

15TH ANNUAL REPORT

2006-07

SBI FUNDS MANAGEMENT PRIVATE LIMITED

DIRECTORS' REPORT

TO,

THE MEMBERS

The Directors have pleasure in presenting the Fifteenth Annual Report together with the Profit and Loss Account of SBI Funds Management Private Limited for the year ended March 31, 2007 and the Balance Sheet as at that date.

The Financial results are as under:

I. FINANCIAL RESULTS:

PARTICULARS	<i>(Rs. in lacs)</i>	
	YEAR UNDER REPORT	PREVIOUS YEAR
	2006-07	2005-06
Total Income	11365.05	6676.16
Profit before depreciation	4624.91	2831.41
Less : Depreciation	135.81	120.32
Profit before tax	4489.10	2711.09
Less : Provision for tax	1511.48	847.23
Profit after tax	2977.62	1863.86
Balance brought forward from previous year (net)	1111.10	587.49
Amount available for Appropriation	4088.72	2451.35

APPROPRIATIONS:

Transfer to General Reserve	400.00	200.00
Interim Dividend/Proposed Dividend	1400.00	1000.00
Dividend Distribution Tax	196.35	140.25
Balance/(Loss) to be carried forward	2092.37	1111.10

II DIVIDEND:

An interim Dividend of Rs. 28 per Equity Share amounting to Rs. 1400 lacs was paid during March 2007 on the paid-up equity share capital of the Company. The tax on the distributed profits, payable by the company, amounted to Rs.196.35 lacs. The Directors recommend that the Interim Dividend paid during the year, be declared as the Final Dividend for the year 2006-07.

III CAPITAL:

During the year under review, the Company has not made any fresh issue of capital. The net worth of the Company increased to Rs. 9,179.84 lacs as at the end of March, 2007 from Rs. 7,798.57 lacs as at the end of March 2006.

IV BUSINESS ENVIRONMENT:

THE ECONOMY

The performance of the Indian economy in 2006-07 has exceeded expectations formed at the beginning of the year and the economy has grown by 9.4 per cent in 2006-07. While the up-and-down pattern in agriculture continued with growth estimated at 6.0 per cent and 2.7 per cent in the two recent years, and services maintained its vigorous growth performance, there were distinct signs of sustained improvements on the industrial front. Entrenchment of the higher growth trends, particularly in manufacturing, has boosted sentiments, both within the country and abroad. The overall macroeconomic fundamentals are robust, particularly with tangible progress towards fiscal consolidation and a strong balance of payments position. With an upsurge in investment, the outlook is distinctly upbeat.

Services contributed as much as 68.6 per cent of the overall average growth in GDP in the last five years between 2002-03 and 2006-07. Practically, the entire residual contribution came from industry. As a result, in 2006-07, while the share of agriculture in GDP declined to 18.5 per cent, the share of industry and services improved to 26.4 per cent and 55.1 per cent, respectively.

A notable feature of the current growth phase is the sharp rise in the rate of investment in the economy. Investment, in general being a forward looking variable, reflects a high degree of business optimism. The revival in gross domestic capital formation (GDCF) that commenced in 2002-03 has been followed by a sharp rise in the rate of investment in the economy for four consecutive years. The earlier estimates of GDCF for 2004-05 of 30.1 per cent, released by CSO in their advance estimates, now stand upgraded to 31.5 percent in the quick estimates. The rate of GDCF for 2005-06 as per the quick estimates released by CSO is 33.8 per cent. This sharp increase in the investment rate has sustained the industrial performance and reinforces the outlook for growth. The industrial resurgence and upswing in investment was also reflected in, and sustained by, growth of gross bank credit.

With a shortfall in domestic production vis-à-vis domestic demand and hardening of international prices, prices of primary commodities, mainly food, kept on rising during 2006-07. Starting with 3.98 per cent, the inflation rate in 2006-07 has been on a general upward trend with intermittent decreases. However, the average inflation in the 52 weeks ending 31st March, 2007 remained at 5.4 per cent.

During 2006-07, after a slow start, exports gained momentum to grow by an estimated 36.3 per cent in the first nine months to reach US\$89.5 billion. Buoyancy of exports was driven by the resurgence in the manufacturing sector and sustained demand from major trading partners. Overall, the external environment remained supportive with the invisible

account remaining strong and stable capital flows seamlessly financing the moderate levels of current account deficit caused primarily by the rise in international oil prices. FII flows, the dominant variety of portfolio flows, after remaining buoyant until 2005-06, turned into net outflows in the first half of 2006-07. FII flows have reportedly turned positive again in the second half of the year. The buoyancy of foreign investment flows through the balance of payments, in part, reflected the bullish sentiments in the domestic capital markets.

The BSE Sensex, the bellwether stock-index of the Bombay Stock Exchange (BSE), rallied from a low of 8,929 on June 14, 2006 to an all-time intra-day high of 14,724 on February 9, 2007. The rally from the 13,000 mark to the 14,000 mark in only 26 trading sessions was the fastest ever climb of 1,000 points. Aggregate mobilization, especially through private placements and Initial Public Offerings (IPOs), grew by 30.5 per cent to Rs. 161,769 crore in calendar year 2006.

The year 2007-08 marks the beginning of the Eleventh Plan with the declared objective of “Faster and Inclusive Growth”. The growth rate of approximately 10 per cent by the end of its period for the economy as a whole has been projected with a growth of 4 per cent in the agriculture sector, faster employment creation, reducing disparities across regions and ensuring access to basic physical infrastructure as well as health and education services to all. The Union Budget 2007-08 was announced on February 28, 2007 with the Eleventh Plan objectives in mind.

CAPITAL MARKETS

The year 2006-07 saw the Indian Capital Market reach record highs. The primary capital market remained upbeat during 2006-07. The aggregate resource mobilisation in the market, especially through Initial Public Offerings (IPOs) and private placements, was much higher in calendar year 2006 than during the previous year. In the secondary market, the uptrends continued with BSE Sensex and NSE Nifty indices closing above 14,000 (14,015) and 4,000 marks (4,024) for the first time, respectively on January 3, 2007. After a somewhat dull first half, conditions on the bourses turned buoyant during the later part of the year with large inflows from Foreign Institutional Investors (FIIs) and larger participation of domestic investors. During 2006, on a point-to-point basis, Sensex and Nifty Indices rose by 46.7 and 39.8 per cent, respectively. The BSE Sensex continued its movement upwards in February, 2007 and closed at 14,652 on February 8, 2007. However, it closed at 13,072 with the year end gain of 1,792 points or 15.9%. The Nifty gained 12.3% to close the year at 3,822, while CNX Midcap index saw a gain of 1.3% to end the year at 4,850. Fund flows into the market remained robust, with FIIs net purchases at USD 5.47 billion. The Indian mutual fund industry also invested Rs 9,024 crores during the year.

The trading intensity of Indian stock exchanges during the year was impressive by world standards. According to the number of transactions, NSE continued to occupy the third position among the world's biggest exchanges in 2006, as in the previous three years. BSE occupied the sixth position in 2006, slipping one position from 2005. In terms of listed companies, the BSE ranks first in the world.

The year under review saw increased daily volatility (as measured by standard deviation of returns) in the Indian markets partly due to a sharp sell off in the market during the month of May in line with global markets in reaction to the trend in global interest rates. The market soon recovered thereafter to touch new highs reflecting the underlying strength of the fundamentals of the Indian economy

NSE and BSE spot market turnovers adding up to Rs. 2,877,880 crore and NSE and BSE derivatives turnover adding up to Rs. 7,050,677 crore in 2006 showed significant growth over the previous year. Both FIIs and mutual funds as institutional investors remained active in the equity market during the year. Though the net investment by FIIs in the equity spot market fell by around 22 per cent to Rs. 36,540 crore in 2006, there was a quantum increase in gross value of buying and selling. Domestic participants accounted for the major part of the transactions in the Indian equity market with the gross turnover (including both buy and sale) by FIIs at Rs. 20.6 lakh crore accounting for only 10.4 per cent of total gross (two-way) turnover of Rs. 198.6 lakh crore in spot and derivatives markets in 2006.

In the secondary market for debt, Government of India (GOI) securities continued to account for the major part of activity. In terms of market size of GOI bonds, the gross issuance of GOI dated securities in 2006 amounted to Rs.147,000 crore as compared to Rs. 129,350 crore in 2005. The end of the year market capitalisation of GOI securities increased by 7.6 per cent from Rs.1,051,521 crore in 2005 to Rs.1,131,558 crore in 2006. The interest rates on GOI bonds have been on the rise in the past three years. The zero-coupon rate on a 1-year bond has shown an upward trend, rising from 6.09 per cent in 2004 to 8.03 per cent in 2006. Likewise, the zero-coupon rate on a 10-year bond has increased from 6.78 per cent in 2004 to 7.22 per cent in 2005 and further to 7.57 per cent in 2006. Due to the increase in interest rates, the returns to GOI bond index continued to be negative during 2006. Further, the volatility of GOI bond market during 2006 was higher than that during 2005.

