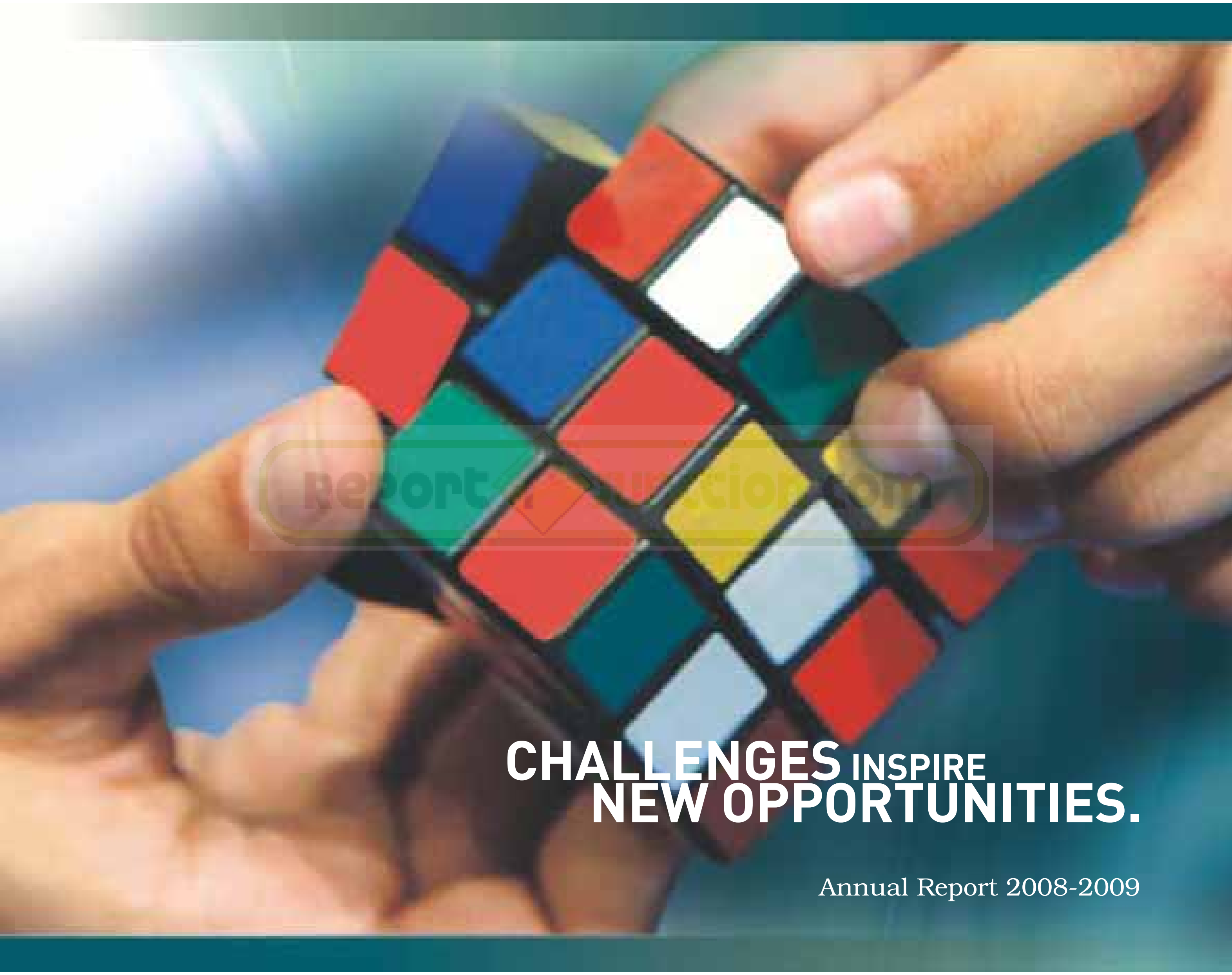
BHILWARA LNJ GROUP

PROUD TO BE INDIAN
PRIVILEGED TO BE GLOBAL



CHALLENGES INSPIRE NEW OPPORTUNITIES.

