure of 542 pots out of 1593 operating pots and a production loss of about 6,000 MT of metal during September 2002. Since then, 477 pots have been recharged / newly added so far.

Apart from loss of metal production, the pot closures will lead to additional expenses towards pot relining and restarting, which will eventually lead to higher operating costs during second half. Your Company is taking necessary steps to restore normalcy at the smelter in the shortest possible time and the Company is working on strategies to eliminate recurrence of such incidents in the future.

Agreement for Sale of MRPL Shares

During the period under review, your Company has decided to exit from the joint venture in Mangalore Refineries and Petrochemicals Limited (MRPL). Your Company has entered into a Share Purchase Agreement with Oil and Natural Gas Corporation Limited (ONGC) for the sale of 95,695,742 equity shares of MRPL @ Rs.2 per share. The sale will be completed only after obtaining the necessary government/statutory approvals. A loss of Rs.1,328 million in this transaction, will be accounted for, when the sale is completed. In the event, the sale of these equity shares is not completed before the end of current financial year, the decline, other than temporary, will be determined in the value of the equity shares. In accordance with past practice, the carrying amount of long-term investments will be adjusted for such decline at the time of preparation of annual accounts.

SECTOR OUTLOOK

Global Outlook

The global demand for aluminium is improving, though its pace is slow and disappointing. During the first eight months of CY2002, global consumption grew by 3% against negative growth of 4.5% last year. The growth was driven by improved demand in the US (up 4.3% during first 8 months against (-) 14.1% in CY2001), an equally impressive recovery in Asia (up 5.7% against (-) 5.5% last year) and continued robust demand growth in China (10.8% against 8.9% last year). Meanwhile, supplies outpaced demand notwithstanding the production cuts and global production grew by 5.1% during first 8 months of CY2002. This led to rising inventories and continued weak sentiment in the global aluminium markets.

Industry experts forecast global consumption to grow by 4% in 2002 against a fall of 4.5% in 2001, but the pace of recovery will be contingent on recovery in the US economy. The US economy is still sending mixed signals and fears of a double dip recession are continuing. Asia and China are continuing with healthy growth and have emerged as key growth drivers of demand during CY2002. In an uncertain global environment, Asia, and China alone, cannot offset the impact of slow pace of recovery in the US, Europe and Japan. Industry experts thus believe that only a definite improvement in the US economy can instill confidence in economies and consumers across the World, which in turn will lead to sustained improvement in the prospects of the global aluminium sector. Against this, global supplies are expected to take off on the back of explosive growth in Chinese metal production and the full impact of capacity expansions and possible restarts of idled capacities during the year.

The long-term outlook however remains strong with fundamentals remaining intact. The intrinsic qualities of the metal will ensure sizable growth and a bright future in the coming years. We expect consumption growth to gather pace in CY2003, in tandem with improving economic fundamentals.

Domestic Outlook

The domestic aluminium sector is showing encouraging signs which augurs well for the future. Any firm improvement in economic fundamentals will further strengthen the demand outlook for aluminium in the country.

Domestic aluminium consumption grew by 4% in H1FY03 supported by the improved demand in the Electrical and Transportation segments. Demand from Packaging, Powders & Chemicals, Strategic Applications and Construction sectors has been encouraging while that from the Consumer Durable sector is short of expectations.

Going forward, we foresee an improvement in demand in the short term. Our cautious optimism stems from the encouraging signs of a possible pick-up in the level of industrial activity, reflected by continuing growth in the Industrial Production Index, aided by key consuming sectors viz., Electrical, Transportation, Packaging, Construction and Strategic Applications. We expect domestic demand to grow by 4-5% in FY03. This is despite the impact of scanty rains and resultant forecast sluggish growth in the agricultural sector.

Our immediate term concern is on the timing of the economic recovery, which will have a bearing on demand and prices. Our concern over pricing stems from the fact that the likely increase in domestic supplies with stabilization of new capacities will progressively intensify competition and pressurize realizations, both in the primary metal and value added products.

We remain excited about the long-term prospects of aluminium in India. The promising growth prospects in the Electrical, Transportation and Building Construction will ensure substantial growth in aluminium consumption going forward. Aided by changing consumer choices, packaging applications will drive consumption further in the future. On the back of these, supported by strengthened economic activity, we expect demand growth to average around 8% in the long run. The success of the product and application development efforts taken by the domestic aluminium manufacturers will also significantly demand growth in the long term.

