



ANNUAL REPORT

2016-17

HINDALCO INDUSTRIES LIMITED



BIG ON MILESTONES



Mr. Aditya Vikram Birla

We live by his values.

Integrity, Commitment, Passion, Seamlessness and Speed.

THE CHAIRMAN'S LETTER TO SHAREHOLDERS



Dear Shareholders,

Global Economy

The global economy continued to be subdued in 2016. The slowdown in the advanced economies of the West adversely impacted growth levels, resulting in the slowing of the world economic growth to 3.1% from 3.4% in the earlier year. The growth in emerging markets and developing economies was encouraging. However, China and India experienced a deceleration. Financial markets reflected a broad uptrend, notwithstanding Brexit and the rate hikes by the US Fed.

Recent data reveals that the global economy is gaining momentum. PMIs (Purchasing Managers' Indexes), accelerating trade flows and better business and consumer confidence are the key pointers. The IMF has projected global growth to notch up to 3.5% in 2017 from 3.1% last year. Growth in the advanced economies is estimated at 2%, with US growth at 2.3%, the Euro area at 1.7% and Japan at 1.2%. Growth in the emerging markets is pegged at 4.5%, driven largely by China, India and the ASEAN region. Latin America is expected to grow only 1.1%, affected by the weak trend in Brazil.

Indian Economy

India is on a roll. There is a buzz about India, as it blazes forth as the fastest growing economy in the world at 7.1%. The trade deficit in 2016-17 was USD 106 billion, lower by 11% over the previous year. The current account deficit has been significantly pared. India's foreign exchange reserves as at March end 2017 were USD 370 billion. Investors are bullish. Foreign investment flows, which were at over USD 60 billion in FY-17 are scaling new records. Markets

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are buoyant. Stock index is at a historic peak. India's global ranking has jumped up in competitiveness and on the innovation index.

The various initiatives and reforms of the Modi Government have built the platform for a quantum leap ahead. High impact national projects, coming to grips with structural issues, which were holding back the country's progress, innovative approaches in policy making – have collectively contributed in driving India on a high growth trajectory. Going forward the abiding sense is one of immense optimism and confidence in the future with the nation slated to grow at 7.5% to 8%. India's narrative is unmatched.

That said, if there is one subject that needs greater attention on the government's radar for the ensuing years, it is the revival of investment activity and creation of quality jobs in large measure. The Government is seized of these issues. The Government has taken many steps, including a sharp focus on improving ease of doing business, speeding of green clearances and stepping up public sector outlays for infrastructure. I believe, it is a matter of time before the private sector investments pick up – as NPAs are resolved and corporate balance sheets are deleveraged.

The metals sector: In brief

Global Aluminium demand excluding China grew by 3% in 2016 compared to the earlier year. In China it rose by 7% in 2016 on the back of stimulus provided by the government. The overall global Aluminium consumption touched around 60 MnT, registering a growth of 5.0% in 2016 over 2015. China continues to be the largest consumer of metal, accounting for over 50% of the total global consumption. In FY17, Aluminium LME was on the upward trend compared to FY16. Premium in FY17 remained at low levels. Premiums started to recover from November 2016 due to supportive demand and price outlook and low inventory level in LME warehouses.

Global Refined copper consumption grew by 2.2% in 2016 vs 2015. China is the largest consumer of copper. On the supply side, global mine supply extended by 5% in 2016. This led to an increase in TcRc. However in early 2017 the disruption in mines resulted to reduced TcRc.

The Domestic Demand for Aluminium in India is expected to benefit from the Infrastructure projects prioritised by the government. The government's thrust on the power which sector is the dominant consumer of Aluminium in India, augurs well for your Company. The Automobile and food packaging industries are also expected to stoke aluminium growth. Furthermore, rapid urbanisation should augment consumer demand, yet another positive for the sector. Moreover the per capita aluminium consumption is far below the global average. This offers a huge potential, given our demographic and economic outlook. The Domestic Copper demand is led by the electrical and electronic products sector, accounting for 34% of the consumption. The strong

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growth in end user segments such as winding wires, power cables and other user applications favour the sector.

Initiatives such as housing for all, the creation of 100+ smart cities, the thrust on infrastructure especially rural infra development, along with Make in India and Digital India among others should spur the industrial sector to higher growth levels as well as enhance private investments in FY18.

Your Company's performance

In an environment of mixed economic signals, your Company's performance has been commendable in FY17. It registered a record Consolidated EBITDA at ₹ 13,558 crore on a turnover of ₹ 102,631 crore. Both Aluminium and Copper Businesses in India and Novelis registered robust operational performance.

Before I move into the operational aspects, I would like to brief you on some of the important developments at your Company.

Deleveraging

In line with our stated objective to deleverage the balance sheet, your Company successfully raised USD 500 million through a Qualified Institutional Placement (QIP), which along with the treasury balance was utilised to prepay the existing borrowing. This has led to a substantial improvement in the Consolidated Net Debt to EBITDA. Your Company has prepaid close to ₹ 5,500 crore till date.

