NELCO LIMITED

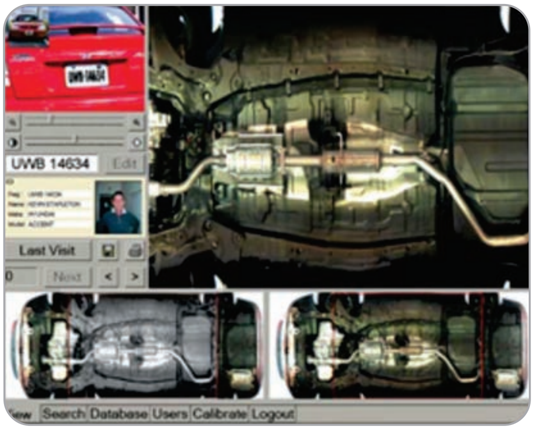
A TATA Enterprise

68th Annual Report 2009-2010

Solutions for Protecting Lives and Assets

Baggage Scanning Systems

Under Vehicle Scanning Systems



Mobile Vehicle scanning system

Ceilometer for cloud Height Measurement

Bomb Blanket

Bomb Suit

Water Jet Disruptor

NELCO LIMITED

Chairman Emeritus

R. N. Tata

Board of Directors

P. R. Menon – *Chairman*

B. B. Dubash

R. R. Bhinge

V. K. Deshpande

P. K. Ghose

S. Ramakrishnan

Lt. Gen. Davinder Kumar (Retd.)

S. K. Gupta

K. A. Mahashur – *Executive Director*

Z. J. Engineer – *Executive Director (Retired on 29/7/2010)*

Company Secretary

Girish V. Kirkinde

Bankers

Bank of India
Allahabad Bank
Union Bank of India
Calyon Bank
Axis Bank Ltd.

Solicitors

Mulla & Mulla and Craigie, Blunt & Caroe.

Auditors

Deloitte Haskins & Sells, Mumbai.

REGISTERED OFFICE

Francysters Cybernetics Centre, 3rd Floor,
Eucharistic Congress Building No. III,
5, Convent Street, Colaba, Mumbai – 400 001.

Works & Facilities

Plot EL-6, Electronic Zone, TTC Industrial Area,
MIDC, Mahape, Navi Mumbai 400 710.

Share Registrars

TSR Darashaw Limited
6-10, Ist floor,
Haji Moosa Patrawala Industrial Estate,
20, Dr. E. Moses Road,
Mahalaxmi,
Mumbai - 400 011.
Tel.: 022-66568484 Fax: 022-66568494
Website: www.tsrdarashaw.com

SALES OFFICES

Mumbai
3rd Floor, Eucharistic Congress Building III,
5,Convent Street, Colaba, Mumbai – 400 001.

Bangalore
3rd Floor, No.15-17-19,
Sri Lakshmi Complex,
St. Mark's Road,
Bangalore 560 001.

Chennai
Flat No.1-D,1st Floor,
New No. 75 & 77 (Old No. 41 & 41A)
K. G. Marina Bay, Santhome High Road,
Santhome, Chennai 600 004.

Delhi
702,703, Vikram Tower,
16, Rajindra Place,
New Delhi 110 008.

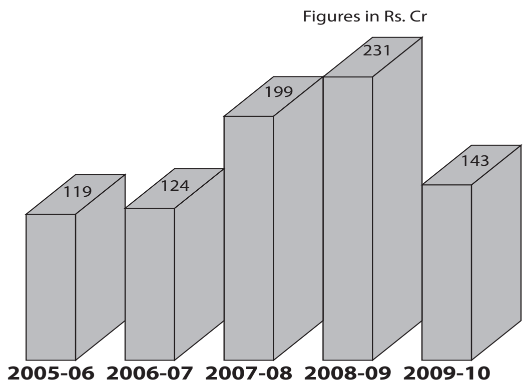
Jamshedpur
Kashi Kunj Road No.2,
Contractors Area,
Bistipur, Jamshedpur 831 001.

Kolkata
Trust House, 1st floor,
32-A, Chittaranjan Avenue,
Kolkata 700 012.

