

Mr. Kumar Mangalam Birla, Chairman, Hindalco, addressed shareholders at the company's 47th Annual General Meeting, on 28 July 2006, 3.30 pm, Birla Maturshri Sabhagar, Mumbai

Dear fellow shareholders,

It is indeed a pleasure to welcome all of you to the 47th Annual General Meeting of your company.

The year 2005-06 was yet another momentous year for your company. Your company has achieved an excellent performance, marking a major milestone as it crossed the Rs.100 billion mark. In the aluminium sector, with LME prices recording new highs, your Company posted an excellent performance. Your company has recorded its highest ever net profit of Rs.1,655 crore on a splendid turnover of Rs.11,396 crore. Of this, your company's aluminium business posted revenues of Rs. 6,042 crore and copper Rs.5,354 crore.

Your company's achievement must be seen in the light of some of the challenges that it had to grapple with, particularly in the copper business. In fact, the copper business faced the toughest ever year in its nearly decade-old history, inspite of a higher TCRC. Operational issues resulted in production shortfalls. The huge backwardation prevailing in the market posed a challenge.

Operational efficiencies, the thrust on value-added products and an innovative market-mix augmented your Company's overall profitability despite these constraints.

I would now like to briefly dwell on the key developments in your Company during the year and the growth terrain that we have envisioned to deliver superior value to our multiple stakeholders.

ABML on the Australian Stock Exchange

I am indeed delighted to share with you that Aditya Birla Minerals, your Company's subsidiary, has the distinction of being the only pure copper focused listed company in Australia. It is also the first and only Indian Company to be listed on the Australian Stock Exchange.

Our vision for your Company is indeed ambitious. We aspire to be among the top ten global producers in alumina, aluminium and copper. To catapult your Company to this league, we have embarked on massive capacity expansions and greenfield projects. I would like to give you an update on these.

- The expansion of your Company's alumina refinery at Muri in Jharkhand, from 110,000 metric tpa to 450,000 metric tpa is at an advanced stage. We expect commencement of mechanical commissioning soon.
- The Hirakud expansion is in two phases. Phase One which entails ramping up of the smelter from 65,000 tpa to 100,000 tpa and the power capacity from 167.5 mw to 267.5 mw, is on schedule. The commissioning of a part of the pot lines should commence by December end.

The second phase where a further ramping up of the smelting capacity from 100,000 tpa to 146,000 tpa is in line with our expectations. The second phase should be commissioned by the end of December 2007.

- For the expansion of the alumina refining capacity at Belgaum from 350,000 tpa to 650,000 tpa, we have yet to be allotted the leases for the bauxite mines.

- On our joint venture – Utkal Alumina in Orissa, where we plan to set up a 1.5 million tpa greenfield alumina refinery, I am pleased to inform you, that the preliminary work has already begun. We have started piling in the precipitation area of the plant. We have submitted the mining plan to the Indian Bureau of Mines at Bhubaneshwar. While we have already provided 100 houses in the rehabilitation colony, under the rehabilitation and resettlement package, the building of an additional 90 houses is in full swing. We expect the project to go on stream by December 2009.
- Considerable progress has been made in your Company's greenfield Aditya Aluminium project. This, as you are aware, is an integrated 1.5 million tpa alumina refining and 325,000 tpa aluminium smelting project in Orissa. The land acquisition has proceeded ahead of the schedule. The Government has already allotted coal blocks Talabira II and Talabira III to your Company in a joint venture with Mahanadi Coalfield Limited and Neyveli Lignite Corporation. We are awaiting regulatory approvals. We expect the projects to start in March 2010.
- Your Company has entered into an M.O.U. with the government of Madhya Pradesh for a greenfield venture to build a 325,000 tpa aluminium smelter along with a 750 mw power plant. To meet the coal requirement for this project, your Company has been allotted a coal block in a joint venture with the Essar Group in the Siddhi district of Madhya Pradesh. The joint venture formed has been named "Mahan Coal Company Limited" with both Hindalco and Essar having a fifty per cent stake each.
- Perhaps many of you may be aware that your Company had signed an MoU in 2005 with the government of Jharkhand for a 325,000 tpa aluminium smelter and a 750 mw power plant in the state. In this regard, the state government has forwarded its recommendation for the allotment of a coal block to the company, to the Ministry of Coal. Your Company has already

zeroed in the site for the project. Land selection and contour mapping is in progress. We are working on filing applications for the infrastructure required.

