Contents

A panoramic view of integrated aluminium complex at Renukoot

Highlights

- Brown-field expansion on schedule, likely to add 15,000 tonnes of fresh metal during 2001-02
- Indal acquisition completed, synergy realisation underway
- Smelter and Alumina refinery utilisation at record high levels; metal production at record 251,492 tonnes
- Extrusion, Rolled Products and Foils remained a focus area. Combined sales volumes up 11%; revenues up 23%.
- Aggregate sales revenues grew by 12% YoY
- Operating margins maintained at 46.3% despite sharp rise in input costs
- Pre-tax and Post-tax profits up 11% YoY
- EPS and CEPS at record high levels of Rs.91.1 and Rs.110.2 respectively
- Dividend increased from 80% to 120%
- Debt-Equity at 0.16x despite funding of Indal acquisition and part-financing of brown-field expansion
- Rated "Top Three in Asia" and "First Place in India" in the CFO Asia – CSFB Annual Report awards for Investor Transparency and Corporate Governance

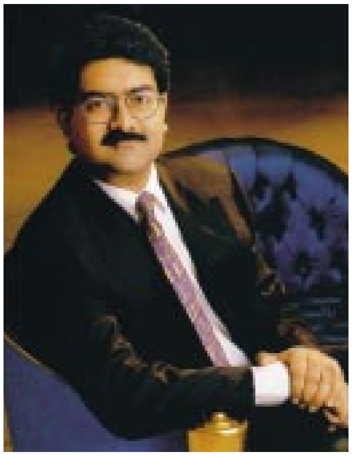
CFO Asia — CSFB Annual Report Award

The best of the best — Hindalco Wins the Sun Award for Outstanding Achievement (The 3rd Aditya Birla Award 2000)

IN HOMAGE TO A LEGEND

The Chairman's Letter to Shareholders

Dear fellow shareholders,



For all of us at Hindalco, the year has been indeed rewarding, both strategically and operationally.

Strategically in a year of consolidation, the linkages between Hindalco and Indal have fortified our standing in the aluminium sector manifold. But importantly, synergies have started to accrue through the integration of logistics and product rationalisation. In turn, this will lead to significant value creation. And the process is gaining momentum.

Indal is a dominant player in alumina and has significant strengths in the downstream product segments. We are confident that these strengths, coupled with Hindalco's dominance in metal and its competitive cost structure, will make the Hindalco-Indal combine a major force in the aluminium industry.

To institutionalise enabling processes that help us benchmark with the best in the world; to align the interests of shareholders and employees and to better manage capital, we have extended CVA (Cash Value Added) which is already practiced as our measurement metric to Indal as well.

Your Company's "Parta'' system which has been further honed by a single-minded focus on sweating the assets better, increasing the thru-put in every respect and managing capital with utmost efficiency, has been transplanted in Indal.

To continue to deliver superior value to its shareholders and as part of its growth strategy, as I had intimated to you earlier, your Company has embarked on a brown-field expansion in Renukoot. Our investment in this project is to the tune of Rs.18 billion. The expansion is slated for completion in a phased manner, largely by the end of 2002-2003. We expect to commission the first phase during the current financial year.

To generate high productivity, enhance cost reduction measures, strengthen efficiencies and lower inventories considerably, your Company has kicked off a structured profit improvement exercise. Aptly named "Project Rocket-2K", it's primary objective is to add to our value-creation processes.

On the operational front, Hindalco's performance has been commendable. Despite a challenging economic environment, which saw the consumption of aluminium on the decline, your Company's revenues have been higher by 12 per cent at Rs.22,754 million over that of Rs.20,312 million in the earlier year. Operating profits have also grown by 12 per cent. Net profits at Rs.6,781 million have risen by 11 per cent, over that of Rs.6,124 million attained last year.

Innovative practices in smelting, alumina refining and fabrication helped raise metal production, setting a new record. Better prices and an enriched product mix have been key to your Company's fine performance.

Outlook

Our outlook for aluminium is positive. While aluminium consumption has slowed down in the US, China is on a high growth trajectory. The outlook in other parts of Asia is expected to improve. The demand for aluminium from Europe continues to be stable. The closure of US aluminium capacities has led to an erosion of global supplies which should support prices. Given such an environment, international prices are expected to remain firm.