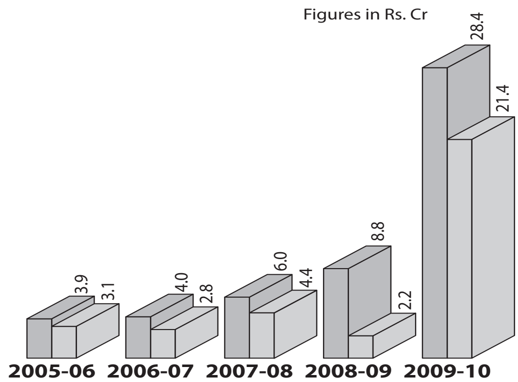
Secunderabad
Plot No.65, Paigah Colony,
Behind Anand Theatre,
Off Sardar Patel Road,
Secunderabad 500 003.

Financial Highlights

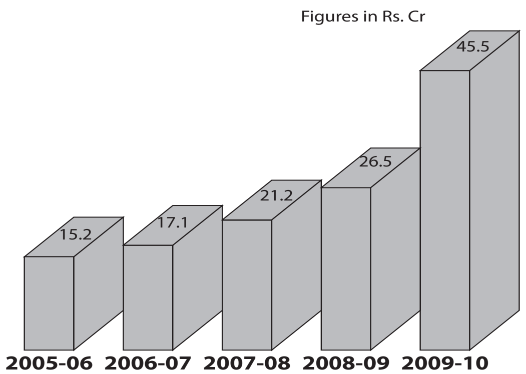
5 YEARS REVENUE



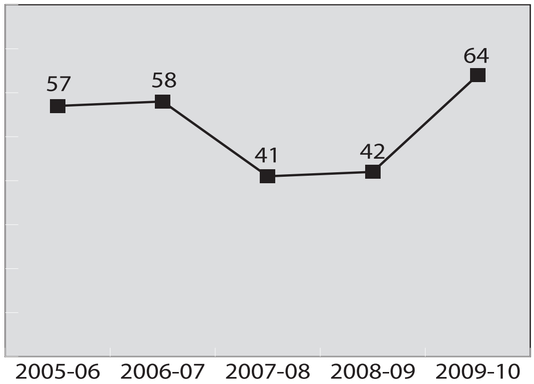
5 YEARS PBT & PAT



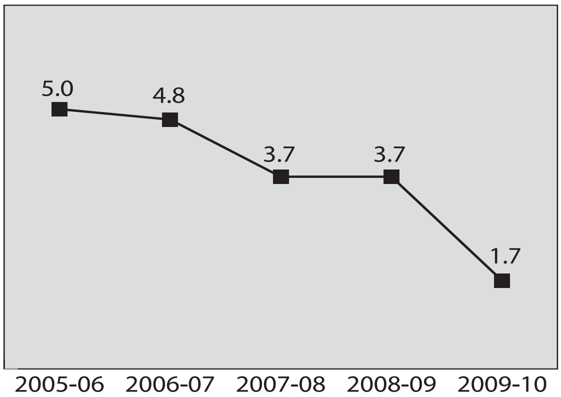
5 YEARS EBIDTA



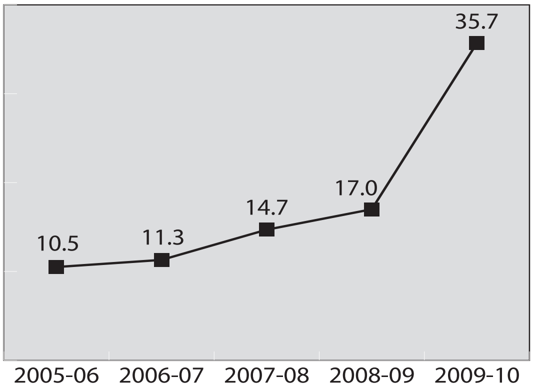
NWC as % of Revenue



Debt to Equity (Number of Times)



ROCE %



For the purpose of comparison, the figures are calculated on annualised basis wherever necessary.

