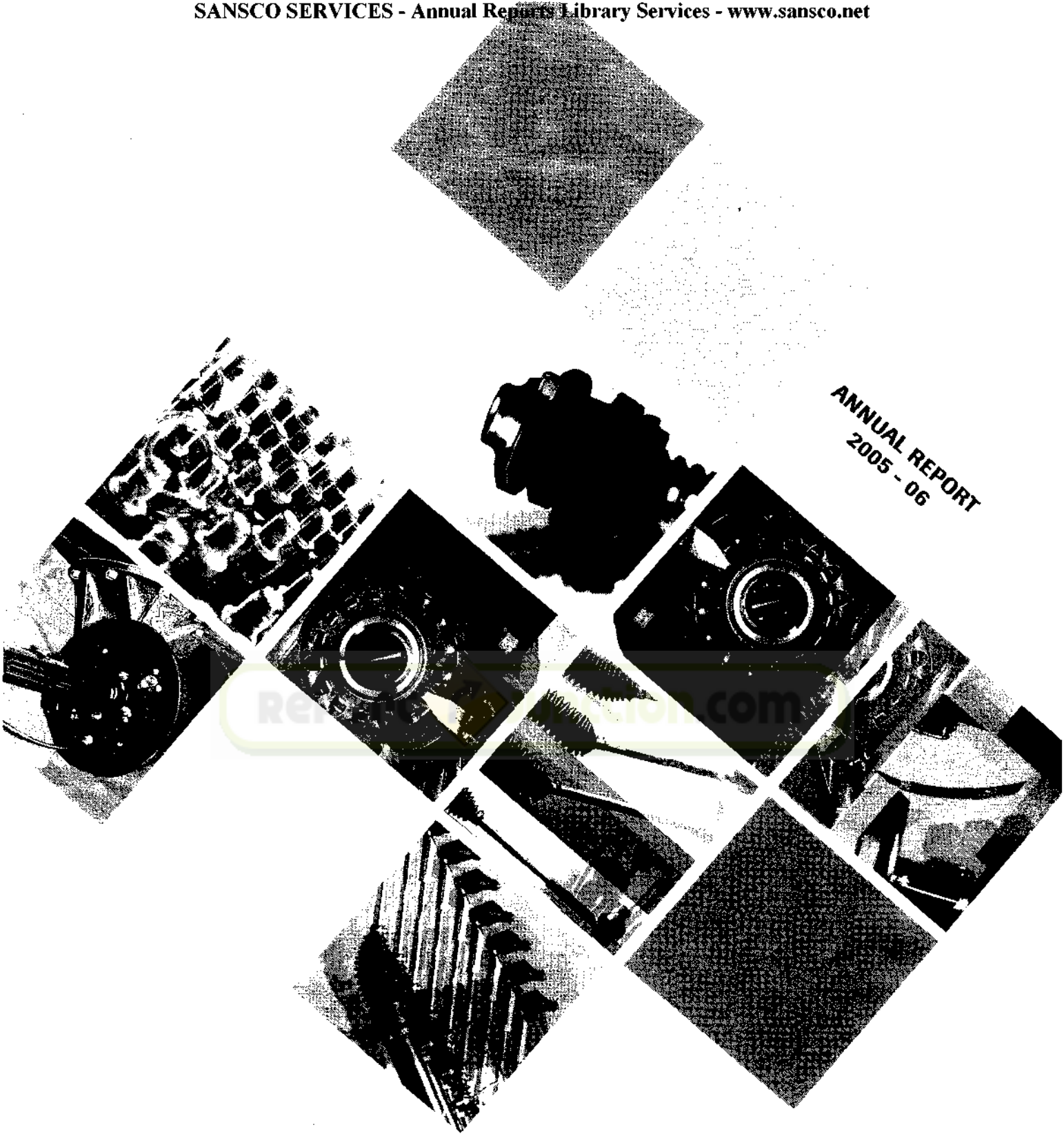
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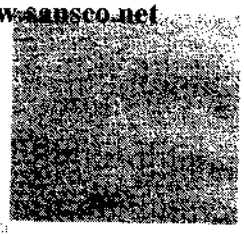
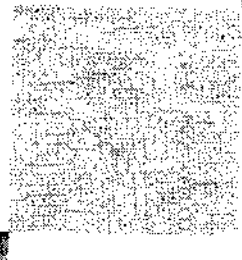
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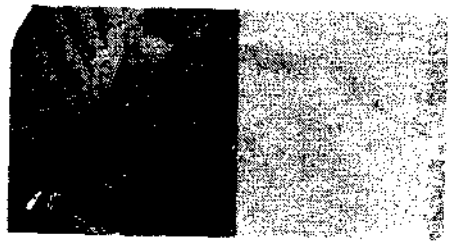
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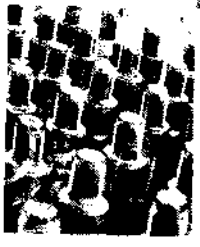
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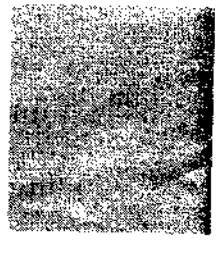


