

The Chairman's address to shareholders of Aditya Birla Nuvo Limited at Veraval on Thursday, 17 August 2006

Dear shareholders,

It is indeed a pleasure to welcome you to the 49th annual general meeting of your Company.

The year 2005-06 was yet another momentous year for your Company. Your Company has achieved an excellent performance, marking a milestone as it entered the billion dollar league. Its net consolidated turnover hit an all time high at Rs.4830.34 crore up by 51.5 per cent, with a net profit of Rs.204.04 crore. Your Company's standalone results have been impressive as well.

- Net revenues at Rs.2642.05 crore have grown by 42 per cent
- Operating profit at Rs.443.4 crore vis-à-vis Rs.264.2 crore is up by 68 per cent
- Profit before tax and exceptional items has risen by 67.42 per cent at Rs. 275.79 crore

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 hardening of global oil price, an appreciating rupee that hampered exports and intense global competition.

Operation efficiencies, the thrust on value added products and an innovative market mix have been the major growth drivers.

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

In a landmark restructuring, aimed at leveraging value business for accelerated growth, Indo Gulf Fertilisers Limited and Birla Global Finance Limited were merged with your Company. The new entity was rechristened as Aditya Birla Nuvo. The merger has three distinct advantages.

Firstly, it enables the shareholders of the erstwhile Indian Rayon to participate in the growth businesses of the Company.

Secondly, Indo Gulf Fertilisers Limited's strong cash flow strengthens the financials of your Company, and thirdly, Birla Global Finance Limited helps create an integrated financial provider.

As mobile telephone is one of the fastest growing sectors, your Company chose to fortify its presence. In a mega transaction valued at US\$ 150 million, your Company acquired an additional 16.5 per cent stake from Cingular Wireless, USA. This takes your Company's equity to 20.7 per cent. Further, during the first quarter of this fiscal, your Company took an additional 15 per cent share in IDEA Cellular, raising its holding to 35.74 per cent.

Idea Cellular Limited is a profit making cellular company operating in eight telecom circles with a subscriber base of over nine million. The Company has an 8.1 per cent market share in the total mobility segment. It enjoys a predominant position in Maharashtra, Gujarat, Andhra Pradesh, Kerala, Madhya Pradesh, Delhi, U.P. (W) and Haryana. Idea is planning to roll out its services in Rajasthan, Himachal Pradesh (H.P.) and U.P. (E) by the end of this quarter, increasing its presence to 11 circles.

In June, 2006, Transworks Information Services Ltd., a wholly owned subsidiary of your Company entered into a definitive agreement with Minacs Worldwide Inc., Canada's leading BPO provider, to acquire Minacs, through its wholly owned subsidiary i.e., A V Transworks Limited, Canada, for a total outlay of US\$ 125 million. The acquisition underscores our commitment to emerge as a leading BPO provider and expand our geographical reach globally.

The dividend

Moving over to the dividend, your Directors recommend a dividend at 50 per cent i.e., @ Rs.5 per share. The payout on this account for the year 2005-2006 will be Rs.47.61 crore, inclusive of the corporate dividend tax of Rs.5.86 crore. This includes dividend payable on increased share capital on account of merger of Indo Gulf Fertilisers Limited and Birla Global Finance Limited.

Divisional brief and outlook

Let me now focus on our business sectors and share our plans for taking these ahead.

The value businesses

Viscose Filament Yarn (VFY)

Your Company's rayon division had to face challenges posed by the coming in of cheap yarn from China, and pricing pressure due to an industry inventory build-up as well. Rayon division's performance has been satisfactory. Chemical businesses did very well due to a buoyant chlor-alkali segment and higher realisations.

An additional 1000 tons capacity expansion of VFY via the de-bottlenecking route, enhancing caustic soda capacity, and commissioning of the 20 mw captive power plant will augment both productivity and the bottom line.

