

**THE CHAIRMAN'S ADDRESS TO SHAREHOLDERS OF INDIAN RAYON
AT VERAVAL ON FRIDAY, 24TH JUNE 2005**

Dear Shareholders,

It is indeed a pleasure to welcome you to the 48th Annual General Meeting of your company.

During the year both business optimism and consumer confidence rose with the growth in industrial sector. However, high input cost, surging oil prices and the drooping US dollar exerted pressure on exports, which impacted your company's traditional businesses.

Despite these constraints, your company has posted a satisfactory performance. Very briefly, let me dwell on your company's performance during 2004-2005.

- Net revenues at Rs. 1,860.6 crore have grown by 18 per cent
- Operating profit (before royalty) is flat at Rs. 264.0 crore vis-à-vis Rs. 263.3 crore in the previous year.
- Profit before tax and exceptional items has risen by 2.0 per cent at Rs. 164.7 crore.
- Due to the exceptional losses of Rs. 7.7 crore against the exceptional gain of Rs. 20 crore in the previous year, the net profit has fallen by 13.4 per cent from Rs. 131.3 crore to Rs. 113.7 crore.

The Dividend

Moving over to the dividend, your Directors recommend maintaining the dividend at 40 percent. The payout on this account for the year 2004-2005 will be Rs. 27.31 crore, inclusive of the corporate dividend tax of Rs. 3.36 crore.

Divisional brief and outlook

Let me now focus on our business sectors and share our plans for taking these ahead, despite the challenges.

Garments

The division has maintained its leadership position, registering a robust profitable growth. Despite tremendous competition from global and regional brands, the division was able to grow its revenues by 21 per cent driven by strategic initiatives. Your company has worked proactively to add significant retail space during the year to provide international quality shopping experience.

The long-term outlook for this business is encouraging with a marked preference for readymade garments and industry efforts to grow the market. The branded apparel

segment is slated to grow at a fast pace aided by retail mall expansion. To augment its profitability, the division will continue firstly to leverage its brand quality and providing innovative differentiated merchandise, secondly converting wardrobe brands to lifestyle brands and thirdly encashing opportunities for garnering retail space in high streets and top malls.

Viscose Filament Yarn (VFY)

The division has shown tremendous resilience in the face of adverse conditions. Pricing pressure emanating from industry inventory build-up, and dumping of cheap yarn from China have been the major deterrents. Regardless backed by the buoyant chlor-alkali market, VFY remains the key contributor to your company's profitability.

I am pleased to inform you that revised productivity norms pursuant to long-term settlement with workers will bring in productivity improvements. I would like to thank the workers' representative present here who have made this possible. The 1000 TPA CSY plant has been successfully commissioned and is operating at its full capacity. We are setting up a 20 MW captive power plant to become self sufficient in power and an 85 TPD caustic soda plant to maximize the asset utilisation. Additionally, to scale up the share of first quality yarns, the Division has also entered into an agreement for technical improvements. These quality-oriented measures will help in maintaining its profitability.

While the short-term outlook for this business is challenging, I foresee a moderate growth in this sector.

Carbon Black

The upswing in the auto and tyre sectors in the country has been admirably capitalized through higher volumes, flowing out of capacity expansions. Your company's plant capacity stands raised currently to 1,70,000 TPA – of which 10,000 tons were added through de-bottlenecking during this fiscal. However, margins have been affected due to change in market mix and the removal of 5 per cent duty differential between carbon black and the carbon black feedstock.

I believe the outlook for this business is indeed positive as growth in the auto and tyre industry is ratcheting up spurred by the robust economy growth. The division's endeavor to proactively manage volatile CBFS prices and focus on R&D to produce value-added grades will continue as we find that it is the biggest value driver.

We have initiated work on setting up 50,000 TPA brown-field expansion at Goomidipoondi to achieve benefits of scale, this will improve operational efficiencies and lead to a more competitive cost structure.

Textiles

The textile division's profitability has leapfrogged; each segment has recorded an impressive performance with linen fabric and flax yarn leading from the front. Higher productivity and improved operational efficiency, and the rising share of value added and specialty yarns has enabled post a better performance.

The 4,000 TPA wool combing facility, became operational during the quarter, we will double its capacity and bolster profitability. To improve the division's performance, maximum attention will be devoted to the promotion of niche fabrics such as linen and value-added worsted yarns – both of which have an enormous market potential.

Insulators

To raise the quality levels of its insulators to global standards, your company is leveraging its partnership with NGK. The JV has taken various initiatives to improve production processes and yield, which has impacted its bottom line. Its benefit will be seen in due course. With the completion of the 8000 TPA expansion at Halol in Gujarat, volumes will go up considerably as stabilization happens.

Insurance

Your company's insurance joint venture "Birla Sun Life Insurance Company Limited" continues its distinction of being the second largest life insurance player amongst the private sector insurance companies. A front-runner in unit-linked products and alternate channels, your company has highest average per policy premium. Your company has invested Rs. 44.4 crore during the year towards its share of capital.

Given the low penetration level of insurance business, there is a huge growth opportunity in this sector. We are expanding our reach by opening more branches in Tier B and C cities while recruiting productive advisors. The profitability stream is expected to flow inline with the plan.

Software

Your company's software subsidiary "PSI Data Systems Limited" has curtailed its losses and has turned EBITDA positive during the fiscal 2005. Its focus on select segments by de-emphasizing non-strategic lines of business and cost control initiatives should help the business grow in revenues and earnings. Focus area continues to be Banking, Financial services and Insurance (BFIS) verticals, Independent Software Vendor (ISV) segment, strengthening relationship with strategic clients and increasing share of high margin offshore business.

BPO

I am very pleased inform you that for the BPO business, this was a good year. The business has come into black and has posted a positive net profit for the year. Its globally benchmarked execution excellence has won new clients, several belonging to the Fortune 500 league. The company has also added 850 seats and 1,389 employees during the year and has improved capacity utilization. Given TransWorks value proposition of total commitment to its clients businesses, its share in the industry will grow manifold and it will be a contributor to your company's bottom-line.

In sum, I believe the future of your company is bright.

A Caring Corporate Citizen

Last but not the least, I would like to very briefly speak about the role that your company has been playing as a committed, responsible and caring corporate citizen.

Environmental Management

Your company is totally committed to sustainable development and has a well-drawn out environmental management strategy in place. It is an integral part of our philosophy. Hence, environment considerations are always featured in your company's decision-making process. All of your company's plants are ISO 14001 EMS certified. Many accolades have been conferred on your company for its contribution to environment conservation, and these are detailed in the Annual Report.

Likewise, we have always looked beyond the traditional spheres of influence and addressed the larger issues facing people in proximity to our plants and beyond.

Social Projects

Your company's social projects are carried out under the aegis of the Aditya Birla Centre for Community Initiatives and Rural Development, spearheaded by Mrs. Rajashree Birla. Your company's focus areas are healthcare, inclusive of mother and child care, education, self reliance through the engine of sustainable livelihood, also encompassing agriculture and water shed development activities and women empowerment processes, besides others.

Your company's social projects span 84 villages and make a difference to the lives of 1,16,456 people most of whom live below the poverty line.

The Annual Report details these activities.

Conclusion

Having provided you with a snapshot of your company, in all of its key dimensions, may I now commend the first resolution relating to the adoption of the accounts and Director's report for your consideration and approval?