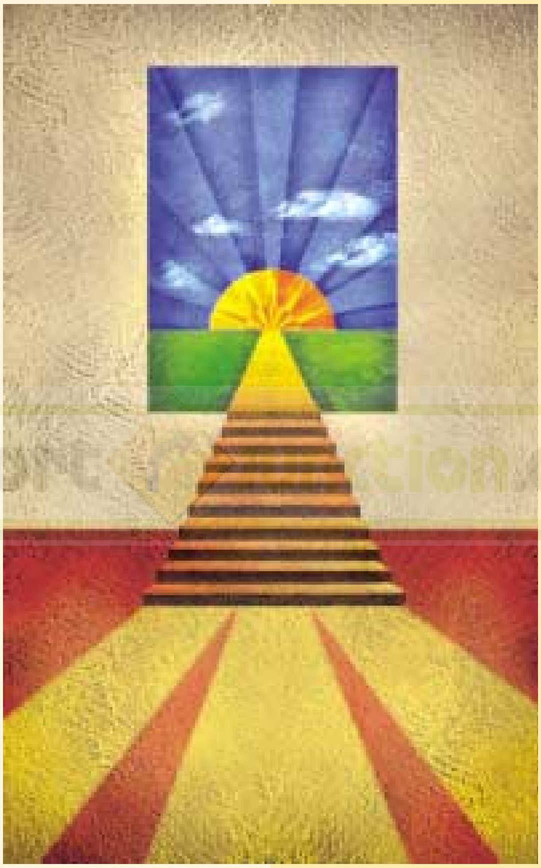
ANNUAL REPORT 2002-2003



HINDALCO

ADITYA BIRLA GROUP

Hindalco and Industries Limited

IN HOMAGE TO A LEGEND

"My vocation, is to strive continuously, to reach excellence in all spheres of management, by weaving the threads of enterprise, knowledge, experience, ideas and tasks into a fabric that can be called "management". My job is to motivate, to bring together and fuse human talent, so that they act in harmony and in unison as one team, directed towards a single purpose, a single goal.

In our Group, our first and foremost objective is to satisfy our larger family, our family comprising of our shareholders, our customers and our employees.

Towards this objective, our credo is, 'strive for excellence and perfection in all spheres of management, through continuous improvement.'

For our shareholder, it is our job, and our commitment to create wealth for him, and to amply reward the faith that he has reposed in us.

For our customers, we believe, that, 'the customer is always right'. Our motto is to give him total satisfaction, in terms of quality and service.

For our colleagues and employees, our motto is 'your growth is our concern'."

We follow in his footsteps.

ADITYA BIRLA GROUP

ADITYA VIKRAM BIRLA

November 14, 1943 - October 1, 1995

HIGHLIGHTS

- Historic year, strategically
  - A fast growing copper business acquired through a major restructuring.
  - Nifty Copper Mines in Australia comes into Hindalco's fold.
  - 10th and 11th potline commissioned; Smelter capacity at 342,000 TPA to be fully operational by H1-FY04.
  - Shareholding in Indal raised to 96.0%.
- Aluminium
  - Production at record high levels, notwithstanding Smelter interruptions caused by a grid failure.
  - Share of value added products scaled a new high at 58% of sales.
  - Margins suffered, but on the recovery path since Q4FY03.
- Copper
  - Birla Copper gets LME Grade 'A' distinction.
  - Smelter operating above rated capacity; Brownfield expansion to enhance capacity to 250,000 TPA by H1-FY04.
  - Domestic leadership sustained even with doubling of exports.
- Revenues and net earnings before extra-ordinaries impressive at Rs. 49.7 billion and Rs.7.5 billion respectively.
- Equity capital up from Rs. 744.6 million to Rs.924.6 million consequent to the copper acquisition.
- Fully Diluted EPS before extra-ordinaries declined from Rs. 92.1 to Rs. 80.6 and CEPS from Rs. 114.0 to Rs. 111.2 in FY03.
- Dividend maintained at 135% on expanded equity.
- Several accolades won. A selective list
  - The Social Responsiveness Award from FICCI-SEDF and The FICCI Award for outstanding work in the field of Family Welfare.
  - The Non-ferrous Quality Award from Indian Institute of Metals – for its aluminium business.
  - The Ministry of Power, Government of India, confers The National Award for Energy Conservation for the 7th consecutive year.
  - A Certificate of Merit for the Aluminium business and a Commendation Certificate for the Copper business from the IMC Ramakrishna Bajaj National Quality Awards.