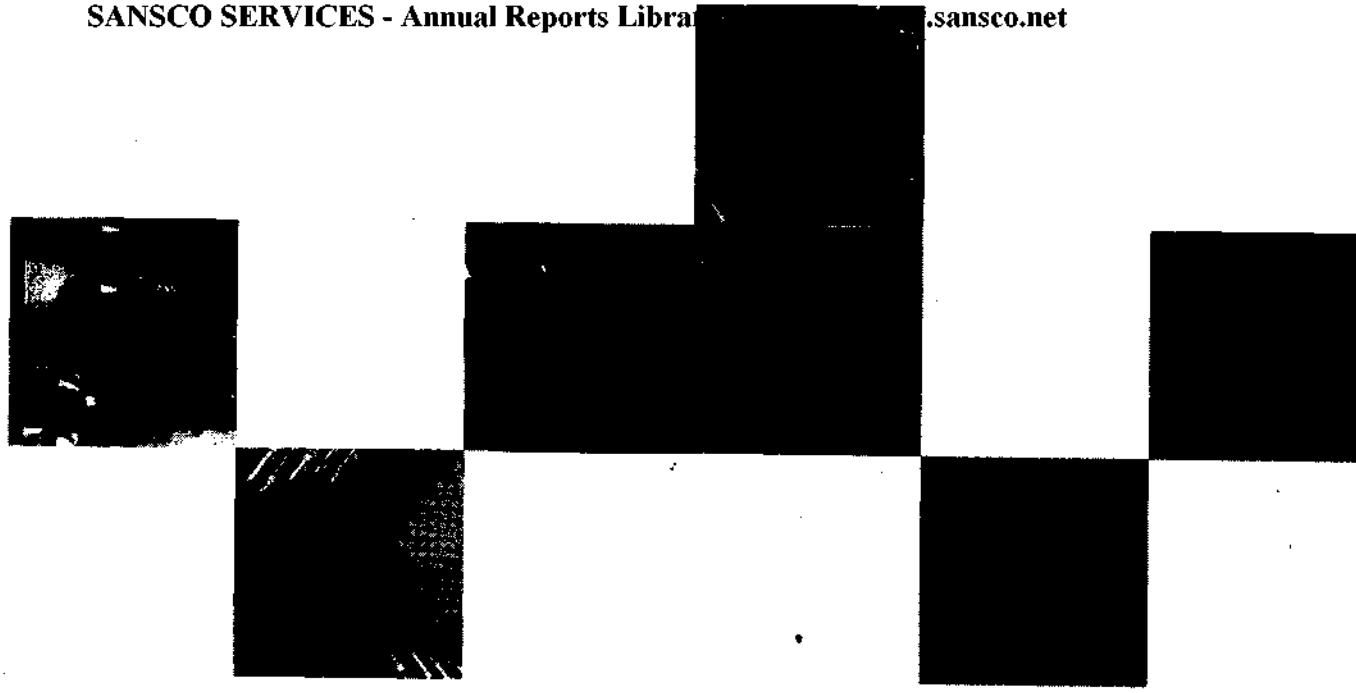







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CHAIRMAN'S LETTER

Dear Shareholders,

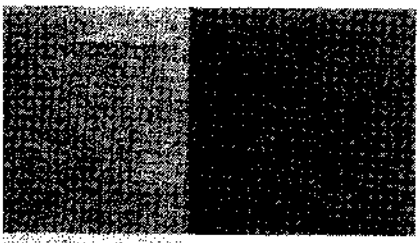
The Indian economy continues to be on a high growth trajectory. Real GDP growth is expected at 8% levels in the coming years. The Indian Government, in my view, has correctly identified the automotive industry as a high focus sector and has provided adequate stimulus in keeping with its vision of making India the global hub for manufacture of small cars. This should provide the necessary fillip to all OEMs and auto component manufacturers who were getting a bit skeptical about sustaining the growth rate witnessed in the previous two years.

