



# TWO WHEELS OF GROWTH

ANNUAL REPORT 2009-10



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# TWO WHEELS OF GROWTH

In the year gone by, Hero Honda sold more than a record million units of two-wheelers in each quarter and notched its highest-ever annual revenues, operating income and earnings per share. All figures indicate that the Company achieved a pole position in the industry and continues to maintain its lead. Still, we at Hero Honda consider these achievements as one amongst many milestones in our long journey ahead, full of promises and further prosperity for everyone associated with the Company. Today, we pause to ponder what sets us apart from the rest. Where can a Company that has already been-there-and-done-that go from here?

## **Two Wheels of Growth**

For us the answer is simple. We believe in the 'two wheels of growth' that will enable us to grow from strength to strength. Going forward, we are convinced that the two wheels-'creating value' and 'delivering value,' are the primary requisites for distinguishing ourselves in the marketplace. With superior technology, efficient manufacturing processes, robust supply chain and highest quality standards, we are pushing harder than ever in creating value through our manufacturing prowess. Concurrently, with intensified efforts to widen customer reach and deepen customer relationships, we have renewed our focus on delivering value through continuous improvement and value-addition in the service processes of our sales and service networks. We believe that by riding on these 'two wheels of growth', Hero Honda is well-positioned to chart sustainable growth year-after-year.

# CHAIRMAN'S MESSAGE

In India's auto industry today, Hero Honda represents the **TWO WHEELS OF GROWTH**, and in our 26th year, this riveted focus on motorcycles and scooters has borne rich dividends.



## Dear Shareholders,

Le Corbusier, the famous Swiss architect, once remarked: "Less is more. Less is truly more, when you are committed to the right less."

Over the two and a half decades since Hero Honda came into being, automobile businesses around India have diversified and expanded at breakneck speed: four wheelers, tractors, commercial vehicles, financing and what have you...

Through these years, Hero Honda has resolutely stuck to its knitting, because of a deep down belief within both JV partners that in emerging countries such as India, less, could actually be more.

So we focused on our core business - the two wheeler business. We channelised our funds, energies and resources into this business, with a single minded objective: to provide world class, low-maintenance and affordable transport to people who needed mobility but had limited budgets.

Of course, during our evolution, we looked for new opportunities. We created new paradigms and benchmarks. These endeavours, however, have always been part of our search for excellence in the two wheeler business.

In India's auto industry today, Hero Honda represents the **TWO WHEELS OF GROWTH** and in our 26th year, this riveted focus on motorcycles and scooters has borne rich dividends.

By any yardstick and through any stretch of imagination, Hero Honda has seen its best year yet. Annual sales of over 4.6 million, Economic Times 'Company of the Year', record profits, record market capitalisation, record EBITDA margins, highest ever EVA...the list is endless. Your management has contributed only partly to these outcomes.

These numbers are the result of critical contributions from millions of real people - the customer managing his household budget and making his first vehicle purchase in a far-flung village in India, the retail shareholder buying his first lot of Hero Honda shares, or the young worker on an assembly line making his first contribution towards process improvement during a TPM program, our efficient supply chain partners - the list could go on and on.

In various different ways, - these people have contributed towards making the year in review extra special. There is no better forum than this report, to express my gratitude to them. No matter where Hero Honda is today or dreams to be tomorrow, their wishes and aspirations will always be instrumental to our future.

The future excites me for two reasons. First, India will be a better place to live in. As infrastructure services expand across larger swathes of India and as rural development programs create more impact in the new decade, the quality of life will improve for the common man.

Second, we will see a different facet of India unfold before us: I am convinced that this will be the decade where lower middle class households (earning between Rs 2 lakh to Rs 5 lakh a year) will become India's largest and most influential consuming class, more powerful than the middle-middle class, the upper middle class and the upper class. In fact, if the last decade belonged to the Great Indian Middle Class, this decade will belong to the Great Lower Middle Class Indian.

Consumer companies that wish to succeed in this environment will have to make the lower middle Indian central to their design of products, processes and strategies.

The two wheeler industry in general and companies such as Hero Honda in particular, already have a head start in this area with appropriate products and distribution networks.

In my message last year, I mentioned how champion companies grow by developing far-reaching branches. I am happy to report that our rural vertical, which seeks to access Bharat, has now rolled out nation-wide and in the coming years, will emerge as the primary growth engine of this Company.

For these very reasons, I won't be surprised at all if the two wheeler industry is able to easily sustain a growth of 10 percent and more over the next 10 years.

To be sure, there will be greater competition and there will be greater pressure on market share. Yet this is only natural, since the exciting market will definitely attract fresh investments, better products and better networks. But this should be a cause for great joy and celebration because it will surely benefit the customer.

It is not that I don't see challenges ahead. The global macro environment is uncertain. Despite the strong performance of the Indian economy, there are fears of a double dip recession, especially in Europe. Should this happen, some of growth momentum in India could dissipate. On the other hand, if the crisis passes and we see a strong recovery, it would impact commodity prices and interest rates.

At a Company level, fresh capacity creation in a growth market is a challenge. Pressures on our supply chain to make quick ramp ups without compromising on quality is a second major challenge. Optimising manpower productivity against a backdrop of antiquated labour laws is a third challenge.

Nevertheless, I am confident that we at Hero Honda have the versatility to refine and redefine ourselves. I know we have the skills to sail through these uncertain waters.

I believe we have the vision to navigate through the new decade into a new India.

Yours Sincerely



**Brijmohan Lall,**  
Chairman

**TWO WHEELS OF  
GROWTH**



**Yuji Shiga**  
Non-Executive Director



**Takashi Nagai**  
Non-Executive  
Director



**Suman Kant Munjal**  
Non-Executive Director



**Sunil Kant Munjal**  
Non-Executive Director



**Gen.(Retd.) V. P. Malik**  
Non-Executive &  
Independent Director



**Pradeep Dinodia**  
Non-Executive &  
Independent Director



**Meleveeti Damodaran**  
Non-Executive &  
Independent Director



**Ravi Nath**  
Non-Executive &  
Independent Director

#### **OUTGOING DIRECTORS**

**Mr. Masahiro Takedagawa**  
Non-Executive Director  
(upto April 1, 2010)

**Mr. Satoshi Matsuzawa**  
Non-Executive Director  
(upto April 1, 2010)

**Mr. O. P. Munjal**  
Non-Executive Director  
(upto July 29, 2010)

#### **COMMITTEE OF DIRECTORS**

##### **AUDIT COMMITTEE**

**Mr. Pradeep Dinodia** Chairman

**Gen. (Retd.) V. P. Malik** Member

**Dr. Pritam Singh**

Member

**Mr. M. Damodaran**  
(W.e.f. July 29, 2009)

Member

#### **SHAREHOLDERS' GRIEVANCE COMMITTEE**

**Dr. Pritam Singh** Chairman

**Mr. Pradeep Dinodia** Member

**Mr. M. Damodaran** Member

#### **REMUNERATION COMMITTEE**

**Gen. (Retd.) V. P. Malik** Chairman

**Mr. Pradeep Dinodia** Member

**Mr. Ravi Nath** Member

(W.e.f. January 25, 2010)

