UltraTech Cement Limited

Chairman's Speech

at

The 12th Annual General Meeting

on

Thursday, 30th August, 2012

Ravindra Natya Mandir, Mumbai

Dear Fellow Shareholders,

I take great pleasure in welcoming you to the Twelfth Annual General Meeting of your Company.

It is clear that the 2008 Lehman crisis will cast a long shadow on the North Atlantic economies. While we may not witness a prolonged depression like the 1930's, the growth in these economies will remain tepid in the foreseeable future. The sharp V shaped recovery of 2009 and 2010 was possible due to coordinated fiscal and monetary stimuli across the world. In India too we had consecutive years of 8.5% growth after the initial dip of 2008-09. That led to considerable optimism, which turned out to be short lived. From mid-2011 the fissures in the economic edifice of the world started becoming evident.

As for India, the economic prospects are affected more by domestic than foreign factors. Its domestic consumption still accounts for almost 70% of its GDP, which had been growing at around 8% for most of this past decade. Hence this 1.8 trillion dollar economy depends more on domestic levers. To keep consumer spending growing at around 7 to 8% annually, without causing inflation, we need to focus on capacity creation. The policy challenge is to create conditions that are conducive. This productive capacity is created both by public and private sectors.

The slowdown in private investment spending was because of several factors, like global slowdown, demand sluggishness, high interest rates, slow government approvals and clearances, and the gloomy sentiment. But we must not forget that during 2011-12 India recorded its highest ever exports, highest inbound FDI ($ 48 billion) and highest agricultural production. This should give pause to all those who are negative on the economy. The rating agencies' warning was much more about fiscal balance than about growth prospects.

India's current challenge is high food inflation, made worse by the current drought. But I believe that high food-grain stocks, combined with softening global oil and commodity prices, can stem the inflation to an extent, and create conditions for lower interest rates. With re-orientation of fiscal spending from subsidies to more productive infrastructure spending, we can realistically get back to 7.5% growth next year. India has withstood multiple macro shocks in recent years without a catastrophic drop in growth. This resilience is due to the accumulated impact of reforms and competitiveness of the economy. We must ensure that the reform momentum is maintained.

For the cement industry, the year was challenging. The slow pace of housing and infrastructure development put a brake on the growth of this sector. Operating costs, especially energy and freight, spiked with no respite.

The demand-supply mismatch continued. With the industry's proposed capacity expansion of around 71 million tons between FY13 and FY15, it will be no different for the next two to three years. I believe the short term prospects for the industry appear bearish. Regardless, over the medium to long term, the sector offers good growth potential.

Undoubtedly, we are facing some tough challenges today. But we will, all the same, I am sure, be the 'last man standing' once the dust settles down.

Over the years, we have, through determined and deliberate effort, come to be in this position of being the 'last man standing', almost across each of our businesses.

But be rest assured that 'the last man standing' has the best chance at being the 'first man forward'. Let me explain this piece through our growth story. For us, consolidation has been the name of the game.

We entered the cement business in the mid 1980s with plants set up by Indian Rayon and Grasim. Upon their merger in 1998, our production capacity was 8.5 million tonnes. With the acquisition of L&T's Cement Business in 2004, we scaled up to 30 million tonnes. Today we have ramped it up to 52 million tones. We are set to scale it to 62 million tonnes by the next fiscal.

Power is key to the ongoing sustainability of the cement business. Hence, in so far as it is possible, being self reliant is our preferred route. In the last eight years, your Company added 485 MW of captive thermal power. Our current capacity is 529 MW. We will raise it to 659 MW by the next fiscal. These measures have made your Company's integrated Units self-sufficient in their power requirements. It might interest you to learn that the kilns and thermal power plants at your Company's integrated Units are designed to operate using alternate fuel. This gives them flexibility in operations.

I am also pleased to share with you that UltraTech is reckoned as a premium Asian brand. It is the single largest cement brand in the country synonymous with superior quality, technological prowess and unmatchable customer attention.

Today we stand at an inflection point. Our balance sheet is strong with robust financial indicators. So from this position of strength, we as the last man standing have the best chance of being the first man forward – to consolidate market positions, to show superior performance and get an edge over competition.

I am sure, all of you share our sense of pride in this Company.

Moving on to Operations: For FY12, your Company's revenues stood at ₹ 18,166 crores. Profit before interest, depreciation and tax was ₹ 4,519 crores. Capacity utilization was 83% and sales volume aggregated 41 million tonnes.

Your Company's **capex** plans are on track. Most of the projects will go on stream in early FY14. Among these are –

- clinkerization plants at Chhattisgarh and Karnataka together with grinding units
- bulk packaging terminals and ready mix concrete plants
- waste-heat recovery systems

These expansions will augment your Company's capacity by 10.2 million tonnes per annum to 62 million tonnes per annum. Modernization at your Company's Units across the country is also under way.