Annual Report 2008-2009

HEG Limited

PROUD TO BE INDIAN
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Group Salient Features

- The exports constitute 46% of the total turnover.
- The Group's Textile Business has 4.83 lacs spindleage.
- HEG Ltd. has undertaken a capacity expansion to raise its production to 66,000 TPA.
- The Power Generation up from 90 crore units to 113 crore units during the year because of RSWM TPP and Maral TPP being fully operational.
- RSWM's 46 MW and Maral's 10 MW capacity Thermal Power plants running successfully.
- HEG's additional 33 MW Captive Thermal Power Plant commissioned in May, 2009.
- AD Hydro Power Ltd. 192 MW Hydro Power Project at Manali (H.P.) scheduled to be commissioned by the end of 2009.
- The Group is committed to achieve over 3,000 MW of Power Generation by the year 2017.
- Bhilwara Energy Ltd. collaborated with Mannvit Engineering, Iceland for developing Geothermal Power Projects in India and Nepal.
- The Group employing over 25,000 people and poised to establish its presence in a leadership position in its businesses.
- HEG has won Dun & Bradstreet Corporate Award, 2008 for the best category in Graphite Electrodes.
- RSWM was felicitated with the 14th Rajiv Gandhi National Quality Award and “Niryat Shree” and SRTEPC Awards during the year.

LNJ Bhilwara Group Companies

Group Brands

Corporate Information

BOARD OF DIRECTORS

L. N. Jhunjhunwala	Chairman-Emeritus
Ravi Jhunjhunwala	Chairman & Managing Director
Shekhar Agarwal	Vice-Chairman
V. K. Mehta	Director
D. N. Davar	Director
K. N. Memani	Director
Kamal Gupta	Director
P. Murari	Director
N. Mohan Raj	Nominee Director - LIC
O. P. Bahl	Director
N. Mehta	Alternate to V. K. Mehta
R. C. Surana	Executive Director & CEO
Riju Jhunjhunwala	Executive Director

Chief Financial Officer

Manvinder Singh Ajmani

Company Secretary

Ashish Sabharwal

Bankers

State Bank of India
Punjab National Bank
HDFC Bank Ltd.
The Hongkong & Shanghai Banking Corp. Ltd.
IDBI Bank Ltd.
ICICI Bank Ltd.
Landesbank Baden Wurttemberg, Germany
DEG, Germany
Central Bank of India
Kotak Mahindra Bank

Corporate Office

Bhilwara Towers, A-12, Sector-1
Noida - 201301, U.P., India
Phone: +91 (0120) 4390300
Fax: +91 (0120) 2531648

Registered Office

Mandideep (Near Bhopal)
Distt. Raisen - 462046
Madhya Pradesh, India
Phone: +91 (07480) 233524 to 233527
Fax: +91 (07480) 233522

Works

Graphite Electrodes & Thermal Power Plant
Mandideep (Near Bhopal)
Distt. Raisen - 462046
Madhya Pradesh, India
Phone: +91 (07480) 233524 to 233527
Fax: +91 (07480) 233522

Hydro Electric Power
Village Ranipur, Tawa Nagar
Distt. Hoshangabad - 461001
Madhya Pradesh, India
Phone: +91 (07572) 272810, 272859
Fax: +91 (07572) 272849

Registrar

M/s. MCS Ltd.
F-65, First Floor, Okhla Industrial Area,
Phase-I, New Delhi - 110020

List of Stock Exchanges where the Company's shares are listed:

Bombay Stock Exchange Ltd.
National Stock Exchange of India Ltd.
Madhya Pradesh Stock Exchange Ltd.

