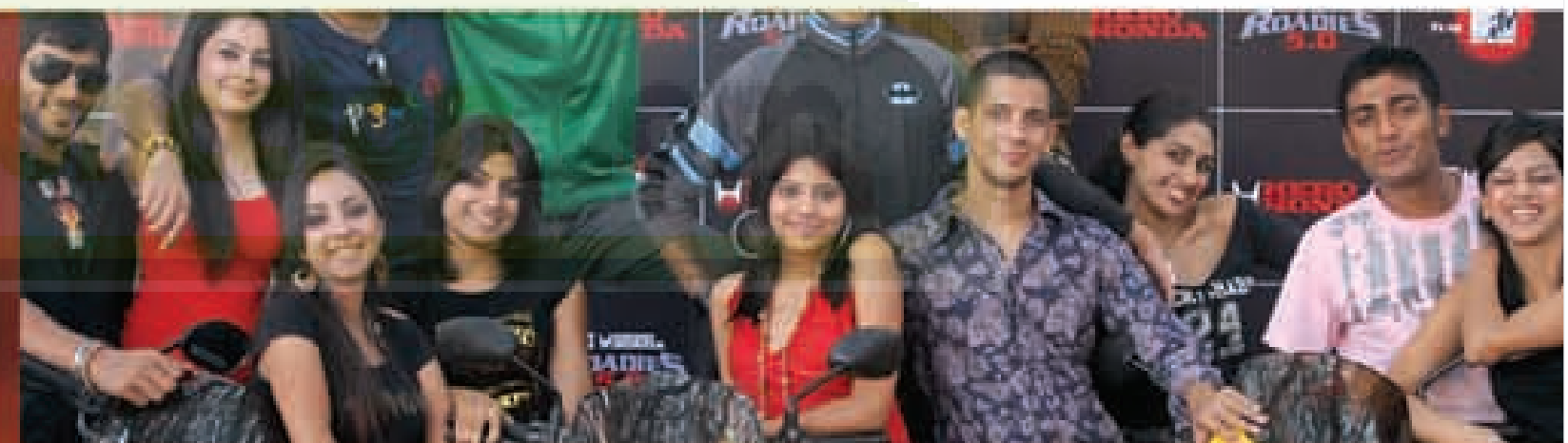
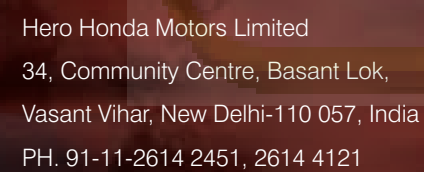


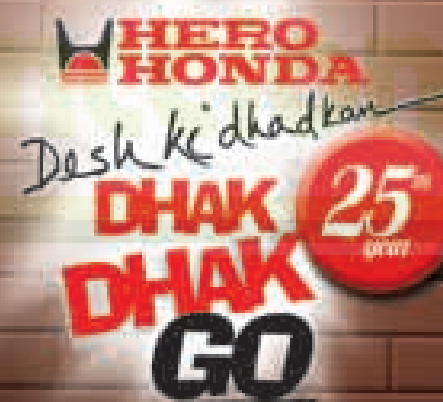
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Report



India and Bharat co-exist today. India comprises of fast-growing cities and towns; Bharat is made up of villages entering the economic mainstream. As we enter our 25th year, we seek to walk and march with both India and Bharat.





Corporate Profile	04
Chairman's Message	10
Board of Directors	14
Management Discussion & Analysis	16
Industry and Segment Dynamics	18
Results and Financial Analysis	24
Operation, Reach & Supply Chain	28
People And Environment	32
Social Responsibility	36
Directors' Report	43
Corporate Governance Report	47
FAQ's	71
Auditors' Report	74
Balance Sheet	78
Profit & Loss Account	79
Cash Flow Statement	80
US GAAP	115

CORPORATE PROFILE

“If your actions inspire others to dream more, learn more, do more and become more, you are a leader.”

In some ways, Hero and Honda are like two volumes of a single book. What has made the book a bestseller is the fact that right from the outset, the co-authors knew the script they had to write in order to be successful in the Indian market.

