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Moser Baer Q1 of FY '07: On road to recovery

New Delhi - 27 July 2006

Highlights

Quarter Ended 30 June 2006

- Gross revenue in Q1 of FY '07 at INR 4,756.4 million shows an increase of 30.5% over Q1 of FY '06. The seasonal cyclicity is responsible for a marginal decline on a sequential basis.
- EBITDA at INR 1,208.4 million grew 42.1% over Q1 of FY '06 and by 12.6% on a sequential basis.
- EBITDA margin (excluding other income) at 19.2 % in Q1 of FY '07 has risen on a sequential basis from 18.3% in Q4 of FY '06. Improving product mix, firming CDR/RW prices and softening of input costs should help margins revert to normal levels during FY07.
- During the quarter, the company commenced shipments of its next generation HD DVD-R to select global OEMs. The company is the first to market with this format, providing a significant competitive advantage over industry peers.
- The company is set to launch of a series of next generation formats throughout FY '07 with a potential "first to market" position in most of them. These formats should contribute to future margin improvement.
- The company achieved a profit before tax of INR 66.9 million compared to pre-tax loss of INR 138.7 million in Q1 of FY '06.
- The company achieved a profit after tax (post deferred tax) of INR 64.7 million during Q1 of FY '07 against a net loss of INR 111.5 million in Q1 of FY '06.

Results at a Glance

		(Rs. in Million)		
Particulars	Quarter Ended		Previous Accounting Year 31.03.2006 (Audited)	
	30.06.2006 (Reviewed)	30.06.2005 (Reviewed)		
1	Gross Sales	4,756.41	3,645.58	17,319.14
	Less: Duties	211.20	146.74	677.94
2	Net Sales	4,545.20	3,498.84	16,641.20
3	Other Income	335.65	119.49	606.87
	Total Income (2+3)	4,880.85	3,618.33	17,248.08
4	Total Expenditure			
	a. (Increase)/Decrease in stock in trade	(78.70)	(600.84)	(550.08)
	b. Consumption of raw materials, stores etc	2,695.93	2,570.07	10,409.60
	c. Staff cost	327.32	247.33	1,035.86
	d. Other expenditure	727.95	551.62	2,216.68
	Total Expenditure	3,672.50	2,768.18	13,112.06
5	Profit before interest , Depreciation and Taxes	1,208.35	850.15	4,136.02
6	Interest	289.08	225.61	935.50
7	Depreciation	852.09	763.23	3,167.60
8	Profit/ (Loss) before tax and prior period items(5-6-7)	67.19	(138.69)	32.92
9	Prior period expenses/ (income) (net)	0.24	-	(6.60)
10	Profit/ (Loss) before tax and after prior period items(8-9)	66.95	(138.69)	39.52
11	Provision for tax			
	- current tax	-	1.35	(6.33)
	- deferred tax (Net)	-	(31.19)	(14.05)
	- fringe benefit tax	2.23	2.62	13.24
	- previous year			-
12	Net Profit after Taxes (10-11)	64.72	(111.47)	46.66
13	Paid-up equity share capital (face value: Rs 10/- per share)	1,115.13	1,115.13	1,115.13
14	Reserves excluding revaluation reserves (as per Balance Sheet of previous accounting year)			18,933.40
15	Earnings Per Share (Basic & Diluted) - Rs. (not annualised)	0.58	(1.00)	0.42

Notes:

- 1 Considering the nature of the Company's business, its activities and location of production facilities, the internal financial reporting, element of risks and returns and its predominant product being storage media, there are no business and geographical segments within the meaning of Accounting Standard 17 - Segment Reporting, issued by the Institute of Chartered Accountants of India.
- 2 There were no outstanding complaints from the shareholders at the beginning of the quarter and all the 14 complaints received from the shareholders during the quarter have been replied to satisfactorily.
- 3 In the Annual General Meeting held on 19th July, 2006, the shareholders had approved payment of dividend @10% for the year 2005-06 amounting to Rs. 111,512,944 on 111,512,944 Equity Shares of Rs.10 each.
- 4 The above results for the quarter ended June 30, 2006 were reviewed by the Audit Committee and were taken on record by the Board of Directors in their meeting held on July 27, 2006.

For and on behalf of the Board of Directors of
Moser Baer India Limited

Place: Greater Noida
Date: July 27, 2006

DEEPAK PURI
Managing Director

REVIEW OF OPERATIONS

Demand and Pricing:

The global optical storage media industry is now on a steady path to recovery, driven by consolidation of capacity, continued growth in consumer demand and signs of softening of prices for key inputs. The company further consolidated its position and according to Techno System and Research (TSR), Japan, has emerged as the second largest manufacturer of optical storage media in the world.

The company continues its efforts to gradually revert to normal levels of operational & financial performance, as reflected in a profit before tax of INR 67.2 million in 1QFY07 against a loss of INR 138.7 million in 1QFY06. Lower sales from inventories and the traditional summer demand slackness are the reasons for a 15% reduction in shipment volumes during the quarter on a sequential basis. However, improved products mix -with normalization of CDR/RW sales and increase in DVDR/RW shipments - has led to a 3% increase in the optical media ASP, helping improve operating parameters during the quarter.