# BOARD OF DIRECTORS



**Pawan Munjal**  
Managing Director & CEO



**Dr. Brijmohan  
Lall Munjal**  
Chairman



**Sumihisa Fukuda**  
Technical Director



**Toshiaki Nakagawa**  
Joint Managing Director



**Dr. Anand C Burman**  
Non-Executive &  
Independent Director



**Shobhana Bhartia**  
Non-Executive &  
Independent Director



**Dr. Pritam Singh**  
Non-Executive &  
Independent Director



**Analjit Singh**  
Non-Executive &  
Independent Director

## SENIOR MANAGEMENT TEAM

|                           |  |
|---------------------------|--|
| <b>Ravi Sud</b>           | Sr. Vice President & CFO                                   |
| <b>Anil Dua</b>           | Sr. Vice President - Sales,<br>Marketing and Customer Care |
| <b>Vikram Kasbekar</b>    | Head-Operations and Supply Chain                           |
| <b>Dr. Anadi S. Pande</b> | Vice President - HRM, Corporate<br>Planning and Strategy   |
| <b>Neeraj Mathur</b>      | Vice President - Strategic Sourcing<br>and Supply Chain    |
| <b>Vijay Sethi</b>        | Vice President - Information Systems                       |

## COMPLIANCE OFFICER

|                       |                                      |
|-----------------------|--------------------------------------|
| <b>Ilam C. Kamboj</b> | Sr. G.M. - Legal & Company Secretary |
|-----------------------|--------------------------------------|

**TWO WHEELS OF  
GROWTH**

# COMPANY AT A GLANCE

Hero Honda is a joint venture, set up in 1984 between India's Hero Group and Japan's Honda Motor Co. It has been the **world's largest** two wheeler Company for nine years in succession with a customer base of more than 30 million. It has **48% share** of the domestic two wheeler market; in fact, **Every second motorcycle** sold in the country rolls out from one of Hero Honda's factories.



**WE  
BELIEVE IN**

## OUR VISION



To provide world class, affordable and durable personal transport for masses.

- Creating relationship and ethics based enterprise
- Deriving value through seamless and efficient supply chain
- Delivering excellence through resource optimised manufacturing
- Creating and sustaining powerful brands
- Keeping our promises and ensuring customer and shareholder delight



## OUR PERVASIVE STRENGTHS

- Three, globally benchmarked, state of the art manufacturing facilities.
- An extensive sales and service network of over 4500 customer touch points These include authorized dealerships, Service & Spare Parts outlets, and dealer-appointed outlets.
- A widespread reach in rural India, panning over 100,000 villages

## OUR PRODUCT PORTFOLIO



Hero Honda offers best - in - class motorcycles that set performance and fuel economy standards across various market segments. In the 100 cc segment the Company offers a wide spectrum of bikes starting from CD Dawn, CD

Deluxe, Splendor Plus, Splendor NXG, Passion and Passion Pro. The 125cc segment offers Glamour, Super Splendor and Glamour FI. The Company also has single offering called Achiever in 135cc segment In the

150cc and above the Company offers premium brands like Hunk, CBZ Xtreme, Karizma and the newly-launched fuel-injection Karizma ZMR. Besides, Hero Honda offers a 100 cc scooter Pleasure. Besides the

regular sales channels, the scooter is sold through special women only showrooms called "Just4her"

## OUR BRAND

The Company connects and engages with its customers through various initiatives and campaigns based on sports, music and entertainment platform.

MTV Roadies and Sa re ga ma pa are some of the popular ones amongst the youth segment. Hero Honda FIH Hockey World Cup 2010, DLF Indian Premier League (IPL) Twenty20 and team sponsorship of Delhi Daredevils have been the recent associations with the most sought after

disciplines of sports in the country. In addition to this, Hero Honda had been one of the main Global Partners of the International Cricket Council (ICC) for flagship ODI championships including the World Cup cricket and the Champions Trophy, and more recently the T20 World Cup in England.

Hero Honda Indian Open Golf tournament is an annual event with participation from international marquee



players. Besides, Hero Honda has signed up many Indian sports stars, across multiple disciplines of sports, to promote the brand. Other than promoting sports and sportspersons

at the highest level, the Company has also been committed to the promotion of various sports at the grass root level.

# FINANCIAL & BUSINESS HIGHLIGHTS

Hero Honda notched a record financial performance in FY'10 with the highest ever annual revenues, operating income and earning per share. Key financial highlights include:

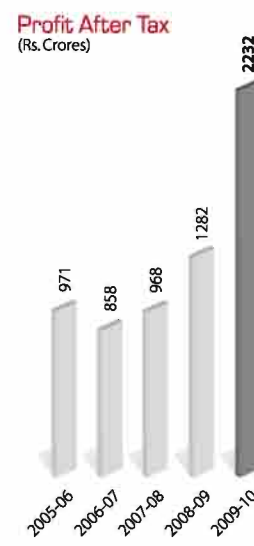
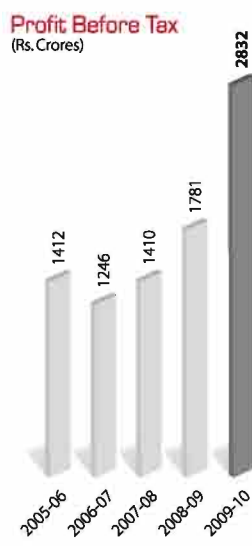
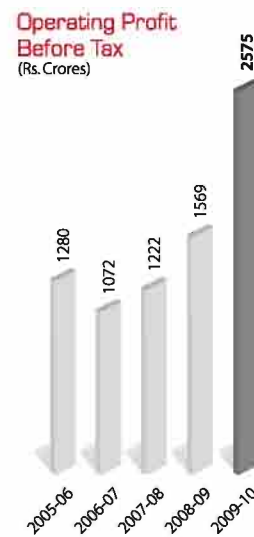
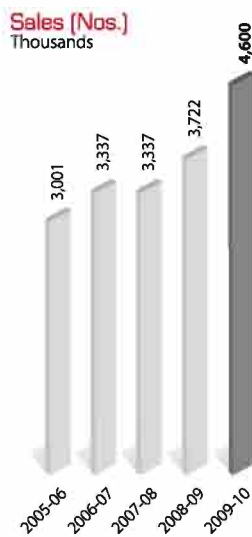
**23.6% growth in sales** to 4,600,130 two-wheelers in 2009-10 from 3,722,000 two wheelers in 2008-09

**28.1% increase in total turnover** to Rs. 16,099 crores over Rs. 12,565 crores in last fiscal

**74.1% growth in net profit after tax** to Rs. 2231.83 crores, **EPS of Rs. 111.77**

**17.4% EBIDTA margin** vs 14.1% in last year

**5500% dividend** (1500% final dividend and 4000% special Silver Jubilee dividend) amounting to **Rs. 110 per share** on face value of each share of Rs. 2.



