

**THE CHAIRMAN'S ADDRESS TO SHAREHOLDERS OF ADITYA BIRLA NUVO
LIMITED AT VERAVAL ON WEDNESDAY, 1ST AUGUST, 2007**

Dear Shareholders,

I have a great pleasure in welcoming you to the 50th Annual General Meeting of your Company.

The year 2006-07 was yet another eventful year in which your company strengthened its position in all the businesses.

Its net consolidated turnover hit the \$ 2 billion mark at Rs.8,258 crores, up by 65% with a net profit of Rs.281.2 crores. Your Company's standalone results have been impressive as well.

- Net revenues at Rs. 3420.5 Crores have grown by 29%.
- Operating profit at Rs. 603.8 Crores vis-à-vis Rs. 443.4 Crores has risen by 36%.
- Profit before tax and an exceptional item has extended by 13% at Rs. 312.3 Crores.

Your Company's achievements must be seen in the light of some of the challenges that it had to grapple with. Among these were the surge in commodity prices that posed inflationary threats, hardening of interest rates, an appreciating rupee that hampered exports and intense global competition.

An unrelenting focus on operational efficiencies, cost optimization coupled with an improved product mix across all the businesses have contributed significantly to your Company's growth.

I would now like to briefly dwell on the key developments in your Company during the year and our journey to growth, envisioned to deliver superior value to our multiple stakeholders.

To strengthen its balance sheet and to provide financial resources to pursue growth opportunities, your Company has successfully raised Rs. 777.2 crores through a Rights Issue of 98,00,201 equity shares priced at Rs. 793 per share. The proceeds from the Rights issue are used for repaying debt and for making fresh investments in Idea.

In a strategic move, your Company, along with its wholly owned subsidiary, acquired an additional stake in Idea Cellular at a cost of Rs. 1372.9 crores in the first quarter of FY 07. Additionally, your Company invested Rs. 225 crores in Idea's Pre-placement IPO. With these investments, Aditya Birla Nuvo's stake in

Idea Cellular has increased from 20.74% to 31.78%, post completion of the Idea IPO.

Idea Cellular Limited has delivered a robust performance during the year. The Company had over 14 million subscribers as on March 31, 2007. The Company's market share improved from 7.7% to 8.6% in the total mobility segment. The Company's gross revenues have risen significantly by 47% to Rs. 4366.4 Crores vis-a-vis Rs. 2965.5 Crores attained in the previous year. The Company's net profit at Rs. 503.3 Crores, from Rs. 211.8 Crores, is a whopping increase of 138%.

The Company rolled out operations in three new circles viz, Himachal Pradesh, Rajasthan and UP (E), thus expanding its network across 11 circles. Idea has successfully completed its initial public offering and raised Rs 2819 crores. It is now focusing on building, strengthening and expanding network and related services in the new circles. Rolling out of services in Mumbai and Bihar Circles is on the anvil.

To augment its presence in the BPO segment, your Company through its subsidiaries, Transworks Information Services Limited and AV Transworks Limited, Canada completed the acquisition of Minacs Worldwide Inc. (Minacs), a leading Canadian Company through an open offer made in July, 2006, at a total outlay of Canadian \$ 127.1 million. Your Company's combined BPO business, now, has over 28 delivery centers in 7 Countries across 3 continents. With a global Client base including 16 Fortune 500 Companies, the business supports customers in 30 different languages. The BPO business has a global delivery model with an integrated management and marketing structure.

As the Joint Venture (JV) with NGK Insulators Ltd., Japan (NGK) was not progressing in line with expectations, both the partners decided to terminate the JV. Consequently your Company and its subsidiary, viz. Laxminarayan Investment Limited acquired 49% equity shares in Birla NGK Insulators Pvt Limited at a total cost of Rs. 74.1 Crores. The remainder of the 1% share was also bought by LIL from Mitsubishi Corporation, Japan in April, 2007. Birla NGK has become a subsidiary of your Company from 29th November, 2006 and has been rechristened as Aditya Birla Insulators Limited. This is now being merged with your Company. The Scheme of Amalgamation is sanctioned by the Gujarat High Court and certain formalities are being complied with to make the scheme effective.

