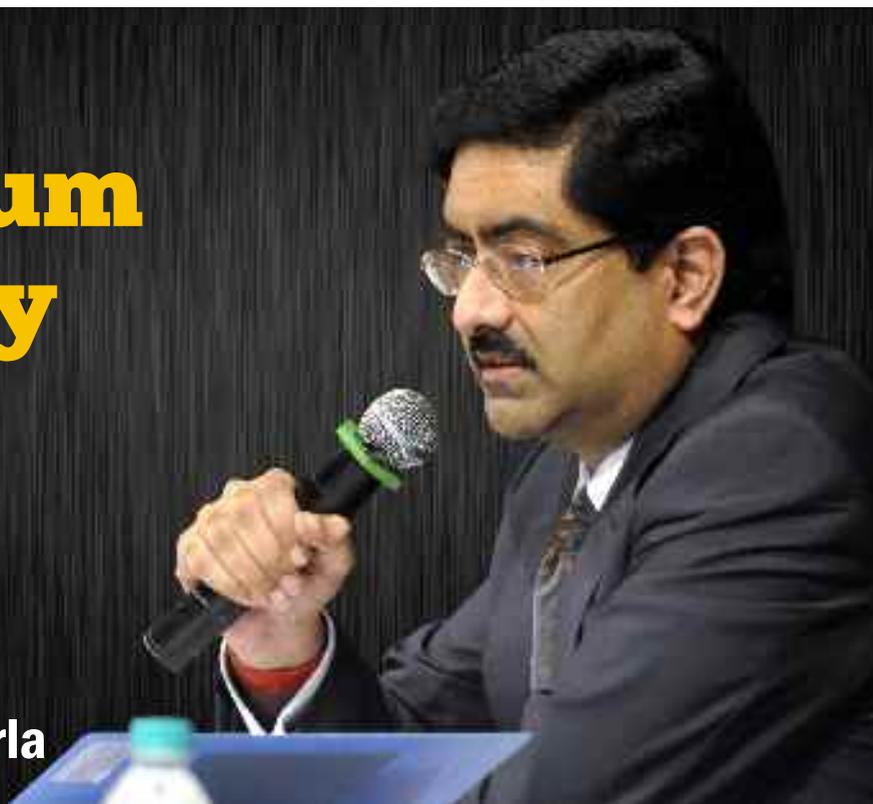


Global Aluminium Inventory Levels Remain High

- Kumar Mangalam Birla



Addressing the 53rd Annual General Meeting of Hindalco Industries Limited, Mr. Kumar Mangalam Birla, the Company Chairman, highlighted challenges confronting the nation, the aluminium and copper business and the Company's scorecard in the context of these factors. Speaking on the global scenario in aluminium Mr. Birla stated that, "world aluminium consumption in 2011 was 45 Million tonnes, compared to 41 million tonnes in 2010, an increase of around 10%. Production in 2011 was marginally higher, at 45.6 Million tonnes, against 42 Million tonnes in the previous year."

Economic growth in China, the major driver of commodity demand, - accounting for over 40% of global demand for Aluminium and Copper - slowed considerably. India's growth also slowed, on account of monetary tightening and a subdued investment and business climate. There was a particularly sharp deceleration in the industrial sector. Growth in North America exceeded expectations, with consumption registering a strong growth of 8.5%. The pickup in demand from the transportation sector, which

is the key driver, accounted for around 36% of total demand. An increase in demand in the building and construction sectors was notable. The market benefitted from some inventory restocking. However, the growth now seems to be levelling, as global uncertainties play out. The



recent growth has been muted. European consumption, which grew almost 5.5% in 2011, is expected to remain stagnant, given the distinctly downbeat macroeconomic climate in Europe.

Globally, aluminium inventory levels continue to remain high, as the low interest rate regime continued to incentivise carry trade, with contango

still significantly higher than carry cost. This helped to sustain the movement of more and more physical aluminium towards warehouses. As a result, despite the LME remaining depressed, premiums continued to be high, thus supporting the producers to some extent. European, US and Japan ingot premiums are at record levels, sustained by warehouse financing deals, rather than physical demand. Power prices continued to exert upward pressure on the aluminium cost curve, especially in Europe. Aluminium smelters have been hit hard by recent fuel price increases, as well as carbon emission costs, which are set to grow further in the coming years. Given the pincer movement of LME and the cost pressures, several producers have, in recent months, announced curtailment of production, while some have even stopped production".

