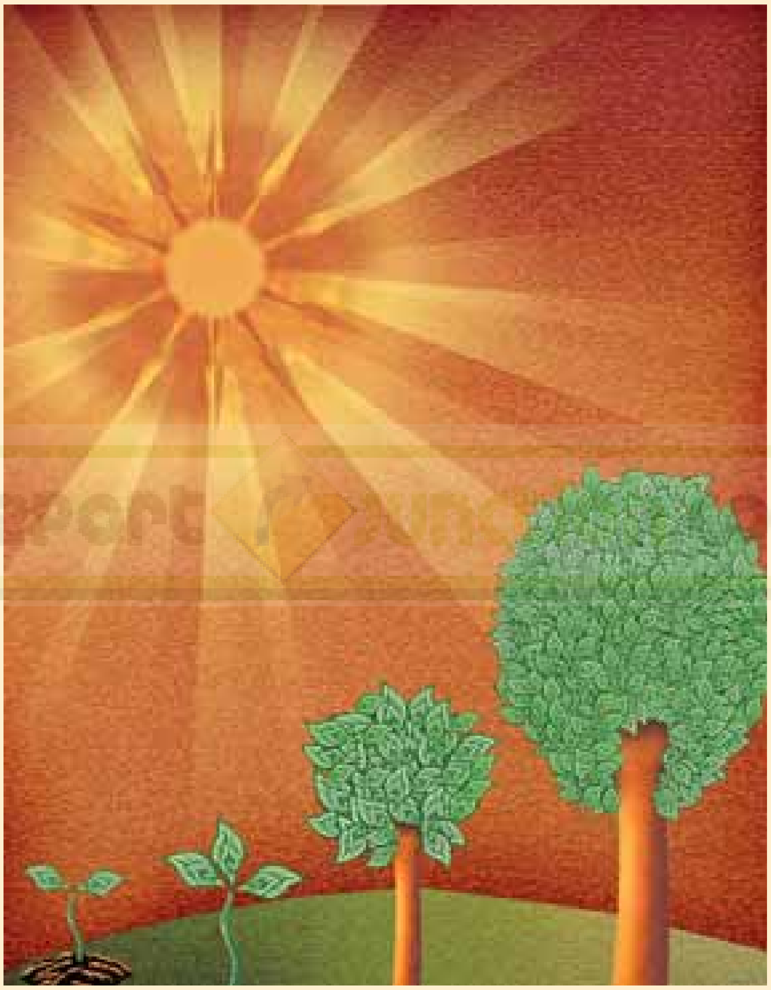
UltraTech Cement Limited



ANNUAL REPORT | 2005-2006

IN HOMAGE TO OUR VISIONARIES OUR INSPIRATIONS AND OUR GUIDING LIGHT

GHANSHYAMDAS BIRLA

ADITYA VIKRAM BIRLA

ADITYA BIRLA GROUP

UltraTech Cement Limited

BOARD OF DIRECTORS

(as on 7th July, 2006)

Mr. Kumar Mangalam Birla, Chairman

Mrs. Rajashree Birla

Mr. R. C. Bhargava

Mr. G. M. Dave

Mr. Y. M. Deosthalee

Mr. Y. P. Gupta

Dr. S. Misra

Mr. V. T. Moorthy

Mr. J. P. Nayak

Mr. S. Rajgopal

Mr. D. D. Rathi

Manager & CEO

Mr. S. Misra

Chief Financial Officer

Mr. K. C. Birla

Company Secretary

Mr. S. K. Chatterjee

Executives

Mr. O. P. Puranmalka	Group Executive President & Chief Marketing Officer
Mr. S. K. Maheshwari	Group Executive President & Chief Manufacturing Officer
Mr. V. Shukla	Chief People Officer

Cement Works

Mr. A. K. Jain	Unit Head, Awarpur (Maharashtra)
Mr. K. Y. P. Kulkarni	Unit Head, Kovaya (Gujarat)
Mr. J. Kumar	Unit Head, Hirmi (Chhattisgarh)
Mr. A. K. Pillai	Unit Head, Narmada Cement (Gujarat)
Mr. C. S. Reddy	Unit Head, Tadipatri (Andhra Pradesh)

