

BALASORE ALLOYS LIMITED

21ST ANNUAL GENERAL MEETING
18th SEPTEMBER, 2009

FROM THE CHAIRMAN'S DESK

DEAR FELLOW SHAREHOLDERS,

I welcome each one of you in a strong family of over 1,44,000 shareholders at its 21st Annual General Meeting. It indeed gives me great pleasure to share with you some significant happenings globally and in the Indian context in the year passed away by and in terms of what the future holds for us.

ECONOMY

The year gone by, has indeed been one of the most challenging for the world economy. The unprecedented financial crisis, probably the worst since the Great Depression era, has shaken the foundation of some of the strongest economies in the world. While it was the financial systems that bore the brunt of the melt down across much of the world, the pain for India was felt more in the real economy, with growth in Industrial production plummeting to 2.6 % in 2008-09 versus 8.5 % in the previous year. However, in the overall context, India has navigated the turbulence admirably, thanks to regulatory prudence and foresight. GDP growth at 6.7 % bettered earlier estimates - helped in part by the stimulus packages announced by the Union Government—making India the second fastest growing economy in the world. Macroeconomic fundamentals continue to inspire investor confidence and the investment climate still is one of the optimism.

INDUSTRY SCENARIO

With the global melt down adversely affecting the World Steel production during the year, this also had an impact on the Ferro Alloy Industry. The demand for Stainless Steel and Ferro Alloys weakened significantly across the world with more than 70 % reduction in the second half of the fiscal. The prices of Steel, Ferro Alloys and Ores had a vertical fall in October/November 2008. All producers held inventory produced at high cost of raw material. South Africa, the largest producer of Ferro Alloys had shut down their furnaces to the extent of 80 to 100 % of the capacity from November 2008 to March 2009. In India also a number of Units have closed down their operations and a few cut down their production as they could not sustain with low realization and demand.

Global high carbon Ferro Chrome/Charge Chrome output plunged to new lows in the first quarter of 2009, falling to just 821,000 tonnes in the first three months of the year. Output fell 1.2 million tonnes from the same quarter last year, and fell 420,000 tonnes from the previous quarter. African FeCr output fell to just 171,000 tonnes in the first quarter of 2009, compared to last year's peak production of 971,000 tonnes in the second quarter of 2008. Low price realisation and lack of demand completely crippled the Ferro Chrome industry.

The world Stainless Steel production in 2008 was about 26.4 million metric tons (MMT) which is 6.8% lower than 2007 figure of 28.3 MMT. Overall Stainless Steel production in Asia declined by 7.47% i.e., 15.4 MMT in calendar year 2008. Asia accounts to around 58% of the world Stainless Steel

production out of which China alone accounts to around 26%. Over the past few years China has been the driving force behind the growth in Stainless Steel production. However, in calendar year 2008 China reduced production by 5.1% i.e 6.9 MMT.

FINANCIAL HIGHLIGHTS

The financial results of your Company have been adversely affected due to global economic meltdown and recession in the industry worldwide. Unprecedented crash in Ferro Alloys prices and prices of raw materials such as Chrome Ore Lumps, Coal and Coke adversely impacted the valuation of inventories by Rs.1666.06 lacs .Further, significant depreciation in the value of Indian Rupee against US Dollar owing to abnormal financial conditions prevailing globally resulted in lowering the profits for the year by Rs.6075.59 lacs.

Nonetheless, your Company earned net profit of Rs.93.59 lacs for the financial year ended 31st March, 2009 as against Rs. 3329.11 lacs during the previous fifteen months period ended 31st March, 2008. Export Turnover for the financial year ended 31st March, 2009 increased by 52.64% (annualised) to Rs.49474.53 lacs as against Rs.40514.75 lacs during the previous fifteen month period.

Major Financial Highlights are as follows:

	Rs. In Lacs
Total Turnover	63873.43
Export Sales	49474.53
Earnings before Interest, Tax and Depreciation (EBITD)	6713.16
Profit before Tax (PBT)	708.15
Net Profit (PAT)	93.59

- Turnover increased by 50.40%
- Export Turnover increased by 52.64%.

OPERATIONS

The production during the period under review was 88,846 MT as against 1,12,446 MT for the previous 15 months period ended 31.03.2008.

The year under review was unprecedentedly volatile for the Ferro Chrome Industry as it started with rising Ferro Chrome (FeCr) prices and Long Term Bench Mark (LTBM) price reaching to historic high. Global turmoil in financial market, dire end-demand and industry de-stocking rapidly ended the Ferro Chrome price climb by the second half of the year. Where most of the FeCr producers in the Industry took precautionary steps by way of sharply cutting back output in face of lack of demand and Global FeCr stock reached all time high at 24 weeks consumption, your Company however maintained normalcy in its operations owing to some effective strategic steps like maintaining

minimum Finished Goods inventory without reducing output, reduction of Cost of Production by optimising consumption norms through effective usage of captive and low cost raw materials and enhanced focus on export markets with the support of valued customers.

