

Board of Directors

R J Shahaney, *Chairman*

D G Hinduja, *Co-Chairman (Alternate : Y M Kale)*

D J Balaji Rao

A K Das (*Alternate : P Banerjee*)

P N Ghatalia

S R Krishnaswamy

S Raha

F Sahami

S Shroff

A Spare

R Seshasayee, *Managing Director*

Vinod K Dasari, *Whole-Time Director*

Chief Financial Officer

K Sridharan

Executive Directors

J N Amrolia

Aravind S Bharadwaj

S Balasubramanian

A Bhat

A K Jain

R Malhan

N Mohanakrishnan

M Natraj

R Rajagopal Menon

Rajive Saharia

Shekhar Arora

B M Udayashankar

Executive Director and Company Secretary

A R Chandrasekharan

Auditors

M S Krishnaswami & Rajan

Deloitte Haskins & Sells

Cost Auditors

Geeyes & Co.

Bankers

Bank of America

Bank of Baroda

Canara Bank

Central Bank of India

Citibank N.A.

HDFC Bank Limited

ICICI Bank Limited

IDBI Bank Limited

Punjab National Bank

Standard Chartered Bank

State Bank of India

The Hongkong and Shanghai Banking Corporation Limited

Registered office

19, Rajaji Salai, Chennai 600 001

Plants

Ennore and Ambattur, Chennai; Hosur, Tamil Nadu;

Bhandara, Maharashtra; Alwar, Rajasthan.

Website

www.ashokleyland.com

Directors' Report

Part I – Performance / Operations

The Directors are pleased to present the Annual Report of the Company, together with the audited Accounts, for the year ended March 31, 2008.

Financial Results

(Rs. Millions)

	2007-2008	2006-2007
Profit before tax	6,381.50	6,045.06
Less: Provision for taxation	1,688.40	1,632.20
	4,693.10	4,412.86
Add: Transfer from / (to):		
Debenture redemption reserve	50.00	135.00
Balance profit from last year	3,616.86	2,303.70
General Reserve	(1,000.00)	(1,000.00)
	7,359.96	5,851.56
Add: Excess provision written back		
- Dividend (Including Corporate Dividend Tax)	-	29.62
Profit available for appropriation	7,359.96	5,881.18
Appropriation:		
Dividend 2006-07	-	1,985.81
Proposed Dividend 2007-08	1,997.71	-
Corporate Dividend Tax	339.51	278.51
Balance profit carried to Balance sheet	5,022.74	3,616.86
Earnings per Share (Face Value Re.1/-) - Basic	3.53	3.38
- Diluted	3.53	3.36

Dividend

The Directors recommend a dividend of 150% (Rs.1.50 per equity share of Re.1/-) for the year ended March 31, 2008. This Dividend will also be payable on the shares arising from conversion of Foreign Currency Convertible Notes (FCCNs) issued in April 2004, to the extent converted upto the Book Closure Date(s).

Business operations

The domestic market for the Company's products experienced a slowdown in the year under review. Your Company was however able to secure a higher share in the passenger vehicles market. Total sales of vehicles, engines and spares registered increases over the previous year.

The highlights are discussed in detail in the Management Discussion and Analysis Report attached as **Annexure-D** to this Report.

External Commercial Borrowings (ECBs)

During the financial year, despite a difficult situation in the financial market, the Company contracted for ECBs for a sum of US\$ 270 mn. to part fund its capex requirements and overseas investments. Out of the above, the Company has drawn US\$ 90 mn. during the year 2007-08 and the balance would be drawn during 2008-09. The Company has fully complied with the guidelines prescribed by RBI in this regard.

Research and development, technology absorption, energy conservation etc.

The Company continues to lay emphasis on investing for the future through Research and Development activities. The facilities in the Company's Technical Centre at Chennai have been further upgraded, to ensure contemporary development capabilities in order to offer competitive products to the market place.

The particulars prescribed by the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 relating to Conservation of Energy, Technology Absorption, Foreign Exchange are furnished in **Annexure-A** to this Report.

Other Ventures

Joint Venture with Nissan Motor Co. Ltd., Japan

The Company will be expanding its business and entering the area of Light Commercial Vehicles with the promotion of Joint Venture with Nissan Motor Co. Ltd., Japan. Discussions on the Joint Venture Agreements are in an advanced stage. This will be a major project and will cater not only to the domestic market, but also to the export markets.

Ashley Alteams India Private Ltd.

