

Chairman's speech for KOEL's Annual General Meeting for the year ending March 31, 2006.

Date: 22 July 2006.

Time: 11.00 a.m.

Place: Hotel Méridien, Pune.

Welcome:

Good Morning Ladies and Gentlemen,

I extend a warm welcome to you all to the Annual General Meeting of your company for the fiscal year ending March 31, 2006 and thank you for taking out the time to attend the meeting.

As the Annual Report has been with you for sometime, I am sure you have had time to go through the various achievements of the Company in the year under review.

I will start with the financial review of the Company.

Financial Review:

The sales and operating income increased to Rs. 14,438 million (previous year, Rs. 11,854 million) registering a growth of 22% over the previous year. The domestic sales increased to Rs. 12,646 million (previous year, Rs. 10,558 million) registering a growth of 20% over the previous year. Exports sales increased to Rs.1,286 million (previous year, Rs.899 million) registering a growth of 43% over previous year.

Operating profit for the year under review was Rs. 1,485 million as compared to Rs.1,016 million in the previous year that is an increase of 46%. The profit has increased due to higher sales and implementation of various cost control measures. However, sharp increase in prices of Iron and Steel and other commodities and inflationary trend in the economy is a concern as full impact of cost increase is difficult to pass on to the customers in fiercely competitive markets.

Profit Before Tax is higher at Rs. 2,460 million, which is an increase of 22% as compared to Rs. 2,013 million in previous year.

The Profit After Tax is higher at Rs. 2,006 Million, which is 15% higher as compared to Rs. 1,739 Million in previous year.

Economic Scenario:

The Indian economy has demonstrated a robust GDP growth of 7 to 8 %, which is a very healthy sign. The Government has taken various measures in the areas of infrastructure, agriculture, power generation and telecommunications. These efforts to boost the GDP growth rate to 10% in the near future, are encouraging, commendable and seem imminently possible. However, dark clouds of higher oil prices and the inflationary trends certainly cause concern at the moment.

The stock markets have been volatile in recent times but experts are uniformly of the view that the fundamentals of the Indian economy are strong and the anticipated growth rate seems to be achievable.

Operations Review:

These buoyant economic conditions were reflected in the increased revenues in respective operational segments.

In the operational revenues, the Engines segment contributed 77% (previous year, 73%) while the Auto Components segment contributed 7% (previous year, 9%). Balance revenue came from other businesses.

Your company's sales in Engines segment were higher by 27 % at Rs. 11,412 Million (previous year, Rs. 8,969 Million) while in the Auto Component segment the sales were higher by 5% at Rs. 1103 Million (previous year, Rs. 1,044 Million). The sales in other segment increased by 6.8% over previous year to Rs. 2,365 Million (previous year Rs. 2,214 Million).

The capital employed in Engines and Auto Component segments has increased, with Engines at Rs. 1,879 million (previous year, Rs.1,390 million) and Auto Components at Rs. 630 million (previous year, Rs. 461

million). I would like to point out that these figures are to be seen against increased sales.

Inspite of the increased prices of diesel pumpsets, depleting water levels, announcement of free electricity to farmers and increased diesel prices, the sales in the smaller range of engines registered an increase of 17%. This was achieved by developing markets of power generation and exports. The power generation market continues to be buoyant due to investments in Telecom and Service sectors.

The company has embarked on developing new products that are not as material intensive as the present ones. These products should offer us opportunity to deliver better value to farmers at prices levels they desire.

It is noteworthy to mention that the rise in engine sales was due to growth in all markets – tractors, power generation, earth moving and construction machines, telecom, and services sector in general. Sales of engines in Industrial and construction market were

significantly higher, thanks to the ongoing thrust on infrastructure building. The Auto Components business experienced a growth in sales due to increased demand from automobile and engine makers in the country.

Positive economic outlook and growth rates have thrown real challenges before the Company for keeping pace with the economy and the Company is in process of gearing itself to meet these challenges by investing in technology, capacity, people and processes.

Export Thrust:

You are aware that the Company's major thrust will be on exports. Year-on-year exports registered an increase of 43% increase. Our export order board continues to be strong and we expect to maintain similar growth rate in the coming years. We have targeted exports to contribute 50% to the Company's total sales, in the long term.