Contents

Message from the Chairman & Managing Director

Ravi Jhunjhunwala
Chairman & Managing Director

Dear Shareholders,

This has been an extraordinary year for the Global economy. The financial meltdown which originated in the housing and financial markets in the USA gradually spread across the world – developed as well as developing economies. This was probably the worst economic crisis faced by the world in the last sixty years.

Though India was comparatively less affected, we too experienced a relative slowdown of business activities. The effect of this meltdown was even seen in the first quarter of the current year 2009-10. Various governments across nations came up with stimulus packages to bail out their financial systems. The Indian government and the RBI too cushioned the impact and created a platform for sustained growth and took various timely initiatives to contain the slow down. Thankfully a number of Indian as well as International economists now believe that worst is behind us and there are signs of global recovery all over the world. It is expected that the next three quarters would see an improvement in the global demand and growth patterns.

HEG's performance in the given conditions has been encouraging. We continue to be a leading global player in the Graphite Electrode industry. Due to our internationally acceptable quality and cost competitiveness, we have in fact delivered incremental margins and a revenue growth of 9% at Rs. 1,029 crore over the previous year. This should be seen in the backdrop where in the last three quarters some of the leading economies of the world – USA, Western Europe, Japan, etc have seen a fall of 40–50% in their steel output resulting into equivalent reduction of graphite electrode demand. However, it is heartening to see that some of the emerging economies like China, India, Middle East, etc have risen to the occasion where the steel production has in fact gone up in the first half of 2009 vs. first half of 2008. We, located in Asia, an area which is the fastest growing part of the world, are thus well positioned to take advantage of this growth over the next 5–10 years and the consequent increase in the demand of graphite electrode.

Another factor to our advantage is that it is projected that more and more new steel capacities would be created in the near future using the Electric Arc Furnace (EAF) route resulting into additional demand of graphite electrode. Even India which has not seen a major growth in its EAF capacities in the recent past, is likely to add substantial capacities of EAF.

We continue to focus on our operating parameters, stronger efficiency leading to better margins even at a time when capacity utilization in our industry has been lower than the previous years. With demand expected to increase in the next three quarters and in the foreseeable future, we believe we should be able to deliver even better operating results. Our key strategy at this time is to maintain our position as one of the quality led, cost efficient leaders in the Graphite Electrode space.

HEG's state-of-the-art manufacturing facility, which is one of the largest single site plants in the world is based on best in class technology available in the international market. The demand supply disparity for high quality graphite electrode is expected to continue on long-term basis due to high entry barriers for any new player in the market – both in terms of technology and also long gestation period.

Graphite electrode manufacturers in Asian countries have a competitive cost advantage over other international players, because of efficient operations, modern facilities coupled with strategically located plants which benefit in economies of scale and minimum operational costs. HEG's position in this scenario is evidently strong since it operates a modern, technologically advanced operation from India. HEG has its core competency in manufacturing UHP grade products for which its cost of production is the lowest in the world. The Company has thus been able to benefit from this opportunity by having long term relationships with well respected customers such as Arcelor Mittal, POSCO, Krupp Thyssen, Nucor, and Usinor.

During the year, HEG arrived at a decision to align its production volumes to market conditions. At that time, our key focus was to optimize on cost efficiencies and maintain margins. In addition to this, during H2 FY2009, the Company also took a proactive decision to moderate its plans to expand the capacity of graphite electrodes to 66,000 tonnes. The initial expansion plan was to expand the capacity from 60,000 to about 80,000 tonnes. The expansion to 66,000 tonnes is being implemented as per schedule and should be ready for operations by the end of FY2009-10. I would like to add that should the opportunity arise again, HEG is strongly placed to invest for growth through expansions at very contained costs to 80,000 tonnes.

With the commencement of operations of the new captive power plant with a capacity of 33 MW, the total captive power capacity reaches to about 77 MW and the new plant will support increased capacity utilization from graphite electrodes at economical costs. In the interim, when the capacity utilization of the graphite electrode plant is low, we will sell excess power on a merchant basis, where the realizations have been very attractive. This will add to better the overall performance for the Company.