The prospects in India are positive as well. These are factored on the impending economy recovery and the resultant pick-up of industrial activity as well as strengthening consumer confidence. The constant focus by the Government on the infrastructure and power sectors should also fuel the demand for aluminium.

To ensure your Company's continued growth, to sustain its cutting edge position and importantly to keep creating shareholder value, a well crafted strategy is already in place. Leveraging our enviable cost structure, asset sweating and raising the bar of our operating efficiencies form a vital part. Aggressive marketing to enhance our presence in value added products and to perch our market share much higher through superior product and customer-centric distinctive services, further define the contours of our futures-oriented strategy.

The synergies that stem from Indal and the brownfield expansion, additionally lend vigor to these stretch aspirations of your Company.

> "Aggressive marketing to enhance our presence in value added products and to perch our market share much higher through superior product and customer-centric distinctive services, define the contours of our futures-oriented strategy."
>
> *— Kumar Mangalam Birla, Chairman*

Summary

Over the past several years, your Company has been and continues to be totally performance–focused, a fact substantiated by the ability to deliver superior financial performance, regardless of the tough operating environment. I have every reason to believe that your Company will endeavour to beat its own record, year after year; keeping its sights firm on shareholder value creation.

Having said this, I would like to take the opportunity to record my sincere appreciation of the employees and the management team at Hindalco. Only through their dedication and commitment have we been able to deliver superior results despite the challenging operating environment that prevailed during the year. Their partnering with us in an exemplary manner will surely aid us in delivering value for our shareholders year after year.

> "Over the past several years, your Company has been and continues to be totally performance–focused, a fact substantiated by the ability to deliver superior financial performance, regardless of the tough operating environment.
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The Aditya Birla Group – In Perspective

That said, let me focus on the proactive steps taken by us at the Group level, to attune to the unrelenting pace of change that confronts Corporates today, and more importantly to ensure the Group's sustainable success. This is integral to fulfilling our avowed goal of relentlessly pursuing the creation of value for our shareholders, customers, employees and society at large. To do so, in the recent past, we have hinged on three focal points. Firstly; a distinctive strategic architecture, secondly; novel structural processes and thirdly; adopting systems which ensure that we remain a cutting-edge premium business conglomerate.

We have a proven track record in successfully managing different businesses, and we will continue to remain a conglomerate at the Group level. The pre-condition for this is, of course, that each of our businesses allows us dominance in that sector. Additionally, the returns on financial resources and management time invested in each of them must be commensurate with our expectations.

Over the last two years, I have apprised you of the developments on the business front. My intent is to share the progress attained and the ways we have adopted to keep stroking growth.

Our Strategic Architecture

It is my firm belief that value-creation must course through all of our businesses.

Growth in our key businesses has been characterised by consolidation, acquisitions and restructuring. Consolidation of the cement business, through the merger of Indian Rayon's Cement Division with Grasim, has yielded rich dividends for both of our Companies' shareholders, apart from admirably elevating Grasim's stature in the industry. The amalgamation of Dharani Cements with Grasim and the intent to acquire cement companies that strengthen our national footprint are steps that enable us further cement our position.

The acquisition of global rights for world-class brands such as Louis Philippe, Allen Solly (barring North America), Peter England (with the exception of the UK and Ireland) marks a turning point. It at once catapults Indian Rayon's potential to become a global player in the men'swear brands. Incidentally, the branded apparel segment has been and continues to be the major growth driver at Indian Rayon.

To accord the desired focus to the software sector, we have hived off Grasim's Software Division, Birla Consultancy Software Services, into a separate wholly owned subsidiary of Grasim. This move also allows Grasim to stay focused on its two key businesses – Viscose Staple Fibre and Cement.

In the Telecom sector, teaming up with Tata Telecommunications, has been a forward-looking initiative. The acquisition of RPG and Vodafone's stake in Madhya Pradesh by this joint entity, has enlarged our geographic reach. Today we command 30 per cent of the teledensity in the country.

Our foray into the Life Insurance sector in partnership with Sun Life of Canada is a measure to step up our interests in futuristic knowledge-oriented growth businesses, which have the potential to grow in revenues and earnings.

Divesting those of the businesses that destroy shareholder value is a natural corollary. Scaling down of our spinning operations, the closure of the Pulp and Fibre business at Mavoor, which were rendered unviable due to the non-availability of the raw material, and the divestment of the Files business to Raymonds and our desire to exit from petroleum refining, indicate our firm resolve to pare off those businesses which are not value adding and our focus on focus.

