

THE CHAIRMAN'S LETTER TO THE SHAREHOLDERS

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Dear Shareholders, **Global Economy**

The global economy is on a rebound. The International Monetary Fund (IMF) estimates indicate that global real GDP grew 3.8% in 2017. This is the highest growth pace over the last six years. It is also the broadest synchronised global growth upsurge, since 2010 as underlined by IMF.

This impetus from a supportive monetary policy was further buoyed by a revival of investment spending in advanced economies. The expansionary fiscal and monetary policies in the US led to improve



growth prospects. The US grew at 2.3% in 2017 as against 1.5% in 2016. Growth accelerated in Europe and Asia too.

The global economic recovery is expected to continue. For the current and the next year, a strong growth at 3.9% is projected. This positive outlook is somewhat clouded. Increased trade protectionism, rising international crude oil prices, geo-political risks and the uncertainty about normalisation of monetary policies in advanced economies from highly accommodative conditions in the past, are some of the factors that dim the outlook.

Indian Economy:

India's economy is emerging strongly from the transitory effects of demonetisation and implementation of Goods and Services Tax (GST). Although India's GDP growth slowed from 7.1% in FY 2017 to 6.7% in FY 2018, the economy recorded a seven-quarter high GDP growth of 7.7% in the exit quarter of FY 2018. This reflects momentum.

India's macroeconomic indicators remain healthy. The fiscal deficit has been cut to 3.5% of GDP. India's foreign exchange reserves as at March end stood at a comfortable level of USD 424 Billion.

Investors seem to be positive on India's economic prospects. The Foreign Direct Investment (FDI) flows continue to be encouraging. India's global ranking on the ease of doing business notched up to 100 from 142 in barely four years, while that on global competitiveness index has climbed from 71st in 2014-15 to 39th in 2016-17.

The prevailing sense of optimism accentuates India's continuing economic growth in the future as well. It is attributable to the country's solid fundamentals, such as deleveraging by corporates, resulting in much stronger balance sheets, better capacity utilisation with consumption demand becoming stronger, and insolvency and bankruptcy process weeding out non-performing assets, among others. The Government's unwavering push for infrastructure projects – Bharatmala Pariyojana, airports, metros, affordable housing, urbanisation, smart cities and digitisation are excellent stimulators for the economy's growth in the medium-term.

At the same time, we cannot ignore near-term challenges. The bucket of concerns consist of rising oil prices, hardening inflation, firming bond yields and widening current account deficit. The ongoing global trade frictions, particularly between the US and China, are worrisome and can have a spillover

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negative effect on countries like India. So the terrain ahead could be a tad bumpy depending on the economic and geopolitical environment.

Your Company's performance

Despite the challenging environment, your Company recorded an impressive Revenue of ₹ 57,338 Cr. with EBITDA of ₹ 10,881 Cr. in FY 2017-18 on a consolidated basis.

Viscose:

Your Company's Viscose Staple Fibre (VSF) business reported yet another year of a strong operational and financial performance. VSF plants operated at full capacity across various locations. Unrelenting focus on product quality, constant innovation and superior customer service, have been at the core of your Company's VSF operations.

Its brand "LIVA" has gained enormous traction. Today, over 29 Million garments feature the LIVA tag, clearly a testament to the discerning customer's choice.

Through brown field expansion and debottlenecking initiatives, we plan to expand VSF capacity to 788 KT from 498 KT by FY 2020-21.

Viscose Sales Revenue grew by 11% YoY to ₹ 8,538 Cr. in FY 2017-18. EBITDA rose to ₹ 1,680 Cr. up 17% YoY. Despite strong headwinds from input costs like caustic soda and sulphur, that the business did so well is commendable.

I am delighted to inform you that your Company's sensitivity to environment conservation and sustainable forestry is being increasingly lauded. The NGO Canopy, in its Hot Button Report ranked your Company as the Number ONE globally for its work on the conservation of ancient and endangered forests.

Viscose Filament Yarn (VFY) business, is now a part of your Company, consequent to the merger of Aditya Birla Nuvo Ltd. (1st July, 2017). Your Company has also acquired the rights to operate and manage the Century Rayon Division of Century Textiles and Industries Ltd. from the 1st of February, 2018. It has done well during the year, recording a healthy return of 28% on the capital employed.

Chemicals:

It has been a remarkable year for the Chlor Alkali industry as it witnessed an improvement in utilisation levels. This was led by greater demand from the user industry. Caustic soda prices rose sharply driven by global factors such as (i) Weather related disruption in the US, bringing a halt on the logistics side (ii) Phasing out of mercury-based technology in Europe by Dec-17 and (iii) Capacity shutdown in China on the back of environmental-related concerns.

While the demand for caustic soda remained firm, barring a brief period during the implementation of GST. The demand for chlorine was subdued for most part of the year. Going forward, the demand and supply situation for the industry is well balanced for the next couple of years with a limited visibility of large new capacity additions.