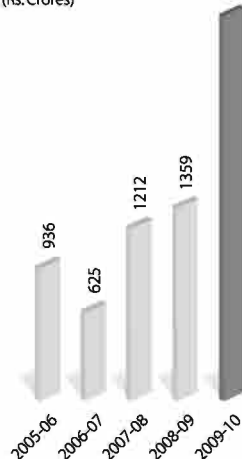
**TWO WHEELS OF GROWTH**

## KEY MILESTONES

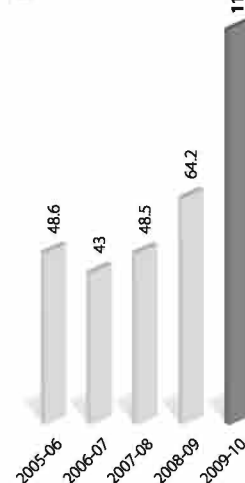
- World No. 1 Two Wheeler Company for the ninth consecutive year
- Sales landmark of 30 million two-wheelers
- Accomplished production of 11 millionth Splendor motorcycle
- 59% share in the domestic motorcycle market
- 48 % share in the domestic two wheeler market
- Network of 4500 plus customer touch points with all main dealerships now converted into 4S (Sales, Service, Spares and Safety) dealerships.
- 'Hero Honda Passport Program' enhanced and upgraded to into a smart card based 'Hero Honda Goodlife', with host of new attractive features, rolled out nationally
- Nine product launches including refreshments and variants



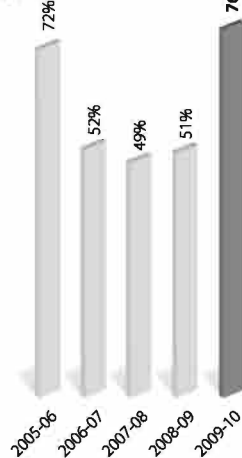
**Net Cash from Operations**  
(Rs. Crores)



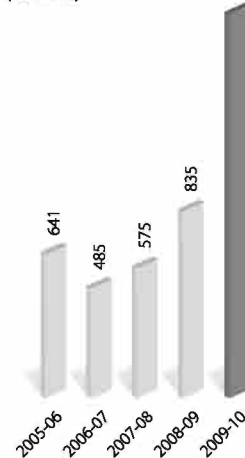
**Earning per share**  
(Rs.)



**Return on Average Capital Employed**  
(%)



**Economic Value Added**  
(Rs. Crores)



# AWARDS

**Brijmohan Lall**  
Chairman

- NDTV Profit Business Leadership Lifetime Achievement Award 2009
- SIAM Golden Jubilee Award for Outstanding contribution in automobile industry
- Lifetime Achievement Award by ACMA
- PHD Lifetime Achievement Award 2009
- IIM, Lucknow Lakshmipat Singhania Leadership Award for 2009



**Pawan Munjal:**  
Managing Director  
& CEO  
NDTV Profit Car India Bike  
India "Man of the Year"  
2009 Award



## TWO WHEELS OF GROWTH



### Awards Received by Senior Management Team

#### **Mr. Ravi Sud** - Sr. Vice President & CFO

- CNBC TV18 "Best CFO of the Year 2009" in Auto and Auto Ancillaries category award to Mr. Ravi Sud
- "Business Today Yes Bank Best CFO Award" for Liquidity Management

#### **Mr. Anil Dua** - Sr. Vice President Sales, Marketing and Customer Care -

- Pitch Exchange for Media -India's Top Marketers award -2009
- The CMO council Best CMO of the year (Automobile Two wheeler category) by the World Brand Congress - CMO council.

#### **Mr. Vijay Sethi** - Vice President - Information Systems and CIO

- India's Best CIOs 2010
- CIO - The Ingenious 100 ~ 2009 Award

### Products & Company Awards

- Economic Times Corporate Excellence Awards 2009 "Company of the Year" Award
- ET Zigwheels Bike Manufacturer of the Year Award 2009
- CNBC TV 18 Overdrive "Hall of Fame" Award to Splendor
- NDTV Profit Car India Bike India 2009 "Bike Manufacturer Award"
- NDTV Profit Car India Bike India 2009 CNB Viewers' Choice Award to Hero Honda Karizma ZMR
- Adjudged among top 10 "Most Admired Marketing Companies" 2009 by Brand Equity, Economic Times
- "Trusted Brand" (Motorcycles) 2009 to Hero Honda by Reader's Digest magazine
- Hero Honda adjudged amongst Top 10 marketers at Pitch India's Top Marketer Awards 2009 awards
- ICAI Award for Excellence in Financial Reporting



# MD&A

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**CAUTIONARY STATEMENT :** Statements in this management discussion and analysis describing the Company's objectives, projections, estimates and expectations may be 'forward looking statements' within the meaning of applicable laws and regulations. Actual results might differ substantially or materially from those expressed or implied. Important developments that could affect the Company's operations include significant changes in political and economic environment in India or key markets abroad, tax laws, litigation, labour relations and interest costs.

TWO WHEELS OF  
GROWTH







India's growth was powered by a robust performance by the manufacturing sector and an improved performance by the infrastructure sector.

# ECONOMIC ENVIRONMENT

As 2009-10 progressed, India nonchalantly brushed aside the side effects of the global economic crisis and veered back towards the path of growth. The global economy, especially the crucial US economy, started showing early signs of recovery towards the end of 2009. However, India's path to recovery started much earlier.

Significantly, India finished the year with a strong kick; the economy notched its fastest growth in the March 2010 quarter at 8.75 percent, taking overall growth to nearly 7.5 percent. Importantly, this growth came against a backdrop of poor monsoons and negative agricultural performance.

India's growth was powered by a robust performance by the manufacturing sector and an improved performance by the infrastructure sector.

The manufacturing sector clocked consistent, double-digit growth from October 2009, with the consumer durables and capital goods sectors leading the way. The government's thrust on infrastructure development had a positive impact and nation-building sectors such as electricity and mining clocked consistent growth.

Some of the growth, of course, could be attributed to the government's fiscal stimulus package -especially excise cuts that were in force. However, as the fiscal ended, it became apparent that the growth momentum could be sustained even after excise duties were re-balanced during the Union Budget in February 2009.

Interest rates remained reasonable during the year, thanks mostly due to an accommodative monetary policy. The flow of resources to the commercial sector distinctly improved from both bank as well as non-bank sources during the second half, after credit growth dropped to a 12-year low in October 2009.

Despite the strong growth momentum, there were some concerns, particularly on the inflation front.



Food inflation in March 2009 was hovering dangerously over 17 percent. What was worse, there were clear signs that by the end of the fiscal, inflation wasn't restricted to food alone. Crude prices were inching up and further increases are expected as the global economy recovers. Manufacturing inflation started building in the last quarter of 2009-10 on the back of higher input costs and higher capacity utilisation. There is no doubt, that Inflation is the single biggest factor threatening growth of the Indian economy and industry in 2010.

The possibility of rising interest rates, thanks to the improved off-take of credit, is the second concern. Higher credit growth could prompt further RBI action on policy rates, in addition to inflation-induced hikes.

On the plus side, borrowings are under control. Along with improvements in revenue collections and windfalls from government auctions, this could provide succor to an inflationary economy.

Going forward, GDP is predicted to grow at between 8 and 9 percent in the new fiscal year, making India's performance one of the best in the world.

## TWO WHEELS OF GROWTH



## TWO WHEELS OF GROWTH

## INDUSTRY AND SEGMENT ANALYSIS



After growing tepidly at 5 percent in 2008-09 the two wheeler industry was back on track in 2009-10. Sales grew by 24 percent and crossed 10 million units for the first time ever. Exports contributed 11 percent to overall sales compared to 12 percent in the previous fiscal.

Motorcycle sales grew by 24 percent and clocked more than 8.4 million units. The strong revival in the scooter market continued during 2009-10 and sales grew by 25 percent from 1.2 million units to 1.5 million. Overall, scooters accounted for 16 percent of the two wheeler market. Interestingly, mopeds, whose share in the two wheeler space has been declining steadily over the years, bucked the trend during the year in review. Mopeds notched the highest growth in amongst the three product categories in two-wheelers, with sales going up by 28 percent, from 4.46 lakh units to 5.71 lakh units. The surprising uptrend in the moped category points to the fact that government schemes at the lower end of the socio-economic pyramid have started having some impact.