Operationally we will continue to focus on better operating efficiencies. We are strategically well placed in terms of key raw material including power for captive requirements. In addition, this business remains strong and will continue to deliver healthy revenue and earnings performance in addition to merchant power sales in times of excess power generation. We are also sufficiently placed for sourcing of our key raw material, needle coke for CY2009 on the basis of strong relationship with suppliers.

It will be our endeavor to maintain a healthy growth performance. HEG is well placed to leverage growth in demand from EAF products. Given our strategic intent to drive the graphite electrode business, we are confident of being able to deliver higher revenues and earnings going forward.

With a view of sharing our growth performance with our shareholders, the Board of Directors is please to recommend a dividend of Rs. 6.50 per share for the FY2008-09. The percentage payout is appx. 30 percent.

On behalf of the Board of Directors, I take this opportunity to express gratitude to all our customers, suppliers, employees, lenders and shareholders who have supported us in our endeavors over the past years.

With best wishes,

Ravi Jhunjhunwala
Chairman & Managing Director

Message from the Executive Director & CEO

R. C. Surana
Executive Director & CEO

Dear Shareholders,

We have delivered a strong performance during FY2008-09 given our strong operational capabilities and cost efficiency measures. Revenues from the graphite electrode segment continued to contribute at healthy growth levels, on the back of stabilized capacities. Interestingly, despite moderate volume levels, we were able to sustain our operating profits given the cost efficiency measures combined with improved realization trends.

HEG posted a revenue growth of about 9% to Rs. 1,029 crore in FY2008-09 from Rs. 946 crore, in a subdued demand environment. Our exports performance grew by 15% to Rs. 832 crore from Rs. 727 crore last year. EBIDTA (Before Exceptional Items) enhanced by 30% at Rs. 393 crore despite moderated volumes in H2 FY2008-09. FY2008-09 Profit Before Interest & Exceptional Items has been strong at Rs. 346 crore, higher by 35%.

During FY2008-09, HEG achieved a production volume of 50,226 MT. We were able to maintain a production and sales balance as per the prevailing global standards given our cost reduction and rationalization measures which improved operating and efficiency matrices of the Company. We also decided to moderate our expansion plans from present 60,000 TPA to 66,000 TPA at a contained cost of Rs. 42.50 crore. This will free up cash resources in the Company and the present enhancement comes with an extremely attractive pay-back period.

HEG has a strategic advantage of having access to cheap and economical captive power requirements for the graphite electrode capacities. With the new power plant of 33 MW being operational, we are strategically well positioned to meet additional power requirements even at expanded graphite electrode capacities. At moderated graphite electrode capacity utilization, we expect to get benefits from selling excess power on merchant basis at attractive realizations, which would further enhance earnings contribution from this division.

Our single site location also adds advantage to economies of scale and we believe that we are one of the lowest cost producers of high grade graphite electrode products. Order booking during FY2008-09 was largely open on account of certain ambiguities in the steel production. However, we expect that the order book will start picking up as the steel majors come out from the de-stocking cycle. Hence, for CY2009 booking orders for graphite electrodes are gradually filling in.

Given the rising prices of needle coke we have been able to partially mitigate the impact through a combination of operating level gains and better realizations. While we are comfortably placed in needle coke supplies, needle coke pricing for the coming year is market determined and remains a cost challenge for the Company.

We are strategically well placed over other players within the industry because of our power operations, which also constitutes almost one third of our input costs for producing graphite electrodes. We enjoy benefits of access to economical and reliable power all through the year. Currently, almost 90% of our power requirements are sufficed by captive generation.

Our focus will be on keeping HEG operationally and financially strong. Based on the measures we have taken so far, the momentum for growth has been maintained. The Company has also worked on various initiatives to keep-up the morale of its Human Resources and has used the opportunity for further enhancing our in-house capabilities. We will be in an advantageous position to drive growth when the overall economy and the steel sector picks up.

