

ANNUAL REPORT
2010 - 2011



Leadership through Consolidation





Mr. G. D. Birla and Mr. Aditya Birla, our founding fathers.
We live by their values.
Integrity, Commitment, Passion, Seamlessness and Speed.



Dear Shareholder,

The global economy has withstood the recession though its recovery has been rather sluggish. World growth decelerated to nearly 3.8% during the second half of 2010 from 5.3% during the first half. The IMF forecasts a 4.3% global growth in 2011. The US economy grew at 3% last year. Growth in the Euro zone was muted at around 2%. In sharp contrast emerging economies have grown briskly - in excess of 7%. China and India are the clear standouts, peaking at over 10% and 9% growth respectively.

With the global economic growth slowing, growth levels in India are likely to be impacted. Nevertheless, as we know, the fundamentals of the Indian economy remain strong. Over the past few years India's track record has been impressive. The country recorded almost twice the global growth rate. Whilst the country does face roadblocks in the short term, the medium to long term growth prospects for India are bright. These have a bearing on your Company's growth and performance.

For the Financial Year 2010-11, your Company's consolidated revenues stood at US \$ 4.7 billion (₹ 21,585 crores) vis-à-vis US \$ 4.3 billion (₹ 20,195 crores) in the previous year. Net profit at US \$ 501 million (₹ 2,279 crores) is lower by 17% in comparison to US \$ 581 million (₹ 2,759 crores) – excluding extraordinary item in FY 2010.

“Our growth plans in the VSF sector continue to be aggressive. We are the world’s No.1 in this sector with our Group’s current capacity, in excess of 744,000 tons. Our intent is to ramp up to 1 million tons, in the near future.”

I must say that this year has been all about leadership through consolidation, employee engagement, performance management and customer focus.

Leadership through consolidation

In the **Pulp and Fibre business**, the acquisition of Domsjö Fabriker has indeed been a high point. This is a world-class company with cutting edge technology. Its production process, coupled with its state-of-the-art biorefinery, add enormous value. Its high quality pulp will enable us enhance the supply of top quality premium VSF to our customers. The acquisition is in line with our strategy of having a significant part of our speciality pulp for our consumption through a captive source. With Domsjö we are closer to this goal.

Our growth plans in the VSF sector continue to be aggressive. We are the world’s No.1 in this sector with our Group’s current capacity, in excess of 744,000 tons. In China, we have nearly doubled our production capacity from 36,000 tons to 70,000 tons. At Harihar (Karnataka) a 36,500 tpa Brownfield expansion will go on stream in the near future. Additionally, a 120,000 tpa VSF plant at Vilayat will be up and running by the year 2013. Our intent is to ramp up to 1 million tons, in the near future.

Intensifying its focus on speciality products, your Company has begun manufacturing “micro modal” a finer denier modal widely used in knitwear and women’s wear. Your Company has also tied up with leading textile manufacturers for the use of its speciality fibres in denims for women, suitings and school uniforms.

Cement Sector

The acquisition of ETA Star Cement marked our foray beyond Indian shores. It has always been our aspiration to establish our leadership position in India and to have a formidable presence in the Indian Ocean rim. This region is a focus area for your Company in the white cement sector as well. This acquisition along

with the amalgamation of Samruddhi Cement, has bolstered UltraTech, your Company's subsidiary leadership position. UltraTech has become a PAN India player. Alongside, we have gained a strong foothold in the growing markets in the Middle East and the neighbouring regions. Today, UltraTech's capacity stands raised to 52 million tons. UltraTech is among the top-10 global cement companies.

Capital outlays

In the VSF sector, your Company's capex stands at US \$ 540 million (₹ 2,400 crores). This is towards the Greenfield and Brownfield projects at Vilayat (Gujarat) and Harihar (Karnataka) to which I have alluded earlier and partly towards modernization.

To accelerate the pace of growth in cement, over the next 3 years, your Company has earmarked a capital outlay of US \$ 2.5 billion (₹ 11,000 crores). We are investing in the setting up of additional clinkerisation plants at Chhattisgarh and Karnataka together with grinding units, bulk packaging terminals and ready mix concrete plants across the country. These expansions are expected to be operational in FY14 and will augment our cement capacity by 9.2 mtpa.

Outlook

I believe, the pricing of competitive fibres and cotton production will have a bearing on profitability in the short term. Rising input costs may impair earnings to some extent.

