Ladies and Gentlemen,

On behalf of the Board of Directors, I welcome you all to the 28th Annual General Meeting of your Company.

Global Climate

If recovery was the underlying theme for 2009-10, the year 2010-11 could be summed up in a single word: uncertainty. The massive earthquake in Japan and turmoil in the Middle East and North Africa (MENA) created insecurity, while volatility in crude and commodity prices continues to fuel inflation in emerging countries. By the end of the fiscal, the pace of global economic recovery seemed to be faltering.

In the United States, the world's largest economy, growing unemployment and consumer apathy suggest that the subpar, anemic recovery process could either stall or grow at snail's pace in the coming months and years.

Barring Germany, European recovery – always uncertain - has ground to a halt. The reasons are not hard to seek: fiscal tightening in leading economies like UK, political uncertainty in Italy, recession in some Scandinavian countries and solvency problems in peripheral EU nations (Greece and Turkey) have contributed to the mess. Japan, which had just begun to limp back on a path of recovery in 2010, has plunged back into deflation as the impact of its natural disaster is fully sinking in.

Meanwhile, key BRIC nations like Brazil, India and China, which had emerged as the torchbearers of global recovery in the aftermath of the global economic crisis, are now showing clear signs of slowing, as their apex banks tighten credit supply and hike interest rates to control inflation.

Growth grows, and then slows

Unlike the previous year, where India started at a comparatively slow pace but ended with a strong kick, 2010-11's story began the other way round. The most robust growth came in the first quarter, while the tardiest growth was reserved for the last quarter.

India ended the year in review with 8.5% growth - and this was largely on the back of strong export demand, a resurgent agriculture sector and sustained growth in industries like hotels, real estate, retail and banking.

Yet the manufacturing sector flattered to deceive. After notching double-digit growth during the first two quarters of 2010-11, this crucial sector - which contributes 80 per cent to overall industrial production - was unable to sustain momentum because of high interest rates. As consumption and the pace of capital formation slowed, IIP growth came down to single digits.

True to Murphy's Law, the year 2010-11 commenced with double digit food inflation. By the time it ended, inflation had become broad-based: manufacturing inflation accounted for 30% of the inflation pie in the first half of the year, but by the second half, its share of the inflation pie was up to more than 55%. Unsurprisingly, RBI tightened monetary policy aggressively throughout 2010-11 and continues to do so even in the current year.

This has taken its toll on growth. In the last three months of 2010-11, GDP growth was the slowest in one and a half years, and at the time of writing, sub-par performances from the mining and construction sectors have ensured that the economy continues to underperform.

Prospects for 2011 – 2012

With monetary tightening still firmly in place during the first half, growth prospects for 2011-12 seem relatively subdued. Global uncertainties, high oil and commodity prices, persistent inflationary pressures, rising input costs, rise in cost of capital due to high interest rates and slow project execution are some of the factors that are crimping growth prospects.

The Reserve Bank of India expects inflation to remain high in the short term and moderate only towards the latter part of the year. Should the global recovery weaken ahead, commodity prices may decline further, which should have a salutary impact on domestic inflation. Conversely, if global oil prices stay at current levels, further increase in prices of administered oil products could not be ruled out and this poses the greatest risk to inflation for Indian economy.

Business Environment

The groundswell of growth from the services and agriculture sector—saved the year for durable industries like two wheelers. The services sector now makes up more than 57% of national output, while 2/3 of India depends on the farm sector for its livelihood. Strong growth in both these economy areas ensured strong demand for both consumer durables and automobiles.

However, there is little doubt that if high interest rates persist, it could start eating into demand and private consumption expenditure in the months to come. In fact, as the year progressed, there was stark evidence of a slowdown, with consumer durable growth shrinking to around 3 per cent in the April-June 2011 period, compared to healthy 20 per cent plus growth rates in 2010-11.

Even as the near-term outlook for the Indian economy looks uncertain, India's longterm growth prospects are stable, given the favourable demographics and increasing connectivity between India and Bharat. At one level, opportunities are sprouting in newly urbanised centres across the country; at another, there is growing evidence of rural traction. In fact, latest consumer expenditure data from National Sample Survey Organisation (NSSO) shows that rural Indian households are spending significantly more on consumer goods like durables, beverages and services than five years ago.

A growing number of jobs in the service sector, favourable demographics, increasing urbanisation across towns and bountiful rains ensured strong demand for two wheelers in India during the year in review. In combination, these factors offset continuously rising consumer finance rates.

Industry Performance

The domestic two-wheeler market grew a rollicking 26%, with sales of 11.8 million units, compared to 9.4 million in the previous year. Two wheeler exports grew 35%, and crossed the 1.5 million mark for the first time. Overall, two wheeler sales grew at 27% in 2010-11, with 13.4 million units of sales as compared to 10.5 million units of sales in the previous year.

Each of the three two wheeler segments clocked strong growth. Motorcycle sales expanded 24% from 8.4 million units to 10.5 million units. Domestic sales made up the bulk of motorcycle sales. The domestic motorcycle market witnessed a growth of 23% in 2010-11, sales of 90,18,945 units as compared to sales of 73,41,090 units in 2009- 10.