- In so far as it relates to the copper business, your Company has recently commissioned its new line of 250,000 metric tpa. With Copper III kicked off, your Company's total capacity moves up to 500,000 metric tpa, making it the world's largest smelter at a single location. When fully ramped up, it catapults Hindalco into the top 10 global copper players.

The financing plan for all these projects is already in place. These projects will significantly enhance the scale of your Company's operations. It will add more muscle to its competitive strength, by virtue of its being one of the lowest cost producers of alumina and aluminium globally, in a regime where cost curves are moving upwards.

Dividends

Your Directors are pleased to enhance the dividend by 10 per cent to Rs.2.20 per share for your approval. Last year your Company had given a dividend of Rs.20 per share of face value of Rs.10 each. The payout inclusive of the corporate dividend tax, will be 14.9 per cent of the net profit for the year.

Fund raising

A 10-year secured rupee term loan facility amounting to Rs.1,500 crore was tied up during the year in addition to Rs.4,950 crore tied up last year. The loan is priced at the same level, i.e., at a spread of 65 basis points over the 5-year G.Sec. The facility has a two-year drawdown period and will be dipped into as and when required for the expansion projects.

Performance in the first quarter of 2005-06

Let me now share with you the highlights of your Company's performance during the first quarter of this year.

Aluminium

Production in alumina and aluminium has recorded good growth with all the plants operating above 100 per cent capacities.

- The output of alumina, which is a key input, has been sustained at 299,188 mt
- Likewise, metal production at 107,263 mt vis-à-vis 105,744 mt in the corresponding period last year, has been maintained
- Redraw rods at 17,034 mt is 3 per cent higher over the production of 16,617 mt in the comparable quarter last year
- The rolled products output at 52,109 mt reflects a rise of 9 per cent over that of 47,740 mt in the earlier year
- Extruded products at 8,639 mt from 7,671 mt is up by 13 per cent
- Production of foil at 7,303 mt has grown by 10 per cent over 6,646 mt attained in the corresponding period last year
- Aluminium alloy wheels production rose to 46,106 wheels from 31,087 wheels, reflecting a 48 per cent rise this quarter
- Power generation at your Company's power plants was 2,058 mu, a 7 per cent increase over 1,929 mu, achieved in the corresponding period last year.

Copper

At Birla Copper production volumes have increased across all product segments. Copper Smelter I operated at over 85 percent utilisation level. Copper Smelter II has done well. Copper Smelter III underwent a scheduled shutdown in May 2006.

Let me now come to the production volumes.

- Copper cathodes production rose more than 50 per cent to 64,670 mt, vis-à-vis 42,894 mt last year.
- The output of continuous cast copper rods shot up by 34 per cent to 27,305 mt, as against 20,317 mt in the corresponding quarter last year.
- Sulphuric acid production at 211,657 mt soared by 67 per cent, vis-à-vis 126,840 mt last year.
- The production of DAP and complex fertilisers at 72,502 mt over 65,908 mt, reflects a 10 per cent growth.
- The output of gold surged by 121 per cent to 2,712kg from 1,228kg in the corresponding quarter of the last year.
- Silver production increased by 19 per cent by 9,523kg, vis-à-vis 8031kg in the corresponding quarter last year.

Sales

Your Company has recorded a strong growth in revenues and profit for the first quarter of the current fiscal. Your Company attained net sales of Rs.4,274 crore as compared to Rs.2,207 crore in the corresponding quarter of the last year. Your Company's net profit stands at Rs.602 crore reflecting a 59 per cent rise, recorded in comparison to the corresponding quarter last year.

These results have been achieved inspite of the negative impact of Rs.52 crore, after the reversible of benefit from the target plus, consequent to the amendment of the EXIM policy which went into retrospective effect from 1 April 2005.

Moving over to the sector-wise performance, I am happy to inform you that your Company's aluminium business has posted a commendable performance,

registering a growth of 23 per cent in revenues. This division has recorded a sales turnover of Rs.1,654 crore vis-à-vis Rs.1,340 crore in the comparable quarter of the earlier year.

In copper, net sales during the first quarter tripled from Rs.868 crore in the first quarter last year to Rs.2,622 crore this year because of the all-round increase in output.

Outlook

Let me now share with you the outlook of your Company for the fiscal 2006-07.

