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Setting Benchmarks

HEG Limited

Annual Report 2006-2007

A Passion for Excellence

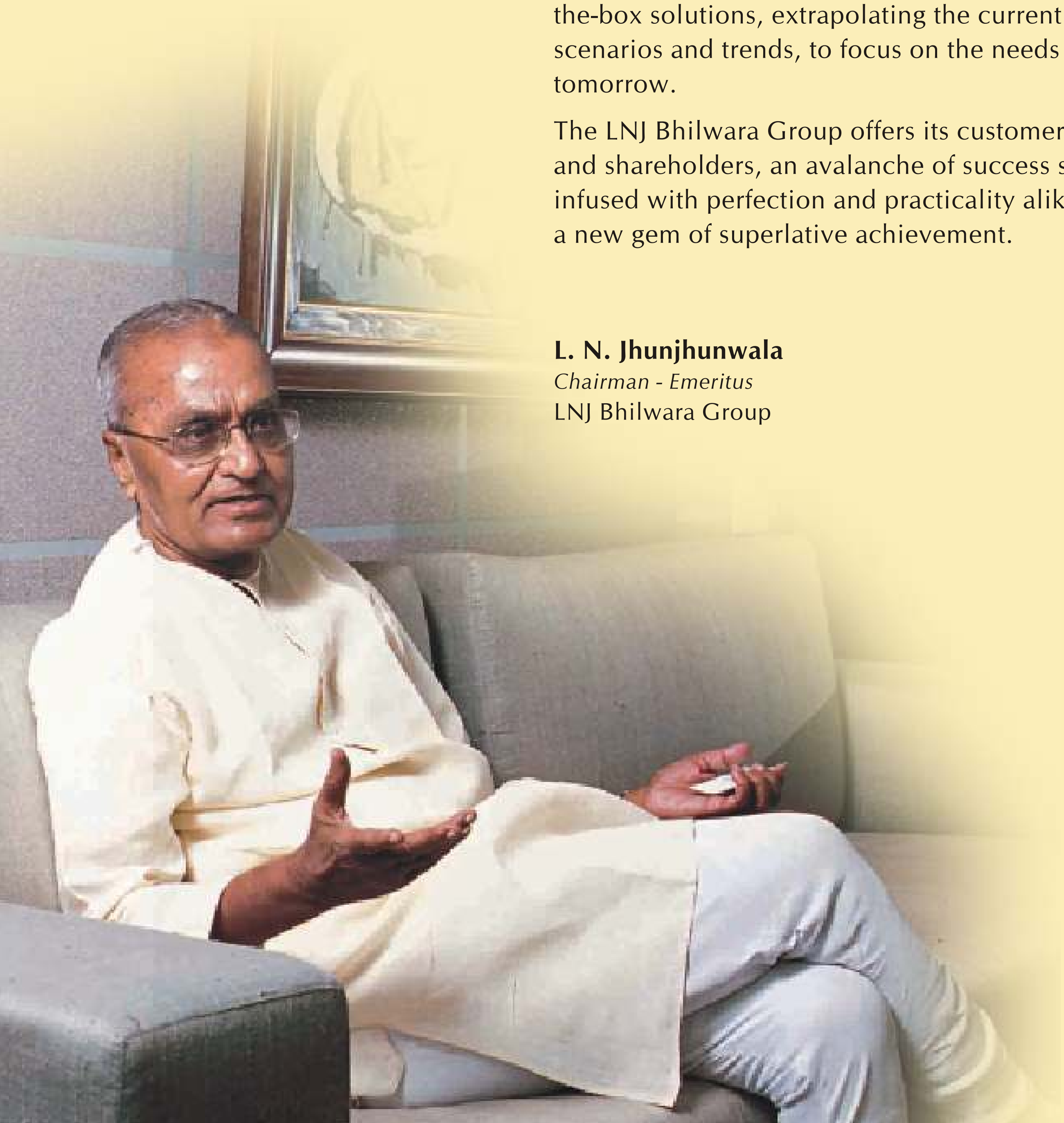
Having been built on solid, reliable foundations, the LNJ Bhilwara Group has evolved beyond its rich heritage, steeped in integrity, reliability, quality... and most importantly, an innate ability for innovation.

This ethos has catapulted the Group onto a global platform, having set several benchmarks along the years, driven by a passion for excellence.

Today, the Group is driven selflessly by its dedicated team, which constantly innovates to generate out-of-the-box solutions, extrapolating the current market scenarios and trends, to focus on the needs of tomorrow.

The LNJ Bhilwara Group offers its customers, clients and shareholders, an avalanche of success stories, infused with perfection and practicality alike, each one a new gem of superlative achievement.

L. N. Jhunjhunwala
Chairman - Emeritus
LNJ Bhilwara Group



Contents

HEG Limited

Group Salient Features : *2006-07*

Graphite Electrode / Steel

- HEG Limited

Textiles

- ***RSWM Limited*** (yarn, fabric, garments, technical textiles, Denim)
- ***Maral Overseas Ltd.*** (cotton yarn, fabric & knitted garments)
- ***BSL Ltd.*** (fabric - worsted, polyester & silk furnishing)
- ***BMD Pvt. Ltd.*** (automotive fabric)
- ***Bhilwara Spinners Ltd.*** (yarn)
- ***Bhilwara Processors Ltd.*** (process house)

Power

- Hydro Power Generation
  1. ***Bhilwara Energy Ltd.***
  2. ***Malana Power Company Ltd.***
  3. ***AD Hydro Power Ltd.***
- Captive Power
  1. Thermal
  2. Hydro
  3. Waste Heat Recovery
  4. Wind Energy
- Power Consultancy
  1. ***Indo Canadian Consultancy Services Ltd.***

- HEG's 52,000 MT per annum, Graphite Electrode plant stabilised.
- HEG institutes LNJ Award for outstanding work in the field of Carbon.
- HEG initiated Rs. 110 crore Capex during the year.
- RSWM Limited is the new name for Rajasthan Spinning & Weaving Mills Ltd.
- RSWM has initiated a Rs. 900 crore expansion plan. Its Denim & Captive Thermal Power Plants are nearing completion.
- RSWM, Maral Overseas and BSL Limited expand their spindle capacities.
- RSWM was recently felicitated with Rajiv Gandhi National Quality Award.
- RSWM announced the acquisition of Cheslind Textiles Ltd., a Bangalore based textile unit.
- RSWM International B.V., Holland, incorporated, a 100% subsidiary of RSWM, executes a 50:50 JV with SISA S.A., Spain. The new JV entity is known as RSWM SISA.
- RSWM ropes in Salman Khan as brand ambassador for Mayur Suitings.
- Bhilwara Energy Limited incorporated as the Holding Company for the Group's power businesses.
- Bhilwara Energy Limited bags three Hydel Power projects in Arunachal Pradesh.
- Bhilwara Energy formalises agreement with Punjab State Electricity Board to develop and run a 75 MW power plant near Pathankot.
- MPCL becomes the first hydro power company in India to implement ERP.
- Bhilwara Scribe ranked amongst the top 5 BPOs in the Healthcare segment.

GROUP FINANCIAL HIGHLIGHTS

(Rs. in crore)

PARTICULARS	2004-05	2005-06	**2006-07**
Turnover	2049	2387	**2859**
Export Sales	893	1016	**1361**
PBIDT	274	374	**434**
PBDT	208	286	**323**
PBT	96	156	**193**
PAT	79	115	**134**
Gross Fixed Assets	2494	2922	**3835**
Net Worth	969	1382	**1525**

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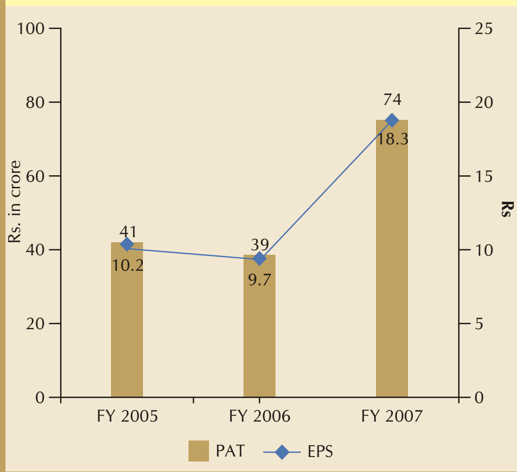
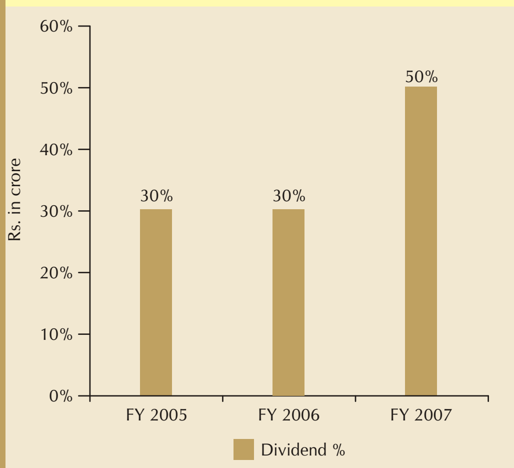
Highlights of HEG

Segments	Graphite	Power	Steel
Products / Utilities	Ultra High Power Graphite Electrodes	25 MW Thermal Power Plant	Steel Billets
	High Power Graphite Electrodes	13.5 MW Hydro Power Plant	Sponge Iron
	Graphite Specialties	12.8 MW Waste Heat Recovery System	
Location	Mandideep, Madhya Pradesh	Mandideep, Tawa, M.P., and Durg, Chhattisgarh	Durg, Chhattisgarh

Profit after Tax and EPS Performance



Dividend %



Chairman's Message

Ravi Jhunjhunwala
Chairman & Managing Director

Dear shareholders,

The Indian economy continues to experience robust growth performance on account of sustained consumer demand, strong corporate growth and industrial expansion. Going forward, the outlook for the economy remains positive, as foreign exchange reserves are rising, the annual growth rate is sustainable and capital markets are booming.

Indian economy on a strong wicket

I expect the Indian economy to carry on its growth performance, but infrastructure and fiscal imbalances remain hurdles. The Government is working on remedying these facts and has set-up special economic zones which will result in better productivity, and drive investments in manufacturing Capex initiatives.

The Government is looking to give a long-term boost to the growth of the Indian economy by laying special emphasis on agricultural and rural development, along with promoting education in the rural areas. Another welcome step is towards the lowering of peak custom duty, leading to anti-inflationary measures. On the negative side, there have been no measures to boost growth on the indirect and direct tax front. There were good reasons to reduce the CENVAT rates with revenues expected to be buoyant; there is also a need to move towards lowering goods and services tax rates in the next 3 years, as there is a strong probability that lower tax rates would yield higher revenues. Unless the dividend distribution tax rate is levied on the net dividends of a company, it will have a serious impact on new investments.

Even though it is a great time to do business in India, things would further improve if the Government realises the immense potential of stability and consistency in its fiscal policy, and in maintaining a firm stance in moving small policy positions around from time to time.

Demand for Graphite Electrode strong; expected to remain upbeat on the back of increased steel production from the EAF route

Moving on to our operations, the demand for graphite electrode in the Electric Arc Furnace (EAF) route of steel production continues to remain positive. Graphite electrode are used as a consumable in the EAF method of producing steel, which is growing at a faster pace (3%-4% every year) than the blast furnace route of steel production. The supply-demand scenario in the graphite electrode business is firmly in favour of electrode producers, as the rising demand for graphite electrode, combined with the fact that no new capacity additions are expected in the near future, are definite signs of further increase in graphite electrode prices.

After a Capex of Rs. 425 crore in the last 2 years, we have announced a further investment of Rs. 115 crore towards setting up a second 30 MW

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thermal power plant in Mandideep, with a total Capex cost of Rs. 80 crore. This power plant will be in a position to benefit from the current power situation in the country, and also sometime in the future if we decide to further increase our graphite capacities, the additional power required can be met from this power plant. We have also allotted Rs. 35 crore towards de-bottlenecking in our graphite electrode operations, while expanding capacity in the re-baking division. This initiative will be completed towards the end of the current financial year and will increase our total graphite electrode capacity to 57,000 MT. Once commissioned, both these Capex plans will make an active contribution towards the earnings of your Company.

Further Capex planned in the rest year for capacity expansion to 57000 MT

Our earlier Capex initiatives that increased the Company's capacities to 52,000 MT, have stabilised towards the end of FY2007, which was evident in the strong financial results reported in the last quarter of the year. The outlook for FY2008 is encouraging, as we expect to see the full benefits of the stabilised expanded capacities in the graphite segment. Higher needle coke (a major raw material in production of graphite electrode) prices should not affect our margins, as we have already booked a large portion of our Graphite Electrodes order book for FY2008 at considerably higher prices, which will more than compensate for the increase in needle coke prices. The revenues and earnings performance from our power business continues to remain strong. At the same time, our performance in the steel business was subdued, as we experienced higher iron ore price during the year. But during Q4 FY07, we turned around our performance in the steel business, on account of increased realisation from value-added sales in the steel business. Going forward, we expect to continue this positive turnaround in the steel segment.

With the above-mentioned positives, we are committed on delivering a robust operating and financial performance during FY2008.

In order to share our growth performance with our shareholders, the Board of Directors has recommended a higher dividend of 50% (Rs. 5 per share) for the year, as compared to 30% (Rs. 3 per share) in the previous year. This will amount to a total payout of Rs. 23.6 crore, which includes dividend tax. Going forward, the Company is confident of growing its operations further and has retained sufficient funds for future Capex plans, post distribution of dividend.

On behalf of the Board of Directors, let me take this opportunity to convey my sincere appreciation to all our customers, suppliers, employees, lenders and shareholders who have helped HEG to deliver a strong growth performance over the past year. We are focused on continuing our growth performance going forward, and are also keen on leveraging the momentum created over the past year.

Ravi Jhunjhunwala
Chairman & Managing Director

Executive Director's & CEO's Message

Ramesh C. Surana
Executive Director & CEO

Dear shareholders,

Our performance during FY2007 has been very encouraging, with positive contributions from our Graphite Electrode and Power Generation businesses. In the Graphite Electrode segment, revenues improved as we experienced higher realisation and increased volume contribution from expanded capacities, which, I am happy to share with you, have stabilised towards the end of FY2007. Our Power segment continues to enjoy good growth, and in the Steel segment value-added sales from the new steel billets operations, contributed to revenue and profit growth.

Revenue increased on higher realisation & increased volumes

The demand for Graphite Electrodes continues to remain positive. The higher demand scenario for Graphite Electrodes, will sustain a favourable price environment for HEG in the coming years. For FY2008, we have already nearly finished booking orders for graphite electrodes at significantly higher prices, when compared to electrode prices for FY2007.

As you all may already know, over the past few years needle coke prices have been rising, because of limited availability and rising oil prices. Needle coke is a key raw material used in the manufacture of graphite electrodes, and since it is a by-product of oil refineries, its prices are governed by crude oil prices which have been rising over the past few year. However, this will not affect our margins or operations, as increase in the realisation of graphite electrodes has outstripped the price increase for needle coke. I am also pleased to inform you that we have tied up our entire needle coke requirement for FY2008, which includes needle coke needed for expanded capacities.

Our Power operations give us a strategic edge over our competitors, as power costs make up almost one third of our input costs for producing graphite electrodes. It is very important that we have access to cheap and reliable power throughout the year. Currently we are producing 51 MW of power from our three power plants, which include a 25 MW thermal power plant, a 13.5 MW hydro plant and a 12.8 MW waste heat recovery system (WHRS) power plant. Both the thermal and hydro power plants supply power to our graphite electrode operations, and the WHRS power plant supplies power to our steel billets business.

HEG's steel operations include our sponge iron, steel billets and WHRS power plant units. Our steel business is a fully integrated and independent manufacturing complex. Performance in the steel business was not in line with our expectations, because of higher-than-anticipated iron ore prices experienced during the year. However, during the last quarter of the year, we turned around our performance in this segment and reported positive earnings, as the Company benefited from higher realisation from the valued-added sales in the steel billets plant. We also gained from our high level of integration in the business.

The outlook for FY2008 remains positive, as we will be able to fully appreciate the benefits of stabilised expanded graphite capacities. We anticipate higher volumes and better realisations from our graphite operations. Our power generation business should continue to report strong performance, and with the turnaround in the steel business expected to carry on, we are set for a very strong operating and financial performance going forward.

Order book for FY 2008 nearly booked

To conclude, I would like to thank all our Directors, employees and business associates, for their continuous support and efforts in making HEG a strong graphite player in the domestic and international markets.

Ramesh C. Surana
Executive Director & CEO

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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*
R. C. Surana	*Executive Director & CEO*
N. Mohan Raj	*Nominee - LIC*
N. Mehta	*Alternate to V. K. Mehta*

Chief Financial Officer : *Ashish Tandon*
Company Secretary : *Raj Gopal Purwar*

BANKERS

1. State Bank of India
2. Punjab National Bank
3. HDFC Bank Ltd.
4. The Hongkong & Shanghai Banking Corp. Ltd.
5. Citibank N.A.
6. IDBI Bank Ltd.
7. ICICI Bank Ltd.
8. State Bank of Travancore
9. The Federal Bank
10. UCO Bank
11. IndusInd Bank
12. Landesbank Baden Wurttemberg, Germany
13. DEG, Germany

REGISTRAR

M/s. MCS Ltd.
Sri Venkatesh Bhawan, W-40, Okhla Industrial Area
Phase -II, New Delhi - 110020

List of Stock Exchange where the Company's securities are listed :

- Bombay Stock Exchange Ltd., Mumbai
- National Stock Exchange of India Ltd.
- M. P. Stock Exchange Ltd.
- Kolkata Stock Exchange Association Ltd.

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Fax : -91 (07480) 233522

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Distt. Hoshangabad - 461001,
Madhya Pradesh, India
Phone : +91 (07572) 272810, 272859
Fax : +91 (07572) 272849

Drug Works
Steel Billets & Waste Heat Recovery System
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Borai, Dist. Durg, Chhattisgarh - 491009, India
Phone : +91 (0788) 2617214-16
Fax : +91 (0788) 2617201

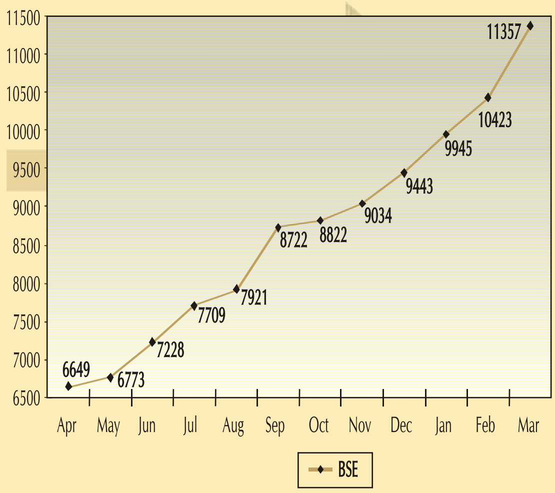
Management Discussion and Analysis

A Strong Economic Environment

The Indian economy continued to hold its position as one of the fastest rising economies in the world. India should be able to maintain this robust GDP growth on the back of strong growth in the manufacturing and service sectors. Going forward, the outlook for the economy remains positive with a few concerns on account of higher interest rates, continued inflation and unpredictable global economic environment.

