



**Hindalco Industries Limited
Chairman's Address**

to

The Shareholders

at

The 52nd Annual General Meeting

on

Friday, 23rd September, 2011

Mumbai

Dear Shareholders,

It is a pleasure to welcome you to the 52nd Annual General Meeting of your Company.

Mr. E B Desai, who had been on the Board of your Company for over 26 years, left for his heavenly abode in December 2010. As a mark of respect to the departed soul, may I request everybody to please stand-up and observe silence for a minute.

Worldwide, an **unmistakable phenomenon** all around has been the **sharp** accentuation of uncertainty about the future course of the large global economies. Governments are **struggling** to respond appropriately to this uncertainty which **inevitably** spills over into the world of business. This is more than evident in terms of volatile **financial** markets, uncertainty in growth, **uneven** trade, **high** unemployment, and **intractable** inflation. Clearly, such pronounced volatility is highly **disruptive**, both for the global economy and for business. And India is **no** exception to these tectonic happenings.

India's economic performance during FY11 was **powered** by the agricultural and service sectors. Growth in the infrastructure and capital goods sector was **slower** than the GDP growth. While the economy showed signs of a turnaround, it suffered setbacks, albeit in a limited way. Factors that affected us include high inflation, fiscal and current account deficits and lack of policy **facilitation** to increase domestic investments, among others. Despite several measures adopted by the Government and the Reserve Bank of India, inflation has not been reined in at the desired level.

Fortunately, despite these developments, the **aluminum sector** fared better than other sectors. Globally, aluminium consumption stood at around 41 million tonne, a sharp increase of over 20% over 34 million tonne over the previous year. Production was marginally higher at around 42 million tonne vis-à-vis 38 million tonne in 2009.

The strong recovery in the emerging market demand and primarily restocking led growth in developed markets have been the stokers. China continued to be the driving force, growing at ~ 21% and contributing to over 41% of the global aluminium demand in 2010. Aluminium production spiked as producers restarted their capacities on account of the smart recovery in the aluminium LME. Consequently, the global markets **continued** to be in surplus.

Likewise, **refined copper** consumption saw an impressive recovery in 2010, after two consecutive years of decline in 2008 and 2009. Consumption rose to 18.5 million tonne in 2010, clocking a growth of 8.5% over 2009, despite a 46% rise in LME prices.

Copper TcRc for the year 2010 declined sharply but, taking advantage of a special window when TcRc moved up for a short period, your Company, in the current year (FY 12), is in a better position than many other custom smelters.

Moving on to the **operations of your Company** during the year under review, I am pleased to share with you that your Company has truly excelled.

Your company's **consolidated revenue** at US \$ 15.9 billion, is the highest ever. This reflects a growth of 24%. Its adjusted EBITDA stands at US \$ 1.93 billion . Your

Company's low cost business model, operational excellence, superior product mix and its balanced and de-risked portfolio have been the **growth propellers**..

With **industry-leading** assets and technology around the globe, your company's subsidiary Novelis, produces **the highest** quality aluminum **sheet** and **foil** products for customers in **premium-value** markets including transportation, packaging, architecture, electronics and printing.

Your company's standalone results have been impressive as well. Revenues for the year crossed USD 5 Bn. But for input cost pressures, lower TcRc and one-timers associated with the Hirakud power outage, **your company's performance could have been even more impressive.**

The EBITDA at Rs. 3,502 crore as against Rs. 3,210 crore in FY10 is not comparable. In the preceding year, your company had recorded a gain of over Rs. 349 crore, arising out of the AS-30 transition and this was factored in the EBITDA. The EBITDA growth, when adjusted for this one timer, last year is at 22%.

In the Aluminium Business in India, constant endeavours to produce more metal through asset sweating and de-bottlenecking at Renukoot enabled your company to produce 538 KT. The outage at Hirakud affected metal production. However, aggregate production was just marginally lower than the previous year's production of 555 KT.

Aluminium sales at Rs. 7,965 crore were up 14%, on the back of better realization. The EBIT margin of the Aluminium Business is amongst the highest compared to

domestic and global peers. This underlines your Company's strategic thrust and commitment to combine cost leadership and portfolio de-risking.

For the Copper Business in India, FY11 posed several challenges. Strong copper prices leading to higher working capital blockage, tightness in the concentrate market, and lower TcRc, along with severe cost inflation squeezed the custom smelters' margins **significantly**. Our Copper Business today, in a way is a portfolio of various business opportunities arising out of the by-products in copper manufacturing.

Against these **significant** odds, your Company's Copper smelting business delivered a strong performance. The business contributed Rs. 15,902 crore to the top line, a growth of **27%** YOY, and delivered an EBIT of Rs. **602** crore as compared to Rs. 660 crore last year. Loss in production due to an unexpected cooling tower problem coupled with adverse **TcRc** and rising cost pressures constrained the business.

I am pleased to share with you that your Company's subsidiary - **Aditya Birla Minerals Ltd. in Australia** has done well. It has contributed AUD 57 million to your company's net profits. Its Nifty mines recorded the highest production in copper and the highest mined ore processed to-date. Production at Nifty copper was at an all time high at 59.6 Kt despite lower copper grade. Mount Gordon, its other mine has received the requisite approval for mining.

