

# Introduction to Business Review

## Providing industry leading growth

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- Record Production in Aluminium, Iron Ore, Zinc Businesses.
- Successful project commissioning. Achieved significant cost savings.
- Further improving low cost position.

### Summary

Operating performance was strong, driven by record production in our Aluminium, Zinc and Iron Ore businesses and cost reduction measures. This helped us to mitigate the impact of a sharp fall in commodity prices in the second half ('H2 FY 2009') of the year ended 31 March 2009 ('FY 2009'). We also took proactive steps to temporarily shut down high cost operations at our MALCO aluminium smelter, Nkana copper smelter at KCM and partially shut down the BALCO Plant I aluminium smelter. Surplus power has been sold in a power deficient state in order to maximise returns.

Despite a tough business environment and a drop in commodities prices of our products, we continue to remain confident about the future based on our low-cost position and track record of low capital cost project development.

This allows us to continue to deliver profits and growth even at depressed commodity prices. We have made excellent progress during the year with our expansion programme. We commissioned a zinc concentrator at the Rampura Agucha mine, de-bottlenecked operations at our Chanderiya and Debari zinc smelters, achieved full capacity at the first line of the 1.4 million tonne per annum ('mtpa') Lanjigarh alumina refinery and progressively commissioned the first 250,000 tonne per annum ('tpa') phase of the new 500,000 tpa aluminium smelter at Jharsuguda. These were achieved in line with our expected capex plan at just over US\$3 billion in FY 2009. With very modest net debt, strong cash flow and significant non-recourse project finance secured, our project expansion programme is well funded. We expect to commission most of our projects within budget and at, or ahead of schedule.

Our ongoing and rigorous cost reduction measures, coupled with our fast response to the commodity cycle correction, has brought positive results in reducing operating costs in the third ('Q3 FY 2009') and fourth ('Q4 FY 2009') quarters of FY 2009, the benefits of which we expect will continue to be seen next year. Higher volumes and various improvements to enhance operational efficiencies have also reduced unit operating costs. For instance, at our Copper - Zambia operations we have achieved a sharp reduction in production costs from 292.8 US cents per lb in the first half ('H1 FY 2009') of FY 2009 to approximately 140 US cents per lb in the month of March 2009. Our approach to costs has always been to optimise productivity, increase efficiencies and achieve better recoveries, without sacrificing the longer-term growth potential of our operations. Our strong operational management teams are incentivised to implement the innovative initiatives to enhance efficiency and achieve savings.

Despite increased contribution from higher volumes and stable costs of production, EBITDA was US\$1,612.2 million in FY 2009, including non-cash inventory write-downs of US\$79 million.



Excluding inventory write-down, EBITDA was US\$1,691.2 million which was 43.8% lower compared with FY 2008, primarily due to the sharp fall in the commodity prices of aluminium by 15%, copper by 22%, zinc by 48%, lead by 42% and lower TC-RC realisations.

The key reasons for the movement in EBITDA between FY 2009 and FY 2008 are set out below.

- Lower average LME prices of all metals reduced EBITDA by US\$1,422 million.
- Higher sales volumes resulted in higher EBITDA of US\$244 million.
- Sharp fall in LME prices resulted in inventory write-downs of US\$79 million.
- Industry-wise escalations in input costs in H1 FY 2009 were partly offset by positive cost

efficiency initiatives across most of our operations in H2 FY 2009. Total operating costs negatively impacted EBITDA by US\$276 million, during the year.

- During the year, the Indian rupee depreciated against the US dollar by 14.1%, increasing EBITDA by US\$58 million, net of translation losses.
- A 25% decrease in TC-RC realisations during FY 2009 resulted in lower operating margins for the business, reducing EBITDA by US\$27 million.
- Surplus power sales in FY 2009, primarily at MALCO and BALCO contributed US\$24 million to EBITDA.
- Our allied businesses ie phosphoric acid, met coke, pig iron, etc, benefited from record prices in H1 FY 2009 and contributed positively to EBITDA by US\$88 million.

In addition to the initiatives to increase volumes and reduce costs, the Group also has made progress in consolidating minorities, selectively acquiring assets and increasing the resource base through exploration.

Following the sharp fall in the price of copper, we arrived at a revised agreement with Asarco for acquiring substantially all of its operating assets for a reduced consideration of US\$1.7 billion down from US\$2.6 billion comprising of US\$1.1 billion in cash and US\$0.6 billion of deferred payments over nine years. The agreement is subject to the approval of the US Bankruptcy Court for the Southern District of Texas, Corpus Christi Division and is also likely to require the approval of the Company's shareholders.

Continued focus on exploration has yielded significant success during the year, with gross addition of 46.3 million tonnes to reserves and resources in the Zinc business and a gross addition of 57.8 million tonnes in the Iron Ore business, adding approximately four years of mine life in each of these businesses.

EBITDA recorded by the individual businesses is set out below.

(in US\$ million, except otherwise stated)	FY 2009	FY 2008	% change
Aluminium	196.1	380.7	(48.5)
Copper	222.9	667.3	(66.6)
Zinc	605.4	1,380.1	(56.1)
Iron ore	557.1	585.6	-
Others	30.7	(3.3)	-
<b>Total</b>	<b>1,612.2</b>	<b>3,010.4</b>	<b>(46.5)</b>

OVERVIEW

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SUSTAINABILITY

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