During FY2007, the economy reported high GDP growth of 9.2% (Economic Survey 2006-07). Economic conditions in India are improving as per capita income is increasing, literacy rates are rising, aspiration levels are better and rapid urbanization is leading to higher demand and transformation in consumer preferences. Along with demand for basic goods, convenience and luxury goods demand is also growing at a rapid pace. With increase in both rural and urban incomes, this demand is expected to rise further.

Robust GDP growth of 9.2% during FY2007; outlook for economy to continues to remain positive



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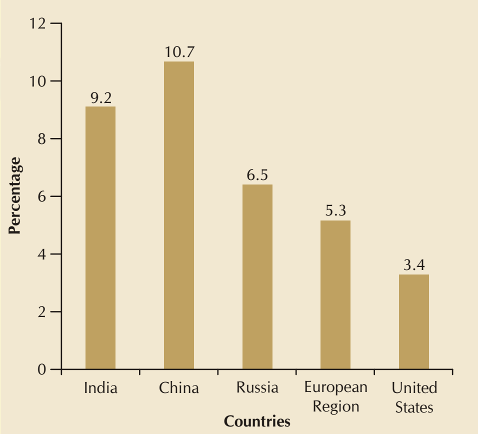
The international economies are also growing at a healthy rate with the US achieving a 3.4% increase in its national product. Similarly the Japanese economy improved by 2.5% over last year. According to the IMF, growth in the European region has also been strong with Central and Eastern Europe showing a growth of 5.3%. The Russian and Chinese economy experienced robust growth of 6.5% and 10.7% respectively.

Going forward, the overall global economic environment looks to be positive as the IMF and Organisation for Economic Co-operation and Development

GDP Growth



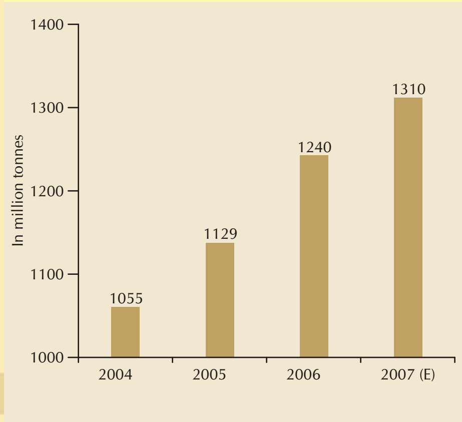
(OECD) expect the Global economic output to improve by 4.9% during the current year. The American and European economies are set to grow by 2.9% and 2.0% respectively according to the IMF. Growth in the global economy will be fueled by Eastern Europe and East and South-East Asia, with emerging markets expected to improve by 6.3%. While the Chinese and Russian economies are projected to continue their momentum and grow by 10.0% and 6% respectively.

In this age of globalisation, Indian companies across various sectors are competing at an international level and have shown strong ability to outperform in the global marketplace. The industrial sector has absorbed the increase in oil prices and shown minimum negative impact of the same. While the service sector has rapidly grown on the back of the huge middle class community in the country. This community is growing at 20% a year and is expected to reach 350 million people by the year 2010.

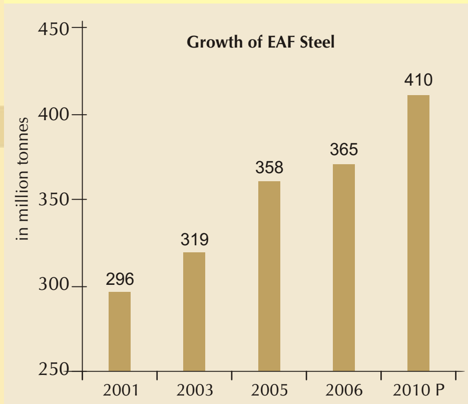
In spite of the tremendous progress shown by the economy, there are a few stumbling blocks on economies growth path. Like infrastructure, steady rise in inflation and fiscal imbalances. But in time, these hindrances should not pose a problem given the various initiatives being undertaken by the Government.

Outlook for both the local and international economic environment continues to remain positive, but could be affected by higher oil prices and increase in interest costs leading to higher operating costs for the industrial sector.

World Steel Outlook



Production of Steel through EAF Route



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Positive Sector Trends

HEG's core business – Graphite Electrode – globally continues to experience robust demand and an improving price environment, the Company expects this positive scenario to continue going forward. During 2006, the steel industry produced 1,114 million tonnes of steel, showing a strong growth of 8.5% over the previous year. According to the International Iron & Steel Institute, the steel industry is expected to grow by 5.9% in 2007, and by 6.1% in 2008.

The outlook for the Electric Arc Furnace (EAF) route for steel production is positive, as it is on a high growth path. EAF steel is growing by about 3% - 4% every year, and given this growth is on a large base, the demand for Graphite Electrode is likely to remain high in the foreseeable future. The EAF route for steel production is important to HEG, because the Graphite Electrode produced by the Company are used as a consumable in this method of steel production.

Due to high technological barriers and the reluctance of most current players in the Graphite Electrode business to share know-how with prospective entrants, very few companies across the world have the technology to produce Ultra High Power (UHP) grade of Graphite Electrode. This has led to a favourable demand supply situation for the current manufacturers of Graphite Electrode, as no new competitor has entered this sector in the past three decades. The limited supply and the growing demand for Graphite Electrode have led to a steady rise in Graphite Electrode realisations, and going forward, HEG expects this positive price trend to continue. Higher Electrode prices will

have no significant effect on manufacturing costs of the steel producers, as Graphite Electrode form a very small fraction of steel production costs.

With regards to production costs – needle coke and power costs form a major part of manufacturing expenditure for HEG.

Availability of economical and reliable power has strategic significance for Graphite Electrode producers, as power costs make up about a third of the manufacturing costs. HEG has its power supply fairly under control, as the Company has access to three captive power plants, which provide more than 90% of HEG's total power requirements.

Needle coke is the main raw material used for the manufacture of Graphite Electrode and has been experiencing rising costs over the past few years because its prices are directly linked to crude oil prices as needle coke is a by-product of oil refineries. Another factor influencing needle coke prices is the small number of needle coke producers globally and the steady increase in demand for needle coke, leading to a supply-demand mismatch. HEG has tied

No new entrant in the graphite electrode business over the past 25 years, leading to a favorable supply-demand environment in the segment

HEG comfortable with supply of needle coke; has tied up full requirement for FY2008

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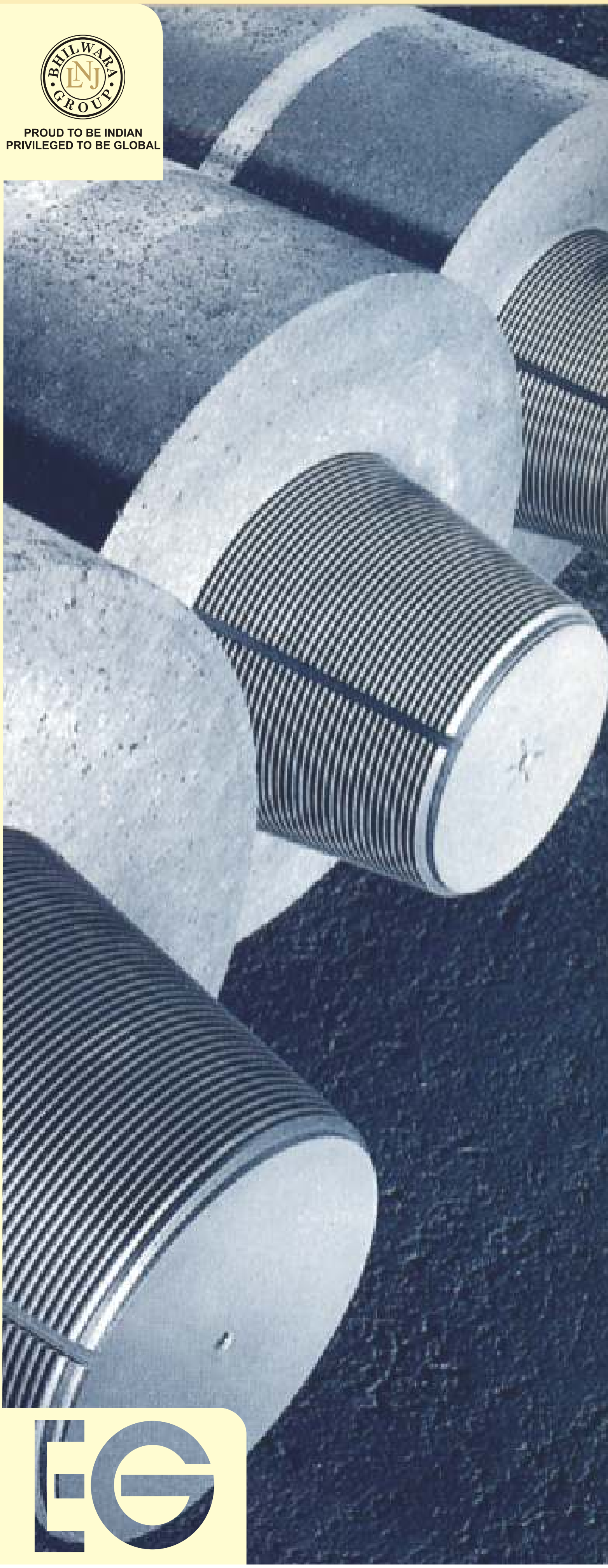


up its entire needle coke supply requirement for FY2008, and higher needle coke prices should not affect the Company's performance as increase in the realisation of Graphite Electrode has outstripped the price increase for needle coke.

This limited supply of needle coke is also likely to prevent any Graphite Electrode capacity expansions by existing players, which will keep the supply of Graphite Electrode almost unchanged in the face of increasing demand.

Review of Operations

HEG is a reputed global manufacturer of Graphite Electrode, which are used as a consumable in the production of steel from the Electric Arc Furnace (EAF) route. The Company operates a Steel business, which includes the manufacture of Sponge Iron and Steel Billets. HEG also runs three power plants which support the Graphite and Steel businesses.

Graphite Electrode: driving growth

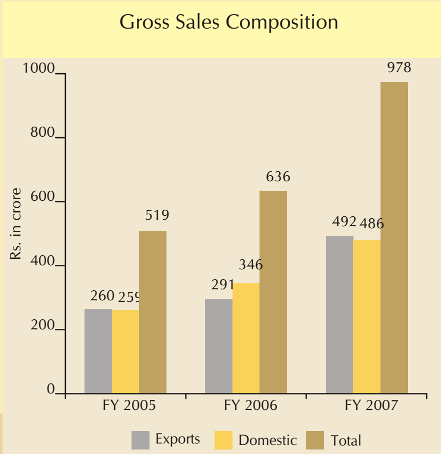
HEG's major business is the production of Graphite Electrode, which contributed to more than 75% of the Company's revenues during FY2007. HEG has the largest integrated Graphite plant in South Asia & Middle East, located in Mandideep near Bhopal (Madhya Pradesh), with a rated capacity of around 52,000 MT per annum. HEG's Graphite division has facilities for production of Graphite Electrode and Graphite Specialties.

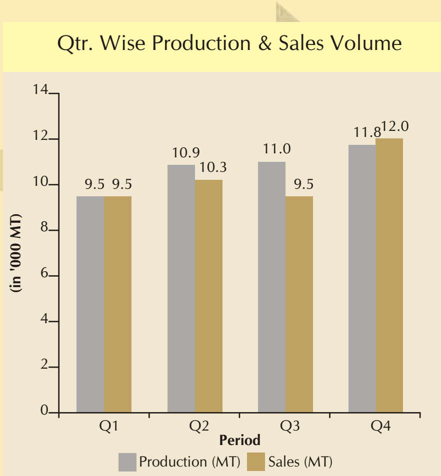
HEG produces two grades of Graphite Electrode – High Power (HP) and Ultra High Power (UHP), which are customised to the needs and requirements of the

customer. The consumption of UHP grade Electrode is growing fast and accounts for more than 75% of HEG's total Graphite production. Also, there are indications that the usage of UHP grade Electrode in EAF Steel plants globally, is expected to further increase, going forward.

The Company is a major exporter of Graphite Electrode, with a number of respected steel manufacturers – **Mittal Steel, POSCO, Krupp Thyssen, US Steel, Nucor**, and **Usinor** – in its customer portfolio. HEG sells Graphite Electrode to steel manufacturers across the globe in over 30 countries in Europe, Asia-Pacific, South Africa, Middle East and the US. The Company focuses on growing and strengthening its customer base by not only delivering customised Graphite Electrode on time, but also by supplying the customers with important consulting services that often lead to higher productivity levels at the customers' end.

In April 2007, HEG announced an investment of Rs. 35.0 crore towards de-bottlenecking in the re-baking division of its graphite electrode plant. Post this de-bottlenecking initiative, the total Graphite Electrode production capacity will increase from 52,000 MT to 57,000 MT.





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For FY2007, net revenues in the Graphite Electrode segment were at Rs. 630.1 crore, better by 54.1% as compared to

Rs. in crore	2007	2006	% Increase
Sales	630	409	54
EBIT	89	53	68
Return on Sales %	14	13	–
Capital Employed	516	485	–

Rs. 408.9 crore last year. The total production volume of Graphite Electrode increased by 27.6% over the previous year, to 43,182 MT for FY2007. Graphite Electrode revenues during the year improved on account of rising price realisations and higher volumes experienced in the segment.

Higher needle coke prices did not affect HEG's performance, as increase in the realisation of Graphite Electrode has

Expanded capacities now stabilised; FY2008 to witness full benefits of earlier Capex initiative

outstripped the price increase for needle coke, and margins in the segment improved to 14.1% from 13.0% in the previous year. The Company expects to further augment its Graphite Electrode production volumes, as its expanded capacities stabilised towards the second-half of FY2007. Going forward, HEG will be able to experience the full benefits of its stabilised and expanded graphite capacities.

Power Generation: access to reliable and cost efficient power supply

Presently, the Company operates three power plants at various locations, with a total power generation capacity of about 51 MW. These power plants support HEG's graphite and steel business, for which access to economic and reliable power supply has strategic importance.

Of the three power plants the Company operates, the 25 MW Thermal Power Plant located at Mandideep, is the newest and largest in terms of rated capacity. This power plant gives HEG access to cheap and dependable power supply throughout the year. The Company operated a hydro-electric power unit, with a rated capacity of 13.5 MW located at Tawa. The operation of this plant is seasonal as it depends on rainfall in its catchment area. Like in FY2007, when the monsoon was good, the power production cost from the hydro unit was under Rs 1.31 kwh. HEG also operates a 12.8 MW Waste Heat Recovery System (WHRS) power unit at its Durg facility which houses its steel operations. The plant utilises waste gases recovered from the sponge iron manufacturing process to produce power. The WHRS plant is performing optimally, as the

Company to add a second 30 MW thermal power plant in Mandideep, expected to benefit from the current power situation in the country

Rs. in crore	2007	2006	% Increase
Sales	123	90	37
EBIT	46	27	76
Return on Sales %	38	29	–
Capital Employed	151	159	–

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Company no longer needs to wheel power from the WHRS plant, now that it is being consumed locally at Durg for the steel plant. The power production cost of the WHRS power plant is also fairly economical at Rs. 1.86 kwh.

HEG had announced in April 2007, that it will set up another 30 MW thermal power plant in Mandideep, at a total investment of Rs. 80 crore. The power plant will benefit from the current power situation in the country, and also sometime in the future if HEG goes in for another capacity expansion for its graphite electrode, the power plant can meet the additional power need for these extended capacities.

For FY2007, power revenues increased by 36.8% to Rs. 122.9 crore, as compared to Rs. 89.8 crore in the previous year. Power revenues would have been higher if it were not for the brief shutdown of the thermal power plant, for necessary rectification work at the beginning of the current financial year. HEG generated 4045 lacs kwh of power, at an average cost of less than Rs. 2.29 kwh unit. For the year, earnings from the power business improved by 75.8% to Rs. 46.4 crore, from Rs. 26.4 crore in FY2006.

Sponge Iron & Steel Billets: secondary to core operation, facilitating a diversified revenue model

HEG's steel business includes a 120,000 tonne per annum Sponge Iron plant and a 100,000 tonne per annum steel billets unit,

Rs. in crore	2007	2006	% Increase
Sales	174	106	64
EBIT	-5	-2	–
Return on Sales %	-3	-2	–
Capital Employed	72	75	–

*Steel Billets production commenced in later half of financial year 2006

both of which are located in Durg. The Company forwarded integrated into the production of steel billets, to benefit from the value-added sales HEG would generate from the new operations. The Company can now also consume the power generated from its existing WHRS power plant for its steel operations, instead of wheeling the power to Mandideep and incurring very high wheeling charges. With both the forward integration and the local consumption of power generated from the WHRS plant, the Durg facility is a self-reliable manufacturing complex.

Revenues from the steel business were better by 63.6% at Rs. 174.0 crore, from Rs. 106.4 crore in FY2006, on account of value-added sales from the steel billets plant. As a result of higher iron ore prices during the year, earnings in the segment were adversely affected and stood at Rs. (-)4.6 crore. But during the last quarter of the current financial year, the steel segment turnaround its performance and reported a PBIT gain of Rs. 1.1 crore. The Company was able to benefit from higher realisations, access to cheap power and cost advantages of forward integration into production of steel billets. Going forward, softening in iron ore prices would lead to an improved performance for the steel segment.

