ASHOK LEYLAND

ANNUAL REPORT 2011-2012

READY AND REVVING

HINDUJA GROUP

The direction is clear. The planning is done. Our preparations have infused us with new confidence. It is time now to take on the challenges, grab the opportunities to surge ahead. And we will.

Ashok Leyland is on a new start line. Eager to take off into a promising future. And roar into a new growth phase. That is what we have been preparing for. Now, we are ready.

Forward-looking statement

In this Annual Report, we have disclosed forward-looking information to enable investors to fully appreciate our prospects and take informed investment decisions. This report and other statements – written and oral – that we periodically make, contain forward-looking statements that set our anticipated results based on the Management's plan and assumptions. We have tried wherever possible to identify such statements by using words such as 'anticipate', 'estimate', 'expects', 'project', 'intends', 'plans', 'believes', and words of similar substance in connection with any discussion of future performance.

We cannot, of course, guarantee that these forward-looking statements will be realised, although we believe we have been prudent in our assumptions. The achievement of results is subject to risks, uncertainties and even inaccurate assumptions. Should known or unknown risks or uncertainties materialise, or should underlying assumptions prove inaccurate, actual results could vary materially from those anticipated, estimated or projected. Readers should bear this in mind.

We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise.

Contents

Letter to Shareholders	03
Board of Directors	18
Financials	21

Parmanand Deepchand Hinduja

(1901-1971)

Founder, The Hinduja Group

“My dharma (duty) is to work so that I can give”

GUIDING PRINCIPLES

Work to Give

Word is a Bond

Act Local Think Global

Partnership for Growth

Advance Fearlessly

LETTER TO SHAREHOLDERS

Dear Shareholder,

I am happy to report that in 2011-12 Ashok Leyland continued to maintain its growth strides. Your Company posted an overall sale of 101,990 vehicles, an 8.4% increase over the previous year. This was possible due to a robust 24.7% growth in exports to 12,852 vehicles and the runaway success of the award winning 'Dost' in the light truck segment.

The aggregate sales turnover was Rs. 12,841.99 Cr. in 2011-12 compared to Rs. 11,177.11 Cr. in the previous fiscal reflecting a rise of 14.9%. Net Profit, however, was lower by 10.3% at Rs. 565.98 Cr., due to higher interest and depreciation for the investments made by your Company to secure its future.

The domestic market witnessed a number of developments that had an impact on the sales performance of your Company. Compared to the previous year, the light truck segment grew by 30% in which 'Dost' was present only in the later part of the year. The medium & heavy duty segment volume increased by 8% but within that the growth in the intermediate vehicle segment was pronounced at about 21%, a growing range for your Company that will get further traction in the current year. Moreover, your Company's traditionally strong south market was depressed, falling nearly 17%. All things considered, the resultant market share, although recouped in the last quarter indicated a modest dip on a full year basis in the medium & heavy duty segment domestically.

However, Spare parts, Power Solutions and Defence businesses could sustain their positions all supporting the core business of your Company.

Continuing consolidation

2011-12 was a year of continuing consolidation for your Company. The key challenge was to concurrently lay emphasis on the short term actions to restore the market position and the long term initiatives aimed to grow. As you are aware, your Company is pursuing the Vision to be, in volume terms, among the Top 10 truck manufacturers and Top 5 bus players globally. In that journey 2011-12 marked a series of actions by your Company that bolsters the confidence of realising our goals.

Last year, recessionary trends were witnessed in the US and EU and some positive trends in the BRIC countries. The GDP growth in India was moderated to 6%. There were some pockets of prosperity seen in Africa and Latin America posting good growth. Views differ on how long this global trend of uncertain outlook would continue but your Company is prudently building a measure of flexibility into its plans to meet any eventuality but at the same time is not diluting its product-market capability build up to be a global player.

I am happy to share with you some important milestones that your Company reached last year in the pursuit of its Vision.

Range extension To seize the opportunities afforded by product range extension, your Company in partnership with Nissan Motor Company, launched the first light truck 'Dost', with a payload of 1.25 Tonne carefully positioned to be a segment splitter. It is indeed a remarkable achievement that in less than six months of launch the product could gain a market share of 29% in its category in the six markets it has been fielded and has also been recognised as 'LCV Cargo Carrier of the Year'. There is a continuing strong pull in the market for 'Dost'.