MUTUAL FUND INDUSTRY

During the year, the following developments took place in the Mutual Fund Industry:

- a) Guidelines for Capital Protection Oriented Scheme were notified by SEBI.
- b) Initial Issue Expenses and Dividend Distribution Procedure for Mutual Funds were rationalised.
- c) In compliance with the proposal made in Budget 2005-06, Mutual Funds were permitted to introduce Gold Exchange Traded Funds.
- d) Pursuant to the Union Budget 2006-07, the aggregate ceiling for the mutual fund industry to invest in ADRs/GDRs issued by Indian companies, equity of overseas companies listed on recognised stock exchanges overseas and rated debt securities was raised from US\$1 billion to US\$3 billion.

During the year, the total resources mobilised by the mutual fund industry stood at Rs 19,38,493 crores (Previous year Rs. 10,98,149 crores) while the total repurchase/redemption amount was Rs. 18,44,508 crores (Previous year Rs. 10,45,370 crores) (Source : SEBI website). The industry thus saw a net inflow of Rs. 93,985 crores (Previous year Rs. 52,779 crores) during the year. Out of the total net inflow of Rs. 93,985 crores, the share of tax-saving and growth-oriented equity funds was Rs. 28,206

crores. Income/Debt oriented Funds and Balanced funds contributed Rs. 64,068 crores and Rs. 1,711 crores respectively.

The total Assets under management as on 31st March, 2007 stood at Rs. 3,26,292 crores (Previous year Rs. 2,31,862 crores).

PERFORMANCE OVERVIEW & FUTURE PLANS

SBI Mutual Fund saw a total inflow of Rs. 52,512 crores (Previous year Rs. 48,167 crores) in the domestic open and close-ended funds during the year. The inflow took place predominantly in the equity-oriented funds. The total redemption amounted to Rs. 48,942 crores (Previous year Rs. 43,974 crores), leaving a net inflow of Rs. 3,570 crores as against a net inflow of Rs. 4,193 crores in the previous year. SBI Mutual Fund had a market share of 3.80% out of the net inflow of Rs. 93,985 crores during the year.

In March, 2006, SBI Mutual Fund had a market share of 5.71% which stands at 5.21% as on 31st March 2007. The Assets under Management, which were at Rs. 13,249 crores as on 31st March, 2006; rose to Rs. 17,016 crores as at the end of March, 2007 marking an increase of 28.43%. The contribution of equity funds in the overall growth was 53% because of superior performance during the year. This was followed by 38% growth of debt funds and 9% for liquid Funds. We are sanguine of maintaining the growth and performance of our equity schemes and of improving the performance of liquid and income/debt funds during the year 2007-08. We are targeting at a market share of 7% by 31st March, 2008.

During the year, SBI Mutual Fund launched two SBI Debt Fund Series, SBI Arbitrage Opportunities Fund and SBI One India Fund. The schemes received good response from the investors and total funds mobilized under these schemes amounted to Rs 7,695 crores.

The Resurgent India Opportunities Fund—the off-shore fund managed by the Company performed consistently well during the year and the value of assets managed as on 31st March, 2007 was Rs. 69 crores.

The portfolio management service offered by the Company received mandates from three new clients during the year for managing their portfolio. The value of assets managed as on 31st March, 2007 was Rs. 1,372 crores.

During the year, the number of AMFI certified Agents increased to 14,019 as on 31st March, 2007 from 10,166 as on 31st March, 2006. Further thrust is being made to increase this number constantly.

The Fund has set a net mobilisation target of Rs. 25,000 crores for the financial year 2007-08. The net mobilization target includes expected contribution of Rs. 8,000 crores from the SBI and Associate Bank Branches.

As a result of the Joint Venture Agreement with Société Générale Asset Management (SGAM) which was entered into in December, 2004, the Company was able to improve its investment risk and process controls, research and systems and was successful in getting business from Multinationals. We plan to utilize their expertise for launching new innovative products and for mobilizing fresh funds for our off-shore fund in future.

The total number of Investor Service Desks as on 31st March, 2007 increased to 31 as compared to 21 in the previous year. The number of Investor Service Agents (ISAs) was also increased to 48 by commissioning 19 more ISAs to improve customer service and provide a contact point to the investors. As on 31st March, 2007, the Company operated Investor Service Centres (ISCs) in 26 major cities.

AWARDS

The directors are pleased to inform that SBI Mutual Fund was conferred with the “Mutual Fund of the Year 2007” award at CNBC TV-18 CRISIL Award Function in February, 2007. In addition, the various schemes of SBI Mutual Fund won eleven awards for their performance during the year as follows:

CNBC TV18 - CRISIL MUTUAL FUND OF THE YEAR AWARD 2007

Scheme Name	Category	Funds in the Category
Magnum Global Fund	Equity diversified	34
Magnum Sector Fund Umbrella - Contra Fund	Equity diversified	34
Magnum Tax gain Scheme 1993	Equity Linked Savings Schemes (ELSS)	12
Magnum Balanced Fund	Balanced Fund	16
Magnum Sector Funds Umbrella-IT Fund	Technology	7

ICRA MUTUAL FUND AWARDS 2007

Scheme Name	Category	Award	Period
Magnum Global Fund	Diversified Equity Funds-Aggressive	Gold	3 years
Magnum Sector Funds Umbrella – IT Fund	Sectoral-Technology	Gold	3 years
Magnum Tax Gain Scheme 93	Equity Linked Savings Schemes (ELSS)	Gold	3 years

LIPPER FUND AWARDS - INDIA 2007

Scheme Name	Category	Period
Magnum Balanced Fund (Dividend)	Balanced Funds	3 Years
Magnum Sector Funds Umbrella - IT Fund	Sectoral-IT Funds	3 Years
Magnum Global Fund (Dividend)	Equity diversified	3 Years

V COMPANIES (DISCLOSURE OF PARTICULARS IN THE REPORT OF THE BOARD OF DIRECTORS) RULES 1988

In terms of the above rules issued by the Central Government the following information is furnished.

i) CONSERVATION OF ENERGY AND TECHNOLOGY ABSORPTION:

Since the Company does not own any manufacturing facility, the disclosure under this head is not applicable. Further, the other particulars in the Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules 1988 are also not applicable.

ii) FIXED DEPOSITS:

During the year, the Company has not accepted any deposits from the public under Section 58-A of the Companies Act, 1956.

iii) FOREIGN EXCHANGE EARNINGS AND OUTGO

During the financial year under review, the Company earned Rs. 210.90 lacs in foreign exchange as portfolio management fee. The foreign exchange outgo on account of traveling and business promotion was Rs. 28.36 lacs.

VI SUBSIDIARIES

During the year under review, SBI Funds Management (International) Private Limited, a fully owned subsidiary of the Company commenced operations. The Company provides investment management services to the SBI Resurgent opportunities fund.

The audited statement of accounts of SBI Funds Management (International) Private Limited for the period from 17th January, 2006 to 31st March, 2007, together with the Report of Directors and Auditors, as required under Section 212 of the Companies Act, 1956, are attached.

VII DIRECTORS

During the year under review, the following changes took place in the Board of Directors of the Company:

The term of Mr. A. K. Purwar as the Chairman of the Company ended on 31st May, 2006 consequent upon his retirement from the services of State Bank of India. In his place, Mr. O.P. Bhatt, Chairman – State Bank of India has been appointed as the Chairman of the Company w.e.f. from 11th July, 2006.

During the year under review, Mr. Manu Chadha ceased to be a Director with effect from 17th August, 2006, due to expiry of the tenure of his appointment. In his place, Mr. Jayesh Gandhi has been appointed as Director with effect from 29th August, 2006.

During the year, Mr. T. S. Bhattacharya, Managing Director of State Bank of India remained a Director of the Company from 23rd June, 2006 to 30th June, 2006.

The term of Mr. Deepak Chawla as the Managing Director ended on 9th November, 2006 consequent upon his posting as the Deputy Managing Director at the Corporate Centre of State Bank of India. In his place, Mr. Syed Shahabuddin was appointed as the Managing Director with effect from 9th November, 2006

The Board places on record its appreciation of the invaluable contributions made by Mr. A. K. Purwar, Mr. Manu Chaddha, Mr. T. S. Bhattacharya and Mr. Deepak Chawla as Directors of the Company.

The Board also extends a warm welcome to Mr. O. P. Bhatt, Mr. Jayesh Gandhi and Mr. Syed Shahabuddin, who have joined the Board of the Company.

VII BOARD MEETINGS:

Eight board meetings were held during the financial year under review – on 29th April 2006, 11th May 2006, 22nd July 2006, 14th October 2006, 27th October 2006, 15th January 2007, 15th February 2007 and 26th March 2007.