HEG announces investment of Rs. 35 crore towards augmentation of re-baking capacity; will enhance total Graphite Electrode capacity to 57,000 MT

Value-added realisations in the Steel business lead to positive earnings in the segment; HEG expects to continue with turnaround performance, going forward

PROUD TO BE INDIAN
PRIVILEGED TO BE GLOBAL

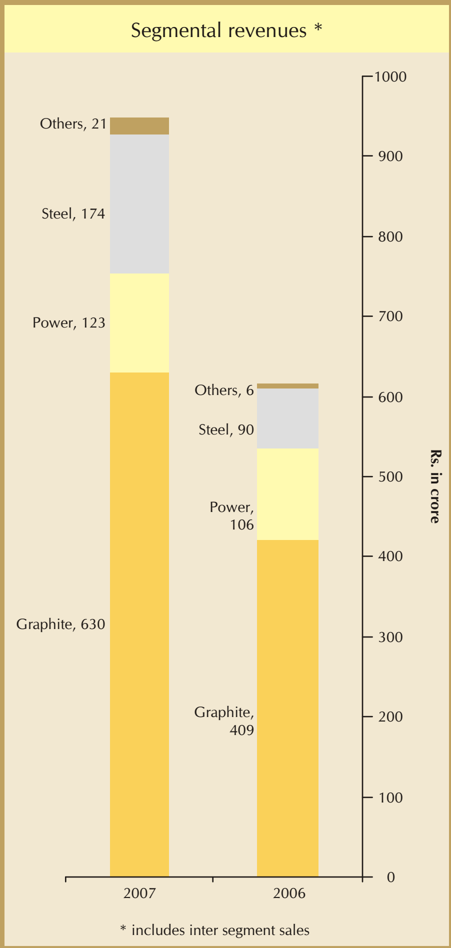
Review of Financial Performance

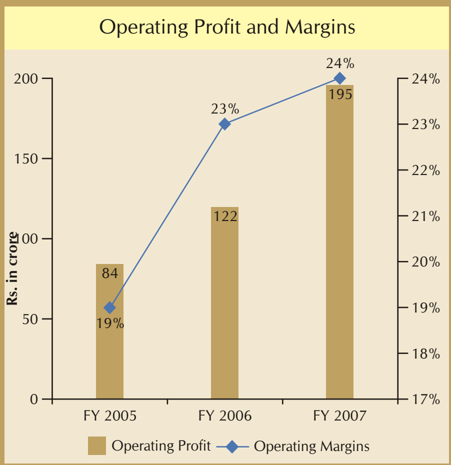
HEG delivered a strong financial performance during the year under review, as the Company started to benefit from its expanded capacities in the graphite segment.

Strong Operating Results

Net revenues for the year were higher by 55.7% at Rs. 817.9 crore, when compared to Rs. 525.3 crore. Increased volumes and higher realisation in the graphite electrode segment, combined with improved value-added sales from the steel billets plant, led to strong revenues performance during the year. Revenue contribution from the graphite segment increased by 54.1% to Rs 630.1 crore, from Rs. 408.9 crore, on the back of better realisations and contribution from extended capacities. In FY2007, revenue contribution from the steel business increased by 63.7% to Rs. 174.0 crore and from the power business, which includes three power plants, was higher by 36.9% to Rs. 122.9 crore.

PBIDT for FY2007 grew by 60.3% to Rs. 194.8 crore, as compared to Rs. 121.5 crore, with operating margins improving to 23.8%. Earnings (PBIT) from the graphite electrode business were better by 68.0% to Rs. 89.2 crore, from Rs. 53.1 crore in the previous year. HEG's earnings from the power business increased by 75.8% to Rs. 46.4 crore, from Rs. 26.4 crore last year. The steel segment reported negative earnings, as a result of significantly higher iron ore prices experienced during the year. Despite this, HEG has managed to turnaround its performance in the steel business during Q4 FY2007, due to improved realisations from the business. In the steel segment, the Company reported earnings of Rs. 1.1 crore for Q4 FY2007, as compared to Rs. (-)1.1 crore





in Q4 FY2006 and Rs. (-)2.7 crore in Q3 FY2007. Going forward, HEG expects iron ore prices to soften, and combined with higher realisation from the business, the outlook for the steel business is positive.

Interest and depreciation costs for the year were higher at Rs. 47.7 crore and 47.6 crore. respectively, on account of expanded capacities going on-stream during the year. In FY2007, PBT increased by 88.7% and crossed Rs. 100 crore for the first time. HEG reported robust growth in PAT, which improved by 89.7% to Rs. 73.8 crore, as compared to Rs. 38.9 crore in the previous year. Basic EPS nearly doubled to Rs 18.3 from Rs. 9.7 in FY2006.

A Healthy Balance Sheet

The Company has a healthy balance sheet, despite undertaking various Capex plans over the past few years. This is testimony to the strong and prudent financial management of the Company. HEG's long-term debt, excluding FCCB, as on 31st March, 2007, was at Rs. [391] crore, implying a debt-equity ratio of [1:1].

HEG's Return on Net Worth (RoNW) and Return on Capital Employed (RoCE) for the year under review, was at 20.8% and 11.1%, respectively. The Company's RoCE for FY2007 is subdued, because the capital employed includes the funds raised through its FCCB issue that is currently awaiting deployment. These ratios are therefore likely to improve going forward.

FY2007 revenues improve 56% to Rs. 818 crore

Annual PBT better by 89%; crosses Rs. 100 crore.

PAT higher by 90% at Rs. 74 crore, EPS for the year nearly doubles to Rs. 18.3

PROUD TO BE INDIAN
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Research & Development

HEG had set up a new full Fledged State of the Art R&D set up in 2006, with two fold objectives – to Conduct applied Research in the filed of Carbon and Graphite for Developing new products as wll to sustain and improve the competitiveness of the Graphite Business. The set up is equipped with the latest testing facilities and also a pilot plant for facilitating its objectives

In the last year, the R&D played a major role in identifying the role of certain characteristics of its raw material used for manufacturing the Graphite Electrode which has given new insights and will further strengthen the quality control of the raw materials thereby improving the quality of the finished products

The work has been started for the identified projects on the new product development and while one year is too short for completing the projects , the progress has against the set milestones has been encouraging and in line with the expectations

New Technology Center

HEG has also set up a new technology center as a separate unit for generating the revenues by supplying the know-how in the field of Carbon/Graphite. An 100% EOU (Export Oriented Unit) is has been a pleasure to report that in its first year of operation, the Technology Center has earned a revenue of around US# Three Million from its overseas projects

The center has been set up in Mandideep and has the infrastructure and the resources to independently handle various projects related to supply of Engineering and Know – how by leveraging the knowledge base created over 30 years of its existence.

Human Resource Development

A few years ago, in partnership with M/s. Hewitt Associates, HEG carried out a comprehensive HR exercise which aligned its policies with the best in the world. This initiative also helped HEG to transition towards becoming a world-class organisation.

Personnel Development

HEG constantly endeavours to provide its workforce with the latest technologies and tools, to help them improve their efficiency and effectiveness levels. These initiatives broadly cover performance measurement, competency assessment development and reward management. HEG is of the view that each one of these initiatives will help the Company to create an environment which allows its employees to fully utilise their abilities and have a bigger part to play in the development and advancement of the Company.

PROUD TO BE INDIAN
PRIVILEGED TO BE GLOBAL

Performance Metrics and Remuneration

HEG operates in a business which requires that in-house skill and proficiency be conversed and developed. Along with the Company's highly-motivated and talented team of employees, HEG has a performance management system based on a Balanced Score Card, which not only seeks to further motivate employees, but also helps in attracting bright and talented employees to the Company.

Competency Sustenance

Modern business practices require that succession planning should not be limited to senior management; it should also include important positions across important job categories. Being a truly global and contemporary organisation, HEG believes in preparing tomorrow's leaders today. For which, the Company has in place a successful process to generate a talent pool that can seamlessly handle organisational change at any time in the future.

Industrial Relations

HEG has always connected with its union and labour force, before instigating any major changes that directly affect them. In addition to this, employees are also welcomed to bring up issues relevant to them. Over the years, the manner in which the management and its workforce have engaged, has led to mutual understanding and trust. This has led to the signing of a landmark long-term settlement with the unions, on a win-win note.

Employee Engagement Survey

HEG has participated in "The Best Employers Survey 2007" study by M/s Hewitt Associate a leading HR firm wherein the White Collar Employees across the board participated in the survey. First of all, let us understand, what is Employee Engagement and how it can be measured? Engagement is defined as the state of emotional and intellectual commitment to an organization or group—the extent to which you have captured the hearts and minds of your

employees—a measure of energy, passion and enthusiasm.

Engagement is measured by the extent to which employees consistently speak positively about the organization to co–workers, potential employees and customers, they have an intense desire to be a member of the organization and they exert extra effort and engage in behaviors that contribute to business success.

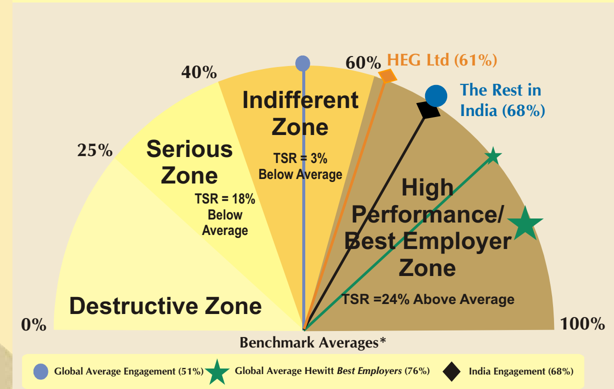
HEG participated in the Best Employers' Survey 2007, and scored a respectable 61%

Engagement at HEG

Hewitt's research of 1,500 organizations from its global Engagement client and Best Employer database found that those organizations, typically Best Employers, with greater than 60% of their workforce engaged, have a higher level of financial performance. The HEG's survey report has been released and has scored a respectable 61%.

Based on the results a way forward has been created as a part of the Functional Scorecard to bridge the gap.

Engagement at HEG Ltd.



* Source: Hewitt Associates Employee Research Database

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Fostering a Quality-Conscious Organisational Culture

Quality is not only responsible for sustainable competitive advantage, but is also actively required to be used as a catalyst for business growth. HEG is constantly looking to improve its workforce quality by engaging its employees in training and evaluation programmes. The Company has also extended quality initiatives to its processes, through a comprehensive Statistical Process Control system (SPC). This system has enabled HEG to acquire global standards in manufacturing, along with improving its productivity levels. Apart from the above-mentioned initiatives, HEG invites international consultants from time to time, to seek assistance in its efforts to constantly progress processes.

Environmental & Social Initiatives

Ecological impact

The Company is completely conscious of the environmental impact its operations and actions can have on its surroundings. To counter this effect, HEG has in place efficient systems to reduce any undesirable fallout from its processes. HEG is an ISO-14001 certified company since June 2005. The Company has taken up the responsibility to further improve the ecological conditions around its facilities, by implementing a widespread forestation programme.

HEG's Mandideep manufacturing complex is testimony to how serious the Company is towards improving the environment around its facilities. The Mandideep facility is considered one of the cleanest graphite electrode plants in the world, when seen in the light of the materials used and the products manufactured in the graphite plant.

The Company also believes in recycling and reusing any byproducts from its manufacturing processes. The Waste Heat Recovery System (WHRS) power plant is a fine example of this fact, as it makes productive use of the heat generated by waste gases that are released during the manufacture of sponge iron.

Community Outreach

HEG believes that local communities have a vital role to play in creation of wealth and to develop local society. HEG has various programmes to better their standard of living. To encourage education and the general welfare of people in Mandideep and its surroundings, a non-profit body Graphite Education & Welfare Society, was established in 1981. The Company operates a Graphite Primary School in HEG, Mandieep. HEG and its employees regularly come together to conduct medical camps, socio-cultural activities and other community work, often in partnership with local authorities and NGOs.

PROUD TO BE INDIAN
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Internal Control Systems and Risk Management

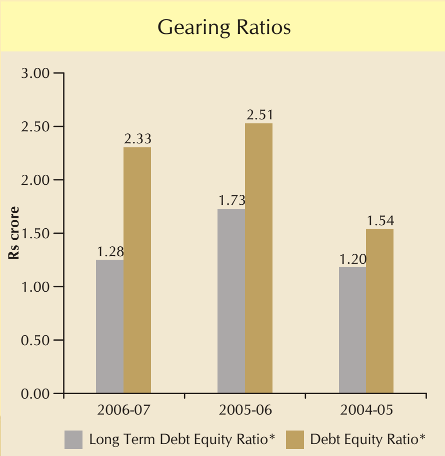
HEG has strong and adequate internal audit and control systems, which are aimed at establishing and maintaining internal controls over all operational and financial functions. This helps the Company to transparently follow all the procedures, guidelines, and regulations as applicable.

The Company has also put in place sophisticated risk management initiatives to help it identify and prevent any operational or financial risks. HEG has undertaken these initiatives, as it believes to succeed in this competitive global business environment, one needs to identify business risks and pro-actively prevent them.

HEG's management team, under the guidance of the Board of Directors and the Audit Committee – which is tasked with supervising the adequacy of internal control systems and risk management and mitigation efforts at HEG – closely scrutinise the operating environment and internal control systems, to identify and assess possible risks and carry out countermeasures quickly.

HEG had appointed M/s Ernst & Young as advisors to devise and execute a suitable risk management plan and to implement internal control assessment and reporting requirements. The Company has also reinforced its financial reporting processes, by installing modern IT-enabled systems across all its offices and manufacturing units.

With regards to specific operational risks, HEG's management team keeps an eye on all risk factors relating to its product portfolio, raw material supplies, and customer profile as well as foreign currency volatility and environmental issues and takes suitable measures on an ongoing basis. After prioritising risks and framing action plans, the management presents it to the Board and / or to the applicable Committees, periodically. HEG also has sufficient property and casualty insurance cover at its plants, in line with best industry practices.



A Positive Outlook

During FY2008, the Company expects to experience the full benefits of its expanded graphite electrode capacities, which have now stabilised. HEG's power business continues to show good growth and the turnaround in the steel business witnessed during Q4 FY2007, is expected to continue going forward.

HEG is comfortable with the availability of needle coke, as it has already tied up supplies for FY2008 in advance. Although needle coke prices have been rising due to higher oil prices, the Company's increasing realisation are likely to offset any impact of such cost escalations. With the expanded capacities now stabilised, the Company expects to deliver higher volumes at improved realisation. Thus for FY2008, both the income and earnings outlook remain positive.

DIRECTORS' REPORT

DEAR MEMBERS,

Your Directors have pleasure in presenting the 35th Annual Report of the Company, including the audited financial statements for the year ended 31st March 2007. We are glad to report a continued strong performance driven by focus on core business, enhanced overall operating efficiencies, prudent financial management and a buoyant sector outlook.

FINANCIAL RESULTS & APPROPRIATIONS (Rs. in crore)

	2006-07	2005-06
Turnover:		
Domestic	485.67	345.81
Export	491.88	290.52
Less : Excise Duty	49.66	35.13
: Inter Division Sales	110.02	75.93
Net Sales	817.87	525.27
Other Income	20.21	9.91
Total Income	838.08	535.18
Profit before Interest, Depreciation and Amortisation	194.82	121.52
Interest	46.06	28.19
Profit before Depreciation and Amortisation	148.76	93.33
Depreciation	47.64	39.62
Amortisation	1.04	0.70
Profit Before Tax	100.08	53.01
Provision for Taxation:		
Current Year	12.52	4.93
Deferred	13.97	8.20
Wealth Tax	0.06	0.06
Provision for Fringe Benefit Taxes	0.36	0.71
Income Tax for earlier Taxes	(0.67)	0.18
Net Profit	73.84	38.93
Gross Block	940.46	884.87
Net Worth	354.70	316.01
EPS	18.32	9.66
Appropriations		
Amount available for appropriation	100.50	73.46
Dividend :		
a) On Equity Shares	20.16	12.09
b) Corporate Dividend Tax	3.43	1.70
Transfer to :		
a) Debenture Redemption Reserve	12.00	13.00
b) General Reserve	25.00	20.00
c) Balance carried forward	39.92	26.67

DIVIDEND

In line with the Company's philosophy of enabling shareholders to participate in its progressive performance, the Board recommends a dividend of 50% on equity shares of face value Rs. 10/- each, amounting to a payout of Rs. 23.59 crore including corporate dividend tax.

MANAGEMENT DISCUSSION AND ANALYSIS

Separate notes on Management Discussion & Analysis and Report on Corporate Governance are annexed to this Report.

OPTIMISING EFFICIENCY OF CAPITAL EMPLOYED

Driven by prudent debt management efforts, your Company tied up long-term debt at competitive rates of interest and the Company continues to keep the overall cost of Long Term Debt & Working capital Debt low.

INTERNAL CONTROL SYSTEMS AND ADEQUACY THEREOF

The Company has an adequate internal control system commensurate with its size and nature of its business.

Internal audit programme covers various areas of activities and periodical reports are submitted to the management. The Audit Committee reviews financial statements and internal audit reports along with internal control systems. The Company has a well-defined organization structure, authority levels and internal rules and guidelines for conducting business transactions.

HUMAN RESOURCE DEVELOPMENT

Creating a customer-focused, quality conscious organisational culture is a key priority on the Company's agenda. The Company recognizes human resource as a key component for facilitating organisational growth and regularly invests in augmenting its human resources with the latest tools and techniques for enhanced productivity through focused and structured training programmes.

The Company has continued quality initiative aimed at institutionalizing processes and monitoring process efficiencies. The Company also continued the pro-active approach relating to employee training and development, as well as induction of fresh minds at different levels for an effective succession planning.

Information as per sub-section (2A) of Section 217 of the Companies Act 1956, for the financial year ended, 31st March, 2007 is given in Annexure I to this Report. Total number of employees of the Company is 1530.

PUBLIC DEPOSITS

Your Company did not accept any public deposit during the year. There were also no outstanding deposits on the date of the Balance Sheet.

DIRECTORS

Mr. D. N. Davar and Mr. K.N. Memani, Directors, retire by rotation and being eligible, offer themselves for reappointment. The Board recommends their reappointment.

AUDITORS

The term of appointment of M/s Doogar & Associates, Chartered Accountants and M/s S. S. Kothari Mehta & Company, Chartered Accountants, expires on the conclusion of the forthcoming Annual General Meeting and being eligible, they are recommended for reappointment. The Company has received letters from them to the effect that their appointment, if made, would be within the prescribed limits under section 224 (1-B) of the Companies Act, 1956.

The notes on accounts are self explanatory in relation to the comments of the auditors in their report.

DIRECTORS' RESPONSIBILITY STATEMENT

Your Directors confirm:

i) that in the preparation of Annual Accounts, the applicable accounting standards have been followed. There have been no material departures.

ii) that the Directors have selected such accounting policies and applied them consistently and made judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of financial year ended 31st March, 2007 and of the profit of the Company for that period.

iii) that the Directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956, for safeguarding the assets of your Company and for preventing and detecting frauds and other irregularities.

iv) that the Directors have prepared the Annual Accounts on a going concern basis.

ENERGY CONSERVATION, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE EARNINGS AND OUTGO

The information required pursuant to the Companies (Disclosure of particulars in the Report of the Board of Directors) Rules, 1988 is given in Annexure - II to this Report.

ACKNOWLEDGEMENTS

The Board places on record its deep appreciation of the continued co-operation it received from various Financial Institutions, Banks and Govt. Departments and Ministries of the Central as well as State Governments. The Directors also express their appreciation of the continued commitment of employees at all levels to the Company's strategic goals and objectives.