Over the course of two and a half decades, both partners have fine-tuned and perfected their roles. As the largest motorcycle producer in the world, Honda has been able to consistently provide technical know-how, design specifications and R&D innovations to its most prolific affiliate in the world, Hero Honda. This has led to the development of world class, value-for-money motorcycles and scooters for the Indian market.

On its part, the Hero Group has taken on the singular and onerous responsibility of developing the supply chain, ramping up production facilities, setting up distribution networks and creating customers.

Since both partners are completely focused on their respective skills, they have been able not just to complement each other, but also draw from each others strengths. In the process, Hero Honda has gone on to create history, by becoming one of the most successful joint ventures in the world.

Today, every second motorcycle sold in the country is a Hero Honda. There are more than 22 million Hero Hondas on

Indian roads today. There are more Hero Honda bikes on this country's roads than the total population of some European countries put together!

The company's growth in the two-wheeler market in India is the result of an intrinsic ability to increase reach in new geographies and growth markets. Hero Honda's motorcycles and scooters are sold and serviced through a network of over 3500 customer touch points. These outlets comprise of a mix of dealers, service centres and stockists located across rural and urban India, and with every passing year, the network is augmented.

Hero Honda has built two world-class manufacturing facilities at Dharuhera and Gurgaon in Haryana. These two units now churn out over 3 million bikes per year. The company's third, and its largest and most sophisticated plant at Haridwar has also gone on-stream.

All this has happened in the span of just two and a half decades!

Leaders create pathways where none exist. In the 1980's – much before “green” became a fashionable word, Hero Honda became the first company in India to prove that it was possible to drive a vehicle without polluting the roads. The company introduced new generation motorcycles that set industry benchmarks for fuel thrift and low emission.

A legendary ‘Fill it - Shut it - Forget it’ campaign captured the imagination of commuters across India and Hero Honda sold millions of bikes purely on the commitment of increased mileage. Today, as Hero Honda enters its silver jubilee year, a riveting ‘Dhak Dhak Go’ sets the tone for India's Gen Next, its emerging classes and its aspiring classes.

The true test of champions comes when the going gets tough. Champions show the way by doing the basic things right. In a particularly difficult year, when the rest of the motorcycle industry shrunk by 14 per cent, Hero Honda has protected its turf and has actually grown its market share, by re-establishing a lead of more than one million bikes over its nearest rival.

Not one to rest on its laurels, the company believes the best is yet to come. Today, Hero Honda is powering its way through a market that —despite the short term hiccup—hasn't still unleashed its true potential, since barely 2 per cent of the population has been penetrated so far.

Not surprisingly, the company is in no mood to take its hand off the throttle. As Brijmohan Lall Munjal, the Chairman, Hero Honda Motors succinctly puts it, “We pioneered India's motorcycle industry, and it's our responsibility now to take the industry to the next level. We'll do all it takes to reach there.”





WE CELEBRATE
EVENTS AND WE
CELEBRATE TIME.

BUT OUR MOST
IMPORTANT
CELEBRATIONS, ARE
OF ACHIEVEMENTS.





CHAIRMAN'S MESSAGE

Dear Shareholders,

As I sat on the stage during the inauguration of our third plant in April this year, a fleeting thought crossed my mind: have we really entered our 25th year?

I remembered vividly how we started a quarter of a century ago: our first plant came up in the wilderness. We used dirt tracks to reach our factory. Yet here I was, sitting in front of India's first automobile factory that connects vendors through conveyor belts!

Friedrich Nietzsche once famously remarked: "For a tree to become tall, it must grow tough roots along the rocks". As we enter our silver jubilee year, we have shown how.

As interest rates climbed during the year, the industry went into de-growth, against all expectations and projections. Domestic motorcycle sales shrunk by 12 per cent and for the first time in more than a decade, motorcycle's share of the overall two-wheeler pie actually came down by around 2 per cent.

For most of the two-wheeler industry therefore, managing 2007-08 was like trying to grow on rocky terrain. The sub-soil was far from nourishing and the business climate was harsh. Yet, strong companies, like strong trees, learn to adapt and adjust. They grow tough roots along the rocks.