In keeping with the all-round buoyancy, your Company registered good revenue growth and has relentlessly strived to maintain its margins despite extreme cost pressures on account of oil price hikes, inflation and rising interest rates. The year in retrospect can best be described as one of consolidation since we were ramping up capacities at both our locations, Gurgaon and Chennai, to meet the increased demand of our global customers. I would like to reassure you that our strategy to derisk our domestic business with increased focus on exports was well demonstrated by a 100% growth registered in our export revenues from Rs 213 mn to Rs 500 mn. This contributed significantly in your Company registering a revenue growth of 14% while the domestic passenger car industry registered a growth of 7.5%.

The other financial highlights for the year 2005-2006 are as given opposite :

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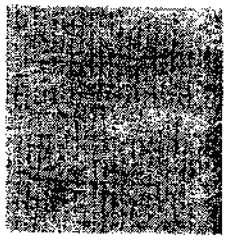
- Profit before Depreciation, Interest and Taxes increased by 10% over the previous year to Rs 427 mn.
- Cash Profit increased by 4% to Rs 376 mn.
- Net Profit registered a marginal drop of 2.4% to Rs 162 mn on account of higher depreciation and the impact of the Fringe Benefit Tax.
- Earnings Per Share consequently dipped from Rs 3.79 to Rs 3.70.

The auto component industry is now well poised for take off and we, in this industry, feel energized and excited by the unprecedented opportunities that we are seeing both within and outside the country. In order to seize these opportunities, we need to be geared with adequate capacities on the global scale and hence we have announced ambitious investment plans of around Rs 4000 mn to be spent over the next three to four years. This capital expenditure envisages creation of additional capacity in our existing lines of business and for new businesses at our existing locations of Gurgaon and Chennai as well as three new locations including the proposed plant at Daruhera, Haryana. The land at Daruhera has already been acquired and the manufacturing unit will be set up and made operational during the current financial year. With the Daruhera unit, we will be able to meet the increased requirements of Maruti, our largest customer, to whom we have now started supplying the C-EPS Systems for their best selling models including Alto and Wagon-R and provide more prompt supplies for Maruti's new unit coming up at Manesar.

During the latter half of the previous financial year, our second production line for Hydraulic Power Steering became operational at Chennai and so we are now fully geared to meet the requirements of Hyundai. We now expect to enhance our share of business with them and further consolidate our leading position in the domestic market as the largest steering system manufacturer in the country and move closer to our vision of making "Sona Koyo a 'supplier of choice' to global customers".

I am very pleased to share with you the recent partnerships and collaborations your Company has made during the last one year, which will not only reinforce our capabilities but provide us a significant advantage over our domestic competitors.

I am very pleased to share with you the recent partnerships and collaborations your Company has made during the last one year, which will not only reinforce our capabilities but provide us a significant advantage over our domestic competitors. With a view to expand our markets, we announced our intentions to enter the Commercial Vehicle segment in the domestic market and have accordingly signed a Technical Collaboration Agreement for steering columns with Fuji Autotech AB, Sweden, the market leaders in Europe. We are currently engaged in studying the commercial feasibility of this venture in consultation with various OEMs in this segment.



We have also signed a Technical Assistance Agreement with a Russian Defence Organization to explore commercial applications for their electronic projects in the automobile sector and are confident that these ventures would add to our muscle and further consolidate our position as a respected steering system manufacturer in the international arena. Electronic Control Systems are going to play a critical role in an automobile as far as safety and environment protection is concerned.

Our other R&D efforts within the Company are also making significant progress as with the initiatives with IIT Mumbai and IIT Delhi. I am happy to share with you that IIT Mumbai has already developed the prototype of the Steer-By-Wire Steering and we are currently conducting validation trials. These continuing efforts and investment will provide your Company the edge over its competitors in the coming years. I would, at this juncture, also like to express my gratitude to the Government of India for fostering and promoting the R&D investments and expenditure by recognizing it as a thrust area and providing the needed impetus through tax incentives. This is a welcome measure and needs to be sustained.