PROJECTS

In the previous year your Board of Directors had approved CAPEX Plans of the Company for setting up captive power plant, capacity enhancement and upgradation of switch yard, capacity enhancement of chrome ore beneficiation plant, upgradation of existing furnaces and setting up of new Ferro Chrome furnace. However, in view of the turbulent economic conditions during the year 2008-09 your Board of Directors has taken a decision to priorities its CAPEX requirements and accordingly your Company has taken up setting up of power plant on its top most priority.

Ferro Chrome is a power intensive industry and power contributes about 45% of the variable cost of production. Your Company at present is totally dependent on the state power supply company, where the quality and consistent supply of power remains a concern area. Considering the present monopolistic situation of power in the state, setting up of captive power plant is the most urgent and need based project of the Company necessary for its long term survival. Substantial progress like acquiring of land, tie-up of the coal linkage and various Government clearances/approvals, has already been made in this regard. The Company is in the process of obtaining necessary

approvals from Government Agencies and Financial Institutions and securing financial tie-up for the project.

AWARD AND RECOGNITION

It is my pleasure to inform you that the Company has been awarded by various organisations and statutory bodies in recognition of its contribution to the industry and society. Some of the awards/ recognition received during the year 2008-09 are as following:

- ❖ "ISO 14000" Certification by Bureau of India Standard (BIS).
- ❖ "ISO 9001:2000" Quality Management System Certification by DNV for Balasore Alloys Limited's mines division.
- ❖ "First Position in CII Eastern Region Productivity Award Category A" for Sustained Level of High Productivity by Confederation of Indian Industry, Kolkata.
- ❖ "Bharat Gaurav Puraskar" - International Business Excellence Award by Institute of Economic Studies, Thailand.
- ❖ "Commendation for strong Commitment to Excel on the Journey towards Business Excellence" by Confederation of India Industry.
- ❖ "Indian Manufacturing Excellence Award in Super Platinum category- 1st Runner-Up" for Enhancing in Manufacturing & Supply Chain Excellence by Frost & Sullivan.
- ❖ "Excellence in Consistent TPM Commitment Award" for Most Effective Production System by JIPM (Japan Institute of Plant Maintenance) at Kyoto, Japan.

- ❖ “Award for Export Excellence” for Top Exporter (Gold) by EEPC (Engineering Export Promotion Council) India Eastern Region.
- ❖ “IT Award” for Initiatives of Industries in Orissa by CII Orissa.
- ❖ NALCO QC Convention Award for “Best Effectiveness & Result for All Orissa Quality Circle Convention.” by NALCO (National Aluminium Company Limited).

This is a result of our employees’ cohesive determination and sustained teamwork in achieving various milestones. I congratulate Mr. R. K. Jena and his team and hope this momentum shall be continued in coming period also.

AREAS OF CONCERN

The ongoing global economic slowdown has led to a slowdown in customer expenditure. This has affected end use markets for Stainless Steel, which in turn has affected Ferro Chrome consumption. Recovery of Ferro Chrome demand will be dependent on the impact of economic stabilization schemes being currently undertaken by various countries.

Ferro Chrome is a power intensive industry, power tariff and availability of power is one of the major sources of concern for the industry. Indian Ferro Chrome producers face higher power tariffs in comparison to their global peers. Being a power intensive industry, availability of surplus and affordable power is a major challenge for the Industry in India. Electricity duty which varies from state to state also places an additional burden on the Industry.

Further, soaring prices of coke and other inputs is causing strain on the profit

margins. Logistical cost in moving large quantities of Ferro Chrome is further adding to the woes.

In the past, the Chinese demand for Ferro Chrome has been one of the key drivers for the Indian Ferro Chrome industry. Any slowdown of Chinese economy, Indian manufacturers may face a risk of slowing Chinese demand for their product.

FUTURE OUTLOOK

The year 2008-09 witnessed the major growth and depression in the Stainless Steel and Ferro Chrome industry where prices of Ferro Chrome reached to its record height ever in the history during first quarter while the second half evidenced sudden fall of prices to levels as low as 2002 prices where industry stocks were high and buying was almost freezed.

The hard-hitting global recession brought down the stock level by the last quarter of 2008-09 due to significant production cuts and drop in supply. South African producers of Ferro Chrome are complaining of increasing cost pressures. Their electricity prices have surged in June 2009, the rand/dollar exchange rate is damaging their revenue, and there is a risk of failed wage negotiations with the trade unions very soon. As such, the supply position shall remain tight in the near future.