Sales grew by 24% this financial year, and crossed 10 million units for the first time ever. Exports contributed 11% to two-wheeler sales in FY 09-10, compared to 12% in the previous fiscal.

# COMPANY PERFORMANCE

During 2008-09 Hero Honda was the only two wheeler Company that emerged strongly and successfully during the economic slowdown in India. During 2009-10, as economic environment in India improved, Hero Honda strengthened and consolidated its hold over the two wheeler market.

Hero Honda, despite having the highest base of 3.72 million units in the two wheeler industry, could manage a remarkable growth of 23.6 percent and ended the year with sales of 4.6 million. The Company continues to lead both in the domestic two wheeler industry and motorcycle segment, with the shares of nearly 48 percent and 59 percent respectively.

## Performance Across Key Segments

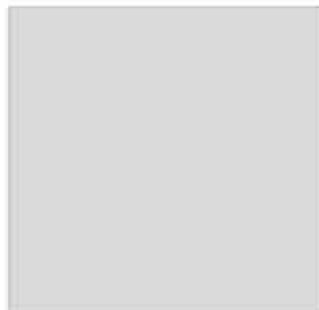
During the year under review, the motorcycle entry segment grew by only 5 percent with volumes of 13.49 lacs. As a result of this modest growth, this segment accounted for just 18 percent of the motorcycle industry compared to 22 percent in the previous year.

Hero Honda consolidated its position further on the back of its strong rural reach. The Company clocked the sales of 6.13 lacs units in the entry segment growing by 20 percent and garnering 45 percent share of the segment.

The motorcycle deluxe segment, which accounted for 66 percent of sales in the domestic motorcycle market, grew by over 29 percent over last year. Hero Honda dominated the segment cornering 71 percent of sales.

The motorcycle premium segment grew at a remarkable pace and contributed 11.23 lacs sales compared to 7.75 lacs last year. This segment now makes up 15 percent of the domestic motorcycle market, up from 13 percent in the previous year.

Hero Honda's performance in the premium segment was mixed. Although sales grew at a healthy 29 percent, the Company's share came down from 24 percent to 21 percent.



The Company continues to lead both in the domestic two wheeler industry and motorcycle segment, with the shares of nearly 48 % and 59 % respectively.

In the scooter segment, Hero Honda's Pleasure has been very well accepted. Sales were pegged at 2.08 lacs units, a growth of 36 percent over last year. This resulted in a 13.9percent market share.

In the Hero Honda family, Splendor continued to be the largest-selling two wheeler brand with sales of close to 2 million, followed by Passion with sales of over 1.2 million , and CD Deluxe with sales of 5.7 lac units. These three products accounted for a large chunk of Hero Honda's overall sales.

### Exports Performance

During the year in review, Hero Honda exported close to 100,000 two wheelers, a growth of 20 percent compared to the previous year. The Company also grew its international spare parts business by around 23 percent.

The strong performance came on the back of successful new model launches in Sri Lanka and Bangladesh and Columbia.

To create a larger impact of its products overseas, Hero Honda introduced a 20 day sales cum technical training module for all overseas training managers at the Hero Honda National Learning Centre in Gurgaon. The overseas training managers, in turn, are expected to replicate their learnings in their country-specific locations. Training Centres for this have also been established in all export markets.

Service networks were also strengthened in specific countries. In Bangladesh, for instance, automated workshops are now in place.

Performance and durability of the Company's products have created brand equity in international markets. Testimony to the ruggedness of certain models, even the Sri Lankan Army recently decided to place faith the Company's products.



**TWO WHEELS OF  
GROWTH**

# FINANCIAL PERFORMANCE

## Sales

The annual sales of the Company grew at 23.59 percent. Hero Honda clocked sales volume of 4,600,130 units in 2009-10 compared to 3,722,000 units in 2008-09. In value terms total sales (net of excise duty) increased by 27.9 percent to Rs.15,758 crores from Rs.12,319 crores in 2008-09.

## Profitability

The Company's earnings before interest depreciation and taxes (EBITDA) margins increased from 14.13 percent in 2008-09 to 17.45 percent in 2009-10 and the Operating profit (PBT before other income) increased by 64.16 percent from Rs.1,568.86 crores in 2008-09 to Rs. 2,575.48 crores in 2009-10. The margin improvements came from better sales realisations, cost rationalisation and optimisation measures. These included better control over material cost, marketing cost and overheads, besides a sharp focus on operational efficiencies.

## Other Income, including non-operating income

Other income increased by 38.4 percent from Rs. 246 crores in 2008-09 to Rs. 341 crores in 2009-10.

## Cash Flows

Growth in sales turnover, better efficiencies in the working capital management improved the cash flow from Operations from Rs 1,359.03 crores to Rs. 2,686.64 crores. Cash flows before working changes have also improved from Rs. 1,762.16 crores to Rs. 2,777.10 crores on account of better EBITDA margins.

The Company spent Rs. 527.63 crores in investing activities. Investments in production capacities lead to an outflow of Rs. 212.57 crores. The balance was deployed in financial assets. Financing activities accounted for an outflow of Rs. 2,109.31 crores attributable to dividend outflows.

## Capital Expenditure

During the year the Company incurred a capital expenditure of Rs.211.57 crores. The funds went into expansion of operations.

## Raw Material Costs

Softening metal prices particularly aluminum and nickel in second half of the year combined with better sales realisation to bring down the share of material costs considerably. Raw material costs as a proportion of total cost came down from 71.0 percent to 68.10 percent.

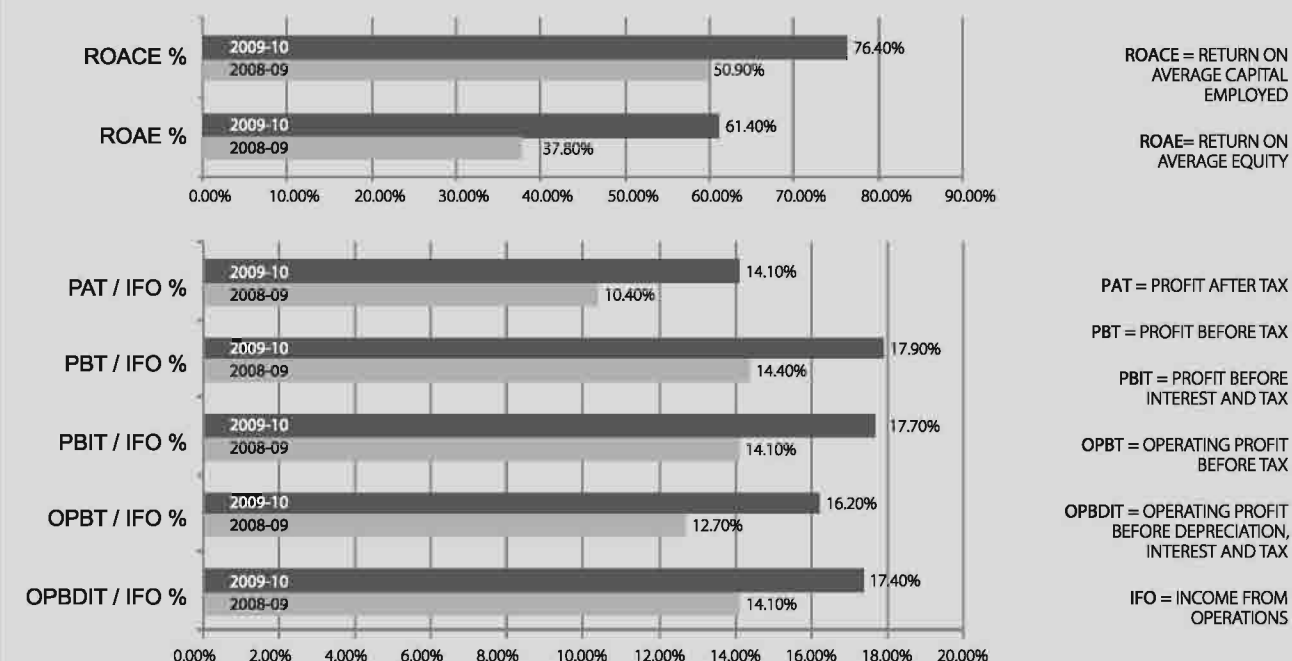
## Current Asset Turnover

This ratio, which shows sales as a proportion of average current assets, increased from 14.2 to 17.2 times, on account of lower relative average inventory and bank balance (excluding dividend bank account).