Corporate Finance Division

Mr. J. Bajaj	Joint President (Finance)
Mr. M. B. Agarwal	Vice President (F&C)

Auditors

S. B. Billimoria & Co., Chartered Accountants, Mumbai

G. P. Kapadia & Co., Chartered Accountants, Mumbai

Solicitors

Amarchand & Mangaldas & Suresh A. Shroff & Co.,

Advocates & Solicitors, Mumbai

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REGISTERED OFFICE: B Wing, Ahura Centre, 2 Floor, Mahakali Caves Road, Andheri (East), Mumbai 400 093

THE CHAIRMAN'S LETTER TO SHAREHOLDERS

Dear Fellow Shareholders,

India as a Nation has come of age. With a great measure of pride, we see our country rise up the ranks of the powers that be in the global economy. We have grabbed the world's attention and imagination. For the third consecutive year, our GDP has recorded a near 8 per cent growth - among the highest in the world. To sustain the current growth rate and to push it closer to double-digit levels year after year, the Government seems committed to an aggressive agenda for economic reforms. While economic reforms provide a strong structural foundation for future growth, these are undeniably supported by substantive productivity improvements and an overall positive mindset. These developments at the macro level portend well for your Company.

Your Company's performance has been good. While the turnover at Rs. 3,299 crores as against Rs. 2,607 crores reflects a 27% rise, its net profit at Rs. 230 crores, compared to Rs. 3 crores has been indeed impressive. I am also pleased to inform you that Narmada Cement Company Limited was amalgamated with your Company with effect from 1st October, 2005.

To improve productivity as also to address the issue of rising energy costs, your Company has earmarked a capex of Rs. 1,424 crores which will be spent over the next three years. Of this Rs. 844 crores is towards installation of captive power plants at your Company's Units in Gujarat and Chhattisgarh. Your Company will also invest in de-bottlenecking and cost efficiencies. Improving efficiencies, leveraging logistics benefits, higher use of alternative fuels and a thrust on value-added product mix, including blended cement will translate into higher earnings for your Company as we go forward.

Your Company is pursuing profitable growth through enhanced capital productivity, improved plant performance, customer focus, cost optimisation and prudent financial management. I believe all this will have a salutary effect on your Company's future and we can all look ahead to both, top-line and bottom-line growth.

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The Government's focus to infrastructure development as well as the boom in the housing sector augurs well for your Company.

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The Aditya Birla Group: Building A Meritocracy

Our vision, as you are aware, is to be a premium global conglomerate, with a clear focus at each business level, and our vision is to deliver superior value to all our stakeholders. Implicit in our Vision Statement, is our global ambition, which necessarily implies accelerated growth to reach global-sized capacities and services. We are on course.

Meritocratic organizations are built on the strong foundation of values and not on the quick sands of opportunism. **For us, our values – Integrity, Commitment, Passion, Seamlessness and Speed – reflect the soul of our organization**. To develop a common indepth understanding of what these values connote in our context, and how they should be our guiding light in the business decisions we take as well as the manner in which we conduct ourselves, we rolled out Values Workshops. In more than 373 Workshops, over 8,236 colleagues across management cadre committed to ensure that these values become a part of their everyday life.

Talent Management and strengthening of the talent pool in building leadership across the Group is a key priority. Employees identified as high-caliber management talent are put

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through our Development Assessment Centre. Here, the talent pool is assessed by an external agency to validate our ratings on the potential of the employee to scale up to a new responsibility level.

Gyanodaya, our management learning institute, has repositioned itself to align more closely with business requirements. The focus is very clearly on business and functional programmes, keeping in view the competencies required at every career stage. More than 1,000 managers across the Group have been through the portals of Gyanodaya this year.

