

BSES

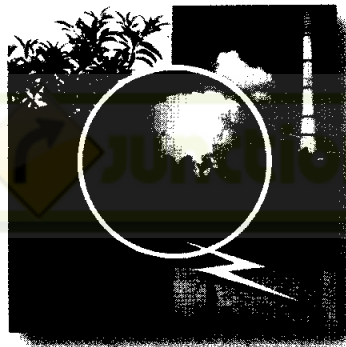
BSES Limited

70th Annual Report
1998 - 99



Corporate Mission

*To make available uninterrupted and
reliable power to customers and
provide value added services for the
development of the power
and infrastructure sectors.*



Leadership Through Quality

BSES, India's premier energy supplier, is a company that has delivered much more than electricity to the country. It has enhanced customer satisfaction with optimum levels of quality. Of power. Of governance. Of people. Of performance.

BSES took on the challenge when the Windows of Opportunity opened up for the power sector. Then, taking off with a wide range of services from concept to commissioning, BSES has grown from power to power. And further added value by way of environmental and social consciousness.

And now, on the eve of the new millennium, BSES is poised to deliver greater value through absolute focus on quality.

CORPORATE PROFILE

BSES, with its corporate lineage going back to 1929, is India's premier utility engaged in the generation, transmission and distribution of electricity in and around Mumbai. It provides a portfolio of value added services in electrical contracting, engineering, procurement and construction (EPC) contracts and computer services.

BSES and its subsidiaries provide electricity service to more than 2.70 million consumers in areas covering about 1,23,000 sq.kms. and with an estimated population of about 34 million.

BSES operates a state-of-the-art 500 MW Thermal Power Station at Dahanu near Mumbai and supplies the power to the Company's own distribution grid. The *Generation Division* undertakes engineering and construction of power plants. The *Transmission Division* designs and installs transmission lines and sub-stations. *Contracts, EPC and International Divisions* render comprehensive value added services in construction, erection and commissioning through a nationwide network of regional offices including a representative office in the Middle East. The *Computer Division* offers a wide range of utility related computer services.

BSES is currently promoting several power projects, on its own and through joint ventures, in various parts of India.

CONTENTS

4	Chairman's Statement	130	Key Data of BSES and subsidiaries
15	Quest for Quality	131	Value Added Statement
17	Notice	132	Financial Ratios
25	Directors' Report	134	Performance Highlights
34	Auditors' Report	136	Statement on Corporate Governance
36	Balance Sheet	143	Management Responsibility Statements
37	Profit and Loss Account	144	The Indian Electricity Industry
38	Schedules and Notes	146	Investor Information
64	Subsidiary Companies:	153	Environment
65	<i>BSES Andhra Power Limited</i>	158	Distribution Network in Mumbai
74	<i>BSES Infrastructure Finance Limited</i>	159	Consumer Profile
84	<i>BSES Kerala Power Limited</i>	160	Business Network
92	<i>BSES Telecom Limited</i>	161	Contracts Division Activities
103	<i>ST-BSES Coal Washeries Limited</i>	162	Pioneering the Privatization
111	<i>Tamil Nadu Industries Captive Power Company Limited</i>	164	Organization Chart
120	<i>Utility Powertech Limited</i>	166	New Projects
129	Glossary	167	Community Welfare
		168	Rankings

This Annual Report is printed on environment-friendly paper.

BSES

BSES Limited

BOARD OF DIRECTORS**R.V. Shahi**Chairman &
Managing Director**J.P. Thacker****Y.P. Gupta****M.P. Modi****Ananda Mukerji**
(Nominee of ICICI)**S. Rajgopal****Dr. Pramod Deo****S.S. Dua**

Director (Technical)

K.H. Mankad

Director (Finance)

Company Secretary

Ramesh Shenoy

Auditors

Haribhakti & Co.

SolicitorsMulla & Mulla &
Craigie Blunt & Caroe**Principal Bankers**

Canara Bank

UCO Bank

Union Bank of India

ANZ Grindlays Bank plc

Citibank N.A.

American Express Bank Limited

HDFC Bank Limited

ICICI Bank Limited

ABN Amro Bank N.V.