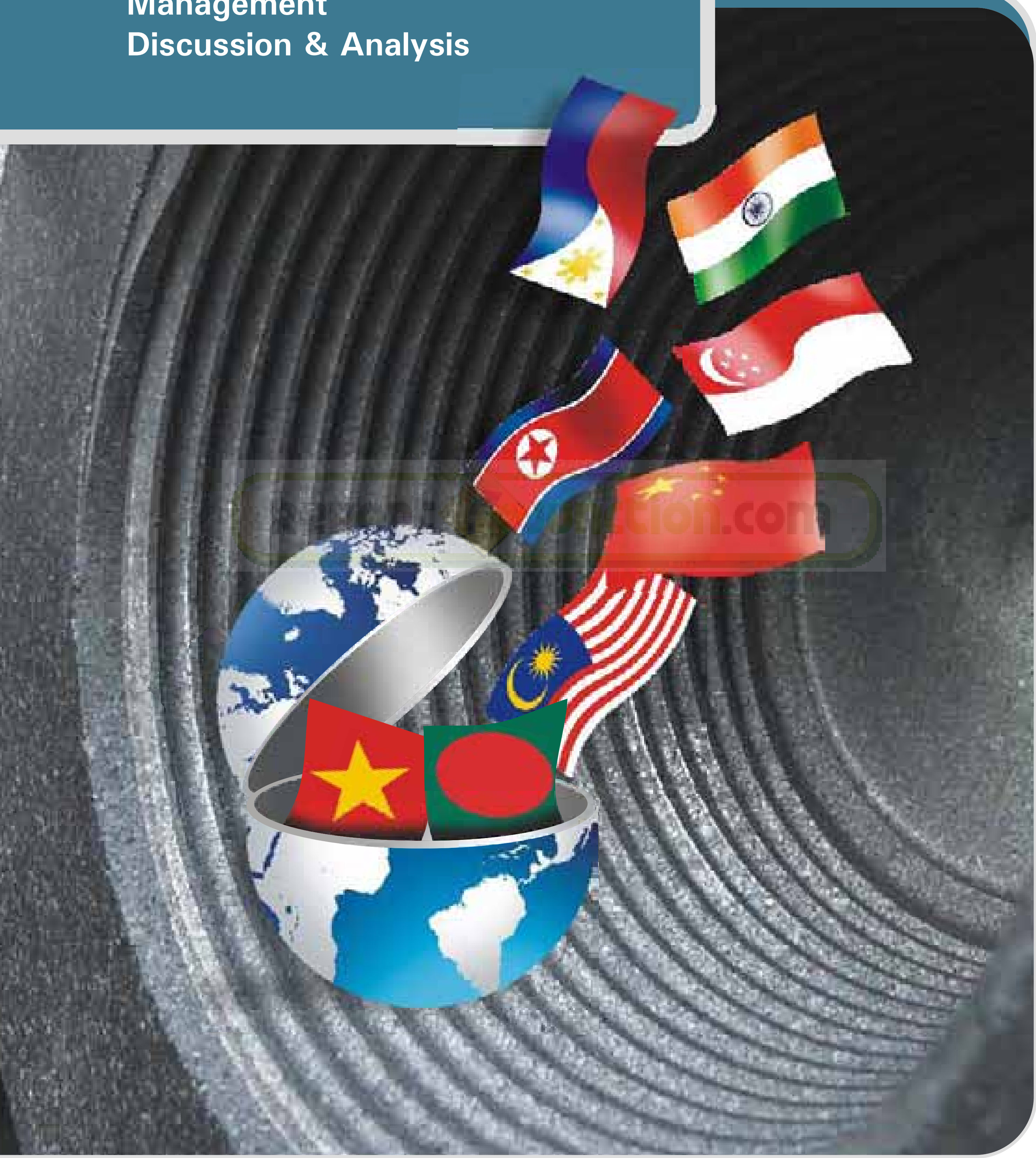
To sustain the progress it is must to have an inclusive growth and this is possible only by taking care of the interests of all the stakeholders. Hence with the focus on Environment and Energy conservations, HEG has been promoting its CSR activities and has recently adopted 2 villages near its plant in Mandideep for social upliftment. The work is in its nascent stage but already we have been able to make a difference to the life of about 150 families residing there.