The attendance of each director at the meetings of the Board of Directors is as under:

Directors	Number of Board Meetings Attended
Mr.A.K.Purwar (Chairman till 5 th May, 2006)	1
Mr. O. P. Bhatt (Chairman from 11 th July, 2006)	5
Mr.Deepak Chawla	5
Mr. Syed Shahabuddin	3
Mr. Alain Clot	2
Mr. Christian d'Allest	3
Mr. Jayesh Gandhi	4
Mr. Pradeep Mallick	2
Mr.Ashwin Dani	4
Mr. Didier Turpin (Alternate to Mr. Christian d'Allest)	5
Mr.P.G.Kakodkar	4
Mr.Manu Chadha	3

VIII AUDIT COMMITTEE OF DIRECTORS:

The Committee reviews the reports of internal and statutory auditors placed before them from time to time. An independent director who is a Chartered Accountant chairs the audit committee. The Committee met nine times during the year.

IX MODEL CODE OF CONDUCT

The Directors confirm that all Board members and Senior Management have affirmed compliance with the Company's code of conduct for the financial year 2006-2007.

X DIRECTORS' RESPONSIBILITY STATEMENT PURSUANT TO SECTION 217 (2AA) OF THE COMPANIES ACT, 1956.

The Directors hereby confirm:

- (i) that in the preparation of the annual accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures;
- (ii) that reasonable and prudent accounting policies have been selected and applied consistently and reasonable and prudent judgments and estimates have been made so as to give a true and fair view of the state of affairs of the company at the end of the financial year and the profit or loss of the company for that period;
- (iii) that proper and sufficient care has been taken for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities;
- (iv) that the annual accounts have been prepared on a going concern basis.

XI PERSONNEL

Employee relations remained cordial during the year. The Directors place on record their appreciation of the dedicated work put in by all the employees.

XII PARTICULARS OF EMPLOYEES

The details of employees covered by Section 217 (2A) of the Companies Act 1956 read with Companies (Particulars of Employees) Rules 1975 are given in the annexure to the Directors' Report. In terms of the provisions of Section 219(1)(b)(iv) of the Act, the Directors' Report is being sent to the shareholders of the company excluding annexure. Any shareholder interested in obtaining a copy of the said annexure may write to the Company Secretary at the registered office of the Company.

XIII AUDITORS

M/s. Deloitte, Haskins and Sells and M/s. Khandelwal, Jain & Co. joint Statutory Auditors of the Company, retire at the conclusion of the Fifteenth Annual General Meeting and being eligible offer themselves for re-appointment.

M/s. Deloitte, Haskins and Sells and M/s. Khandelwal, Jain & Co. have given their consent to act as our Statutory Auditors and have also certified that their appointment would be within the limits specified under Section 224(1B) of the Companies Act, 1956.

XIV ACKNOWLEDGEMENTS

The Directors take this opportunity to express their gratitude for the continued support and co-operation extended by the Securities and Exchange Board of India, Reserve Bank of India, State Bank of India, Société Générale Asset Management, the Registrars & Transfer Agents, the Custodians, the Bankers, Market Intermediaries and Distributors, Government Agencies, Auditors, Association of Mutual Funds of India and the Boards of Directors of SBI Mutual Fund Trustee company Private Limited and SBI Funds Management(International) Private Limited..

The Directors also express their gratitude to the large body of investors of various schemes of SBI Mutual Fund for the faith reposed in the Fund and look forward to their continued patronage.

FOR AND ON BEHALF OF THE BOARD OF DIRECTORS

Mumbai
Dated:21st July, 2007

Sd/-
O.P.BHATT
CHAIRMAN

AUDITORS' REPORT TO THE SHAREHOLDERS.

1. We have audited the attached Balance Sheet of **SBI Funds Management Private Limited** as at March 31, 2007, the Profit and Loss account and also the Cash flow statement for the year ended on that date annexed thereto. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with auditing standards generally accepted in India. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. As required by the Companies (Auditor's Report) Order, 2003 issued by the Central Government of India in terms of Section 227(4A) of the Companies Act, 1956, we give in Annexure, a Statement on the matters specified in paragraphs 4 and 5 of the said Order.
4. Further to our comments in the Annexure referred to in paragraph 3 above, we report that:
 - a) We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit;
 - b) In our opinion, proper books of account as required by law have been kept by the Company so far as appears from our examination of those books;
 - c) The Balance Sheet , Profit and Loss account and the Cash Flow Statement dealt with by this report are in agreement with the books of account;
 - d) In our opinion, the Balance Sheet, Profit and Loss account and the Cash Flow Statement dealt with by this report comply with the Accounting Standards referred to in sub-section (3C) of Section 211 of the Companies Act, 1956.
 - e) On the basis of written representations received from the directors, as on March 31 2007, and taken on record by the Board of Directors, we report that none of the directors is disqualified as on March 31, 2007 from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Companies Act, 1956.

- f) In our opinion and to the best of our information and according to the explanations given to us, the said accounts, read together with the notes thereon, give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:
- i) in the case of the Balance Sheet, of the state of affairs of the Company as at March 31, 2007;
 - ii) in the case of the Profit and Loss account, of the profit for the year ended on that date; and
 - iii) in the case of the Cash Flow Statement, of the cash flows for the year ended on that date.

**For Deloitte Haskins & Sells.
Chartered Accountants**

**Sd/-
R. LAXMINARAYAN
Partner
Membership No: 33023**

**Mumbai
Dated: April 30, 2007**

**For Khandelwal Jain & Co
Chartered Accountants**

**Sd/-
Sunil Nahta
Partner
Membership No: 105078**

ANNEXURE TO THE AUDITORS' REPORT

Referred to in Paragraph 3 of our report of even date on the accounts for the year ended March 31, 2007 of **SBI Funds Management Private Limited**.

The nature of the Company's activities during the year has been such that clauses (ii), (viii) and (xiii) of Paragraph 4 of the Order are not applicable to the Company for the year.

- (i) In respect of its fixed assets:
 - (a) The Company has maintained proper records showing full particulars including quantitative details and situation of fixed assets.
 - (b) Fixed assets were physically verified during the year by the management in accordance with a programme of verification, which in our opinion, provides for physical verification of all the fixed assets at reasonable intervals. According to the information and explanations given to us no material discrepancies were noticed on such verification.
 - (c) The Company has not disposed off substantial part of its fixed assets during the year.
- (ii) According to the information and explanations given to us the Company has neither granted nor taken any loans, secured or unsecured, to or from companies, firms or other parties covered in the register maintained under section 301 of the Companies Act 1956.

In view of what has been stated above, reporting requirements under sub-clauses (b), (c), (d), (f) and (g) of clause (iii) of paragraph 4 of the Order are not applicable to the Company for the year.

- (iii) In our opinion and according to the information and explanations given to us, there are adequate internal control systems commensurate with the size of the Company and the nature of its business with regard to purchase of fixed assets and sale of goods and services. During the course of our audit, we have not observed any continuing failure to correct major weaknesses in the aforesaid internal control systems.
- (iv) To the best of our knowledge and belief and according to the information and explanations given to us, we report that there are no particulars of contracts or arrangements referred to in section 301 of the Companies Act, 1956 that need to be entered into the register maintained under section 301 of the Companies Act, 1956.

- (v) The Company has not accepted any deposits from the public during the year.
- (vi) In our opinion, the internal audit function carried out by a firm of Chartered accountants is commensurate with the size of the Company and the nature of its business.
- (vii) According to the information and explanations given to us in respect of statutory and other dues:
- (a) The Company has been generally regular in depositing undisputed statutory dues, including Provident Fund, Investor Education and Protection Fund, Employees' State Insurance, Income-tax, Sales-tax, Wealth Tax, Service Tax Custom Duty, Excise Duty, cess and any other material statutory dues as applicable with the appropriate authorities during the year.
- (b) No undisputed amounts payable in respect of Income Tax ,Wealth Tax, Service Tax, Investor Education and Protection Fund, Sales Tax were outstanding as at March 31, 2007 for a period of more than six months from the date they became payable.
- (c) There are no dues of Income tax, Sales Tax, Wealth Tax, Service Tax, Customs duty, Excise duty and Cess, which have not been deposited on account of any dispute except as mentioned below:

Name of the Statute	Nature of dues	Disputed Amount (Unpaid) (Rs.)	Period to which the Amount relates	Forum where dispute is pending
Income Tax Act, 1961	Income Tax demand	1,42,58,255	A.Y.2004-05	Commissioner of Income Tax (Appeal)

- (viii) The company has no accumulated losses as at 31st March, 2007 and has not incurred any cash loss during the financial year ended on that date and in the immediately preceding financial year.
- (ix) In our opinion and according to the information and explanations given to us, the company did not have any dues to a financial institution or bank or debenture holders.