The Gyanodaya Virtual Campus, which is our e-Learning Programme, has also increased its reach manifold. As of today, we have 5,000 e-learners in our Group, with a course completion rate of 88%, while the world benchmark hovers around 65%. For a large number of engineers and CAs, we have tied up with Universitas 21 to provide an opportunity for these talented people to do a full-time e-MBA. As of today, 46 employees have completed 165 courses in 11 subjects in the last 1 year. Soon enough, they will earn their MBA degree while continuing on their jobs.

With a view to provide for systematic and structured processes for career growth, the job analysis and evaluation process was started 4 years ago. While Managers from across businesses have been involved at various stages of the process, more than 100 managers have been trained as job analysts and another 100 have been trained as job evaluators. This exercise covered all management level jobs across India. Over 5,000 jobs are already evaluated, resulting in the formation of 11 distinct job bands.

To reward and motivate our people and to ensure internal equity and external competitiveness, we have been using a performance merit grid and linking rewards to performance. A performance-linked variable pay has been introduced for all management executives. These initiatives have led to the successful institutionalisation of the Compensation Review and Performance Management Process.

These, to my mind, are significant steps towards building a more competitive and a world-class organization.

Best regards,

Yours sincerely,

25th July, 2006

Kumar Mangalam Birla

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

The Cement Industry is a part of the Construction Sector, which represents 6% of the country's GDP. The Construction Sector is growing at 15 % p.a. and attracts 40% of the overall investment in the economy.

The Cement Sector is, consequently, showing signs of growing at a faster rate than the 8% CAGR recorded over the past 2 decades. The principal demand drivers have been housing, roads and government expenditure. It is expected that renewed corporate investment in capacity creation and government spending on infrastructure will likely accelerate the demand for cement. The per capita consumption of cement in India is just 125 kgs, which is modest when compared to neighbouring countries in East Asia. For instance, the comparable figure is - 366 kgs in Thailand, 606 kgs in Malaysia, 626 kgs in China and as much as 1,216 kgs in South Korea.

The medium term prospects for the Cement Sector in India are satisfactory, as demand and supply are expected to be in balance, with another 2 years before the next cycle of new capacity enters the market. However, the industry is vulnerable to volatility in energy prices as this represents nearly two-thirds of the total cost of operations, including logistics. The position is aggravated by a growing shortfall on supplies of indigenous coal against linkages, the rising price of imported fuels, and the short term impact of restrictions imposed on the loads traditionally carried by trucks.

The Company has a capacity of 17 million tpa comprising 5 integrated Cement Plants, supported by 5 Grinding Units and 3 Terminals, one of which is located in Sri Lanka. The Company has focused on improving Plant productivity as a means of mitigating inflationary pressures. It has also endeavoured to address escalating power costs by investing in Captive Thermal Power Plants at its 2 major Plants in Kovaya, (Gujarat) and Hirmi, (Chattisgarh); introduction of alternative fuels; greater reliance on rail and sea transport and an expected reduction in the average lead distance to markets.

BUSINESS & FINANCIAL PERFORMANCE REVIEW

Merger of subsidiary

A Scheme of Amalgamation of Narmada Cement Company Limited (NCCL) with the Company was approved by the Board for Industrial and Financial Reconstruction (BIFR) at its hearing held on 15th May, 2006. Pursuant to the BIFR Order, NCCL stands amalgamated with the Company with effect from 1st October, 2005 (the Appointed Date). The Effective Date of the Scheme is 1st June 2006. NCCL is now a Division of the Company. NCCL's results are incorporated in the accounts of the Company for the period from 1st October, 2005 to 31st March, 2006 and hence the current year's results are not strictly comparable with those of the previous year.

Capacity Utilisation

	FY06	FY05	% change over FY05
Installed capacity (Mn.TPA):			
Clinker	14.44	13.03	11
Cement	17.00	15.50	10
Production (Mn. Mt):			
Clinker	12.73	12.36	3
Cement	13.33	12.11	10
— clinker capacity utilisation	93%	95%	
— effective capacity utilisation@	89%	91%	

@ effective capacity utilisation: cement production + clinker sold.