ADITYA BIRLA

HINDALCO

ANNUAL REPORT

2017-18

HINDALCO INDUSTRIES LIMITED

BIG IN YOUR LIFE

GLOBAL LEADER IN ALUMINIUM AND COPPER

Mr. Aditya Vikram Birla

We live by his values

Integrity, Commitment, Passion, Seamlessness and Speed

THE CHAIRMAN'S LETTER TO SHAREHOLDERS

GLOBAL ECONOMY

The global economy is on a rebound. The International Monetary Fund (IMF) estimates indicate that the global real GDP grew 3.8% in CY17. This is the highest growth pace over the last six years. It is also the broadest synchronised global growth upsurge since CY10 as underlined by the IMF.

This impetus from a supportive monetary policy was further buoyed by a revival of investment spending in advanced economies. The expansionary fiscal and monetary policies in the US led to improved growth prospects. The US grew at 2.3% in CY17 as against 1.5% in CY16. Growth accelerated in Europe and Asia too.

The global economic recovery is expected to continue. For the current and the next year, a strong growth at 3.9% is projected. This positive outlook is somewhat clouded. Increased trade protectionism, rising international crude oil prices, geo-political risks and the uncertainty about normalisation of monetary policies in advanced economies from the highly accommodative conditions in the past are some of the factors that dim the outlook.

INDIAN ECONOMY

India's economy is emerging strongly from the transitory effects of demonetisation and the implementation of the Goods and Services Tax (GST). Although India's GDP growth slowed from 7.1% in FY17 to 6.7% in FY18, the economy recorded a seven-quarter-high GDP growth of 7.7% in the exit quarter of FY18. This reflects momentum.

India's macroeconomic indicators remain healthy. The fiscal deficit has been cut to 3.5% of GDP. India's foreign exchange reserves as at March end stood at a comfortable level of $424 Billion.

Investors seem to be positive on India's economic prospects. The Foreign Direct Investment (FDI) flows continue to be encouraging. India's global ranking on the ease of doing business notched up

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The Chairman's Letter to Shareholders (continued)

to 100 from 142 in barely four years, while the country's ranking on global competitiveness index has climbed from 71st in FY15 to 39th in FY17.

The prevailing sense of optimism accentuates India's continuing economic growth in the future as well. It is attributable to the country's solid fundamentals, such as deleveraging by corporates, resulting in much stronger balance sheets, better capacity utilisation with consumption demand becoming stronger and insolvency and bankruptcy process weeding out non-performing assets, among others. The Government's unwavering push for infrastructure projects – Bharatmala Pariyojana, airports, metros, affordable housing, urbanisation, smart cities and digitisation – are excellent stimulators for the economy's growth in the medium term.

At the same time, we cannot ignore near-term challenges. The bucket of concerns consists of rising oil prices, hardening inflation, firming bond yields and widening current account deficit. The ongoing global trade frictions, particularly between the US and China, are worrisome and can have a spillover negative effect on countries like India. So, the terrain ahead could be a tad bumpy depending on the economic and geopolitical environment.

THE METALS SECTOR: IN BRIEF

The sector gained substantially from global economic growth, with a surge in demand from the user industries in both aluminium and copper. China controls about 50% of the world production and consumption of both the metals. In CY17, China implemented major reforms, resulting in environment-led closures in winter and a clamp permanently on all illegal capacities in aluminium.

Consequent to the Chinese actions, the average LME price of aluminium touched a five-year high to $1,969/ ton, registering a growth of 23% in CY17 against a decline of 3% in CY16. The global demand barring China, reflected a growth of 3.5% in CY17 compared to 3% in the previous year. A robust growth by over 8% in CY17 for the second year in a row in China portends well. With the surge in demand and moderation in inventories, premiums increased across geographies. In Asia, the premium coursed by 14% to $100/ton in CY17 from $88.5/ton in CY16.

The average LME price of copper in CY17 augmented by 27% to $6,166/ton from $4,862/ton in CY16. This was driven by the tight supply of copper concentrate in the global market, caused by disruptions in the world's two large copper mines in Indonesia and Chile. The non-availability of concentrate in the global market moderated Tc/Rc. The demand for refined copper, excluding China, was a modest 1% in CY17 due to the abundance of scrap availability. The demand in China grew marginally at 4.5% in CY16 to around 5% in CY17.

All the businesses, including aluminium and copper in India and Novelis Inc. (Novelis), continue to deliver remarkable operational and financial performance on the back of stable efficiencies, better realisations and supportive macros.

The Indian aluminium industry showed a significant recovery in H2FY18, after a subdued H1FY18. The domestic demand of aluminium extended by 9% in FY18 vis-à-vis a moderate 1.5% growth in FY17. The domestic demand of primary copper increased by 6% in FY18 as against 2% in FY17.

Going forward, the thrust on building renewable energy, the emphasis on electrical vehicles and light weighting through increased usage of aluminium in railways, metros and mass transportation should generate significant long-term growth opportunities for the aluminium and copper sector in India. Further, the ongoing government initiatives such as the creation of 100+ smart cities, the push for infrastructure, especially on rural infra development, along with Make in India and Digital India will stoke greater demand.