Corporate Office

BSES House

Santa Cruz (East), Mumbai 400 055

Telephone : (022) 615 42 84

Facsimile : (022) 615 42 91

e-mail : info@bses.com

Internet : www.bses.com

COMMITTEES OF DIRECTORS**Audit Committee**

M.P. Modi

Ananda Mukerji

K.H. Mankad

Environment Committee

M.P. Modi

J.P. Thacker

Y.P. Gupta

S.S. Dua

S. Rajgopal

Investment Committee

R.V. Shahi

Y.P. Gupta

S.S. Dua

K.H. Mankad

S. Rajgopal

Compensation Committee

R.V. Shahi

J.P. Thacker

Y.P. Gupta

M.P. Modi

Shares Committee

R.V. Shahi

J.P. Thacker

K.H. Mankad

Registered Office

Nagin Mahal (6th Floor)

82, Veer Nariman Road

Mumbai 400 020

Investor Service Centre

E-4, MIDC Area, Marol

Andheri (East), Mumbai 400 093

Telephone : (022) 8387711

Facsimile : (022) 8389368

e-mail : bsesic@bom3.vsnl.net.in

Power Station

BSES Nagar

Dahanu Road 401 602

Thane District

BOARD OF DIRECTORS



Shri R.V. Shahi
Chairman & Managing Director



Shri J.P. Thacker
Senior Solicitor



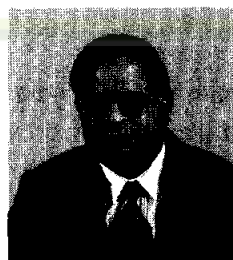
Shri Y.P. Gupta
Managing Director
Life Insurance Corporation of India



Shri M.P. Modi
Former Secretary (Coal)
Government of India



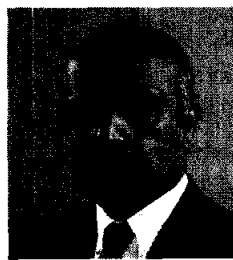
Shri S.S. Dua
Director (Technical)



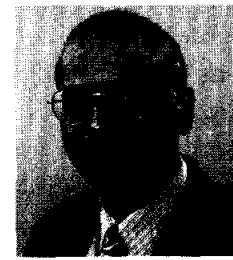
Shri K.H. Mankad
Director (Finance)



Shri S. Rajgopal
Former Union Cabinet Secretary
Government of India



Dr. Pramod Deo
Secretary (Energy)
Government of Maharashtra



Shri Ananda Mukerji
General Manager
ICICI Limited

BSES

BSES Limited

CHAIRMAN'S STATEMENT



Dear Shareholders,

I have great pleasure in welcoming you all to this 70th Annual General Meeting of your Company. This Annual General Meeting marks the completion of seven decades of dedicated and devoted service to our customers. It gives me even greater pleasure to report that for your Company, while the current decade is a period of glorious growth, the year under review was also marked by eventful developments, remarkable achievements and trend-setting initiatives.

The Economy

The collapse of the Asian economies affected India too and the economy recorded a lower rate of growth. Industrial growth declined to 5.2% from 6.6% in the previous year. The agricultural sector, however, witnessed an increase of 3% as against the negative growth of 3.7% in 1997-98. As a result, GDP rose marginally to 5.7% from 5.5% in the preceding year. Among the emerging markets, India still remains one of the few countries with a positive GDP growth. Imports continued to grow at 5.8%, the same level as in the preceding year, though exports lagged behind with a growth of merely 1.2%. With the support of good monsoons for the seventh year in succession, inflation remained under control and is, in fact, at its lowest ebb in recent years. Foreign exchange reserves stand at a comfortable level of around US\$ 30 billion.

The Union Budget for 1999-2000 continued with rationalization and simplification of the tax structure and

further pushed ahead the reforms process, in order to ensure stability in our economy. There are signs that as the world economy picks up, the Indian economy will manage to ease out of its recessionary phase. Much depends on the dedication with which the Governments, both at the Centre and the States, implement the reforms in general and the seriousness with which they accord priority to infrastructure projects including power in particular.