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You will recall that in the last financial year we had made a strategic investment overseas, acquiring a 21% stake in Fuji Autotech France S.A.S. (FAF), the fourth largest steering column manufacturer in Europe. FAF operations continue to be profitable and we received our first dividend of Euro 126,000 from them during the last financial year. In year ended December 2005, FAF has posted sales of Euro 76.6 mn. During the last year we have nominated our representative who is appointed as the Executive Vice President (New Product Development) at FAF. Fuji Kiko Co. Ltd., Japan our joint venture partners in FAF, have proposed to consolidate their European operations into Fuji Autotech Europe (FAE) which will control the operations of FAF and Fuji Koyo Czech (FKC) where they hold 66.7% of the Capital. Accordingly, we have consented to move our shareholding in FAF to FAE and post consolidation our shareholding in FAE will reduce to 15.87%. This, I believe, will now enable your Company to access the entire European market in keeping with our vision of being a global company and moving close to our customers. FAF is also in the process of setting up a subsidiary company in Brazil, Fuji Autotech Brazil (FAB) which will then further extend our reach to the South American continent.

We have already formed a team which is working in close co-ordination with FAF / FAE for sourcing of their components from India and have received enquiries which are in a fairly advanced stage of development and expect to commence supplies in the current financial year. We are optimistic that this business opportunity of being sourcing partners to FAF / FKC / FAB is going to be a significant contributor to our vision of earning 45% of our revenues from overseas markets / customers.

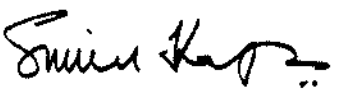
I take this opportunity to thank and place on record our appreciation of the supportive and constantly encouraging role being played by our collaborator and partner JTEKT Corporation, Japan (formerly known as Koyo Seiko Co. Ltd., Japan) who have now become world leaders consequent to the merger of Toyoda Machine Works and Koyo Seiko Co. Ltd. We see our partnership getting stronger and we have agreed to jointly examine promising new opportunities that are now available to us. It is my firm belief that the new combined organization will bring to us a wider product portfolio and robust processes that will benefit us in the long term.

Your Company continues its relentless march towards excellence and has been recognized by its customers during the year. Toyota Kirloskar Motors acknowledged our leadership in cost reduction and quick developments. Maruti Suzuki similarly awarded us merit certificates for our vendor upgradation program and continuing Kaizen successes. We at Sona feel truly inspired and motivated by the recognition accorded by our esteemed customers.

We now expect to enhance our share of business with them and further consolidate our leading position in the domestic market as the largest steering system manufacturer in the country

In the coming years we shall relentlessly endeavour to work towards improving our processes, increasing productivity, reducing costs, innovating and providing best value to our customers and stakeholders. We have renewed our focus on capability building in all spheres and with greater vigour set to embark on the journey to realize our full growth potential, bringing us closer to our mission of "Creating a Company that India is proud of".

Now is the time when the world is looking at India with great expectation and interest and deservedly so. Today, I cannot hold this feeling of being a proud Indian, a nation on the march to restoring its pristine glory and striving to regain its position as a world leader. At Sona we all pledge to participate, actively contribute and accelerate this process.



Dr. Surinder Kapur
Chairman & Managing Director

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SONA KOYO STEERING SYSTEMS LIMITED

BOARD OF DIRECTORS

Dr. Surinder Kapur
Chairman & Managing Director

Mr. Tomizo Nakaya
Nominee of JTEKT Corporation, Japan

Mr. Shinichi Takeuchi
Nominee of Maruti Udyog Ltd.

