

Chairman's Speech, Hero Honda Motors Ltd., 2006

Ladies and Gentlemen,

A warm welcome to all of you to the 23 rd Annual General Meeting of your Company. I am sure that you have already gone through the Annual Report, which you would have received last month. I am certain you approve of the new look and feel, as also the content. The effort is part of an exercise that seeks to meet global standards in corporate reporting.

In 2005-06, Hero Honda Motors Limited, for the fifth year in a row, continued to produce the largest number of two-wheelers in India and globally.

The annual sales figure crossed the 3 million mark for the first time. In fact, Hero Honda's sales during 2005-06 were the equivalent of nearly 10 per cent of total two-wheeler sales in Asia during 2005. During the year, your Company also produced and delivered its 15 millionth motorbike.

These are unparalleled feats in the global automotive industry, and for this, the Company is grateful to all its stakeholders as well as its joint venture partner, Honda Motors of Japan and Hero Group. We deeply cherish the trust that 15 million customers have reposed in us, which inspires us to work with renewed commitment and vigor.

ECONOMIC TRENDS

The Indian economy recorded strong growth for the third successive year, against a backdrop of macroeconomic and financial stability, despite sustained pressures from high international crude oil prices. Real GDP growth accelerated to 8.4 per cent during 2005-06, backed by upbeat manufacturing and services sectors, as well as a recovery in the agricultural sector. The high growth took place without pricing pressures; and the inflation rate was pegged around 5.5 per cent for most of the year in review. Foreign investment flows, both short and long term, went up, reflecting the foreign appetite for domestic financial assets on the back of strong fundamentals and robust corporate performance.

As India prospers and develops and more people enter the national economic mainstream, there is a huge and growing need for transport and mobility. Since the public transport system in the country hasn't kept pace with the burgeoning population, there is an additional responsibility on transportation companies like ours to provide cheap and reliable transport.

Demand is emerging from several quarters. For example, the service sector offers a huge window of opportunity for the automobile industry, especially in emerging Tier 2 and Tier 3 cities spread over different corners of the country.

Opportunities are opening up in rural India as well. There were normal monsoons across most of India 's meteorological districts during the year in review. The impetus given by the Union Government to the Bharat Nirman project could transform the economy in ways that are difficult to imagine even today. This program seeks to invest in rural infrastructure. I believe this project, along with the National Highways Program have the potential of creating one of the worlds biggest growth markets in the coming years; they will create jobs and bring millions of rural families into the national economic mainstream. For your Company, they represent potentially huge growth markets, and could help us to substantially increase the current base of the two-wheeler market.

INDUSTRY CHALLENGES AND OPPORTUNITIES

The Indian two-wheeler industry saw an increase of 15 percent during the year. Two-wheeler sales crossed 7.5 million units mark, which accounted for more than 80 percent of domestic auto sales. Motorcycles shared around 82 percent of the entire two-wheeler sales. However, industry margins came under some pressure during the year in review because of an increase in input prices of steel, aluminum and rubber. Operating margins were also affected on account of erratic power supplies and high costs of back up power.

Nevertheless, the upside potential for the future is still extremely high because of the sheer potential for volume growth. I believe that your Company has barely scratched the surface in terms of optimizing potential. According to NCAER, there are about 225 million people - about 22 per cent of the population-who live in households that have an annual income range of Rs. 90,000-200,000. Large towns (population of over 500,000) have about 30 per cent of this population, while rural India has about half of this income group.

These groups are the real growth engines for the great Indian dream, because at these levels, a number of aspirational and discretionary purchases (which includes two-wheelers) are within reach. Against this backdrop, your Company should be able to comfortably sustain double-digit growth in the medium to long term, despite increasing competition.

COMPANY PERFORMANCE

Hero Honda maintained its grip in the motorcycle segment with a lead of more than one million motorcycles over its competitor and a market share of 48 per cent. Overall, your Company accounted for 40 per cent of the Indian two-wheeler market.

Total sales grew by 17.4 per cent to Rs. 8,714 crores in 2005-06. Similarly, operating profits rose by 16.2 per cent to Rs 1,256 crores while post-tax profit grew by 19.8 per cent to Rs. 971 crores. Your Company in aggregate sold a little over 3 million units in 2005-06 compared to 2.62 million units in the previous year, a growth of 14.5 per cent. The best-selling Splendor family doubled sales from 600,000 to 1.2 million.

PRODUCT LAUNCHES

For more than two decades, Hero Honda created brand equity for itself by putting together best-in-class portfolios and new technologies. Your Company also launched new engine platforms in 125cc and 150cc categories, and is planning several new launches in the forthcoming year. We've already introduced cutting-edge Fuel Injection technology in one of our products, Glamour FI, making Hero Honda the first two-wheeler Company in India to do so. Over time, we expect to cascade this technology across other models.

Apart from successfully launching of 4 new models during the year in review, your Company made its debut in the scooter market with the 100cc offering called "Pleasure" targeting women commuters and home makers. The products, which are mostly sold through a chain of unique all-women retail outlets, were received well by the market, and we hope to gain critical mass over the next few years.

THIRD PLANT

Hero Honda has been regularly augmenting capacities to keep pace with growing market demand. During the year substantive expansion have taken place in both the plants raising the capacity to manufacture close to four million units per year. We have now started work on a Greenfield plant near the holy city of Haridwar in the state of Uttranchal. Through this globally designed plant, we will set new manufacturing practices in terms of cost and supply chain management. We would also benefit from a slew of fiscal incentives offered to us by the Central and State Government.

We expect these initiatives and incentives to yield tangible benefits in the coming few years, and provide important growth and efficiency lessons for the future.

ACKNOWLEDGEMENT

I would like to acknowledge the efforts, support and valuable guidance of my colleagues on the Board, which was expanded and made more broad-based during the year. I would also like to express my sincere appreciation to our joint venture partners, Honda Motor Co., Ltd., Japan and the Hero Group for their continued co-operation and efforts in making this venture a most successful one.

The relationship of the joint venture partners, Honda Motor Co., of Japan and the Hero Group has stood the test of time. We have been able to consistently draw and feed off each other's strengths. Our deep domain knowledge of the Indian market and its supplier network has meshed with Honda's mastery over technology to create modern and fuel-efficient machines at affordable prices. This remains our key source of competitive advantage as we go into the future.

I also take this opportunity to express my thanks to the various officials of State and Central Government departments, taxation and finance authorities, as well as banks and financial institutions for their on-going support and assistance.

Our Dealers and all other Service & Spare Points have been our backbone and the main fulcrum of Hero Honda's growth. They have made our products accessible to the masses, and have stood with us through good and difficult times. Along with our customers, ancillaries and vendors, we continue to bank on them as we drive into the future.

I am greatly thankful to all our employees for their consistent high-level performance; their commitment to Company goals and for their team effort. Without their complete involvement, Hero Honda would not have reached where it has today.

Finally, I would like to thank you for the confidence you have reposed in the Company in the past and look forward to your continued support in the years to come.

Thank you all shareholders.

Speech of Mr. Brijmohan Lall Munjal, Chairman at the 23rd Annual General Meeting of Hero Honda Motors Limited held at New Delhi on Thursday, September 14, 2006.