A Joint Venture Agreement was signed on July 3, 2007 with Alteams O.Y. Finland, for the manufacture and sale of High Pressure Die Casting components for the telecom and automotive industries, including for the Company's own requirements. Ashley Alteams India Private Ltd., the Joint Venture Company, is making steady progress in the implementation of the project. Commencement of commercial production is expected by end 2008.

Automotive Infotronics Private Ltd.

A Joint Venture Agreement was entered into with Siemens VDO on July 16, 2007 (now known as VDO Automotive A.G. a Company of Continental Corporation, Germany) for design, development and adaptation of electrical and electronic automotive components and customer-specific software applications. Automotive Infotronics Private Ltd., the Joint Venture Company is slated to commence commercial activities during 2008-09.

Ashok Leyland (UAE) LLC, Ras Al Khaimah, UAE

Your Company has made an investment in Ashok Leyland (UAE) LLC for setting up a manufacturing facility at Ras Al Khaimah, UAE. The plant is expected to be commissioned in a phased manner by June 2008. The plant will have capacity to assemble and produce upto 2000 buses per year and will cater to the growing market for the Company's products in UAE and other neighbouring countries.

Defiance Testing and Engineering Services, Inc.

The investment in Defiance Testing and Engineering Service, Inc. Michigan, USA was made on July 17, 2007. The

company is implementing plans to turnaround, despite recessionary conditions in the automobile industry in the USA.

Avia Ashok Leyland Motors s.r.o. (AALM)

The commercial vehicles business of Avia acquired by the Company in 2006, through a special purpose vehicle, has made steady progress during the year 2007. During this period, AALM focused on consolidating its business, setting up processes, integrating its research and product development activities with the Company, widening its market reach, etc. AALM successfully developed and positioned vehicles meeting Euro IV emission, safety and other standards prevailing in Europe and achieved sales in excess of 700 units during the previous calendar year.

Albonair GmbH

Your Company has made an investment in Albonair GmbH for development of vehicle emission treatment / control systems and products. Albonair GmbH will focus on the development, production and sales of exhaust after-treatment systems for environment-friendly diesel engines. Over the longer term, these cost effective systems are also expected to find application in Europe and the USA. The venture has already commenced operations and has been strengthened with the recruitment of appropriate technical personnel.

Foreign Currency Convertible Notes (FCCNs)

The Foreign Currency Convertible Notes (FCCNs) for USD 100 mn. issued in April 2004 are convertible into shares of the Company (Fixed Exchange Rate USD 1 = Rs.44.10). As of March 31, 2008, 99,000 Notes (99%) have already been converted into underlying shares, thereby increasing the paid-up capital as of March 31, 2008.

All the procedures consequent to the conversion are being completed on time and these shares, which rank *pari passu* with the earlier shares in all respects, are tradeable on the Indian Stock Exchanges. The enhanced share capital as on March 31, 2008 and the corresponding revised shareholding pattern are shown in the Corporate Governance Report (**Annexure-B**) to this Report.

Subdivision of shares

The subdivision of your Company's shares (from a face value of Rs.10/- each to a face value of Re.1/- each) was effected in July 2004. The number of shareholders continues to increase and as on March 31, 2008, the number of shareholders was 303,954 as against 200,091 shareholders as of March 31, 2007.

Part II – Corporate matters

Change in the Registered Office of the Company

Your Directors are happy to inform that your Company has constructed a modern Corporate Office at a prestigious location at No.1 Sardar Patel Road, Guindy, Chennai 600 032. The registered office will be shifted to this address shortly.

Corporate Governance

Your Company has consistently adopted high standards of Corporate Governance. The Code of Conduct for the Board and the Senior Management was adopted by the Company in March 2005. Your Company is fully compliant with the latest guidelines, and has even exceeded them in some aspects. All the Directors (and also the members of the Senior Management – of the rank of General Managers and above) have confirmed in writing their compliance and adherence with the Code of Conduct. The details are furnished in **Annexure-B** to this Report.

The certification by the Managing Director regarding the Code of Conduct, as required by SEBI guidelines, is also furnished separately.

The Statutory Auditors of the Company have examined the Company's compliance, and have certified the same, as required under SEBI guidelines. Such certificate is reproduced as **Annexure-C** to this Report.

The Directors' Responsibility Statement as required under Section 217(2AA) of the Companies Act, 1956 is furnished in **Annexure-E** to this Report.

The particulars of employees as prescribed by the Companies (particulars of employees) Rules, 1975 are furnished in **Annexure-F** to this Report.

The CEO / CFO certification as required under the SEBI guidelines is attached - as **Annexure-G** to this Report.