Mr. Jug Mohan Kapur
Mr. B.L. Passi
Mr. Lalit Suri
Mr. Ravi Bhoothalingam
Mr. P.K. Chadha
Dr. Omkar Goswami
Mr. Sunjay Kapur

EXECUTIVE MANAGEMENT

Dr. Surinder Kapur
Mr. K.M. Deshmukh
Mr. P.V. Prabhu Parriker
Mr. Yasuaki Kazitani
Mr. Sudhir Chopra

COMPANY SECRETARY

Mr. Sudhir Chopra

COLLABORATORS

JTEKT Corporation, Japan (formerly Koyo Seiko Co., Ltd.)
Mando Corporation, Korea
Fuji Autotech AB, Sweden

AUDITORS

M/s S P Puri & Co.
Chartered Accountants
4/18 Asaf Ali Road
New Delhi 110 002

BANKERS

State Bank of India
Standard Chartered Bank
State Bank of Hyderabad
Citibank N.A.
UCO Bank
ICICI Bank Ltd.

REGISTRAR AND TRANSFER AGENT

Karvy Computershare Pvt. Ltd.
105-108, Arunachal Building
19, Barakhamba Road
New Delhi 110 001

REGISTERED OFFICE

UGF-6, Indraprakash
21, Barakhamba Road
New Delhi 110 001

CORPORATE OFFICE

8th Floor, DLF Square, Jacaranda Marg
M Block, DLF City Phase II
Gurgaon 122 002 (Haryana)

LIAISON OFFICE

2nd Floor, Piramal Mansion
235, D. N. Road, Fort
Mumbai 400 001

WORKS

1. 38/6 NH-8
   Delhi-Jaipur Road
   Gurgaon 122 002 (Haryana)

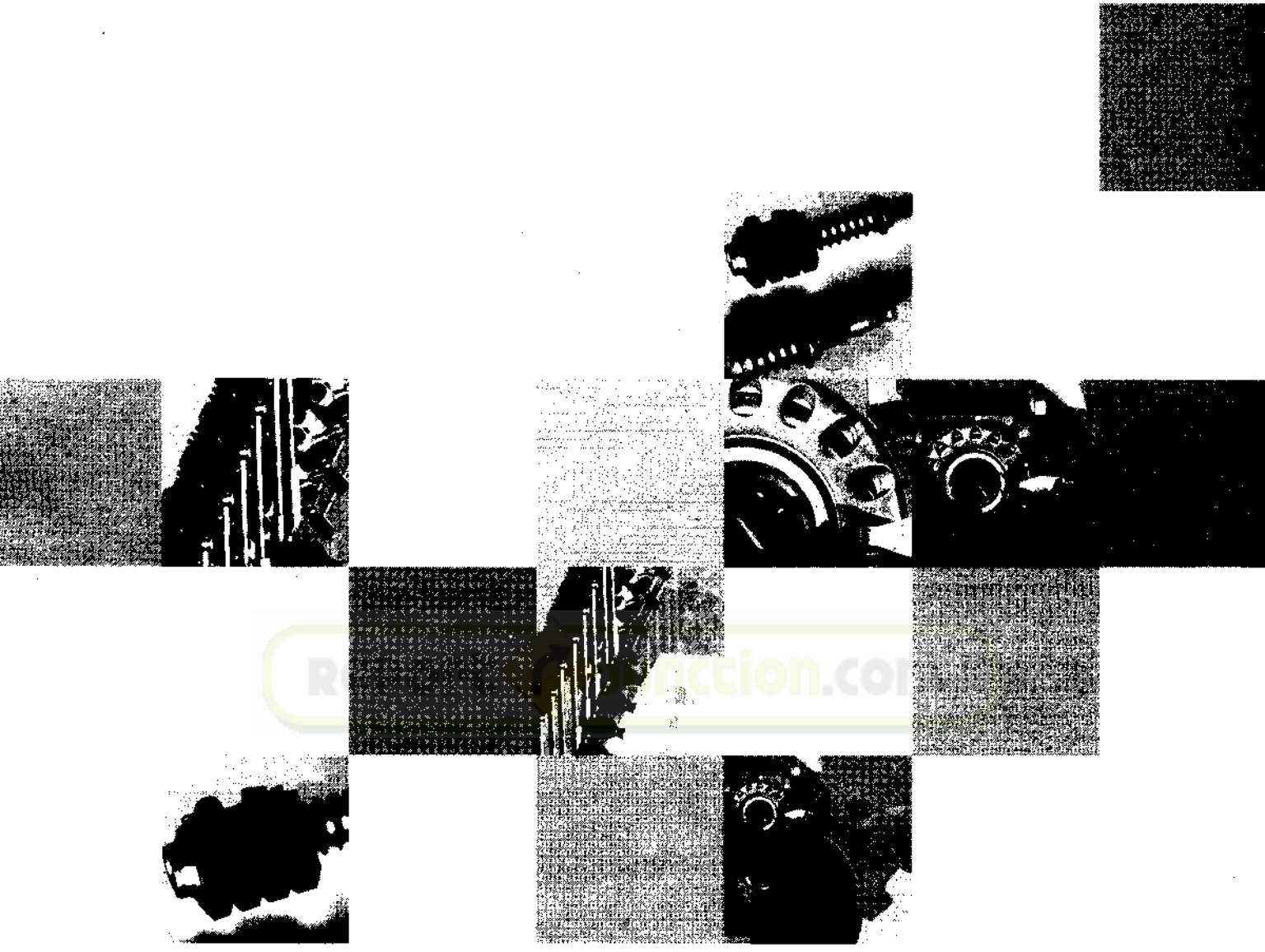
2. P.O. Box 14
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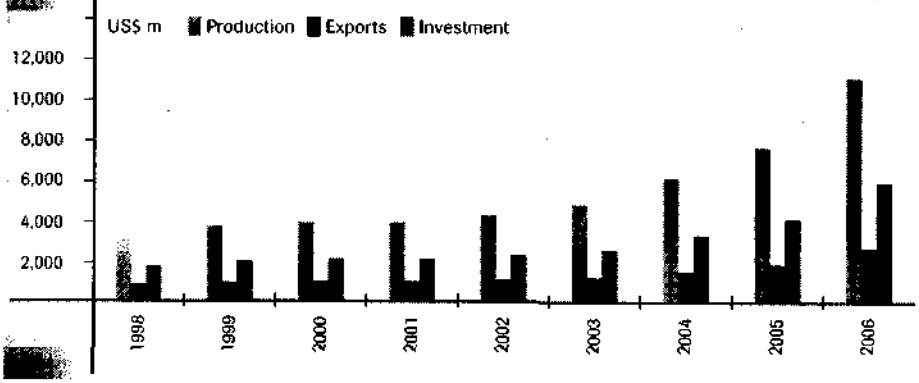
MANAGEMENT DISCUSSION & ANALYSIS

