Good things come to those who *innovate.*
To those who weather the storm,
who challenge the norms,
who stay true to their vision, values and beliefs.

To those who follow their *passion,*
stick to their commitments and keep
their heads up high in times of difficulty.

As we continue on our path to growth & success
we will tackle setbacks and difficulties with the same focus,
persistence
&
strength
that we believe in.

ANNUAL REPORT | 2012-2013

GRASIM INDUSTRIES LIMITED

Mr. Aditya Birla
We live by his values.
Integrity, Commitment, Passion, Seamlessness and Speed.

Dear Shareholders,

The global scenario

Across the world in 2012, the economy remained a worry. Global GDP fell to 3.2% compared to 4% in 2011. Many of the systemic vulnerabilities continued. Among these were fiscal fragility, hidden and unknown risks of financial derivative instruments and the problems of the weaker Eurozone economies. The increasing instances of political gridlock aggravated the situation.

While these are not totally left behind, there are strong positives. The unwinding of financial leverage, several rounds of liquidity injections, with Japan also joining in augur well for the global economy. Alongside, continuing low interest rates, sharp corrections in commodity and energy prices, and a modest recovery in the US housing market ring in a degree of optimism. Furthermore, the private corporate sector seems on the path to stepping up investment outlays. Thankfully, the worst case outcomes have been averted. The US has not fallen off the fiscal cliff. And, despite the recent financial shocks in Cyprus, the government bond yields have fallen. The global economy has clearly shown a lot of resilience.

The global economy is now moving on to a surer recovery mode. The IMF projects growth at 3.25% in 2013, increasing to 4.0% in 2014. The GDP growth in emerging markets and developing countries is placed at 5.3% in

In the face of all these odds, for the Financial Year 2012-13, your Company's consolidated revenues stood at ₹ 27,904 crore (US dollar 5.1 billion) up by 11%, vis-à-vis ₹ 25,245 crore (US dollar 5.3 billion) in the previous year. It attained a net profit of ₹ 2,704 crore (US dollar 0.5 billion), inclusive of ₹ 204 crore (US dollar 38 million) accrued through selling off unrelated investments. Net profit for the earlier year was ₹ 2,647 crore (US dollar 0.6 billion).

2013, increasing to 5.7% in 2014. The US GDP is expected to grow 1.9% in 2013, rising sharply to 3.0% in 2014. Europe will remain a laggard, with de-growth at -0.3% this year, and inching to just over 1% in 2014. China's growth will scale back from its recent double digit levels to 7-8%, which is still respectable.

Developments on the global front undeniably dented India's growth level, besides the issues at home.

The Indian economy – ongoing resilience

Slow growth, investor diffidence, the rupee falling to an all time low, power outages and a poor monsoon added to the country's woes. High commodity prices and supply constraints of critical raw material, such as coal and natural gas, further compounded the problem. Unsurprisingly then, India's GDP growth slowed markedly in 2012-13, to 5%, down from 6.2% in the previous year. The manufacturing sector recorded a growth of only 1.9% in 2012-13, down from 2.7% in 2011-12. Export growth in 2012-13 was 5.1%, compared to 15.3% in the previous year.

There are good signs, as we move into the fiscal 2013–14. There have been some positive policy developments in recent months. These include a decline in interest rates and a move towards market-based pricing for diesel and petrol. If this pricing flexibility persists, it could make a considerable dent in the subsidy bill. The expectation of a normal monsoon is a positive, going forward.

In the FY 2013-14, the GDP growth is projected to rise modestly to around 6.0% with much of the improvement likely only in the second half of the year. Industrial activity will continue to be adversely affected by regulatory bottlenecks. The recent decline in commodity prices, particularly of crude oil, and continuing buoyancy of FIIs inflows will pave the way for greater exchange rate stability, and a moderation of inflation. The RBI projects a 5.5% increase in the wholesale price index in the FY 2013-14, down from 7.3% in the previous year.

These developments affect your Company's growth and performance.

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Terrace Bay acquisition – a strategic move

The acquisition of the Terrace Bay Mill, in Ontario, Canada, in a JV with one of our Group companies was a major strategic move during the year. The mill is in the process of being converted into a dissolving grade pulp mill. In the Viscose Staple Fibre (VSF) business, we enjoy global leadership. To sustain the ongoing growth, we have an integrated business model, spanning the entire value chain from plantation to pulp to fibre. The Terrace Bay Mill, upon conversion, will be geared to provide superior quality pulp for our VSF plants.