Directors

The present term of Mr R Seshasayee, Managing Director is due to expire on May 31, 2009. Under his stewardship, the Company has scaled great heights and has expanded its operations significantly. The Company has embarked on several new initiatives, not only in India, but globally. Bearing in mind the above, the Remuneration Committee and the Board consider it essential to continue to secure his leadership of the Company and have decided to foreclose / overlap the last year of his current term and has re-appointed him as Managing Director for a period of three years from 1/4/2008 to 31/3/2011 with a suitable revision in the terms of remuneration, subject to the approval of the shareholders at the ensuing General Meeting. Necessary resolutions relating to his re-appointment are being placed before the shareholders for approval.

Mr Vinod K Dasari, the Chief Operating Officer of the Company, who was co-opted to the Board as an Additional Director vacates office at the ensuing Annual General Meeting.

Notice under Section 257 of the Companies Act, 1956 has been received from a member proposing his appointment as a Director. Necessary resolution relating to his appointment as Wholtime Director is also being placed before the shareholders for approval.

Mr D J Balaji Rao, Mr P N Ghatalia and Mr D G Hinduja, Directors, retire by rotation at the forthcoming Annual General Meeting and are eligible for re-appointment.

Necessary resolutions are being placed before the shareholders for approval.

Mr D J Balaji Rao and Mr P N Ghatalia are Independent Directors and Chairman of the Remuneration Committee and Audit Committee of the Board respectively. Mr D G Hinduja is a Promoter Director.

Cost Auditors

The Government has stipulated Cost Audit of the Company's records in respect of motor vehicles as well as engines. M/s Geeyes & Co., Cost Auditors have carried out these audits. Their findings have been satisfactory.

Secretarial Audit

As directed by Securities and Exchange Board of India (SEBI), Secretarial Audit is being carried out at the specified periodicity by a Practising Company Secretary. The findings of the Secretarial Audit have been satisfactory.

Auditors

M/s M S Krishnaswami & Rajan, Chartered Accountants and M/s Deloitte Haskins & Sells, Chartered Accountants, retire at the close of this Annual General Meeting and are eligible for re-appointment. The Company has received confirmation from both the firms that their appointment will be within the limits prescribed under Section 224(1B) of the Companies Act, 1956. The Audit Committee of the Board has recommended their re-appointment. The necessary resolution is being placed before the shareholders for approval.

Acknowledgement

The Directors wish to express their appreciation of the continued co-operation of the Central and State Governments, bankers, financial institutions, customers, dealers and suppliers and also the valuable assistance and advice received from major shareholders Hinduja Automotive Limited, the Hinduja Group, and all the shareholders. The Directors also wish to thank all the employees for their contribution, support and continued co-operation through the year.

On behalf of the Board of Directors

Chennai
May 8, 2008

R J SHAHANEY
Chairman

Annexure A to Directors' Report

(A) Conservation of Energy

All manufacturing plants have implemented various initiatives for conservation of energy (around 1.2 mn. electrical units have been saved leading to significant savings in costs) during 2007-2008.

A few such key initiatives are:

- Maintenance of power factor throughout the year, through optimum use of capacitor banks.
- Use of wind power (Out of total electricity consumed, 36% is the share of wind power).
- Optimisation of compressed air system.

(B) Technology absorption

Research and Development (R & D)

1. Specific areas in which R & D carried out by the Company

- 'H' series 6 cylinder engines rated at 152 KW (with common rail) and 135 KW, both meeting Bharat Stage III norms, now in commercial production.
- Fully built cabs introduced on tractor models with GVW ratings of 49 and 40 tonnes.
- Pilot batch of 8X2 vehicles being launched in the market.

2. Benefits derived as a result of the above R & D

- Compliance with emission standards, present and proposed from 2010.
- Wider range of vehicles with enhanced value to customer.
- Safer cabs.

3. Future Plan of Action

- Quantum improvement in processes and skill building to meet the emerging competitive scenario in the market.
- Development of more environment friendly fuel efficient and safe vehicles.

4. Expenditure on R & D

(Rs. million)

Capital	954.39
Revenue	
(excluding depreciation)	1068.84
Total	2023.23
Total R & D Expenditure as % of total turnover	2.3%

(C) Foreign Exchange Earnings and Outgo

Details of earnings and outgo of foreign exchange are given in Schedules 1.5 to 1.8 of Notes to the Accounts. The Company continues to strive to improve its export earnings.