Its subsidiary Novelis refinanced USD 4.3 billion long term debt. The annual cash interest expense stands reduced by USD 79 million.

Divestments

Novelis entered into a JV agreement in May 2017 with Kobe Steel to sell 50 percent of its ownership interest in its Ulsan, South Korea facility, for USD 315 million.

Your Company also divested Aditya Birla Minerals Limited, Australia for USD 80 million.

Both these moves are towards enhancing stakeholder value.

Energy Security

I am also pleased to inform you that with new coal linkages attained in FY2017, coal security is now at over 60% of your Company's annual requirement of the domestic Aluminium Business.

Operations

For the FY 2017, the Company achieved record production — Aluminium metal at 1.3 million tonne and Alumina (including Utkal Alumina) at 2.9 million tonne. Alumina production was up 8 per cent and Aluminium metal production extended by 12 per cent as compared to the previous year. Value Added Products (including Wire Rod) production was at 481 kilotonne, higher by 14 per cent as compared to the preceding year. All

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of your Company's new plants viz. Aditya Aluminium, Mahan Aluminium and Utkal Alumina are operating at their rated capacities.

In the Copper Business, production was lower as the business took a planned shutdown. The Subdued demand in the wire rod segment also dented CC Rod production. Consequently cathode, CC rod and DAP production fell by 3 per cent, 5 per cent and 7 per cent respectively.

A big thank you to all of our employees

Organizational agility, excellence in execution, customer centricity and cost optimization are a given. I believe to drive business growth in a sustainable manner, the criticality of our people – our intellectual capital, is beyond expression. We deeply value our employees' engagement and their commitment to our culture of innovation and performance accountability.

Aditya Birla Group: In perspective

At the Group level our performance both in terms of revenue and earnings has been growing. In fact our EBIDTA has been the highest ever. In line with our people focus, we have strengthened the capacity of our leadership bench as well as employees across levels. Our Group's HR agenda is even more sharper and defining of our future. Our HR function has collectively developed and clearly articulated the HR 2020 strategy across the organization. It has clear actionables and review mechanisms, focused on talent, technology, productivity and employer brand.

On the people front it has truly been an exciting year of development, building on the strong foundations of the earlier years.

As I had shared with you earlier, we have 3 accelerated leadership programs.

First - The Turning Point, which prepares high potential leaders for P&L roles.

Second - Step Up which infuses a ready pipeline for Functional Head roles, and **Third** - Springboard designed especially for high caliber women leaders.

These have enabled us to set up the requisite bench strength of leaders. We have prepared 123 leaders for higher responsibilities, over the last one year. Of this 26 have already taken on new roles. The Business leadership and I have personally reviewed talent across the business, and am happy to see the evolution of our structured succession plans. The hiring freeze came into effect in January 2016. This, coupled with our leadership development actions, has resulted in extremely encouraging people moves. Over the last year, we witnessed 5500+ career movements across the Group. Of these, 600+ were inter-business movements, 150% higher than the previous year.

The Aditya Birla Group Leadership Program (ABGLP) is another strong source of building leaders. It has gained greater traction this year with

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67% higher intake. From the earlier batches, 95 participants, have over the last 2 years, been given cross business and function exposures grooming them for a holistic perspective. I am happy to share that we continue to be an employer of choice amongst the top B schools in India. Our Group features among the formidable Top-5 in the A C Nielsen – CRI Campus Recruitment India Index 2016 as well.

Additionally to accelerate opportunities for our talent we have set up Talent Councils led by Business Heads and Directors at the business and Group levels. Up until now more than a 100 Talent Councils meetings have happened across the Group where the development plans of approximately 3000 colleagues have been discussed and actions taken.

Project Vega is yet another initiative launched this year. Its basic objective is to review the agility of decision making in the organization, keeping in view end-customer impact. This has yielded significant changes to internal processes, delegation of authority and speed of decision making, in turn empowering teams and freeing up leadership bandwidth. This, along with our focus on technology enabled processes, I believe, will keep us sharp and nimble.

Furthermore, to hone and enhance our functional expertise, Gyanodaya, the Aditya Birla Global Centre for Leadership & Learning, launched Functional Academies last year. The Sales, Marketing & Customer Centricity Academy and HR Academy enabled 1150 leaders build deeper expertise in their domain areas. Gyanodaya continues to deliver superior learning programs with over 1583 managers enrolled last year. Additionally, the Gyanodaya Virtual Campus hosts more than 500 e-learning modules in multiple languages. During the year, over 31664 employees accessed these e learning programs. I am happy to update you that we are doubling our capacity in Gyanodaya, through upcoming expansion plans.