In the cement sector, current issues such as the demand supply mismatch, infrastructural bottlenecks and rising input costs are challenges that we have to grapple with currently. In the last few years, new capacity additions of around 100 mtpa, coupled with the prevailing sluggish demand has resulted in a surplus scenario. At the same time, the substantial hike in coal and petro-products prices have led to a drastic increase in input costs. So, overall in the short term one feels bearish about the sector.

“In the VSF sector, your Company's capex stands at US \$ 540 million (₹ 2,400 crores). This is towards the Greenfield and Brownfield projects at Vilayat (Gujarat) and Harihar (Karnataka). To accelerate the pace of growth in cement, over the next 3 years, your Company has earmarked a capital outlay of US \$ 2.5 billion (₹ 11,000 crores).”

“In my view, over the long term the cement sector is likely to grow in excess of 8.5%. My optimism stems from the Government’s enhanced focus on urban as well as rural infrastructure development and housing.”

In my view, over the long term the cement sector is likely to grow in excess of 8.5%. My optimism stems from the Government’s enhanced focus on urban as well rural infrastructure development and housing. Furthermore, the enhanced capital allocation towards infrastructure in the 12th – Five year plan will be a growth propeller. We are positive that we will continue to do well.

To our teams

I would like to say a big thank you to all of our teams for their consistent high performance. I take great pride in the performance of our people.

The Aditya Birla Group in perspective

Today, we are a multi ethnic, multi dimensional Group with a bench strength of 133,000 passionate and committed people, belonging to 42 nationalities across 6 continents. For the year 2010-11, our consolidated revenues stand at US \$ 35 billion, compared to US \$ 29 billion in the preceding year, recording a 22% growth. Our leadership, regardless of levels, has a penchant for collaborative and innovative solutions, for new ways of working that keep our Companies and our products on our clients and customers radar all the time. This is what drives our performance.

I believe that purposive actions in the people area can be huge differentiators to our growth plans. For us, it is very important to know what our people think of us. So we recourse to a biannual Organizational Health Survey (OHS) conducted by Gallup as the barometer of the engagement at work index in our Group. Over 28,000 executives spanning 31 countries participated in OHS 7 (2010). The participation level at 97%, in Gallup’s opinion, sets a new benchmark. Given its objectivity and rigor of its process, there is immense value in its findings.

It is a matter of great satisfaction for me that the key strength of the Group, as identified in the OHS, continues to be the great sense of pride that our

employees experience and express in working for the Aditya Birla Group. More importantly, this pride stems from our employees' belief and conviction that we are a good corporate citizen. Given the decline in ethics we see in business today, that is a huge validation of our insistence on value-based leadership. Pride, in turn is a great driver of positive energy and performance.

To capitalize on this positivity and to grow and hone the talent resident in the Group, we have launched several initiatives that further our Employee Value Proposition – a World of Opportunities. We have launched the 'Career Management Services' – a pioneering effort which is an integrated end-to-end career service aimed at all employees. This is already afoot in the cement business. Over the coming years it will be extended across other businesses in the Group.

On the issue of grooming talent, collectively our Business Directors and Business Heads, along with me, have invested over 500 man-hours in discussing, reviewing and working through the development plans of each of our talent pool members at the Group level. Their development plans include engagement with special projects, coaching and mentoring by the top leadership team, besides attending cutting-edge functional and behavioural programmes globally that open the frontiers of their mind and goad them to defy limitations. That 60% of the total leadership positions were filled in from our existing talent in 2010-11 validates the talent honing processes which have laid a robust leadership pipeline within our Group.

Our commitment to employee learning and development at all levels, is unrelenting. In 2010-11, there were 30,000 touch points with our learners through multiple formats of learning. More than 25,000 employees enlisted in e-learning programmes at Gyanodaya, our Institute of Management Learning. This year, at Gyanodaya, 200 colleagues at very senior levels attended specially designed programmes. They

“It is a matter of great satisfaction for me that the key strength of the Group, as identified in the OHS, continues to be the great sense of pride that our employees experience and express in working for the Aditya Birla Group.”