- (x) According to the information and explanations given to us, the Company has not granted any loans and advances on the basis of security by way of pledge of shares, debentures and other securities.
- (xi) Based on our examination of the records and evaluation of the related internal controls, the Company has maintained proper records of transactions and contracts in respect of its dealing in shares, securities, debentures and other investments and timely entries have been made therein. The aforesaid securities have been held by the Company in its own name, except to the extent of the exemption granted under Section 49 of the Companies Act, 1956.
- (xii) According to the information and explanations given to us, the Company has not given any guarantee for loans taken by others from banks or financial institutions.
- (xiii) To the best of our knowledge and belief and according to the information and explanations given to us, there have been no term loans availed during the year.
- (xiv) According to the information and explanations given to us and on an overall examination of the Balance sheet and other records of the company, we report that no funds raised on short-term basis have been used for long term investment.
- (xv) The Company has not made any preferential allotment of shares during the year.
- (xvi) The company has not issued any debentures during the year.
- (xvii) The Company has not raised any money by public issues during the year.
- (xviii) To the best of our knowledge and belief and according to the information and explanations given to us, no fraud on or by the Company was noticed or reported during the year.

**For Deloitte Haskins & Sells.
Chartered Accountants**

**For Khandelwal Jain & Co
Chartered Accountants**

**Sd/-
R. Laxminarayan
Partner
Membership No: 33023**

**Sd/-
Sunil Nahta
Partner
Membership No: 105078**

**Mumbai
Dated: April 30, 2007**

SBI FUNDS MANAGEMENT PRIVATE LIMITED

BALANCE SHEET AS AT MARCH 31, 2007

	<u>Schedules</u>	Rs.	As at 31.03.2007 Rs.	Rs.	As at 31.03.2006 Rs.
<u>SOURCES OF FUNDS</u>					
Shareholders' Funds					
Capital	1	500,000,000		500,000,000	
Reserves and Surplus	2	<u>417,984,260</u>		<u>279,857,067</u>	
			917,984,260		779,857,067
Deferred Tax Liability (Net)			4,626,572		4,078,854
	TOTAL		<u><u>922,610,832</u></u>		<u><u>783,935,921</u></u>
<u>APPLICATION OF FUNDS</u>					
Fixed Assets					
Gross block	3	96,710,259		72,588,851	
Less : Depreciation		<u>52,114,894</u>		<u>40,523,515</u>	
Net block			44,595,365		32,065,336
Investments	4		553,779,809		401,498,177
Current Assets, Loans and Advances					
Sundry debtors	5	104,292,899		90,293,302	
Cash and bank balances	6	106,438,695		135,173,227	
Other Current Assets	7	5,390,386		13,989,472	
Loans and advances	8	<u>423,825,915</u>		<u>375,067,577</u>	
		639,947,895		614,523,578	
Less: Current Liabilities and Provisions					
Liabilities	9	312,156,053		148,054,009	
Provisions	10	<u>3,556,184</u>		<u>116,097,161</u>	
		315,712,237		264,151,170	
Net Current Assets			324,235,658		350,372,408
	TOTAL		<u><u>922,610,832</u></u>		<u><u>783,935,921</u></u>
Significant Accounting Policies and Notes to the Accounts	16				

As per our attached report of even date

For Deloitte Haskins & Sells
Chartered Accountants

For Khandelwal Jain & Co
Chartered Accountants

For and on behalf of the Board of Directors

Sd/-
R. Laxminarayan
Partner

Sd/-
Sunil Nahta
Partner

Sd/-
O. P. Bhatt
Chairman

Sd/-
Syed Shahabuddin
Managing Director

Place: Mumbai
Dated: April 30, 2007

Sd/-
Didier Turpin
Dy. Chief Executive Officer

Sd/-
Ashutosh Vaidya
Company Secretary

Place: Mumbai
Dated: April 30, 2007

SBI FUNDS MANAGEMENT PRIVATE LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31, 2007

	<u>Schedules</u>	Rs.	Previous Year Rs.
INCOME:			
Management Fees (Gross)		1,015,289,206	609,659,707
[Tax deducted at source Rs.56,957,732 (Previous year Rs.34,204,622)]			
Portfolio Advisory Fee		20,960,269	598,715
[Tax deducted at source Rs.2,260 (Previous year Rs.Nil)]			
Income from Investments	11	37,710,976	32,985,100
Other Income	12	62,545,075	24,372,194
		<u>1,136,505,526</u>	<u>667,615,716</u>
EXPENDITURE:			
Employee Costs	13	236,760,096	135,080,427
Administrative and other Expenses	14	434,194,567	239,497,030
Depreciation on fixed assets		13,580,763	12,032,409
Prior period expenditure	15	3,060,189	9,896,724
		<u>687,595,615</u>	<u>396,506,590</u>
Profit before tax		448,909,911	271,109,126
Excess Provision for Tax in respect of previous years written back		-	3,802,771
Provision for tax			
Current Tax		(145,000,000)	(82,683,606)
Deferred tax		(547,718)	(1,541,967)
Fringe Benefit Tax		<u>(5,600,000)</u>	<u>(4,300,000)</u>
		<u>(151,147,718)</u>	<u>(88,525,573)</u>
Profit after tax		297,762,193	186,386,324
Balance brought forward from previous year		111,110,454	58,749,130
Profit available for appropriation		<u>408,872,647</u>	<u>245,135,454</u>
APPROPRIATIONS			
Transfer to general reserve		40,000,000	20,000,000
Proposed Dividend		-	100,000,000
Interim Dividend paid		140,000,000	-
Tax on proposed dividend		-	14,025,000
Tax on interim dividend		19,635,000	
Surplus carried to Balance Sheet		209,237,647	111,110,454
		<u>408,872,647</u>	<u>245,135,454</u>
Basic and diluted earnings per share [Refer note 11 of Schedule 16]		59.55	37.28

Significant Accounting Policies and Notes to the Accounts 16

As per our attached report of even date

For Deloitte Haskins & Sells
Chartered Accountants

For Khandelwal Jain & Co
Chartered Accountants

For and on behalf of the Board of Directors

Sd/-
R. Laxminarayan
Partner

Sd/-
Sunil Nahta
Partner

Sd/-
O. P. Bhatt
Chairman

Sd/-
Syed Shahabuddin
Managing Director

Place: Mumbai
Dated: April 30, 2007

Sd/-
Didier Turpin
Dy. Chief Executive Officer

Sd/-
Ashutosh Vaidya
Company Secretary

Place: Mumbai
Dated: April 30, 2007

SCHEDULES ANNEXED TO AND FORMING PART OF THE BALANCE SHEET

	As at 31.03.2007 Rs.	As at 31.03.2006 Rs.
SCHEDULE 1		
SHARE CAPITAL		
<u>Authorised</u>		
5,000,000 Equity Shares of Rs.100 each	<u>500,000,000</u>	<u>500,000,000</u>
<u>Issued, Subscribed and Paid Up</u>		
5,000,000 Equity Shares of Rs. 100 each fully paid up	500,000,000	500,000,000
TOTAL	<u>500,000,000</u>	<u>500,000,000</u>
<u>Notes: Out of the above shares:</u>		
1. 31,50,000 shares are held by State Bank of India, the Company's holding entity, and its nominees;		
2. 20,00,000 shares are allotted as fully paid up bonus shares by capitalisation of General Reserves		
SCHEDULE 2		
RESERVES AND SURPLUS		
General Reserve		
As per last Balance Sheet	168,746,613	148,746,613
Add: Transfer from Profit and Loss Account	<u>40,000,000</u>	<u>20,000,000</u>
	208,746,613	168,746,613
Balance in profit and loss account	209,237,647	111,110,454
TOTAL	<u>417,984,260</u>	<u>279,857,067</u>

SCHEDULES ANNEXED TO AND FORMING PART OF THE BALANCE SHEET

SCHEDULE 3

FIXED ASSETS

(Amount in Rupees)