To maintain the momentum, two further new-generation LCV platforms, the STiLE a multi-functional van and the PARTNER a 6-Tonne truck were also unveiled at Auto Expo 2012, New Delhi signalling the products to follow in the near future.

New products Your Company raised the curtain on some very innovative, modern transport solutions last year developed to meet exacting customer requirements. The JanBus is the world's first single step, front engine, full flat floor bus and equipped with features to address the needs of passengers and operators alike. In trucks, the U-3723 in a 10x4 configuration was showcased in response to customers' requirements for stronger, more robust and more fuel efficient rigid trucks with higher tonnage. Both these products are expected to hit the market in the current year.

Spreading global footprint Your Company enhanced its shareholding to 75.1% in Optare plc. U.K taking a decisive step in the global bus strategy and is expected to accelerate the process of positioning modern and competitive integral buses in both domestic and overseas markets.

Your Company's performance in the international markets was noteworthy with the highest volumes ever recorded in its history. Beyond the performance in traditional SAARC markets, a significant share of growth came from Africa and the CIS - the new markets that your Company had forayed into recently.

Market actions Your Company initiated actions for significant expansion of the network last year which has now over 400 full service points all over India. Under the aegis of the loyalty programme MITR, the number of locations of 'Leyparts' availability increased to over 20,000. The spread and growth of the network has been rapid across the country in a manner aligning with the strategy to become a stronger pan-India player.

To address the shortage of skilled drivers in the face of significant growth in volume and technology of vehicles, your Company has undertaken steps in the area of driver training, development and the overall well-being of the driver community. Apart from two Driver Training Institutes (DTIs) that are already operational at Namakkal (Tamil Nadu) and Burari (near Delhi), three more are ready to go on stream in the current year at Chindwara (Madhya Pradesh), Rajasmand (Rajasthan) and Khaital (Haryana). Further two more in Karnataka and Odisha are under construction. Over 500,000 drivers have been trained at these institutes so far on safe driving practices and physical fitness. As part of the on-going welfare measures, nearly 500 deserving wards of drivers have benefited from scholarships under your Company's 'All the Best' scheme. It is heartening to note that recognition and appreciation for these DTIs has been received from the Office of the President of India.

I am happy to inform that your Company will soon be spearheading a nationwide programme for enhancing the quality of life of the truck drivers in appreciation and recognition of the vital role they play for our industry and the economy.

Business expansion An area of renewed focus for your Company was the Defence business. Building on the strength of 70,000 Stallion vehicles in use, as the Indian Army's largest supplier of logistics vehicles, your Company is expanding on the Stallion range with the 6x6 and 8x8 versions. These were on show at the recently held DEFEXPO 2012 at New Delhi. Development action is continuing for specialist vehicles in the tactical and armoured space in strategic partnership with globally renowned Krauss Maffei Wegmann (KMW), Germany and Panhard General Defense, France.

R & D thrust The R&D spend for the year was Rs. 349 Cr. constituting about 3% of our turnover and an increase of almost 20% over last year demonstrating your Company's unwavering commitment for Product Development. Apart from strengthening the current product portfolio, the thrust was towards competency development for the future through facilities and people.

Maximising capacities Focussed efforts were undertaken

by your Company to achieve maximum capacity and benchmark productivity standards at the manufacturing plants. Over 40,000 vehicles have been manufactured at the Pantnagar world-class facility in less than 2 years since its inauguration which is, indeed, a remarkable achievement. The Ras Al Khaimah bus plant which is ramping up steadily is a key contributor in your Company's exports performance in Africa and the Middle-East.

New business Your Company's Joint Venture with John Deere also came to fruition during the year with the launch of the first product the 435 Backhoe Loader under the 'Leyland Deere' brand. The initial market reaction is highly encouraging. Development actions continued for the wheel loaders and excavators that are expected to be launched soon.