“Our people are our future. With them and the wind in our sails, we feel buoyant about achieving our stretch goal of becoming a 65 billion dollar Group by 2015. Your Company will play in important role in reaching this destination.”

had the opportunity to interact with professors from leading Universities and B-Schools. They were a great faculty, drawn from Universities such as Stanford, RICE, Michigan and Duke at the global level along with professors from the IIMs and ISB (Hyderabad). Our senior managers also derived immense value from training and learning sessions conducted by leading consultancies such as The Centre for Creativity Leadership (CCL), The Hay Group and The Works Partnership (TWP), among others.

Finally, I am delighted to share with you that our employees have given a thumping vote of confidence to our Group as the ‘Best Employers’ in India and in Asia Pacific. Aditya Birla Group, of which your Company is an integral member, has been declared as one of the ‘Best Employers’ in India in the Aon Hewitt Survey conducted recently. We ranked 2nd from among 200 other Indian organizations, who participated in the survey. In Asia Pacific, we have been ranked among the top companies as well. Soon we hope to attain this stature in the rest of the world too – wherever we operate.

Our people are our future. With them and the wind in our sails, we feel buoyant about achieving our stretch goal of becoming a 65 billion dollar Group by 2015. Your Company will play an important role in reaching this destination.

Yours sincerely,



Kumar Mangalam Birla

BOARD OF DIRECTORS

Mr. Kumar Mangalam Birla - Chairman
 Mrs. Rajashree Birla
 Mr. M.L. Apte
 Mr. B.V. Bhargava
 Mr. R.C. Bhargava
 Mr. Arun Kanti Dasgupta
 Mr. Cyril Shroff
 Dr. Thomas M. Connelly
 Mr. Shailendra K. Jain
 Mr. D.D. Rathi
 Mr. Adesh Gupta, Whole-Time Director
 Mr. K.K. Maheshwari, Whole-Time Director

Manager & Chief Financial Officer

Mr. Adesh Gupta

Company Secretary

Mr. Ashok Malu

Statutory Auditors

M/s. G.P. Kapadia & Co., Mumbai
 M/s. Deloitte Haskins & Sells, Mumbai

Branch Auditors

M/s. Vidyarthi & Sons, Gwalior

Solicitors

M/s. Amarchand & Mangaldas & Suresh A. Shroff & Co.
 M/s. Mulla & Mulla and Craigie, Blunt & Caroe

EXECUTIVES**Fibre & Pulp Business**

Mr. K.K. Maheshwari Business Director
 Mr. S.K. Saboo Group Advisor,
 Chairman's Office
 Dr. Prakash Maheshwari Group Executive President,
 Chief Operating Officer (India)
 & Head (Projects)
 Mr. Vijay Kaul Group Executive President
 (Global Marketing & Pulp
 Operations)
 Mr. Sunay B. Kamat Executive President,
 Birla Cellulosic, Kharach
 Mr. Rajendra Jain Executive President, Harihar
 Mr. Indrajit Mitra Executive President,
 Grasim Cellulosic, Vilayat

Cement Business

Mr. O.P. Puranmalka Business Head
 Mr. R.K. Shah Group Executive President &
 CMO (Mfg. & Projects)
 Mr. S.N. Jajoo Chief Marketing Officer
 Mr. K.C. Birla Sr. Executive President (Finance)

Chemical Business

Mr. Lalit Naik Business Head
 Mr. K.C. Jhanwar Group Executive President
 Mr. G.K. Tulsian Executive President

Textile Business

Mr. Pranab Barua Business Head
 Mr. S. Krishnamoorthy President

Corporate Finance Division

Mr. Pavan K. Jain Executive President

Contents

Financial Highlights	8	Profit and Loss Account	63
Management Discussion and Analysis	11	Schedules forming part of Standalone Financial Statements	64
Report on Corporate Governance	21	Cash Flow Statement	96
Shareholder Information	32	Auditors' Report on Consolidated Financial Statements	97
Towards Inclusive Growth	41	Consolidated Balance Sheet	98
Environment Report	44	Consolidated Profit and Loss Account	99
Directors' Report	46	Schedules forming part of Consolidated Financial Statements	100
Auditors' Report	58	Consolidated Cash Flow Statement	125
Balance Sheet	62		

Registered Office: Birlagram, Nagda 456 331 (M.P.)
www.grasim.com/www.adityabirla.com

