

Chairman's Speech at the 87th Annual General Meeting on
20.07.07

Good Morning Ladies and Gentlemen,

On behalf of the Board of Directors, I have great pleasure to welcome you all to the 87th Annual General Meeting. You must have received the annual report that has been posted a few weeks ago. I hope that you are happy with our company's performance in the last financial year.

I am happy mainly for two achievements. KBL, for the first time in its history, has crossed Rs. 1000 crores turnover and achieved 45% increase in net sales over the last year. The profit before tax is Rs. 375 crores compared to Rs. 178 crores for the previous year. This rise in profit before tax, after deducting extraordinary income arising from sale of investment, is approximately 65% more than previous year. The earning per share for the year under report is Rs. 31.82 as against Rs. 15.42 in the previous year. The company has already paid an interim dividend of 100% during the year.

The other important reason for which all of us can be happy is the inauguration of the World's largest pumping system for the Sardar Sarovar Project in Gujarat on March 20, 2007. This is really a proud moment for all of us as we have displayed our capabilities and put the company on the world map. The Honourable Chief Minister of Gujarat Mr. Narendra Modi, in his speech appreciated the work done by KBL and told the people gathered there that Kirloskar has brought water to your home and this is the best gift Maharashtra has given to Gujarat.

Last year, I had mentioned that Agriculture, Water and Power are the three important components of development identified by the Government under its infrastructure development programme. KBL enjoys a dominant position in pumping requirements for these areas.

The pump Industry has tremendous opportunities to grow. The pump market is largely divided into four main segments; domestic agricultural, industry and utilities which includes power, water supply, sewage, irrigation and infrastructure. Our company has strong presence in mega irrigation projects and also handles small / medium pump projects. The company has deployed segment specific marketing strategies to cater to customers across all segments. There is one major shift in market related to water related projects now. Companies are expected to supply and manage water on BOOT basis (i.e. Build, Own, Operate and Transfer basis) . Our company is gearing up to address this new segment in a more structured manner.

Before I proceed to brief you on unit wise performance of the company, I wish to share the strategic actions taken by the company during the year. As mentioned in the annual report, the company has sold its majority shares in Kirloskar Copeland Ltd to the Joint Venture partner. This company was established during 1993 by transfer of our compressor division, in a joint venture with Copeland Corporation of the United States. The performance of the company was good. However, during last few years, we realized that in order to be globally competitive, technological upgradation would be key factor for success of any industry. Hence, we disinvested in favour of the joint venture partner who has the necessary compressor technology. Moreover, we could now concentrate on our core business of pumps and pumping systems. I am

sure that this move would enhance KBL's strengths to expand its operations globally.

The other important development is acquisition of Aban Constructions Private Ltd. The company belonged to reputed Aban Group of Chennai and is engaged in oil and gas cross country pipelines and civil constructions. In order to meet the customers expectations of single point responsibility, KBL had been considering the possibility of entering the civil and construction business that is complementary to that of KBL's Project business. There is a good growth opportunity for infrastructure companies in the years to come. KBL has also moved from a product company to a total system solution provider. This acquisition will allow our company to become an Engineering, Procurement, Construction company with the opportunity to participate in the oil and gas sector. I am confident that this acquisition would achieve the objective of synergy of operation and also diversification.

Now I move to unit wise performance.

Our Industrial pumps group has performed well registering growth of almost 78% over the last year. This business unit has achieved better results due to overall improvements in on time delivery, focus on value added packaged pumping systems, product standardization and cost reduction through value engineering. This group has won prestigious orders from steel, water purification, oil and gas, coal, building and construction sectors by virtue of technical superiority. Our customer service and energy audit initiatives have started yielding results.

I had mentioned during my last year's speech that we have received approval of International agencies such as Factory Mutual (FM) and Underwriters Laboratories (UL) for our fire protection pumping systems. Our manufacturing facility for fire pump sets has been approved by these agencies and we are currently the only company in India to have such approval. During the year, company has stepped up its efforts for marketing these products by participating in many exhibitions focused on different industrial sectors. This has helped the company to establish the product and enhance brand visibility.