In keeping with a recent trend, scooter sales grew the fastest (42%) from 1.5 to 2.2 million units. In the domestic market, scooters now make up close to 18 of the two wheeler market. The revival in the mopeds segment continued as well; sales were up 23% from 5.7 lakh to over 7 lakh units.

India's motorcycle market comprises three categories: entry, deluxe and premium. During the year, the entry segment grew at close to 14%. Nevertheless, the entry segment's overall share in the two wheeler pie declined from 19% to 17.3%. The deluxe segment sustained its steady performance, notching volumes of 4.8 million units, and a growth in excess of 15%. This segment accounted for over 62% of overall motorcycle sales.

The show-stealer in the motorcycle category was the premium segment. More than 1.8 million units were sold during the year, a growth of 66%. The strong showing ensured that the premium share in the overall motorcycle pie went up from 15 % to 21%. In fact in the domestic industry the premium segment outsold the entry segment for the first time ever.

Company Performance

Despite its significantly higher base vis-à-vis competitors, the Company's two-wheeler sales improved by 17%; from 4.6 to 5.4 million units during the year to garner over 40% two wheeler market share. In the domestic two wheeler market, it had a share of 44.5%, with sales of 5.2 million.In the motorcycle segment, the Company sold over five million units.

In the domestic market, the Company sold over 4.9 million motorcycles at a growth of 15%, thereby capturing 55% domestic motorcycle market share. In the scooter segment, Pleasure grew a whopping 65% during the year, with sales of 3.4 lakh units. This single scooter brand now accounts for over 16% market share.

Across various motorcycle segments, the Company bested industry growth in the entry segment by growing in excess of 17%, and selling more than 1.5 million units. In the deluxe segment, the Company captured 69% share. With sales of 3.8 million units, the Company registered growth in excess of 12%

A new beginning

The successful association of Hero and Honda for 27 years created the world's largest two wheeler manufacturing company. During 2010-11, we decided to part ways and evolve beyond this partnership. This is a happy culmination of a long and fruitful relationship. We now embark on a brand new journey. Thus, Hero Honda Motors Limited is now Hero MotoCorp Ltd.

The rebirth of the Company reflects an innate desire to unlock and unshackle true potential. It also symbolizes an aspiration to create an enterprise that meets the needs and aspirations for mobility not just in India but around the world. The new brand also represents our wish to transform ourselves from being a dependable but dependent domestic company to becoming an independent global company.

Growth Aspirations

Over the next five years, there are plans to set up a total of six new manufacturing capacities: three domestic plants and three overseas assembly/manufacturing plants. These planned expansions endorse our self-belief and confidence about the future. Five years from now, even going by a conservative estimate, we expect to cross $ 10 billion dollars in gross sales, we expect to sell over 10 million motorcycles and scooters annually, and we expect exports to make up 10 per cent of our turnover.

Going Global

A strong overseas focus is an integral part of our new avatar, and we would like to correct a few imbalances of the past. This company became the world's largest two wheeler company eleven years ago. Yet we could not replicate our success globally due to our joint venture structure. Going forward, we hope to re-create our successful India story in other parts of the world.

Over 30 potential markets have been identified across South East Asia, Africa, Latin America and Central America for a phased entry over the next five years. In the short term, Hero MotoCorp is preparing to enter four markets of Africa before the end of the year; the markets include: Kenya, Nigeria, Burkina Faso and Ivory Coast. There are plans to use these markets as bases and hubs to expand into other nearby markets at a subsequent stage.

Different entry options are being explored for the Company's overseas business, including direct exports and assembly/ manufacturing operations.

New R&D Blueprint

Styling and design has been a major strength of ours, and there are plans to build on this. A specialist Japanese firm has started assisting the Company's engineers develop next generation products. Hero MotoCorp has tied up with European firms to design and develop futuristic platforms.

In the next five years, we could be in a very strong position to create a world class R&D centre at Hero MotoCorp for two reasons: first, because we are starting relatively late on our own, there are virtually no legacy costs—so it is possible to build cutting edge R&D from the scratch. At the same time, Hero MotoCorp has an unmatched pool of skilled manpower. Given the right conditions to innovate, this pool could emerge as a huge source of competitive advantage.

An Exciting Future

Today, as Hero MotoCorp walks into an exciting future, it walks with confidence tempered with humility. We don't pretend we have all the answers, nor do we claim we have a recipe for replicating our Indian success in every market we enter. All we can promise that we will give it our very best shot.

Acknowledgement

I would like to take this opportunity to express my sincere appreciation to our former 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.

I also take this opportunity to express my thanks to the officials of State & 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 MotoCorp Ltd. (formerly Hero Honda Motors Ltd.) 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 Dr. Brijmohan Lall Munjal, Chairman at the 28th Annual General Meeting of Hero MotoCorp Ltd. held at Sri Sathya Sai International Centre, Pragati Vihar, Lodhi Road, New Delhi-110003, on Wednesday, September 28, 2011.

Hero MotoCorp Ltd
(Formerly Hero Honda Motors Limited)
Regd. Office:- 34, Community Centre, Basant Lok, Vasant Vihar,New Delhi 110057 www.heromotocorp.com