On Copper, Mr. Birla remarked that, "Global Refined copper consumption continued to rise albeit at a modest rate, after a sterling show in 2010. Consumption in 2011 rose to 19.8 million tonnes, 3% higher than in 2010. As with most metals China

continued to be the major demand driver, growing at around 8% in 2010. The only other region that witnessed reasonable growth was North America, where demand grew 3%.

Refined copper prices remained at elevated levels through much of the year, with average prices at around 8,800 \$/t levels in 2011, 15% higher than in the previous year. With the emergence of commodities as an asset class, copper prices are also influenced significantly by fund flows and financial market sentiment, in addition to the demand-supply dynamics. In 2012, copper prices have softened to some extent reflecting the overall macroeconomic conditions.

The treatment and refining charges (TCRC) for 2011 were better than in 2010, as the slowdown in

crore) vis-à-vis US\$ 15.85 billion (₹72,202 crore) achieved in the previous year. Net profit is in excess of US\$ 700 million (₹ 3,397 crore) as against US\$ 540 million (₹2,456 crore) in the previous years.

Said Mr. Birla, "Hindalco's model of a balanced portfolio, with strong value-added businesses, supported by operational excellence, have been the key factors behind this commendable performance. The Aluminium business in India recorded the highest ever metal production. Cost pressures were largely neutralized through greater efficiencies. The Copper business in India attained the highest ever profitability led by improvement in recovery, better product-mix, and by maximizing value from by-products.

"Importantly, we have ventured into China with a plant that will initially focus on automotive sheet finishing capabilities. This will further solidify our global automotive leadership position. All through the year, at Novelis strategic investments were made in global recycling facilities in South America, Europe and Germany. These facilities will ensure metal supply and optimization of the overall cost base.

Novelis' investments have been strategically geared to leveraging growth opportunities in the emerging markets, to capture the increasing emphasis on light-weighting in the automobile industry, and recycling in all the four operating regions. At the same time, our efforts to actively consolidate our pole position in the



"Hindalco's balanced portfolio, value-added products, operational excellence, aggressive growth strategy – to continue to ensure commendable performance".

**- Kumar Mangalam Birla
Chairman, Aditya Birla Group**

demand provided a window of opportunity to custom smelters. In 2011 TCRCs were 20% higher than in 2010. Spot TcRc showed significant volatility through the year, partly due to natural calamities such as the earthquake and Tsunami in Japan, and an earthquake in Chilean. Geopolitical issues have also affected the market sentiment. Smelters were adversely affected by incessant cost push, stemming primarily from rising energy costs".

On Hindalco's Operations

The company's performance has been outstanding, both at the Standalone and Consolidated level. Its net revenue, on a Consolidated basis, stood at US\$ 17 billion (₹80,821

Novelis too reported strong operating results, braving the global economic headwinds. It recorded the second straight year of adjusted EBITDA in excess of \$1 billion. Even as its shipments slowed, it's EBITDA per ton continued to grow. The significant initiatives taken to optimize the Company's footprint and rationalize the cost structure, have stood the Company in good stead. Novelis increased the recycled content in its production to 39% in FY12, from 33% in the previous year, which is significant".

All of the Company's major strategic expansions – in Brazil, South Korea and the United States – are on track. Averred Mr. Birla,

metals business in India as well are firmly rooted".

Projects

The Mahan Aluminium Project, Aditya Aluminium Project and the Utkal Alumina Refinery are all at an advanced stage of implementation. Post-stabilization, these will be amongst the lowest cost producers globally.

The Flat Rolled Products (FRP) project at Hirakud in Odisha, which is underway, will enable it to produce high-end canbody stock. It will be distinctive, being the only plant of its kind in India. It will give the Company a head start in the domestic and export markets.