NOTICE

The SIXTY EIGHTH ANNUAL GENERAL MEETING OF NELCO LIMITED will be held on Wednesday the 19th January 2011 at 4.00 p.m. at the Cultural Hall, Chavan Centre, 4th floor, Gen Jagannath Bhosale Marg, Mumbai – 400 021 to transact the following business:-

ORDINARY BUSINESS

1. To receive, consider and adopt the Audited Profit & Loss Account for the year ended 30th September 2010 and the Audited Balance Sheet as at that date together with the Reports of the Board of Directors and the Auditors thereon.
2. To declare a dividend on equity shares.
3. To appoint a Director in place of Mr. B.B.Dubash who retires by rotation and is eligible for re-appointment.
4. To appoint a Director in place of Mr. S.Ramakrishnan who retires by rotation and is eligible for re-appointment.
5. To appoint a Director in place of Mr. P.K.Ghose who retires by rotation and is eligible for re-appointment.
6. To appoint Auditors and fix their remuneration.

SPECIAL BUSINESS

7. **Amendment of the Articles of Association of the Company.**

   To consider and if thought fit, to pass with or without modification, the following resolution as a Special Resolution:

   "RESOLVED THAT pursuant to Sections 31, 48 and other applicable provisions, if any, of the Companies Act, 1956, as amended or re-enacted from time to time, the consent of the Company be and is hereby accorded to substitute the following Article in place of existing Article 176 of the Articles of Association of the Company:

   'Every deed or other instrument to which the Seal of the Company is required to be affixed shall be signed by (a) two Directors, or (b) one Director and the Secretary, or (c) one Director and such other authorized person, as the Board or a duly constituted Committee thereof may appoint for the purpose; provided nevertheless that certificates of debentures may be signed by one Director only or by Attorney of the Company duly authorized in this behalf and certificates of shares shall be signed as provided in Article 27(a)'.

   RESOLVED FURTHER THAT the Board of Directors be and is hereby authorized to do all such acts, deeds, things and matters as they may in their absolute discretion deem necessary, expedient or proper in order to give effect to this Resolution".

NOTES:

(a) The relative Explanatory Statement as required by Section 173 of the Companies Act, 1956 in respect of business under Item No.7 set out above and the relative details in respect of Item Nos.3 to 5 pursuant to Clause 49 of the Listing Agreement with the Stock Exchanges are annexed hereto.

(b) A MEMBER ENTITLED TO ATTEND AND VOTE IS ENTITLED TO APPOINT A PROXY OR PROXIES TO ATTEND AND VOTE INSTEAD OF HIMSELF AND THE PROXY NEED NOT BE A MEMBER. Proxies in order to be effective, should be duly stamped, completed, signed and deposited at the Registered Office of the Company not less than 48 hours before the Meeting.

(c) Corporate Members intending to nominate their authorized representatives to attend the Annual General Meeting are requested to send a certified copy of the Board Resolution authorizing their representative to attend and vote on their behalf at the Meeting.

(d) In case of joint holders attending the Meeting, the joint holder who is higher in the order of names will only be entitled to vote.

(e) The Register of Members and Share Transfer Books of the Company will remain closed from Tuesday, 11th January 2011 to Friday, 14th January 2011 (both days inclusive). If the dividend as recommended by the Board of Directors is approved at the Annual General Meeting, payment of such dividend will be made on or after 24th January, 2011 as under :

   i) To all Beneficial Owners in respect of shares held in dematerialized form as per the data as may be made available by National Securities Depository Limited and Central Depository Services (India) Limited as of the close of business hours on 10th January, 2011;

ii) To all Members in respect of shares held in physical form after giving effect to valid transfers in respect of transfer requests lodged with the Company on or before the close of business hours on 10th January, 2011.

(f) Members are requested to notify immediately any change in their addresses and/or bank mandate details to the Company's Registrars and Share Transfer Agents for shares held in physical form and to their respective Depository Participants for shares held in electronic form.

(g) Members holding shares in electronic form may please note that their bank details as furnished by the respective Depositories to the Company will be considered for remittance of dividend as per the applicable regulations of the Depositories and the Company will not entertain any direct request from such Members for change/deletion in such bank details. Further, instructions, if any, already given by them in respect of shares held in physical form, will not be automatically applicable to the dividend paid on shares held in electronic form. Members may, therefore, give instructions regarding bank accounts in which they wish to receive dividend to their Depository Participants.

