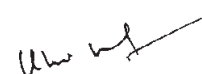


Acknowledgements

Our journey to become a world-class engineering enterprise can not be achieved without acknowledging dedicated and committed efforts of our employees. Their ingenuity has led to our success - and that gives us strength to face the future with confidence. On behalf of the Board and on my own behalf I offer my sincere thanks to them. I would like to thank my fellow Directors on the Board and my colleagues on the Management Committee for their support and valuable inputs that they have provided over the past year. I am grateful to all our esteemed shareholders, our stakeholders like customers, business associates, and all others who have reposed their faith in BHEL. I extend my sincere appreciation to various ministries of the Government of India particularly the Department of Heavy Industry for providing timely guidance and support in all our efforts.

In conclusion, the fundamentals are in place for success. Although we are operating in a difficult environment, we are approaching the challenges from a position of strength. I believe that by maintaining our strength, stability and focus, we will be able to grow our businesses from strength to strength. I look forward to your continued support in this journey.

With best wishes,


(K. Ravi Kumar)
Chairman & Managing Director

New Delhi
September 17, 2009

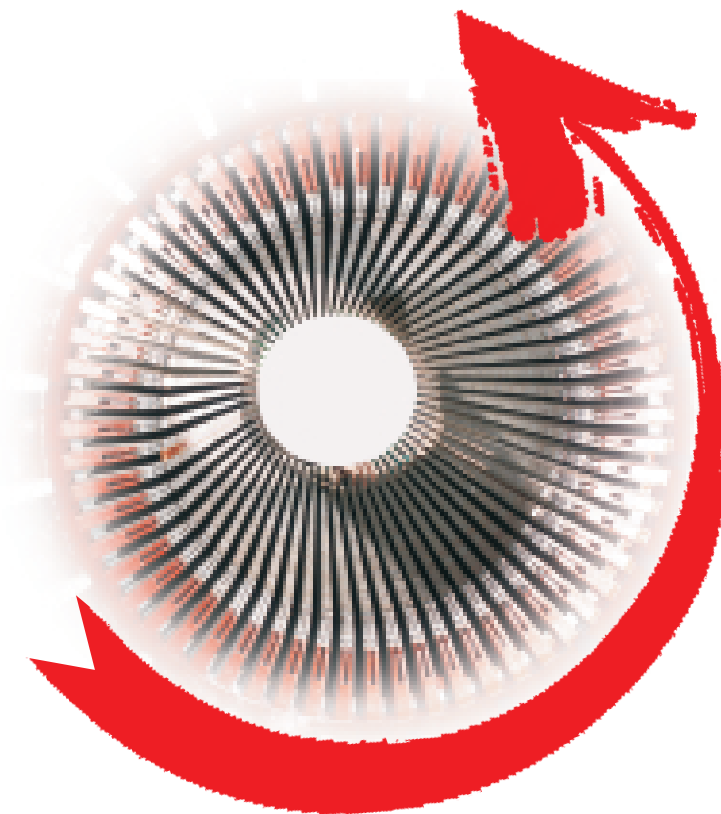


*Powering progress Brightening lives
Touching Every Indian Home*



Bharat Heavy Electricals Limited

Regd. Office : BHEL House, Siri Fort, New Delhi-110 049, India
Visit our website : <http://www.bhel.com>



Chairman's Address
45th Annual General Meeting



Chairman's Address 45th AGM of BHEL 17th September, 2009



Ladies and Gentlemen,

On behalf of the Board of Directors, I extend a very warm welcome to all of you to the 45th Annual General Meeting of your company. The report of the Directors and Audited Accounts for the year ending 31st March 2009, with the reports of Auditors and comments of Comptroller and Auditor General have already been circulated to the shareholders, and with your permission, I shall take them as read.