Building the Brand Your Company has signed on the iconic Indian cricket captain, M S Dhoni as Brand Ambassador and to be the new face of your Company. You will agree, Dhoni certainly befits Ashok Leyland Brand's key attributes of reliability, passion and performance. His association is expected to lend immense support to the many marketing initiatives your Company has launched for growth.

Corporate Social Responsibility Your Company continued to integrate Corporate Social Responsibility into their strategies and actions. It has been the constant endeavor of your Company to produce vehicles that pollute less, establish eco-sensitive manufacturing systems and institute energy conservation and greening initiatives. The manufacturing units engage themselves in various community development activities. Employee volunteerism for social causes is encouraged and recognised. The high point last year was the instant flood of donations from employees for the victims of a cyclone that hit the State of Tamil Nadu.

The Hosur Unit was awarded the CII Environmental Best Practices Award for a project that was rated as an 'Innovative Environmental Project' and a Gold Award at the Greentech Environment Award 2011 for outstanding achievement in environment management. That 40,000 trees were planted in the Pantnagar plant by the time the Unit produced 40,000 vehicles bears testimony to the abiding interest your Company has to sustain a Green environment.

2012-13 - Ready and revving

Continuing to build on the strengths and ever endeavouring to be customer-centric, your Company is confident to address the opportunities that the new financial year offers and overcome the challenges. In the unfolding market evolution in our country and elsewhere, we see technological convergence, rising customer demands and fierce competition. We are well prepared to satisfy these demands. As you know, your Company has always placed primacy on technological leadership for growth and I believe it will continue to stand them in good stead.

2012-13 will see the launch of a series of new products from your Company based on the in-house developed state-of-the-art 'Neptune' range of engines and a modern contemporary next generation cabin. Judging by the quality of efforts and commitment to the Vision and the outcomes so far, I truly believe your Company as a whole is ready and revving to ride on to the next wave of growth.

As we gear ourselves to meet the challenges of the coming year, I gratefully acknowledge the confidence and faith reposed by you in the Board and the Management of your Company. It has been an exciting year and I would like to commend the grit and determination of all the employees of Ashok Leyland for a creditable performance. I seek their continued efforts in the future. I would also like to place on record my appreciation for the support and loyalty of our extended family of customers, dealers and suppliers and look forward to their continuing association in our journey ahead.

Thanking you,

Yours sincerely,

Dheeraj G. Hinduja
Chairman

Ready to move new ventures to a higher gear and avail of profitable opportunities