The long-term outlook of the VFY is moderate as demand is expected to grow at a modest rate of 3 to 4 per cent. Factoring this, your Company has chalked out strategic plans towards sustaining volumes and improving realisation. The business has embarked on increasing its share of value added yarns that would give higher

realisation. The focus on technological improvement will improve quality. This will help us provide superior customer value and fetch a premium on our products. The long-term outlook for the chlor-alkali segment remains moderate, though realisations may be impacted in the shorter term.

Carbon Black

The Carbon Black division's performance has been very impressive, spurred by the auto and tyre sector, which has been growing 12 per cent year on year. Your Company has registered its highest ever production, as volumes grew to 175,944 tons, up by 7 per cent over the previous year. Your Company's plant operated at over a 100 per cent capacity for the full year. While the brown-field expansion of 55,000 tpa is awaiting environmental clearance, the division is exploring the possibility of setting up a greenfield project of 60,000 tpa in western India.

Textiles

The textile business performance has been commendable. Each segment has recorded an impressive performance with linen and worsted yarns leading from the front. Higher productivity and improved operational efficiency, and the rising share of value added and specialty yarn has enabled us post such good results.

The outlook on linen fabric, in particular, is positive. A growing awareness of its value as a fashion fabric, apart from its feel, and higher disposable incomes should enhance the demand in the future. Increasing the capacity of linen fabric from 62 looms to 112 looms, promoting linen fabric for regular wear by enhancing its retail presence, form part of your Company's strategic growth plans. Plans are on the anvil to enhance the flax spinning capacity by 7000 spindles, taking the total capacity to 13,184 spindles.

Insulators

The joint venture improved its performance, with overall losses down from Rs.25.3 crore to Rs.3.6 crore during FY 06. Sales volume was 7 per cent higher at 26,065 tons though exports declined vis-a-vis the previous year. Net revenue of the Company soared 34 per cent to Rs.226.6 crore against Rs.168.8 crore in the previous year, driven by the higher realisations as well as better volumes. Implementing processes for yield and quality enhancement to global standards is well underway.

Fertilisers

Increased operational efficiencies coupled with the rising demand for fertilisers spur the fertiliser division's higher output and earnings. To raise farm productivity and maintain the eco-system, your Company plans to produce zincated, sulphonated and bornated urea. Your management has already applied to the government for debottlenecking of its urea capacity from 2620 mtpd to 3360 mtpd and for an additional greenfield expansion.

Let me now move on to the growth businesses

Garments

Madura Garments has posted a remarkable performance. It has grown its brand equity manifold and is aggressively expanding its large format exclusive brand outlets, along with other retail outlets.

We view this business with great optimism. The market for readymade garments is continuously rising. Your Company's garments business will bring in innovative lifestyle brands, convert wardrobe brands to lifestyle brands and give the customer a rich and happy feel at all of its malls and high street outlets.

Insurance

Your Company's insurance joint venture Birla Sun Life Insurance Company Limited (BSLI) has shown satisfactory performance. The new business annualised premium grew by 16 per cent to Rs.702.3 crore. The average annualised premium at Rs.30,680 is one of the highest average per policy premium in the industry. BSLI continues to leverage technology for achieving business goals and views technology as a key driver for supporting growth. The company has implemented an automated underwriting system (AURA) to enhance the efficiency of the underwriting to process business. It has installed self-service kiosks that provides the customer, the freedom to operate and transact with the company at their convenience.

The high GDP growth coupled with healthy capital markets and a favourable tax regime augur well for the life insurance industry. To capitalise on the emerging opportunity as well as to increase its market position, BSLI will focus on increasing its distribution reach by adding more branches and agents along with higher productivity.