Year →	Unit	2010-11	2009-10	2008-09	2007-08	2006-07	2005-06	2004-05	2003-04	2002-03	
Production											
Grey Cement	Mn. Tons	39.67	37.02	32.18	31.22	29.98	28.43	26.13	12.60	11.91	
Ready-Mix Concrete	Mn. Cu. Mtrs.	4.39	3.87	3.85	2.84	1.57	1.07	1.08	0.83	0.61	
White Cement	Tons	540844	514291	441118	407882	364649	350174	315368	310578	310163	
Viscose Staple Fibre	Tons	305087	302092	232745	279901	246833	228981	247952	221005	224610	
Caustic Soda	Tons	242037	229801	207226	188537	136685	165509	161966	157541	151445	
Sponge Iron ^	Tons	–	77069	420156	562000	525183	505825	780341	687272	612879	
Turnover*											
Grey Cement	Mn. Tons	39.96	37.29	32.65	31.45	30.06	28.60	26.31	12.71	11.98	
Clinker	Mn. Tons	1.60	2.29	2.31	2.13	2.50	1.46	2.93	0.15	0.21	
Ready-Mix Concrete	Mn. Cu. Mtrs.	4.39	3.87	3.85	2.84	1.57	1.07	1.08	0.83	0.61	
White Cement	Tons	546661	509054	438394	396295	367167	347500	311454	314819	305223	
Viscose Staple Fibre	Tons	305072	308431	238463	269781	250725	242399	231533	229110	227900	
Caustic Soda	Tons	241365	229876	207520	187356	137830	165853	163111	156967	150825	
Sponge Iron ^	Tons	–	75427	423414	557187	571127	478291	772799	676921	612425	
^ Sold on 22nd May, 2009											
* Including Captive Consumption											
Profit & Loss Account											
		2010-11 (USD Million¹)								(₹ in Crore)	
Net Revenue (Including Other Operating Income)											
Cement		3505	15969	15475	13512	11792	9940	6938	5652	2549	2352
Viscose Staple Fibre		1060	4830	3940	2915	3456	2706	1990	2009	1808	1685
Chemicals		119	542	493	523	418	319	386	352	295	257
Sponge Iron		—	—	111	1008	951	756	635	1021	639	406
Textiles		92	419	351	318	295	271	247	260	242	229
Others (Mainly Telecom)**		—	1	1	431	438	327	234	180	106	82
Inter-segment Elimination		-39	-176	-175	-210	-208	-177	-156	-160	-129	-104
Total Net Revenue		4737	21585	20195	18496	17141	14142	10275	9315	5510	4908
PBIDT											
Cement		735	3347	4706	3686	3747	3175	1459	974	458	361
Viscose Staple Fibre		357	1628	1339	521	1109	754	493	613	572	586
Chemicals		27	124	125	155	138	81	125	104	74	53
Sponge Iron		—	—	-39	135	160	85	74	390	254	104
Textiles		6	27	24	15	7	5	3	12	13	-9
Others/Unallocated/Inter-segment Elimination		60	271	168	267	261	191	182	180	171	57
Total PBIDT		1185	5397	6322	4779	5422	4290	2337	2272	1543	1151
Interest		89	406	334	307	222	229	219	284	196	213
Gross Profit (PBDT)		1096	4991	5988	4472	5200	4061	2118	1988	1347	938
Depreciation		250	1138	995	865	670	610	563	556	308	287
Profit before Tax, Exceptional & Extraordinary Items		846	3853	4993	3607	4530	3451	1555	1432	1039	651
Exceptional Items (EI)		—	—	—	—	46	—	4	-129	1	-169
Profit before Tax & Extraordinary Items		846	3853	4993	3607	4576	3451	1559	1303	1040	482
Total Tax		210	958	1570	992	1466	1092	402	442	302	163
Net Profit before Extraordinary Items		636	2895	3423	2615	3110	2359	1157	861	738	319
Extraordinary Items (EO)		—	—	336	—	236	—	—	—	—	—
Net Profit before Minority Interest		636	2895	3759	2615	3346	2359	1157	861	738	319
Less: Minority Interest		145	660	714	444	457	392	116	-19	—	—
Add: Share in Profit/(Loss) of Associate**		10	44	51	16	2	-0.4	—	—	—	—
Net Profit		501	2279	3096	2187	2891	1967	1041	880	738	319

**Results of Idea Cellular Limited were consolidated as 'Joint Venture' (till 31st December, 2009) and thereafter as an 'Associate'.

Note 1 - 1 USD = INR 45.56