Particulars	GROSS BLOCK (At Cost)				DEPRECIATION / AMORTISATION				NET BLOCK	
	As at 01.04.2006	Additions for the year	Deductions for the year	As at 31.03.2007	Upto 01.04.2006	For the Year	Deductions for the year	Upto 31.03.2007	As at 31.03.2007	As at 31.03.2006
A. Intangible Assets										
Computer Software	11,757,880	3,485,746	-	15,243,626	7,186,401	2,571,015	-	9,757,416	5,486,210	4,571,479
Website Development Cost	1,850,000	182,000	-	2,032,000	1,850,000	60,661	-	1,910,661	121,339	-
B. Tangible Assets										
Leasehold Improvement	5,756,492	4,495,601	-	10,252,093	831,030	1,495,242	-	2,326,272	7,925,821	4,925,462
Computers	32,004,355	13,744,639	1,957,011	43,791,983	21,483,722	7,283,536	1,868,680	26,898,578	16,893,405	10,520,633
Motor Car	1,568,330	1,089,723	-	2,658,053	711,025	316,257	-	1,027,282	1,630,771	857,305
Office Equipment	15,667,555	2,041,640	74,500	17,634,695	6,513,682	1,446,101	37,885	7,921,898	9,712,797	9,153,873
Furniture & Fixtures	3,984,239	1,217,448	103,878	5,097,809	1,947,655	407,951	82,819	2,272,787	2,825,022	2,036,584
TOTAL	72,588,851	26,256,797	2,135,389	96,710,259	40,523,515	13,580,763	1,989,384	52,114,894	44,595,365	32,065,336
<i>Previous Year</i>	<i>72,641,211</i>	<i>16,358,737</i>	<i>16,411,097</i>	<i>72,588,851</i>	<i>43,686,645</i>	<i>12,032,409</i>	<i>15,195,539</i>	<i>40,523,515</i>	<i>32,065,336</i>	

SCHEDULES ANNEXED TO AND FORMING PART OF THE BALANCE SHEET

SCHEDULE 4
INVESTMENTS

(Non-trade, unquoted, Fully paid)

	As at 31.03.2007			As at 31.03.2006	
	Face value (Rs.)	No. of Units	Rs.	No. of Units	Rs.
A. Long Term Investments (at cost)					
In Equity Shares of Subsidiary Company					
SBI Funds Management (International) Pvt. Ltd.	US\$ 1	10,000	444,400	10,000	444,400
In schemes of SBI Mutual Fund					
SBI Debt Fund Series - 13 Months Growth	10	8,000,000	80,000,000	-	-
SBI Debt Fund Series - 13 Months Growth (new)	10	4,000,000	40,000,000	-	-
SBI Debt Fund Series - 15 Months Growth	10	17,516,930	175,169,300	-	-
			295,613,700		444,400
B. Current Investments (At lower of cost or market/fair value)					
In schemes of SBI Mutual Fund					
Magnum Income Fund ('MIF') - Floating Rate Plan -LT-INS-GR	10	-	-	2,072,321	22,555,138
Magnum Institutional Income Fund Savings Growth	10	-	-	27,635,783	303,017,212
SBI Debt Fund series- 90 Days Div	10	25,000,000	250,000,000	-	-
Magnum Insta Cash Liquid Floater Dividend	10	797,544	8,166,109	2,495,724	25,481,427
Magnum Debt Fund -13 Months Growth	10	-	-	5,000,000	50,000,000
			258,166,109		401,053,777
Total			553,779,809		401,498,177

Note: In addition to the above, following investments in units of SBI Mutual Fund were purchased as well as sold during the year

Name of the Scheme	No. of Units	Amount(Rs.)	No. of Units	Amount(Rs.)
Magnum Insta Cash Liquid Floater Dividend	39,960,986	408,774,143	8,322,756	110,450,899
MICF - Cash Plan	2,105,554	35,000,000	-	-
MICF - Dividend Plan	21,844,602	232,362,700	-	-
Magnum Sector Fund Umbrella -Pharma	-	-	4,372,540	100,000,000
Magnum Income Fund - Floating Rate Plan -LT INS-GR	2,275,085	25,000,000	2,072,321	22,555,138
Magnum Income Fund - Floating Rate Plan -LT INS-Div	-	-	2,190,670	22,550,318
Magnum Institutional Income Fund Savings Growth	-	-	11,914,658	127,597,647
Magnum Debt Fund -180 Days (June 06) Dividend	25,000,000	250,000,000	-	-
Magnum Debt Fund -60 Days (August 06) Dividend	8,000,000	80,000,000	-	-
Magnum Debt Fund -90 Days (October 06) Dividend	8,000,000	80,000,000	-	-
Magnum Debt Fund -90 Days (December 06) Dividend	5,000,000	50,000,000	-	-

SCHEDULES ANNEXED TO AND FORMING PART OF THE BALANCE SHEET

	Rs.	As at 31.03.2007 Rs.	Rs.	As at 31.03.2006 Rs.
SCHEDULE 5				
SUNDRY DEBTORS				
(Unsecured and considered good)				
Debts outstanding for a period exceeding six months		349,532		549,167
Other Debts		103,943,367		89,744,135
Total		<u><u>104,292,899</u></u>		<u><u>90,293,302</u></u>

SCHEDULE 6

CASH & BANK BALANCES

Cash on hand		12,442		6,143
Balances with scheduled banks				
in current accounts	14,475,252		5,109,070	
in fixed deposits	91,951,001		130,058,014	
Total		<u><u>106,426,253</u></u>		<u><u>135,167,084</u></u>
		<u><u>106,438,695</u></u>		<u><u>135,173,227</u></u>

SCHEDULE 7

OTHER CURRENT ASSETS

Interest Accrued On				
Fixed Deposits		5,390,386		13,989,472
Total		<u><u>5,390,386</u></u>		<u><u>13,989,472</u></u>

SCHEDULE 8

LOANS AND ADVANCES

(Unsecured, considered good, unless otherwise specified)

Advances recoverable in cash or in kind or for value to be received		22,886,598		28,101,798
Deposits		11,848,506		7,100,752
Advance payment of taxes and tax deducted at source (net of provision for taxation of Rs 423,495,898.previous year Rs.272,895,897)		389,090,811		339,865,027
Advances considered doubtful		-		1,333,993
Less:Provision for doubtful advances		-		(1,333,993)
Total		<u><u>423,825,915</u></u>		<u><u>375,067,577</u></u>

Advances include the following:

From companies under same Management

SBI Capital Markets Ltd

Outstanding		28,660		2,715,011
Maximum outstanding during the year		2,981,933		2,715,011

SCHEDULES ANNEXED TO AND FORMING PART OF THE BALANCE SHEET

	As at 31.03.2007 Rs.	As at 31.03.2006 Rs.
SCHEDULE 9		
CURRENT LIABILITIES		
Sundry Creditors (other than Small Scale Industries)	129,081,314	47,307,801
Other Liabilities	183,074,739	100,746,208
Total	<u>312,156,053</u>	<u>148,054,009</u>
 SCHEDULE 10		
PROVISIONS		
Proposed dividend	-	100,000,000
Tax on proposed dividend	-	14,025,000
Gratuity	3,556,184	2,072,161
Total	<u>3,556,184</u>	<u>116,097,161</u>

SCHEDULES ANNEXED TO AND FORMING PART OF THE PROFIT AND LOSS ACCOUNT

	Year Ended 31.03.2007 Rs.	Year Ended 31.03.2006 Rs.
SCHEDULE 11		
INCOME FROM INVESTMENTS		
Profit on Sale of Current Investments (net)	18,425,913	32,495,999
Dividend from Current Investments	19,285,063	489,101
Total	<u>37,710,976</u>	<u>32,985,100</u>

SCHEDULE 12

OTHER INCOME

Interest on loans to employees	387,337	472,601
Interest on Bank deposits (gross) [Tax deducted at Source Rs.2,781,642 (Previous Year Rs 16,32,680)]	11,861,635	8,184,891
Realisation of Devolved Investments	40,140,289	709,942
Recovery of Funded guarantee from Schemes	2,327,509	12,207,619
Miscellaneous Income	559,045	1,036,397
Excess provision in respect of earlier years written back	7,269,260	1,760,744
Total	<u>62,545,075</u>	<u>24,372,194</u>

SCHEDULE 13

EMPLOYEE COSTS

Salaries, allowances and bonus	191,017,867	102,240,147
Contribution to provident and other funds	19,335,260	10,462,176
Staff welfare expenses	<u>27,106,969</u>	<u>22,378,104</u>
Less: Sharing of Common Establishment Expenses	(700,000)	-
Total	<u>236,760,096</u>	<u>135,080,427</u>