Aluminium

I believe the aluminium sector is poised for good growth. Globally, aluminium demand is slated to grow at 5 percent this year. The robust growth in the Asian region, led by China, would continue to drive the demand for metals. Amazing as it may seem, there has been a 21 per cent increase in aluminium consumption in China. A significant demand is forecasted from the East European countries, South Asia and parts of Africa, where demand has grown seven per cent. The transportation sector has been the strongest growth driver in North America. In Europe demand is fuelled by the robust outlook for beverage-can stock and the construction sector.

In India, the domestic aluminium consumption increased by 12.7 per cent, on the back of the electrical, transportation and construction sectors. The government's focus on the infrastructure sector will also propel aluminium growth in our country, as well as the growing importance of India as a global manufacturing hub for automobiles.

Our guesstimate is that domestic aluminium consumption will grow by nine to 10 per cent in FY'07.

A structural shift in the global aluminium industry is likely to keep prices above historical averages.

Copper

In so far as the copper sector is concerned, I would like to add that in the recent past, copper prices have been extremely volatile. In fact, the daily volatility has nearly doubled in comparison to the same period a year ago. The global macro economic outlook, affected by high crude prices, uncertainties on supplies from mines, low inventories and continued large-scale activities of financial investors in the copper market, are issues of concern.

Increasing capacity utilisation at smelters and fresh capacities coming on-line have put very significant pressure on the concentrate market. This is adversely impacting TCRC which today stands at levels of 16 to 17 cents per pound. I believe for the ensuing two years, TCRC will remain under pressure, given the global concentrate supply scenario.

Having said this, I must add that India's strong economic growth will fuel demand in copper, in applications like building, wiring, winding wires in motors, and other machinery. We believe that in both our aluminium and copper business, we are well positioned to grow.

A caring corporate citizen

Last but not the least I would like to very briefly speak about the role your Company has been playing as a committed caring corporate citizen.

Environment management

We believe in sustainable development. For us this translates into meeting today's needs without jeopardising the needs of future generations. For us this means understanding that the earth's resources are finite and that as far as possible, using these sparingly and in a responsible manner, makes greater business sense.

We are signatories to the Global Compact, a UN sponsored initiative and we subscribe to the triple-bottom line accountability. So we regard social, economic and environmental responsibility as integral elements that drive business. We believe these are interdependent and equally important to our success as a corporate.

All of your Company's plants and mines, adopt clean technologies and processes that combine both economic progress and sustainable environment.

India being a signatory to the Kyoto Protocol on greenhouse gas (GHG) reduction, your Company has taken an initiative towards reducing GHG at its expansion project at the Hirakud smelter. A CDM (Clean Development Mechanism) has been registered with the United Nations Framework Convention on Climate Change (UNFCCC).

Several accolades have been bestowed on your Company for its work in environment conservation. These have been spelt out in detail in your Company's Annual Report.

Social responsibility

The philosophy of caring, giving, developing and empowering an under-served people is part of our Group's DNA. It is a common strain that courses through the veins of all our Group Companies.

Your Company's social projects in India's hinterland are carried out in over 480 villages under the aegis of the Aditya Birla Centre for Community Initiatives and Rural Development, led by my mother.

I am so delighted to inform you that in recognition of your Company's outstanding contribution to the arts, education, the environment and community development,

CNBC's "Asian Business Leader Award for The Asia Corporate Citizen of the Year" was conferred on your Company.

Your Company's work is based on the felt needs of the communities. It is in tandem with the Group's social vision, which is "to make a qualitative difference to the lives of the weaker sections of society in proximity to our plants and in doing so improve the human development index of our nation". For the year 2005-06 we reached out to over 14 lakh people.

The Rural Technology Training Park, which we have instituted at Renukoot, has helped enormously in building competencies and imparting new skill sets to the rural people. This has helped put more than 500 villagers on the road to sustainable livelihood.

Let me give you a feel of our work during the year.

Your Company catered to the healthcare needs of over 2,50,000 villagers, besides providing medical care at extremely subsidised rates at your Company's hospital to nearly an additional 2 lakh people. In the area of education, we reached out to over 22,000 students supporting them in different ways, and enlisted 12,000 persons in our Adult Literacy Programmes.

On the plank of our sustainable livelihood project, we rendered over 43,000 people economically self-reliant, and an additional 15,766 women through the self help Groups formation.

Your Company's social engagement is aimed at helping bring in a more equitable society. Your company's board and its employees are all committed to this process.

In appreciation

I must emphasize that the overriding reason behind your Company's success has been your Company's management and its people, who work relentlessly to ensure that Hindalco continues to be a meritocracy.

I must place on record your Board's and my personal appreciation of your support and your commitment to help Hindalco grow from strength to strength.