

Dear Shareholders

Welcome to this 26th Annual General Meeting of your company.

I am happy to share with you that in the year 2006-07, your company achieved its best ever performance in terms of sales and financial results.

The year was significant also for the success of all our new product launches, our entry into cars powered by diesel and LPG, development of new markets for exports and the continued rapid expansion of our sales and service network.

Net sales increased by 21.6% during 2006-07. Profit after tax grew by 31.4% over the previous year. Your company was able to increase its net profit to net sales ratio from 9.9% in 2005-06 to 10.7% in 2006-07.

Maruti's new car assembly plant, and Maruti and Suzuki's diesel engine plant at Manesar became operational. In a short span, both plants have attained full capacity. Your company launched the new WagonR, WagonR Duo, Zen Estilo and Swift Diesel in 2006-07, and SX4 and Grand Vitara in the early part of this fiscal. All of these models have received a very good response from customers.

Your company developed new export markets and sales to countries outside of Europe increased by 65%.

The success of Maruti and Suzuki in India has been based on a sharp understanding of Indian car customers, and our ability to meet their changing needs in a satisfactory manner. This is especially true in recent years, when competition has intensified and we have strived to maintain our leadership in the market.

Before discussing certain future initiatives by Maruti and Suzuki, I want to share with you our understanding of how the Indian customer is evolving and how we propose to keep pace with the new requirements.

## **Evolution of the Indian car Customer**

The sharp growth in India's economy in the last four years, accompanied by its rapid integration with the world, is expanding the range of customer expectations. As in the past, they continue to expect their cars to be reliable, fuel efficient, with low cost of ownership, requiring spare parts that are affordable and a service network that is extensive and of high quality.

But they are no longer satisfied with this. Without sacrificing any of the above attributes, they also want their cars to look stylish, sport a contemporary design and come loaded with features.

More and more customers seem to be scaling up. Among entry level cars, the share of air conditioned variants is growing at the cost of standard variants. Variants with power steering are increasingly preferred to those without. Even in the compact to premium segments, customers seem willing to stretch a little extra for better looks and superior features, reflected in the growing share of higher variants within models.

The growth in incomes, and the global exposure that has come with greater integration, is fundamentally impacting the way many Indian customers make choices. While our insight is confined to cars, there is enough anecdotal evidence that this up scaling for more features and better looks is applicable across consumer products in the country.

Related trends, like more than one car per family, and shorter ownership cycles, also seem to be gathering pace. The large number of entry-level customers continues to offer tremendous opportunity.

Considering these trends, Maruti and Suzuki's strategy has been to widen the choice for the Indian customer. This is evident not only in the large number of models we have launched in the past year, but also in diverse segments and with multiple fuel options.

Increasingly, the approach for India cannot be price versus features. It has to be price and features. It cannot be value versus style. It has to be both. Nor can it be looked at as petrol or diesel. Multiple fuel options will have to be offered. The way forward, clearly, is to be able to expand the range of offerings, across segments and fuel types.

With a wide product choice and superior features, we will not only tap entry-level customers but also meet the changing lifestyle needs of our existing car owners numbering close to 6 million.

Fortunately, this evolution of the Indian customer coincides with a major transformation at Suzuki. This process started a few years ago, when Suzuki consciously decided to expand its brand image from being the leader in minicars and compact SUVs, to becoming a 'complete car maker'.

In line with this, it decided to design its new products with a distinctly stylish and European flavour. The first outcome of this transformation was the Swift. The Swift reflected the new design philosophy, focusing on bold and aggressive designs and European styling. It received overwhelming acclaim, not only in India but all the four countries where it was launched almost concurrently.

Since then, Suzuki has designed and launched three new globally strategic models, including the SX4 and Grand Vitara that reflect the new approach. The fact that all new models launched in India have been well received encourages us that we are in step with the preferences of the evolving Indian customer.

### **Maruti on the global map**

The strong foundation of quality, productivity and manufacturing excellence built by your company is helping it take a larger role in Suzuki's global plans. Your company has started exporting Zen Estilo to Indonesia.

The first diesel engine and transmission facility of Suzuki, intended to be its global supply base, has been located in Manesar. I am also proud to share that though Suzuki has a manufacturing plant in Europe, the next high volume car targeted at the European market will be an export from your company.

Your company has made significant parallel efforts to develop new export markets outside of Europe. These efforts have begun to bear fruit. Your company's exports to non-European countries have grown by 47% and 65% in the last two years.

## **The importance of Maruti R&D**

While India as the largest overseas operation will continue to have a prominent place in Suzuki's global plans, we are specially developing the R & D capability within Maruti. To offer a wide range of models, refresh and upgrade them regularly with the latest features and offer them at competitive prices will require expansion of local R&D capability and bandwidth.

Maruti engineers have made impressive contribution in the Swift, new WagonR, Zen Estilo, new Omni and facelifts of Esteem and Alto. We are having more Maruti engineers trained at Suzuki, Japan and a higher number of design and engineering projects to be taken up primarily by Maruti.

## **Managing growth and competitiveness**

Buoyed by strong economic growth, the Indian market is expected to expand significantly in the next few years. This is also the time, when your company is entering its new phase of full-fledged competition. Certain other players have big ambitions for India and have announced plans to increase their presence across product segments.

Your company's focus is to scale up without losing sight of its competitive strengths like superior systems and processes, manpower development and training, customer satisfaction, productivity and quality.

Maruti and Suzuki's investment plan of Rs 90 billion upto 2010 in the new car plant, diesel facility, new engine series and upgradation of the Gurgaon Plant will help us further fortify our position in the market.

## **Giving back to Society**

Your company has always been sensitive that it needs to give back to society. It has consciously reduced its consumption of water, gas and electricity per car on the principles of reduce, reuse and recycle.

Its initiatives in enhancing road safety have received encouragement from the state governments. It had developed a 14-acre Institute of Driving Training and Research with modern simulators and training

methodologies. You may be glad to know, last year a second such institute was started in South Delhi. In addition, MoUs for two more in Haryana have been signed with the state government. Other states, including Punjab, Gujarat, Bihar, West Bengal and Uttaranchal have showed keen interest in starting such a facility.

Maruti Driving Schools, a separate initiative that takes driving training to neighbourhoods, has spread to 21 locations in India. Your company plans to take this initiative further.

I take this opportunity to thank the Central and State governments, our Partners and Associates and our customers for all their support.

I thank you shareholders for showing your faith and confidence in us.

September 6, 2007

S Nakanishi

Chairman