The Power Sector

The Indian power sector is celebrating, during 1999, the Thermal Centenary to mark 100 years of thermal power generation in the country. Starting with 1 MW of thermal power generation in 1899 in Calcutta, the current thermal power generation capacity of about 65,000 MW constitutes almost 72% of the power generation capacity of India. The country has good reason to be proud of the most sophisticated thermal power generation technology and of the human capability to engineer and operate it efficiently.

The year 1998-99 witnessed several path-breaking events in the Indian power industry. There was re-orientation in the policies and approach of the Government not only to the regulatory framework but also to the generation, transmission and, most significantly, the re-structuring of the distribution side of the industry.

Firstly, the Government enacted the Electricity Regulatory Commission Act, 1998. In compliance with the provisions of this Act, the Union Government has set up the Central Electricity Regulatory Commission that will henceforth be responsible, inter alia, for regulating electricity generation tariff of the central undertakings. Secondly, the transmission sector was thrown open to the initiatives of private enterprise. Thirdly, the State Governments have recognized the need to privatize the much neglected distribution systems. The reforms in this field will result in commercialization of the sector and will lead to strengthening and modernizing the distribution systems by improving system efficiencies. In this direction, privatization of Orissa electricity distribution system was a historic landmark and indeed, a trend-setting event.

CHAIRMAN'S STATEMENT

Finally, the Government came out with a Mega Power Project Policy, clearly departing from the recent trend of promoting small-sized, short gestation, naphtha-based power projects. The Policy will encourage economically viable and commercially sustainable large sized projects, where all the initial preparatory work would be carried out by Government agencies so as to enable the private developers to achieve speedy implementation of the project.

The implementational issues of the Mega Power Project Policy and of privatization of the Transmission System, it is hoped, would be resolved soon so that these important initiatives begin to attract large private investments into the sector. Privatization of electricity distribution in cities/towns with a population of one million or more, which is a requirement for the States to avail of power from mega power projects, is indeed a well conceived and practical

proposition to begin with and has the potential not only to succeed but also to set in order the financial health of the power supply industry. It is hoped that a number of States will formulate time-bound programmes for implementing this model of reform.

