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Board of Directors

Rahul Bajaj
Chairman

Nanoo Pamnani
Vice Chairman

Sanjiv Bajaj
Managing Director

Madhur Bajaj

Rajiv Bajaj

S H Khan

D J Balaji Rao

Management

Sanjiv Bajaj
Managing Director

Ranjit Gupta
President (Insurance)

Kevin D'sa
CFO & President (Business Dev.)

Company Secretary

Sonal R Tiwari

Auditors

Dalal & Shah
Chartered Accountants

**Registered under the
Companies Act, 1956**

Registered Office

Bajaj Auto Limited Complex,
Mumbai-Pune Road,
Pune 411 035.



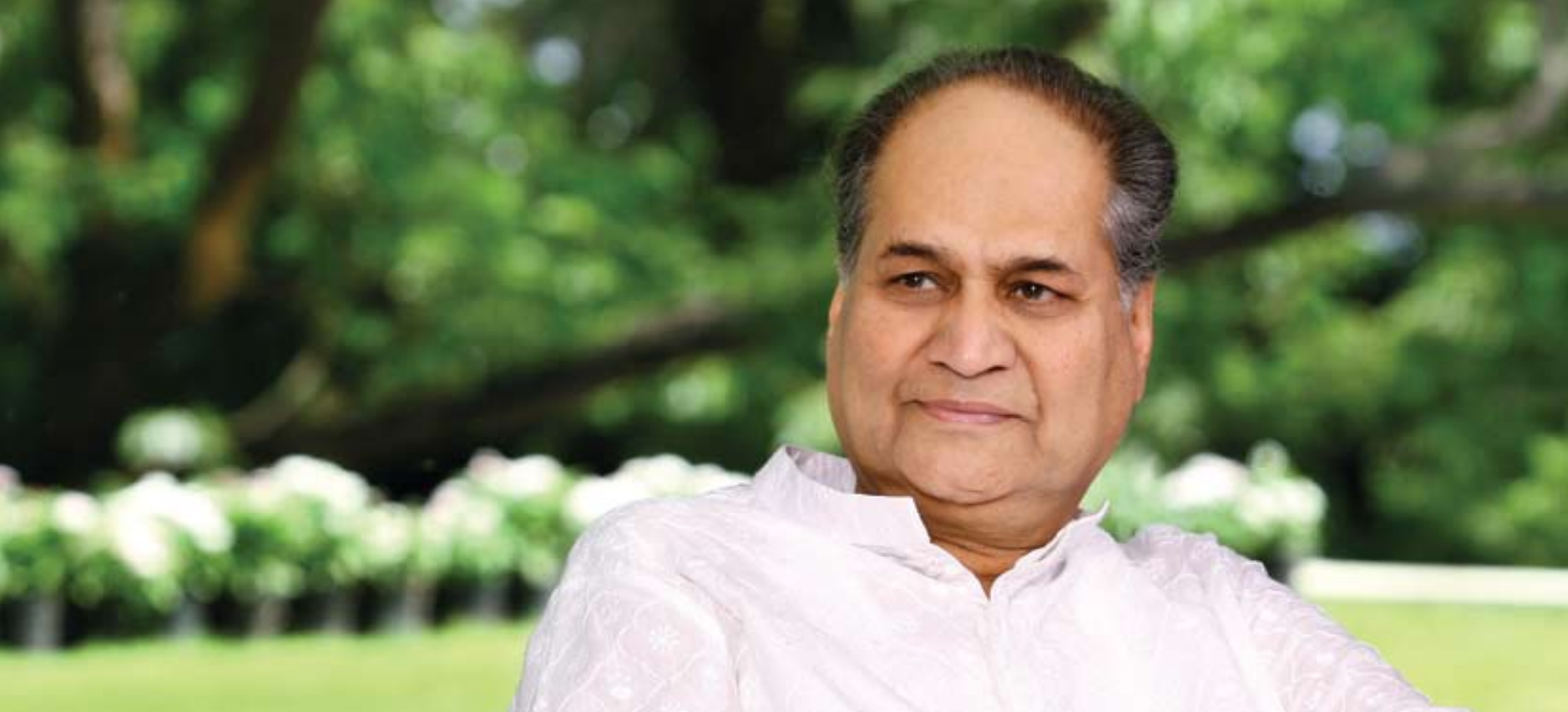
Management Team



Sanjiv Bajaj Managing Director
Ranjit Gupta President (Insurance)



Kevin D'sa CFO & President (Business Dev.)
Kamesh Goyal (CEO - BALICL)
Rajeev Jain (CEO - BAFL)
Swaraj Krishnan (CEO - BAGICL)



Chairman's Letter

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Dear Shareholder

This is my first letter to you as the Chairman and chief fiduciary of Bajaj Finserv Limited.

