

Chairman's Speech, Hero Honda Motors Ltd., 2005

Ladies and Gentlemen,

On my own behalf and on behalf of the Board of Directors, I welcome you all to the 22nd Annual General Meeting of your Company. The annual report of the Company has already been given to you and I hope you all have gone through it.

Hero Honda as a Company has successfully demonstrated the vision and resilience to remain at the top in the face of severe odds. A Company of just about two-decades old, Hero Honda is today a symbol of the resurgent India – young, confident and ambitious. These are reflected in our product innovation, customer excellence and sustained growth. The Company has been able to achieve this thanks to the unstinted support of all our stakeholders and both joint venture partners.

The economy: In robust health

We are most encouraged in our endeavors by the robust health of the Indian economy. Better use of production capacity, an improved industrial climate, easy money market conditions, growing affluence and a buoyant service sector combined to make the Indian economy grow at 7 per cent in 2004-05, the second time in as many years.

Sustained growth in the domestic production of capital goods has been accompanied by large-scale imports of such goods, signaling increased investment activity. A significant part of this expansion activity is taking place in the automobile sector. The bike economy - those who own a motorized two-wheeler and a phone and can afford to travel by train-increased from 15 per cent to 16.8 per cent of the population.

India emerging as an attractive investment destination

India has emerged as an extremely attractive investment alternative for overseas investors- as borne by the fact that India 's market capitalization of Rs 17.65 trillion as of March 2005 was highest among emerging markets. Not surprisingly, there is a large presence of Foreign Institutional Investors (FII) in the Indian capital market.

There is also considerable depth in the Indian market. With over 20 million shareholders, India has the third largest investor base in the world, after the US and Japan . The Indian capital market is significant in terms of the degree of development, volume of trading and its tremendous growth potential.

Automobile industry performance

All segments of the automobile industry turned in an impressive performance during the year in review. Overall, the industry improved its numbers by 16 per cent compared to 2003-04. Despite a sharp rise in input prices, especially that of steel, sales of passenger vehicles grew by 18 per cent.

The two wheeler segment grew by over 17 percent. Backed by the Centre's initiative on rural roads and better connectivity with major towns and cities, improved agricultural performance, upward trend of purchasing power in the hands of rural people, two wheeler sales crossed the six million mark for the first time during the year. In anticipation of good market growth, automobile companies across the board introduced a variety of new models. We expect this trend to continue through this financial year. At the same time, we also expect aggressive pricing across segments.

Hero Honda - Leading from the front

During 2004-05, your company sold 2.62 million bikes. Hero Honda tightened its grip in the motorcycle segment with a 50 per cent share (up from 48 per cent). Your Company also accounted for 40 percent of the Indian two-wheeler market (up from 37 percent in the previous fiscal). During the year, Hero Honda maintained its one-million vehicle lead over its nearest competitor and for the fourth successive year, the company retained its slot at the top as the world's largest two-wheeler manufacturer.

Total sales grew by 27.2 per cent from Rs 5,832 crore in 2003-04 to Rs 7,422 crore in 2004-05. Operating profits grew by 19.3 per cent from Rs 979 crore to Rs 1,169 crore and post-tax profit grew by 11.3 per cent from Rs 728 crore to Rs 810 crore.

Hero Honda's flagship brand, Splendor and its two upgrades, Splendor Plus and

Super Splendor together sold over a million units, and in all, the Company sold 555,000 bikes more than the previous year.

Such consistent performance of Hero Honda has driven the growth in the two-wheeler industry for the past many years. It has not only generated jobs for millions of people in the country, but also brought world - class technology and value-for-money products for customers.

Outlook

For the medium to long term, it would appear that the Indian summer has just begun. Equally significant, within India , more and more Indians have started believing in their country's economic story; and the outlook is improving continuously. As per the 2005 A C Nielsen Global Consumer Confidence and Opinions Survey, 79 per cent respondents in India felt that Indian economic performance in the first six months of 2005 had improved, and going forward, 88 per cent of respondents believed that the economic environment will improve even further in the coming 12 months, leading up to the end of 2006.

Against this backdrop, we maintain our positive outlook going forward and anticipate double-digit growth in the two-wheeler and motorcycle markets during the current year. In fact, early trends from 2005-06 show that we're on track, with the two-wheeler segment clocking a growth of over 17 per cent during the first quarter. Backed by a recovery in the monsoons, sustained momentum in the manufacturing sector and the continued surge in the service economy, we expect this uptrend to be maintained.

However, heavy rains in many parts of the country also caused immense loss of human life and property. I am extremely anguished by such large scale devastation, and I pray to God that the people affected by the natural calamity get the strength to rebuild their lives.

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 Honda Motor Co. Ltd., Japan and Hero Cycles Ltd., Ludhiana for their continued co-

operation and efforts in making this venture a most successful one. Most of you are aware that the technical collaboration with Honda Motor Co. has been extended for another 10 years, which will ensure continuous flow of world-class technology and technical assistance for our products and processes.

I also take this opportunity to express my thanks to State and Central Government officials, banks and financial institutions for their on-going support and assistance.

I would also like to put it on record that our dealers, ancillaries and vendors - the entire supply chain - have played a tremendous role in our success by keeping pace with fast growth to meet the Company's requirement on time. I would like to thank them for their continued support and cooperation.

I am greatly thankful to all our employees for their consistent high-level performance, commitment for Company goals and for their team effort. Without their full involvement, this kind of performance would not have been possible.

My speech would not be complete without thanking you - our shareholders - for the immense confidence you have reposed in the Company. I look forward to your support in the years to come. I once again thank you all attending this Annual General Meeting of our Company.

Thank you all.

Speech of Mr. Brijmohan Lall Munjal, Chairman at the 22 nd Annual General Meeting of Hero Honda Motors Limited held at New Delhi on Monday, August 22, 2005.