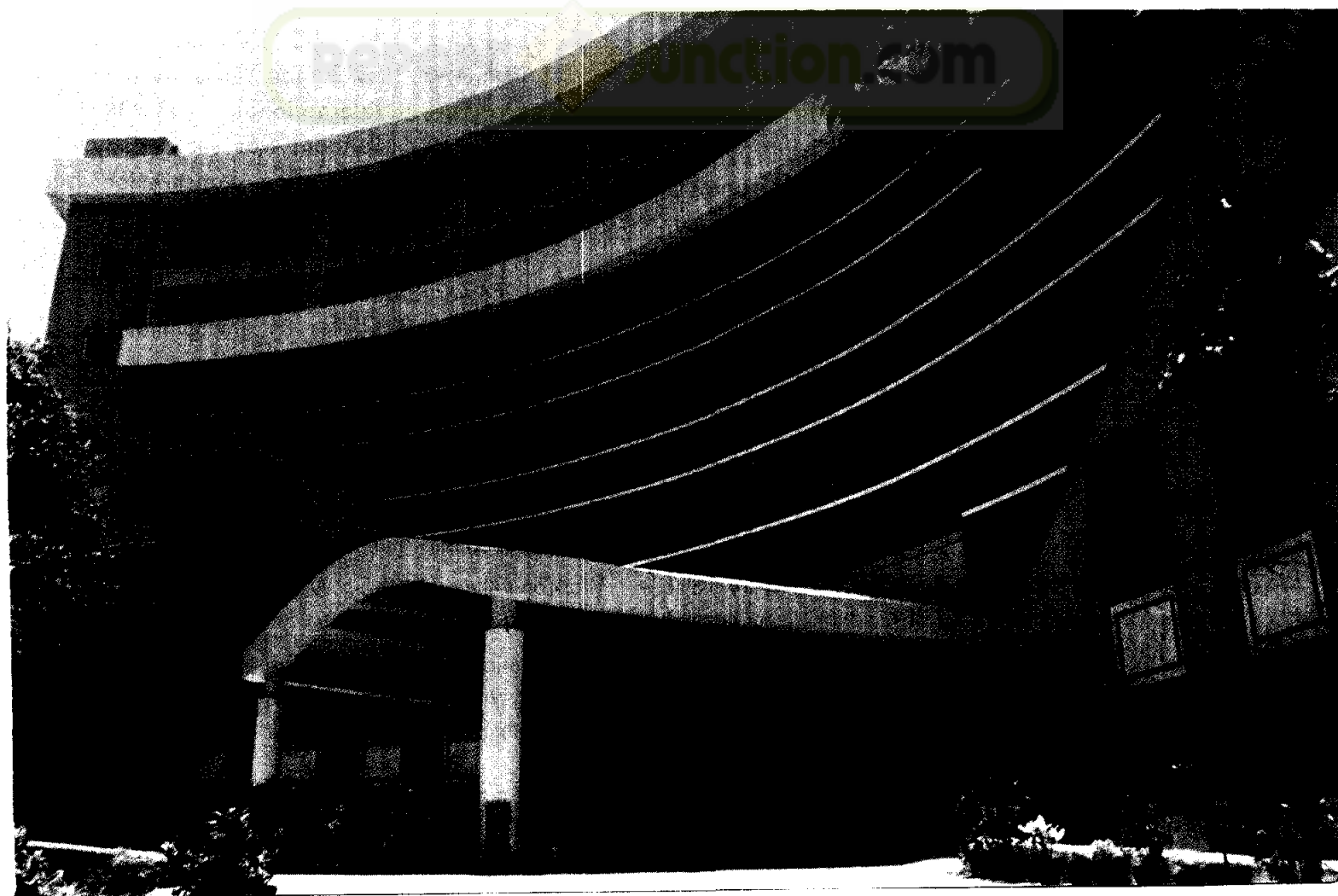
Performance Highlights

The steady commitment to the pursuit of growth and progress enabled the Company to deliver a sterling performance for yet another year.

Let me now briefly present the following highlights of the significant achievements, as also the forward looking measures taken by your Company during the year:

- Gross assets of the Company rose to Rs. 4,015 crore from Rs. 3,508 crore in the previous year.
- Turnover rose to Rs. 2,349 crore as against Rs. 2,067

The new Corporate Office building: BSES House, Santa Cruz (East), Mumbai



CHAIRMAN'S STATEMENT

crore in the previous year, despite the virtual stoppage of sale to the Western Regional Electricity Board (WREB), which had accounted for Rs. 181 crore in the previous year.

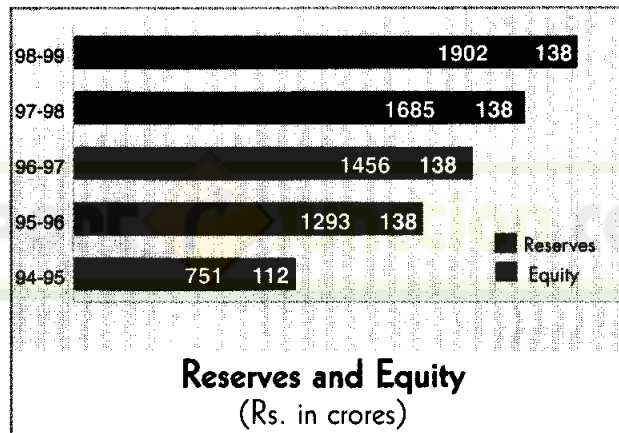
- Gross Profit (before tax) rose to Rs. 350 crore compared to Rs. 297 crore in 1997-98. Profit after tax rose to Rs. 270 crore with distributable profit recording a growth of 44% at Rs. 289 crore.
- Dahanu Power Station, despite the near stoppage of supply to WREB grid, achieved an average Plant Load Factor (PLF) of 76.6% (85% in the previous year). The Plant Availability rose to 92% from 90% in 1997-98.
- Dahanu Power Station further improved upon all the major operating norms like heat rate (2,337 kcal/kg), specific oil consumption (0.48 ml/kwt) and auxiliary power consumption (7.44%).
- Distribution loss in the Supply Division declined for the fifth successive year to 11.5% from 14.9% in 1993-94, 13.9% in 1994-95, 12.5% in 1995-96, 11.7% in 1996-97 and 11.6% in 1997-98.
- Vigilance efforts in the Supply Division were further stepped up by conducting a record number of 15,344 raids resulting in detection of pilferage of 29.98 million units.
- Pursuant to the Order of the Special Court, the Company received one more instalment of Rs. 19.18 crore from the subsidiary of a nationalized bank against the amount due to the Company.
- The Company prepaid the entire outstanding loan of US \$ 15 million to International Finance Corporation,