For and on behalf of the Board

Place : Noida (U.P.)
Date : 26th April, 2007

RAVI JHUNJHUNWALA
Chairman & Managing Director

ANNEXURE I TO THE DIRECTORS' REPORT

Information pursuant to Section 217 (2-A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules 1975 and forming part of the Directors' Report for the year ended 31st March, 2007

S. No.	Name of Employee	Designation	Remuneration (Rs.)	Qualification	Experience (Yrs.)	Age (Yrs.)	Date of Commencement of employment	Last employment held, organisation and designation
1.	Mr. Ravi Jhunjhunwala	Chairman & Managing Director	16,093,618	B.Com. (Hons.), MBA	27	52	01.03.1982	–
2.	Mr. R. C. Surana	Executive Director & CEO	6,820,365	BBA, MBA,DFT	29	54	01.03.1987	Bhilwara Services Pvt. Ltd.

ANNEXURE II TO THE DIRECTORS' REPORT

STATEMENT OF PARTICULARS PURSUANT TO THE COMPANIES (DISCLOSURE OF PARTICULARS IN THE REPORT OF BOARD OF DIRECTORS) RULES, 1988

1. CONSERVATION OF ENERGY

GRAPHITE DIVISION

(a) Energy Conservation Measures taken:

1. Ideal running of dust collector of L70 & centering machine was stopped by installing auto circuit.
2. The lighting circuit of Graphite, RH, FI & NCI areas were reviewed and the following steps were taken:
   a) 12 Nos 70 Watt lights were switched off in NCI and 16 Nos. existing 70 Watt lights were provided with a separate circuit so that they can be switched off when not in use.
   b) 27 Nos 400 watt lights in Hall No. 5 were switched off.
   c) Timer was provided in RH No. 3 & 4 hall lights so that they remain off during the day time.
3. VFD's were provided in new PFS dust collection system.
4. Block casting overhead lights were changed from HPMV to HPSV lamps.
5. Capacitor banks provided in sub-station #8.

(b) Additional investment & proposals, if any, being implemented for reduction of consumption of energy :

1. PF of power drawn from grid will be improved from 0.98 to unity.
2. Replacement of old motors with energy efficient motors will be carried out.
3. Reduction of load on sub-station#2 in order to increase trafo efficiency will be done.
4. To provide sensor in cooling towers so as to reduce fan running during winter.
5. To study & reduce the running hours of compressors.

(c) Impact of the measures at (a) & (b) for reduction of energy consumption and consequent impact on the cost of production of goods :

1. The estimated saving in energy consumption on account of the above measures is expected to be in the range of 1209708 Kwh per year.

INFORMATION AS PRESCRIBED IN FORM A

Particulars	Graphite		Steel	
	2006-07	2005-06	**2006-07**	2005-06
Electricity				
Purchased				
Units (lac)	**2,723.19**	2,260.64	**815.42**	359.27
Total amount (Rs. lac)	**11,689.93**	9,371.64	**2,306.80**	1,064.69
Rate / Unit (Rs.)	**4.29**	4.15	**2.83**	2.96
Own Generation				
Generated units (lac)	**–**	–	**–**	0.61
Units / Litre of fuel oil	**–**	–	**–**	2.66
Cost of Generation / unit (Rs.)	**–**	–	**–**	11.73
Fuel consumption				
Quantity (kl)	**17,706.70**	13,167.00	**388.51**	259.33
Total amount (Rs. lac)	**3,327.31**	2,329.12	**136.21**	84.90
Average rate per kl (Rs.)	**18791**	17689	**35,060**	32,738
Consumption / Unit of Production				
Product description / Unit - MT	**Graphite Electrode**		**Steel Billet**	
Electricity consumed / Unit	**6328.00**	6,678.00	**954.00**	958.12
Fuel oil consumed (kl) / Unit	**0.41**	0.39	**–**	–

2. TECHNOLOGY ABSORPTION

The particulars with respect to absorption of technology in the prescribed form is given below:

A. RESEARCH AND DEVELOPMENT (R&D)

1. Specified areas in which R&D activities carried out by the company	1. Use of advanced characterization techniques for better understanding.
	2. Development of Carbon Specialties.
	3. Utilisation of Computer simulation to optimize process parameters for improvement in quality of products.
2. Benefits derived as a result of the above R&D	1. Stringent quality control for raw materials.
	2. Product Quality Improvement.
	3. New Carbon products development.
3. Future plan of action	1. To develop variety of carbon specialties
	2. To explore better techniques for cost control.

4. Expenditure incurred on R&D (Rs. In lac)

	Current Year	Previous Year
(a) Capital	**106.65**	273.68
(b) Recurring	**119.74**	87.27
(c) Total	**226.39**	360.85
(d) Total R&D expenditure as percentage of total turnover	**0.28**	0.69

(B) TECHNOLOGICAL ABSORPTION, ADAPTATION AND INNOVATION

1. Efforts, in brief, made towards technology absorption, adoption and innovation	1. Commissioning of Graphite processing facilities at Lab Scale.
	2. Commissioning of advance characterization facilities for products and raw materials.
2. Benefits derived as a result of the above efforts	Advanced facilities and characterization helped in better understanding of product and raw materials.
3. In case of recently imported technology the requisite information, in brief	No import of technology. All our efforts are made towards development and technological up-gradation through in house R&D activities.

(C) EXPORTS & FOREIGN EXCHANGE EARNING AND OUTGO

The Company continues to strengthen its hold on the export market. Out of the total turnover during the year 2006-07, exports constituted around 60% (55% for previous year). Total exports of Graphite including its technology transfer accounted for Rs. 491.88 crores (Rs. 290.52 crores for previous year) and Foreign Exchange outgo was Rs.196.98 crores (Rs. 176.57 crores for previous year).

CORPORATE GOVERNANCE REPORT

1. Company's Philosophy on Corporate Governance

The Company's philosophy on Corporate Governance envisages the attainment of the highest levels of transparency, accountability and equity, in all facets of its operations, and all its interactions with the stakeholders, including shareholders, employees, customers, government, suppliers and lenders and to build the confidence of the society in general. The company believes in adopting the philosophy of professionalism, transparency and accountability in all areas and is committed to pursue growth by adhering to the highest national and international standards of Corporate Governance.

2. Board of Directors

(i) **Pecuniary Relationship**

Non-Executive Directors do not have any Pecuniary relationship with the company, except as stated in clause 4 of this report.

(ii) **Composition**

The details of composition of the Board, attendance of Directors at the Board Meetings, last Annual General Meeting and number of other Directorship and Chairmanship/Membership of Committee of each Director in other Companies are given below:

Name of Director	Category of Directorship	No. of other Directorships	Committee (1) Membership / (2) Chairmanship in other Companies		No. of Board Meeting attended	Whether Attended the last AGM
			(1)	(2)		Yes/No
Mr. L N Jhunjhunwala	Chairman Emeritus-Promoter Non-Executive	7	2	Nil	4	No
Mr. Ravi Jhunjhunwala	Chairman & Managing Director-Promoter Executive	9	2	2	5	No
Mr. Shekhar Agarwal	Vice Chairman-Promoter Non-Executive	7	3	1	5	No
Mr. R.C. Surana	Executive Director-Independent	Nil	Nil	Nil	5	Yes
Mr. D N Davar	Non Executive & Independent	14	4	5	5	Yes
Mr. Kamal Gupta	Non-Executive & Independent	5	4	4	4	No
Mr. K N Memani	Non-Executive & Independent	9	5	4	2	No
Mr. P Murari	Non-Executive & Independent	12	5	3	2	No
Mr. V K Mehta	Non-Executive & Promoter	Nil	Nil	Nil	0	No
Mr. N Mohan Raj (LIC Nominee)	Non-Executive & Independent	1	Nil	1	5	No
Mr. Nikki Mehta (Alt. to Mr. V K Mehta)	Non-executive & Promoter	Nil	Nil	Nil	0	No

Board Meetings were held during the year on:	26.04.2006	24.05.2006	31.07.2006	31.10.2006	29.01.2007

3. Audit Committee

The Audit Committee consists of the following directors:

Name of the Director	Expertise	Functions of the Committee	Meetings held on
1. Mr. D.N. Davar (Chairman) 2. Mr. Kamal Gupta 3. Mr. N. Mohan Raj The Company Secretary is the ex-officio Secretary of the Committee.	All the three members are independent and possess expert knowledge of finance, accounts and Corporate Laws.	The functions of the Audit Committee are as per Clause 49 of the Listing Agreement with stock exchange(s), which include approving and implementing the audit procedures, review of financial reporting system, internal control procedures and risk management policies.	Four meetings held during the year on 26th April, 2006, 31st July, 2006, 31st October, 2006 and 29th January, 2007. All the members, senior executives, statutory and internal auditors were present at the meetings.

Statutory Auditors, Internal Auditors, Cost Auditors and Senior Executives of the Company are invited to participate in the meetings of the Committee, whenever necessary.

4. Remuneration Committee

The Company pays remuneration to the Chairman & Managing Director and Executive Director & CEO while non executive directors are paid sitting fees only. The remuneration of Chairman cum Managing Director & Executive Director & CEO is decided by the Remuneration Committee, Board of Directors and approved by the shareholders.

The members of the Remuneration Committee are Mr. D.N. Davar, Mr. Kamal Gupta and Mr. N. Mohan Raj. All the three directors are non-executive and independent directors.

The aggregate value of salary, perquisites and commission for the financial year 2006-2007 to Mr. Ravi Jhunjhunwala, Chairman & Managing Director and Executive Director & CEO Mr. R.C. Surana was Rs. 229.14 lac (Refer note 5 of Schedule 15B to the annual accounts). The non-executive directors were paid Rs. 12.20 lac towards sitting fees for attending Board/Committee meetings. (Not exceeding the limits prescribed under the Companies Act, 1956).

5. Shareholders'/Investors' Grievance Committee

A Shareholders' / Investors' Grievance Committee duly constituted by the Board for the purpose of the effective redressal of the complaints of the shareholders met on 31st July, 2006, 31st October, 2006 and 29th January, 2007, reviewed and appreciated the services rendered to the investors, by the Company.

Members of the committee are as under:

1. Mr. D.N. Davar (Chairman) 2. Mr. Kamal Gupta 3. Mr. Ravi Jhunjhunwala

The Company received 44 complaints during the year and all were resolved to the satisfaction of the shareholders. There was no valid request for transfer of shares pending as on 31.3.2007.

Mr. R.G. Purwar, Company Secretary is the Compliance Officer for the above purpose.

6. General Body Meetings

The last three Annual General Meetings were held as per detail below:

Date of AGM	Relevant Financial Year	Venue/Location where held	Time of Meeting
29th September, 2004	2003-2004	Mandideep, (Near Bhopal)	11.30 A.M.
30th September, 2005	2004-2005	Mandideep, (Near Bhopal)	11.30 A.M.
22nd September, 2006	2005-2006	Mandideep, (Near Bhopal)	11.30 A.M.

No special resolutions were required to be put through postal ballot.

No special resolutions requiring postal ballot are placed before the shareholders for approval at this meeting.

7. a) Management

The Management Discussion and Analysis Report are forming part of the Directors' Report.

b) Disclosures

Material related party transactions: During the financial year 2006-2007, there were no transactions of material nature with its promoters, the directors or the management, their Subsidiaries or relatives etc. which may have potential conflict with the interest of the Company at large.

Details of Non-Compliance: There were no penalties, strictures imposed on the Company by stock exchanges or SEBI or any statutory authority, on any matter related to capital markets during the last three years.

8. Means of Communication

The Company publishes its quarterly results in leading national newspapers. The Company has developed its own website on which these results are displayed along with other news releases and presentations, if any, made to institutional investors or to analysts etc. Besides this all informations required to be displayed on the website by the Stock Exchange(s) or SEBI or other statutes, are displayed on the website. All the required informations are placed on the site http://sebiedifar.nic.in developed by NIC within the stipulated time.

9. Details of the Directors seeking appointment/re-appointment in forthcoming annual general meeting.
(In pursuance of Clause 49 of the Listing Agreement)

Name of Director	**Mr. K.N. Memani**	**Mr. D.N. Davar**
Date of Birth	01.01.1939	08.08.1934
Date of Appointment	30.04.2004	10.11.1994
Qualification	B.Com. FCA	M.A. (Eco.) CAIIB
Expertise in Specific functional areas	Mr. K.N. Memani was Chairman & Country Managing Partner, Ernst & Young, India until 31st March, 2004. He was member of Ernst & Young Global Council for last 10 years. He specializes in Business & Corporate Advisory, Foreign Taxation, Financial Consultancy etc. He is a member of The National Advisory Committee on Accounting Standards (NACAS) and member of Accounting Standard Board of ICAI. For two consecutive years, Shri Memani was on the External Audit Committee (EAC) of the IMF and was appointed the Chairman of EAC for the year 1999-2000.	Mr. D.N. Davar worked with Punjab National Bank from 1958-68 and with IFCI from 1968-1992. He took retirement from IFCI in 1992 as Chairman. Presently, besides directorship in many well known companies, he is a part time consultant to World Bank, UNIDO and Kreditanstalt fur, Weideraufbau (KFW)
List of Public Ltd. companies in which directorships held.	1. NEI Ltd. 2. HT Media Ltd. 3. Indo Rama Synthetic (I) Ltd. 4. DLF Ltd. 5. Emami Ltd. 6. ICICI Venture Funds Management Co. Ltd. 7. Yes Bank Ltd. 8. Great Eastern Energy Corpn. Ltd. 9. India Glycols Ltd.	1. Sandhar Technologies Ltd. 2. Sandhar Infosystems Ltd. 3. RSWM Ltd. 4. Maral Overseas Ltd. 5. Jai Prakash Hydro Power Ltd. 6. Jai Prakash Power Ventures Ltd. 7. Jai Prakash Associates Ltd. 8. Indo Continental Hotels & Resorts Ltd. 9. Ansal Properties & Infrastructures Ltd. 10. Hero Honda Finlease Ltd. 11. Adayr Gate Hotel Ltd. 12. Ahlcon Parenterals (India) Ltd. 13. Titagarh Wagons Ltd. 14. OCL India Ltd.
Chairman / Member of the Committees of the Board of Directors of Committee - Chairman the Company.	–	1. Audit Committee-Chairman 2. Remuneration Committee-Chairman 3. Shareholders/Investors Grievance (Sh. D N Davar withdrawn his name from Share Holders / Investors Grievance Committee w.e.f. 29.01.2007)
Chairman / Member of the Committee of Directors of other Companies.		
a) Audit Committee	1. Great Eastern Energy Corpn Ltd.- Chairman 2. H.T Media Ltd. - Chairman 3. Yes Bank Ltd.- Chairman 4. DLF Ltd. - Chairman 5. NEI Ltd.- Member 6. ICICI Venture Funds Management Co. Ltd.- Member 7. Indo Rama Synthetics Ltd.- Member	1. Hero Honda Finlease Ltd.- Chairman 2. Jaiprakash Associates Ltd.- Chairman 3. Jaiprakash Power Ventures Ltd.- Chairman 4. Ansal Properties & Infrastructures Ltd.- Chairman 5. Maral Overseas Ltd.-Member 6. RSWM Ltd.-Member 7. Titagarh Wagons Ltd.- Member 8. OCL India Ltd.-Member

b) Shareholders/ Investors Grievance Committee.	–	Maral Overseas Ltd.-Member
c) Remuneration Committee.	1. Great Eastern Energy Corpn. Ltd.- Member 2. HT Media Ltd.- Member	NIL

10. SHAREHOLDERS INFORMATION

1. Annual General Meeting, Date & Time, Venue — 29th September, 2007, at the Registered Office of the Company at Mandideep, Near Bhopal, Distt. Raisen, Madhya Pradesh - 462 046.

2. Financial Calendar:

Financial Year — April - March.

Quarterly Reporting — Financial reporting for the quarter ended 30th June, 2007, half year ending 30th September, 2007, quarter & nine months ended 31st December, 2007 and year ending 31st March, 2008 will be July, 2007, October, 2007, January, 2008 and May, 2008 respectively.

3. Date of Book Closure — 20th September, 2007 to 29th September, 2007 (both days inclusive)

4. Dividend payment date — Within 30 days from the date of Annual General Meeting.

5. A: Listing of shares on Stock Exchange(s)

A: 1. The Stock Exchange, Mumbai
2. National Stock Exchange of India Ltd.
3. MP Stock Exchange Association Ltd.
4. Kolkata Stock Exchange Asson. Ltd.
Listing Fees, as prescribed has been paid to each Exchange upto 31st March, 2007 except Kolkatta Stock Exchange where Company's request for delisting is pending.

B: Foreign Currency Convertible Bonds

B: 1. Singapore Stock Exchange

6. Stock Code

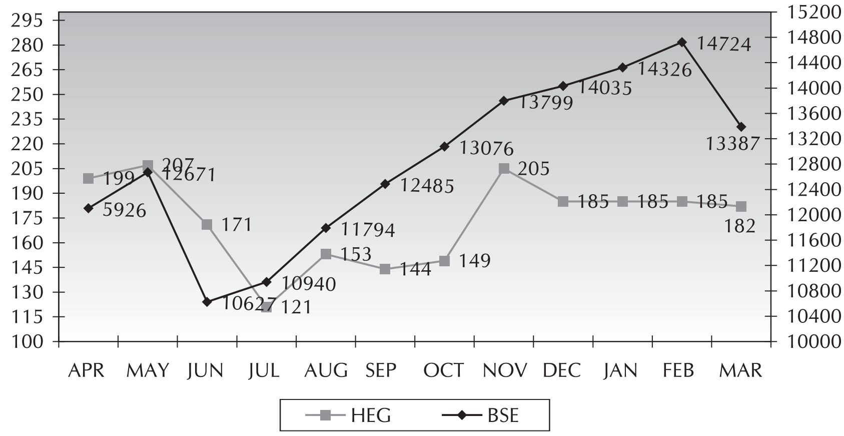
A: BSE: 509631, NSE: HEG
Demat ISIN No. with NSDL & CDSL: INE 545A01016

B: XS0225589869

7. a) Stock Market Data: Monthly High Low values (in Rs.) at NSE & BSE and BSE SENSEX.

	NSE		BSE		BSE SENSEX	
Month	**High**	**Low**	**High**	**Low**	**High**	**Low**
April, 2006	198.90	164.90	198.90	165.00	12102.00	11008.43
May, 2006	206.90	138.10	207.00	140.10	12671.11	9826.91
June, 2006	171.00	93.00	170.00	97.50	10626.84	8799.01
July, 2006	121.40	101.00	122.50	99.00	10940.45	9875.35
August, 2006	152.95	112.35	153.00	111.50	11794.43	10645.99
September, 2006	143.50	118.60	143.00	125.00	12485.17	11444.18
October, 2006	149.00	132.00	148.00	132.00	13075.85	12178.83
November, 2006	204.75	140.00	198.90	139.50	13799.08	12937.30
December, 2006	185.40	165.00	185.90	166.10	14035.30	12801.65
January, 2007	184.90	168.00	185.00	165.10	14325.92	13303.22
February, 2007	184.50	150.00	185.00	166.05	14723.88	12800.91
March, 2007	182.00	160.00	182.00	160.30	13386.95	12316.10

b) Comparison of Company's share price movement vis-à-vis the movement of BSE Sensex:



8. Registrar or Transfer Agent:

M/s MCS Ltd.
Shri Venktesh Bhawan, W-40 Okhla Industrial Area, Phase-II,
New Delhi-110020.
E-mail for Investor Grievances: mcscomplaintsdel@mcsdel.com

9. Share Transfer System:

Share Transfers are attended and registered on fortnightly basis and the same are returned within 30 days from the date of receipt, if the documents are in order in all respects. The total no. of shares transferred during the year 2006-07 was 50,558.