Financial services

The financial services division of your Company has established a leadership position in the segment due to the increase in capital market and initial / follow on public offering (IPO/FPO). Birla Insurance Advisory, a subsidiary of your Company, has created a dominant position for itself in the general insurance broking business in the four years of its existence. It placed a business of over Rs.100 crore for the year. Birla Global Asset Finance Company Ltd (BGAFCL), a wholly-owned subsidiary of your Company is gradually stabilising. Favourable demographics, increased spending, and borrowing habits have enhanced loan sizes and numbers. The outlook for the business appears to be good.

Software

Your Company's software subsidiary PSI Data Systems Limited has turned PAT positive during the fiscal 2005-06. The Company has added 11 new clients and employee base has been strengthened to 573.

The overall outlook for the business is positive with the Indian IT industry regaining momentum on the back of a global recovery and off-shoring becoming mainstream. PSI Data Systems is poised to grow, with its initiatives for revenue enhancement and cutting down on costs already yielding results.

BPO

Your Company's subsidiary, Transworks, has also clocked an excellent performance. The client base has increased to 22 inclusive of 10 Fortune 500 clients. Revenues have soared by 51 per cent from Rs.108.2 crore to Rs.163.3 crore. The Company posted an impressive net profit of Rs.26.5 crore through a better business mix and optimum utilisation of infrastructure.

The ITes / BPO sector is one of the fastest growing industries in India. Transworks is well positioned to maintain the profitable growth momentum and is committed to increase its shares in the industry. The Company will continue to focus on meeting customer's expectations with a thrust on excellence in execution.

Telecom

Idea Cellular Limited has delivered a strong performance during the year under review.

The Company's revenues have risen significantly by 31 per cent to 2965.8 crore from 2261.7 crore in the previous year. The Company's PBIT has recorded a significant jump from Rs.389.5 crore to Rs.546.2 crore, an increase of 40 per cent.

IDEA Cellular's subscriber base grew by 53.7 per cent to 8.54 million.

First quarter performance

For the quarter ended June 2006, your Company's consolidated turnover of Rs.1459.12 crore, surged by 88.6 per cent vis-à-vis Rs.773.66 crore achieved in the corresponding quarter of the previous year. Net profit has jumped to Rs. 66.71 crore against Rs.33.03 crore. The performance of its JVs and subsidiaries has been impressive as well. Revenue and profit growth was seen across business segments.

Your Company's stand-alone turnover at Rs. 783.18 crore, grew by 61.5 per cent vis-à-vis Rs. 485.08 crore attained in the previous year. Operating profit rose phenomenally by 102 per cent from Rs. 72.49 crore to Rs. 146.43 crore. The stand-alone net profit is higher at Rs. 56.28 crore against Rs. 30.75 crore, despite a major rise in interest on borrowings and surplus funds used to finance the acquisition of the 31.45 per cent additional stake in Idea Cellular amounting to Rs.2033.7 crore. Revenues and earnings are inclusive of the fertilisers and financial services business, which merged into the company effective from 1 September 2005.

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. It is an integral part of our philosophy. We regard social, economic and environmental responsibility as integral elements that drive business. All of your Company's plants are ISO 14001 EMS

certified. Your Company's plants have also received OHSAS 18001 certification for Safety Management Systems and are SA 8000 certified for Social Accountability standards. Many accolades have been conferred on your Company for its contribution to environment conservation, and these are detailed in the annual report.

In yet another milestone, the fertiliser division's Clean Development Mechanism project in the ammonia plant is the first project world-wide in the fertilisers sector to be registered with United Nations Framework Convention on Climate Change (UNFCCC) and receive 62,000 mt of carbon credits under the scheme.

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 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, self reliance through the engine of sustainable livelihood, also encompassing agriculture and watershed development activities and women empowerment processes.

Your Company's social projects span 84 villages and make a difference to the lives of 28 lakh people, most of whom live below the poverty line.

The annual report details these activities.

Conclusion

I deeply appreciate the co-operation extended by esteemed shareholders, customers, business associates, financial / investment institutions and commercial banks.

Last but not least, the dedication and commitment of Company's employees at all levels has been continued to be our major strength.

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.