The Projects and Engineered pumps group have also shown a good performance registering a growth in sales by 29% over the last year. You are aware that we have restructured this business unit and started a separate strategic business unit to concentrate on the "Infrastructure Pumping Projects". This group has received many valuable contracts from the water, irrigation and power sectors as has been mentioned in the annual report. Both these units have received very good orders during last quarter of the previous year.

The group has also ensured significant progress in all other turnkey contracts being undertaken such as irrigation projects in Andhra Pradesh and various other projects.

As you are aware, the strength of KBL also lies in its rich experience in designing, manufacturing, installing and commissioning a variety of tailor-made pumping systems on Engineering Procurement and Construction (EPC) basis. This offers huge potential since KBL is among the select few pump companies in the world with such a capability. KBL's strength and capability is now being recognized by global EPC contractors which has resulted in getting approval from

Bechtel for their global power projects and placing of first order for a power project in Texas.

I am glad to inform you that KBL got a US Patent for the Siphon creation and breaking system developed for Sardar Sarovar project. This patent is for the energy efficient siphon system as against a conventional patent for the product.

During the year 2006-07, the Hydel Power projects group has procured various break through orders for small and mini hydel projects ranging from 0.5 MW to 5.5 MW. This group also got a maiden order from Taiwan for supply of vertical Kaplan turbine. Currently order board for Hydel Power Project is Rs. 144 crores.

In order to achieve greater productivity, our company has been making additional investments in sophisticated plant and machinery. As a part of this plan, substantial investments have been made during the year and highly productive CNC machines have been installed. Similar investments in plant and machinery of more than Rs. 100 crores are planned in the current year also.

Our Company has planned major capacity expansion in heavy foundry and alloy cast steel foundry to meet the manufacturing challenges and growth expectations.

The Agriculture and Domestic pump group's volumes increased by about 68% over the last year. Based on the intensive study of the market carried during last year, the entire product line was reviewed and upgraded. Our pumps were also redesigned to improve their energy efficiency and to lower cost through value engineering. This group's strategy

revolves around volume driven cost leadership. The group has surpassed the milestone of manufacturing 20,000 pumps a month. This is being supplemented by enhancement of the dealership network across the country after identifying strategic locations. The group also started focusing institutional marketing this year and has achieved good results.

I am especially glad to share with you the turnaround of our Valves Business group. The production has been doubled without any addition to the manpower. This group won many prestigious orders against stiff competition. The group is now on the path of formulating long term strategies to enhance capabilities and business.

You are aware that the company's exports are spread across 70 countries. In the international market, the efforts put in during last three years to develop the agency and distribution business in select market segments are yielding slow, steady and sustainable results which will provide us with a larger customer base and enhanced brand image. I have been keeping you informed about various initiatives taken by the company to boost export especially in African region. You will remember our "Focus Africa Program". All these efforts have yielded good results. Our largest export order from Senegal (USD 27 million) for supply of irrigation pumps sets has been fully executed at the beginning of the financial year . With a supply of our pump sets, these countries are looking at improving and developing their irrigation facilities thereby reducing poverty and achieving sustainable economic growth. The company continues to receive orders from Egypt and countries in North-Africa.

Last year I had mentioned to you that Kirloskar Ebara Pumps Ltd. had totally revamped its manufacturing facilities in order to increase its API – 610 process pump production capacity to meet the market demand. The company has also introduced the latest machinery and manufacturing processes to enhance quality and flexibility.

They had signed a collaboration agreement with Elliot Corporation of the US to manufacture steam turbines in the range upto 5MW. Elliot Corporation is a 100% subsidiary of our JV partner Ebara Corporation.

KEPL continues to grow from strength to strength. As you are aware, they manufacture API standard process pumps in addition to steam turbine.