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BOARD OF DIRECTORS

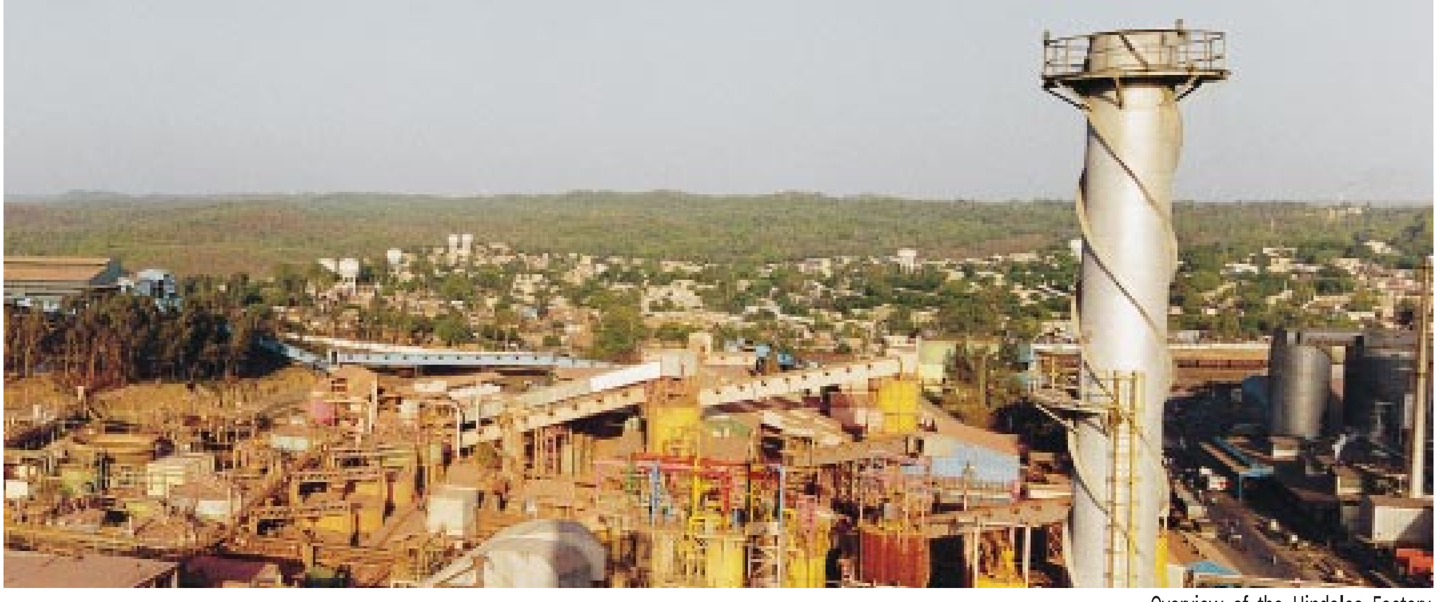
Mr. Kumar Mangalam Birla
Chairman
Mrs. Rajashree Birla
Mr. T.K. Sethi
Mr. C.M. Maniar
Mr. E.B. Desai
Mr. S.S. Kothari
Mr.. M. M. Bhagat
Mr. K.N. Bhandari
Mr. A.K. Agarwala
(Whole-time Director)
Mr. D. Bhattacharya
(Additional Director)

SPECIAL ADVISOR
Mr. D.P. Mandelia

KEY EXECUTIVES
Mr. R.K. Kasliwal
Executive President (Finance & Commerce) & C.F.O.

Mr. S.K. Tewari
Chief Officer (Manufacturing)
Mr. S.K. Maudgal
Executive President (Marketing) & C.E.O. (Foil & Wheel)
Mr. R.P. Shah
Joint President (Alumina)
Mr. Ajey Srivastava
Joint President (Fabrication)
Mr. P.K. Panda
Joint President (H.R.)
Mr. S.C. Tandon
Joint President (Reduction)
Mr. A.K. Karmakar
Senior Vice-President (Boiler & Co-generation)
Mr. R.P. Tiwari
Senior Vice-President (Projects)
Mr. S.N. Sharma
Senior Vice-President (Finance & Accounts)
Mr. K.K. Patodia
Senior Vice-President (Raw Material)
Mr. R. Haridas Menon
Vice-President (Marketing - Primary Metal)
Mr. I.C. Rao
Vice-President (Marketing - Rolled Products)
Mr. Sanjeev Goel
Vice-President (Information Technology)
Mr. O.P. Srivastava
Vice-President (Operation - Reduction)
Mr. L.P. Mishra
Vice-President (Maintenance- Fabrication)
Mr. V.K. Bajoria
Vice-President (Maintenance - Reduction)

