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KALYANI

BHARAT FORGE

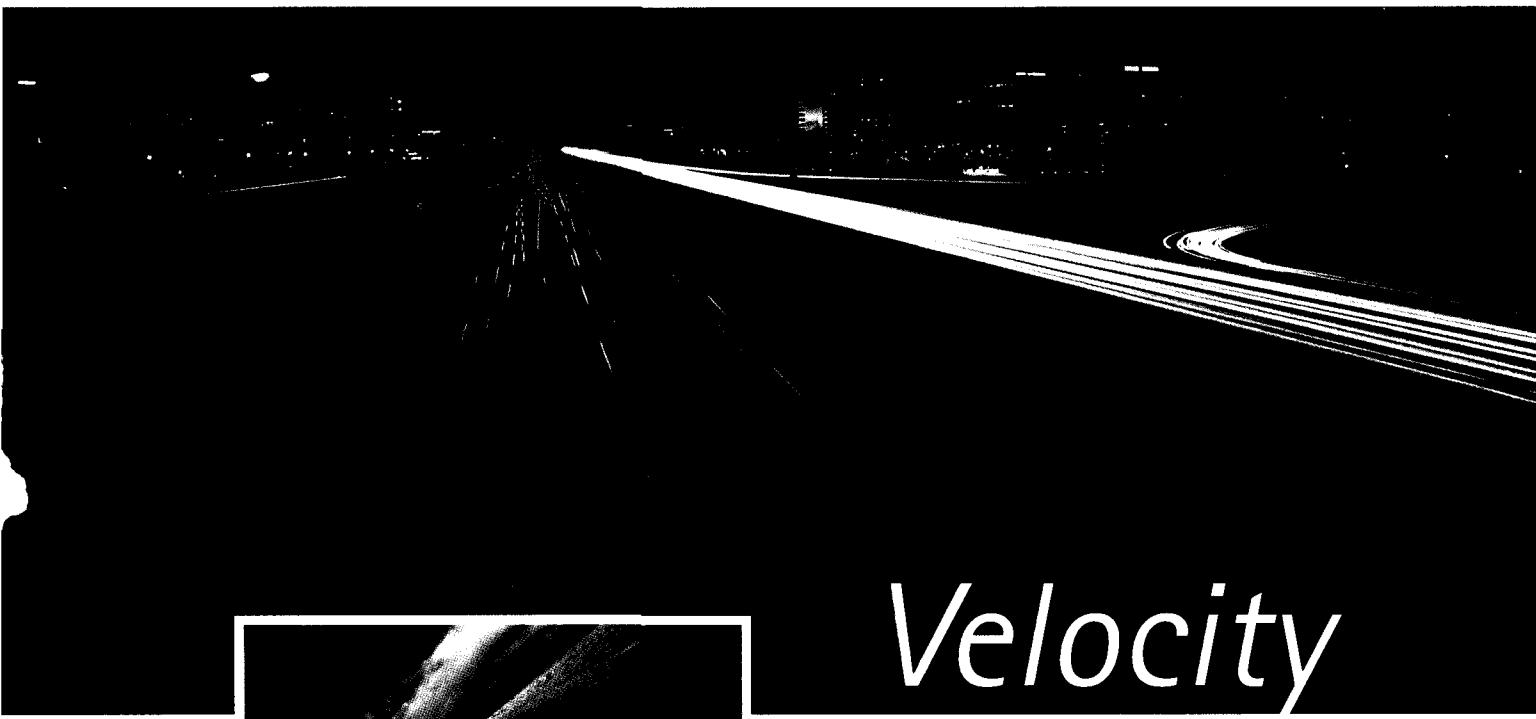


45 th ANNUAL REPORT 2005 - 06

DRIVING INNOVATION

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Velocity



In expanding global markets, technology based innovation is the most important driver of growth.

We have been building world class manufacturing plants and reaching global scale capacities in our line of businesses. We are now building partnerships with major global OEMs and Tier I companies, offering full service supply capability.

Innovation runs through everything that we do. Our task is to move fast in the direction set by our highly focused strategies. We believe that fast execution of our strategies imparts tremendous velocity for us and our customers' progress.