In the current year, the Company is in the process of setting up of an Export Oriented Unit for engine valves

at Ahmednagar, which envisages a capital expenditure of Rs. 600 Million.

At present, the Company exports to 65 countries and predominantly to Middle East Asia, South and East Africa and the Indian Sub-continent. The company's major focus in future (in addition to existing export markets) will be the countries in South East Asia, West Africa and Europe.

The Company's export strategy is to focus on OEM suppliers as against our traditional retail customers. This has increased the demand on quality levels, on time delivery and cost competitiveness. Your Company continues to prepare to meet these higher standards. Based on our initial contacts with overseas OEMs, we have been able to make substantial inroads in these markets and we are confident that these customers and future customers will step up their purchases, as they are satisfied with our products and services.

Capital Expenditure:

While we had planned to invest Rs. 900 Million on capital expenditure in the year under review, the Company incurred only Rs. 687 Million, comprising of Rs. 487 Million on fixed assets and Rs. 200 Million on aircraft. The capital expenditure for replacing older machinery, increasing capacities and for Research and Engineering will continue to be incurred in the current year.

For the EOU at Ahmednagar, a capital expenditure of Rs. 600 Million is envisaged.

In view of the buoyant economy, higher growth potential in the engines business and our export strategy, the company proposes to set up a new plant at Kagal in Kolhapur District, for the manufacture of diesel engines and generating sets. The investment in the new plant is approximately Rs. 4,000 Million to be incurred over the next two years.

**Joint Venture with Toyota Motor Corporation,
Japan:**

The Company has taken over the joint venture partnership in respect of Toyota Kirloskar Motor Pvt. Ltd. (TKML) from its group company Kirloskar Systems Ltd. (KSL) The Company has acquired 11% shares in TKML from KSL (for Rs. 1580 Million). We expect that this acquisition should strategically benefit the Company.

Hive off of the Casting Division of the Company:

By now you would have received the notice of postal ballot for the sale of the Casting Division of the Company (for Rs. 210 Million) to Kirloskar Ferrous Industries Ltd. (KFIL). We have decided to concentrate on the engines and auto component businesses due to the increase in demand for the same. At the same time the foundry business is also booming and it is felt that KFIL by virtue of its expertise in this business would be in a better position to leverage this business potential.

HR matters:

The Employee costs in the year under review remained at the same levels as the previous year (Rs. 893 million).

The attrition rate of managers remains a concern. However, the attrition levels have stabilised, at the moment. The management is taking necessary measures to address this concern by focussed attention to employee related matters.

Societal Initiative:

The main thrust of our societal initiative, is primarily on education and health.

In addition to the social initiatives listed out in the Director's Report, the Company has sponsored second Akansha Centre in Pune. These centres typically cater to underprivileged children inhabiting slums around the Company's factory at Khadki. These children are taught languages, mathematics, and creative skills. The goal is to develop them to be confident members of

society. I am happy to inform that both centres are running satisfactorily with high attendance levels.

Corporate Governance:

SEBI has revised the guidelines for Corporate Governance. I am happy to inform that company is complying with the revised guidelines well within the prescribed time.

Current year prospects:

In the first quarter of the current year, the Company has achieved higher sales and profits. The Board has approved the first quarter results today and I am happy to share these with you. The revenue is up by 33% to Rs. 4,365 million (previous year quarter, Rs. 3,275 million), which includes exports of Rs. 304 million (previous year quarter, Rs. 355 million). The order board for exports continues to be strong and the execution of orders is scheduled for later part of the year.

In this quarter, the Profit Before Tax is Rs. 342 million which is higher as compared to previous year's same

quarter at Rs. 224 million mainly due to increase in sales.

The sales of engines have increased by 39% as compared to corresponding quarter in previous year.

In higher range engines, we have secured a large order for marine engines worth approximately Rs. 2,500 million. The execution of this order is scheduled from next year in a phased manner.

Keeping in line with the encouraging economic conditions, the Company expects to maintain positive trend for the remaining part of the financial year.

Acknowledgements:

I am happy to inform that the customers in each market have appreciated our products, responsiveness and customer care. As a result company's market shares in domestic market have gone up and exports are increasing. Hence, I would like to thank all our customers with a promise that our customer focus will become sharper with time.

I am grateful for the support given to us by you, the shareholders, our bankers, our suppliers, and our employees.

Thank you!