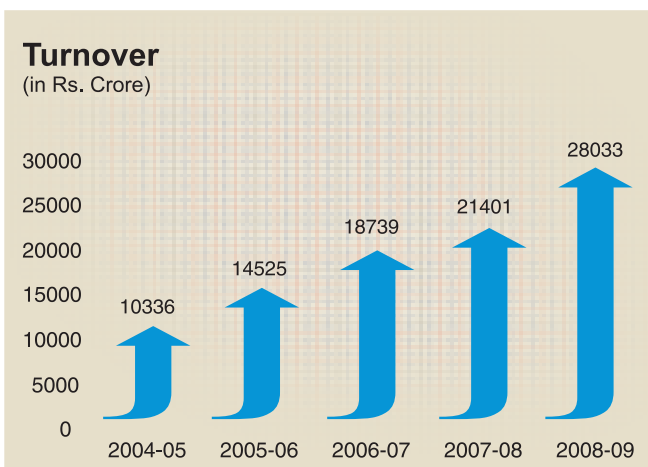
The year 2008-09 has been a year of great turbulence—economically and politically and saw the economies of many countries on the brink of collapse. Growth figures of many economies were revised downwards; stock exchanges witnessed turmoil and fortunes changed overnight. One also saw how negative sentiments could spiral out of control. India to some extent remained insulated. Steps taken by many governments world over including ours have started to show results. Against such a backdrop, your company managed to turn in a stellar performance once again and maintain a growth momentum thanks to the support of all stakeholders. Today, I believe your company is well positioned to face challenges with renewed confidence.

Let me begin with an overview of last year.

Performance Highlights during FY2008-09

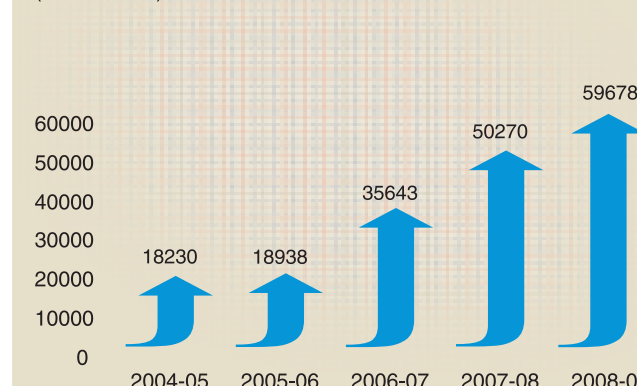
BHEL achieved a spectacular top line growth of 31% with the turnover of Rs 28,033 Crore. We had to deal

with unprecedented cost increases in raw materials. Despite this, we were able to protect profitability with net profit rising by 9.8% to Rs. 3,138 Crore over last year. Some of the main highlights of this growth story were:



- The company surpassed its own record set in 2007-08 by booking orders worth Rs.59,678 Crore. Utility orders amounted to 17,020 MW and Industry Sector order inflows crossed Rs.10,000 Crore mark for the first time. The confidence reposed by private sector customers in 2008-09 is evident from the fact that Rs.13,320 Crore worth orders were placed on BHEL.

Orders Secured (in Rs. Crore)

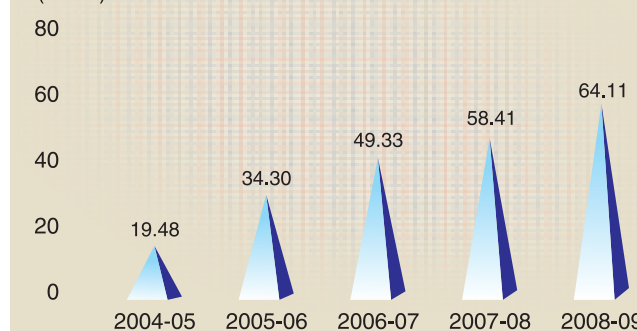


- Maiden orders for 2x800 MW supercritical boilers for Krishnapatnam, APGENCO and 2x660 MW supercritical turbine generator sets for Barh-II, NTPC were received.
- First-ever order for steam generators for new rating 700 MWe Nuclear sets – moving forward to capitalize on emerging business opportunities in the Nuclear sector.
- Manufacturing capacity expansion from 10,000 MW to 15,000 MW p.a. proceeding apace and further augmentation to 20,000 MW p.a. planned by 2011-12.
- BHEL's R&D spend increased to Rs.690 Crore amounting to 2.46% of the Turnover, a commendable achievement for a company operating in the Capital Goods segment.
- Economic Value Addition (EVA) reached Rs.2,008 Crore, an 11% increase over that of Rs.1,810 Crore in the year before.



- Earnings per Share on the post-bonus equity capital increased to Rs.64.10 against previous year's Rs.58.40.