Annexure – B to Directors' Report

Report on Corporate Governance

1. Philosophy on Corporate Governance

The Board of Directors and the Management of Ashok Leyland commit themselves to:

- strive towards enhancement of shareholder value through
 - sound business decisions
 - prudent financial management and
 - high standards of ethics throughout the organisation
- ensure transparency and professionalism in all decisions and transactions of the Company
- achieve excellence in Corporate Governance by
 - conforming to, and exceeding wherever possible, the prevalent mandatory guidelines on Corporate Governance
 - regularly reviewing the Board processes and the Management systems for further improvement

The Company has adopted a Code of Conduct for members of the Board and senior management. All Directors have affirmed in writing their adherence to the above Code. The full text of the Code is furnished at the end of this Report, and is also displayed at the Company's website www.ashokleyland.com

2. Board of Directors

a) Composition : The Board of Directors of the Company, headed by a Non-executive Chairman, consisted of the following Directors, as on March 31, 2008, categorised as indicated:

i) Non-executive Directors

a) Promoter Group

- Mr A K Das (Alternate: Mr P Banerjee)
- Mr D G Hinduja (Co-Chairman) (Alternate: Mr Y M Kale)
- Mr S Raha
- Mr F Sahami
- Mr A Spare

b) Connected with Associate Companies

Mr R J Shahaney (Chairman)

c) Independent

Mr D J Balaji Rao

Mr P N Ghatalia

Mr S R Krishnaswamy (representing LIC as shareholder)

Mr S Shroff

ii) Executive Director

Managing Director

Mr R Seshasayee

None of the Directors is related to each other.

Equity Shares held by Directors

Name of the Director	No. of equity shares
Mr R J Shahaney	11,730
Mr R Seshasayee	11,236

There are no other shares or convertible instruments held by any other Director(s)

b) Attendance at Board Meetings and last Annual General Meeting (AGM) and details of memberships of Directors in other Boards and Board Committees

Board Meetings held during the year 2007-08

Date of Meeting	Board Strength	No. of Directors present
April 5, 2007	11	6
May 4, 2007	11	10
July 19, 2007	11	10
October 23, 2007	11	11
January 25, 2008	11	9

– The time gap between any two meetings did not exceed four months.

– The last Annual General Meeting was held on July 20, 2007.

Name of Director	No. of Board meetings attended	Whether attended last A.G.M. held on July 20, 2007	Membership as on March 31, 2008	
			Other Boards (excluding Ashok Leyland) (Note 2)	Other Board Committees (excluding Ashok Leyland) (Note 3)
Mr R J Shahaney	5	Yes	2 (Both as Chairman)	2 (1 as Chairman)
Mr D G Hinduja (Note 1)	3	Yes	6	Nil
Mr D J Balaji Rao	5	Yes	8	8 (3 as Chairman)
Mr A K Das	4	Yes	10	1
Mr P N Ghatalia	5	Yes	8	8 (4 as Chairman)
Mr S R Krishnaswamy	5	Yes	1	Nil
Mr S Raha	4	Yes	3	1
Mr F Sahami	4	Yes	1	1
Mr S Shroff	1	No	6	4
Mr A Spare	4	Yes	2	Nil
Mr R Seshasayee	5	Yes	8 (5 as Chairman)	3
Alternate Directors:				
Mr P Banerjee	1	No	2	Nil
Mr Y M Kale	Nil	No	3	1 (1 as Chairman)

Note 1 - Re-designated as Co-Chairman, effective July 19, 2007

Note 2 - The above excludes Foreign companies, Private Limited Companies and Alternate Directorships.

Note 3 - Only Audit Committee, and Shareholders/Investors Grievance Committee are reckoned for this purpose.

The full details of Directors seeking re-appointment at the ensuing Annual General Meeting have been furnished in the Notice convening the meeting of the Shareholders.

Secretarial Standards

The Institute of Company Secretaries of India (ICSI) has laid down Standards on Secretarial Practices relating to meetings of the Board and Board Committees, General Meetings, Dividends etc. The Secretarial and the operating practices of the Company are in line with the above Secretarial Standards.

All the information required under Annexure-I to Clause-49 of the Listing Agreements with Stock Exchanges are being placed before the Board at every meeting, with the current status duly updated.