(h) Consequent upon the amendment of Section 205A of the Act and introduction of Section 205C by the Companies (Amendment) Act, 1999, the amount of dividend declared for the financial year ended 31st March, 2003 which remained unclaimed /unpaid for a period of seven years from the date of transfer to the Unpaid Dividend Account of the Company has been transferred to the Investor Education and Protection Fund (the Fund) set up by the Government of India and no payments shall be made in respect of any such claims by the Fund.

Members who have not yet encashed their dividend warrant(s) for the financial year ended 30th September, 2009 are requested to make their claims to the Company accordingly without any delay.

(i) Members desiring any information as regards the Accounts are requested to write to the Company at an early date so as to enable the Management to keep the information ready at the meeting.

(j) As a measure of economy copies of the Annual Report will not be distributed at the Annual General Meeting. Members are requested to bring their copies to the Meeting.

(k) Members may please note that, as per the Securities and Exchange Board of India (SEBI) directive, remittance of dividend through Electronic Clearing Service (ECS) is replaced with National Electronic Clearing Service (NECS), with effect from 1st October, 2009. To avail of NECS facility, Members holding shares in demat mode are requested to update their new bank details, post implementation of Core Banking Solutions (CBS) in which they wish to receive dividend with their respective Depositories. The Company or Share Transfer Agents will not act on any direct request from members holding shares in demat mode for change/updation/deletion of such bank details. Members holding shares in physical mode must give instructions regarding their new bank details in which they wish to receive dividend to the Company or Share Transfer Agents. In the absence of NECS facility, the bank account details, if available, will be printed on the dividend warrants.

(l) Members may please note that, Securities and Exchange Board of India (SEBI) has made Permanent Account Number (PAN) as the sole identification number for all participants transacting in the securities market, irrespective of the amount of such transactions. SEBI has also mandated that for securities market transactions and off market/private transactions involving transfer of shares in physical form, it shall be necessary for the transferee(s) to furnish the copy of PAN card to the Company/Share Transfer Agents for registration of such transfer of shares.

Members may please note that, SEBI has also made it mandatory for submission of PAN in the following cases viz. (i) deletion of name of the deceased shareholder(s) (ii) transmission of shares to the legal heir(s) and (iii) transposition of shares.

By Order of the Board of Directors

Girish V. Kirkinde
Company Secretary

Mumbai, 22nd November 2010.

Registered office:
Francysters Cybernetics Centre,
Eucharistic Congress Building No. III, 3rd floor,
5, Convent Street, Colaba, Mumbai – 400 001.

EXPLANATORY STATEMENT

As required by Section 173 of the Companies Act, 1956 ('The Act'), the following Explanatory Statement sets out all material facts relating to the business mentioned under Item No.. 7 of the accompanying Notice dated 22nd November 2010.

<u>Item No.7</u>

Amendment of the Articles of Association of the Company.

Article 176 of the Articles of Association of the Company stipulates that every deed or other instrument to which the Seal of the Company is required to be affixed, shall unless the same is executed by a duly constituted attorney of the Company, be signed by two Directors of the company. For operational convenience it is proposed that this common seal provision of signing by two Directors be amended to signing by (a) two Directors, or (b) one Director and the Secretary, or (c) one Director and such other authorized person, as the Board or a duly constituted Committee thereof may appoint for the purpose.

Accordingly, the Members' approval is being sought for amending the Article No.176 of the Articles of Association of the Company.

A copy of the Memorandum and Articles of Association, together with the proposed alteration is available for inspection by the Members of the Company at the Registered Office of the Company between 11.00 a.m. to 1.00 p.m. on any working day of the Company.

The Directors recommend the resolution contained in item no. 7 for approval by the Members. None of the Directors is concerned or interested in this resolution.

By Order of the Board of Directors

Girish V. Kirkinde
Company Secretary

Mumbai, 22nd November 2010.

Registered office:
Francysters Cybernetics Centre,
Eucharistic Congress Building No. III, 3rd floor,
5, Convent Street, Colaba, Mumbai – 400 001.