Our new joint venture company “Kirloskar Corrocoat Private Limited” has taken over the business of our Anti Corrosion Products division and is operative from April 01, 2006. It has recorded good turnover of Rs. 150 million in the first year of operation. I am also glad to inform you that they have declared a maiden dividend of 10 % in the first year itself. This company would serve various segments and enhance its operations.

Our subsidiary company in England, SPP Pumps has successfully completed its third year of operations, achieving profitability. The turnover for the calendar year 2006 was Rs. 290 crores with profit after tax of Rs. 7.66 crores. There has been a substantial enhancement in terms of joint work between KBL and SPP pumps which would enable us in establishing our brands in global market.

The lowest life cycle cost pumps series introduced by SPP Pumps in the UK market last year has received a very encouraging response.

The performance of new subsidiary company Aban Constructions is as per the plan. During the period after our takeover, we have ensured to set up good systems in line with that of KBL in the areas of ERP, legal compliances, HR practices. We are confident that during the current year, the company would achieve its targets and would be on profitability track.

I had mentioned to you in the last meeting that we are striving to become one of the 15 top companies in the world. There has been a change to this target. We are already on the 15th rank globally after including the turnover of SPP. We have set up a new target to be among the first five companies in the world by 2015.

In view of the objective, the company is now drawing a detailed plan to achieve the same.

The operational issue concerning KBL is rising Debtors level. The company has been concentrating its efforts to control the situation. I would like to give an example of Government of Maharashtra's MKVDC bonds. As prudent accounting practice, the company has written-off the amounts due from MKVDC. However, the recent release of funds for these projects by the Government, company could recover substantial amount. For all other irrigation projects the company is striving to keep control on the collection cycle including change in contract terms. I am sure this would improve the debtors collection.

KBL has taken many initiatives towards competence development of employees. We have focused our attention on need based training for its Human resources at all levels and locations. In order to improve efficiency, new initiatives like Structured communication system are introduced across the organization as contemplated under the communication policy.

A robust performance management system is established to retain talent through a proper system of recognition and reward to individuals and teams. Major initiatives are taken after a survey on Employee satisfaction like Introduction of Maynard Operation Sequence Technique (MOST), e-Manufacturing, 5'S', Work Process Review, and Employees Stock Option Scheme (ESOS).

The company has joined hands with College of Engineering, Pune for introduction of certificate course in Turbo Machinery, having duration of six months. Company has taken about 97 graduate engineers from various disciplines from reputed institutions. Last year this number was 67.

Our Board has co-opted Mrs. Lalita Gupte on January 18, 2007. She retired as the Joint Managing Director of ICICI Bank. She held various leadership positions in the areas of corporate, retail and international banking, strategic planning and resources. Her experience in these areas as well as in corporate governance would help the company to achieve its growth objectives. We strongly recommend the resolution for the her appointment

Finally on behalf of the Board, I wish to place on record our gratitude to our banks and financial institutions for their encouragement and support and to all employees for their

contribution to the results achieved during the year. In addition, my thanks are extended to you, for your support as shareholders and for the keen interest shown in the performance of the company. With your cooperation and support I am sure we can continue to achieve desired results.

The first quarter results have been taken on record by the Board of Directors at the meeting held earlier this morning. The sales for the first quarter are at Rs. 315 crores as against Rs. 331 crores during corresponding quarter in last year. The Profit Before Tax is at Rs. 34.67 crores as against Rs. 46.37 crores during corresponding quarter in last year. The Order Board for the Company stands near Rs. 3200 Crores.

I now move the Directors' Report and Audited statement of accounts for the financial year ended March 31, 2007 for adoption and request the Company Secretary to read the Auditors' Report on the statement of accounts placed before you.

If you have any questions on the Report and Accounts, I shall be happy to reply to them.

Thank you,

(This does not purport to be the minutes of the annual general meeting)