RENUSAGAR POWER DIVISION
Mr. G.S. Khurana
Executive President (Renusagar Power Plant)
Mr. S.R. Gopal
Senior Vice-President (Design)
Mr. P.V. Rao
Senior Vice-President (Operation)
Mr. G.M. Pandey
Vice-President (Maint.)



Overview of the Hindalco Factory

FOIL DIVISION
Mr. J.D. Mehta
Joint President (Marketing - Foil & Wheel)
Mr. A.R. Sangolli
Vice-President (Foil & Wheel)

COPPER DIVISION
Mr. P.Balakrishnan
Executive President
Mr. A.K. Sharma
Joint Executive President (Works)
Mr. J.P. Paliwal
Senior Vice-President (Commercial)
Mr. S.K. Sinha
Senior Vice-President (Engineering)
Mr. B.M. Sharma
Senior Vice-President (Marketing)
Mr. N.R. Vyas
Vice-President (HRD & Personnel)
Mr. K.C.D. Khandelwal
Vice-President (Smelter)
Mr. D.K. Das
Vice-President (DAP Marketing)
Mr. S.N. Sharma
Vice-President (Co-ordination)
Mr. J.S. Bedi
Vice-President (Projects)
Mr. M.C. Goel
Vice-President (DHIL Business)
Mr. K.P. Sharma
Vice-President (Commercial & Logistics)

COMPANY SECRETARY
Mr. Anil J. Jhala
Joint President (Company Matters, Taxation & Treasury)

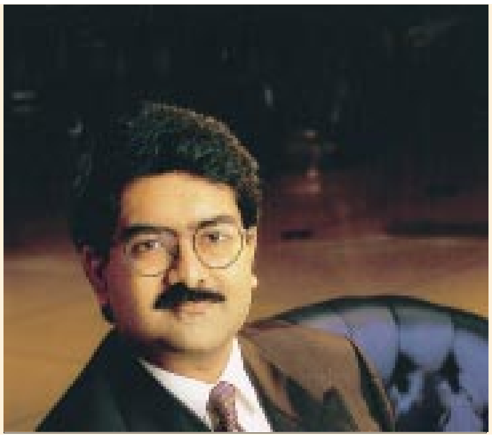
SOLICITORS
Mulla & Mulla & Craigie Blunt & Caroe, Mumbai
Khaitan & Co., Kolkata
Khaitan & Partners, New Delhi

AUDITORS
Singhi & Co.,
Chartered Accountants, Kolkata

INDEPENDENT AUDITORS
(US GAAP)
KPMG, Mumbai

COST AUDITORS
R. Nanabhoy & Co., Mumbai
Om Prakash & Co., New Delhi

BANKERS
UCO Bank
State Bank of India
Allahabad Bank
American Express Bank Ltd.
Bank of America
Citibank N.A.
Standard Chartered Grindlays Bank Ltd.
ABN Amro Bank N.V.
Union Bank of India
IDBI Bank Ltd.
Hongkong Shanghai Banking Corp. Ltd.



The Chairman's Letter To Shareholders

Dear Fellow Shareholders,

In a year characterized by a dim economic environment, overshadowed by geo-political issues and a significant lowering of consumer spends, your Company has managed to sustain its performance.

Your Company attained revenues of Rs.49.7 billion. Operating profits stood at Rs.12.1 billion and net profit at an impressive Rs.5.8 billion. Of this, the aluminium business accounted for 48% of the revenues and 66% of profits, while the balance accrued from our copper sector.

To achieve these results has been a tough slog for your Company. A grid failure and the consequent interruptions disrupted your smelter's operations, impairing its overall performance. The substandard quality of coal, coupled with inadequate supplies also posed a major constraint, pulling down the Plant performance level. A spurt in the cost of captive power was a drag as well. Markets too did not favour growth, as there was a marked mismatch between the demand and supply situation, which in turn spurred a fierce price competition.