Details of Directors seeking re-appointment at the Annual General Meeting. (Pursuant to Clause 49(IV) (G) of the Listing Agreement)

Name of the Director	**Mr. B.B. Dubash**	**Mr. S. Ramakrishnan**	**Mr. P.K. Ghose**
Date of Birth	29th October, 1936	19th February, 1949	3rd September, 1950
Date of Appointment	6th December, 1985	31st October, 2005	28th July, 2005
Qualifications	B.Com.	B.Tech. (Mech.) Degree from IIT, Madras and a Management Degree from IIM, Ahmedabad.	Honours Graduate in Commerce and a member of the Institute of Cost and Works Accountants of India, The Institute of Company Secretaries of India and is an alumnus of the Advanced International General Management Programme of CEDEP, (INSEAD) France.
Expertise in Specific Functional Area	Has rich and varied experience in Shipping Stevedoring and General Management	He joined the Tata Administrative Services in 1972. He has been associated with the Tata Group for over 30 years and he has handled a multitude of national as well as international projects.	Work experience in the field of Corporate Finance and Accounts
Directorships in other Public Limited Companies*	Darabshaw B. Cursetjee's Sons (Bombay) Ltd. Darabshaw B. Cursetjee's Sons Shipping Co. Ltd. Tata Advanced Materials Ltd. Transocean Shipping Agency Ltd.	AGC Networks Ltd. The Tata Power Co. Ltd. Tata Power Trading Co.Ltd Af-taab Investment Co. Ltd. Coastal Gujarat Power Ltd. North Delhi Power Ltd.	Tata Chemicals Ltd. Tata Services Ltd.
Committee positions held in other companies	Nil	Audit Committee AGC Networks Ltd. Tata Power Trading Co.Ltd North Delhi Power Ltd. Coastal Gujrat Power Ltd. Tata BP Solar India Ltd. Shareholders'Investors' Grievance Committee The Tata Power Co. Ltd.	Audit Committee Tata Chemicals Ltd. Tata Services Ltd.
No. of shares held	Nil	Nil	Nil

* Note: Excludes Alternate Directorships and Directorships on Private Limited Companies and Foreign Companies.

DIRECTORS' REPORT

To the Members

The Directors present their Sixty Eighth Annual Report together with the Audited Statement of Accounts for the period ended 30th September, 2010.

1. FINANCIAL RESULTS

The summarized financial results are indicated below:-

(Rupees in '000)

	For the 12 Months Period Ended 30.09.2010 (Rs.)	**For the 18 Months Period Ended 30.09.2009 (Rs.)**
Net Sales / Income from Operations	1,394,554	3,404,475
Operating Expenditure	1,492,660	3,168,805
Operating Profit /(Loss)	(98,106)	235,670
Add : Other Income	33,678	57,979
Less : Interest	127,256	182,528
Profit/(Loss) Before Tax and Depreciation and Exceptional Items	(191,684)	111,121
Less : Depreciation	43,696	83,345
Profit/(Loss) Before Tax and Exceptional Items	(235,380)	27,776
Exceptional Items		
Less: Deferred Revenue Expenditure (Voluntary Retirement Scheme)	(10,575)	31,722
Add : Profit on sale of Long term Investments (Associate)	—	135,375
Add:- Profit on sale of Business	530,247	—
Profit Before Tax	284,292	131,429
Less : Provision for Tax (including provision for Deferred Tax and		
Fringe Benefit Tax	70,270	98,630
Net Profit After Tax	214,022	32,799
Balance Brought Forward	33,216	16,434
Balance available for appropriation	247,238	49,233
Appropriated as under :		
Proposed Dividend	45,635	13,690
Tax on Dividend	7,580	2,327
Transfer to General Reserve	25,000	—
Balance to be Carried Forward	169,023	33,216

2. DIVIDEND

The Directors of your Company are pleased to recommend for the approval of the shareholders a dividend of 20%, including 10% as special dividend (Rs.2/- per share including Re. 1/- as special dividend) (Previous year 6%).