Luckily, we weathered the storm -- and actually surpassed our tally of the previous year marginally. More significantly, your company boosted its share in the domestic motorcycle market to more than 54 per cent—the highest share in recent memory. As the year ended, your company led its nearest competitor in the domestic two-wheeler market by more than 1 million units.

I think it would be safe to summarise 2007-08 as the year in which we migrated from schemes to themes. Despite difficult market conditions, we resisted the temptation to bump up sales artificially through comprehensive festival-related discounts. Instead, we invested in new models and upgrades.

Our performance in the domestic premium segment gives me special satisfaction, since our share increased from 15 per cent to nearly 24 per cent. In my last message, I talked about our plans to consolidate our presence in this part of the market; we are clearly on track.

In my last message, I had said that we were taking measures to ensure that are profitability gets back on track.

Near-stagnant topline performance forced us to look inwards: at process efficiencies, at our supply chain and at our sales frontline. We tweaked, changed and rationalised where possible and managed to increase our operating margins from 11.9 per cent to 13.1 per cent.

Going forward, I expect our supply chain to become even leaner as ongoing online projects go live. I am happy to report that our online vendor connectivity program – which seeks to links our plant with vendor premises on a real-time basis-- has made rapid progress, with more than 70 per cent of vendors seamlessly integrated. Likewise, dealer management system software is also rolling out on a national basis very shortly.

In my last message, I had also said that the slowdown would be temporary. This year, when conditions are even more trying, I continue to hold this view. This company has coped with high interest

rates before. This company has coped with double-digit inflation before. So what we are seeing today is nothing extraordinary.

Of course, good times do not last forever—perhaps years of 30 per cent growth will become rare in the future. But just as good times don't last forever, nor do bad times. The current de-growth in the industry is also an aberration caused by external factors outside the control of the auto industry. It is not driven by fundamentals. Indeed, the ground conditions that drove this country and this company have not changed.

Two Indias exist today. Both excite me equally. By the end of this decade, India is expected to have an urban population of 173 million. This is significant, since urbanisation rises with GDP per capita in a "hockey stick" fashion.

I am equally excited about rural India. Government development schemes are finally showing signs of working at the grassroots—landless farmers from Uttar Pradesh and Bihar who traditionally migrated to Punjab to work are now demanding higher wages to come, since there is work available at home, for the first time. In 1990, for every Rs. 4300 earned by an Indian villager, an urbanite made Rs. 3526 more. Today, the difference has dropped to Rs. 2408. This is a clear sign of progress.

Increasingly, the rural economy is a microcosm of the national economy. Today, India's 700 million villagers now account for the majority of consumer spending in the country, more than Rs. 4300 billion a year. Millions step into consumerism each year, graduating from the economics of necessity to the economics of gratification, buying themselves products we make.

We in Hero Honda are actively seeking to be part of this miracle. In December 2007, we launched a unique national level rural connect program called Haar Gaon, Haar Aangan (every village, every house). It is my belief that this program, as it gains critical momentum in the years to come, it will sustain this company well into the next decade.

Marching with India and walking with Bharat—this, I believe, should be our leitmotif in our silver jubilee year.

We chose to see 2007-08 like a glass of half-full water; and we were able to make the most of adversity. Yet I would like to stress that the road ahead won't be entirely smooth.

Throughout the year in review, customers in the entry and executive segments began to postpone buying decisions. By the middle of the fiscal, effective interest rates for the two-wheeler industry hovered around 20 per cent.

Being motorcycle-centric, we were also affected. The high rates led to large-scale delinquencies and defaults in a number of regions. This in turn forced financiers to withdraw loan facilities in a number of dealerships.

High interest rates continue as I write this, but these are beyond our control. Nevertheless, the management is convinced it can, to an extent, control rampant delinquencies by partnering NBFC lenders with regional strengths and strong grassroot connections, instead of depending entirely on national level banks.

Though much smaller in size, regional non-banking financial companies are able to leverage their excellent domain knowledge on local borrowers. This ensures extremely low levels of non-performing assets. These NBFC's could be our ideal finance partners, especially in smaller towns and rural areas, where national-level banks have poor distribution networks. We tied up with a regional financier during the year and hope to sew up more regional tie-ups in the months to come.