Ramping up capacities – 334k tpa to 498k tpa

Your Company's VSF expansion plans are on course. At Vilayat in Gujarat, the 120k tpa Greenfield plant will go on stream in the current year. Besides bolstering volumes, the plant will augment your Company's presence in specialty fibres, such as modal and micro modal. At Harihar in Karnataka, the 36k tpa Brownfield expansion has been completed, with Phase-II going on stream in May 2013.

Upon commissioning of the ongoing projects, our capacities scale up to 498k tpa.

In the allied Chemicals business, with the commissioning of the 182,500 tpa Vilayat plant, your Company's caustic soda capacity has been enhanced to 440,500 tpa. Furthermore, 51,500 tpa Epoxy plant is being set up at Vilayat, and should be operational in September 2013.

Cement

In the Cement sector, our growth plans are indeed audacious. By 2015, our goal is to scale our cement

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In the VSF and related Chemical business, your Company's capex stands at ₹ 4,200 crore (US dollars 774 million). This is primarily towards the Greenfield and Brownfield projects at Harihar and Vilayat.

In the Cement business, we have provided for a capital outlay of over ₹ 11,400 crore (US dollars 2.1 billion).

capacity to 64.45 million tpa from the current 53.90 million tpa.

During the year, the projects commissioned include a 3.30 million tpa Clinkerisation plant at Rawan in Chhattisgarh; a 1.55 million tpa grinding unit at Hotgi, Maharashtra, and an increase of 0.60 million tpa in the cement grinding capacity at the Gujarat plant.

The commissioning of these projects has raised your Company's cement capacity by over 2.25 million tpa, taking the total cement capacity to 53.90 million tpa.

Several other projects are underway, such as the 3.30 million tpa clinkerisation plant in Karnataka, slated to go on stream in Quarter-1 of the FY 2013-14. At Aditya Cement Works in Rajasthan, a 2.9 million tpa capacity expansion is on the anvil. It includes the setting up of two grinding units. We expect to flag off the new expansion by March 2015. This expansion entails a capital outlay of ₹ 2,000 crore (US dollars 369 million).

Capital Outlay

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In the Cement business, we have provided for a capital outlay of over ₹ 11,400 crore (US dollars 2.1 billion). The capex is earmarked for capacity expansion, captive power plant, waste heat recovery system, ready-mix concrete plants, strengthening of logistic infrastructure and modernisation.

Outlook

I believe, we will be able to consolidate our leadership position in both the VSF and Cement sectors, backed by our robust capex plans. Their prospects are indeed encouraging in the long term. In the short term, given the prevailing global economic conditions, coupled with surplus capacity in China, the VSF industry will be under pressure.

In the Cement sector, housing, infrastructure and allied spending are the need of the hour. The Government is fully cognizant of issues relating to these sectors. It has allocated US $ 1 trillion towards bridging the gap. This augurs well for the growth of the sector.

So, on a note of optimism and given your Company's single-minded focus on growth – both top-line and bottom-line, I do believe that we will scale new peaks.

To our Teams

I thank all of our teams. For most of our employees, I can say with certitude that their commitment towards their responsibility to give results has been incredibly overwhelming. They have enriched your Company and determined its course over the years. I am confident that as we move into an even higher growth trajectory, our people will continue to rise to the increasing demands of their work.

The Aditya Birla Group in perspective

Over the last two years, significant changes have impacted the global and domestic business scenario. Given our resilience, our Group has managed to weather the storm. Our consolidated revenues at US 42 billion dollars is marginally above that of the last year.

I believe, that if we have been able to sustain our revenues, it is because of the quality of our 136,000 strong workforce spread over 36 countries and 42 nationalities. The hallmark of our overall leadership development efforts has been our belief in taking "bets on our people". And it has indeed paid off.