In sum

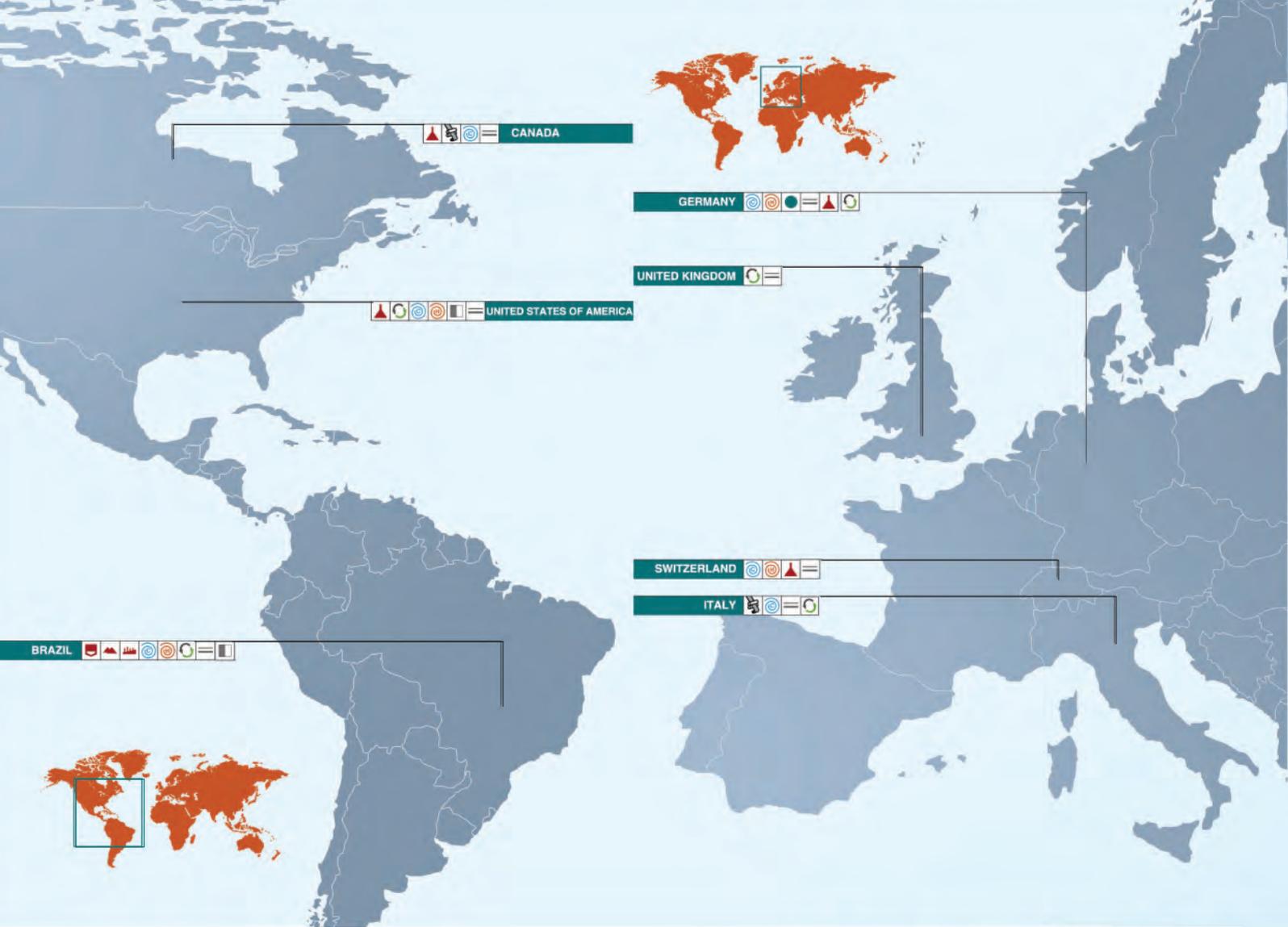
Our Group's solid reputation, robust financials, the quality and commitment of our talent, our leadership positions in our businesses, our operational excellence and our CSR engagement, are our strengths that I believe, will see us ride the wave of success.

Yours sincerely



Kumar Mangalam Birla

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...DIVERSE WORLD

SUBSIDIARIES	UNIT LOCATED AT	
Novelis Inc	North America	<ul style="list-style-type: none"> • Rolled Product • Foil • Recycled Product
	Europe	<ul style="list-style-type: none"> • Rolled Product • Recycled Product
	Asia	<ul style="list-style-type: none"> • Rolled Product • Recycled Product
	South America	<ul style="list-style-type: none"> • Rolled Product • Alumina • Aluminium • Recycled Product



WIDE OPERATIONS

- | | | |
|--------------------------------|--------------------|------------------------------|
| Alumina Refinery | Coating | Integrated Aluminium Complex |
| Aluminium Extrusion Plant | Cold Rolled | Integrated Copper Complex |
| Aluminium Foil Plant | Continuous Casting | Power Plant |
| Aluminium Rolled Product Plant | Converting | R & D / Technology Centre |
| Aluminium Smelter | Finishing | Recycling |
| Bauxite Mines | Hot Rolled | |
| Coal Mines | | |



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