Novel Structural Processes

With CVA (Cash Value Added) as our measurement metric, we have been able to streamline and refine management decision making processes so that these are totally aligned to shareholder value. This has been accomplished under the umbrella of "Project Together", a Group-wide initiative to drum up support across all levels.

CVA serves as the sinew of our Organisation. Its roll out has been eminently successful. The Group's commendable results are partly the spin-off from CVA.

Our antenna is tuned into the external world. We have been constantly sharpening our wherewithal to channel and drive the forces of change. To do so we are moulding ourselves into a quick response, market-driven people who are constantly innovating and designing product delivery systems as customer solutions.

Infusion of fresh blood and grooming talent at all levels aids us in attaining the objective. Increasingly professionals of a high caliber have been and continue to be recruited whenever the required competence is not found internally. Alongside we have been moving talent effortlessly across the Group. The senior positions that fell vacant consequent to the retirement policy, have been largely filled in through the internal recruitment of talented, competent professionals. The transition has been flawless.

I firmly believe that our people provide us with the cutting edge. They are the backbone of our Organisation. They breathe life into the business, endowing it with both character and staying power. Therefore harnessing people power, breeding thought-leaders and creating platforms from which every individual can contribute are priorities, in continuum.

Our endeavours to be a fluid, flexible and seamless Group backed by our strong values, and a robust performance ethic are ongoing.

Institutionalising Systems

Towards creating value, we have embedded systems and processes firmly. The Aditya Birla Information Highway, rechristened as "Aditya Disha" ensures that learning and knowledge sharing is genetically hardwired into our Group. Leveraging the immense networking opportunities it offers, Aditya Disha, our intranet knowledge portal, assists employees at all levels to work faster and smarter. In doing so, it accords us a competitive lever.

Gyanodaya, the Institute of Management Learning, is today a world-class training and learning Centre, one in which we take great pride. Since its inception more than 65 management programmes have been conducted by top-notch professionals over 220 days, attended by 1300 managers. These are of immense value, honing as they do people skillsets required in today's competitive era. More importantly these programmes foster our intellectual capital, so fundamental to our remaining on top of the League in the sectors in which we operate.

All of our initiatives are strung together by one abiding dictum which is – to factor the aspirations of our shareholders, and to ensure that total shareholder returns grow significantly year on year.

Thank you,

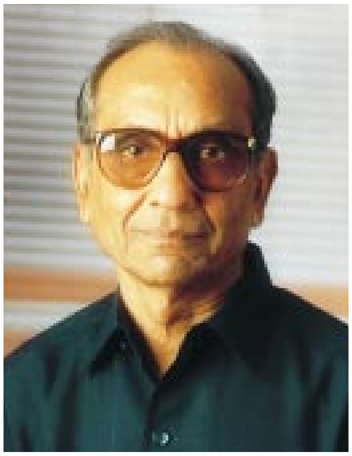
Yours sincerely,

Kumar Mangalam Birla

> "I firmly believe that our people provide us with the cutting edge. They are the backbone of our Organisation. They breathe life into the business, endowing it with both character and staying power. Therefore harnessing people power, breeding thought-leaders and creating platforms from which every individual can contribute are priorities, in continuum."

Management's Discussion and Analysis

— From the Whole-Time Director to Shareholders



A. K. Agarwala

OVERVIEW

Hindalco's performance for the year has been outstanding. Its relentless focus on asset sweating, value addition and market leadership coupled with benefits of improved yield, quality, diversified product mix and tightened costs have helped the Company deliver superior results.

The Smelter capacity utilization improved to record high levels of 103.9% and resulted in a record metal production of 251,492 tonnes, as against 248,930 tonnes achieved in FY00. This coupled with a change in product mix and improved realisation led to a 12.0% year-on-year (YoY) growth in net sales revenues to Rs.22,754.0 million in 2000-01 (FY01). Improved exports at Rs.3,763.3 million, up 20.5% YoY, has also contributed towards this end. Benefiting from stable margins, operating profits have grown by 12.0% YoY to Rs.10,528.5 million. Consequently, despite increased tax provisions, net profits have risen from Rs.6,123.7 million to Rs.6,780.8 million during the year.