The Dividend

Moving over to the dividend, your Directors had declared an Interim dividend at 55% i.e., @ Rs. 5.5 per share in its meeting held on 12th March, 2007. The Interim dividend has been paid to those shareholders whose names have been registered with the Company / Depository as on the record date i.e. 21st March, 2007. The payout on this account for the year 2006-2007 was Rs. 51.32 Crores,

exclusive of the corporate dividend tax of Rs. 7.19 Crores. The Interim dividend so declared and paid to the shareholders shall be the final dividend for the financial year ended on 31st March, 2007.

Divisional brief and outlook

I do not want to take your time by dwelling again on the performance of each business given that it is detailed in the Management Discussion and Analysis section of the balance sheet already in your hand. Instead I will focus on some of the key initiatives taken by us in building each of our businesses.

Additionally, I would present the business outlook, key challenges and strategies adopted to enhance performance.

BUSINESS OUTLOOK AND STRATEGY – HIGH GROWTH BUSINESSES

- ☞ **Madura Garments** has a positive outlook given the growing consumerism. It will aggressively pursue apparel retailing by leveraging upon the brand equity of fashion brands and popular brands. The emphasis will be to expand controlled retail space at strategic locations. The SPVs would help in creating “Mega Retail Brands”. This however, will have to be done in a cost efficient manner.
- ☞ With a buoyant outlook, **Contract Export business** will focus on strengthening manufacturing, design and product development. Its initiatives in the full service provider segment and timely completion of expansion will boost growth. The Immediate challenge is to mitigate the impact of the rising rupee.
- ☞ **Telecom** will strengthen and expand its network in existing circles along with its thrust on the roll out in the new circles; Mumbai and Bihar . Getting the spectrum for Mumbai and Bihar soon and other licenses faster is a challenge.
- ☞ The **BPO** business looks encouraging, going forward. Deriving benefits of synergies between Minacs and TransWorks is a priority area. The business will concentrate on global delivery capabilities with an emphasis on the KPO business. Reducing attrition, cost efficiencies and quick ramp-up are concerns which your Company is proactively addressing.
- ☞ The **Life Insurance** business’s aggressive expansion of distribution network, and innovative product development should help to regain its market share though it may lead to strain on profitability and resources in immediate future.
- ☞ In the **AMC**, innovative product launches and improved distribution network should help moving ahead despite the stiff competition. Renewed leadership across all financial services businesses will help in energizing the efforts.
- ☞ In **other Financial Services** deriving synergy benefits amongst all financial outfits and leveraging group relationships will help sustain growth.

- ☞ In **IT Services**, your Company's strategy will be to focus on select verticals and horizontals besides building scalability and delivery capabilities to support businesses.

BUSINES OUTLOOK AND STRATEGY – VALUE BUSINESSES

- ☞ In the **Rayon** business, NUVO will focus on improving yarn quality, increasing share of value added yarns and optimizing asset utilization.
- ☞ In **Carbon Black**, the recent completion of 60000 MT expansion is a forward step aimed at capitalizing the vibrant auto sector. Further, accelerating the 120000 MT Greenfield expansion in Western India is the key to accelerating growth.
- ☞ Given the highly regulated industry, **Fertilisers** business emphasis on de-bottlenecking continues. We expect to increase the Urea capacity to 1.10 Mn tons
- ☞ In **Textiles**, capacity expansions in Flax yarn and Linen Fabric segment will morph us into a more competitive player in this niche segment.
- ☞ In **Insulators** business, capacity expansion by the end of current fiscal year, expanding the product range, improvement in efficiency and quality are the key priorities.

Overall, we are set to achieve new dimensions of growth. However, the bunching of investments in various long-term strategies concurrently may cause some strain on your Company in the short term. However, given the strategic thrust and growth initiatives, Aditya Birla Nuvo is very optimistic about its future.

First Quarter Performance.