“A steady improvement in market variables continues. The recovery in CDR/RW media market pricing since last quarter is a positive, and sustainable. The other positive during the quarter is a normalization of revenue mix. We expect the trend to start reverting back to normal operating and financial levels in the medium term driven by increasing DVDR/RW contribution, improving CDR/RW pricing, rising production efficiencies and softening of input costs.” Said Mr. Ratul Puri, Executive Director, Moser Baer India Ltd, said.

Costs:

The softening of market purchase prices of PC (poly carbonate) continued during the quarter - which is another major positive factor for the industry. While this did not impact the quarter under review, it will be a major positive influencer of our margins.

The company continues to drive extensive cost reduction programs, with a focus on DVD formats, resulting in increasing manufacturing efficiencies. This has ensured margin stability on DVDR/RW formats despite a pressure on pricing. We have been able to research, design and co-develop equipment which improves process yields, enabling us to re-set internal benchmarks for production cost reduction.

Future trends

The trend of gradual recovery and improving industry conditions should continue into the current year. While CDR/RW pricing should remain firm in the medium term, DVDR/RW prices are expected to continue to follow its cost curve, enabling us to maintain healthy margins in the optical media business. The revenue share of higher margin DVDR/RW formats is expected to further rise to a target of 60% by 4QFY07, thereby improving operating performance.

The company continues to strive to move away from the commodity price curve by offering value added products to its customers and also create product niches. The share of value added products is expected to double over the year.

Next generation Formats & Opportunities:

Moser Baer announced commencement of shipments of HD DVD-R (recordable) media - a next generation format - to its select global top-tier OEMs customers.

According to Ratul Puri, executive director, Moser Baer, "As per US based Strategic Marketing and Decisions, the demand for the next generation high density formats, including HD DVD and Blue-ray media, is expected to grow sharply to 1.5 billion discs over the next three years from less than a 50 million discs at present. This represents an exciting opportunity for us, as Moser Baer has a first mover advantage with the launch of HD DVD-R media."

The company continues to leverage its core skills in base material engineering, thin film coating, precision sputtering and deep UV mastering technologies. Starting from the current quarter and in conjunction with drive and recorder availability, the company expects to be the first to market in a majority of these next generation formats. The four products which the company expects to have a significant market potential in the future are DVDR Dual Layer, HD DVD-R (recordable) and RW (re-writable), HD DVD Dual layer, and BD-R and RE.

Having already established a first mover advantage in HD DVD-R format, the company is also confident of extending this leadership position in the Blue-ray (BD) media. The company has developed a unique patented technology, specifically for advanced generation of BD formats which will not only enable lower manufacturing costs, but also allow the consumer greater ease of interchangeability of media across different drives. This is expected to give the company a significant competitive edge in this next generation format race.

Further, as part of its long term strategy, the company continues to evaluate various opportunities, which will enable better utilization of its blank optical media capacity. The company is exploring multiple options including pre-recorded replication services and content distribution in domestic and international markets. The company has also begun collaborative efforts with leading global players in the Holographic technology domain.

Overseas Subsidiaries: In line with the rapidly expanding global footprint and ever evolving technological landscape, the company plans to float a wholly owned subsidiary which the company may use to invest into emerging global opportunities.

In line with the above strategy, Moser Baer Photo Voltaic also plans to float a subsidiary to undertake any future investments in the emerging global PV technology landscape.

Guidance

Medium term Revenue Guidance: The Company continues to expect a three year CAGR of 25-35% in its revenues. Most of the growth in revenues is expected to come from the DVD segment and roll-out of next generation technology formats.

Expansion Plans

During FY06, the company spent USD 87million to expand capacity to 2.8 billion units per annum.

Status of Photovoltaic (PV) Cell project.

The project remains on a fast track to achieving commercialization. Over the past couple of quarters Moser Baer Photo Voltaic has made steady progress and the contracts for supply of equipment and technology for cell and module making have already been executed. The company has also secured part of its short term requirements of raw materials and is progressed towards closing medium to long term strategic sourcing agreements.

“With a strategy to leverage existing core competencies and R&D to develop cutting edge manufacturing efficiencies, the USD 40 billion PV industry, by 2010, presents us with an exciting growth opportunity. We have identified a portfolio of current and emerging technologies which we aim to leverage to establish an early mover advantage and a competitive edge. We remain on track to start commercial production by 4QFY07.” Mr. Ravi Khanna, Chief Executive Officer, Moser Baer Photo Voltaic Ltd, said. This business also being significantly less capital-intensive than our existing business should improve our overall return on capital, he added.

About the Company

Moser Baer, headquartered in New Delhi, India, was established in 1983. The Company has successfully developed cutting edge technologies for recordable optical media, constantly innovating and introducing new products and process. An emphasis on high quality products and services has enabled Moser Baer to emerge as one of India's leading technology companies, with more than an 18% share of the global recordable optical media market. The company currently has over 5,000 full-time employees and has multiple manufacturing facilities in the suburbs of New Delhi, The company services it's customers through 6 marketing offices and subsidiaries/affiliates in India, the US, Europe and Japan.

Disclaimer

Certain statements in this release concerning future growth prospects involve risks and uncertainties, especially those relating to future industry outlook and our ability to manage growth and intense competition within the Industry. Actual market conditions and our performance may differ from our guidance. This estimate is based on current market trends. Among other factors, a sharp and sustained strengthening of the Indian Rupee and a significant weakening in global demand could adversely impact the company's earnings.

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