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GUJARAT AMBUJA CEMENTS LTD.

ANNUAL REPORT | 2005-2006

Give a man orders and he will
do the task reasonably well.
But let him set his own targets,
give him freedom and authority
and his task becomes
a personal mission: 'I can'.

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BOARD OF DIRECTORS

Mr. Suresh Neotia, Chairman

Mr. N. S. Sekhsaria, Vice Chairman

Mr. Märkus Akermann

Mr. Paul Hugentobler

Mr. M. L. Bhakta

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Mr. Rajendra P. Chitale

Mr. Shailesh Haribhakti

Mr. Nirmalya Kumar

Dr. Omkar Goswami

Mr. Anil Singhvi, Managing Director

Mr. P. B. Kulkarni, Whole-time Director

Mr. A. L. Kapur, Whole-time Director

Mr. N. P. Ghuwalewala, Whole-time Director

Mr. B. L. Taparia, Whole-time Director and Company Secretary

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Corporate Office :

106, Maker Chambers III,

Nariman Point,

Mumbai 400021.

FIVE YEAR PERFORMANCE

	Rs. in crores				
	2002	2003	2004	2005	2006 (18 Months)
Sales	1384	1735	1968	2606	6268
Operating Profit	466	513	587	799	2247
Cash Profit	369	425	509	714	2168
Profit before Tax	231	253	384	519	1842
Profit after Tax	187	222	337	468	1503
Gross Block	2900	3024	3782	3827	5177
Net Worth	1618	1612	2013	2172	3484
Foreign Currency Convertible Bonds	461	461	–	–	–
Debt	1322	1290	1270	1127	865
Cash EPS (Rs.)	24	27	28	5.28	14.29
EPS (Rs.)	12	14	19	3.46 *	10.09 *
Dividend (%)	60	70	80	90 **	165
Capacity - Million Tons	9.00	9.00	12.86	13.30	16.30
Production - Million Tons	7.20	9.84	10.37	12.80	22.63

Note :

* On Face Value of Rs. 2 per share.

** Includes 30% on enlarged capital after issue of Bonus shares in the ratio of 1:2.

CHAIRMAN'S LETTER

Dear Shareholders,

It gives me great pleasure to share with you exciting changes in the cement industry and the numerous developments at Ambuja Cement over the past year and a half.

As you may know, the company has changed its accounting year-end from June to December. This report, therefore, consists of our news and performance over the last 18 months since July 2005.

The progressive reforms adopted by the government are fuelling a consistent 9% growth in the economy. This impressive performance is expected to continue in the future and is reflected in Standard & Poor's recent upgrade of India's investment rating. Developments in the economy like these will trigger further inflow of capital and have a positive impact on the future.

The sense of all-round optimism in India has formed the perfect environment for entrepreneurship, global expansion, new ideas and new ways of looking at the business. Today, every large global company has either established operations, or is looking for a foothold in India.

With the economy booming and the outlook positive, there has been a substantial investment increase in housing, construction and infrastructure. This, in turn, has spurred the demand for cement, enabling the industry to grow at 11.3% in the calendar year 2006 and cross the 151 million tonnes mark in despatches. The government is making substantial investments in infrastructure development which will place the cement industry on an even higher growth path.

To tap into this incredible growth, the company has undergone a sea-change. Holcim, one of the world's most respected cement companies, has taken a controlling interest in Ambuja Cement. By buying a part of the original promoters' holdings and merging ACEL with the company, they have obtained 26% of the company's equity capital. The original promoters continue to be associated with the company through minority stakes.

Holcim possess global expertise in many areas like alternate fuels, research and

development, information technology and product development – capabilities that our company needs to scale even greater heights.

Under the new management, the company has planned substantial investments of about Rs.3350 crore to augment cement production capacity from 16 MT to 22 MT by 2009. This step would enable the company to keep its pre-eminent position in the industry and retain its market share.

