

Chairman's Speech, Hero Honda Motors Ltd., 2007

Ladies and Gentlemen,

On behalf of the Board of Directors, I welcome you all to the 24th Annual General Meeting of your Company. I trust that, by now, you would have received a copy of the Annual Report and gone through it.

This year's annual report is part of an exercise that was initiated last year. The Report has been designed for a wide spectrum of audiences. Efforts have been made to capture the Company associated information in a visually pleasing and easy-to-read format. As always, we welcome your feedback in this regard.

During the year in review, the Indian Automobile industry faced perhaps one of its most arduous tests. The emergence of short term factors like inflation and interest rates as well as high input prices somewhat stymied the strong profitability levels that your Company has been traditionally used to.

Wholesale price inflation crossed 6.5 per cent during the year after a long period. Prime lending rates hovered between 12 and 13 per cent as a result of monetary tightening by the Reserve Bank of India. In 2006, world export prices of minerals and non-ferrous metals increased by 56 per cent. Since the automobile industry depends heavily on critical commodities such as aluminum, nickel and steel, this made procurement expensive.

While market conditions were challenging, it was just the cue required by your Company to showcase its resilience and leadership skills. After a sluggish start in the beginning of the fiscal, Hero Honda made a strong statement in the second half. This bounce-back was the combination of sustained market and product development efforts put in by not only Hero and Honda, but also the Company's dealers and vendors.

The overwhelming trust reposed on us by our family of over 18 million customers fills us with a sense of great pride and responsibility. It also encourages us to strive for even higher goals in the times to come, irrespective of the odds stacked along the way.

VALUE DRIVERS

High input costs over the few months have given your Company an opportunity to look inwards, at process efficiencies. Your Company has also invested in information technology as a key competitive tool in managing business processes, both within and outside the enterprise.

Strategic value drivers of Honda are now entrenched in the logistics and supply chain pipeline of your Company and today, with inventory turns ranging from six hours to twenty four hours for most of our components, we are setting benchmarks for the entire automobile industry. This in

turn has allowed your Company to cut down distribution and procurement costs. Your Company expects to strengthen this process of value engineering in the coming months and years.

OUTLOOK AND OPPORTUNITIES

Even though the two wheeler industry faced a relatively difficult year on account of industry specific factors, the economy was in robust health. Supported by strong demand impulses, especially in the manufacturing and service sector, India's gross domestic product grew at 9.2 per cent. This is the third successive year in which the country's growth has exceeded 8 per cent growth, and India is now in a select club of 12 countries with a trillion dollar plus economy.

As a nation, India has prospered. People living in households with incomes ranging from 2 lakh – 10 lakh a year has grown from 15 million in 1991 to 100 million in 2005-06. Not surprisingly, therefore, between 1991 and now, the two wheeler market has grown more than four times.

Urban India is growing at a rapid pace. NCAER data for top 24 cities in India shows migration to higher income levels growing at over 40 per cent per annum. Prosperity in rural India is also a significant phenomenon, with 43 per cent of households in middle and high income groups coming from rural India.

More incomes per person, more persons will lead to a quadrupling of India's consumer markets in the next two decades, a 2007 study by McKinsey Global institute has projected. And this will provide your Company the ballast to sustain and consolidate its leadership position.

INDUSTRY PERFORMANCE

Total Volumes were pegged at a little less than eight and a half million (84,68,113) units, an incremental addition of nearly 1 million. In the previous year, the two wheeler industry grew at 11.83 per cent.

There was growing evidence during the year that customers were postponing decisions to buy two wheelers as a result of high interest rates.

On the positive side, however, the motorcycle industry continues to be a dominant driver of this growth, by notching volumes of 7.09 million. The segment accounted for 83.7 per cent of two wheeler sales—up from 81.9 per cent in the previous year. In 1999-2000 motorcycles accounted for just 48 per cent of two wheelers sold in India.

I believe that your Company has barely scratched the surface in terms of optimizing potential. If India is able to sustain the GDP growth impetus in the 8-10 per cent range in the coming years—your Company should be able to comfortably sustain double digit growth in the medium to long term, despite short term pressures like high interest rates.

COMPANY PERFORMANCE

Your Company registered an impressive sales of 33,36,756 units, compared to 30,00,751 units in the previous fiscal — a growth of about 11.2 per cent. Total turnover of your Company grew by 14 per cent from Rs. 8,870 crores in 2005-06 to Rs. 10,090 crores. Nevertheless, Hero Honda posted a lower net profit of Rs. 858 crores, compared to Rs. 971 crores in the previous year, as a result of higher input costs.

PRODUCT LAUNCHES

During the year, your Company was able to regain ground in a remarkably short period of time, thanks to eight new launches and upgrades.

In the price or the entry segment, Hero Honda launched a new offering, the CD Dawn Deluxe as part of its strategy to give customers value for money. This bike ended the financial year with a 33.4 per cent share in the entry segment.

Hero Honda continued to stride the deluxe segment like a colossus with a 67 per cent share for the entire financial year. During the year in review, sales rose by 16 per cent, and the flagship Splendour family accounted for sales of more than 1.5 million.

In the premium segment, Hero Honda, clocked a 28 per cent growth and sold 1,09,000 units, translating to a 13.6 per cent share. Hero Honda's presence in this segment was marked by strong performances by the re-launched premium offering, CBZ X-treme. From a segment share of 1.2 per cent in October, CBZ X-treme commanded a segment share of more than 20 per cent by the end of March. The sparkling performance of this bike came about even as the rest of the industry went into a tailspin in the last quarter of 2006-07.

During the year, Hero Honda also sold more than 90,000 scooters, by focusing exclusively on the women commuter segment. Hero Honda will continue to grow this unique niche segment in the years to come.

The Company's performance across various segments during the year sends out some important lessons. First, despite the high base, the deluxe segment continues to be the prime growth driver of the two wheeler industry in India, and Hero Honda's strong and time-tested offerings in this segment give it a virtually unassailable position going forward. Second, the performance of CD Dawn Deluxe and CBZ X-treme (and Glamour to a lesser extent) have proved that it is possible to regain market share with fundamentally strong products that are carefully positioned, and are backed by strong marketing support.

ACKNOWLEDGEMENT

I would like to acknowledge the efforts, support and valuable guidance of my colleagues on the Board. Also, I would like to express my sincere appreciation to the JV partners, Honda Motor Co., Ltd., Japan and Hero Cycles Limited, Ludhiana for their continued cooperation and efforts in making this venture a most successful one.

Our relationship with Honda Motor Company of Japan 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, banks and financial institutions for their on-going support and assistance.

Our dealers, customers, ancillaries and vendors have contributed immensely to our growth and 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 as in the past and look forward to your support in the years to come. I once again thank you all for attending this Annual General Meeting of our Company.

Thank you all.

Speech of Mr. Brijmohan Lall Munjal, Chairman at the 24th Annual General Meeting of Hero Honda Motors Limited held at New Delhi on Tuesday, July 24, 2007.