As you know, the Company was formed on 30 April 2007 as a pure play financial services business. The process of demerging this entity from Bajaj Auto Limited was completed on 20 February 2008. The new Company has in its portfolio Bajaj Auto's holdings of the insurance companies — Bajaj Allianz Life Insurance, Bajaj Allianz General Insurance and Bajaj Allianz Financial Distributors — as well as Bajaj Auto Finance and the wind-power undertaking. In addition, it has around Rs. 8 billion (Rs.800 crore) of cash and cash equivalents.

Why Bajaj Finserv? It has everything to do with a vision of India in the 21st century. This is a

vision of growth where, in the next two decades or less, per capita real income of the nation will have risen from roughly US\$ 1,000 today to over US\$ 3,500, at a compound annual growth rate of at least 6.5% per annum. Growth increases aspirations of people; and these aspirations need to be met.

Economics tells us that when a nation's per capita income grows at a steady rate in excess of 6.5% per year and when its people, on average, cross the US\$ 1,500 mark, there occur discontinuous changes in consumer wants. What are these changes?

- People save more. Already, India's household savings rate has increased from a low 20% of income in the late 1980s to the mid-30%. We can expect this to rise further as per capita real income crosses US\$ 1,500.

- People want different financial products to channelise their savings. From post office and bank savings accounts, households migrate to other instruments such as pension funds, mutual funds, and others.
- People want financial protection. As incomes grow, so too does awareness of the need for insurance — life, health and non-life products.
- People spend more. They desire better things in life: their own place to live, personal transport, consumer durables, better education for their children, holidays, and the like.

All these wants need to be met by dynamic players in the financial services space. Indeed, beyond a certain level, as per capita incomes rise, the demand for financial services rise even faster. We have already begun to witness this in India; and the trend will intensify over the coming years.

Bajaj Finserv has been formed precisely to meet these needs. To touch and improve the lives of a growing number of people of this country and, in doing so, deliver superior corporate value to its shareholders.

I expect the major growth engines of the Company — Bajaj Allianz Life Insurance,

Bajaj Allianz General Insurance and Bajaj Auto Finance — to continue delivering growth, increase the size of their businesses, and create a new financial conglomerate that serves the needs of our people.

Indeed, if there is a single line that should define your Company, it is: “To grow for, and with, India”.

In doing so, I expect the Company to be conscious of the Bajaj brand, which carries with it decades of commitment to business ethics, integrity, and the highest standards of fiduciary responsibility. Having lived with these values, I am confident that your Company’s Managing Director, Sanjiv Bajaj, and his team will carry the torch forward.

I request you to extend your fullest support to Bajaj Finserv. It has been created on the belief of providing value in the financial services sector and, thus, improving the lives of many in our country. It will, I’m sure, redeem this pledge in due course.



Rahul Bajaj
Chairman

Management Discussion and Analysis

Bajaj Finserv Limited ('Bajaj Finserv' or 'the Company') was formed on 30 April 2007 as a pure play financial services business. Following shareholders' approval, and pursuant to the orders of the High Court, Bombay, of 18 December 2007, the process of demerger was completed on 20 February 2008. The new Company has in its portfolio Bajaj Auto's holdings of the insurance companies — Bajaj Allianz Life Insurance, Bajaj Allianz General Insurance and Bajaj Allianz Financial Distributors — as well as Bajaj Auto Finance and the wind-power undertaking. In addition, the Company has around Rs. 8 billion (Rs. 800 crore) of cash and cash equivalents.

This is the first Management Discussion and Analysis of Bajaj Finserv, which gives a brief overview of the performance of its four key components: Bajaj Allianz Life Insurance and Bajaj Allianz General Insurance, Bajaj Auto Finance and the wind-power undertaking.

Bajaj Allianz Life Insurance

In 2007-08, the life industry grew at 23%, garnering new business premium of Rs. 930 billion, compared to Rs. 754 billion in 2006-07. However private sector returned a high growth of 74% in 2007-08. Market share of private players increased from 26% in 2006-07 to 36% in 2007-08. On a rated basis, private market share grew to 51.9 %.

Bajaj Allianz Life Insurance continues to be at the second position amongst the private life insurers on the basis of new business premium. It wrote new business of Rs. 66.7 billion compared to Rs. 43.0 billion in the previous year and registered a market share of 7.0% compared to 5.7% in the previous year.