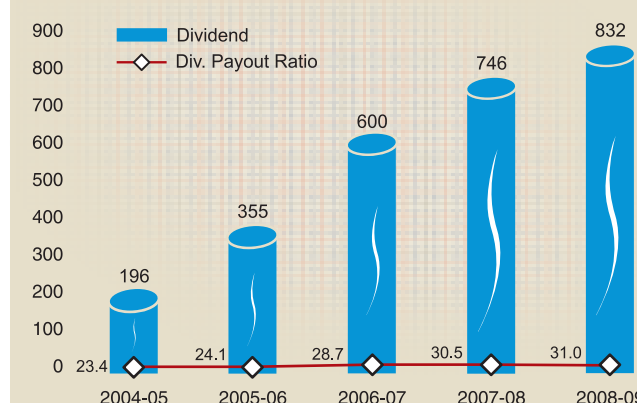
Earnings Per Share (in Rs.)



In 2007-08, bonus shares were issued in the ratio of 1:1, figures (charts) are restated based on enhanced share capital for comparison.

- A final dividend of 80% has been recommended by the Board, in addition to the interim dividend of 90% for the year, making a total of 170% for the year. BHEL is maintaining the track record of paying dividends uninterrupted since 1976-77.

Dividend Ratios



Equipment Performance

During the year, BHEL built power generating sets have contributed 466 Billion Units of electricity which was 73% of the total power generation in the country. BHEL built coal-based thermal sets achieved an all time high Operating Availability (OA) of 88.2% with a PLF of 80.0% - higher than the national average by 2.6%. 200-500 MW thermal sets built by your company, which form the backbone of the country's thermal generating capacity, operated at an impressive PLF and OA of 83.6% and 90.8% respectively. Notably, 85 sets achieved PLF of over 90% and 150 sets achieved OA higher than or equal to 90%.

All 6 thermal power stations awarded with Govt. of India's Meritorious Productivity Awards are equipped with BHEL equipment, reinforcing the reliability and quality of BHEL's equipment.



Environment

The Indian economy grew by 6.7 per cent in 2008-09 according to the revised estimates of CSO – better than most analysts had expected, but lower than the growth of 9.0 per cent in 2007-08. The deceleration in GDP growth was particularly pronounced during the second half of 2008-09, largely due to the adverse impact of the global economic crisis. Industrial sector growth decelerated significantly to 2.6 per cent in 2008-09 from 8.5 per cent in the previous year due largely to negligible or negative growth during four months in the second half of the year. The worst hit has been the export sector, which has been recording negative growth since October 2008. The services sector, which has been the main driver of growth for more than a decade, also slowed down. The financial sector, however, remained relatively unaffected despite the severe stress caused by the global deleveraging process, which triggered capital outflows in the second half of 2008-09.

Through quick and aggressive policy measures, the Government of India mitigated the adverse impact of the global financial crisis. The leading indicators of industrial production, both quantitative and qualitative, suggest that the recent downturn has been arrested and a pick-up is on the way forward, albeit with some lag.

Even under such adverse business environment, your company has been able to maintain its growth momentum. Company secured orders worth Rs.47,168 Crore from Power Sector, Rs.10,254 Crore orders from Industry Sector and Rs.3,265 Crore orders from Export Markets.

Overall, it was again a year when inherent strengths of your company coupled with increased focus of Government of India on building infrastructure continued to be a source of growth and competitive advantage.

Power Sector Opportunities

Our country has set the ambitious target of power generation capacity addition of more than 1,60,000 MW up to 2017. This offers an attractive market opportunity for BHEL. On the other side, such a market scenario also attracts increased competition. Many large Indian engineering companies are in the process of setting up power plant equipment manufacturing facilities in collaboration with global OEMs. Chinese companies have also imprinted their footprints in Indian power sector landscape. Your company will be facing a

competitive challenge and we have upped our game. The steps taken during the past couple of years for capacity & capability building will set us apart from our competition.