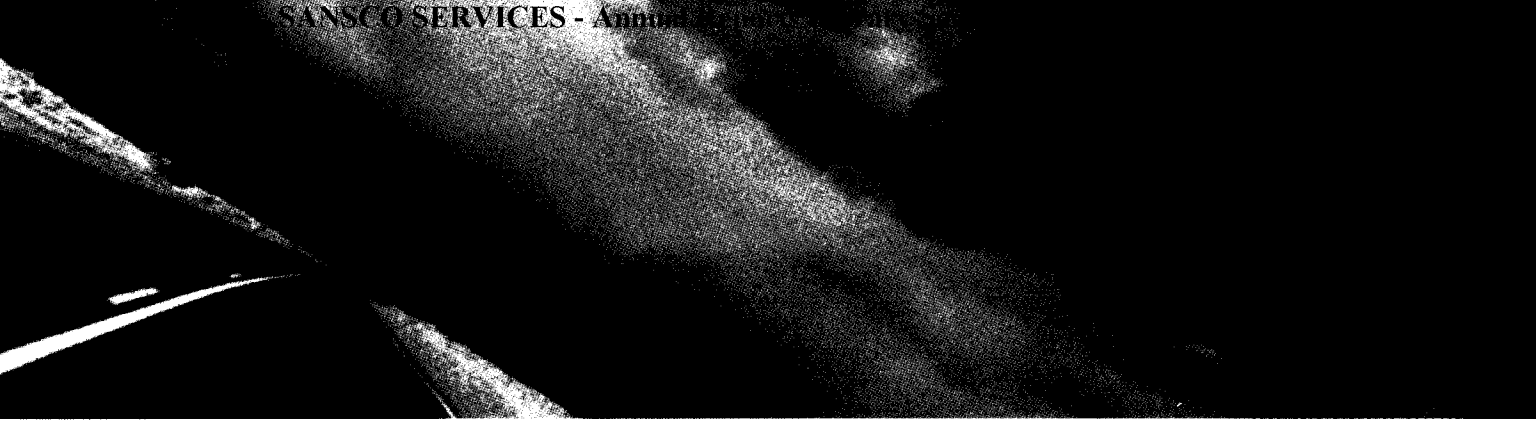
And, therefore the theme velocity ...

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Highlights 05-06

Revenue	Consolidated Revenue	Rs 30,851 Million (US$ 678 Million)
	Revenue Outside India	Rs 21,095 Million (US$ 464 Million)
Earnings	Consolidated Earnings Per Share Rs 11.51 (Each share of the face value of Rs 2)	

Milestones Achieved

- Established Global Dual Shore Manufacturing footprint.
- Established significant manufacturing presence in USA, China & substantially strengthened the presence in Europe.
- Deepened & qualitatively improved the relationships with Global Customers.
- Completed Strategic long term fund raising program.