YOUR COMPANY'S PERFORMANCE

For your Company, this has truly been a record breaking year even as global markets experienced unusual volatility. Your Company registered its highest ever Consolidated EBITDA of ₹15,025 Crore on a turnover of ₹1,15,809 Crore. Your Company's aluminium and copper business in India and Novelis continued to deliver outstanding operational and financial performance. Stable efficiencies, better realisations and supportive macros were the major enablers.

Your Company (including Utkal) achieved record aluminium and alumina production levels at 1.29 Mt and 2.88 Mt, respectively. All the plants operated at their designed capacities. The output of Value Added Products (including wire rods) stood at 479 Kt.

In the Copper Business, Cathode production touched 410 Kt, higher by 9% compared to the earlier year. CC Rod production was 156 Kt, up by 4%. The new CCR#3 plant at Dahej was commissioned.

Novelis reported a remarkable performance this year with a record shipment of 3.2 Mt, higher by 4% over the previous year, and an EBITDA of $1.2 Billion, up by 12%. Their per ton EBITDA of $381 is indeed notable. Novelis continues to improve its product mix by raising its share of automotive sector from 18% to 20%.
Your Company intends to increase the share of recycling to 57% in FY18, from 55% in FY17.

DELEVERAGING

To further bolster the balance sheet, your Company has prepaid close to ₹8,000 Crore of long-term project loans in India. This has led to a significant improvement in the Consolidated Net Debt to EBITDA at below 3x at the end of March 2018.

WHAT GIVES US THE EDGE

Undeniably, our people, their dedication to work, their sense of belongingness and pride in the Group, their efforts in putting the organisation first and living our values give us an advantage over our competitors. I acknowledge their contribution and count on their continued commitment to take our business far ahead.

THE ADITYA BIRLA GROUP: IN PERSPECTIVE

The year FY18 has been a momentous year on all counts. We reached a record revenue of $43 Billion with an EBITDA of $6 Billion. Our Group's market cap crossed the $50 Billion mark. These spectacular achievements are a reflection not only of our growing size and scale, the inherent soundness of our strategies and operations, but also, more importantly, reflection of the enormous confidence that investors and other stakeholders have reposed in us.

I am delighted to share with you that Aon Hewitt, a reputed global consulting firm, in the 'Best Employers 2018' study conducted by them, have named our Aditya Birla Group as the 'Best Employer' in India.

Moving on to our people processes, what strikes me most is that the development and leadership aspects embedded in them are all futuristic. I believe, we are headed in the right direction. Let me give you a flavour of what we have accomplished and how we are constantly refreshing and reengineering our HR initiatives.

Our Group HR has formulated a unique proposition for leadership development through the 2x2x2 formula. It is structured in a manner that accords opportunities to high talent to work in two businesses across two geographies and in two functions. Such an approach should give a holistic experience and help prepare our future leaders.

I had apprised you earlier on the talent councils led by the Business Heads and Directors at the Group, business and at the functional levels. So far, more than 250 talent council meetings have been held with over 8,000 development conversations and actions initiated for these colleagues. I have attended several of these meetings and am much encouraged by the positivity and enthusiasm they generate among employees down the line. They rightly believe that talent will always bubble to the top.

More than ever before, in the people domain, two segments that have grabbed the attention of progressive corporates comprise the millennials and the gender diversity issue. In our Group, 52% of our executives are under 35 years of age. They are the leaders of tomorrow whom we need to groom today.

Today, women constitute over 14% of our employee force. Game-changing career-enabling policies have been introduced. These include work-life issues such as maternity, childcare, flexi time, local commute and accompanied travel for the child and the caretaker. Alongside, as part of the family support initiative, paternity leave is also being provided.

For younger employees, through our flagship Aditya Birla Group Leadership Programme (ABGLP), we are building a robust talent pipeline at the entry, junior and middle levels, who will move into senior leadership over the years. From this cadre, over 350 youngsters have been placed across the Group.

Gyanodaya, the Aditya Birla Global Centre for Leadership and Learning, continues its commitment to prepare Profit and Loss (P&L) and manufacturing leaders through its Accelerated Leadership Development programmes. I take great pride in Gyanodaya bagging the Gold Award for the Best Corporate University-Culture and Brand in Global CCU Awards FY17 'for operating at the highest levels of excellence and creating value for people, business and society'.

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The Chairman's Letter to Shareholders (continued)

The Sales, Marketing and Customer Centricity Academy and the HR academy enabled 1,765 managers to hone their expertise to greater heights. The Gyanodaya virtual campus continues to offer 900+ e-learning modules in multiple languages. During the year nearly 40,000 employees leveraged the e-learning programme.

We are enhancing our HR processes for scale, agility and consistent employee experience. A comprehensive HR assurance and excellence framework, the HR portal to enable the last-mile employee anytime-anywhere connect and SeamEx, the Group HR Shared Services Centre, are milestones in this journey, as they enthuse and energise our people.