Now, let me focus briefly on Novelis. It has posted truly outstanding results. A net income of US \$ 116 million, an adjusted EBITDA of \$1.1 billion and a solid free cash flow of US \$ 310 million. These numbers reflect a slew of ongoing initiatives

geared to strengthen the business. These include optimizing the Company's footprint, reducing its cost base by closing underperforming and non-core plants and investing in recycling initiatives. The expansion of the Company's **Pinda mill in Brazil** and **global debottlenecking projects** designed to increase capacity, have been the stimulants.

On Financing, despite the grim global scenario, your Company has successfully closed transactions **in excess of USD 7 billion**. These include the financial closure of Utkal Alumina **and** Mahan Aluminium Projects. Additionally, the refinancing at Novelis has opened up a funding avenue between Novelis and Hindalco to ensure superior allocation of resources through fungibility of cash.

On your company's brownfield expansion projects, several projects are on the ground. The **Hirakud Flat Rolled Products project** is underway. As perhaps you are also aware, the FRP production from the Novelis Plant at Rogerstone in the United Kingdom is being moved to India. The project will be completed by end 2011. It will give your Company an edge in the local and export markets.

On your Company's greenfield projects, let me mention that all of your Company's Greenfield projects are progressing well. Of these projects, two aluminium smelters and one large alumina refinery viz., **Mahan Aluminium, Aditya Aluminium and Utkal Alumina** are in an advance stage of execution with a capital outlay of **US \$ 5 billion**. Let me reiterate that when these projects, **along with those which are currently on the drawing board**, are commissioned, **your Company**

would be a 1.7 million tonne aluminium behemoth with 6 million tonne alumina refining capacity.

The clearance of the Mahan coal block has been referred to an Empowered Group of Ministers (EGoM) which has been constituted for the purpose of deciding on forest clearance for coal blocks, including that for Mahan. Your Company has already made detailed representations and is hopeful of a favourable decision by EGoM, considering the merits of the case. Your Company is making alternate arrangements for the interim period, pending approval of coal block.

The timely execution of the greenfield projects would enhance our cost competitiveness and give your Company a **distinct global competitive edge**.

On the outlook for the future, I believe, it would be great going for your Company as we move ahead. We are on the threshold of significantly increasing our Alumina Refining and Aluminium Smelting capacity. The revenues and EBITDA stream from these projects would begin with the projects going on stream. The timely commissioning of these projects is a key to our future profitability.

I believe your Company is well poised to emerge as a “Global Metal Business” comprising India Centric Upstream capacities and Global Value Added Downstream capacities.

Moving on to dividend, your Directors have recommended a dividend of Rs. 1.50 per equity share, higher by more than 10% compared to previous year. The dividend distribution will result in a cash outgo of Rs. 334 crore (including tax on dividend of

Rs. 47 crore) compared to Rs. 301 crore (including the tax on dividend of Rs. 43 crore) for the previous year. The dividend is subject to your approval.

Before going ahead with the agenda for the day, I would like to very briefly speak about your **Company's role as a caring corporate citizen.**

At the Aditya Birla Group, caring for the underserved is a legacy and an unwritten edict. Your Company is proud to be a part of this legacy. **Your Company's CSR activities** are concentrated in 660 villages and 10 urban slums which are close to your Company's manufacturing plants. These are spread across the country.

Your Company's endeavours to bring in inclusive growth are channelized through the Aditya Birla Centre for Community Initiatives and Rural Development, of which, your Director, Mrs. Rajashree Birla, is the Chairperson.

Long before sustainability and environment conservation became buzzwords, we as a Group, operated and continue to operate our businesses as Trustees with a deep rooted obligation to synergize growth with responsibility. Even as we build a robust business model for long-term growth, texturing sustainable development within its ambit, is part of our process. Environment conservation **and** sustainable development are always on our radar.

Social and environmental practices in our Group entail the simultaneous creation of economic, environmental and social value, and taking these practices far beyond **compliance**. Over the last decade, these measures have been institutionalized in

the Group. Consequently, these are integrated into our business strategies **and** in all our endeavors to foster inclusive growth as well.

Your Company's efforts towards environment conservation and social projects are spelt out in detail in the Annual Report. I hope all of you have read these chapters.

I also take this opportunity to very warmly thank all of our **employees** for their contribution to your Company's performance. We applaud them for their superior levels of competence, dedication and commitment to your Company. I am grateful to **our Bankers** who have helped us by supporting our growth momentum.

I would also like to express our deep sense of gratitude to all of **you, our shareholders**. I look forward to your continuing commitment and support in your Company's onward march. Finally, I wish you all a very happy festive season.

Having provided you with a snapshot of your Company, may I now commend the first resolution relating to the adoption of the Accounts and Directors' Report for your consideration and approval.

Thank you,

Kumar Mangalam Birla

(This document does not purport to be a record of the proceedings at the Annual General Meeting)