10. Distribution of shareholding as on 31st March, 2007:

No. of equity shares held	No. of shareholders	% of shareholders	No. of shares held	% of shareholding
1-500	27062	95.56	3218857	7.99
501-1000	681	2.40	522840	1.30
1001-2000	263	0.93	396196	0.98
2001 - 3000	86	0.30	221980	0.55
3001 - 4000	41	0.14	147168	0.37
4001 - 5000	21	0.07	95654	0.24
5001 - 10000	55	0.19	416607	1.03
10001 and above	110	0.39	35291164	87.55
Total	28319	100.00	40310466	100.00

11. Dematerialization of shares and liquidity:

3,23,78,162 shares were dematerialized till 31.3.2007 which is 80.32% of the total paid up Equity Share Capital of the Company. Trading in shares of the Company is permitted in dematerialised form only.

12. Outstanding GDRs./ADRs./Warrants or any Convertible instruments, conversion date and likely impact on equity:

The company has issued unsecured 1% Foreign Currency Convertible Bonds (FCCB) due 2010 amounting to US$ 28.75 Million convertible at the option of the bond holder into Equity Shares at an initial price of Rs. 192.06 per share. Of the above, upto March 31, 2007 none of the FCCB's have been converted.

13. Plant Locations:

a) Mandideep (Near Bhopal), Distt. Raisen, Madhya Pradesh - 462 046.

b) Industrial Growth Centre, Borai, Distt. Durg, Chhattisgarh - 491 009.

c) Village Ranipur, Tawa Nagar, Distt. Hoshangabad - 461 001.

14. Address for correspondence:

HEG Ltd.
Secretarial Department
Bhilwara Towers,
A-12, Sector -1, NOIDA-301201.
Phone:0120-2541810
Fax:0120-2531648/1745
E-mail for Investor Grievances: Investor.complaints@hegltd.com

15. Compliance:

The Certificate regarding compliance of conditions stipulated under Clause 49 of the Listing Agreement from the Auditors of the Company is attached hereto.

The Certificate regarding compliance of conditions stipulated under clause 49 of the Listing Agreement from the Auditors of the company is attached hereto:

To the Members of HEG Limited,

We have reviewed the implementation of Corporate Governance procedures by the Company during the year ended 31st March, 2007, with the relevant records and documents maintained by the Company, furnished to us for our review and the report on Corporate Governance as approved by the Board of Directors.

The compliance of conditions of Corporate Governance is the responsibility of the management. Our examination is neither an audit nor an expression of opinion on the financial statements of the Company.

On the basis of the above and according to the information and explanations given to us, in our opinion, the Company has complied in all material respects with the conditions of Corporate Governance as stipulated in Clause 49 of the Listing Agreement with the Stock Exchanges.

We further state that our examination of such compliance is neither an assurance as to the viability of the Company nor the efficiency or effectiveness with which the management has conducted the affairs of the Company.

For **S S KOTHARI MEHTA & CO.**
Chartered Accountants
ARUN K TULSIAN
PARTNER
Membership No. 89907

For **DOOGAR & ASSOCIATES**
Chartered Accountants
MUKESH GOYAL
PARTNER
Membership No. 81810

Place : Noida (U.P.)
Date : 26th April, 2007

Certification by Chief Executive Officer and Chief Financial Officer of the Company

We, R. C. Surana, Executive Director & CEO and Ashish Tandon, Chief Financial Officer, of HEG Limited, hereby certify to the Board that:

(a) We have reviewed financial statements and the cash flow statement for the year and that to the best of our knowledge and belief:

(i) These statements do not contain any materially untrue statement or omit any material fact or contain statements that might be misleading;

(ii) These statements together present a true and fair view of the Company's affairs and are in compliance with existing accounting standards, applicable laws and regulations.

(b) There are, to the best of our knowledge and belief, no transactions entered into by HEG Limited during the year which are fraudulent, illegal or violative of the Company's Code of Conduct.

(c) We are responsible for establishing and maintaining internal controls for financial reporting in HEG Limited and we have evaluated the effectiveness of the internal control systems of the Company pertaining to financial reporting. We have disclosed to the auditors and the Audit Committee, deficiencies in the design or operation of such internal controls, if any, of which we are aware and the steps we have taken or propose to take to rectify these deficiencies.

(d) We have indicated to the auditors and the Audit Committee:

(i) Significant changes in internal control over financial reporting during the year;

(ii) Significant changes in accounting policies during the year and the same have been disclosed in the notes to the financial statements; and

(iii) Instances of significant fraud of which we have become aware and the involvement therein, if any, of the management or an employee having a significant role in the Company's internal control system.

(e) We affirm that we have not denied any personnel access to the Audit Committee of the Company (in respect of matters involving alleged misconduct).

(f) We further declare that all Board members and designated senior management have affirmed compliance with the Code of Conduct for the current year.

Place : Noida (U.P.)	**R. C. Surana**	**Ashish Tandon**
Dated : 26th April, 2007	Executive Director & CEO	Chief Financial Officer

AUDITORS' REPORT

To the members of HEG Limited

We have audited the attached Balance Sheet of HEG Limited as at 31st March, 2007 and also the Profit & Loss Account and the Cash Flow Statement of the Company 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.

We have conducted our audit in accordance with auditing standards generally accepted in India. These 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 the management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As required by the Companies (Auditors' Report) Order, 2003 as amended by Companies (Auditors' Report) (Amendment) Order, 2004 (Collectively the Order) issued by the Central Government of India in terms of Section 227 (4A) of the Companies Act, 1956 and on the basis of such checks as we considered appropriate and according to the information and explanations given to us, we enclose in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.

Further to our comments in the Annexure referred to 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 & Loss Account and Cash Flow Statement dealt with by this report are in agreement with the books of account;

d) In our opinion, the Balance Sheet, Profit & Loss Account and 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 31st March, 2007 and taken on record by the Board of Directors, we report that none of the directors is disqualified as on 31st March, 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 with the Accounting policies and 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 Balance Sheet, of the state of affairs of the Company as at 31st March, 2007;

   ii) In the case of Profit and Loss Account, of the Profit for the year ended on that date; and

   iii) In the case of Cash Flow Statement, of the cash flows for the year ended on that date.

For **Doogar & Associates**	For **S. S. Kothari Mehta & Co.**
Chartered Accountants	Chartered Accountants
Mukesh Goyal	**Arun K. Tulsian**
Partner	Partner
Membership No. 81810	Membership No. 89907

Place : Noida (U.P.)
Dated : 26th April, 2007

ANNEXURE TO AUDITORS' REPORT
(Annexure referred to in our report of even date)

1. (a) The Company has maintained proper records showing full particulars including quantitative details and situation of fixed assets.

   (b) The Company has a phased programme of physical verification of its fixed assets which, in our opinion, is reasonable having regard to the size of the Company and the nature of its assets. Management has physically verified certain fixed assets during the year. Discrepancies noticed on such verification as compared to book records were not material and have been properly adjusted in the books of accounts.

   (c) No substantial fixed assets have been disposed off during the year.

2. (a) The management during the year has physically verified the inventory, except material lying with third parties. In our opinion, the frequency of such verification is reasonable.

   (b) The procedures for the physical verification of inventory followed by the management are, in our opinion, reasonable and adequate in relation to the size of the Company and nature of its business.

   (c) In our opinion, the Company is maintaining proper records of inventory. The discrepancies noticed on physical verification of inventory as compared to book records were not material and have been properly dealt with in the books of account.

3. (a) The company has not granted any loans, secured or unsecured, to companies, firms or other parties covered in the register maintained under section 301 of the Companies Act, 1956. Accordingly clauses 4 (iii) (b) to (d) of the Order are not applicable.

(b) The company has not taken any loan, secured or unsecured, from companies, firms or other parties covered in the register maintained under section 301 of the Companies Act, 1956. Accordingly clauses 4 (iii) (f) and (g) of the Order are not applicable.

4. In our opinion, and according to the information and explanations given to us during the course of audit, there are adequate internal control systems commensurate with size of the company and the nature of its business with regard to purchase of inventory and fixed assets and for the sale of goods and services. Further, on the basis of our examination of the books & records of the company, carried out in accordance with the generally accepted auditing practices in India, we have neither come across nor have we been informed of any instance of major weaknesses in the aforesaid internal control systems.

5. (a) Based upon the audit procedures applied by us and according to the information and explanations given to us, we are of the opinion that the particulars of contracts and arrangements referred to in section 301 of the Act have been entered in the register required to be maintained under that section.

(b) In our opinion, and according to the information and explanations given to us, the transactions made in pursuance of contracts or arrangements entered in the register maintained under Section 301 of the Act and aggregating during the year to Rupees five lakhs or more in respect of each party have been made at prices which are reasonable having regard to market prices for such transactions, prevailing at the relevant time, where such market prices are available.

6. The Company has not accepted any deposits from the public within the meaning of sections 58A and 58AA or any other relevant provisions of the Companies Act, 1956 including the Companies (Acceptance of Deposit) Rules, 1975.

7. In our opinion, the Company has an internal audit system commensurate with the size & nature of its business.

8. We have broadly reviewed the Cost Accounting records, maintained by the Company pursuant to the Rules prescribed by the Central Government for the maintenance of cost records under clause (d) of sub-section (1) of section 209 of the Act, and are of the opinion that, prima facie, the prescribed accounts and records have been made and maintained. We are, however, not required to make a detailed examination of such books and records.

9. (a) According to the records of the Company, 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 other material statutory dues have been generally regularly deposited with the appropriate authorities during the year. There are no such dues outstanding for more than six months as on the date of Balance Sheet.

(b) According to the information and explanations given to us and as per the books and records examined by us, there are no dues of Custom Duty, Wealth Tax, and Cess that have not been deposited on account of any dispute except the following dues of Income Tax, Sales Tax, Service Tax and Excise Duty along with the forum where the dispute is pending:

(Rs. in lac)

Name of the Statue	**Nature of Dues**	**Departmental Appellate authorities/Jurisdictional High Court**			
		Commissioner	**Tribunal**	**High Court**	**Supreme Court**
Income Tax Act, 1961	Income Tax	1432.34	–	–	–
Central Excise Act, 1944	Excise duty	12.78	32.19	91.79	–
Central Sales Tax, 1956	Sales Tax	27.69	15.30	–	–
Madhya Pardesh Commercial Tax Act	Commercial tax	–	0.77	–	–
Chattisgarh Parvesh Kar Adhiniyam	Entry tax	–	1.12	–	–
Madhya Pardesh Parvesh Kar Adhiniyam	Entry tax	14.31	2.89	3.31	–

10. There are no accumulated losses of the Company as at the end of the financial year. There are no cash losses during the financial year and in the immediately preceding financial year.
11. According to the information and explanations given to us and as per the books and records examined by us, the Company has not defaulted in repayment of dues to any financial institution or bank or debenture holders.
12. 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.
13. The Company does not fall within the category of Chit fund / Nidhi / Mutual Benefit fund / Society and hence the related reporting requirements are not applicable.
14. According to the information and explanations given to us, the Company is not dealing or trading in shares, securities, debentures and other investments and hence the related reporting requirements are not applicable.
15. The company has not given any guarantees for loans taken by others from banks or financial institutions.
16. In our opinion, and according to the information and explanations given to us, the term loans raised during the year by the Company have been applied for the purpose for which the said loans were obtained, where such end use has been stipulated by the lender.
17. According to the information and explanations given to us and as per the books and records examined by us, as on the date of balance sheet, the funds raised by the Company on short-term basis have not been applied for long-term investments.
18. The Company has not made any preferential allotment of shares to parties and Companies covered in the registered maintained under section 301 of the Companies Act, 1956.
19. The Company has not raised any fresh share capital during the year.
20. The Company has created necessary securities and other charges for the debentures issued.
21. The Company raised money through FCCB issue in the year 2005-06 and out of sum of Rs. 10920.46 lac lying in foreign currency a sum of Rs.1443.36 lac is used for the purpose for which it has been issued this year. An amount of Rs. 9757.52 lac, which is lying in Short Term Fixed deposit in Foreign Currency pending final utilization.
22. During the course of our examination of the books and records of the Company carried out in accordance with the generally accepted auditing practices in India, we have neither come across any instance of fraud on or by the Company, noticed and reported during the year, nor have we been informed of such case by the management.

For **Doogar & Associates**	For **S. S. Kothari Mehta & Co.**
Chartered Accountants	Chartered Accountants
Mukesh Goyal	**Arun K. Tulsian**
Partner	Partner
Membership No. 81810	Membership No. 89907

Place : Noida (U.P.)
Dated : 26th April, 2007

BALANCE SHEET AS AT 31ST MARCH, 2007

(Rs. in Lac)

	SCHEDULE	As at 31.3.2007	As at 31.3.2006
SOURCES OF FUNDS			
Shareholders' Funds			
Share Capital	1	**4,031.09**	4,031.09
Reserves & Surplus	2	**31,787.13**	28,021.64
		35,818.22	32,052.73
Loan Funds	3		
Secured Loans		**72,442.26**	66,905.03
Unsecured Loans		**16,340.25**	13,592.72
		88,782.51	80,497.75
Deferred Tax Liability	4	**8,349.32**	6,951.97
TOTAL		**132,950.05**	119,502.45
APPLICATION OF FUNDS			
Fixed Assets	5		
Gross Block		**91,732.82**	84,918.00
Less: Depreciation		**26,748.78**	22,134.58
Net Block		**64,984.04**	62,783.42
Capital Work in Progress		**2,313.56**	3,568.51
		67,297.60	66,351.93
Investments	6	**5,646.54**	3,013.62
Current Assets, Loans & Advances	7		
Inventories		**28,088.75**	21,412.76
Sundry Debtors		**20,313.15**	12,403.80
Cash & Bank Balances		**10,325.01**	13,047.12
Loans and Advances		**12,441.10**	11,220.50
		71,168.01	58,084.18
Less : Current Liabilities and Provisions	8		
Liabilities		**7,459.40**	6,597.96
Provisions		**4,050.37**	1,801.29
		11,509.77	8,399.25
Net Current Assets		**59,658.24**	49,684.93
Miscellaneous Expenditure (to the extent not written off or adjusted)	9	**347.67**	451.97
TOTAL		**132,950.05**	119,502.45
Notes to Accounts	15		

Signed in terms of our Report of even date

For DOOGAR & ASSOCIATES
Chartered Accountants

MUKESH GOYAL
Partner
Membership No. 81810

For S. S. KOTHARI MEHTA & CO.
Chartered Accountants

ARUN K. TULSIAN
Partner
Membership No. 89907

RAVI JHUNJHUNWALA
Chairman & Managing Director

SHEKHAR AGARWAL
Vice Chairman

D.N. DAVAR
Director

Place : Noida (U.P.)
Date : 26th April, 2007

R.G. PURWAR
Company Secretary

ASHISH TANDON
Chief Financial Officer

R. C. SURANA
Executive Director & CEO

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

(Rs. in Lac)

	SCHEDULE	Current Year	Previous Year
INCOME			
Gross Turnover		**97,754.89**	63,633.37
Less: Interdivisional Sales		**11,001.78**	7,593.01
Less: Excise Duty		**4,966.18**	3,513.26
Net Turnover		**81,786.93**	52,527.10
Other Income	10	**2,020.56**	990.89
Increase/(Decrease) in Stocks	11	**3,529.80**	5,652.30
		87,337.29	59,170.29
EXPENDITURE			
Consumption of Materials	12	**40,906.71**	26,690.00
Purchases of Goods Traded		**637.54**	495.49
Manufacturing and Other Expenses	13	**37,313.16**	27,425.83
Less: Interdivisional Purchases		**11,001.78**	7,593.01
TOTAL EXPENDITURE		**67,855.63**	47,018.31
PROFIT BEFORE INTEREST, DEPRECIATION AND AMORTISATION		**19,481.66**	12,151.98
Financial Expenses	14	**4,605.98**	2,819.37
PROFIT BEFORE DEPRECIATION AND AMORTISATION		**14,875.68**	9,332.61
Depreciation	5	**4,764.44**	3,962.29
Amortisation - Misc. Expenditure written off	9	**104.30**	69.53
PROFIT BEFORE TAX		**10,006.94**	5,300.79
Less: Provision for Income Tax -Current		**1,251.93**	492.80
Provision for Deferred Taxes		**1,397.35**	819.99
Provision for Wealth Tax		**5.69**	5.96
Fringe Benefit Tax		**35.55**	70.56
Income Tax for Earlier Years		**(67.14)**	18.11
PROFIT AFTER TAX		**7,383.56**	3,893.37
Balance brought forward from previous year		**2,666.85**	3,452.40
Amount available for appropriation		**10,050.41**	7,345.77
APPROPRIATIONS			
General Reserve		**2,500.00**	2,000.00
Debenture Redemption Reserve		**1,200.00**	1,300.00
Proposed Dividend – On Equity Shares		**2,015.52**	1,209.31
Corporate Dividend Tax		**342.54**	169.61
Balance Carried Forward		**3,992.35**	2,666.85
NOTES TO ACCOUNTS	15		
Basic & Diluted EPS (in Rs.)		**18.32**	9.66

Signed in terms of our Report of even date

For DOOGAR & ASSOCIATES
Chartered Accountants

MUKESH GOYAL
Partner
Membership No. 81810

For S. S. KOTHARI MEHTA & CO.
Chartered Accountants

ARUN K. TULSIAN
Partner
Membership No. 89907

RAVI JHUNJHUNWALA
Chairman & Managing Director

SHEKHAR AGARWAL
Vice Chairman

D.N. DAVAR
Director

Place : Noida (U.P.)
Date : 26th April, 2007

R.G. PURWAR
Company Secretary

ASHISH TANDON
Chief Financial Officer

R. C. SURANA
Executive Director & CEO

SCHEDULES 1 TO 9 AND 15 ANNEXED TO AND FORMING PART OF THE BALANCE SHEET AS AT 31ST MARCH, 2007

SCHEDULE 1 : SHARE CAPITAL

(Rs. in lac)

		As at 31.3.2007	As at 31.3.2006
AUTHORISED			
5,50,00,000	Equity Shares of Rs. 10/- each	**5,500.00**	5,500.00
15,00,000	Preference shares of Rs. 100/- each	**1,500.00**	1,500.00
		7,000.00	7,000.00
ISSUED, SUBSCRIBED & PAID UP			
4,03,10,466	Equity Shares of Rs.10/- each fully paid up	**4,031.05**	4,031.05
	Add : Forfeited Equity Shares	**0.04**	0.04
		4,031.09	4,031.09
		4,031.09	4,031.09

(1) Of the above :

(i) 2,21,96,821 Equity shares have been issued as fully paid up bonus shares by capitalisation of Reserves.