The year 2005-06 has been another significant year for the Indian auto-component industry with exports increasing 28% to reach US$ 1.8 bn. According to a ACMA-McKinsey study, auto-component exports out of India will be US$ 25 bn by 2015. With global auto manufacturers and Tier I suppliers under severe cost pressure to meet target prices that the market will bear, India along with other low cost engineering countries provided the necessary solution. Chart A depicts the production, exports and investment in the Indian auto-component industry(in US$mn) for the last nine years.

India's cost competitiveness, due to a high degree of engineering and manufacturing skills in segments like forgings, castings, stampings, and engineering services has resulted in India being one of the top 3 outsourcing destination for auto component RFQs by global customers. Already, a growing number of OEMs are using India as an exports hub and increasing procurement volumes. Simultaneously, some of domestic players are gaining access to global customers directly or through overseas acquisitions. The Government of India has also begun to recognize the potential of the auto-component industry and has designated it as a "thrust sector" under the new EXIM Policy.

India's GDP growth is expected at between 8% to 8.5% levels over the next few years. Domestic passenger car and utility vehicle sales crossed the one million mark and increased by 8% year-on-year from 1,061,572 vehicles in the previous financial year to around 1,143,037 vehicles in year ended March 2006, while the light commercial vehicles sales increased by over 19% from 119,924 to 143,237 over the same period. Exports of passenger vehicles increased by over 5.5% from 166,402 vehicles to 175,772 vehicles over the same period. The Government's reduction of excise duty on small cars this year is expected to significantly enhance domestic demand for small cars. This will favorably impact your Company.

A INDIAN AUTO PARTS INDUSTRY



Source: ACMA

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The highlights of your Company's financial performance in the current fiscal are:

- **Net income** from operations increased by 14.2% from Rs 2,975 mn in 2004-05 to Rs 3,397 mn in 2005-06.
- **Operating Profit (PBIDT)** increased from Rs 387.4 mn to Rs 427 mn, an increase of over 10%.
- **Cash profit** also increased marginally from Rs 362.5 mn to Rs 376.5 mn.
- However, **Net profit** declined marginally from Rs 166.7 mn to Rs 162.6 mn.