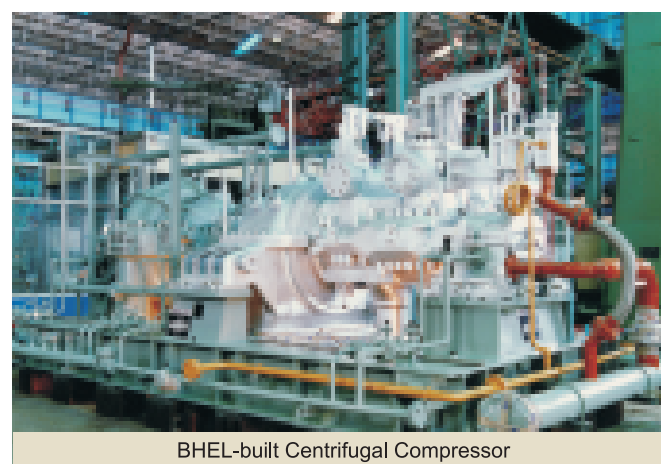


4x250 MW Jindal Raigarh TPS

Major highlights of the year included the largest number of orders for 8 sets of 600 MW, 13 nos. of 500 MW sets, 7 nos. of 250/270 MW sets and 6 nos. Fr.9FA GTGs. Significantly, 100% share of the R&M market for thermal sets was retained for the third successive year. Your company is maintaining its market leadership and is poised to seize the unfolding opportunity in this sector.

Industry Sector Opportunities

In an environment of heightened uncertainties and certain industry segments witnessing sharp slowdown, your company managed a very good orders inflow of Rs. 10,254 Crore with a record overall growth of 40% in order book from Captive Power, Transportation, Power Transmission, Oil & Gas and other industrial segments.



BHEL-built Centrifugal Compressor

Highest-ever value order was received from Hindalco for 6x150 MW BTG package. Highest-value order was

also received in the refinery segment from HMEL (JV of HPCL & Mittal Energy Ltd.) for 153 MW Combined cycle CPP on LSTK basis. BHEL's leadership in transformer business was reaffirmed with bulk order for 40 Transformers from Coastal Gujarat Power Ltd. for Mundra UMPP, involving country's highest-rating Generator Transformers (930 MVA, 400 KV, 3 phase banks). A developmental order was secured for 765 KV Transformer, Reactor, CT, CVT & CB from PGCIL. After nearly two decades, order for traction electrics for Kolkata Metro was secured from ICF Chennai. In defence business area, first-ever order was received for supply of ACS/IPMS from Mazagon Dock Ltd. The other business highlights of the year included orders for largest size vertical motors for CWP applications, highest rating BFP motors, Bus Ducts for Mundra UMPP, Largest shunt reactor order from PGCIL besides highest ever order for compressors.

Transmission Projects group, after its consolidation during 2007-08, has turned around and achieved highest-ever revenue and profits.

Global Reach

Even in International Business, bucking the global recessionary trend, BHEL achieved a physical export order inflow of Rs.3,265 Crore during the year - an increase of 41% over that of the previous fiscal. The year marked significant steps towards globalization with successful forays in new markets and new product areas, apart from firmly establishing the company's presence in existing export markets and areas.

Your company was able to win largest ever export order of 2x200 MW Steam Turbine based Tishreen Thermal Power Plant from Syria on EPC basis. A breakthrough was achieved with the Long term business tie-up in the form of a rate contract for 126 MW rated Gas Turbine generating sets with Petroleum Development Oman. Company made an entry in Rwanda through first ever overseas order for 28 MW Hydro Power Plant on EPC basis. BHEL also expanded its global footprints with its entry in Senegal through an order for 125 MW coal fired BTG package. An unparalleled achievement was witnessed with 18th consecutive order for transformers from PPC Greece.

Building on Technology

BHEL's products and systems are technology intensive and technology development is of strategic importance to the company. During the year, BHEL spent Rs.690 Crore on R&D efforts – 40% higher than the previous year. This corresponds to 2.46% turnover

of the company. A turnover of Rs. 5,571 Crore was achieved through products and systems developed in-house, an increase of 81% over the previous year.

BHEL also filed 213 patents and copyrights, enhancing the company's intellectual capital which is in productive use in the company's business.