## Debt Structure

Hero Honda has been a debt free Company for the last 9 years. The unsecured loan of Rs. 66.03 crore from the state government of Haryana on account of sales tax deferment is interest free and has no holding costs. Net interest payment by the Company has been negative during the last few years.

## Key Indicators Of Profitability



### Dividend Policy

Over the years, the Company has consistently followed a policy of paying high dividends, keeping in mind the cash-generating capacities, the expected capital needs of the business and strategic considerations. For 2009-10, the board has recommended a dividend of 1,500 percent higher than 1,000 percent declared in previous year and has maintained a payout ratio of 31.3 percent vis-a-vis 36.5 percent in the previous year. Further, board has also declared 4,000 percent interim dividend on the occasion of 25th year.

### Working Capital management

Hero Honda has always sought to efficiently use the various components of working capital cycle. The Company has been able to effectively control the receivable and inventories enabling it to continue to operate on negative working capital.

**Table 1: Key Indicators Of Profitability**

|                  | 2009-10 | 2008-09 |
|------------------|---------|---------|
| Inventory Period | 10.6    | 11.0    |
| Operating Cycle  | 13.3    | 16.9    |
| Cash Cycle       | -17.0   | -13.1   |
| Current Ratio    | 0.45    | 0.51    |
| Acid Test Ratio  | 0.26    | 0.30    |

### Notes On Working Capital

*The average of inventory, receivables and payables has been taken for calculations of inventory period, operating and cash cycle.*

## RISKS AND OUTLOOK

**Global uncertainty:** While India's growth path remains clear and secure, there could some ripples on liquidity in India. The debt-related troubles within the Eurozone could slow down the pace of global economic recovery.

**Commodity prices:** Even though the surge in commodity prices has lessened in recent months, the medium to long-term trend remains volatile.

**Monsoons:** Even though the country as a whole may receive normal rainfall, wide variances between regions could impact agricultural production during the kharif season.

**Inflation:** Inflation is spreading to non-food categories such as manufacturing and fuels. A rising rupee and strong overseas capital flows could also add to the environment of volatility.

**Interest rates:** Credit growth started picking up towards the end of 2009-10 after dropping to a 12-year low in October 2009. Demand-driven growth could push credit growth to 20 percent and beyond. This could push up interest rates.

**Increasing competition:** Increasing competition across all key segments, including the bread and butter deluxe segment will put some pressure on market share.

**Capacity constraints:** In a growth market, capacity constraints are always a concern and the Company will continue to explore various opportunities of capacity enhancement.

**Labour unrest:** The Dharuhera-Gurgaon industrial belt remains restive and prone to external influences. IR disruptions, especially during peak season, are a source of concern.

### Outlook

The Indian economy is back strongly on track and is expected to grow in the range of 8-8.5 percent, perhaps even higher. The prospects of normal monsoons auger well for the agricultural sector and will soften prices. At another level, the imminent introduction of GST and the Direct Tax Code are seen as epochal policy reforms. GST is aimed at reducing the impact of cascading taxes, lowering transaction costs and propelling economic performance. The actual impact, however, will be seen once the final policy is rolled out.

In a nutshell, the business environment is expected to be growth-oriented, but volatile as well. Of course, it is possible that lower borrowings could lead to a lowering of fiscal deficit and hence reduce volatility.

A revival in agricultural performance could positively impact Hero Honda because of its rural-centric focus. The Company's reliance on cash-down sales could act as a buffer, in case interest rates go up and sales are impacted at the higher end of the two wheeler spectrum.

The Company is likely to maintain a steady top line performance while maintaining the bottom-line margins on the back of various cost optimisation measures.



## TWO WHEELS OF GROWTH

# MANUFACTURING

Hero Honda's manufacturing capacity remained under pressure for the entire year for several reasons. Most importantly, better than expected performance of the Indian economy pushed up the demand for two wheelers. In addition, the introduction of several new features and variants during the year and a surge in demand for the Company's scooter Pleasure also caused the manufacturing capacities to be tested.

The variability of the product mix, the production upgrades and the unexpected surge in demand provided the Company an opportunity to optimise capacities, space and manpower across each of the three plants. Flexible production techniques implemented across the plants helped reduce changeover time. In turn this helped the Company increase its overall efficiency level.

In line with Hero Honda's core philosophy of ensuring customer delight, care was taken to ensure the highest quality standards despite of increase in production.

Despite the pressure on the assembly line, rejection cost per vehicle has been on a reducing trend in recent years, thanks to a slew of cost control and process improvement projects. These measures, in turn, helped Hero Honda bring down overall variable manufacturing costs per vehicle during the year.

The highlight of the year was a doubling of Hero Honda's capacities at its Haridwar plant. In fact, the ramp up from 2008-09 levels was one of the fastest ever recorded in India's two wheeler history.

At the end of the year in review, the Company had a total installed capacity of 5.2 million units.

A capacity of this magnitude and robust domestic demand growth in excess of 20 percent helped Hero Honda retain its position as the world's largest two-wheeler manufacturer for yet another year, for the ninth time in a row.