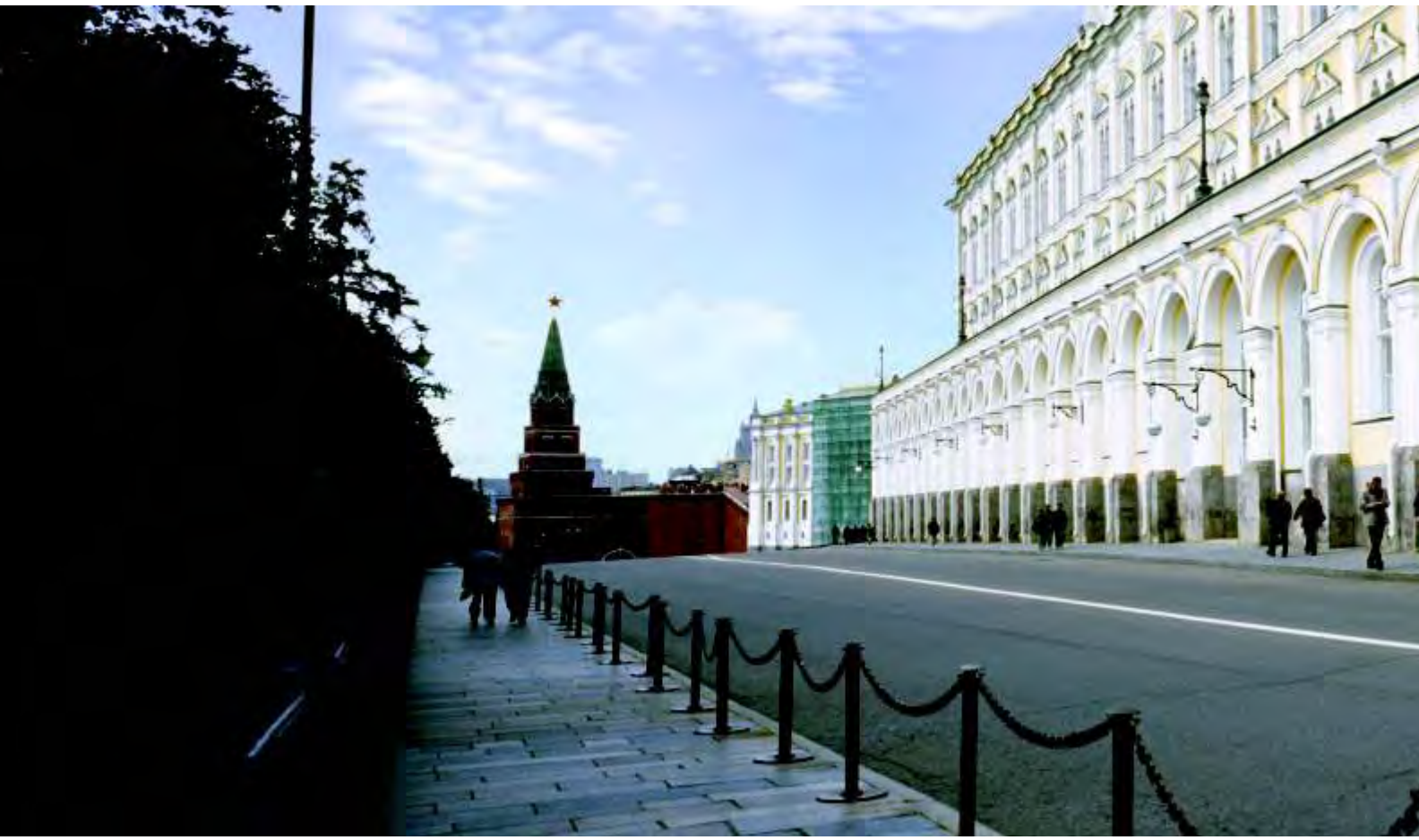
It was a year that saw Joint Ventures fructify.

The Light Commercial Vehicle market in India has been growing phenomenally thanks to increased urbanisation, organised retailing, improved rural connectivity and enhanced rural demand. With opportunities beckoning, we entered the SCV space in partnership with Nissan Motor Company with 'Dost'. This 2.5 Tonne small truck embodies our attempt to deliver Japanese technology at Indian cost and is pitched to address the growing expectations of today's LCV customer. Increased payload at 1.25 Tonnes, improved fuel efficiency, class-leading performance, comfort and safety, 'Dost' has it all at a very competitive cost of ownership. Within six months of launch in six markets, it has garnered almost one-third share of market in its segment and has been adjudged the

'LCV Cargo Carrier of the Year'. Everyone loves a DOST!

The aggressively growing construction equipment space was another profitable adjacency to consider, stretching our expertise in the construction business through our range of tippers. This Joint Venture brought together the considerable strength and technological prowess of John Deere with our local knowledge and expertise. The result: the launch of the first product, the 435 Backhoe Loader (BHL) under the new brand 'Leyland Deere' that symbolises the coming together of two strong partners. A triumph of collaborative development, the 435 BHL has been specially engineered to suit the needs of Indian operators in unique Indian operating conditions. It has already started to lift loads … of the opportunities kind!

Ready to go beyond and spread our global footprint



In pursuit of our goal for globalisation, we consolidated in international markets where we are strong, entered new ones and acquired a company to boot!

Increasing our stake in Optare plc was a significant step in our global bus strategy. This strategic partnership opens the doors for the adoption of the latest in bus technology to make buses that are comparable to the best in the world. We can, on the one hand, address new markets, and on the other, offer new top-of-the-line solutions to existing markets riding on Optare's proven experience that also embraces hybrid and electric vehicles.

Our International Operations blazed a new trail: consolidating our gains in some markets while at the same time, making significant inroads into new, untapped markets of potential. We continued to hold our own in our hitherto strong SAARC markets like Sri Lanka and