(ii) 3,00,000 Equity shares have been issued as fully paid up pursuant to a contract without payment being received in cash.

(iii) 10,700 Equity shares have been issued at par as fully paid up to the members of erstwhile subsidiary company Bhilwara Viking Petroleum Limited pursuant to amalgamation.

(2) Holders of FCCB's have a right to convert the bonds into equity shares at an initial agreed price of Rs. 192.06 as per terms of the issue.

SCHEDULE 2 : RESERVES AND SURPLUS

(Rs. in lac)

	As at 31.3.2006	Additions	Deductions	As at 31.3.2007
Capital Reserve	0.85	–	–	**0.85**
	(0.85)	(–)	(–)	**(0.85)**
Debenture Redemption Reserve	2,300.00	1,200.00	–	**3,500.00**
	(1,000.00)	(1,300.00)	(–)	**(2,300.00)**
Capital Redemption Reserve	1,275.42	–	–	**1,275.42**
	(1,275.42)	(–)	(–)	**(1,275.42)**
Share Premium*	2,551.11	–	1,260.00	**1,291.11**
	(2,551.11)	(–)	(–)	**(2,551.11)**
General Reserve	19,227.40	2,500.00	–	**21,727.40**
	(17,227.40)	(2,000.00)	(–)	**(19,227.40)**
Profit & Loss Account	2,666.85	7,383.56	6,058.06	**3,992.35**
	(3,452.38)	(3,893.39)	(4,678.92)	**(2,666.85)**
	28,021.64	11,083.56	7,318.06	**31,787.13**
	(25,507.17)	(7,193.39)	(4,678.92)	**(28,021.64)**

* Deduction represents provision for premium on redemption of FCCB's Rs. 1,260 lac (including Rs. 488 lac upto 31st March, 2006)

SCHEDULE 3 : LOANS

(Rs. in lac)

	As at 31.3.2007	As at 31.3.2006
SECURED LOANS		
Secured Redeemable Non-Convertible Debentures	**7,000.00**	7,000.00
Term Loans Financial Institutions / Banks	**28,251.10**	34,873.41
Short Term Working Capital from Banks	**37,191.16**	25,031.62
	72,442.26	66,905.03
UNSECURED LOANS		
Interest Free Sales Tax Loan	**957.97**	1,090.78
Foreign Currency Convertible Bonds	**12,491.88**	12,501.94
Other Borrowings	**2,890.40**	
	16,340.25	13,592.72
	88,782.51	80,497.75

1. Term loans from Financial Institutions and Banks and Non-Convertible Debenture placed with them are secured by way of joint equitable mortgage of all the immovable properties (present and future) of graphite and thermal, steel & power, and hydel units of the company situated at Mandideep, Borai and Tawanagar respectively and hypothecation of all movable assets of the company (except book debts) subject to prior charge of the Company's Bankers on specified movable assets in respect of working capital borrowings, ranking on pari-passu basis.
2. Non-Convertible Debentures are additionally secured by creation of mortgage in English form on the properties of the company situated at Mouje Dhanot, Taluka Kalol ,District Mehsana in the State of Gujarat.
3. Secured Redeemable Non-convertible debentures of Rs.3000 lac have been alloted on private placement basis. These debentures are redeemable in three installments in the ratio 30%, 30% and 40% at the end of 5th, 6th and 7th year from the date of allotment being 25th November, 2003. The NCD's have been issued in demat mode and are listed in wholesale Debt Segment of National Stock Exchange.The terms & conditions of the NCD's include a put & call call option towards repayment of the NCD's in part or full after five years from the date of allotment.
4. Secured Redeemable Non-convertible debentures of Rs.4000 lac have been alloted on private placement basis. These debentures are redeemable in three installments in the ratio 30%, 30% and 40% at the end of 3rd, 4th and 5th year from the date of allotment being 19th January, 2005. The NCD's have been issued in demat mode and are listed in the wholesale Debt segment of National Stock Exchange. The terms & conditions of the NCD's include a put & call option towards repayment of the NCD's in part or full after three years from the date of allotment.
5. Working Capital Borrowings from Banks are secured by hypothecation of all stocks present and future, stores, spare parts, packing materials, raw materials, finished goods, goods in transit / process, book debts, outstanding monies receivable, claims, bills etc. and second charge joint equitable mortgage of immovable properties of the company in respect of graphite unit and thermal power at Mandideep, steel and power unit at Borai, and hydel unit at Tawanagar. The said charge in favour of banks shall rank sub-ordinate and subservient to the existing charges created by the company in favour of Financial Institutions, Debenture holders and Banks for their term loans.
6. The Company has issued unsecured 1% Foreign Currency Convertible Bonds (FCCB's) due in 2010 amounting to US$ 28.75 million convertible at the option of the bondholder into Equity Shares at an initial price of Rs. 192.06 per share. None of the FCCB's have been converted upto 31st March 2007.

SCHEDULE 4 : DEFERRED TAX LIABILITY

(Rs. in lac)

	As at 31.3.2007	As at 31.3.2006
Deferred Tax Liabilities		
Arising on account of timing difference		
– Accumulated Depreciation	**8,699.97**	7,551.85
Deferred Tax Assets		
Arising on account of timing difference		
– Sales Tax Deferment	**–**	224.71
– Provision for doubtful debts	**–**	32.98
– Due to section 43B of the Income Tax Act	**213.16**	206.04
– Others	**137.49**	136.15
	8,349.32	6,951.97

SCHEDULE 5 : FIXED ASSETS

(Rs. in lac)

		GROSS BLOCK				DEPRECIATION/AMORTISATION				NET BLOCK	
S. No.	PARTICULARS	COST AS AT 31.03.2006	ADDITION DURING THE YEAR	SALES/ ADJUST-MENTS	**COST AS AT 31.03.2007**	UPTO 31.03.2006	DELETION 06-07	GROSS PROVISION 06-07	**UPTO 31.03.2007**	**UPTO 31.03.2007**	AS AT 31.03.2006
1.	LAND	522.31	22.30	–	**544.61**	35.44	–	15.22	**50.66**	**493.95**	486.88
2.	BUILDING	10,202.06	983.01	0.25	**11,184.82**	2,086.73	–	779.37	**2,866.10**	**8,318.72**	8,115.34
3.	PLANT & MACHINERY	71,670.63	5,749.94	42.47	**77,378.10**	18,806.66	22.53	3,693.07	**22,477.20**	**54,900.90**	52,863.96
4.	RAILWAY SIDINGS	358.37	–	–	**358.37**	23.64	–	17.02	**40.66**	**317.71**	334.73
5.	FURNITURE & FIXTURES	339.79	23.61	2.69	**360.71**	179.89	1.30	24.50	**203.09**	**157.62**	159.90
6.	OFFICE EQUIPMENT	592.17	78.77	49.60	**621.34**	418.61	36.69	60.85	**442.77**	**178.57**	173.57
7.	ELECTRICAL INSTALLATION	368.44	13.64	1.29	**380.79**	258.15	0.70	19.09	**276.54**	**104.25**	110.29
8.	VEHICLES	664.71	153.34	129.65	**688.40**	287.49	89.03	113.69	**312.14**	**376.26**	377.22
9.	INTANGIBLE ASSETS	199.52	16.15	–	**215.68**	37.99	–	41.63	**79.62**	**136.06**	161.54
	CAPITAL WORK IN PROGRESS									**2,313.56**	3,568.51
	TOTAL	84,918.00	7,040.76	225.95	**91,732.82**	22,134.58	150.25	4,764.44	**26,748.78**	**67,297.60**	66,351.93
	PREVIOUS YEAR	55,152.79	30,209.48	444.26	**84,918.00**	18,411.09	238.79	3,962.29	**22,134.58**	**66,351.93**	57,821.59

Assets amounting to Rs.83.13 lac (Rs.83.13 lac) (Gross) are owned jointly with Rajasthan Spinning and Weaving Mills Ltd.

Addition includes foreign exchange fluctuation adjusted of Rs. 55.95 lac (Rs. 380.43 lac)

SCHEDULE 6 : INVESTMENTS (LONG TERM, NON-TRADE INVESTMENTS)

(Rs. in lac)

				As at 31.3.2007	As at 31.3.2006
A.	**QUOTED - FULLY PAID**				
(i)	29,41,000	(29,41,000)	Equity shares of Rs.10/- each of Maral Overseas Ltd.	**294.10**	294.10
(ii)	3,00,000	(3,00,000)	Equity Shares of Rs. 10/-each of Bhilwara Spinners Ltd.	**60.00**	60.00
(iii)	6	(6)	Equity Shares of Rs. 10/-each of Ballarpur Ind. Ltd.	**0.01**	0.01
(iv)	1,50,000	(0)	Units of SBI One India Plan	**15.00**	–
	Total of quoted investment			**369.11**	354.11
B.	**UNQUOTED - FULLY PAID**				
(i)	261,27,000	(261,27,000)	Equity Shares of Rs.10/- each of Malana Power Co Ltd. *	**2,612.70**	2,612.70
(ii)	2,50,000	(2,50,000)	Units of LIC Mutual Fund Dhan Smriddhi of Rs. 10/- each	**25.00**	25.00
(iii)	73,030	(73,030)	Equity Shares of Rs.10/- each of Indo Canadian Consultancy Services Ltd.	**7.30**	7.30
(iv)	4,190,000	(4,190,000)	Equity Shares of Rs.10/- each of Bhilwara Infotech Ltd.	**419.00**	419.00
(v)	261,27,000	(0)	Equity Shares of Rs.10/- each of Bhilwara Energy Ltd.	**2,612.70**	–
	Total non-quoted Investments			**5,676.70**	3,064.00
	TOTAL			**6,045.81**	3,418.11
	Less: provision for diminution in value of investments			**399.27**	404.49
	TOTAL			**5,646.54**	3,013.62
	Aggregate Market Value of Quoted Investments			**554.88**	897.09

* Refer note no. 13 of schedule 15-B

Figures in bracket represent previous year figures.

SCHEDULE 7 : CURRENT ASSETS, LOANS AND ADVANCES

(Rs. in lac)

	As at 31.3.2007	As at 31.3.2006
CURRENT ASSETS		
Inventories		
Stock-in-trade (as per para 16 J & K of part B of schedule-15)	**3,229.86**	2,062.87
Work-in-process	**11,004.58**	8,641.76
Raw Materials[incl in-transit / Third Parties Rs. 2,552.88 lac(Rs.2,695.25 lac)]	**11,249.58**	9,145.00
Stores & Spares / Loose Tools	**2,604.73**	1,563.13
	28,088.75	21,412.76
Sundry Debtors (Unsecured)		
Due for a period exceeding six months		
– Considered good	**1,321.86**	445.96
– Considered doubtful	**–**	97.99
	1,321.86	543.95
Less : Provision for doubtful debts	**–**	97.99
	1,321.86	445.96
Others (Considered good)	**18,991.29**	11,957.84
	20,313.15	12,403.80
Cash & Bank Balances :		
Cash in hand (including stamp & hundi papers)	**17.78**	22.89
Cheques in hand	**25.73**	372.44
With scheduled banks		
– Current Accounts	**434.68**	244.74
– Fixed Deposits *	**9,758.36**	12,321.26
– Dividend / Special purpose Accounts	**88.46**	85.79
	10,325.01	13,047.12
*Includes pledged with bank & others Rs. 0.55 lac (Rs. 0.50 lac) and unutilised money out of FCCB issue proceeds of Rs. 9,757.52 lac (Rs. 10,920.46 lac)		
Loans and advances (Refer Note 11 of Schedule 15-B)		
Loans (Secured, considered good)	**75.88**	79.85
Loans (Unsecured, considered good)	**65.54**	76.74
Advances recoverable in cash or kind or for value to be received	**9,179.67**	6,799.82
Advances for Capital Expenditure	**660.76**	1,487.98
Balance with Excise Department including Cenvat Credit	**1,155.68**	1,656.94
Deposit with Government Deptt. and others	**1,303.57**	1,119.17
	12,441.10	11,220.50
	71,168.01	58,084.18

SCHEDULE 8 : CURRENT LIABILITIES AND PROVISIONS

(Rs. in lac)

	As at 31.3.2007	As at 31.3.2006
CURRENT LIABILITIES		
Sundry Creditors	**5,118.82**	3,688.57
Sundry Creditors for Capital Expenditure	**410.40**	738.64
Other Liabilities	**969.04**	800.45
Unclaimed Dividend**	**88.46**	85.79
Sundry Deposits	**618.36**	544.86
Advances from Customers	**196.13**	699.59
Interest accrued but not due on loans	**58.19**	40.05
	7,459.40	6,597.95
Proposed Dividend Including Corporate Dividend Tax	**2,358.06**	1,378.92
Provision for Taxation (Net of Advance Tax Rs. 680 lac (Rs. 350 lac)	**432.31**	422.38
Provision for premium on redemption on FCCB's	**1,260.00**	–
	4,050.37	1,801.30
	11,509.77	8,399.25

** Investor Education & Protection Fund is credited by unclaimed dividend amounts outstanding on expiry of seven years from dividend declaration.

SCHEDULE 9 : MISCELLANEOUS EXPENDITURE

(to the extent not written off or adjusted)

(Rs. in lac)

	Current Year	Previous Year
Opening Balance	**451.97**	–
Add: Addition during the year	**–**	521.50
Less: Charged off to Profit and Loss account	**104.30**	69.53
Closing Balance	**347.67**	451.97

SCHEDULE 10 : OTHER INCOME

Foreign Currency Fluctuation	**615.63**	90.23
Miscellaneous Sales / Receipts	**369.27**	84.02
Rent Receipts	**109.24**	104.25
Interest [Including TDS Rs. 17.81 lac (Rs. 0.62 lac)]	**738.88**	505.32
Dividend Received	**0.00**	2.54
Liabilities / provisions no longer required, written back	**174.58**	129.85
Profit on sale of Fixed Assets	**12.56**	68.79
Doubtful Debts Realised	**0.40**	5.89
	2,020.56	990.89

SCHEDULE 11 : INCREASE/(DECREASE) IN STOCKS

(Rs. in lac)

	Current Year	Previous Year
CLOSING STOCK		
Stock-in-trade	**3,229.86**	2,062.87
Work-in-Process	**11,004.58**	8,641.76
	14,234.44	10,704.64
LESS: OPENING STOCK		
Stock-in-trade	**2,062.87**	523.94
Work-in-Process	**8,641.76**	4,528.40
	10,704.64	5,052.34
INCREASE/(DECREASE) IN STOCKS	**3,529.80**	5,652.30

SCHEDULE 12 : CONSUMPTION OF MATERIALS

OPENING STOCK	**6,449.75**	2,997.94
ADD : Purchases	**43,153.67**	30,141.81
	49,603.42	33,139.75
LESS : CLOSING STOCK	**8,696.71**	6,449.75
Consumption of Materials	**40,906.71**	26,690.00

SCHEDULE 13 : MANUFACTURING AND OTHER EXPENSES

MANUFACTURING EXPENSES		
Consumption of stores & spares including Refractory blocks	**4,522.78**	2,872.03
Excise duty on Increase / (Decrease) in Finished Stock	**248.62**	99.53
Power & fuel	**17,604.92**	13,435.86
Repairs and Maintenance of :		
Plant & Machinery	**1,528.31**	974.06
Building	**208.51**	132.78
Others	**41.64**	51.93
Equipment Hire Charges & Lease Rent	**39.06**	15.20
Job/Process Charges	**326.31**	165.09
Power generation charges	**90.68**	139.02
PAYMENT TO AND PROVISION FOR EMPLOYEES		
Salary, Wages and Bonus etc.	**2,865.99**	2,590.79
Contribution to Provident, Gratuity and other Funds	**395.44**	382.21
Workmen & Staff Welfare & Safety measures expenses	**256.85**	295.01

SCHEDULE 13 : MANUFACTURING AND OTHER EXPENSES *Contd.*

(Rs. in lac)

	Current Year	Previous Year
SELLING EXPENSES		
Freight and forwarding and other selling expenses	**4,473.44**	2,974.93
Packing Expenses (including Packing material consumption)	**617.75**	405.37
Commission	**1,503.37**	736.37
Claims, Rebates and Discount	**451.49**	344.31
ADMINISTRATIVE & OTHER EXPENSES		
Insurance	**412.12**	308.99
Rent	**95.63**	87.70
Rates & Taxes	**387.72**	355.31
Directors' Remuneration including sitting fees	**241.34**	167.57
Donations	**22.92**	3.53
Loss on fixed assets sold / discarded	**3.23**	6.43
Travelling Expenses	**173.08**	186.35
Postage & Communication	**93.30**	89.98
Legal & Professional Expenses	**202.03**	201.75
Vehicle Running & Maintenance	**127.77**	118.46
Foreign Currency Fluctuation	**–**	61.78
Miscellaneous Expenses	**378.86**	223.49
	37,313.16	27,425.83

SCHEDULE 14 : FINANCIAL EXPENSES

	Current Year	Previous Year
Interest on :		
Debentures	**213.64**	143.00
Term Loans	**2,496.46**	1,625.52
Working Capital Borrowings	**2,361.32**	788.85
Foreign Currency Convertible Bonds	**143.35**	96.38
Loss / (Gain) on Currency Swaps	**(797.38)**	–
Bank Charges	**188.59**	165.62
	4,605.98	2,819.37

SCHEDULE 15 : SIGNIFICANT ACCOUNTING POLICIES & NOTES TO ACCOUNTS

A. SIGNIFICANT ACCOUNTING POLICIES

1. GENERAL

(a) The accounts are prepared on historical cost convention, on accrual basis and on the principle of going concern.

(b) Accounting policies not specifically referred to otherwise, are consistent and in accordance with Indian Generally Accepted Accounting Practices comprising of the mandatory Accounting Standards, Guidance Notes and other pronouncements issued by ICAI and the provisions of the Companies Act, 1956.

2. USE OF ESTIMATES

The preparation of financial statements requires estimates and assumptions that affect the reported amounts of income and expenses for the period, the reported amounts of assets and liabilities and disclosures relating to contingent liabilities as on the date of financial statements. Difference between the actual results and estimates are recognized in the period in which the results are known / materialized.