Price Outlook

Global price outlook

The continuing uncertainty over the timing of the economic recovery in the US and rising inventories are inducing consumers to buy only for their immediate term requirements. Reflecting weak fundamentals, prices have remained weak so far in 2002. With supply growth outpacing demand and pace of demand recovery remaining slow and uncertain, LME prices are expected to remain weak in the near term. There is a lurking risk of the locked LME inventory, which once made available, could weaken international prices. Your Company thus expects global aluminium prices to be in the range of US$1300-1375 /MT for H2FY03.

Domestic price outlook

We expect domestic prices to remain under check and move within a narrow range during H2FY03. The forecast continued weakness in global aluminium prices, impact of falling tariff barriers and rising domestic supplies will emerge as key price determinants during the second half. Likely higher supplies from Nalco's expanded Brownfield capacity together with higher production of your Company will result in improved availability of metal. This coupled with international price pressures and risk of drought situation is likely to usher in a price competition, both in the primary metal as well as value added products in the near term. Your Company is geared to successfully tackle any such situation.

Growth Strategy Going Forward

We are excited about the promising growth prospects for your Company, emanating from the benefits of the recent restructuring and resultant creation of a strong growth platform for the future. Our strategy going forward would be to leverage the benefits of size, financial strength and flexibility optimally to grow both the Aluminium and Copper business in the future.

Brownfield expansions to drive immediate term growth

The immediate term growth will be driven by the benefits of on-going Brownfield expansions in both Aluminium and Copper. In Aluminium, the Rs.18 billion Brownfield expansion is progressing as per schedule. As you are aware, the first two potlines have been successfully commissioned and the last potline will be commissioned by middle of FY04. At Indal, we are in the midst of a Smelter expansion at Hirakud, which has been part-commissioned and in the process of stabilisation. We thus expect strengthened metal supplies to drive volume growth from FY03 onwards. Simultaneous to this, the adoption of new technologies and process upgrades carried out will improve efficiency and reduce costs, in turn enhancing the competitive strengths of your Company.

We will leverage benefits of low cost metal and success of our product and application developments optimally to further strengthen market position and optimise revenues in the future. Our committed efforts to develop new applications across value chain have been yielding encouraging results and will contribute further towards strengthening our position in the value added product segments.

In Copper, the on-going expansion of the smelter capacity from 150,000 MTPA to 250,000 MTPA is expected to go on stream by Q1FY04. Given the success of Birla Copper's export marketing activities and huge potential in the Asian markets, we are confident of its substantial contribution to your Company's growth in the immediate term.

Cost reduction efforts to add further strength to earnings

Through the initiative under Project Rocket 2K, annualised savings of Rs.230 million have been achieved till date and we are confident of meeting the cost savings target of Rs.400-500 million on an annualised basis. These savings are being achieved through cost reduction initiatives by increasing thru put, reducing cycle time and optimising inventories.

To accelerate savings through resource optimisation and cost reduction we have started implementing ERP under the Project Everest initiative. Already under progress, the first phase is to be implemented in FY04.

CONCLUSION

In sum, your Company has delivered satisfactory performance amidst extremely challenging market conditions. A well-crafted strategy, relentless focus on moving closer to customers by offering quality products and service as well as widening reach has been a key contributor to this performance.

In all our activities, we are guided by our vision that drives us towards sustained growth and cost efficiency, all with the ultimate objective of delivering superior value on a sustained basis to our shareholders. Our success continues to be embedded on the very strong foundation of our people and continuing support of our valued stakeholders.

Let me assure you that we shall work with single-minded focus to ensure that all our activities target the enhancement of value for you, our valued shareholders.

Yours sincerely,

A K Agarwala
Director (Whole-Time)

Dated 25th November 2002

CAUTIONARY STATEMENT

Statements in this "Performance Update" describing the Company's objectives, projections, estimates, expectations or predictions may be "forward looking statements" within the meaning of applicable securities laws and regulations. Actual results could differ materially from those expressed or implied. Important factors that could make a difference to the Company's operations include global and Indian demand supply conditions, finished goods prices, feedstock availability and prices, cyclical demand and pricing in the Company's principal markets, changes in the Government regulations, tax regimes, economic developments within India and the countries within which the Company conducts business and other factors such as litigation and labour negotiations.

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HINDALCO INDUSTRIES LIMITED

Ahura Centre, ‘B’ Wing, 1st Floor, 82-Mahakali Caves Road, Andheri (E), Mumbai - 400 093.
Tel.: 5691 7000 ● Fax : 5691 7001 ● Email : share@hindalco.com Website : http://www.hindalco.com

Shri Balaji Art Printers
Ph. : 022 2883 4984