The Chemical business saw a record 22% YoY rise in the Revenue to ₹ 5,105 Cr. and 54% YoY increase in the EBITDA to ₹ 1,300 Cr. in FY 2017-18, on better realisation and volumes. With ongoing brownfield capacity expansion, the Caustic Soda capacity is set to increase by 200 KT to 1,140 KT by H1FY 2018-19.

Pulp & Fibre JVs:

We have strategic investments in pulp units in Canada and Sweden. These cater to 50% of our pulp requirement. These JVs ensure consistency in the supply of prime quality pulp to our Indian operations.

Other Businesses:

The operational performance of the fertiliser business was satisfactory. The demand for fertiliser remained strong on account of a good monsoon.

The linen business with an expanded capacity of 6,250 MTPA maintained its leadership. It enjoys 39% market share in the linen yarn segment.

The overall demand in the Indian Insulator market remained subdued. Your Company is increasingly diversifying towards composite insulators, which is in line with the market demand.

The MDA gives a detailed analysis of your Company's businesses. I am sure you will read it with interest. I believe, going forward, your Company will continue its unrelenting pursuit of enhancing shareholder value, and growth in earnings and revenues.

Outlook

The Company's leadership position in Viscose and Chemicals segments will get further strengthened by the new expansion plans. I believe, going forward, your Company will continue its unrelenting pursuit of enhancing shareholder value, and growth in earnings and revenues.

What Give Us The Edge

Undeniably our people, their dedication to work, their sense of belongingness and pride in the Group, their putting the organisation first and living our values. I acknowledge their contribution and count on their continued commitment to take our business far ahead.

The Aditya Birla Group: In Perspective

The year 2017-18 has been a momentous year on all counts. We reached a record revenue of USD 43 Billion with an EBITDA of USD 6 Billion. Our Group's market cap crossed the USD 50 Billion mark. These spectacular achievements are a reflection not only of our growing size and scale, the inherent soundness of our strategies and operations, but importantly the enormous confidence that investors and other stakeholders have reposed in us.

I am delighted to share with you that Aon Hewitt, a reputed global consulting firm, in the 'Best Employers 2018' study conducted by them, have named our Aditya Birla Group as the 'Best Employer' in India.

The year 2017-18 has been a momentous year on all counts. We reached a record revenue of USD 43 Billion with an EBITDA of USD 6 Billion. Our Group's market cap crossed the USD 50 Billion mark.

Moving on to our people processes, what strikes me most is that the development and leadership aspects embedded in it, are all futuristic. I believe, we are headed in the right direction. Let me give you a flavour of what we have accomplished and how we are constantly refreshing and reengineering our HR initiatives.

Our Group HR has formulated a unique proposition for leadership development through the 2x2x2 formula. It is structured in a manner that accords opportunities to high talent to work in two businesses across two geographies and in two functions. Such an approach, should give a holistic experience and help prepare our leaders of the future.

I had apprised you earlier on the talent councils led by Business Heads and Directors at Group, business and at the functional levels. So far more than 250 talent council meetings have been held with over 8,000 development conversations and actions initiated for these colleagues. I have attended several of these meetings and am much encouraged by the positivity and enthusiasm they generate among employees down the line. They rightly believe that talent will always bubble to the top.

More than ever before in the people domain two segments that have grabbed the attention of progressive corporates, comprise of the millennials and gender diversity issue. In our Group, 52% of our executives are under 35 years of age. They are the leaders of tomorrow whom we need to groom today.

Today women constitute over 14% of our employee force. Game-changing career enabling policies have been introduced. These include work-life issues such as maternity, childcare, flexi time, local commute and accompanied travel for the child and the caretaker. Alongside as part of the family support initiative, paternity leave is also being provided.

For younger employees, through our flagship programme, which is the Aditya Birla Group Leadership Programme (ABGLP), we are building a robust talent pipeline at the entry, junior and middle levels who over the years move into senior leadership. From this cadre, over 350 youngsters have been placed across the Group.

Gyanodaya, the Aditya Birla Global Centre for Leadership and Learning continues its commitment to prepare P&L and manufacturing leaders through Accelerated Leadership

Development programmes. I take great pride in Gyanodaya bagging Gold Award as Best Corporate University – Culture and Brand in Global CCU Awards 2017, “for operating at the highest levels of excellence and creating value for people, business and society”.

The sales, marketing and customer-centricity academy, the HR academy enabled 1,765 managers hone their expertise to greater heights. The Gyanodaya virtual campus continues to offer 900+ e-learning modules in multiple languages. During the year nearly 40,000 employees leveraged the e-learning programme.

We are enhancing our HR processes for scale, agility and consistent employee experience. A comprehensive HR assurance and excellence framework, the HR portal to enable the last-mile employee anytime anywhere connect, SeamEx, the Group HR Shared Services Centre are milestones in this journey, as they enthuse and energise our people.

In sum

Our Group's robust revenue growth, healthy EBITDA margins, deploying capital efficiently and generating cash flows, support our ambitious growth plans. Innovation and spirit of entrepreneurship that our employees bring to work is amazing and a major contributant to our Group scaling newer heights year after year.

Yours sincerely,



Kumar Mangalam Birla