That your Company could move forward, despite the tremendous odds against which it had to perforce operate, is a reflection of its resilience power. Significantly, the ability to continuously sweat its assets, hone its operating efficiencies and pare costs – have been the critical enablers, partly responsible for your Company's progress.

As in the past, I would like to apprise you of the major developments in your Company and the manner in which we are geared to enhance shareholder value on-goingly.

The consolidation of the copper business of the erstwhile Indo Gulf Corporation Limited with your Company, is an important step in our ongoing endeavours to create a business that is both focused and has the

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financial capability to become a global player. In essence, our intent is to transform your Company into a non-ferrous metals power house. The merger has created a stronger balance sheet, and undoubtedly opens a window to a multitude of value-enhancing opportunities.

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The acquisition of the Nifty mines in Australia from Straits (Nifty) Pty. Ltd., has elevated Birla Copper, your Company's new SBU to an integrated Copper producer. Ownership in upstream mines is a strategic imperative for a copper smelter of our size. It is our intent to scale up further to a global size in the foreseeable future.

Nifty currently has a production capacity of 25,000 tonnes per year of Copper Cathodes and a large undeveloped copper sulphide resource estimated to be around 1.9 million tonnes of copper equivalent. The project also has a total resource of 148 million tonnes of ore grading 1.3% of copper. We have rights to explore in the richly mineralized Paterson province, famed for its copper ore deposits. Additionally, we have acquired a 50% interest in the Maroochydore exploration project.

It might interest you to know that Birla Copper has already attained a leadership status, commanding a market share of over 45% – within a short span of 3 years from its first commissioning. The de-bottlenecking of the Copper Smelter at Dahej last year has resulted in enhancing the smelter capacity by 50%, to 150,000 TPA cost efficiently, last year, and the ramp-up achieved has truly set a new global benchmark. We expect to scale it to 2.5 lac TPA shortly.

In Aluminium, the commissioning of the 10th Potline and a section of the 11th Potline marks a milestone in your Company's brownfield expansion. This has led to a capacity increase of 35,000 tonnes in metal production and 220,000 tonnes in alumina and 80 MW in the power generation capacity. The Smelter capacity is now pegged at 310,000 TPA, Alumina at 660,000 TPA and captive power generation at 699 MW. The balance pot cells of the 11th Pot Line will be commissioned during the first half of the next fiscal. Trial runs at the 10th Power Unit at Renusagar are currently underway. We expect to complete the expansion in the ensuing financial year.

Lifting your Company's stake in Indal from 74.6% to 96% has been a significant development. As you are well aware, acquiring Indal has enabled us position ourselves along every link in the value-addition chain of the business, from metal to downstream products. Here, the Hindalco/ Indal combine today account for over 70% of the market share.

Outlook

These strategic initiatives, I believe, provide your Company with an edge, that will push it into a higher growth trajectory. Looking ahead, I believe, the going is good for your Company.

The US economy is sending signals of renewed strength. Consumer confidence has soared in U.K. Other major economies are also well into the growth mode. China, regardless of SARS, is prospering. That China poses a threat in the metals sector, I believe, is a grossly exaggerated viewpoint, particularly when one factors their emerging concerns on power and their Government's recent ban on setting up of new metal capacities. The Asian region's performance continues to be strong. The growth of these economies presages a rise in alumina and metal consumption.

In India, the Government's focus on the furtherance of the power and infrastructure sectors, both of which offer a significant potential for aluminium application, should advance growth. A softer interest bias and stable real estate prices, portend well for the housing and construction sector. The auto sector is on the upswing. A good monsoon should buoy the demand for aluminium as well.

Such a milieu, stokes your Company's growth prospects. Leveraging its ascendancy in the metals and downstream businesses, increasingly ushering in value added applications, and edging exports rapidly, underlines your Company's blue-print for growth. I view the future with great optimism.

If our businesses are sustainable through constantly challenging times, it is because of our high-performing, motivated workforce. I wish to record my heartfelt appreciation of their contribution without which your Company would not have come this far. They are fully attuned to your Company's abiding commitment to create and enhance shareholder value.

The Aditya Birla Group – In Perspective

I would like to take this opportunity to retrace the direction of our Group over the past four years. If one were to encapsulate it in a single word - the dominant strategic theme over the past four years has been **consolidation.** This is in line with our vision of being a premium conglomerate, with a clear business focus at each business level, relentlessly pursuing value creation. The logic underpinning consolidation is the push for market leadership, economies of scale, productivity gains and operational efficiencies, coalescing to create value-adding growth.