## Vendor Network

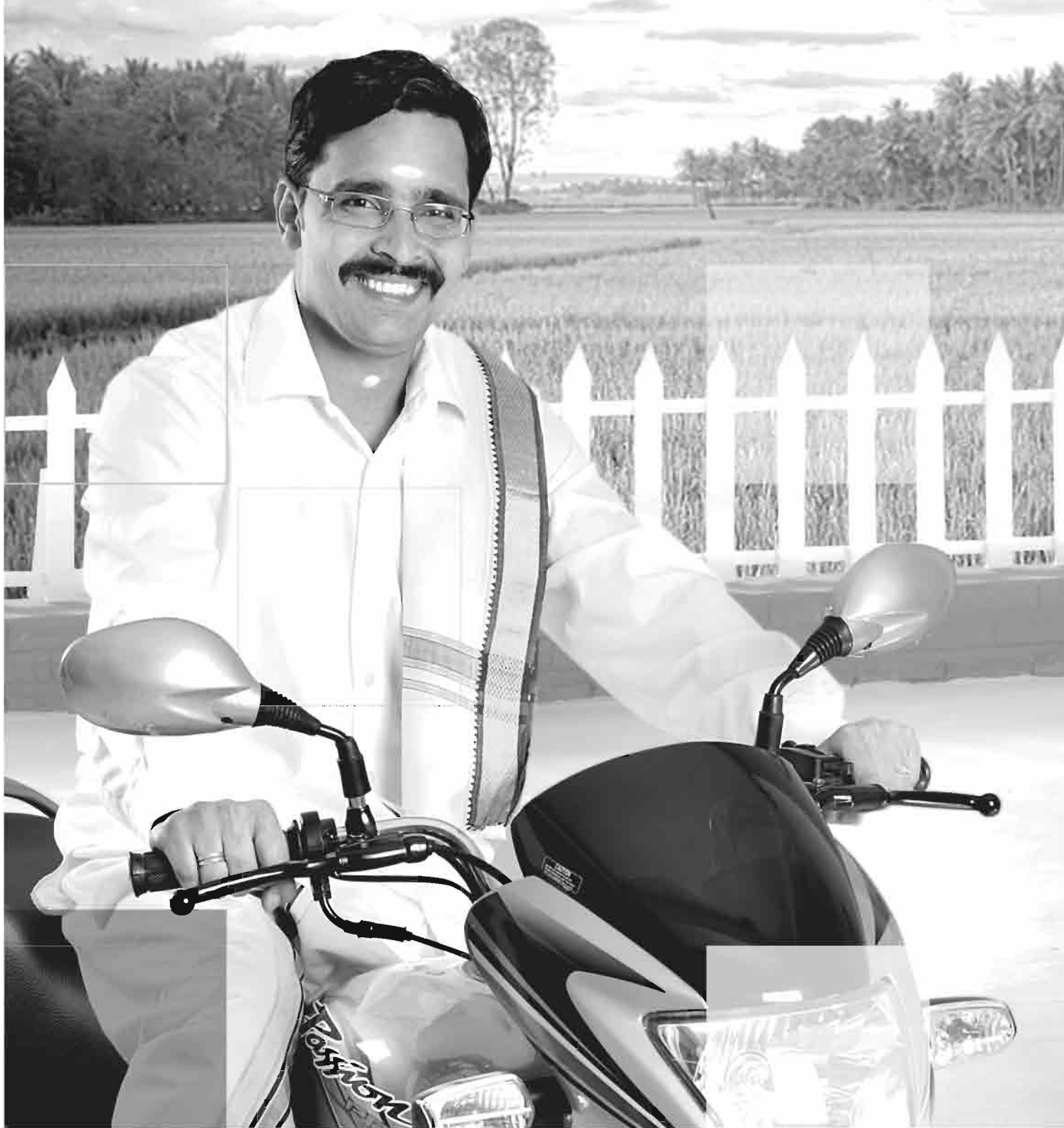
The online vendor connectivity program has made rapid progress. Four years ago, the Company had only 46 vendors connected online to the Company's factories. At the end of 2009-10, all component suppliers were connected online with the factories through business portal.

Hero Honda is also in the process of rationalising its domestic vendor network, as part of a larger strategy of making its supply chain more robust and efficient. Securing supplies from Asian automotive suppliers and making better use of India's free trade agreements are now an integral part of Hero Honda's sourcing plan.

## Dispatch

To streamline its supply chain, especially at the front end, Hero Honda introduced a finished goods dispatch automation (FNGD) system. This system has enabled real-time inventory management with the use of barcodes to identify and track motorcycles and scooters. This level of minute tracking is expected to facilitate cost effective and scientific dispatch and encourage lean production.

The highlight of the year was a doubling of Hero Honda's capacities at its Haridwar plant. In fact, the ramp up from 2008-09 levels was one of the fastest ever recorded in India's two wheeler history.



At the moment, there is a network of more than 2000 rural sales channel partners working on the rural vertical through the Har Gaon Har Aangan and its extensions like Service Har Jagah program.

# RURAL MARKETING

During the year, Hero Honda's ambitious rural connect program Har Gaon, Har Aangan program rolled out across most states of the country.

It was also a year in which Hero Honda cascaded its unique rural connect program Service Har Jagan. After successfully testing this grassroots rural connect program in some states, Hero Honda went national in October 2009.

At the moment, there is a network of more than 2,000 rural sales channel partners working on the rural vertical through the Har Gaon Har Aangan and its extensions such as Service Har Jagah program.

There is a plan to substantially boost this number in the coming years by spreading to villages that have a population of even less than 5,000.

Apart from meeting opinion leaders, the rural sales executives are also tasked with organising free check-up bike camps, loan melas, test ride camps, conducting Ride Safe Programs to educate customers on "Safety" and "Maintenance" and conducting other awareness camps on various value added features such as Genuine Spare Parts, Good Life Program, Hero Honda Advantage and other services offered by the Company.

The idea is not just to increase awareness about the two wheeler industry but also to increase buy-in for Hero Honda products.

To improve its rural presence, Hero Honda is relying heavily on information technology and during the year, the Company made specific efforts to capture



details of sales in the rural market. It gave the marketing team a much better idea of the customer mix and demand forecast and simultaneously, enhanced coordination between the channel partners and Hero Honda.

The Company has placed brand displays in various DCM Hariyali Kisaan Bazaar Centres, spanning across many states namely Uttar Pradesh, Uttaranchal, Madhya Pradesh, Haryana and Punjab. These premises were also used for conducting free check up camps and education camps on Safety Riding skills. Such camps were also held in association with Monsanto, Godrej Aadhar, IFFCO and various other fertilizer and seed companies in many parts of the country.

## TWO WHEELS OF GROWTH

# CUSTOMER RELATIONSHIP

## GoodLife Program

The customer has always been at the heart of Hero Honda's success.

Eight years ago, Hero Honda pioneered one of India's largest customer loyalty programs, the Passport Program. Over the years customers and channel partners have shown immense faith in the program which has gone from strength to strength. Currently, more than five million plus customers are enrolled in the program.

During the year in review, Hero Honda sought to upgrade this unique program and turn into a world class and contemporary CRM property the Hero Honda Good Life.

The new real-time program is magnetic card-based and customers can connect to the program from anywhere in India. It offers incremental points to members on workshop and showroom spends. It provides additional avenues to earn bonus points and make easy redemptions. It also has special member privileges and will incorporate many value offers from associate partners in the months to come.

For channel partners, end-to-end processes have been provided. There is an exclusive interactive website in which the channel partners and members are given individual id's. The website provides all the information and analytics for reviewing the performance of the program from time to time. With all authorised outlets now fully upgraded and operational on the Good Life interface software, the membership is expected to grow at a much faster pace.

## Front end Experience

Hero Honda's visual identity program aims to give a consistent, contemporary and youthful brand experience to its customers across all its touch points.

While, the new visual identity concept has been designed keeping in view the evolving customer needs and changing retail landscape, it symbolises the Company's brand values, technology leadership and customer centric focus. The new age design offers modularity to cater to different space requirements.

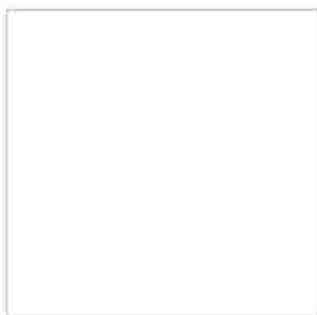
The new visual identity programme not only gives a fresh new look to customer touch points, it also enhances and enriches their overall experience with Hero Honda.

## Learning and Innovation

To enhance the customer experience at all touch points Hero Honda has intensified focus on sensitising its customer facing teams.

Customised training programs for dealers and their staff are being developed and deployed. The results have started paying off.

Over 20 new and customised programs were developed and shared with the dealers and their staff during the year.



## TWO WHEELS OF GROWTH



Over the years customers & channel partners have shown immense faith in the Company's Customer Relationship program which has gone from strength to strength.



Besides promoting sports and sportspersons at the highest level, the Company has also been committed to the promotion of various sports at the grass root level.