Bajaj Allianz Life Insurance is at first position among the private life insurers on total new business policy basis with 3.74 million policies

issued for the year 2007-08 as compared to 2.08 million policies in 2006-07. The gross premium written for the financial year 2007-08 was Rs. 97.3 billion, as compared to Rs. 53.5 billion in 2006-07.

The annualised new business premium (considering single premium @ 10% and first year premium @ 100%) registered a growth of 85% from Rs. 32.3 billion in 2006-07 to Rs. 60.0 billion in 2007-08. Market share on an annualised new business premium basis grew from 7.4% in 2006-07 to 10.3% in the year 2007-08. However, the business incurred a loss of Rs. 159 million during 2007-08 as compared to a profit of Rs. 662 million in 2006-07.

The Assets under Management as on 31st March 2008 include shareholder funds Rs. 11.5 billion; traditional policyholder funds Rs. 14.7 billion and Unit linked funds of Rs. 109.5 billion. The unit-linked funds have increased by 111.2% from Rs. 51.9 billion in 2006-07.

Bajaj Allianz General Insurance

The year 2007-08 witnessed the first full year of de-tariffication process initiated by the Insurance Regulatory and Development Authority (IRDA). The first phase of de-tariffication rolled out effective January 2007 resulted in partial removal of price controls with respect to Fire, Engineering and Motor Own Damage businesses. Effective January 2008, a further relaxation was announced, permitting companies to charge prices in accordance with their actuarially determined pricing policies, subject to compliance with the File and Use Guidelines of the IRDA.

Another major development during the year was the establishment of the Indian Motor Third Party Insurance Pool (IMTPIP), under which 100% of third party insurance risks arising out of specified commercial vehicles are ceded to the IMTPIP. All non-life insurers licensed to sell Motor insurance are required to participate as ceding companies in the pool and also compulsorily required to share in the business of the IMTPIP as reinsurers.

Consequently, the growth rate of the general insurance industry (excluding specialised insurers) fell from 22.4% in 2006-07 to 12.6% in 2007-08. Excluding specialised reinsurers, the total gross premium of the industry was Rs. 281.3 billion, as against Rs. 249.8 billion in the previous year. The growth rate of private sector companies also fell from 60.4% in 2006-07 to 28.9% in 2007-08. However, private sector companies increased their market share from 34.9% in 2006-07 to 39.9% in 2007-08.

Despite not so conducive conditions, Bajaj Allianz General Insurance managed to maintain a growth rate which was more than twice that of the market. Gross written premium (excluding share of premium from the IMTPIP) grew by 33.3% during 2007-08 and despite intense price competition, Bajaj Allianz General Insurance maintained its second position among the private sector companies in terms of gross written premium. The market share (excluding premium of specialised insurers) increased from 7.2% in 2006-07 to 8.5% in 2007-08.

During 2007-08, Bajaj Allianz General Insurance clocked gross written premium of Rs. 24.0 billion excluding share of business from the IMTPIP

as compared to Rs. 18.0 billion in 2006-07. Including its share of inward business from the IMTPIP, the gross premium written amounted to Rs. 25.8 billion. Reflecting the company's strong retention policy, the net earned premium for the year (excluding net premium from inward business of the IMTPIP) rose to Rs. 13.26 billion, an increase of 58.6% over the previous year of Rs. 8.3 billion. Including the net premium arising out of the share of business from the IMTPIP, the net premium for the year was Rs. 14.1 billion.

The number of policies sold grew to 6.61 million as against 4.90 million in 2006-07.

Post-tax profits for 2007-08 increased by 40% from Rs. 754 million in 2006-07 to Rs. 1,056 million in 2007-08.

During the year, shareholders infused capital, including share premium, amounting to Rs. 692 million. Total shareholder capital of Bajaj Allianz General stood at Rs. 2.77 billion as on 31st March 2008. Shareholders' equity grew from Rs. 4.03 billion on 31st March 2007 to Rs. 5.77 billion on 31st March 2008 (excluding fair value reserve). As at 31st March 2008, the company's invested surplus, as measured by cash and investments, was Rs. 20.5 billion as against Rs. 15.2 billion as at the end of the previous year.

Bajaj Auto Finance

Bajaj Auto Finance Limited is a leading financier of two wheelers, consumer durables, personal computers and personal loans with an asset base of Rs. 38.06 billion.