I am also pleased to inform you that the last 12 months ending December '06 have been extremely good for the company. We have sold 16.3 million tonnes of cement during the year, a growth of 11.6% over the calendar year 2005. Our operating profit has jumped to Rs.1881 crore as against Rs.952 crore in the previous year, an increase of 97%. Similarly, our profit before tax has increased one and a half times to Rs.1616 crore, as against Rs.644 crore. Unlike in the past, we are now liable to pay full tax and because of this, our tax burden has gone up. Accordingly, our net profit is Rs.1340 crore as against Rs.512 crore in 2005, a two and half times increase.

Our people have truly done an outstanding job in running plant operations, marketing our cement and keeping our costs in check. Now the challenge before them is to grow the company further by setting up new capacities as efficiently as they have done in the past.

I would like to mention my appreciation of the management team for the company's outstanding performance. Ambuja Cement, I am happy to say, is one of the most successful and respected companies in India.

To conclude, I would like to say that your trust and faith in the company have been our great strength. With the future of the company safe and secure in the hands of one of the best teams in the world, I am confident we will all be a part of this incredible growth story for years to come.

With warm regards,



Suresh Neotia

2nd February, 2007.



This year our people were faced with a unique test of courage and resolve.

A 5700 tonne stranded ship.

June 27 was a typically overcast monsoon day along the Gujarat coastline. The captain of the M.V. Ambuja Laxmi gave the order to cast off. And the ship, loaded with 3400 tonnes of cement, sailed towards open waters.

The weather took a turn for the worse. A monsoon squall whipped up white-capped waves, 6 metres high. The Ambuja Laxmi started drifting dangerously towards the shallows. The crew fought hard, but with conditions deteriorating, their efforts were in vain. She grounded herself firmly onto the rocks, damaging her hull.

Ambuja Laxmi's situation was bleak. Water was entering through cracks in her hull, listing her to one side. There was a danger that the 3400 tonnes of cement in her cargo hold could get wet and solidify, making her impossible to move. With the rough seas pounding her on the rocks, the crew quickly hammered out a salvage plan.

The fuel was removed so that the ship wouldn't pose an environmental threat. Tons of thick mud had found its way through cracks in her hull. Without electricity, it had to be removed by the bucket-load. Teams of men worked in the darkness, feeling for leaks with their bare hands. They toiled around the clock for 2 months to keep the ship afloat until the weather broke.

At last the monsoon abated and the work of unloading the cargo could start. Thanks to the crew's effort, only 300 tonnes of cement was damaged.

On October 6, the M.V Ambuja Laxmi was light enough to be pulled off the rocks. The Gujarat authorities thought it was a miracle the ship had survived. They didn't know it was the grit of the crew that saved her.



Rice husk. Sugarcane Waste.
Cotton sticks.

A few of the things that made us
more profitable this year.

The engineers at our Ropar Captive Power Plant discovered a remarkable way to cut costs: using bio-waste for fuel. Not only was it cheap and renewable, it would reduce our plant's coal consumption by 80%. A brilliant idea, but incredibly difficult to execute.

Bio-waste supplies were highly seasonal. Rice husk was only available from October to February, while cotton sticks were only abundant from March to May.

To add to the problem, there was no established source of waste materials in Punjab. Securing a steady supply would mean striking deals with individual farmers across Punjab -something that had never been attempted before.

And even if they succeeded, the Ropar plant was not built to handle such diverse fuels. Its systems would have to be entirely re-engineered.

Did it make sense to go through all this? The benefits just couldn't be ignored.

One team mapped a fuel calendar based on the seasonality of crops and went from farm to farm, across the state, to create a supply chain. While another ingeniously modified the boilers and conveyor belts at Ropar to handle any fuel, from powdery rice husk to solid wood chips.

And because the new boilers were clean-burning, they earned us an unforeseen bonus: Carbon Credits; the certificates issued to companies that reduce greenhouse gas (GHG) emissions, which could be traded to provide additional revenue.

In the end, it wasn't just a great idea. It also added to our bottom line.