3. REVENUE RECOGNITION

(a) Revenue is recognized in respect of export sales on the basis of shipment of goods to customer and in respect of domestic sales on dispatch from factory. Quality rebates, claims and other discounts are disclosed separately.

(b) Domestic Sales includes excise duty. However, excise duty relating to sales is reduced from gross turnover for disclosing net turnover.

(c) Power generated at the power plants is primarily consumed by the manufacturing units and excess power is sold to SEBs which is included in the sales as below:

- i) Power generated at Tawa and Durg units is transferred to Graphite unit at MPEB rate including wheeling charges. Power generated at Mandideep unit is transferred to Graphite unit at MPEB rate. Power generated by WHRS plant is transferred to Steel unit at CSEB rate.
- ii) Excess power generated sold to SEB's at rate stipulated by SEB's.

(d) Interdivisional sales comprising of sale of power is reduced from gross turnover in deriving net turnover.

(e) Income, Expenditure and Export Incentives / benefits are accounted for on accrual basis and as per principles given under AS-9 - Revenue Recognition.

4. VALUATION OF INVENTORIES

(a) Inventories are valued at lower of historical cost or net realizable value.

(b) Historical cost is determined on the basis of weighted average method.

(c) Excise duty is included in the valuation of finished goods and by-product inventory.

(d) Obsolete stocks are identified every year on the basis of technical evaluation and are charged off to revenue.

5. INVESTMENTS

Long Term Investments are stated at cost. Provision for diminution in the value is made in accordance with AS-13 - Accounting for Investment if the decline is other than temporary. Current investments are stated at lower of cost or fair market value.

6. FIXED ASSETS

(a) Fixed assets are stated at historical cost less accumulated depreciation. Historical cost comprises the purchase price (net of CENVAT / duty credits availed wherever applicable) and all direct costs attributable to bring the asset to its working condition for intended use.

(b) Borrowing costs eligible for capitalization incurred, in respect of acquisition / construction of a qualifying asset, till the asset is substantially ready for use, are capitalized as part of the cost of that asset.

7. EXPENSES INCURRED DURING CONSTRUCTION PERIOD

Preliminary project expenditure, capital expenditure, indirect expenditure incidental and related to construction / implementation, interest on term loans/ debentures to finance fixed assets and expenditure on start-up / commissioning of the project are capitalized upto the date of commissioning of project to the cost of respective assets.

8. DEPRECIATION

Depreciation is charged on the following basis:

(a) On Plant & Machinery and other assets of Hydel Power Project at Tawa, at the rates notified under the Electricity Act as per approval of Department of Company Affairs.

(b) i) On Plant & Machinery other than those mentioned at (a) above, on straight line method,

ii) On other fixed assets, on written down value method, in the manner and as per rates prescribed in Schedule XIV of the Companies Act, 1956.

(c) Cost & improvement of lease hold land is amortized over the lease period.

(d) The Sponge Iron Unit, Waste Heat Recovery Power Plant, Thermal Power Plant and certain Plant & Machinery of Graphite Unit of the Company have been considered as Continuous Process Plant based on technical opinion and depreciation has been provided for accordingly.

9. FOREIGN EXCHANGE TRANSACTIONS / TRANSLATION

(a) Export and Import transactions for which the documents are pending for collection / negotiation and commission payable on export in foreign currency are accounted for at conversion rates prevailing at the year-end. Difference on actual realization / remittance is credited /charged to profit and loss account in the year of realization/remittance.

(b) Monetary items denominated in foreign currencies except forward contracts for hedging purposes at the year end are translated at year end rate.

(c) Any income or expense on account of exchange difference either on settlement or on translation is recognized in the profit and loss account except in cases where they relate to acquisition of fixed assets in which case they are adjusted to carrying cost of such assets.

(d) In case of forward contracts for hedging the foreign currency risk of a firm commitment or a highly probable forecast transaction, the exchange differences on such forward contracts is accounted for being the difference between

(i) the foreign currency amount of the contract translated at the exchange rate on the reporting date, or the settlement date where the transaction is settled during the reporting period, and

(ii) the same foreign currency amount translated at the latter or the date of inception of the forward exchange contract and the last reporting date. Any profit or loss arising on cancellation or renewal of such a forward exchange contract is recognized as income or expense for the period.

10. RESEARCH AND DEVELOPMENT

Expenditure on research and development includes salaries, consumables and power and fuel and is charged to Profit and Loss Account under respective heads of expenditure. Capital expenditure is stated as depreciable fixed assets.

11. RETIREMENT BENEFITS

Liabilities of Gratuity and superannuation are funded every year on the basis of actuarial valuation and accrual basis respectively. Provision for leave encashment is made on the basis of actuarial valuation.

12. SEGMENT ACCOUNTING & REPORTING

Segmental accounting policies are in line with the accounting policies of the company. However, the following specific accounting policies have been followed for segment reporting:

(a) Segment revenue includes sales and other income directly identifiable with / allocable to the segment including inter-segment revenue.

(b) Expenses that are directly identifiable with / allocable to segment are considered for determining the segment result. The expenses, not allocable to any segments, are included under "Unallocable items / others".

(c) Segment assets and liabilities include those directly identifiable with the respective segments. Unallocable assets and liabilities represent the assets and liabilities not allocable to any segment.

13. TAXES ON INCOME

(a) Provision for Current Tax is made in accordance with the provisions of Income Tax Act, 1961.

(b) In accordance with the Accounting Standard AS-22 'Accounting for Taxes on Income' issued by the Institute of Chartered Accountants of India, Deferred Tax Liability / Asset arising from timing differences between book and income tax profits is accounted for at the current rate of tax to the extent these differences are expected to crystallize in later years. However, Deferred Tax Assets are recognized only if there is a virtual certainty of realization.

14. INTANGIBLE ASSETS

Capital Expenditure on purchase and development of identifiable non-monetary assets without physical substance is recognized as Intangible Assets in accordance with principles given under AS-26 - 'Intangible Assets'. These are grouped and separately shown under the schedule of Fixed Assets. These are amortized over their expected useful life.

15. MISCELLANEOUS EXPENDITURE

Expenditure incurred on issuing foreign currency convertible bonds have been amortised over a period of five years from the date of the issue of said bonds.

B. NOTES ON ACCOUNTS

(Rs. in lac)

			As at 31.3.2007	As at 31.3.2006
1.	**Contingent liabilities**			
	a)	Claims against the company not acknowledged as debts:		
		i) Excise duty under appeal	**29.60**	598.68
		ii) Other matters	**382.17**	1,516.59
	b)	Bank Guarantee	**6,392.84**	3,639.43
	c)	Bills discounted with bankers	**5,828.47**	4,592.64
	d)	Pending export obligation against Advance Licence & EPCG Licence	**6,643.44**	6,613.11
2.	Estimated amount of contracts remaining to be executed on capital account , not provided for (net of advances of Rs.1,925.84 lac (Rs.1,488.00 lac))		**1,234.33**	1,198.04
3.	There are no present obligations requiring provision in accordance with the guiding principles as enunciated in Accounting Standard (AS)-29 as it is not probable that an outflow of resources embodying economic benefit will be required.			
4.	Work in process includes Refractory Blocks and other consumable stores lying at shop floor.		**25.29**	36.88
5.	Prior period item include:-			
		Income	**–**	0.12
6.	Auditors' remuneration paid / payable during the year included in miscellaneous expenses :			
		Statutory Audit Fee	**12.00**	10.00
		Other services	**2.66**	1.95
		Reimbursement of expenses	**2.67**	2.36
7	a)	Computation of net profit in accordance with section 349 of the Companies Act, 1956 for the purpose of section 198 of the said Act	**17.32**	14.31
		Profit for the year before taxation as per Profit and Loss account	**10,006.94**	5,300.80
		Add: Directors' Remuneration	**229.14**	155.77
		Miscellaneous Expenditure written off / provisions	**104.30**	69.53
			10,340.38	5,526.11
		Profit /(Loss) on sale of Fixed Assets(Net)	**9.33**	62.36
		Net Profit on which commission is payable	**10,331.05**	5,463.75
		Commission @ 1.25 % of net profit (previous year @ 1.25%)	**129.14**	68.30

(Rs. in lac)

			As at 31.3.2007	As at 31.3.2006
	(b)	Details of remuneration & perquisites of managerial personnel :		
		Salary	**50.43**	42.63
		Commission	**129.14**	68.30
		Other perquisites	**35.96**	33.33
			215.53	144.26
		Provident Fund	**6.05**	5.12
		Superannuation	**7.56**	6.39
		Total	**229.14**	155.77
	(c)	Sitting fee to non executive directors	**12.20**	11.80

8. The following transactions are accounted for on the basis of estimates / available data, with final adjustments being carried out in the year of settlement.

   a) Graphite Export Development Trust subsidy.

   b) Claims lodged with insurance companies.

   c) Interest on income tax refunds granted on summary basis, pending finalisation of assessments, is treated as income in the year of accrual. Final adjustments are carried out in the year of completion of Assessment.

9. (a) Term loan and Interest free Sales Tax Loan falling due in next 12 months Rs.9,467 lac (previous year Rs 8,191 lac).

10. **CAPITALISATION OF PRE-OPERATIVE EXPENDITURE**

The following expenditure has been capitalised / included under Capital work in progress:

			As at 31.3.2007	As at 31.3.2006
	(a)	Financial Expenses including Foreign Exchange fluctuation Rs.55.95 Lacs (Rs.405.44 Lacs)	**666.59**	1,288.16
		Insurance Expenses	**13.07**	73.52
		Administrative Overheads & Other Cost	**636.30**	2,960.91
		Total	**1,315.96**	4,322.59
	(b)	The same has been capitalised / is lying under Capital Work in Progress as under:		
		Building	**202.86**	468.42
		Plant & Machinery	**1,110.66**	3,337.77
		Capital Work in Progress	**2.44**	516.40
		Total	**1,315.96**	4,322.59

11. (a) In the opinion of the management and to the best of their knowledge and belief, the value on realisation of loans, advances and other current assets in the ordinary course of business will not be less than the amount at which they are stated in the balance sheet.

			As at 31.3.2007	As at 31.3.2006
	(b)	Loans and advances include :		
		(i) Share application money pending allotment	**112.08**	191.08
		(ii) Due from officers of the company	**–**	–
		(iii) the maximum amount at anytime during the year	**–**	–

12. Dues to Small Scale Industrial Undertaking are Rs. 1.22 lac (Previous Year Rs. 29.71 lac), to the extent these could be identified as per the information available in the Company

The Company is in the process of identifying Micro, Small and Medium Enterprises as defined under the Micro, Small and Medium Enterprises Development Act, 2006 ("Act"). Therefore it is not possible for the Company to ascertain whether payment to such enterprises has been done with in 45 days from date of acceptance of supply of goods or services rendered by a supplier. In view of above, disclosures specified below have not been done.

a) Delayed payments due as at the end of each accounting year on account of principal and interest theron.

b) Total interest paid on all delayed payments during the year under the provisions of the act.

c) Interest due on principal amounts paid beyond the due date during the year but without the interest amounts under the Act.

d) Interest accrued but not due.

e) Total interest due but not paid.

13. 1,70,27,855 (1,70,27,855) shares of Malana Power Co Ltd have been pledged with Financial Institutions for securing the loans extended by them to the said company.

14. In the case of forward contracts for hedging foreign currency risk the company was hitherto accounting for the resulting gain or loss on forward cover at the time of maturity / cancellation. For the year company in line with pronouncement issued on AS-11 (Revised 2003) "The effects of changes in Foreign Exchange Rates" has accounted for the resulting gain / loss at the exchange rates on the reporting date or the settlement date where the transaction is settled during the reporting period.

15. The company has following derivatives exposure outstanding as on balance sheet date:

Sl. No.	Particulars	Tenor	Amount	Purpose
(a)	Cross Currency Swaps	1 year	40 mn US$	Hedging
(b)	Cross Currency Swaps	1 year	50 crores INR	Hedging
(c)	Options	45 days	5 mn US$	Hedging

The company has no foreign currency exposure that are not hedged either by a derivative instrument or otherwise.

(Rs. in lac)

				As at 31.3.2007	As at 31.3.2006
16.	**Additional Information**				
	A) Installed capacity (as certified by the Management, being a technical matter relied upon by Auditors).				
		(i) Graphite Electrodes & Anodes	MT	**52,000**	52,000
		(ii) Sponge Iron	MT	**120,000**	120,000
		(iii) Thermal Power	MW	**25.00**	25.00
		(iv) Waste Heat Recovery System	MW	**12.80**	12.80
		(v) Hydel Power	MW	**13.50**	13.50
		(vi) Steel Billet	MT	**100,000**	100,000
	B) Value of Imports (CIF basis) in respect of :				
		Raw Materials		**16,845.80**	14,568.93
		Components & spare parts		**403.57**	99.06
		Capital goods		**622.67**	752.46
	C) Expenditure in Foreign Currency (Cash basis) on account of :				
		Commission, Consultancy, Travelling and Others.		**1,402.09**	1,781.16

(Rs. in lac)

			As at 31.3.2007	As at 31.3.2006
D)	Amount remitted in foreign currency on account of dividend		**423.40**	455.70
	Number of NRI / OCB shareholders		**113**	95
	Number of shares held by above shareholders		**14,113,453**	15,190,070
	Year to which the dividend relates		**2005-06**	2004-05
E)	Earnings in Foreign currency :			
	(i)	Export of goods calculated on FOB basis	**45,902.77**	27,535.28
	(ii)	Interest on Fixed Deposits	**626.59**	366.43
F)	Earnings Per Share			
	There are no outstanding Preference shares, warrants or options attatched to the equity shares of the Company. The basic and diluted Earning Per Share is as under :			
	Net Profit After Tax		**7,383.56**	3,893.39
	No of Equity Shares outstanding		**40,310,466**	40,310,466
	Basic & Diluted Earning Per Share		**18.32**	9.66
	In view of the average market price (fair value) of Equity Share of the Company being less than the applicable conversion price, the conversion option embedded in 1% Convertible Bonds of USD 28.75 mn as indicated in schedule 3, is considered as anti-dilutive and accordingly has not been taken into account for computation for diluted earnings per share.			
G)	Related Party Transactions			
	a)	Enterprises that directly, or indirectly through one or more intermediaries, control or are controlled by or are under common control with the reporting enterprise (this includes holding companies, subsidiaries and fellow subsidiaries).	**None**	None
	b)	Associates and joint ventures		
		(a) Bhilwara Infotech Ltd	**Associate**	Associate
		(b) Indo Canadian Consultancy Services Limited	**Associate**	Associate
		(c) Malana Power Company Limited	**Associate**	Associate
		(d) A D Hydropower Limited	**Associate**	Associate
		(e) Escribe India Pvt. Ltd.	**Associate**	Associate
		(e) Bhilwara Energy Limited	**Associate**	–
	c)	Individuals owning directly or indirectly, an interest in the voting power of the reporting enterprise that gives them control or significant influence over the enterprise, and relatives of any such individual.		
		(a) Bhilwara Scribe Pvt. Ltd.		
		(b) Giltedged Industrial Securities Ltd.		
		(c) Purvi Vanijya Niyojan Limited		
	d)	Key Management Personnel and their relatives	**Mr. Ravi Jhunjhunwala**	
			Mr. R. C. Surana	

(Rs. in lac)

		As at 31.3.2007	As at 31.3.2006
e)	Enterprises over which any person described in (c) or (d) is able to exercise significant influence.		
	(i) Rajasthan Spinning & Weaving Mills Ltd.		
f)	The following transactions were carried out with related parties in the ordinary course of business		
	1. With parties referred to in (b) above.		
	(a) Investment in Equity of Bhilwara Infotech Limited	**419.00**	419.00
	(b) Provision for Dimunition in value of Investment in Equity Shares of Bhilwara Infotech Limited	**377.10**	377.10
	(c) Investment in Equity of Malana Power Company Limited	**2,612.70**	2,612.70
	(d) Consultancy charges to Indo Canadian consultancy Services Limited	**10.97**	2.64
	(e) Investment in Equity of Bhilwara Energy Limited	**2,612.70**	–
	2. With parties referred to in G (c) above. Rent Paid	**10.70**	10.70
	3. With parties referred to in G (d) above. Salaries, Perquisites and Commission paid during the year	**229.14**	155.77
	Salary, perks to Sh. Prakhar Surana relative of Sh. R.C. Surana.	**–**	3.14
	4. With parties referred to in G (e) above.		
	(a) Purchase of consumables	**7.12**	1.70
	(b) Rent Received	**4.80**	4.71
	(c) Purchase of DEPB certificates	**22.96**	459.69
	(d) Rent Paid	**35.49**	29.63
H)	Provision for Income Tax for Earlier years has been made based on Income Tax Assessments case pending at Appellate Jurisdictions on which Income Tax Demand has arisen and the cases are subjudice.	**–**	18.11

I. SEGMENT REPORTING

(Rs. in lac)

	Graphite	Steel /Sponge	Power	Unallocable items/Others	Total
A. BUSINESS SEGMENTS					
Segments Revenue					
External Sales / other income (Net of Excise Duty)	**63,012.96** (40,892.10)	**17,397.83** (10,634.78)	**1,289.58** (1,389.59)	**2,107.02** (601.53)	**83,807.39** (53,518.00)
Inter Segment Transfers			**11001.78** (7,593.01)		**11001.78** (7,593.01)
Total Revenue	**63,012.96** (40,892.10)	**17,397.83** (10,634.78)	**12,291.36** (8,982.60)	**2,107.02** (601.53)	**94,809.17** (61,111.01)
Segment Result					
Segment Results	**8,915.74** (5,251.11)	**(457.91)** (-181.62)	**4,642.63** (2,639.43)	**1,512.46** (411.24)	**14,612.92** (8,120.16)
Less: Financial Expenses					**4,605.99** (2,819.37)
Profit Before Tax					**10,006.94** (5,300.80)
Less Income Tax (incl. Deferred)					**2,623.38** (1,407.41)
Net Profit For the year					**7,383.56** (3,893.39)
Other Information					
Unallocated Assets				**17,784.38** (17,627.63)	**17,784.38** (17,627.63)
Segment Assets	**99,826.53** (81,810.48)	**9,552.55** (10,166.80)	**17,331.57** (18,322.64)		**126,710.65** (110,299.92)
Total Assets	**99,826.53** (81,810.48)	**9,552.55** (10,166.80)	**17,331.57** (18,322.64)	**17,784.38** (17,627.63)	**144,495.03** (127,927.55)
Segment Liabilities	**72,407.17** (60,541.16)	**5,702.00** (6,767.68)	**5,488.91** (7,036.78)		**83,598.08** (74,345.62)
Unallocated Liabilities				**16,729.41** (14,577.24)	**16,729.41** (14,577.24)
Total Liabilities	**72,407.17** (60,541.16)	**5,702.00** (6,767.68)	**5,488.91** (7,036.78)	**16,729.41** (14,577.24)	**100,327.49** (88,922.86)
Capital Employed	**51,615.83** (48,531.59)	**7,217.80** (7,542.41)	**15,061.79** (15,894.98)	**13,166.49** (15,097.91)	**87,061.91** (87,066.89)
Capital Exp. incurred during the year	**5,204.60** (9,119.69)	**470.75** (2,320.99)	**45.28** (1,096.23)	**65.17** (161.20)	**5,785.80** (12,698.11)
Depreciation	**3,155.90** (2,617.14)	**449.56** (339.25)	**1,098.94** (947.87)	**60.04** (58.03)	**4,764.44** (3,962.29)
Other Non Cash Expenses	**–** –	**–** –	**–** –	**104.30** (69.53)	**104.30** (69.53)