3. Audit Committee

a) Constitution

The Audit Committee of the Company was constituted in July 1987 with Terms of Reference, which covered most of the aspects stipulated by SEBI in the year 2000. These were comprehensively reviewed once again by the Company's Board in the year 2000, and the Audit Committee has been mandated with the same Terms of Reference as specified in Clause 49 of the Listing Agreements with Stock Exchanges. The Terms of Reference also fully conform to the requirements of Section 292A of the Companies Act, 1956.

b) Composition, names of members and Chairman

The composition of the Audit Committee:

Independent Directors

Mr P N Ghatalia (Chairman)

Mr D J Balaji Rao

Promoter Director

Mr F Sahami

All the members of the Audit Committee have expertise in Finance as well as in general management. Mr. P N Ghatalia and Mr F Sahami had been senior partners in leading firms of Chartered Accountants. Mr D J Balaji Rao had been the Deputy Managing Director of the then ICICI Ltd., (now ICICI Bank) and the Managing Director of Infrastructure Development Finance Company Ltd.

c) Meetings and Attendance

Audit Committee Meetings held during the year 2007-08 and Attendance Details

Attendance:	Date of Meeting	Committee Strength	No. of Directors present
	May 2, 2007	3	3
	July 18, 2007	3	3
	October 23, 2007	3	3
	January 25, 2008	3	3

- Mr A R Chandrasekharan, Executive Director and Company Secretary is the Secretary to the Committee effective February 6, 2008.
- Mr N Sundararajan, Executive Director and Company Secretary was the Secretary to this Committee till February 5, 2008 and has attended the Meetings of the Committee till February 5, 2008.
- Mr N Mohanakrishnan, Executive Director heading the Internal Audit function has attended all the meetings of the Committee.
- Mr K Sridharan, Chief Financial Officer, attended all the meetings of the Committee.

The Statutory Auditors of the Company and the Cost Auditors are invited to join the Audit Committee Meetings. The Audit Committee discusses with the Statutory Auditors on the "Limited Review" of the quarterly/half-yearly accounts, the Audit Plan for the year, matters relating to compliance with Accounting Standards, the Auditors' observations arising from the annual audit of the Company's accounts, and other related matters. The Committee also reviews at every meeting the significant observations arising from the Reports of the Internal Audit Department and the adequacy of the follow-up action taken by the Management. The Committee discusses with the Cost Auditors about the Annual Cost Audit Reports, and their observations.

4. Remuneration Committee

a) The Remuneration Committee consists of Mr D J Balaji Rao, Independent Director, as the Chairman of the Committee, with Mr R J Shahaney and Mr F Sahami being the other members.

Mr A R Chandrasekharan, Executive Director and Company Secretary is the Secretary to the Committee effective February 6, 2008.

Mr N Sundararajan, Executive Director & Company Secretary was the Secretary to this Committee till February 5, 2008.

The Committee is mandated with the following Terms of Reference:

- Determination and approval of the quantum of commission, perquisites and payment of special allowance to the Managing Director; and
- Determination and approval of the annual increments to the Managing Director .

The above determinations are based on the overall performance of the Company and on the Committee's assessment of the personal contribution and achievements of the Managing Director, but within the overall limits approved by the shareholders.

b) The Committee met once during the year on May 4, 2007. All the members were present at this meeting.

c) The Remuneration Policy of the Company is summarised as follows:

(i) For Managing Director

The total remuneration, subject to shareholders' approval, consists of

- a fixed component – consisting of salary, allowances (including Special Allowance) and perquisites; the perquisites and benefits are in line with the Company's Rules for senior managerial personnel.
- a variable component – linked to the performance of the Company as well as of the Managing Director – consisting of Commission and allowances as determined by the Remuneration Committee.
- No Sitting Fee is payable.

(ii) For Non-executive Directors

Sitting Fee is paid as per the Companies Act, 1956, and the Articles of Association of the Company, for attending any meeting of the Board or Committees of the Board. Directors are also reimbursed actual travel costs and incidental expenses incurred for attending such meetings or in connection with the Company's business. There are no pecuniary relationship or transactions between any of the Non-executive Directors and the Company. No other fee is paid to Non-executive Directors other than the above.

d) The details of remuneration paid / payable to the Directors for the year 2007-08 are:

i) Non-executive Directors – Sitting Fees: (excluding reimbursement of travel and other expenses incurred for the Company's business)

	Rs.		Rs.
Mr R J Shahaney	320,000	Mr S R Krishnaswamy	100,000
Mr D G Hinduja	120,000	Mr S Raha	80,000
Mr D J Balaji Rao	280,000	Mr F Sahami	180,000
Mr P Banerjee, Alt. Director	20,000	Mr S Shroff	20,000
Mr A K Das	80,000	Mr A Spare	160,000
Mr P N Ghatalia	180,000		