# CONNECTING THROUGH SPORTS

Hero Honda has been actively promoting various disciplines of sports such as hockey, cricket and golf. In addition to promoting sports and sportspersons at the highest level, the Company has also been committed to the promotion of sports at the grass root level.

During the year, Hero Honda was the title sponsor of the Hero Honda FIH Hockey World Cup being played in Delhi in the months of February and March 2010.

The Company is also the Presenting Partner of the Queen's Baton Relay and a partner of the Commonwealth Games Delhi 2010.

Hero Honda, which has more than two decades of association with cricket, is one of the Partners of the path-breaking DLF Indian Premier League (IPL) Twenty20. Additionally, the Company is also the Team Sponsor of Delhi Daredevils.

The Company had been one of the Main Global Partners of the International Cricket Council (ICC) for flagship ODI championships including the World Cup cricket and the Champions Trophy and more recently the T20 World Cup in England.

Iconic cricketers such as Virender Sehwag, Suresh Raina, Irfan Pathan, Gautam Gambhir, Ishant Sharma and Manoj Tiwary are brand ambassadors of the Company.



The Company is also committed to the promotion of golf in the country, hosting the annual Hero Honda Indian Open Golf tournament with participation from international marquee players.

Hero Honda also traditionally supports new talent. As part of this philosophy, the Company recently signed up three promising young Indian golfers Anirban Lahiri, Gaganjeet Bhullar and Shiv Kapur as brand ambassadors.

Ace shooter and Athens Olympic silver medalist Col. Rajyavardhan Singh Rathore is also one of the brand ambassadors of the Company.



**TWO WHEELS OF  
GROWTH**

## INFORMATION SYSTEMS

To fulfill the external and internal needs, Hero Honda constantly focuses on all aspects of people, process and technology by giving thrust on training and awareness, building more efficient support processes and deploying and ensuring usage of the latest technology.



Connecting people, products and processes, seamlessly with speed, IT at Hero Honda works very closely with business to ensure organisation remains prepared for the future.

During the year, the Company took up a number of IT initiatives in order to increase the agility in the organisation, some of which are as follows:

The organisation upgraded its primary transaction system SAP R/3 to the latest version Business Suite 7 that helped in improving operational efficiency.

To assist the organisation take faster decisions and plan better, the organisation enhanced its business intelligence (BI) capabilities. One major feature that got deployed was rural footprint and retail capturing software to capture details of sales at dealer end which would help the organisation better understand the customer mix.

A product lifecycle management solution was deployed during the year to manage complexity arising out of the rapid growth in the product portfolio. This was also one of the fastest PLM implementation in the country.

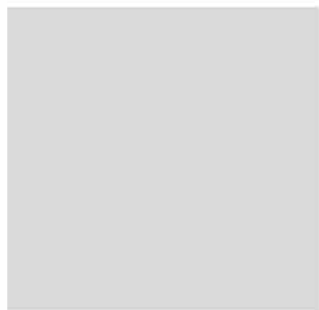
The Company also progressed significantly in the development of dealer management system (DMS) and successfully conducted pilots for the system.

TWO WHEELS OF  
GROWTH



During the year, considerable emphasis was placed on risk mitigation and information security processes based on ISO 27001 controls. In addition, a number of steps were taken to promote Green IT.

Hero Honda's consistent efforts at becoming a technology-enabled organisation won it several accolades during the year in review, including CIO Green Edge Award, Top 10 Green IT Enterprise Award, CIO 100 Award and The India's Best CIOs 2010 Award.





One of the new programs introduced for the plant employees  
lays an emphasis on inculcating a spiritual mindset and  
reinforcing Indian values.

# HUMAN RELATIONS

During the year in review, selective education and talent development courses and e-learning modules were introduced in line with the organisational needs to support the Company's mandate of being a world class manufacturer.

"On-the-job" learning program through implementation, review and "Gemba-consulting" was highly effective in creating continuous shop floor improvements. The program is being conducted under the guidance of an international TPM Sensei.

The entry-level induction for workers has been strengthened with the help of numerous technical training modules in each of the three plants. A new program was introduced for plant employees with an emphasis on inculcating a spiritual mindset and reinforcing Indian values.

Training programs for junior and mid-level management emphasised on function-wise proficiency modules. Some of them were specifically targeted on leadership, strategic thinking, people development, interface management and positive attitude across levels and locations.

For the leadership team, the emphasis was on 'emotional intelligence.' The merits and benefits of 'Predictive Index', a key recruitment tool, was outlined to members of the senior team through a 'hands-on' training program.

During the year in review, the leadership team also experienced a spiritual journey through a tailored program: 'Leadership through Indian Identity'.

Employee relations at Hero Honda continued to be cordial even amidst turbulence in the entire Gurgaon industrial belt. During the year in review, the union election at the Gurgaon plant was conducted harmoniously.

## TWO WHEELS OF GROWTH

## ENVIRONMENT MANAGEMENT

Hero Honda has always remained committed to clean environment, though its environment friendly products and use of clean manufacturing processes. The green aspect of the business has been kept active with its energy managers continuously focusing on identifying new green initiatives.

During the year, Hero Honda enabled some of its key energy management processes. The Company has introduced an Energy Management System (EMS) which captures data from the machines for monitoring energy consumption and the data links to SAP. The system helps in strategising to adapt to new-age energy norms and improves speed and accuracy of processes.

The Company has also deployed a modern and efficient way of managing hazardous and non hazardous solid waste with the introduction of incinerators at all the three plants. These incinerators each have a waste-disposal capacity of 250 kg/ hour and play a key role in preventing toxic emissions and controlling land pollution.

A well planned and secured land fill site at the Gurgaon plant ensures safe disposal of hazardous waste.

Organic waste convertors at each plant converts organic waste from kitchen, green leaves and grass cuttings into useful compost which is used for horticulture.

The paint shops have a new hanger cleaning system with fluidised technology. This prevents uncontrolled combustion of hangers, which in turn leads to air pollution. In addition, Hero Honda's unique initiative of recycling primer from the waste paint sludge is recognised by TERI corporate award for environmental excellence.

The Company has switched from a solvent painting system to a corrosion-resistant, water-based painting system. This prevents the generation of volatile organic compounds in the process which considerably reduces wastage of paints. Moreover, this technology is safe and fire resistant.

Waste heat recovery units are installed to recover heat from exhaust of DG sets. The recovered heat is used for heating water in the generator system.

Effluent treatment plants across all the locations use sophisticated technology that treats the waste water, recycles the treated effluent and finally reuses the water.

These plants have lead to a drastic reduction in the water consumption for the manufacturing purpose over the years, from 1.07 kilolitre per vehicle in 2000-01 to just 280 grams per vehicle in 2008-09.

Over the years Hero Honda has been actively involved in rainwater harvesting projects to protect, preserve and enhance the environment. Access to water is one of the most challenging issues facing the world today and the Company is doing its bit to mitigate the crisis in Haryana, which is one of the driest states of India.

Through a multi-layered ground water recharge program at the factories, Hero Honda has met with considerable success. For example, at the Dharuhera plant, the ground water has been recharged by more 25,000 cubic metres, despite the fact that Dharuhera receives an average rainfall of just 726mm per year. Similar recharge projects have been executed at the other plants as well.

The Hero Honda Haridwar plant has a 'green roof' covering an area of approx. 45,000s. The Green Roof conserves energy by moderating the roof temperature and the temperature in the surrounding areas. It has also led to a dramatic reduction in the storm water runoff. Equally important, the green roof has provided an additional buffer for the conventional roofing system, by doubling the service life of the underlying waterproofing membrane.

