



Chairman's Letter

Dear Shareholders,

It gives me immense pleasure to present my views on the macroeconomic scenario for the Indian infrastructure sector, the achievements, challenges and growth strategies of your company.

Macroeconomic Scenario

The Indian economy continued its high growth performance and the 11th Five Year Plan will continue to emphasize on India's Infrastructure development with a strong focus on public and private investment. The Government plans to add capacity in excess of 60,000 MW by 2012, to meet the objective of "Power for all". This would facilitate expansion of national network and inter regional capacity to transmit power. The MoP would like to attract private participation in transmission line projects through IPTC/ JV route. Under the Bharat Nirmaan program, there is emphasis on the "Rajiv Gandhi Grameen Vidhyutikaran Yojana" (RGGVY) with an objective to electrify all villages and rural households in next 5 years. There is dire need for improving the distribution networks and reducing aggregate technical and commercial losses through private sector participation.

We have seen significant discoveries in the Oil & Gas sector which will enable a lot of opportunities for cross country oil and Gas Pipeline contracts. The draft gas pipeline policy meant to create a common gas market across the country will enable

further growth in this sector. Similarly demand for Civil contracting services such as Housing, Industrial expansions, Roads, Bridges, Irrigation and Water pipelines, etc. continues to grow at fast pace.

Our Achievements

Last year, we grew by 80% to reach revenues of Rs 15.67 billion (USD 359 million) and JMC Projects (our 52% owned subsidiary) grew by 76% annualized to reach Rs 5 billion (USD 115 million). Our profitability reached a record high for both companies and consolidated order backlog now stands at Rs 35 billion (USD 800 million). We have a combined workforce of over 2500 people today.

We have radically transformed our organization in the last 5 years from being a transmission line player, to being a well diversified Infrastructure player with a presence straddling across multiple sectors such as Power T & D, Civil Contracting, Oil & Gas Pipelines, Roads & Bridges etc. This journey from a Rs.1.5 billion company in 2001-02 to a consolidated enterprise with turnover of excess of Rs.20 billion has led to our recognition as one of the fastest growing Midcap company of India, with a 5-year compounded average growth rate in excess of 60% p.a. We are strategically poised to benefit from the Government's sustained focus on building India across various sectors and T&D investments across geographies, and hopefully will help us mitigate risks of

competition/pricing pressures in any particular sector or geography.

Our focus on operations and risk management has enabled us to be a leader in the sector with exceptional performance and some of the key strengths include project management capabilities, strong focus on quality management, sharpening cost with reduced delivery cycle. We will continue to build on these areas to achieve operational excellence. We have been able to grow our footprint overseas, across Africa and Middle East and managed to execute these projects within time/cost, despite the increasing complexity of execution in foreign countries and risks associated with fixed price, multi currency contracts. We are reaching out to North American markets for tower supplies.

We have been successful in creating shareholders value through our acquisition of JMC Projects which has achieved a significant turnaround and is on the path of rapid growth. However we still need to improve our learning curve and upgrade our Project Management Skills and there exists possibility to improve margins

We are one of the few Indian infrastructure players having the benefits of financial leverage and our strong financial and cash position gives us tremendous sense of comfort to seize future opportunities.

The Challenges

We believe that the future will bring a lot of challenges, primarily on competition and margins. Given the opportunity in the power sector, a lot of players have entered the sector, creating additional competition for the existing players. In addition many contracting/ electrical goods firms and new built steel fabricating units are threatening to make inroads in our T & D business, thereby creating margin/ pricing pressures. However we believe that we would continue to deliver margins well above industry average, given our company's cost leadership & focus on operational excellence.

Given the dire shortage of trained manpower, it has become imperative for industry leaders like us to deepen the knowledge of our work force since recruiting and retaining skilled talent is getting increasingly difficult. We will have to use novel methods in our HRD practices, such as our Initiative

on a new Learning Centre, Performance linked pays, creating cultural bonding among all like a Parivar.

The Growth Strategy Ahead

As we forge ahead, we would definitely focus on sustained growth in our core EPC/ contracting business and continue to enter growth areas like the recent focus of JMC on projects in the Power Plants-civil works and Water Pipeline sectors.

We have recently made our first foray into the warehousing and logistics sector and in the next 5 years ahead hope to build a sizeable presence in few states.

We are also reviewing our portfolio of business to explore opportunities which will help us to enhance long term shareholders value and some of the possible opportunities being discussed include Distribution franchisee (power sector), Logistics, Renewable Energy and BOOT opportunities in the Transmission / Infrastructure sector. There are host of opportunities in Property related sectors such as IT Parks, Integrated Township, SEZ, etc. We would also continue to look for inorganic growth through strategic acquisitions.

We at Kalpataru strongly believe that our People are an integral part of success and play vital role to reach new heights in this challenging and complex business environment. Our people have demonstrated the character to accept challenges and deliver the desired results.

We are grateful for the continuing support from our Bankers, Vendors, Business associates and investors.

At last I would say that success is a continuous journey and many milestones are yet to be achieved. However, we hope to continue to strive to perform better, year after year.

MOFATRAJ P. MUNOT

21st May, 2007