Washington and 50% of the outstanding loans (i.e. Rs. 44 crore) of high coupon rate due to Indian Financial Institutions.

- Contracts Division notched a turnover of Rs. 145 crore, surpassing the previous year's turnover of Rs. 89 crore by 63%.
- EPC Division put up a promising maiden performance with a turnover of Rs. 326 crore.
- There has been encouraging response to dematerialization of shares with currently almost 80% of shares being held by depositories (including about 18% held by depository for GDR holders).
- The Company acquired controlling equity stake of

51% each in three distribution companies of Orissa under the privatization process initiated by the Government of Orissa.

- ISO 9002 certification by Bureau Veritas Quality International (BVQI), London, was secured by generation, transmission, supply, contracts and computer divisions.



- Dahanu Power Station secured ISO 14001 certification by BVQI for its environmental management system.
- International Division secured one more contract valued at about Rs. 34 crore for an electrification assignment in Dubai.
- The Coal Washery project of BSES joint venture was commissioned and is under trial operation.
- Work on setting up a 7.5 MW Wind Farm Project in Karnataka commenced.

Our organizational strategies and operational efforts continued to yield good dividends with improved performance throughout the Company.

CHAIRMAN'S STATEMENT

Financial Performance

With all its business segments faring well, your Company continues to achieve robust growth.

I would now dwell on some of the outstanding features of our financial achievements during the year.

In spite of the lower offtake of power by industrial consumers and stoppage of supply to the Regional Electricity Board and reduction in tariff due to Fuel Adjustment Charges, the turnover of the Company improved from Rs. 2,067 crore to Rs. 2,349 crore, mainly on account of the sharp growth achieved by our Contracts, EPC and International Divisions. Due to this growth, the Company achieved a Profit Before Tax of Rs. 350 crore (Rs. 297 crore last year) and recorded a modest improvement in profit after tax from Rs. 262 crore to Rs. 270 crore.

Best Annual Accounts:

BSES is committed to continuously improving the level of disclosures in the Annual Accounts, with a lot of additional information to facilitate the timely and reliable dissemination of information to shareholders. I am glad to inform you that in a poll conducted by *Asiamoney*, the prestigious financial publication of Hong Kong, fund managers around the world have ranked BSES Annual Accounts as the 4th best among Indian companies as the Best Managed Companies of Asia.

Dividend: Though your Company managed to post only a modest rise in net profit, the Board of Directors has recommended a higher equity dividend of 34% for 1998-99, in tune with your Company's progressive track record. The dividend payout including corporate tax would amount to Rs. 51.98 crore. Though the dividend payouts including corporate tax have risen 23 times from just Rs. 2.25 crore from 1991-92, this is the seventh consecutive

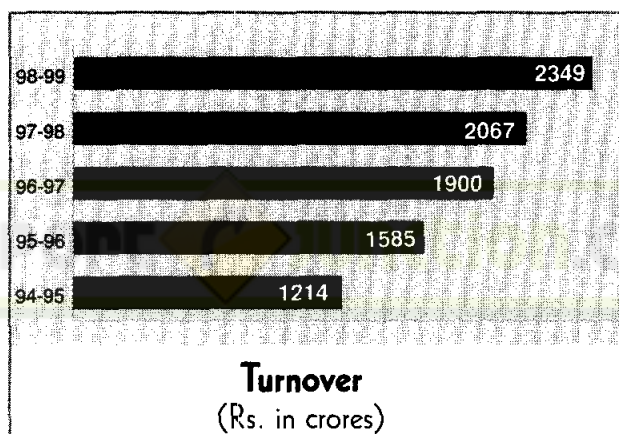
year that the dividend rate has been stepped up. The Company, which has the unique distinction of uninterrupted dividend payment ever since its inception, consciously adopts a cautious policy of rewarding shareholders and conserving internal resources for executing the ongoing and proposed projects so as to serve the best interest of the Company and its shareholders in the years to come.