TWO WHEELS OF  
GROWTH



The green aspect of the business has been kept active with its energy managers continuously focusing on identifying new green initiatives.



Hero Honda is now taking its outreach and capacity building program to newer pastures. At Haridwar, for example, Hero Honda has adopted an Industrial Training Institute at Barkot.

## OUTREACH PROGRAM

Hero Honda Motors takes considerable pride in its community relationships, especially ones at the grassroots that have evolved over time. The Company has played a pivotal role in bringing an economically and socially backward region in Dharuhera, Haryana, into the national economic mainstream through direct interventions in education, healthcare, vocational training, creation of social and physical infrastructure and environment management. Many of these programs are the brainchild of the Raman Kant Munjal Foundation, a trust set up in memory of Hero Honda's first managing director.

Hero Honda is now taking its outreach and capacity building program to newer pastures. At Haridwar, for example, Hero Honda has adopted an Industrial Training Institute at Barkot.

In addition to the existing curriculum, the Company is introducing courses for fitters, for motor mechanics and for electricians. To begin with, there will be seven training shifts. ITI teachers will be brought to the Hero Honda Haridwar plant for training on HHH induction training modules, so that the imparted skills are contemporary and relevant. The students opting for these courses will also be provided apprenticeship training at the Haridwar plant.

The six-acre learning centre is being renovated, including the classrooms. Horticulture projects are under implementation to beautify the campus. The Company also plans to establish a library; commence smart classes and upgrade its computer laboratory. Meanwhile, ongoing outreach and capacity building initiatives continue to be supported in the Gurgaon Haryana belt. During the year, the Company organised a number of workshops on fruits and vegetable preservation, detergent-making and tie and dye-making. Workshops for motor mechanics were also held in collaboration with the Indira Gandhi National Open University.

There were also a number of projects on literacy and health education implemented, which were organised in collaboration with government and local agencies.



Around 900 villagers, including children benefitted directly from these programs. Furthermore, during the year, various physical infrastructures, water and environment projects were implemented in the Dharuhera belt, benefitting several villages.

A number of tree planting initiatives were also carried out in government schools located in surrounding villages, along with maintenance activities such as repairing roofs and boundary walls.

Healthcare outreach is also an important cog in Hero Honda's social matrix and during the year, the Company organised several cancer detection camps, cataract surgery camps, heart check up camps, mental health checkup camps and camps for physically challenged.



## TWO WHEELS OF GROWTH

### OUTREACH PROGRAM (contd.)

In addition to these programs, a number of ongoing projects were executed by the Raman Kant Munjal Foundation as part of its long term social mandate in the region.

Over the last decade, the Foundation had established a vocational training centre to impart training on Tailoring, Embroidery and Carpet Weaving to local women. The Centre was recently upgraded and expanded to allow the training of upto 50 girls per batch. Till date, nearly 1000 girls have completed their courses at the centre. While most of the trainees have been placed in the garment industry, a number of girls are also self-employed in their respective villages and neighboring towns. On an average, they have enhanced their income earning capacity by earning Rs. 3000-10,000 per month.

In 2007, the Foundation set up a computer training and learning centre in collaboration with Microsoft and Udyan Care, a Delhi based N.G.O. to make rural youth computer

literate and to get into the BPO industry. Till date, a total of 458 trainees have been trained and awarded Microsoft's diploma certificates.

"HAMARI ASHA - A Group of Rural Friends", a new initiative by RKMf, was introduced during the year in review. As part of a pilot project, a group of 35 rural women are being trained in financial empowerment with the objective of providing them the ability to sustain a livelihood with local resources. The group is also being sensitised towards social development issues such as dowry, female foeticide, girl child education and mother and child health care.

During the year, the women were trained to work on Diwali dia designing, decoration, packaging and marketing work for a month in the village of Gujjar Ghatal. RKMf plans to cascade this project across different villages in the coming months and years.



## TWO WHEELS OF GROWTH

The Foundation also runs Asha, an educational programme for village children who are first generation learners and attend to Government Schools. The objective is to provide these children with additional support to improve their educational standard and to achieve their overall development.

The Asha program started five years ago and currently, 11 centres are being managed across 8 villages and more than 385 children have enrolled.

To ensure that there is overall personality development of ASHA children, the Foundation organises recreational activities and soft skills training. Regular get together are also organised with Raman Munjal Vidya Mandir children from time to time.

The Foundation also runs an Adult Literacy program, a marriage facilitation service for underprivileged girls, besides doorstep healthcare programs and with medical camps for the local population.

In every CSR project undertaken, the Foundation takes care to involve either a local NGO or the local panchayat members themselves to ensure good execution and future sustainability of a given project. In Projects such as Hygiene, Sanitation, Safe Drinking Water, Local Government Representatives such as Block Development Officers are also involved for Government funding and Technical knowhow of the projects.



# CORPORATE INFORMATION

## Statutory Auditors

A.F. Ferguson & Co.,  
Chartered Accountants  
9, Scindia House,  
Kasturba Gandhi Marg,  
New Delhi 110001 India  
Tel: 011- 2331 5884/2371 3899  
Fax: 011- 2331 4561  
Email: affdelhi@vsnl.com

## Principal Bankers

The Royal Bank of Scotland NV.  
Bank of America NT & SA  
Canara Bank  
Citibank N.A.,  
HDFC Bank Limited  
HSBC Limited  
ICICI Bank Limited  
Punjab National Bank  
Standard Chartered Bank  
The Bank of Tokyo-Mitsubishi  
UFJ Ltd.

## Cost Auditors

Ramanath Iyer & Co.,  
Cost Accountants  
BL-4, (Paschimi), Shalimar Bagh,  
Delhi 110008 India  
Tel: 011- 2748 1904, 4702 8048  
Fax: 011- 2748 1904  
Email: arrricon@gmail.com,  
arricon@rediffmail.com

## Technical & Financial Collaborators

Honda Motor Co., Limited  
1-1, 2, Chome, Minami Aoyama,  
Minato-ku, Tokyo,  
107-8556, Japan  
www.world.honda.com

## Registered & Corporate Office

34, Community Centre,  
Basant Lok, Vasant Vihar,  
New Delhi 110 057 India  
Tel: 011- 4604 4100, 2614 2451  
Fax: 011- 2614 3321, 2614 3198  
www.herohonda.com

## Registrar & Share Transfer Agents

Karvy Computershare Pvt.Ltd.  
Plot No. 17-24, Vittal Rao Nagar,  
Madhapur, Hyderabad-500 081,  
Tel No : 040-2342 0815-28,  
Fax : 040-2342 0814/2342 0859  
E-mail: einward.ris@karvy.com  
www.karvycomputershare.com

## PLANT LOCATIONS

### Dharuhera Plant

69 K.M. Stone,  
Delhi-Jaipur Highway,  
Dharuhera, Distt. Rewari 122 100,  
Haryana, India  
Tel: 01274 264 000  
Fax: 01274 267 018

### Gurgaon Plant

37 K.M. Stone Delhi-Jaipur Highway,  
Sector 33, Gurgaon 122 001  
Haryana, India  
Tel: 0124 2894200/2372123  
Fax: 0124 237314142

### Haridwar Plant

Plot No. 3, Sector 10,  
I.I.E, SIDCUL, Roshanabad,  
Haridwar 249 403 Uttrakhand  
Tel: 01334 238500/239514-16  
Fax: 01334 239512-13

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