SCHEDULES ANNEXED TO AND FORMING PART OF THE PROFIT AND LOSS ACCOUNT

SCHEDULE 14

ADMINISTRATIVE AND OTHER EXPENSES

	Year Ended 31.03.2007 Rs.	Year Ended 31.03.2006 Rs.
Rent	34,239,682	27,795,115
Rates and taxes	266,562	473,267
Electricity charges	5,012,343	4,367,853
Repairs and maintenance :		
- Equipment	3,526,342	2,020,462
- Others	<u>4,373,482</u>	<u>3,593,846</u>
	7,899,824	5,614,308
Insurance	984,564	545,479
Doubtful advances written off	1,333,993	-
Travelling and conveyance	20,799,339	15,940,877
Recruitment and training	3,958,511	1,748,570
Printing and stationery	7,779,765	6,141,780
Postage and telegram	19,733,124	9,159,891
Telephone	11,819,129	9,624,590
Scheme expenses	178,079,145	73,873,180
Business Promotion	69,059,222	39,334,655
Reimbursement of unit capital reconciliation difference (Refer Note-13 of Schedule- 16)	36,349,025	-
Advertising and publicity	13,789,766	23,220,075
Legal and professional fees	2,977,406	2,669,205
Membership and subscription	13,143,334	10,957,603
Auditor's Remuneration:		
-Audit fee *	600,000	300,000
-Out of pocket expenses	5,341	-
Service tax on above services	73,440	36,720
Service tax input credit	<u>(73,440)</u>	<u>(36,720)</u>
	605,341	300,000
Directors' sitting fees	144,500	134,500
Loss on sale of assets (net)	62,942	1,004,638
Miscellaneous expenses	6,957,050	6,591,443
	<u>434,994,567</u>	<u>239,497,030</u>
Less: Sharing of Common Administrative Expenses	(800,000)	-
Total	<u><u>434,194,567</u></u>	<u><u>239,497,030</u></u>

* Inclusive of Tax audit, Consolidation and Certification fees

SBI FUNDS MANAGEMENT PRIVATE LIMITED

SCHEDULES ANNEXED TO AND FORMING PART OF THE PROFIT AND LOSS

	Year Ended 31.03.2007 Rs.	Year Ended 31.03.2006 Rs.
SCHEDULE 15		
PRIOR PERIOD EXPENDITURE		
Salaries and allowances	277,418	62,940
Telephone and telex	7,018	2,905
Advertisement expenses	-	282,339
Office rent	-	9,071,442
Printing and stationery	165,375	-
Postage and telegram	177,631	-
Subscription fee	-	300,905
Internal audit fees	-	15,000
Scheme expenses	-	161,193
Business Promotion	218,061	-
Miscellaneous expenses	71,664	-
Professional Fees	15,000	-
Repairs & Maintenance	2,128,022	-
Total	3,060,189	9,896,724

SBI FUNDS MANAGEMENT PRIVATE LIMITED
Cash Flow Statement for the year ended March 31, 2007

	2006-07 RS.	2005-06 RS.
A. CASH FLOW FROM OPERATING ACTIVITIES	364,821,801	202,471,928
B. CASH FLOW FROM INVESTING ACTIVITIES	(119,896,332)	(45,461,556)
C. CASH FLOW FROM FINANCING ACTIVITIES	(273,660,000)	(91,220,000)
NET CHANGE IN CASH & CASH EQUIVALENTS	(28,734,532)	65,790,372
D. CASH AND CASH EQUIVALENT AT THE BEGINNING OF THE YEAR	135,173,227	69,382,855
E. CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	106,438,695	135,173,227
(A) Cash flow from Operating activities		
Net profit before taxation	448,909,911	271,109,126
Adjustments for:		
Depreciation on fixed assets	13,580,763	12,032,409
Loss on sale of fixed assets	62,942	1,004,638
Provision for doubtful advances recoverable		
Provision for reconciliation differences in schemes	-	-
Profit on sale of investments	(18,425,913)	(32,495,999)
Interest income	(12,248,972)	(8,657,492)
Dividend income	(19,285,063)	(489,101)
Provision for Gratuity	1,484,023	603,301
Operating profit before working capital changes	414,077,691	243,106,882
Decrease / (Increase) in sundry debtors	(13,999,596)	(8,401,009)
(Increase) / Decrease in Loans and Advances	467,446	(6,298,139)
Increase / (Decrease) in Current Liabilities & Provisions	164,902,044	74,538,799
Cash generated from operations	565,447,585	302,946,533
Income taxes paid	(200,625,784)	(100,474,605)
A. CASH FLOW FROM OPERATING ACTIVITIES	364,821,801	202,471,928
Cash flows from Investing activities		
Purchase of fixed assets	(26,256,797)	(16,358,737)
Proceeds from sale of fixed assets	83,063	210,921
Purchase of investments	(2,116,306,143)	(739,365,250)
Proceeds from sale of investments	1,982,450,425	707,305,432
Interest received	20,848,057	2,256,977
Dividends received	19,285,063	489,101
B. CASH FLOW FROM INVESTING ACTIVITIES	(119,896,332)	(45,461,556)
Cash flows from Financing activities		
Dividends paid	(240,000,000)	(80,000,000)
Tax on dividend paid	(33,660,000)	(11,220,000)
C. CASH FLOW FROM FINANCING ACTIVITIES	(273,660,000)	(91,220,000)
NET CHANGE IN CASH & CASH EQUIVALENTS	(28,734,532)	65,790,372
D. CASH AND CASH EQUIVALENT AT THE BEGINNING OF THE YEAR		
Cash in hand	6,143	14,319
Balances with Banks and Money at Call and Short Notice	135,167,084	69,368,536
	135,173,227	69,382,855
E. CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		
Cash in hand	12,442	6,143
Balances with Banks and Money at Call and Short Notice	106,426,253	135,167,084
	106,438,695	135,173,227

- The Cash Flow statement has been prepared under the 'Indirect Method' as set out in the Accounting Standard - 3 on Cash Flow Statement issued by the Institute of Chartered Accountants of India.
- The corresponding figures of the previous year are re-grouped wherever necessary.

As per our attached report of even date

For Deloitte Haskins & Sells
Chartered Accountants

For Khandelwal Jain & Co
Chartered Accountants

For and on behalf of the Board of Directors

Sd/-
R Laxminarayan
Partner

Sd/-
Sunil Nahta
Partner

Sd/-
O P Bhatt
Chairman

Sd/-
Syed Shahabuddin
Managing Director

Mumbai
Dated: April 30, 2007

Sd/-
Didier Turpin
DY. Chief Operating
Officer

Sd/-
Ashutosh Vaidya
Company Secretary

Mumbai
Dated: April 30, 2007

SBI FUNDS MANAGEMENT PRIVATE LIMITED

SCHEDULE FORMING PART OF THE BALANCE SHEET AND THE PROFIT AND LOSS ACCOUNT

SCHEDULE 16 - SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES:

(a) Basis of Accounting

The financial statements are prepared under the historical cost convention, on the accrual basis of accounting.

(b) Use of Estimates:

The preparation of financial statements in conformity with the generally accepted accounting principles requires estimates and assumptions to be made that affect the reported amounts of assets and liabilities on the date of the financial statements and the reported amounts of revenues and expenses during the reported period. The estimates and assumptions used in the accompanying financial statements are based upon Management's evaluation of the relevant facts and circumstances as on the date of financial statements. Actual results may differ from the estimates used in preparing the accompanying financial statements.

(c) Revenue Recognition

- Management fee is recognised at specific rates agreed with the relevant schemes, applied on the average daily net assets of each scheme (excluding inter-scheme investments, where applicable, and investments made by the Company in the respective scheme), and are in conformity with the limits specified under SEBI (Mutual Funds) Regulations, 1996.
- Portfolio Advisory Service income is recognized on accrual basis as per the terms of the contract.
- Gains and losses on sale of investments are determined using the weighted average cost method.
- Revenue is recognised only when it is reasonably certain that the ultimate collection will be made.
- Dividend income is recognised when the right to receive the same is established.
- Recovery, if any, on realisation of devolved investments of schemes acquired by the Company, in terms of the right of subrogation, is accounted on the basis of receipts.
- Recovery from Funded guarantee schemes is recognised as Income in the year of receipt.

(d) Fixed Assets:

Fixed assets are stated at cost less accumulated depreciation and impairment loss, if any. Depreciation is provided on the written down value method at the rates and in the manner prescribed in Schedule XIV of the Companies Act, 1956. Assets costing individually Rs.5,000 or less are fully depreciated in the year of

SBI FUNDS MANAGEMENT PRIVATE LIMITED

SCHEDULE FORMING PART OF THE BALANCE SHEET AND THE PROFIT AND LOSS ACCOUNT

purchase. Leasehold improvements are amortised over the primary period of lease subject to a maximum period of 5 years.

Intangible Assets:

Intangible Assets (Software & Website Development Cost) are amortised over a period of three years, on a Straight Line Method.

(e) Impairment Of Assets

An asset is impaired when the carrying amount of the asset exceeds its recoverable amount. An Impairment loss is charged to the Profit and Loss account in the year in which an asset is identified as impaired. An impairment loss recognized in prior accounting periods is reversed if there has been a change in the estimate of the recoverable amount.

(f) Investments:

Investments are classified into long term investments and current investments. Investments which are intended to be held for more than one year, are classified as long term investments and investments, which are intended to be held for less than one year are classified as current investments. Long term investments are accounted at cost and any decline in value, other than temporary is provided for. Current investments are valued at cost or market value/fair value whichever is lower.

Investments include investments in shares of a subsidiary company registered outside India. They are stated at cost by converting at the rate of exchange prevalent at the time of acquisition thereof.