Operating Performance

It is heartening to report that all the Divisions of the Company achieved satisfactory improvements in their performance, with several significant accomplishments.

Dahanu Power Station

Despite various constraints compelling the Power Station to operate at a lower Plant Load Factor of 76.60%, the station improved upon almost all parameters of operational efficiencies with an all-time high of 92% in Plant Availability. The station attaches the utmost priority to promote and protect the ecology.



Supply Division

Modernization of Distribution System: Your Company has undertaken to automate all the 45 Receiving Stations. The project, the first of its kind for a distribution system in India, will be based on the Supervisory Control and Data Acquisition (SCADA) system. The automated network will make the transmission and distribution facilities of the Company comparable with global standards. This system will facilitate restart of power supply in a short time in the event of breakdown, reduce fluctuations and benefit consumers in the years ahead with better quality of power. It will also reduce distribution losses further and make available all data accurately to aid better load management.

CHAIRMAN'S STATEMENT

System Loss Reduction: The Company continued with its multi-pronged strategy of strengthening the distribution network and vigilance efforts. The efforts to replace defective/stopped meters by good quality meters and the carrying out of raids to detect thefts continued without any let-up. As a result of these combined efforts, the Company succeeded in containing system loss for the fifth year in succession. In the last 5 years, we have succeeded in bringing down the loss from 14.9% to 11.5%. The percentage reduction in system loss assumes greater importance because the resultant saving is computed on increasing base of revenue of the Company. This underlines the need not only to keep the system loss under control but also bring it down further.

Consumer Service: BSES continues to focus on meeting customer requirement and has been continually upgrading its service standards, communication and technological facilities. BSES has set up 32 fully computerized complaint centres throughout its licensed area. For easy access and registration of power failure complaints, our consumers can register their complaints on a common 4 digit number 1912. The concept of benchmarking of services has now been extended to our various service parameters: complaints, bill collections, new connections and meters.

Rate of Return: The Rate of Return allowed to licensee electricity companies had been so far linked to the bank rate. Under the Sixth Schedule to the Electricity (Supply) Act, 1948, the return was computed at 5% over the bank rate. Due to frequent downward revisions in the Bank Rates announced by the Reserve Bank of India in the last

couple of years, the rate of return allowed to electricity licensee companies had come down. Your Company on its own and through various bodies of industry viz. CII, CPU, FEU, etc. had made representation to the Government to de-link the Rate of Return from the RBI Bank Rate to bring it on par with the rate allowed to Independent Power Producers (IPPs). The Government of India has revised the formula in such a manner that the Rate of Return remains at 16% notwithstanding any revision in Bank Rate by RBI. The revised formula has come into effect from 1st April, 1999.

However, the representation of the Company to correlate the return to specified performance norms with incentives aimed at encouraging efficiency in the industry is still to be considered by the Government. With no incentive to reward efficient performance, it is the consumer, in the long run, who will have to bear the burden of inefficient operations. I am sure, the authorities will consider the larger interest of consumers and take a pragmatic decision soon.

Contracts Division

This Division scored the highest ever turnover of Rs. 471 crore, inclusive of the turnover of the EPC Group. The EPC Group, set up in April 1997, has made some

remarkable achievements. It has recorded a turnover of Rs. 326 crore. The order book position has further improved. The Elastimold Division made a mark by commencing manufacture of termination systems and other accessories which are being supplied to prestigious clients.

The International Division, which secured a Rs. 172 crore contract from Dubai Electricity and Water Authority (DEWA), has made satisfactory progress by completing civil construction activities at the project site and has now