On the other hand, there is seen rise in demand for Ferro Chrome. Substantially buying has resumed by major countries like China and India. Europe is also very slowly re-entering the market, and will have to replenish

their depleted stocks. Countries like South Korea and Taiwan have also returned back to the market as their Stainless Steel production levels have increased markedly over the course of the second quarter. As the economy slowly begins to improve, more Stainless Steel products will be bought, and stockpiles will be drawn down, increasing the need for more Ferro Chrome. Increasing in the demand coupled with tight supply situation pushing the price of FrCr upward.

CORPORATE GOVERNANCE

Your Company's philosophy on the Corporate Governance is founded upon a rich legacy of fair and transparent governance practices which are essentially aimed at ensuring transparency in all dealings and hence seeks to focus on enhancement of long-term shareholder value without compromising on integrity, social obligations and regulatory compliances.

The Company has implemented all the mandatory requirements of Clause 49 of the Listing Agreement with the Stock Exchange(s) and any amendment in the provisions of the said clause implemented forewith.

The Company's Corporate Governance practices seek to go beyond the regulatory requirements and with a view to ensuring commitment to transparent, law abiding behavior and good Corporate Governance, the Company has put in place the practices including Code of Conduct, Business

Policies, Prohibition of Insider Trading, Risk Management, Environment Policy, and Equal Employment Opportunity.

CORPORATE SOCIAL RESPONSIBILITY

Your Company firmly believes that sustainable development and inclusive growth has to be promoted in the periphery and it discharges its social responsibilities in a proactive manner with the involvement of its team of dedicated professionals. Various activities are undertaken after assessment of need through surveys and effective implementation is done with the involvement of employees, voluntary organizations and local representatives.

Some of the initiatives taken by your Company in the CSR arena pertain to:

1. Infrastructure Development in local Schools and Colleges, Hospitals and other institutions.
2. Road development, Avenue plantation and Street Lighting
3. Employment generation and Knowledge and Skill up-gradation.
4. Improvement of Health Care facilities, Health awareness, Eye / De-worming / Blood donation / Inoculation Camps.
5. Improvement of quality of education by sponsoring teachers, improving basic amenities, promoting computer education, scholarship schemes, etc.
6. Promoting Sports and cultural activities and local talent

In each of the above areas a well thought out strategy has been developed to

ensure that the benefits reach the needy people without any disparity or dissatisfaction. The mass issues are given predominance but individual cases are also taken up depending on the genuineness and urgency.

HUMAN RESOURCES

As always, the greatest strength of your Company has been its people and their spirit in overcoming challenges, which has helped the Company, chart for itself an illustrious path of growth. The company is completely focussed to fostering performance, transparency and empowerment at all levels. Human resource plan closely aligned with Company's Business Plan. The human resources policy of the Company is geared towards attracting, motivating and developing a dedicated workforce, which will help the Company, accomplish its mission and avowed values.

MANAGEMENT INITIATIVES

Your Company's continued focus towards various strategic management initiatives with a view to exploit favourable market conditions and bring razor edge performance to the forefront has been of paramount importance. The enthusiasm demonstrated by the implementation of modern management initiatives such as Total Productive Maintenance (TPM), Six Sigma, Performance Management System (PMS), Total Quality Management (TQM), Supply Chain Management have resulted in these initiatives gathering momentum. The enthusiasm demonstrated by these initiatives being

championed by various head of functions and the results of these efforts have enabled these initiatives to gather momentum. 100% involvement of employees and structure review mechanism put in place at the apex level has made these initiatives contributing towards growth of the organisation.

Our efforts will be aimed at maximizing and sustaining investors' confidence in our core area of competence by enhancing the present value of future EVA through an integrated set of improved initiatives.

CONCLUDING REMARKS

I wish to take this opportunity to place on record my sincere and heartfelt gratitude to all my stakeholders, colleagues, customers, Govt. Agencies, Ministry of Corporate Affairs, Govt. of Orissa, the Judiciary, Stock Exchanges, Banks, Financial Institutions and all other Business Associates, who have, as always, extended their valuable support and active cooperation to the Company's cause. I reiterate that the continued support and commitment of the employees towards accomplishment of the goals set by the Management have been exemplary and the tremendous spirit and sheer dedication demonstrated by them have enabled us to continually pursue our goal of excellence in all spheres of operations. I look forward to our Company reaching newer heights, scaling new horizons, setting global benchmarks and resolutely facing the challenges ahead. We shall in the year 2009-2010 reinforce our quest for high quality and further improve our concern for customers. As we now stand on the doorstep of conquering new heights, I am

confident that the Company's ceaseless commitment to learn and to improve itself will once again help it to achieve its goals.

THANK YOU