I would like to take this opportunity to thank all our directors, employees and business associates for their continuous support and efforts in making HEG a leading global graphite player in domestic as well as international markets.

With best wishes,

R. C. Surana
Executive Director & CEO

Management Discussion & Analysis



Overview of the Economic Environment

The year 2008 saw unprecedented times in the global economy, which was subject to financial crisis and sharp increase in prices of primary goods, particularly those of crude petroleum and food. According to the April 2009 World Economic Outlook Report by Indian Monetary Fund (IMF), the advanced economies experienced an unprecedented 7.5 percent decline in real GDP during the fourth quarter of 2008, and output is estimated to have continued to fall almost as fast during the first quarter of 2009. Although the U.S. economy may have suffered most from intensified financial strains and the continued fall in the housing sector, Western Europe and advanced Asian were hit hard by the collapse in global trade, as well as by rising financial problems of their own and housing corrections in some national markets. Emerging economies too suffered badly and contracted 4 percent in the fourth quarter of 2008.

A crisis of such magnitude in developed countries is bound to have an impact around the world. For the developing countries, the rise in food prices combined with some unforeseen effects from the financial instability and uncertainty in industrialized nations have had a compounding effect. The damage has been inflicted through both financial and trade channels. Activity in East Asian economies with heavy reliance on manufacturing exports has fallen sharply, although the downturns in India was somewhat muted given the lower shares of the export sectors in domestic production and more resilient domestic demand.

Indian economy is mainly a domestic-demand driven economy. It's recent growth has been driven predominantly by domestic consumption and domestic investment. There has been a slowdown in the Indian economy despite mitigating factors, clearly because of India's rapid and growing integration into the global economy.

To counter the negative fallout of the global slowdown on the Indian economy, the Government took prompt actions by providing substantial fiscal stimulus. The Government announced two stimulus packages, which provided tax relief to boost demand and aim at increasing expenditure on public projects to create employment and public assets. The Government renewed its efforts to increase infrastructure investments. The RBI also took a number of monetary easing and liquidity enhancing measures including reduction in cash reserve ratio, statutory liquidity ratio and key policy rates with an objective to facilitate flow of funds from the financial system to meet the needs of productive sectors.

The world outlook remains cautious. Though the economy will still see some effects of the damage caused by the crisis, the worse is definitely over. Several economies, including USA, Europe have started recovering and the stock markets are not erratic anymore. With determined policy actions and anticipating a moderation in the rate of contraction from the second quarter 2009 onward, global activity is now projected to decline 1.3 percent in 2009. Growth is projected to re-emerge in 2010, but at 1.9 percent it would be sluggish relative to past recoveries (Source: World Outlook Report by IMF). Although conditions are expected to improve moderately in 2010, the availability of external financing to emerging and developing economies will remain highly curtailed.

Summary of Crude Steel Production Forecast (millions tonnes)

Region	2008	2009	2013
Europe	229.8	189.3	238
C.I.S	114.1	91	125
NAFTA	124.5	97.5	128
South America	47.5	39.3	53.5
Africa/Middle East	33.7	30.7	40.5
PR China	500.5	508	589
Japan	118.7	99.8	114
Other Asia	148.8	137.7	178.5
Oceania	8.4	6.8	8.5
World	1326.1	1200	1475

Source: MEPS- Global Iron & Steel Production to 2013