



**Chairman's Speech
at
Sixth Annual General Meeting
on
28 August 2006
Birla Matushri Sabhagar, Mumbai**

Dear fellow shareholders,

I take great pleasure in welcoming you to the sixth annual general meeting of your company.

Your company's performance improved in the year 2005-06. The aggregate sales volume grew by 2.50 percent to 15.55 MMT. Domestic volume growth at 9 per cent was on par with the industry. Realisations registered a 24 per cent rise from Rs.1,718 pmt to Rs.2,122 pmt, with further gains as cement exports increased to 57 per cent of your company's total export.

- Net revenues at Rs.3,299 crore grew by 27 percent as against Rs.2,607 crore in the previous year.
- Profit before Tax and provision for diminution in investment stood at Rs.286 crore compared to Rs.43 crore in the previous year.
- Profit after Tax was Rs.230 crore vis-à-vis Rs.3 crore in the previous year.

Your company's performance must be viewed in the light of some of the challenges that it had to grapple with, such as increasing input costs, logistics and extended shut-downs. The recent Supreme Court judgement imposing restrictions on loads traditionally carried by trucks has led to logistics costs rising by nearly 25 per cent. Of course, your company is continuously modifying its transport mix to optimise freight costs.

I am also pleased to inform you that Narmada Cement Company Limited was amalgamated with your company with effect from 1 October, 2005.

First quarter performance

Your company's performance during the first quarter of the current fiscal

has shown further improvement. Driven by higher domestic realisation and volumes, net sales at Rs.1,180 crore was up by 49 per cent compared to Rs.793 crore in Q1 FY06. Profit before interest, depreciation and tax at Rs.388 crore soared by 143 per cent vis-à-vis Rs.160 crore, in Q1 FY06. Profit after Tax stood at Rs.211 crore as against Rs.60 crore.

Dividend

Your directors have recommended a dividend of Rs.1.75 per share as compared to Rs.0.75 per share paid in the previous year. The total outgo on account of dividend to be paid to the shareholders inclusive of Corporate Tax will be Rs.24.85 crore as against Rs.10.60 crore in the previous year.

Going forward

As you are all perhaps aware, the major cost drivers in the cement sector are energy and logistics. Cement is an energy intensive industry with energy typically constituting around 40 per cent of the production cost. While the industry is vulnerable to volatility in energy prices, the situation is further compounded, given the growing shortfall in supplies of indigenous coal and high prices of imported fuels. To overcome this constraint, your Company is investing in captive thermal power plants and improving its capability to manage alternative fuels.

Your company has earmarked a capex of around Rs.1,424 crore to be spent over the next three years. Of this, Rs.844 crore is earmarked for installing captive power plants at your company's units in Gujarat and Chhatisgarh. To cater to the growing demand for cement and grow its market share in south India, your company will additionally invest Rs.1,274 crore towards a 4 mtpa capacity expansion at its plant in Andhra Pradesh. This is inclusive of setting up of a 1.30 mtpa split grinding unit and a 46 MW captive thermal power plant.

Outlook

The government's initiatives on infrastructure development and the boom in the housing sector are major growth drivers for the cement industry. Incidentally, the Indian Cement sector is the second largest in the world after China. Regardless, the per capita consumption of cement in India is just 125 kgs which is very low in comparison with the average world consumption of 267 kgs, underlining its tremendous growth potential. In the medium term, the demand and supply situation is expected to be in balance, with a couple of years before the next cycle of new capacity enters the market.

Your company's growth will continue to be powered by optimising efficiencies, leveraging logistic benefits, higher use of alternative fuels and a thrust on value added product mix.

A caring corporate citizen

Last but not the least, I would like to very briefly speak about the role your company has been playing as a committed caring corporate citizen.

Your company believes in sustainable development, which translates into meeting today's needs without jeopardizing the needs of future generations. This also means understanding that the earth's resources are finite and that as far as possible, using these sparingly and in a responsible manner, makes greater business sense.

At all of your company's plants, we adopt clean technologies and processes that combine both economic progress and sustainable environment. Your company's plants are ISO 14001 environment management systems certified and adhere to OHSAS standards.

Your company has also initiated projects for reduction of carbon dioxide emissions a matter of global concern. One of its projects relates to increased production of blended cement. This has already been registered with the United Nations Framework Convention on Climate Change (UNFCCC). Its other project pertains to generation of power from cooler waste gases and is under process of validation / verification by the validating agencies. Apart from being environment friendly, these initiatives would generate revenues for your company.

The philosophy of caring, giving, developing and empowering an under-served people is part of our Group's DNA.

Your company's social projects in India's hinterland are carried out under the aegis of the Aditya Birla Centre for Community Initiatives and Rural Development, led by Mrs. Rajashree Birla. These social projects are in sync with needs of the local communities where we operate. It is in tandem with the Group's social vision which is "to make a qualitative difference to the lives of the weaker sections of society in proximity to our plants and in doing so, improve the human development index of our nation". For the year 2005-06, we reach out to nearly 6 lakh people.

In appreciation

Before I conclude, I would like to express our deep sense of gratitude to all of you, our shareholders. I look forward to your continuing commitment and support in your company's onward march.

Having provided you with a snapshot of your company, in all of its key dimensions, may I now commend the first resolution relating to the adoption of the Accounts and Directors' Report for your consideration and approval.