CONSOLIDATING ON STRATEGIC MOVES TO ENHANCE VALUE

It was a year of consolidation, strategically. The Company made several value enhancing strategic moves during the last year and focused on reaping benefits of these strategic initiatives during the year.

Indal acquisition completed; Synergy realisation underway

Hindalco acquired a majority holding in Indian Aluminium Company Limited (Indal), through acquisition of a 54.6% stake from Alcan of Canada and an additional 20% equity from the Public at the total cost of Rs.10,126.3 million. This internally funded acquisition was completed in June, 2000.

Indal's strength in alumina and downstream products dovetails splendidly with Hindalco's strong presence in metal. Indal's locational and distribution strengths add to the synergies. Combined with enviable market position of the Company in the primary aluminium market, the Hindalco-Indal combine will be able to reap significant benefits in the market by reaching customers in an effective manner. The benchmark efficiencies of Hindalco as well as the process expertise of both the companies can be gainfully utilised towards enhancing value for shareholders in future.

Both Hindalco and Indal are collectively leveraging the synergies that stem from the integration process.

As a first step, Hindalco has increased the tolling of Alumina for Indal. This will be enhanced in FY02. Aimed at meeting increased metal requirements of Indal for value addition, it is expected to result in significant cost advantages for both the Companies. Secondly, to gain from best practices mutually, the legendary "Parta" system and "Value Based Management (VBM)" initiatives have been extended to Indal. The VBM initiative, which uses Cash Value Added (CVA) as a measurement metric, was adopted by the Company recently and has now been extended to Indal. Through its focus on key value drivers, CVA serves to enhance value for shareholders.

We are confident that these strategically important moves, rationalisation of products and an increasingly cohesive marketing approach will yield significant positive results for both the Companies in the coming years.

Brown-field expansion on track

The Brown-field Expansion at Renukoot, Uttar Pradesh is on track. This Rs.18,000 million expansion will raise the Smelter capacity by 100,000 tonnes per annum (TPA), the Alumina capacity by 210,000 TPA and a matching increase in the power generation capacity.

Bearing in mind the already stretched utilisation at the Smelter and the need to ensure improved availability of volumes, the Company has embarked on speedier implementation of the project. Our aim is to achieve 15,000 tonnes incremental metal output in FY02. The expansion will be completed in a phased manner, largely by end-FY03. This project will propel growth over the next three years.

"Rocket 2K" – A profit improvement exercise underway

Continuous improvement in operating efficiency is a priority at Hindalco and has been a key driver of the sustained growth in profitability over the years. To take this strategy forward, we have embarked on a profit improvement exercise – *Project "Rocket 2K"*, which hinges on improving profitability through increase in thru-put, achieving better operating efficiencies and reduction in costs and working capital. To do so, dedicated teams have identified measures for profit improvement in various areas and an action plan is being formulated. To commence in the current financial year, this project is estimated to result in an annual savings of Rs. 400 - 500 million, to be achieved over the next two years. It will also enable the Company deliver superior value to customers.

Quality Redraw rods from the new Coiler

REVIEW OF OPERATIONS

Operational Review and Analysis

Viewed in the context of economic slowdown and the resultant sluggish demand from the user segments, Hindalco's operations during the year have been excellent. Despite these and capacity constraints at the Smelter, the Company has recorded the highest-ever metal production, enhanced sales volumes and profitability. This is a culmination of several factors among which are better volumes and prices, an enriched product mix, strengthened efficiencies and tighter control over costs.