(g) Retirement Benefits:

Retirement benefits on account of Provident Fund and Pension are charged to the Profit & Loss Account of the year when the contributions to the respective Funds are due. Gratuity and Superannuation contributions have been funded with the Life Insurance Corporation of India (LIC) under the Group Gratuity and Superannuation Schemes of LIC and any difference between actuarial valuation of gratuity carried out as of the end of the year and fund in the scheme is provided for.

(h) Foreign Currency Transactions:

Transactions in foreign currencies are recorded at the exchange rate prevailing at the time of occurrence of the transactions.

Monetary items denominated in foreign currency remaining unsettled at the end of the year are translated at the buying rates as at the last day of the year.

SBI FUNDS MANAGEMENT PRIVATE LIMITED

SCHEDULE FORMING PART OF THE BALANCE SHEET AND THE PROFIT AND LOSS ACCOUNT

Any gains or losses on account of exchange difference either on settlement or translation are recognized in Profit and Loss Account except in case where it relates to the acquisition of fixed assets from a country outside India in which case it is adjusted to the carrying cost of such asset.

(i) **Scheme Expenses**

Expenses of schemes of SBI Mutual Fund in excess of the stipulated rates are required to be borne by the company, in accordance with the requirements of SEBI (Mutual Fund) Regulations, 1996, and as such, are charged to the Profit and Loss account.

(j) **Treatment of Contingent Liabilities**

Provision involving substantial degree of estimation in measurement are recognized when there is a present obligation as a result of past events and it is probable that there will be an outflow of resources. Contingent Liabilities are not recognized but are disclosed in the notes. Contingent assets are neither recognized nor disclosed in the financial statements.

(k) **Taxes on Income**

Current tax is determined as the amount of tax payable in respect of taxable income for the year. Deferred tax is recognized subject to the consideration of prudence in respect of deferred tax assets, on timing differences, being the differences between taxable income and accounting income that originate in one period and are capable of reversal in one or more subsequent years. Provision for Fringe Benefit Tax is made in accordance with Chapter XII-H of the Income Tax Act, 1961.

(l) **Leases**

Leases where the lessor effectively retains substantially all the risks and benefits of ownership over the lease term, are classified as operating leases. Operating lease rentals are recognized as an expense in the Profit and Loss account on a straight-line basis over the lease term.

SBI FUNDS MANAGEMENT PRIVATE LIMITED

SCHEDULE FORMING PART OF THE BALANCE SHEET AND THE PROFIT AND LOSS ACCOUNT

Notes to the Accounts

2. Contingent Liabilities(not provided for):

- i) Demands raised by the Income Tax Authorities against which the Company has preferred appeals to the Appellate Authorities are Rs 322,418,339 (Previous Year Rs. 306,544,130). Amount paid under protest / adjusted against refunds for other assessment years against the above is Rs. 317,121,280 (Previous Year Rs. 317,121,280).
- ii) Claims against the company not acknowledged as debts – Investor claims pending in consumer courts – Rs. 4,324,408 (Previous Year Rs. 3,433,084).

3. Estimated amount of contracts remaining to be executed on capital account and not provided for Rs. 3,879,038 (Previous Year Rs. 4,045,035).

4. Deferred Tax Liability (net):

	As at 31.03.2007 (Rs.)	As at 31.03.2006 (Rs.)
Deferred Tax Liabilities		
Amortization /Depreciation on fixed assets/intangible Assets	58,35,319	5,225,365
Gross Deferred Tax Liabilities	58,35,319	5,225,365
Deferred Tax Assets		
Provision for gratuity	1,208,747	697,489
Provision for doubtful advances recoverable	-	449,022
Gross Deferred Tax Assets	1,208,747	1,146,511
Deferred Tax Liabilities (net)	4,626,572	4,078,854

SBI FUNDS MANAGEMENT PRIVATE LIMITED

SCHEDULE FORMING PART OF THE BALANCE SHEET AND THE PROFIT AND LOSS ACCOUNT

5. Managerial Remuneration:

- i) The Managing Director is on deputation from State Bank of India and his remuneration is in accordance with the Service Rules of the Bank. The particulars of the remuneration of the Managing Director are as under:

Particulars	Year ended 31.03.2007 (Rs.)	Year ended 31.03.2006 (Rs.)
Salaries and Allowances	6,42,324	609,188
Contribution to Provident & Pension fund	46,129	43,640
Perquisites	318,872	230,480
Total	1,007,325	883,308

The above:

- (i) Includes Rs. 5.87 lakhs to a Managing Director for the period from 1st April 2006 to 9th November 2006 and Rs. 4.20 lakhs to another Managing Director for the period from 27th October 06 to 31st March 2007.
- ii) The Deputy Chief Executive Officer is an employee of the Company and also an Alternate Director and his remuneration has been approved by the Board of Directors. The particulars of the remuneration of the Deputy Chief Executive Officer are as under:

Particulars	Year ended 31.03.2007 (Rs.)	Year ended 31.03.2006 (Rs.)
Salaries and Allowances	4,641,856	3,581,856
Contribution to Provident & Pension fund	-	-
Perquisites	255,000	287,515
Total	4,896,856	38,69,371

SBI FUNDS MANAGEMENT PRIVATE LIMITED

SCHEDULE FORMING PART OF THE BALANCE SHEET AND THE PROFIT AND LOSS ACCOUNT

6. Related Party Disclosure

Parties where control exists:

Holding Company	State Bank of India holds 63% of the share capital
Enterprise having significant influence	Société Générale Asset Management holds 37% of the share capital
Enterprise over which the company has control	SBI Funds Management (International) Private Limited (100% subsidiary)

Other Related parties:

Fellow Subsidiaries	SBI Capital Markets Limited SBI Life Insurance Company Limited SBI Commercial and International Limited State Bank of Patiala State Bank of Mysore State Bank of Hyderabad State Bank of Saurashtra State Bank of Indore State Bank of Travancore State Bank of Bikaner & Jaipur SBI Mutual Fund Trustee Company Private Limited
Key Management Personnel	Mr. Deepak Chawla (Managing Director (up to 9th November 06) Mr. Syed Shahabuddin (Managing Director, w.e.f 27th October 06) Mr. Didier Turpin (Deputy Chief Executive Officer)
Mutual Fund managed by the company	SBI Mutual Fund

SBI FUNDS MANAGEMENT PRIVATE LIMITED

SCHEDULE FORMING PART OF THE BALANCE SHEET AND THE PROFIT AND LOSS ACCOUNT

List of transactions with related parties:-

Nature of Transaction	Holding Company	Fellow Subsidiaries	Key Management Personnel	Enterprises having significant influence over the company	Mutual Fund managed by the Company	Enterprises over which the company is having control
Finance:						
Bank Deposit -						
Deposits Placed with SBI Commercial and International Limited		312,319,849				
		(65,000,000)				
Deposits Matured with SBI Commercial and International Limited		442,377,863				
		(NIL)				
Deposits Placed with State Bank of Patiala		70,000,000				
		(NIL)				
Deposits Matured with State Bank of Patiala		70,000,000				
		(NIL)				
Deposits with SBI Commercial and International Limited		91,951,001				
		(130,058,014)				
Deposit with SBI Life Insurance Ltd.		200,000				
		(200,000)				
Balance in Current Accounts	14,475,252					
	(5,109,070)					
Advance Rent to State Bank of India	1800					
	(NIL)					
Interest Income on Bank Deposit with SBI Commercial and International Limited		9,310,279				
		(8,184,891)				
Interest Income on Bank Deposit with State Bank of Patiala		2551356				
		(NIL)				
Outstanding Receivables:						
Interest Receivable on Bank Deposit with SBI Commercial and International Limited		53,90,386				

SBI FUNDS MANAGEMENT PRIVATE LIMITED

SCHEDULE FORMING PART OF THE BALANCE SHEET AND THE PROFIT AND LOSS ACCOUNT

Nature of Transaction	Holding Company	Fellow Subsidiaries	Key Management Personnel	Enterprises having significant influence over the company	Mutual Fund managed by the Company	Enterprises over which the company is having control
		(13,989,472)				
Recovery of Common establishment expenses from SBI Mutual Fund Trustee Company Private Ltd.		1,500,000				
		(NIL)				
Recoverable on account of Renovation expenses – SBI Capital Markets Ltd.		28,660				
		(2,715,011)				
Outstanding Payables:						
Devolvement of SBIMF scheme expenses					163,871,777	
					(73,873,180)	
Networking charges payable to SBI	1,950,000					
	(1,950,000)					
Rent Payable	NIL					
	(10,062,409)					
Investments:						444,400
						(444,400)
Purchases					2,116,306,143	
					(738,920,850)	
Sales					1,964,024,508	
					(674,809,433)	
Dividend Income					1,92,85,063	
					(489,101)	
Corporate Dividend paid :						
State Bank of India	88,200,000			51,800,000		
	(50,400,000)			(29,600,000)		
Devolvement of SBIMF scheme expenses					163,871,777	
					(73,873,180)	
Rent Paid -						
SBI Capital Markets Ltd		21,816,000				
		(21,816,000)				