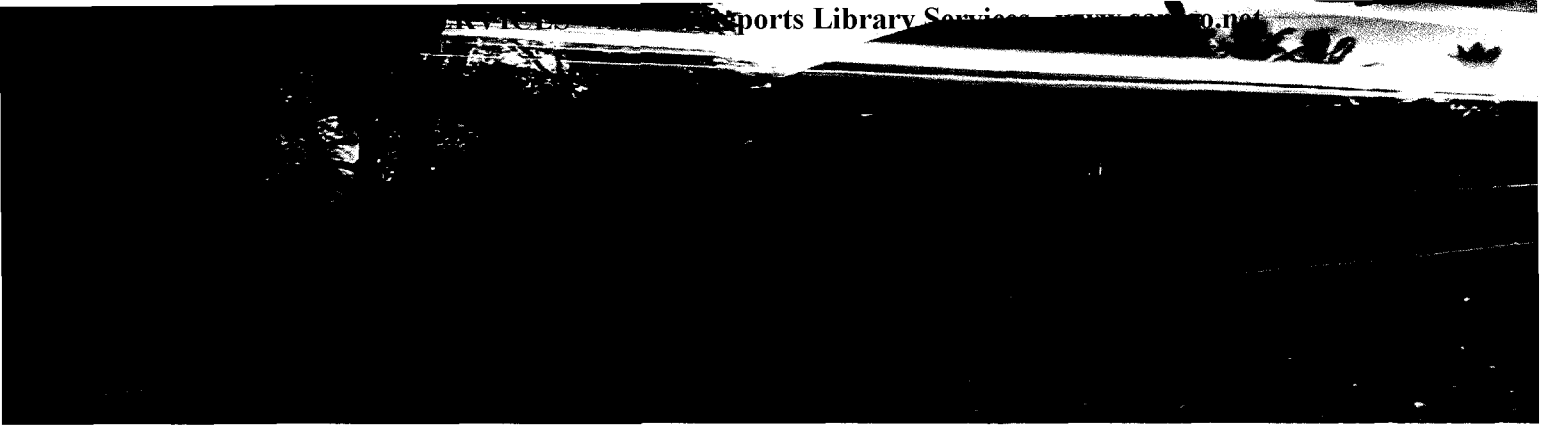
Positioning with Customers

- Suppling to over 35 Global customers including top 5 passenger car and top 5 commercial vehicle manufacturers.
- Supply Partnership with all major Global Customers.
- Key Customer relationships moving into the "Development Partnership" status.
- Strategically aligned with the long term global strategy of our customers.

(1 US$ = Rs. 45.50)

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Board of Directors

Mr. B. N. KALYANI
Chairman & Managing Director

Mr. P. H. RAVIKUMAR
(Nominee of ICICI Bank Ltd.)

Mr. S. S. MARATHE

Mr. ANIL REGE

Mr. S. M. THAKORE

Mr. S. D. KULKARNI

Mr. PRATAP G. PAWAR

Prof. Dr. UWE LOOS

Mr. P. C. BHALERAO

Mr. G. K. AGARWAL
Deputy Managing Director

Mr. AMIT B. KALYANI
Executive Director

Mr. B. P. KALYANI
Executive Director

Mr. S. E. TANDALE
Executive Director

Mr. P. K. MAHESHWARI
Executive Director

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Bankers and Auditors

Bankers

Bank of India
Bank of Baroda
Bank of Maharashtra
Canara Bank
State Bank of India
HDFC Bank Ltd.
ICICI Bank Ltd.
Citibank N A
Standard Chartered Bank
ABN AMRO Bank N V
UTI Bank Ltd.

Auditors

Dalal & Shah, Chartered Accountants

Registered Office

BHARAT FORGE LIMITED
Mundhwa, Pune Cantonment
Pune-411 036, Maharashtra,India
Phone : +91 - 20 - 26702777,26702476,26702440
Fax : +91 - 20 - 26822163, 26822387,26820699
Cable : Forge, 411036
Website: www.bharatforge.com

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Chairman's Letter

Dear Shareholder

You will recall that a few years ago, I had laid down before you our vision of creating a global forging company. We have over the past few years been steadfast in implementing a well structured strategic roadmap to fulfil our objectives. This included a judicious mix of organic and inorganic growth that focused on increasing the product portfolio, greater technology capability, developing and deepening relationships with a wider customer base, expanding across geographies and creating global operational scales. In the year under review, we have taken several significant steps in our journey towards global leadership.

2005-06 has been a year of rapid growth and acquisitions. In June, 2005, your Company acquired the assets of Federal Forge in Lansing, Michigan, USA - and thus established a significant manufacturing presence in the United States. Your Company then significantly strengthened its position in Europe by acquiring 100 per cent stake in Imatra Kilsta AB in Sweden as well as its subsidiary, Scottish Stampings Limited. Imatra Kilsta, now renamed Bharat Forge Kilsta, is a leading supplier of heavy duty engine components to the European commercial vehicle markets. In March, 2006 your Company established a significant presence in China by acquiring a 52 per cent stake in a joint venture with the largest automotive group in China - First Automotive Works (FAW), called FAW Bharat Forge (Changchun) Company Limited.

Bharat Forge now has nine manufacturing facilities at strategic locations globally: two in India; three in Germany; and one each in the US, Sweden, Scotland and China. These have given your company strategic presence in all key automotive markets of the world & has transformed Bharat Forge into a truly multinational company.

Today, Bharat Forge's consolidated forging capacity is around 560,000 MT per annum, which is the largest in the world. Another 40,000 MT of capacity will come on-stream in 2006-07 at the Pune plant. Add to this increased machining capacity for crankshafts and front axle components - and you see a company that has global scale, international presence and value added manufacturing and product development capabilities. The ramp up of these new capacities will provide tremendous growth to our Indian operations.