BAFL has strong market presence through its pan-India network of branches. In the current year, the company launched new product lines / extensions - launched IPO financing for high networth customers, acquisition of AAA rated securitisation transactions, personal loan cross sell programme to its existing customers and financing for personal computers to SMEs. Going forward, BAFL has decided to diversify its product offerings and grow other retail finance product lines.

During the year, the gross deployments stood at Rs. 30.36 billion – a growth of 15% as against Rs. 26.31 billion in the previous year.

Assets under Finance and Receivables as on 31 March 2008 were Rs. 33.32 billion as against Rs. 27.61 billion in the previous year.

The profit after tax for the year 2007-08 stood at Rs. 201 million as against Rs. 472 million in the previous year. There was an increase in provision for bad and doubtful debts due to company's increased focus in semi-urban and rural markets during the last 2-3 years. Capital Adequacy Ratio for the company stood at 40.69 percent (pre-dividend), which is above the RBI norm of 12 percent.

Wind Energy Undertaking

The Company has 138 wind mills in Maharashtra with total installed capacity of 65.2 MW. The mills are located in two clusters: Vankuswade (Satara district), and Supa (Ahmednagar district). These wind mills were set up at a total cost of Rs. 2.94 billion (Rs. 294 crore). The project generated net wind energy of 91 million units of

electricity in 2007-08, compared to 103 million units in 2006-07. Reduction in net generation was due to abnormal weather changes and low wind during the year. The electricity generated in 2007-08 was valued at Rs. 271 million. The wind energy generated was supplied to the three manufacturing plants of Bajaj Auto Limited, namely, Akurdi, Chakan and Waluj.

This year, the overall grid availability for the Company's wind power project improved to 97% and machine availability to 98%, This helped the business to achieve an annual plant load factor of 17% at the Vankuswade site, and in excess of 18% at Supa.

Power from Windmills is recognised as Zero Emission of Greenhouse Gas (GHG), which

contributes to the reduction of global warming, which entitles the company for Voluntary Emission Reduction (VER). The company was able to get certified for 555,000 tradable VERs from TÜV Nord Cert GmbH, according to the Voluntary Carbon Standard as issued by International Emission Trading Association (IETA).

Consolidation of accounts and segment reporting

Bajaj Finserv has consolidated the financial statements of subsidiaries, associates and joint ventures in accordance with the relevant accounting standards issued by The Institute of Chartered Accountants of India. The summary of consolidated profit and loss account business segment wise is tabulated in Table 1.

Table 1: Segment Revenue and Segment Results (Rs. million)

Segment Revenue		Segment Results Profit / (loss) from each segment before interest and tax	
	2007-08		2007-08
Insurance	121,224	Insurance	(460)
Windmill	348	Windmill	(27)
Retail finance	-	Retail finance	83
Investments & other	682	Investments & other	628
Total	122,254	Total	224

Cautionary Statement

Statements in Management Discussion and Analysis describing the Company's objectives,

projections, estimates and expectation may be 'forward looking' within the meaning of applicable laws and regulations. Actual results might differ materially from those expressed or implied.

Corporate Governance

The commitment of Bajaj Group to the highest standards of good corporate governance practices predates SEBI and clause 49 of the Listing Agreements. Transparency, fairness, disclosure and accountability are central to the working of the Group. Bajaj Finserv Limited ('BFS or the company'), the newly incorporated company maintains the same tradition and commitment.

Given below are the company's corporate governance policies and practices for 2007-08 (being the period commencing from 30 April 2007, the date of incorporation of the company upto 31 March 2008 and hereinafter referred to as such).

Board of directors

In keeping with the commitment of the management for the principle of integrity and transparency in business operations for good corporate governance, the company's policy is to have an appropriate blend of executive and independent directors to maintain the independence of the Board, and to separate the Board functions of governance and management.

Composition

As on 31 March 2008, the board of the company consisted of seven directors, of whom six were non-executive and one was the managing director. Three out of the six non-executive Directors were independent. The board has no institutional nominee director.

According to clause 49 in force as on 31 March 2008, if the Chairman is a non-executive, at least one third of the board should consist of non-executive, independent directors. As Table 1 below shows, this provision is met at BFS.

All the first directors of the company viz: Rahul Bajaj, Rajiv Bajaj and Sanjiv Bajaj will retire at the ensuing annual general meeting and being eligible have offered their candidature for re-appointment.

The company appointed four additional directors during the year — Madhur Bajaj, S H Khan, D J Balaji Rao and Nanoo Pamnani. Their term expires on the date of the ensuing annual general