Some of the significant developments during the year include development of a compact 2.4 TPD RO-based desalination plant skid (water filtration system suitable for sea water) for Indian Navy submarines, development of 320kN / 420kN HVDC Porcelain Insulators, development of 800 kV Hollow Insulators for the first time in the country for use in 765 kV Ultra High Voltage AC transmission systems, development of new designs of various equipment like Steam Turbine in the 120-150 MW range, Single Cylinder Reheat Turbine, Brushless Exciter with Permanent Magnet Generator for 250 MW Turbo Generators, Deaerator for 1,000 MW for multiple benefits like reduced manufacturing cycle time, reduced installation costs, more reliability etc.

BHEL is upgrading facilities for Solar Photovoltaics to handle thinner and larger multi & mono-crystalline wafers. With this state-of-the-art facility, BHEL will be able to offer high quality Solar Cells of 15-16% efficiency and PV Modules up to 270 W power output from 2009-10 onwards.

Capacity augmentation for fabrication of Space Quality Battery is also underway to meet growing techno-commercial demands of ISRO for its satellite projects.

The company is also engaged in research in futuristic



2xFr. 9E Gas Turbine-based Power Project of Petroleum Development Oman at Mukhaizana, Oman

areas like fuel cells for distributed environment-friendly power generation, clean coal technology applications, standardization of electrode making process, development of process for addition of



Nano/Micro particles for improving material characteristics, super conductivity applications in transformers, generators/ motors etc.

With an array of new technologies at its command, your company is confident of meeting the challenges ahead and fulfilling its responsibilities as the premier engineering and manufacturing enterprise of India.



State-of-the-art Solar Photovoltaic Facility
at Electronics Division, Bangalore

Recognition for Excellence

Continuing its tradition of bagging prestigious national and international awards, your company and its employees won several awards during the year.

For the third consecutive year, BHEL's performance was recognized by the prestigious publication 'Forbes Asia', which featured BHEL in its fourth annual 'Fabulous 50' list of the best of Asia-Pacific's publicly-traded companies with revenues or market capitalization of at least US\$ 5 billion, having highest long-term profitability and sales & earnings growth. Significantly, BHEL is the only Indian PSU to figure on the elite list, since the list was conceived.

Efforts of employees have been well recognized through various awards at individual and company level. Notable among them are Prime Minister's Shram Awards, Vishwakarma Rashtriya Awards, National Safety Awards, ICWAI Awards for Excellence in Cost Management for 2008, EEPC's Top Export Award, 2nd position in the SCOPE 'Best Enterprise Award' for initiatives taken to develop women employees, 'Greentech Environment Excellence Silver Award 2008', Most Investor Friendly PSU Award for 2009 from Dalal Street Investment Journal, 'Best Performing CFO Award 2008' by CNBC-TV18 and 'Top Rankers Excellence Award 2007-08' for Best Finance Professional to Director (Finance).

The Road Ahead

As nation's infrastructure development plays a significant role in its economic growth and a fast growing economy like India warrants an even faster development of infrastructure to help economy bounce back to the high growth rates witnessed some years back. Enhancement of power generation capacity is one of the keys to boost growth, and your company has a larger role to play in this. With the total order outstanding of Rs 1,17,000 Crore at the year end, BHEL is working towards improving efficiency, optimizing costs, meticulously planning for execution of deliverables to the desired specifications.

Many domestic peer group companies are in the process of setting up equipment manufacturing facilities in partnership with global OEMs. BHEL is nevertheless confident of maintaining its market leadership, although the intensity of competition that may emerge cannot be ignored.

Investing for the Future

Market dynamics continue to be unpredictable. It is prudent at a time like this to remain committed to our capacity & capability building business strategy, which we believe will enable us to build a strong competitive edge for the foreseeable future. Ultimately the success of BHEL depends not on the external constraints we face, but on how we respond to them.

We are committed to pursuing supercritical technology business in a big way. Your company received its maiden orders for 800 MW supercritical boilers for Krishnapatnam and 660 MW supercritical turbine generator sets for Barh-II, NTPC in 2008-09.

Operating in the competitive business environment will require some courage and a shift away from what we are used to. We cannot expect to do it all alone. We have to work together with certain players and partners in new ways. We have to compete and co-operate. In line with this, BHEL has formed a Joint venture with TNEB for 2x800 MW Power Plant at Udangadi, Tuticorin, Tamil Nadu. Similarly, a JV has been signed with KPCL for 2x800MW Yermarus, Raichur, Karnataka and 1x800MW Edlapur, Raichur, Karnataka. An MoI has been signed with GSECL for setting up 1x800 MW project. These strategic alliances are for leveraging equipment sales in the Supercritical technology domain. Similar other alliances being pursued for sourcing critical inputs, equipment, etc. include tie-ups with Kerala Electric & Allied Co. Ltd. and Heavy Engineering Corporation.