SBI FUNDS MANAGEMENT PRIVATE LIMITED

SCHEDULE FORMING PART OF THE BALANCE SHEET AND THE PROFIT AND LOSS ACCOUNT

Nature of Transaction	Holding Company	Fellow Subsidiaries	Key Management Personnel	Enterprises having significant influence over the company	Mutual Fund managed by the Company	Enterprises over which the company is having control
State Bank of India	4,128,156					
	(12,656,733)					
Miscellaneous Payments :						
Networking charges paid to State Bank of India	1,950,000					
	(1,950,000)					
Reimbursement of Salary for employees on deputation from State Bank of India	10,179,172					
	(9,645,700)					
Reimbursement of Salary for employees on deputation from State Bank of Saurashtra		480,912				
		(402,853)				
Reimbursement of Salary for employees on deputation from State Bank of Patiala		408,476				
		(300,908)				
Reimbursement of Salary for employees on deputation from State Bank of Mysore		514,747				
		(162,154)				
Reimbursement of Salary for employees on deputation from State Bank of Bikaner & Jaipur		483,528				
		(440,332)				
Reimbursement of Salary for employees on deputation from State Bank of Indore		511,415				
		(393,909)				
Reimbursement of Salary for employees on deputation from State Bank of Hyderabad		498,514				
		(538,855)				

SBI FUNDS MANAGEMENT PRIVATE LIMITED

SCHEDULE FORMING PART OF THE BALANCE SHEET AND THE PROFIT AND LOSS ACCOUNT

Nature of Transaction	Holding Company	Fellow Subsidiaries	Key Management Personnel	Enterprises having significant influence over the company	Mutual Fund managed by the Company	Enterprises over which the company is having control
Reimbursement of Salary for employees on deputation from State Bank of Travancore		724,493				
		(669,140)				
Insurance Premium Paid -						
SBI Life Insurance Co Ltd		NIL				
		(136,862)				
Bank Charges paid	562,835					
	(425,107)					
Management Fees Income					1,01,52,89,206	
					(609,659,708)	
Recovery of Common establishment expenses from SBI Mutual Fund Trustee Company Private Ltd.		15,00,000				
		(NIL)				
Management Fees Receivable					93,197,444	
					(89,107,800)	
Remuneration Paid to Key Management Personnel						
Mr. Syed Shahabuddin			419,708			
			(NIL)			
Mr. Deepak Chawla			587,617			
			(230,471)			
Mr. P.G.R. Prasad			NIL			
			(652,837)			
Mr. Didier Turpin			4,896,856			
			(3,869,371)			

Note: Figures in the brackets represent previous year figures.

SBI FUNDS MANAGEMENT PRIVATE LIMITED**SCHEDULE FORMING PART OF THE BALANCE SHEET AND THE PROFIT AND LOSS ACCOUNT****7. Segmental Reporting:**

The segmental reporting disclosure as required by Accounting Standard (AS) – 17 on “Segment Reporting”, issued by the Institute of Chartered Accountants of India is not applicable, since the company has a single reportable business segment of providing asset management services to the schemes floated by SBI Mutual Fund

8. Operating lease payments

Particulars	Year ended 31.03.2007 (Rs.)	Year ended 31.03.2006 (Rs.)
Lease payments for the year	39,340,750	36,866,557
Minimum Lease Payments:-		
Not later than one year	39,236,903	28,826,820
Later than one year but not later than five years	134,219,791	42,032,805
Later than five years	49,695,609	18,127,800

9. Expenditure in Foreign Currency:

Particulars	Year ended 31.03.2007 (Rs.)	Year ended 31.03.2006 (Rs.)
Travelling Expenses	2,372,868	18,00,385
Business Promotion and Advertisement	3,546,778	57,85,714
Legal Charges	1,464,981	-

10. Earnings in Foreign Currency:

Particulars	Year ended 31.03.2007 (Rs.)	Year ended 31.03.2006 (Rs.)
Portfolio Advisory Fees	20,924,386	598,715
Exchange Gain / (Loss) on above	(69,712)	-

11. Earnings Per Share (EPS):

Earnings per Share ('EPS') – The numerators and denominators used to calculate Basic and Diluted Earnings Per Share:

Particulars	31-03-2007	31-03-2006
(a) Nominal Value of an Equity Share (Rs.)	100	100
(b) Net profit available to Equity Shareholders (Rs.)	297,762,193	186,386,324
(c) Weighted average number of shares outstanding	50,00,000	50,00,000
(d) Basic and Diluted EPS (Rs.) = (b) / (c)	59.55	37.28

SBI FUNDS MANAGEMENT PRIVATE LIMITED**SCHEDULE FORMING PART OF THE BALANCE SHEET AND THE PROFIT AND LOSS ACCOUNT****12. Dividend remittances to non-resident shareholders:**

Particulars	2006-2007		2005-2006
(a) Number of non-resident shareholders	1		1
(b) Number of equity shares held by them	1,850,000		1,850,000
(c) Amount of dividend paid (Rupees)	37,000,000	*51,800,000	29,600,000
(d) Year to which dividend relates	2005-2006	2006-2007	2004-2005

* Interim Dividend

13. Magnum Income Fund, an open ended debt scheme was launched by SBI Mutual Fund (SBIMF) in the year 1998. The Registrar and Transfer Agents to the scheme were changed 4 times in 6 years and because of the extremely high number of transactions i.e., inflows and outflows and the frequent change of Registrars problems arose in reconciling the Applications money receivable with the amounts credited in the bank accounts in respect of the units allotted to the applicants. In spite of persistent efforts made by outside Chartered Accountant firms and the internal reconciliation team an amount of Rs. 3,63,49,025/- (net of adjustment entries already passed in earlier years) could not be reconciled. The said amount has been charged to Profit and Loss Account for the year and included in schedule 14 viz "Administration and other expenses".
14. The company has not received any intimation from the suppliers regarding their status under the Micro, Small and Medium Enterprises Development Act, 2006 and hence, the disclosures relating to amount unpaid as at the end of the year together with interest paid/payable as required under the said Act has not been furnished and provision for interest, if any, on delayed payments, is not ascertainable at this stage.
15. Previous year's figures have been regrouped/reclassified, wherever necessary, to conform to the current year's classification.

As per our attached report of even date

Signatories to schedules 1 to 16.

**For Deloitte, Haskins & Sells
Chartered Accountants**

**For Khandelwal Jain & Co.
Chartered Accountants**

For and on behalf of the Board of Directors

Sd/-
R. Laxminarayan
Partner

Sd/-
Sunil Nahta
Partner

Sd/-
O.P. Bhatt
Chairman

Sd/-
Syed Shahabuddin
Managing Director

Sd/-
Didier Turpin
Dy. Chief Executive
Officer

Sd/-
Ashutosh Vaidya
Company
Secretary

Place: Mumbai,
Dated: April 30, 2007

Place: Mumbai,
Dated: April 30, 2007

SBI FUNDS MANAGEMENT PRIVATE LIMITED

**BALANCE SHEET ABSTRACT AND COMPANY'S GENERAL BUSINESS
PROFILE FOR THE YEAR ENDED 31ST MARCH 2007**

(in thousands of Rupees)

Registration details

Registration number	11-65289
State code	11
Balance Sheet date	31.03.2007

Capital raised during the period

Public issue	Nil
Rights issue	Nil
Private Placement	Nil

Position of Mobilisation and Deployment of funds:

Total liabilities and shareholders' funds	922,611
Total assets	922,611

Sources of funds:

Paid -up capital	500,000
Reserves and surplus	417,984
Deferred Tax Liability (Net)	4,627
Secured loans	Nil
Unsecured loans	Nil

Application of funds:

Fixed Assets	38,988
Intangible Assets	5,607
Investments	553,780
Net current assets	324,236
Miscellaneous expenditure	Nil
Accumulated losses	Nil

Performance of the Company :

Turnover	1136,506
Total expenditure	687,596
Profit /(loss) before tax	448,910
Profit /(loss) after tax	297,762
EPS (in Rupees)	59.55
Dividend rate %	28%

Generic names of three principal services of the
Company (as per Monetary Terms):

Item Code No.
Product Description

N.A.
Asset Management Company

For and on behalf of the Board of Directors

Sd/-
O.P. Bhatt
CHAIRMAN

Sd/-
Syed Shahabuddin
MANAGING DIRECTOR

Sd/-
Didier Turpin
DY. CHIEF EXECUTIVE OFFICER
Mumbai
Dated: April 30, 2007

Sd/-
Ashutosh Vaidya
COMPANY SECRETARY