(Rs. in lac)

	Graphite	Steel	Power	Unallocable items/Others	Total
B Geographical Segment					
Segment Revenue					
Based on Location of Customers					
Domestic	**15,064.07**	**17,397.83**	**12,291.36**	**867.75**	**45,621.01**
	(11,839.69)	(10,634.78)	(8,982.60)	(601.53)	(32,058.60)
Export	**47,948.89**	**–**	**–**	**1,239.27**	**49,188.16**
	(29,052.41)	–	–	–	(29,052.41)
Segment Assets					
Based on Location of assets					
In India	**72,895.09**	**9,552.55**	**17,331.57**	**17,784.38**	**117,563.59**
	(59,873.31)	(10,166.80)	(18,322.64)	(17,627.63)	(105,990.38)
Outside India	**26,931.45**	**–**	**–**	**–**	**26,931.45**
	(21,937.17)	–	–	–	(21,937.17)

J) INFORMATION IN RESPECT OF TURNOVER (INCLUDING INTER DIVISIONAL TRANSFER), PRODUCTION & GOODS MANUFACTURED

PARTICULARS	UNIT/VALUE	OPENING STOCK QTY.	OPENING STOCK VALUE	PRODUCTION QTY	TURNOVER QTY	TURNOVER VALUE	CLOSING STOCK QTY	CLOSING STOCK VALUE
(a) Graphite Electrodes, Anodes & Specialities	MT/Rs lac	93.93	108.29	43,182.21	41,951.71	59,676.61	1,324.43	1,407.19
		(138.27)	(191.01)	(33,854.25)	(33,898.58)	(39,183.75)	(93.93)	(108.29)
(b) Steel Billets	MT/Rs lac	3,852.72	727.43	84,583.95	87,130.07	18,166.64	1,306.60	268.24
		–	–	(26,274.06)	(22,421.34)	(4,239.65)	(3,852.72)	(727.43)
(c) By Products / others	Units / Rs. lac	–	1,227.15	–	–	8,730.12		1,471.16
		–	(332.93)	–	–	(12,132.88)	–	(1,227.15)
(d) Inter-Divisional Sales								
(1) Thermal Power	Units / Rs. lac	–	–	251,913,000	205,267,700	7,907.75	–	–
		–	–	(169,799,367)	(135,644,700)	(5,280.45)	–	–
(2) WHRS Power	Units / Rs. lac	–	–	95,306,500	89,553,300	2,218.01	–	–
		–	–	(77,852,000)	(52,030,599)	(1,389.22)	–	–
(3) Hydel Power	Units / Rs. lac	–	–	57,198,756	24,608,426	876.02	–	–
				(52,004,610)	(21,096,006)	(923.34)	–	–

K) INFORMATION IN RESPECT OF GOODS TRADED IN :

PARTICUALRS		OPENING STOCK QTY.	OPENING STOCK VALUE	PURCHASE QTY.	PURCHASE VALUE	SALES QTY.	SALES VALUE	CLOSING STOCK QTY.	CLOSING STOCK VALUE
(a) Graphite Electrodes, Anodes & Specialities	MT / Rs. lac	–	–	332.30	247.57	213.62	179.74	118.68	77.54
		–	–	(634.65)	(428.64)	(634.65)	(484.08)	–	–
Purchase of traded goods in Foreign Currency					235.00				
					(413.07)				

L) RAW MATERIAL CONSUMED

PARTICULARS	UNIT/VALUE	QTY	AMOUNT
(a) Calcined Petroleum Coke	MT/Rs. lac	52,038.33 (46,109.47)	16,987.98 (10,892.64)
(b) Pitch	MT/Rs. lac	22,484.06 (18,896.32)	7,053.85 (3,569.17)
(c) Iron Ore	MT/Rs. lac	154,240.40 (147,149.24)	6,171.12 (5,163.47)
(d) Coal	MT/Rs. lac	394,798.06 (324,011.47)	6,893.69 (5,434.33)
(e) Others	Rs. lac	– –	3,800.07 (1,630.38)

M) CONSUMPTION OF RAW MATERIAL AND SPARE PARTS & COMPONENTS

	Current Year		Previous Year	
	Rs. in lac	%	Rs. in lac	%
(a) Raw Material				
Imported	**15,229.50**	**37.23**	9,279.28	34.77
Indigenous	**25,677.22**	**62.77**	17,410.72	65.23
(b) Spare Parts & Components				
Imported	**433.80**	**10.22**	73.03	2.50
Indigenous	**3,812.39**	**89.78**	2,853.08	97.50

17. (a) Previous Year's figures have been regrouped and recast wherever considered necessary.

(b) Figures in amount have been rounded off to nearest lac upto two decimals. Figures in bracket relate to the previous year.

(c) The Schedules referred to in the Balance Sheet and Profit and Loss Account form an integral part of the accounts.

Signed in terms of our Report of even date

For DOOGAR & ASSOCIATES
Chartered Accountants

MUKESH GOYAL
Partner
Membership No. 81810

For S. S. KOTHARI MEHTA & CO.
Chartered Accountants

ARUN K. TULSIAN
Partner
Membership No. 89907

RAVI JHUNJHUNWALA
Chairman & Managing Director

SHEKHAR AGARWAL
Vice Chairman

D.N. DAVAR
Director

Place : Noida (U.P.)
Date : 26th April, 2007

R.G. PURWAR
Company Secretary

ASHISH TANDON
Chief Financial Officer

R. C. SURANA
Executive Director & CEO

CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST MARCH 2007

(Rs. in lac)

	PARTICULARS	FY 2006-07	FY 2005-06
A.	**CASH FLOW FROM OPERATING ACTIVITIES**		
	Profit before Tax	**10,006.94**	5,300.80
Add:	Depreciation	**4,764.44**	3,962.29
	Misc Exps Written off	**104.30**	69.53
	Interest Paid	**4,605.98**	2,881.15
	Net Loss on fixed assets sold / discarded	**(9.33)**	(62.36)
	Diminution in value of Investments (net)	**(5.22)**	–
Less:	Dividend received	**0.00**	2.54
	Interest received	**738.88**	505.32
	Income / Wealth Tax	**1,226.03**	587.42
	Operating Profit before working capital changes	**17,502.20**	11,056.13
	Working capital		
	Trade receivables	**(7,909.35)**	(1,676.65)
	Inventories	**(6,675.99)**	(10,977.66)
	Loans & advances / Other current assets	**(2,047.83)**	(3,882.15)
	Liabilities and provisions	**2,178.76**	889.09
	Net Cash from operating activities	**3,047.79**	(4,591.24)
B.	**CASH FLOW FROM INVESTING ACTIVITIES**		
	Addition in Fixed Assets (net)	**(5,785.80)**	(12,698.10)
	Sale of Fixed Assets	**85.03**	267.83
	Advances for Capital Expenditure	**827.22**	(715.10)
	Sundry Creditors for Capital Expenditure	**(328.24)**	(1,987.41)
	Investments	**(2,627.70)**	–
	Dividend Received	**0.00**	2.54
	Interest received	**738.88**	505.32
	Net Cash from investing activities	**(7,090.60)**	(14,624.92)

(Rs. in lac)

	PARTICULARS	FY 2006-07	FY 2005-06
C.	**CASH FROM FINANCING ACTIVITIES**		
	Long term borrowings - Term Loans / NCD's (net of repayments)	**(3,874.79)**	20,111.43
	Short term borrowings (working capital)	**12,159.54**	14,901.26
	FCCB Issue Expenses	**–**	(521.50)
	Interest Paid	**(4,605.99)**	(2,881.15)
	Dividend paid	**(2,015.52)**	(1,209.31)
	Corporate Dividend Tax	**(342.54)**	(169.61)
	Net Cash from financing activities	**1,320.70**	30,231.12
	INCREASE IN CASH OR CASH EQUIVALENTS	**(2,722.11)**	11,014.95
	Opening cash or cash equivalents	**13,047.12**	2,032.17
	Closing cash or cash equivalents	**10,325.01**	13,047.12

Signed in terms of our Report of even date

For DOOGAR & ASSOCIATES
Chartered Accountants

MUKESH GOYAL
Partner

Membership No. 81810

For S. S. KOTHARI MEHTA & CO.
Chartered Accountants

ARUN K. TULSIAN
Partner

Membership No. 89907

RAVI JHUNJHUNWALA
Chairman & Managing Director

SHEKHAR AGARWAL
Vice Chairman

D.N. DAVAR
Director

Place : Noida (U.P.)
Date : 26th April, 2007

R.G. PURWAR
Company Secretary

ASHISH TANDON
Chief Financial Officer

R. C. SURANA
Executive Director & CEO

SCHEDULE - VI (PART - IV)

BALANCE SHEET ABSTRACT & COMPANY'S GENERAL BUSINESS PROFILE

I. REGISTRATION DETAILS :

Registration No.	08290	State Code	10
Balance Sheet Date	31 (Date) 03 (Month) 2007 (Year)		

II. CAPITAL RAISED DURING THE YEAR (AMOUNT IN RS. THOUSANDS)

Public Issue	NIL	Rights Issue	NIL
Bonus Issue	NIL	Private Placement	NIL

III. POSITION OF MOBILISATION AND DEPLOYMENT OF FUNDS (AMOUNT IN RS. THOUSANDS)

Total Liabilities	14445982	Total Assets	14445982
Sources of Funds			
Paid-up-Capital	403109	Reserves and Surplus	3178713
Secured Loans	7244226	Unsecured Loans	1634025
Application of Funds			
Net Fixed Assets	6729760	Investments	564654
Net Current Assets	5965824	Miscellaneous Expenditure	34767

IV. PERFORMANCE OF COMPANY (AMOUNT IN RS. THOUSANDS)

Turnover	9775489	Total Expenditure	8976851
Profit/Loss before Tax (+ ✓ / -)	1000694	Profit/Loss after tax (+ ✓ / -)	738356
Earning Per Share (in Rs.)	18.32	Dividend Rate (%)	50

V. GENERIC NAMES OF THE THREE PRINCIPAL PRODUCTS / SERVICES OF THE COMPANY (AS PER MONITORY TERMS)

Item Code No. (ITC Code)	8545111
Product Description	GRAPHITE ELECTRODE
Item Code No. (ITC Code)	720610
Product Description	STEEL BILLET

Signed in terms of our Report of even date

For DOOGAR & ASSOCIATES
Chartered Accountants

MUKESH GOYAL
Partner

Membership No. 81810

For S. S. KOTHARI MEHTA & CO.
Chartered Accountants

ARUN K. TULSIAN
Partner

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RAVI JHUNJHUNWALA
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SHEKHAR AGARWAL
Vice Chairman

D.N. DAVAR
Director

Place : Noida (U.P.)
Date : 26th April, 2007

R.G. PURWAR
Company Secretary

ASHISH TANDON
Chief Financial Officer

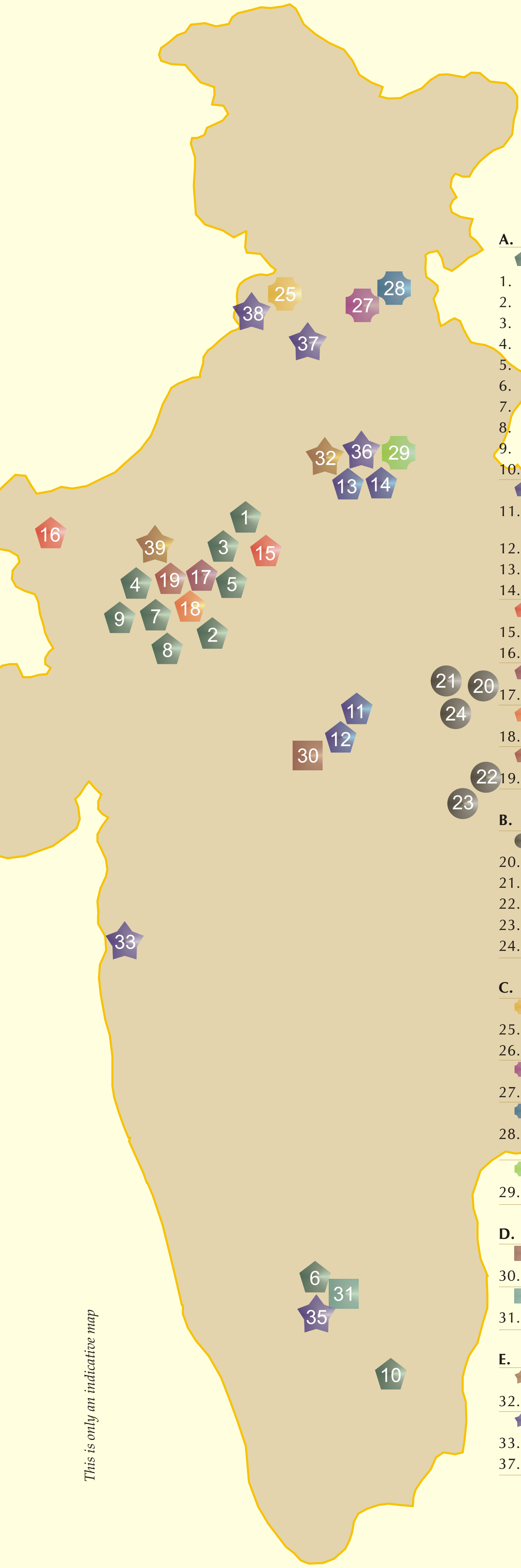
R. C. SURANA
Executive Director & CEO

NOTES

NOTES

LNJ Bhilwara Group

A Nationwide Presence



This is only an indicative map

A. TEXTILES

RSWM Limited

1.	Kharigram	Synthetic, Regenerated Cellulosic Blended Grey, Dyed Yarn
2.	Mayur Nagar, Banswara	Synthetic, Regenerated Cellulosic & Cotton-blended Grey Yarn
3.	Mandpam	Cotton Melange Yarn, Cotton-blended Melange & Dyed Yarn
4.	Rishabhdev	Synthetic, Blended & Grey Yarn
5.	Ringas	Synthetic & Blended Dyed Yarn
6.	Bangalore	Apparel
7.	LNJ Nagar, Mordi	Fabric
8.	LNJ Nagar, Mordi	Denim
9.	LNJ Nagar, Mordi	Captive Thermal Power
10.	Bagalur	Cotton Yarn

Maral Overseas Ltd.

11.	Maral Sarovar (100% EOU)	Cotton Yarn, Cotton-Knitted Fabric & Cotton Knitwears
12.	Maral Sarovar	Captive Thermal Power
13.	Noida	Knitwears
14.	Noida	Knitwears

BSL Ltd.

15.	Bhilwara	Yarn, Worsted, Synthetic & Silk Fabric, Garments & Accessories
16.	Jaisalmer	Captive Wind Power Generation

Bhilwara Spinners Ltd.

17.	Bhilwara	Synthetic, Blended Grey & Dyed Yarn

BMD Pvt. Ltd.

18.	LNJ Nagar, Mordi	Specialised Automotive Fabric & Furnishing Fabric

Bhilwara Processors Ltd.

19.	Bhilwara	Processing of Synthetic & Worsted Fabric, Tops Fibre Dyeing

B. GRAPHITE

HEG Ltd.

20.	Mandideep	Graphite Electrodes
21.	Mandideep	Captive Thermal Power
22.	Durg	Steel Billets
23.	Durg	Captive Waste Heat Recovery Power
24.	Tawa	Captive Hydro Electric Power

C. POWER

Bhilwara Energy Ltd.

25.	Pathankot	UBDC Stage III Hydro Electric Power Generation
26.	Tawang	Nyamjung Chhu Hydro Electric Power Generation

Malana Power Company Ltd.

27.	Malana (Kullu)	Hydro Electric Power Generation

AD Hydro Power Ltd.

28.	Allain-Duhangan (Manali)	Hydro Electric Power Generation

Indo Canadian Consultancy Services Ltd.

29.	Noida	Power Engineering Services

D. INFORMATION TECHNOLOGY

Bhilwara Scribe Pvt. Ltd.

30.	Bhopal	Medical Transcription Services

Bhilwara Infotech Ltd.

31.	Bangalore	IT Services

E. OFFICES

Corporate Office

32. Noida (NCR - Delhi)

Regional / Marketing

33. Mumbai	34. Kolkata	35. Bangalore	36. New Delhi
37. Ludhiana	38. Amritsar	39. Bhilwara	

PROUD TO BE INDIAN
PRIVILEGED TO BE GLOBAL

the Group Companies

RSWM Limited (an LNJ Bhilwara Group Company)	Textiles
HEG	Graphite Electrode
Maral	Knitted Garments
BEL Bhilwara Energy (Powering the Future)	Power Generation
MPCL Malana Power	Power Generation
adhpl AD Hydro Power Limited	Power Generation
iccs	Power Engineering Consultancy
BSL Limited	Suitings
RMIT	Automotive Fabric
Bhilwara Spinners Ltd.	Yarn
bil Bhilwara Infotech Limited (Getting IT right for you)	Information Technology
Bhilwara Scribe Pvt. Ltd.	Medical Transcription Services

the Group Brands

Mayur Suitings (Stars ki pasand)	Suitings
BSL Suitings	Suitings
Melantra Melange Yarn	Yarn
La Italia Trousers	Garments
Geoffrey Hammonds Superfine Suitings	Fabric

the Group Partnerships

Company	Partner with	Activity
Statkraft Norfund Power Invest A.S., Norway	Malana Power Co. Ltd.	192 MW Hydro-electric Power Project
RSW International, Canada	ICCS Ltd.	Power Consultancy Services
International Finance Corporation, Washington	AD Hydro Power Ltd.	Equity holders in AD Hydro Power Project
Tencel, UK (now Lenzing, Austria)	RSWM Ltd.	Tencel Yarn Spinning
Trevira GmbH, Germany	RSWM Ltd.	Flame Retardant Yarn & Fabric
eScribe Inc., USA	Bhilwara Scribe Pvt. Ltd.	IT Enabled Services
Enercon (India), a subsidiary of Enercon (Germany)	BSL Ltd.	Wind Energy Project
SISA S.A., Spain	RSWM Ltd.	Yarn Marketing

HEG Limited

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