Our entrepreneurial DNA also encourages risk taking which includes taking risks with people, of course with safety nets. We believe that people are endowed with immense capability – our task is to spot them, early in their careers and provide them with suitable opportunities to try their hand at and test their skills. Our investment in people processes has enabled us have a robust bench-strength of talent. Our entire focus is on ensuring that we always remain a meritocracy. This pool of talent is developed through a

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Our in-house learning university 'Gyanodaya' is a globally bench-marked institution. It leverages resources from around the world to meet the development needs of our leadership. Last year, it had 28,000 touch points and partnered with several external institutions and corporations for collaborative learning. More than a 1,000 executives take courses at Gyanodaya each year.

series of planned exposures, assignments and training opportunities, so that they are prepared to take on leadership roles as and when these emerge.

Let me elucidate these aspects with an overview of our talent management and leadership development processes.

Two new programmes, namely, "Step UP" and "Turning Point" have been launched. These aim primarily to prepare Departmental Heads and Functional Heads for the next stage of their career development as Functional heads and Cost Centre heads respectively. The first pilot batches have already undergone the initial rounds of training. These programmes will be further institutionalised.

Last year, I had alluded to the launch of our *P&L Leaders Development Program*, called – *"The Cutting Edge"*. The objective of this programme is to prepare our high-performing functional heads to take on P&L roles. The programme has taken off to a solid start. The first batch of participants has been already absorbed in the global immersion programme across 4 different countries. The second batch of *"The Cutting Edge"* will soon start their programme.

To augment talent on the technical side, we have also been hiring, for the first time, a select set of manufacturing professionals directly at the Group level. The first group has already moved into our businesses.

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Furthermore, we have institutionalised global career paths–driven both by the individual and the organisation's needs. To a great extent, this allows an individual to 'take charge of his own career'. We leverage vacancies across the Group and stimulate talent mobility by identifying and moving leaders across geographies and functions and into new roles as part of their career development.

Development for us, today, means providing people opportunities to learn from their work rather than taking them away from their work to learn.

Let me give you some statistics relating to fast tracking of talent. Since April 2011, from our management cadre, comprising of 37,600 colleagues, 15%, i.e. 5,824 have been promoted; 18% i.e. 6,481 have moved roles; and 12%, i.e. 4,543 have moved location.

Additionally, we seek feedback in an institutionalised way and conduct conversations with our people across the Group to gauge their engagement with our Group. We call it 'Vibes'. The Vibes survey is carried out by a global reputed external HR research agency. This year, 94% of our 35,000 Executives participated in the Vibes survey, which is an indication of their engagement with the Group. It was very heartening for me to see that 92% of employees have an overwhelming sense of pride in our Group. More than 80% are engaged employees and, again, over 90% say that they understand the connect between their work and goals of business.

Today, we are reckoned as an Employer of Choice that offers a World of Opportunities for talent.

I take great pride in sharing with you that our Group (Aditya Birla Group) has topped Nielsen's Corporate Image Monitor 2012-13. An extract from their media release would interest you –

"Aditya Birla Group has emerged as the Number 1 corporate, the 'Best in Class' across all the six pillars of Corporate Image, according to the annual Corporate Image Monitor 2012-13, conducted by Nielsen, a leading global provider of insights and information into what consumers watch and buy. The six pillars of Corporate Image comprise of Product and Service Quality, Vision and Leadership, Workplace Management, Financial Performance, Operating Style and Social Responsibility.

Nielsen's Corporate Image Monitor measures the reputation of the 40 leading companies in India across sectors and serves as an important indicator of the strength of the corporate brand".

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Our indomitable strength of running low cost, highly efficient and vastly productive operations, through our embedded culture of continuous improvement and innovation, will see us through good times as well as tough times.

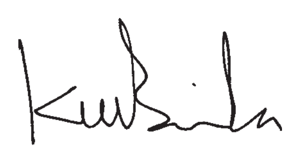
The survey was conducted among policy makers, the financial media, financial analysts, investors, professionals from the corporate sector and the general public across 7 metros. The 40 corporates covered in this survey were selected using *The Economic Times-500* and the *Business Today-500* list of listed companies. Nielsen is a global market research company, headquartered in New York and operating in 60 countries.

In sum

Let me conclude that we have strong Balance Sheets, robust cash-flows and gearing levels well within reasonable limits. The global presence of our Group and the experience of operating in 36 countries invests us with the strength to acquire assets or grow organically anywhere in the world in different business environments.

And finally, our indomitable strength of running low cost, highly efficient and vastly productive operations, through our embedded culture of continuous improvement and innovation, will see us through good times as well as tough times.

Yours sincerely,



Kumar Mangalam Birla