Capacity utilisation improved further across product segments

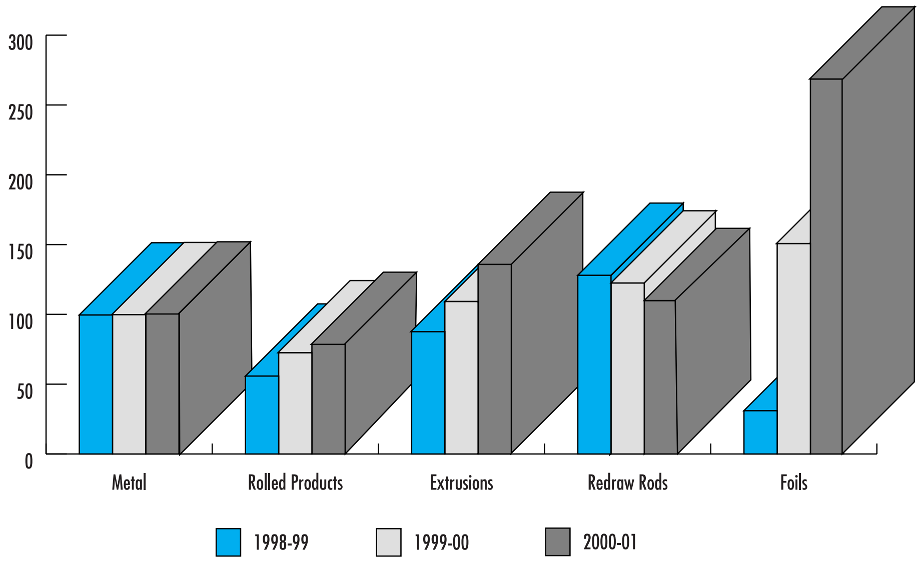
The Company's renewed focus on asset sweating and innovation have led to maximising of efficiency and improved utilisation across product segments.

Smelter capacity utilization improved further and led to a record metal production of 251,492 tonnes. This improvement is attributed to the adoption of better manufacturing practices.

Similarly, the adoption of an innovative "Sweetening Process" helped achieve higher volumes at the Alumina refinery. Alumina production rose from 453,305 tonnes to 476,700 tonnes, reflecting a growth of 5.2% YoY.

The downstream product segments generated impressive growth levels in production and utilisation. Rolled Product production volumes grew by 7.2% to 62,800 tonnes on a better product mix and stabilization of upgraded facilities while Extrusion volumes grew by 24.4%YoY to 18,602 tonnes in FY01. Foil production showed a quantum leap by 78.2% to 13,430 tonnes. In Wire Rods, we scaled down the production from 49,018 tonnes to 43,946 tonnes. This was a conscious decision given the slack demand from the State Electricity Boards.

Capacity Utilisation

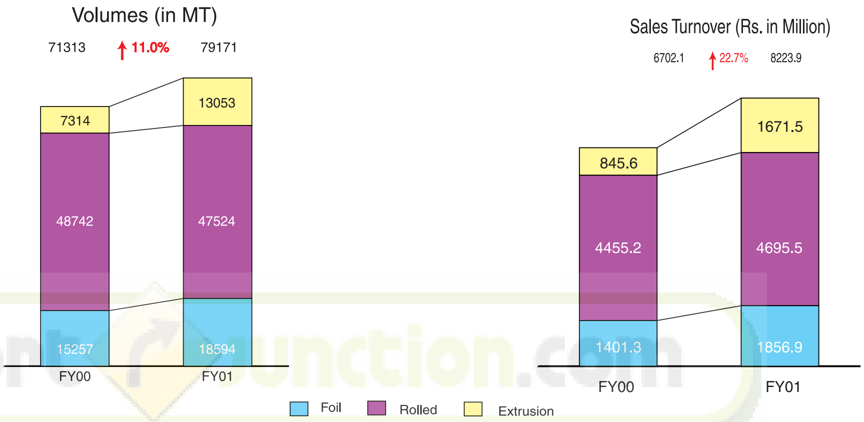


Quality Extrusions to meet diverse needs

Sales volume and Product Mix

Sales volumes touched a record high of 253,567 tonnes despite the weak demand in the domestic market. Focus on quality and customer service, deeper market penetration through an adjustment of product portfolios, aggressive marketing and a strong distribution network as well as a thrust on key user segments have contributed to the sustained sales volumes.

The value added product segments registered a satisfactory growth. The share of value added products increased further from 51.9% to 53.3% in FY01. While focusing on value added products, our emphasis has been on high value segments that offered scope for better value addition and realisation. Accordingly, we have improved volumes sales of Extrusion, Rolled Products and Foils, the aggregate sales of which have gone up 11% YoY to 79,171 tonnes in FY01. Sales revenues from these products have registered even stronger growth of 22.7% at Rs.8223.9 million during the year. The substantially higher value addition and realizations have contributed significantly towards enhanced profitability.



Simultaneously, the Company continued its focus on exports. This enabled us balance variations in domestic demand and comprehend fallouts of hiccups in the international markets. With aggressive marketing efforts, the Company improved export turnover by 20.5% from Rs.3,122.5 million to Rs.3,763.3 million.