3. FINANCIAL HIGHLIGHTS

The period under review is for 12 months as compared to the previous year's figures which were for 18 months. During the period under review, the total income was Rs. 1,394,554('000) as against Rs. 3,404,475('000) in previous year. The Company reported Profit before tax of Rs. 2,84,292('000) as against Rs.131,429('000) for the previous year. The Profit after tax was Rs. 214,022('000) as against Rs. 32,799('000) in the previous year.

4. SALE OF BUSINESSES

Your Company has constantly faced the challenge of achieving growth in terms of revenue and profitability due to diverse portfolio, limited offerings and lack of critical mass. Despite having core competencies, execution of prestigious projects and references built over the years by Traction Electronics, Industrial Drives, and Supervisory Control and Data Acquisition (SCADA) consisting of Industrial Supervisory Control Data Acquisition System (I-SCADA) and Power Sector Supervisory Control and Data Acquisition System (PS - SCADA) businesses ("Businesses"), these businesses were facing major challenges in achieving sustained viability in the future. The Board of Directors of your Company at its meeting held on 29th April, 2010, approved the transfer of these Businesses as a "going concern" on a slump sale basis to Crompton Greaves Limited ("CGL") for a total consideration not exceeding Rs. 92.00 crores, subject to necessary statutory consents and approval by the Members.

On 14th June, 2010, the Members approved through postal ballot, the sale of these Businesses to CGL by passing an ordinary resolution pursuant to sections 293(1)(a) and 192A of the Companies Act, 1956, read with the Companies (Passing of Resolution by Postal Ballot), Rules, 2001. The votes cast assenting to the Ordinary Resolution were 1,16,19,913 shares (99.96%) of the total valid votes polled. On 28th July, 2010 i.e. the Closing Date, the Businesses were transferred as a going concern to CGL on slump sale basis for a consideration of Rs. 81 crores. The additional Rs. 11 crores has not been received as the financial parameters to be met by 30th September, 2010 were not achieved.

While your Company transferred the Traction Electronics, Industrial Drives and the I – SCADA businesses to CGL on 28th July 2010, the PS - SCADA business shall be transferred at a later date after obtaining the requisite clearances from relevant Government / Public Sector Authorities. Pending this transfer, the Company received the entire amount of consideration i.e. Rs. 81 crores.

Following the sale of these businesses, the Company intends to focus on building its position in Strategic Electronics, Network Systems (Tatanet) and pursue further synergistic opportunities in related areas.

5. SUBSIDIARY COMPANY

The financial statement and reports of the subsidiary company, Tatanet Services Limited (TNSL) for the financial year 2009-10 are attached. The revenue of TNSL for the year ended 31st March, 2010 was Rs. 289,975('000) [Rs. 252,368('000) for the year ended 31st March, 2009.

6. HUMAN RESOURCE MANAGEMENT

There is consistent focus on development of Human Resources (HR). HR plans have been defined with appropriate measurement indicators keeping in mind both long term goals and short term requirements. Employees' voices are captured through 'Open Houses', the forum through which employees are encouraged to voice their concerns, suggest innovative ideas and also seek answers from the top management on issues of common interest. The Company constantly reviews facilities and benefits to enhance overall employee well being. Employee Satisfaction / Engagement Surveys are carried out through external agency to formally assess the voice of employees. Action plans have been prepared and are being implemented to increase employee engagement.

Since the Company is in the high tech and high visibility areas of telecommunication (Tatanet Division) and Electronic Security and Surveillance (Strategic Electronics Division), maintaining the talent pool and competence building for the core areas of strength and the challenge of attracting and retaining talent continues. The Company has initiated measures like employee referral scheme, competency mapping, providing growth opportunities to existing employees and strengthening the Performance Management System (PMS) to include assessment on Tata Leadership Practices, training need assessment, identification of high potential employees and development plan for employees. Recruitment cycle time has been reduced and the attrition rates have been kept at a manageable level. The PMS recognizes individual and segment wise contribution through performance linked pay, thereby motivating employees' ownership and responsibility. RACE (Reward and Recognition for Achievement and Contribution towards Excellence), a comprehensive reward and recognition scheme, has been put in place for motivation of employees for excellence in performance. In Tatanet Division, 'UNWIND', a monthly informal gathering on the last Friday of each month, has been successfully serving as a forum to foster teamwork in an informal manner.