NTPC-BHEL Power Projects Private Limited (NBPPPL): a 50:50 Joint Venture was formed with NTPC Ltd. to carry out Engineering Procurement & Construction (EPC) contracts for Power Plants and other Infrastructure Projects as well as manufacture and supply equipments for power plants and other infrastructure projects, in India and abroad. NBPPPL is expected to complement & supplement the EPC and equipment manufacturing capacities of the promoter companies.

In the field of Nuclear, BHEL has signed a MOU with Nuclear Power Corporation of India (NPCIL) to form a Joint Venture (JV) company to carry out Engineering Procurement and Construction (EPC) activities on the secondary side (turbine side) of nuclear power plants of 700 MWe and above rating within India and abroad. Further, your company is in discussions with probable international technology providers for 700 MWe and above nuclear turbines. A MoU has also been signed with GE-Hitachi for cooperation in Nuclear island equipments for Power plants to be set up by NPCIL.

As a continuation of the strategy to pursue inorganic growth where we have acquired BHPV as a 100% subsidiary and are reviving it with adequate managerial & financial support, we are also pursuing opportunities in the areas of Transmission, Transportation, and Renewable Energy. BHEL has signed MoUs with GE for Diesel Electric locomotives and manufacture of propulsion systems for these locomotives.

BHEL's manufacturing capacity expansion from 10,000 MW p.a. to 15,000 MW p.a. is proceeding apace and your company has decided to hike this further to 20,000 MW by end of XI Plan at a cost of Rs.1,590 crore. Further, foundation stone for a new plant in Tirumayam in Pudukottai district of Tamil Nadu was laid for manufacture of boiler components

As part of our green initiatives, BHEL supplied Space Grade Solar Panels for first satellite export project of ISRO for EADS-Astrium of Europe. The satellite was successfully launched by the European Ariane-5 launch vehicle from French Guyana. Further, a MoU was signed with BEL for formation of a JV to address Solar Photovoltaic business and for setting up manufacturing facility for silicon wafers, solar cells and modules.

In order to remain cost competitive and to retain market share, capability-building initiatives, through Design to Cost (DTC), Lean Manufacturing (Lean) and Purchase & Supply Management (PSM) tools will

be continued for identified products at select units of BHEL.

International business will be further enhanced by focusing on consolidation in existing international markets as well as entering new markets. Long term business tie-up has been done for 126 MW rated Gas Turbine generating sets for Oman. Long term local alliances will be done in all target regions. Setting up distributorship for selected products is also on the agenda of International Business.

Towards enhancing and strengthening manpower, 4,717 persons were recruited during 2008-09 including graduates from premier institutes like IITs, XLRI, NITIE. Your company will continue with participative culture of management to maintain cordial industrial relations at our work places.

To sustain leadership over long periods of time, concerted efforts will continue to be made to strengthen the Engineering & Technology character of the organization, enhance focus on Corporate Social responsibility initiatives and to actively pursue various green initiatives as commitment towards environment conservation.

If we face the challenges of today head-on with intelligence and determination, I believe we can position BHEL to take advantage of the tremendous opportunities that lie ahead.

Corporate Governance

Corporate Governance practices have been under fierce debate in the country in recent times. Today there is a definite shift in the way the boards are functioning. Your company has always been committed to practicing good Corporate Governance in all its operations and that is also reflected in our values. We always believe in integrity and fairness in all matters and fulfilling our duties to the entire spectrum of stakeholders.

It is clear that companies like yours are crucial for the good functioning of the society. We manufacture and sell products & systems that touch the lives of people in the society. Hence, as a part of its commitment to the society your company has been following a CSR policy with thrust in eight areas - Self employment generation, Environment protection, Community development, Education, Health management & medical aids, Orphanages & Old-age homes, Infrastructural development and Disaster/Calamity management. A review mechanism has also been developed to monitor activities carried out especially in the BHEL adopted 56 villages having nearly 80,000 inhabitants.