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IN SUM

Our Group's robust revenue growth, healthy EBITDA margins, efficient capital deployment and cash flow generation support our ambitious growth plans. Innovation and the spirit of entrepreneurship that our employees bring to work is amazing and a major contributor to our Group scaling newer heights year after year.

Yours sincerely,

Kumar Mangalam Birla
CHAIRMAN

BIG IN YOUR LIFE

Our relentless efforts over the past six decades have made Hindalco Industries Ltd. (Hindalco) a force to reckon with in the global aluminium and copper industries. With scale and ubiquity, we have touched lives of millions of people. Our products are helping you do better and achieve more, making us a big part of your life.

We are one of the largest aluminium rolling companies in the world and amongst the leading producers of primary aluminium in Asia. Our subsidiary, Novelis, is the world's largest aluminium Flat Rolled Products (FRP) producer. With a global team of over 35,000 people, we are continually scaling new horizons. Another big facet of ours is an extensive product suite that empowers homes with kitchen appliances, foils and doors and windows, and includes world-class consumer electronics products such as cables and conductors, light reflectors, beverage cans, heat sinks, solar panels and insulation, among many others.

We are partners in the growth of multiple industries such as automobiles, power generation and transmission, industrial machinery components, packaging, among others, which together enable making your life easier every day. We are also a prominent supplier to India's defence and space applications.

In short, from making every second can in the world to shaping automobiles, from aluminium kitchen foils to aluminium doors and windows, we are big in your life.

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HINDALCO AT A GLANCE

Part of the prestigious Aditya Birla Group, we are amongst the leading producers of primary aluminium in Asia. We are also one of the largest single-location custom copper smelters in the world.

As an integrated aluminium producer in India, we are present in 11 countries. We are the world's largest recycler and our environment-friendly aluminium products contribute to making the world greener, stronger and smarter. Used extensively in renewable energy and windmills, among others, they facilitate lower carbon emission. As strong as steel, but three times lighter, our products are also applicable to most future-ready products such as Electric Vehicles (EV) and technology-enabled consumer durables.

In India, our aluminium plants (production capacity of 1.3 Mt), cover the entire spectrum of operations ranging from bauxite mining, alumina refining, coal mining, aluminium smelting to downstream rolling, extrusions and foils. Our captive power plants and alumina – sourced from our captive alumina refineries across India, majorly from our 100% subsidiary Utkal Alumina, which is the world's most economical alumina producer in the world – keep all our operations rolling as per their designed capacity and provide best-in-class input (alumina) to its smelters.

Our copper plant located at Dahej, Gujarat, enjoys integrated port facilities. It is also India's largest privately-owned gold production plant. It has a production capacity of 500 Kt and makes copper cathodes and continuous cast copper rods along with other by-products, including sulphuric acid, Di-ammonium phosphate (DAP) fertilisers, gold and silver.

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Al

- **Hindalco Industries Ltd. (HIL) Standalone**
- **Utkal Alumina International Ltd.**
- **Novelis Inc.**

29
Cu

- **Hindalco Industries Ltd. (HIL) Standalone**

Hindalco has been accorded the Star Trading House status in India. Our aluminium is accepted for delivery under the high-grade aluminium contract on the London Metal Exchange (LME), while our copper quality is also registered on the LME with Grade A accreditation.

OUR VALUES

Integrity
Honesty in every action

Commitment I Deliver on the promise
On the foundation of integrity, doing what it takes to deliver, as promised

Speed I One step ahead, always
Responding to stakeholders with a sense of urgency

Passion I Energised action
Missionary zeal arising out of an emotional engagement with work

Seamlessness I Boundary less in letter and spirit
Thinking and working together across functional silos, hierarchy levels, businesses and geographies

OUR PURPOSE

Why we exist, what we do, why we do?
We manufacture materials that make the world

GREENER STRONGER SMARTER

FY18 Milestones

Consolidated Revenue
₹1,15,809 Crore
↑ 12.8% y-o-y

Consolidated EBITDA
₹15,025 Crore
Highest-ever consolidated EBITDA

Consolidated Net Profit
₹6,083 Crore
Trebled over the past year

Hindalco (Standalone Plus Utkal)
₹7,154 Crore
Record EBITDA

Highest-ever Production
Aluminium Metal **1,291** Kt
Copper Cathodes **410** Kt

Highest-ever Shipments at Novelis Inc.
3.2 Mt

Net Debt to EBITDA
2.82x
↓ 3.74x y-o-y

OUR JOURNEY

1958

Incorporation of Hindalco Industries Limited

1960 - 2000

Established as a single-location aluminium facility

Commenced production at Renukoot (Uttar Pradesh)

INITIAL CAPACITY

Aluminium	Alumina
20 Kt	40 Kt

Commenced downstream capacities at Renukoot

Commissioned the Renusagar power plant

Established the Silvassa foil plant