Substantial growth in revenues

The Company's **consolidated** revenues increased by 78% from Rs. 1305.7 Crores to Rs. 2320.8 Crores. Revenues from its subsidiaries and joint ventures, where the Company has made substantial investments in the past, saw a phenomenal rise of 202%, from Rs. 522.5 Crores to Rs. 1579.8 Crores. All the businesses are on high growth trajectory.

- **Telecom** business has shown a spectacular growth in revenues from Rs. 899.9 Crores to Rs. 1477.3 Crores up by 64%.
- In the **BPO** sector revenues have soared from Rs. 48.1 Crores to Rs. 352.4 Crores with the acquisition of Minacs on 18th August 2006.
- **Life Insurance** has reported a total income of Rs. 625.4 Crores, up by 205 % with an increase in its distribution reach.
- However, **stand-alone** revenues declined from Rs. 783.2 Crores to Rs. 741 Crores. This was on account of the transfer of contract export business to a

wholly owned subsidiary on 1st July 2006 and a planned shutdown at the Fertilizers plant for 42 days for maintenance and de-bottlenecking.

Growth in consolidated net profit

The Company's consolidated Net Profit of Rs. 99.8 Crores grew by 50% over Rs. 66.7 Crores attained in the corresponding quarter of the last year.

The contribution of joint ventures and subsidiaries to Net Profit has jumped from Rs. 10.4 Crores to Rs. 73.3 Crores.

Telecom's Net Profit at Rs. 308.5 Crores vis-à-vis Rs. 89.2 Crores earned in the corresponding quarter of the last year is commendable. The growth in profitability is despite launches in three new circles.

Life insurance incurred higher losses due to higher spends on augmenting its sales force and opening new branches to regain the market share.

The BPO business's bottom line has been constrained by the interest burden on funding its new acquisition and by the weakening of US Dollar.

The Company's stand-alone net profit has been impacted by the planned shutdown at Fertilizers plant for 42 days, which reduced the profits of the Fertilizers business substantially. High interest cost on borrowings for funding of investment in Idea and various Capex initiatives also impaired profitability. Additionally the profits of Madura Garments were lower due to a massive ramp up. Hence the stand-alone net profit is down from Rs. 56.3 Crores to Rs. 26.5 Crores.

A Caring Corporate Citizen.

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

Environmental Management.

Your Company is totally committed to sustainable development and has a well drawn out environmental management strategy in place. We take our social, economic responsibility seriously. We believe these are linked and key to our success as a Corporate. An in depth environmental audit is conducted at our plants by professional Environment Auditors. Their Audit reports validate our commitment to environment. Systems auditors conduct periodic checks. State of the art automated industrial effluent Treatment plants (ETP) operate across all of your Company's manufacturing units. Your company has implemented energy saving projects, leading to significant reduction of CO₂ gas emission, a green house Gas. Your Company is the first fertilizer plant globally to register a Clean Development Mechanism (CDM) project with UNFCCC. This has resulted in CO₂ emission reduction (CERs) by about 60,000 tons and will continue to generate about 25,000 Te CERs per annum.

Likewise, we have always looked beyond the traditional spheres of influence and addressed the larger issues facing people in proximity to our plants and beyond.

Social Projects

Your Company's social projects pertain to issues of deep relevance to human society, such as poverty alleviation through sustainable development and livelihood processes, healthcare, education, societal change and infrastructure development. Your Company's social projects are carried out under the aegis of the Aditya Birla Centre for Community Initiatives and Rural Development, spearheaded by Mrs. Rajashree Birla. Your Company's focus areas are healthcare, inclusive of mother and child care, education, sustainable livelihood, Women Self -Help Groups, Social Welfare, Infrastructure etc.

The Annual Report details these activities.

Employees

I am very happy to inform you that the Aditya Birla Group has been adjudged as the Best Employer in India and amongst the top 20 Best Employers in Asia in the Hewitt-Economic Times and Wall Street Study of 2007.

While we cherish this acknowledgement, we realize that we have to work harder in the people area and bring in an even sharper focus on employees and their engagement.

Conclusion

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 Director's Report for your consideration and approval.