Thanks to organic growth and these acquisitions, your Company has performed excellently in 2005-06. While the details are given in the chapter on Management

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Discussion and Analysis, let me share with you a few financial highlights.

- Net Sales and operating income increased by 51 per cent to Rs.30.2 billion.
- Operating profits (EBITDA) grew by 37 per cent to Rs.5.9 billion.
- Profit after tax rose by 25 per cent to Rs.2.5 billion.

To my mind, our most important and immediate objective is to rapidly integrate and consolidate the various businesses and manufacturing facilities to generate powerful synergies and greater profitability out of a dual shore business model. We now have the scale and a full portfolio of products and development capabilities within the company, both close to the customer as well as in India. We intend to leverage these capabilities in order to become a global solutions provider and supplier of automotive engine and chassis components - a corporation that can closely collaborate in product development, assure continuity of supply and optimise manufacturing efficiencies. In essence, Bharat Forge will strategically complement the customers' global strategies to foster a true long term Development Partnership with the global customers.

In this, integration becomes vital. While we at Bharat Forge believe that our international companies must function independently according to their market conditions, they must reflect our unified vision, strategy and complement with the customers' long term strategies. Each company must learn from the best practices of the others. We must learn how to operate in diverse cultures. We must develop deep functional synergies in customer relationship management, procurement, production, operations management and reporting structures. We must make the value of the whole significantly greater than the sum of the parts.

The process of integration has been successfully executed with the earlier CDP Bharat Forge & Bharat Forge Aluminumtechnik acquisitions in Germany. We are now using this experience in all our subsequent acquisitions.

We are rapidly progressing on our path of going up the value chain. Global scale can develop business up to a point. Much more lasting growth will come from developing intellectual property, such that your Company becomes an integrated solutions provider that collaborates with customers right from the design and development stage right up to the shipping of components. This will transform Bharat Forge from being a supplier to an OEM partner - a transformation that will ensure more lasting value added relationships than of being a mere vendor. Increasing the share of machined components is a part of this process. We are also leveraging the Center for Excellence in R&D that has already been set up in Germany and in India to drive quantum leaps in technology development.

We are also focusing on ramping up the share of non automotive business in Bharat Forge's total revenue. Sectors like oil and gas, construction equipment, heavy engineering, energy & power sector and capital goods are showing significant growth in

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India, China and many other parts of the world. These are all high value, highly value added businesses. In 2005-06, the non-auto segment accounted for 17 per cent of your Company's consolidated revenue. This share should rise to between 20 to 25 per cent.

On the backdrop of the year with good financial performance & several strategic initiatives, I must point out two key challenges. The first is multi-faceted challenge of global integration - something that I have already touched upon. We have already accomplished several elements of the initial phase of this process. Going forward, I expect the global organisational structure to maximise synergistic benefits and optimise the profitability of your Company as a consolidated entity.

The second challenge has to do with attracting and retaining talent. Bharat Forge has to not only attract and retain technical talent but also simultaneously upgrade its human resource base. Today, your Company has a large pool of engineers, technical staff and qualified professionals. To be a knowledge-driven complete solutions provider, we need to hire, train, deploy, motivate and align a large technically qualified human resource pool. Your company is preparing itself to continue on its growth path and is taking strategic initiatives to create the organisational capabilities to manage this growth. The key focus is on developing a talent pipeline with requisite engineering and technical skill sets through well structured training and development initiatives and implementing appropriate retention strategies by creating exciting career prospects.

2005-06 was an activity packed year - and being so, it tested and brought out the best from your Company's human resource. In addition to India and Germany, Bharat Forge's management had to evaluate, acquire, operate and integrate facilities in Sweden, Scotland, the USA and China. I have nothing but the sincerest appreciation for the energy and dedication of your Company's employees for the way in which they managed these multiple tasks. Having said so, I should caution them that the action has just begun - there will be an even greater stretch in the next couple of years as we fully integrate the businesses, widen markets and grow our relationships with our key customers.

I believe that there are immense global opportunities for Indian manufacturing and that Bharat Forge, with its unique global manufacturing & dual shore capability is extremely well positioned to capitalize on this opportunity. We are confident of growing our business manifold and with your support and hard work of your Company's employees, we surely will.

Yours sincerely



B. N. Kalyani
Chairman and Managing Director

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