

Chairman's Speech

2008

Ladies and Gentlemen,

On behalf of the Board of Directors, I welcome you all to the 25th 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 a continuing exercise that was initiated two years ago. 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.

ECONOMIC PERFORMANCE

India continues to be one of the fastest-growing continental-size economies of the world. The strong macro fundamentals are reflected in the GDP growth average of around 9 percent in the last 4 years.

At a basic level, the rising aspirations of a consuming class, favourable demographics and the increasing propensity to save and invest, have also helped sustain the growth momentum since 2004.

India's growth story has also been propelled by sustained industrial growth, and a booming services sector – the latter accounting for more than 55 per cent of national output.

Each of these factors should sustain the country's growth story in the long term.

OUTLOOK

Nevertheless, towards the end of the financial year, some areas of short term concern started appearing. From February 2007 onwards, food prices began going up, and combined with rising crude prices, led to a surge in inflation to double digit levels. This prompted the Reserve Bank to increase money supply in the economy, which in turn led to a rise in interest.

As interest rates began their alarming climb, many consumers began to postpone buying decisions, affecting sales across a number of industry sectors.

The global slowdown, triggered by the US subprime housing crisis, and the subsequent turbulence in global investment banks has worsened economic sentiment across continents, and India has been no exception.

It is being widely interpreted that economic growth in 2008-09 might slow to less than 8 per cent.

INDUSTRY PERFORMANCE

The industry clocked total volumes of 8.03 million during the year in review, a fall of nearly 5 per cent compared to the previous year. The picture was bleaker in the domestic market, where the industry clocked sales of 7.19 million, a decline of 8 per cent.

While the motorcycle industry continues to dominate the structure of the two wheeler industry, this category's contribution to the domestic two wheeler industry actually declined during the year from 83 per cent to a little over 79 per cent - a clear symptom of the ongoing slowdown.

However, it is important not to underestimate the inherent potential of the two wheeler industry in India. Two wheelers continue to dominate Indian roads. Of the number of vehicles registered in India currently, two wheelers make up 73 per cent, commercial vehicles make up 14 per cent, and passenger vehicles make up just 13 per cent!

Nearly 90 million Indian households today can afford basic consumer goods. Of these 10-12 million households can afford to buy a vehicle. Not any vehicle, but certainly a two wheeler.

Although personal disposable income in India per head was estimated at about US \$ 850 in 2007, GDP per head measured at purchasing power parity exchange rates was estimated at around US \$ 2800 per head for the same year. And this figure is estimated to grow at nearly nine per cent over the next five years. Besides, government development schemes are finally showing signs of working at the grassroots. These should have greater economic impact by the end of this decade - when families start migrating from the economics of sustenance to the economics of gratification.

Factors like these make us extremely sanguine about the future despite the current slowdown.

COMPANY PERFORMANCE

Your Company defied a process of de-growth in the industry and achieved cumulative sales of 33, 37,142 units of two-wheelers. In the process, Hero Honda consolidated its leadership position in domestic two-wheeler market with more than 52 percent market share. Total Income of your Company grew by 4.2 per cent from Rs. 10,090 crores in 2006-07 to Rs. 10, 517 crores during 2007-08. Nevertheless, Hero Honda posted a Net Profit of Rs. 968 crores, compared to Rs. 858 crores in the previous year.

SEGMENT PERFORMANCE

Hero Honda's sales in the entry segment declined by over 6 per cent; the same as the rest of the motorcycle industry. However, even in a declining market Hero Honda's share of entry segment went up from 28.7 per cent to 36.6 per cent - a clear indication that sales of manufacturers in the entry segment shrank substantially. In contrast, Hero Honda was able to limit the damage and in the process increased its market share.

In the executive segment, the company still maintained its iron-grip in this - the largest segment of the two wheeler market - by increasing its share from 68.9 per cent to 71.5 per cent.

Hero Honda turned in its best performance in the domestic market's premium segment, where its sales went up by a whopping 69 per cent compared to the previous year. In 2006-07, Hero Honda had grown 25 per cent in this segment.

In the course of a single year, the Company increased its share of the overall premium motorcycle segment by more than 8 per cent; the company's premium bikes now account for 23.5 per cent of the total premium pie.

During the year, your Company launched new models (including variants) including Splendor NXG, Hunk, New Super Splendor, New Passion Plus, Commemorative Splendor+ and a refreshed version of Pleasure.

NEW MANUFACTURING FACILITY AT HARIDWAR

Your Company inaugurated its third plant – the “Shrine of Technology” in the holy city of Haridwar in Uttarakhand. The plant will have an initial production capacity of 0.5 million units which would be scaled up to a million units by 2008-end. The total capital outlay on the new manufacturing facility has been around 375 crores.

The new plant will employ flexible production techniques enabling production of different models in the Company's portfolio. In addition to manufacturing for the domestic market, the plant will also cater to export requirements.

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 25th Annual General Meeting of Hero Honda Motors Limited held at New Delhi on Thursday, September 25, 2008.