Let me recount some of the major steps that we have taken in our drive towards consolidation.

Post-restructuring, Indo-Gulf has emerged fully focused on fertilizers, with a brand that commands a huge equity, strong cash flows and a leadership position in the fertilizer industry. It is well positioned to take advantage of the opportunities that arise from the disinvestment programme of the Government.

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The decision to demerge the Insulator Division and transfer it to a separate 50:50 joint venture with NGK of Japan has been a crucial move. NGK is the undisputed world leader in the manufacturing and marketing of all types of Insulators for overhead transmission lines and sub station equipment. It controls 60% share of the world's Ultra High Voltage Insulator market. The partnership with NGK will help to build on and strengthen the leadership position we already enjoy in the domestic market, because of the access we will have to the latest in product and manufacturing technology. In addition, there will be opportunities for getting plugged in into a global marketing network. Through this route we will take the Insulator business to new heights.

A slew of initiatives have also been taken to consolidate the operations of Grasim – among them the closure of the Pulp and Fibre plants at Mavoor, and the sale of the loss-making fabric operations at Gwalior. Over the past four years, Grasim has become much leaner and stronger – with the debt/equity ratio improving from 0.93 to 0.58, interest charges falling from Rs 292 crores to Rs 168 crores, operating profit rising from Rs 678 crores to Rs 1142 crores, and workforce rationalization taking the manpower strength from 24,400 to 16,600.

In the Telecom business, we joined hands with the Tata Group. Beginning in 2 states, we have expanded to 7 states. Our subscriber base has reached 1.1 million. Our footprint covers 40 percent of the cellular market in India, with a 47 percent market share in the circles where we operate, and an 11 percent market share nationally.

We have recently divested the Group's stake in MRPL, to ONGC. This strategic decision of the Group was based on lack of leadership position in the sector, no presence in marketing of petroleum products, especially transportation fuels, and no significant synergies with other Group businesses, apart from losses incurred due to regulatory changes. Although the sale of the Group companies' equity stakes in MRPL does have a one-time impact on their profits, the exit from MRPL indicates our firm resolve to rationalize the Group's portfolio of businesses with a view on the future. It also bears testimony of our commitment to a key group of stakeholders i.e. our lenders.

The Birla Sun Life joint venture, which started off 3 years ago, has developed a major presence in the insurance and mutual funds sectors. Birla Sun Life is perceived as a leading quality market player, recognized for its superior service levels and we consider this as a core business with immense growth potential in the years ahead.

From all of this, a clear trend emerges. Our strategy dictates that we get out of businesses where we are bit players, and strengthen the businesses where we have clear competencies, so that we get to the top of the league, or consolidate our position there, as the case may be. This leads

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to a sharper and tighter business portfolio with our firepower getting better targeted.

I do believe that our decision to consolidate – and the way we have gone about implementing that – has been sound. Firstly, we have operated our existing assets efficiently. Secondly, the assets we have built and acquired have been quality assets, complementing our existing strengths. Thirdly, the asset growth has been funded largely through internal accruals. As a result, every one of the companies in our Group has emerged with a stronger balance sheet. Fourthly, save for the IT and garments businesses, which are still at an incubation stage, the consolidation measures have started yielding the results that we had envisaged.

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Performance Measures

Having said this, what has it meant in terms of performance? As you are aware, we adopted CVA -or Cash Value Added – as a performance metric 3 years ago, which is in consonance with our Group's focus on value addition. CVA, by itself, is a punishing measure in that it calls for superior returns on assets created and equity invested. Our Group CVA has been positive. Given the stringent performance standards set by the CVA metric, and that, in fact, not too many companies in India, actually have consistently delivered even a positive CVA, I believe that this is a commendable performance.

I must add that the market capitalization of the Group correlates very weakly with the sharp increase in value addition, as measured by CVA during the same period. This is a source of disappointment. Even as I do not think that we need to be drawn into the expectations game as fueled by analysts, over a period of time, we hope that the market valuations will reflect our underlying strengths and performance.

Focus on People

Having said that, I must add that the course of shrinking the business portfolio, while placing larger bets in a few industries, is a higher risk strategy, albeit with the promise of higher returns. Continuing to deliver superior performance whilst factoring in this potentially higher risk profile, takes us to what I believe is our most important asset, one that is not reflected in any of our balance sheets – our people. Over the last several years, our focus as regards people has been, in a