Inflation is another concern. While it is true that double-digit inflation of 11-12 per cent would certainly upset household budgets and postpone certain purchases, the rise in auto fuel prices might actually turn out to be a blessing in disguise for the two-wheeler industry. It is my belief that cost-effective and fuel-efficient modes of transport will become more popular. In fact, I will not rule out the possibility of a number of car-owning homes actually buying an additional two-wheeler to

reduce the impact of the monthly fuel bill on the household budget.

Since fuel prices are not expected to soften in the near term, fuel-efficient industries such as ours could be beneficiaries.

We will continue to be confident and aggressive about the future, we will also be patient. I read somewhere that patience is waiting. Not passively waiting - that is laziness; but to keep going when the going is hard and slow - that is real patience.

Yours sincerely,

Brijmohan Lall
Chairman

BOARD OF DIRECTORS



Brijmohan Lall Munjal
Chairman



Pawan Munjal
Managing Director & CEO



Toshiaki Nakagawa
Joint Managing Director



Sumihisa Fukuda
Technical Director
(w.e.f. June 01, 2008)



Pradeep Dinodia
Non-Executive and Independent Director



Gen. (Retd.) Ved Prakash Malik
Non-Executive and Independent Director



Dr. Pritam Singh
Non-Executive and Independent Director



Analjit Singh
Non-Executive and Independent Director



Om Prakash Munjal
Non-Executive Director



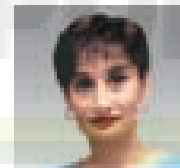
Masahiro Takedagawa
Non-Executive Director



Sunil Kant Munjal
Non-Executive Director



Takashi Nagai
Non-Executive Director
(w.e.f. May 11, 2007)



Ms. Shobhana Bhartia
Non-Executive and Independent Director



Sunil Bharti Mittal
Non-Executive and Independent Director



Meleveetil Damodaran
Non-Executive and Independent Director
(w.e.f. June 16, 2008)

ALTERNATE DIRECTOR

Satoshi Matsuzawa
(Alternate Director to Mr. Takashi Nagai)

OUTGOING DIRECTORS

Tatsuhiro Oyama
Non-Executive Director
(upto May 11, 2007)

Dr. Vijay Laxman Kelkar
Non-Executive and Independent Director
(upto December 31, 2007)

Yutaka Kudo
Whole-time Director
(upto May 31, 2008)

Narinder Nath Vohra
Non-Executive and Independent Director
(upto June 24, 2008)

COMMITTEE OF DIRECTORS

Audit Committee

Pradeep Dinodia
Chairman

Gen. (Retd.) Ved Prakash Malik
Member

Dr. Pritam Singh
Member

SHAREHOLDERS' GRIEVANCE COMMITTEE

Dr. Pritam Singh
Chairman

Pradeep Dinodia
Member

REMUNERATION COMMITTEE

Gen. (Retd.) Ved Prakash Malik
Chairman

Pradeep Dinodia
Member

COMPLIANCE OFFICER

Ilam C. Kamboj
G.M. Legal & Company Secretary

SENIOR MANAGEMENT TEAM

Ravi Sud
Sr. Vice President & CFO

Anil Dua
Sr. Vice President-Sales,
Marketing and Customer Care

Vikram S. Kasbekar
Plants Head-Operations
and Supply Chain

Dr. Anadi S. Pande
Vice President-HRM, Corporate
Planning and Strategy

Vijay Sethi
Vice President-Information Systems

For more information please visit www.herohonda.com



MD & A

MANAGEMENT DISCUSSION & ANALYSIS

Industry And Segment Dynamics

Performance Across Segments

Results And Financial Analysis

Operations, Reach & Supply Chain

Manufacturing
Vendor Mangement
Distribution Network
Rural Network

People And Environment

The Human Touch
Information Systems
Environment

Cautionary statement

Statements in this management discussion and analysis describing the Company's objectives, projections, estimates and expectations may be 'forward looking statements' within the meaning of applicable laws and regulations. Actual results might differ substantially or materially from those expressed or implied. Important developments that could affect the company's operations include significant changes in political and economic environment in India or key markets abroad, tax laws, litigation, labour relations and interest costs.