The total capex under implementation for these projects is around ₹ 12,000 crores. It will be funded through a judicious mix of internal accruals and borrowings.

Let me now move on to the dividend: Your Directors have recommended a dividend of ₹ 8 per share vis-à-vis ₹ 6 in the previous year. This accounts for 10.4 % of the net profits. It entails a cash outgo of ₹ 255 crores. It is inclusive of the tax on dividend at ₹ 36 crores. In the preceding year the dividend outgo was ₹ 191 crores (including the tax on dividend at ₹ 27crores).

First Quarter Performance

Let me now focus on your Company's performance in the first quarter of 2012-13.

Soaring energy cost coupled with other input costs linked to higher railway freight and diesel prices had a bearing on your Company's results. The rupee depreciation offset the benefits of the softening of imported coal prices.

Net Sales stood at ₹ 5,075 crores as compared to ₹ 4,352 crores in the corresponding period of the previous year. Profit before Interest, Depreciation and Tax was ₹ 1,377 crores and Profit after Tax ₹ 778 crores as compared to ₹ 1,252 crores and ₹ 683 crores respectively, in the corresponding quarter of the earlier year.

As I mentioned earlier, the **Outlook** for the cement industry presently remains challenging. Over the mid to longer term, we are bullish on the sector. The construction and infrastructure sector, the governments' focus on inclusive growth, and the enhanced capital allocation towards infrastructure in the 12th Five Year Plan fuels this optimism.

That said, we look up to the Government to support the cement industry in stoking its growth through initiatives like reducing the tax burden and ensuring availability of linkage coal.

I would now like to dwell on our engagement in communities, far transcending business compulsions, as well as our focus on sustainability.

Transcending business, your Company reaches out to marginalized communities and endeavours to make a qualitative difference to their lives. Under the aegis of the Aditya Birla Centre for Community Initiatives and Rural Development, spearheaded by your Director, Mrs. Rajashree Birla, your Company is engaged in 407 villages, touching the lives of 11.26 lakhs people. These villages are in proximity to your Company's 22 plants across the country. I believe that bringing the benefits of education, basic healthcare, sustainable livelihood, infrastructure and espousing social reform will make a difference to the lives of the poor.

Long before sustainability and environmental concerns became buzzwords, they have been an integral part of your Company's philosophy – far beyond compliance.

Your Company's key focus areas include – waste management, energy management, water conservations, biodiversity management, afforestation and reduction in emissions and safety. As many of you may be aware, your Company is a member of the Cement Sustainability Initiative of World Business Council for Sustainable Development, a global voluntary initiative on climate protection, emissions reduction and responsible use of fuels and raw materials.

I am pleased to share with you that your Company together with two other cement makers will work together to support implementation of low-carbon investments in India. The pact, the first roadmap to focus on one specific industrial sector in a single country was signed in Geneva with member companies of the World Business Council (WBC) for Sustainable Development's Cement Sustainability Initiative and International Finance Corporation (IFC). The roadmap will outline a possible transition path for the cement industry to reduce its direct emissions by 18% by 2050.

We are committed to continuously ramp up our efforts on our sustainability journey. Our aim is to create a low carbon future by using alternative fuels, renewable energy, as well as by driving efficiency across our operations. In the last two years, we have conserved 71,885 Gigajoules of energy and by 2015-16 we will lower our carbon emissions by 3%. Our endeavors on water management have been further fortified. All our captive power plants now have air cooled condensers instead of water cooled ones. This helps conserve more than 9.5 million cubic metres of water per year.

Furthermore, we have always placed a premium on the safety of our employees, service providers, host communities and society at large. Given your Company's expansion plans and advances in technology, it is even more imperative to drive home the criticality of safety in every single operation at our plants – be it the construction site or at the shop floor. Our intent is to ensure that safety becomes a way of work at our plants. Towards this objective we have enlisted DuPont Sustainability Group, the consultancy wing of DuPont India, renowned worldwide for its strong safety culture. They are to assist us on the path to achieve safety excellence. As a part of this initiative, we have set up an Apex Safety Council - "Safety Board" which is spearheaded by Mr. O. P. Puranmalka, your Whole-time Director. Its mandate is to provide the strategic direction, set priorities and inculcate the safety mindset across employees including contract workers. Our ambition is to attain the status of a benchmark cement company in safety as well.

Looking ahead, your Company is poised to play a bigger role in Building a New India re-emphasizing its preferred partner status for large infrastructure projects that demand quality and consistency.

Challenges will come and go, but our steadfast adherence to our values, vision and beliefs will always get us the coveted cover page spot in the India Growth Story.

Acknowledgements

Your Directors wish to take this opportunity to express their deep sense of gratitude to the banks, financial institutions, stakeholders, business associates, Central and State Governments for their co-operation and support and look forward to their continued support in future.

We very warmly thank all of our employees for their contribution to your Company's performance. We applaud them for their superior levels of competence, dedication and commitment to your Company.

Thank you,

Kumar Mangalam Birla