The sales growth was primarily on account of exports, which doubled from Rs 213 mn in the last fiscal to Rs 500 mn in 2005-06. Domestic sales increased by 6.3% and slightly under-performed the domestic industry growth due to imported steering gear application for the Maruti Swift platform where we did not participate and the late pickup of sales of Toyota Innova.

MARKETS

DOMESTIC

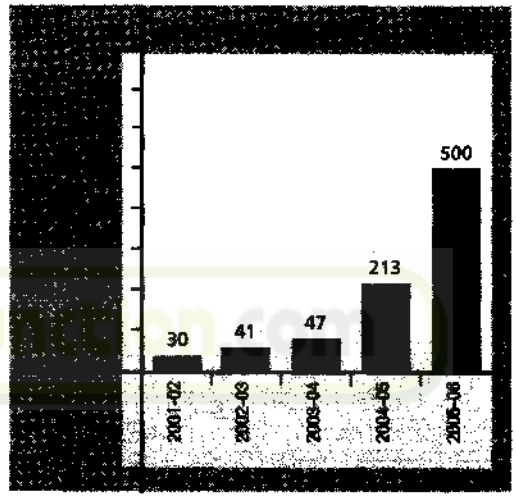
The passenger vehicles sales have increased by over 7.5% from 1,061,572 units in 2004-05 to 1,143,037 units in 2005-06. The utility vehicle segment has recorded a growth rate of over 10% from 176,360 units in 2004-05 to 194,577 units in 2005-06 as shown in Chart B.

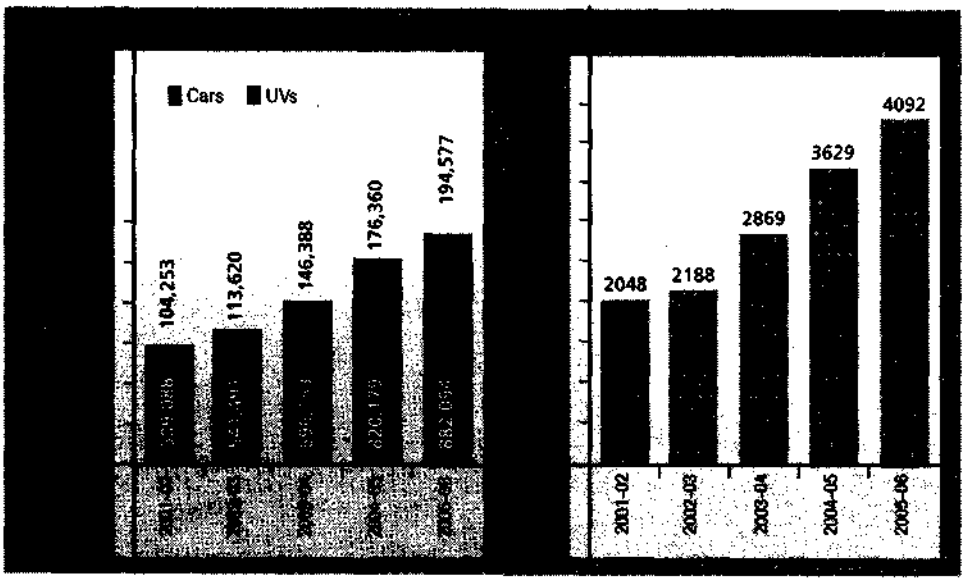
On the back of growth in the domestic passenger vehicles market, your Company has seen healthy growth in its topline. Gross sales have increased from Rs 3629 mn to Rs 4092 mn at a year-on-year growth rate of 14%. Chart C plots Sona's gross sales in the last five years.

EXPORTS

Auto-component exports have grown at a 24% CAGR between 1998 and 2006 and accounted for 18% of total industry revenues in 2005-06. Sona Koyo is leveraging its strong global alliances with JTEKT and Fuji Kiko to penetrate newer markets and expand business.

There has been an increasing demand for your Company's products globally due to its high quality standards. This may be attributed to sound management practices, world-class quality levels of 50 ppm (customer rejection) and a relentless focus on cost reduction. At present, the machining lines at our existing units in Gurgaon and Chennai are running at full capacity, hence your Company is embarking on a major expansion plan to increase capacity significantly across product lines as well as locate operations close to our customers.







Source: SIAM, 2006

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