The product sales break-up is as follows:

Products	*Sales Volume (MT)*			*Net Sales (Rs. in Million)*		
	FY01	*FY00*	*% Change*	*FY01*	*FY00*	*% Change*
Ingots	118,500	120,540	(-) 1.7	9,311.0	8572.5	8.6
Billet	11,664	10,552	10.5	937.8	789.6	18.8
Redraw Rods	44,151	48,311	(-) 8.6	3,746.2	3809.8	(-) 1.7
Rolled Products	47,524	48,742	(-) 2.5	4,695.5	4455.2	5.4
Extrusion	18,594	15,257	21.9	1,856.9	1401.3	32.5
Foils	13,053	7,314	78.5	1,671.5	845.6	97.7
Others	81	11	-	535.1	437.8	17.7
Total Sales	253,567	250,727	1.1	22,754.0	20,311.8	12.0
Value Added Products (% of Total Sales)	53.3	51.9	-	59.1	57.8	-
Exports (FOB)	*47,450*	*46,378*	*2.3*	*3,763.3*	*3,122.5*	*20.5*

- *Ingots*

  Ingot sales volumes are marginally lower at 118,500 tonnes. More metal was used for production of value added products. Ingot revenues grew by 8.6% on the back of improved realisation during the year.

- *Billets*

  The sales of Billets grew by 10.5% to 11,664 tonnes on the back of improved demand in the export markets. Over 90% of billets sales volumes were exports, benefiting from improved demand from the US and Asia. Reflecting this and better prices, net revenues increased from Rs.789.6 millions in FY00 to Rs.937.8 millions in FY01.

- *Redraw Rods*

  We took a conscious decision to scale down redraw rods operations given the sluggish demand from the electrical sector and limited scope for value addition. Redraw rod sales thus declined by 8.6% to 44,151 tonnes and net revenues by 1.7% to Rs.3,746.2 million.

- *Rolled Products*

  The sale of Rolled products to external customers was lower, as we catered to the needs of the Company's Foils division. This was done to improve the product mix and value addition, which led to higher per tonne realisation. The transfer volumes to the Foils division grew by 64.5% to 15,241 tonnes. Consequently, despite higher production, external sales volumes were lower by 2.5% from 48,742 tonnes to 47,524 tonnes. Export volumes grew by 3.7% YoY to 9,206 tonnes. While the traditional user segments registered growth in consumption and enabled improvement in sales volumes, new application segments also showed an impressive performance.

  Towards ensuring sustainable strong growth in the Rolled Products segment, the Company is continuously pursuing efforts to develop new products/markets for

  - Curvomatic sheets for roofing.
  - Foil stocks suitable for foils of 7 microns.
  - Hard alloy sheets for defence applications.
  - Chequered sheets for CNG bus body application.

  These will contribute significantly towards volumes and profitability in future.

- *Extrusions*

  Extrusions segment mirrored superior performance with sales volumes growing by 21.9% from 15,257 tonnes to 18,594 tonnes during the year. Net revenues increased by 32.5% to Rs.1,856.9 million. This assumes significance considering the sluggish demand conditions in the transportation, construction, electrical/electronics and consumer durables sectors. The Company's marketing efforts, concerted efforts to improve product mix, higher value addition to serve consumer needs as well as successful penetration into the new application segments have contributed towards the growth in volumes and revenues.

  The increasing shift towards aluminium bodies by the commercial vehicle users and greater demand from the construction sector for partition and door/window panelling applications helped in increasing sales volumes. New products such as heat sink profiles for battery operated cars and forging stock for auto brake components and other products for strategic applications led to strong volumes during the year. Recently introduced products viz., turbo cooler stock for computer-hardware, lead free machining alloys for high machining speeds and medium strength alloys for the transport and construction sectors have done satisfactorily.

- *Foils*

  The Foil division demonstrated further improvements in performance. After having successfully stabilised operations last year, the Foil division posted an impressive rise in production from 7,537 tonnes to 13,430 tonnes, an increase of 78.2% YoY. With an enriched product mix and focused marketing efforts, sales volumes have soared by 78.5% to 13,053 tonnes and sales revenues by 97.7 % at Rs.1,671.5 million. A razor-sharp focus on high value products, including converted foils, contributed significantly towards this

Hindalco troughed sheets for Roofing & side cladding