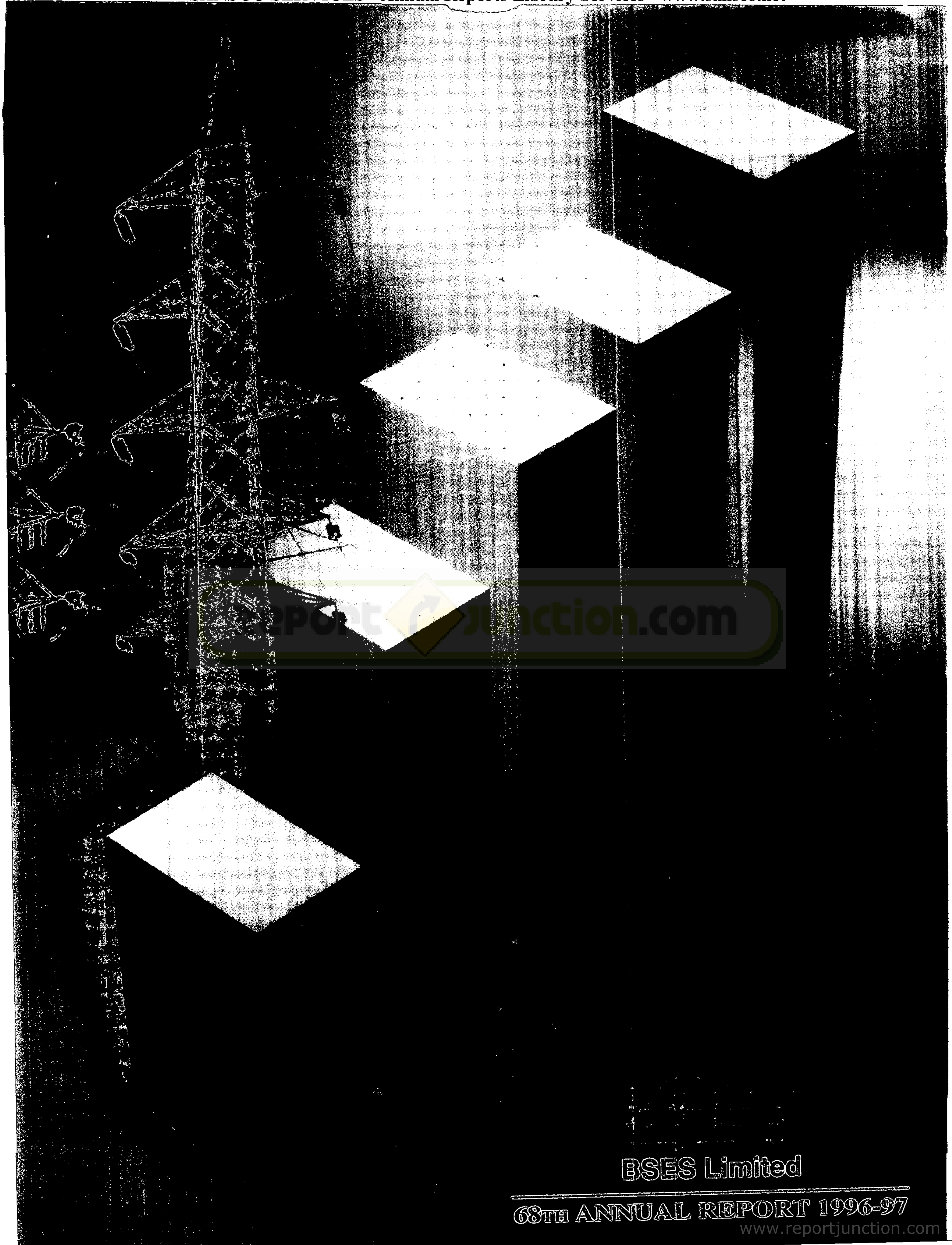


BSES Limited

68TH ANNUAL REPORT 1996-97

Quality Policy

BSES is committed to be the best fully integrated electric supply utility and a leading provider of value added services.

The Policy of BSES is to fulfil or exceed the customers' expectations by continuously improving the quality of its services.

The Company will be a good corporate citizen and an environment friendly organisation.

Quality Objectives

- Make available reliable, uninterrupted and quality power to its customers.
- Provide reliable, prompt and economical value added services to its customers.
- Ensure continuous improvement in systems and processes by incorporating the latest technology and conforming to national and international standards.
- Develop and maintain a highly motivated, trained and courteous workforce to understand and meet the changing needs of customers.
- Continuously monitor the impact of its operations on the environment and evolve measures to maintain the ecological balance.
- Be socially conscious and contribute towards community development.

R. V. Shahi
Chairman & Managing Director

Distinct Pattern of Growth

BSES : A name to reckon with. On the growth mode since inception. Scaling greater and greater heights of achievements. And setting a pattern of growth, distinct and unique.

Board of Directors

R.V. Shahi
Chairman &
Managing Director

J.P. Thacker

Girish Mehta
(Nominee of ICICI)

N. Ganga Ram

Dr. Nitish K. Sengupta

Y.P. Gupta

S.S. Dua
Director (Technical)

K. H. Mankad
Director (Finance)

Company Secretary
Ramesh Shenoy

Committees of Directors

Audit Committee
N. Ganga Ram
Girish Mehta
K. H. Mankad

Shares Committee
R. V. Shahi
J. P. Thacker
Girish Mehta
K. H. Mankad

Investment Committee
R. V. Shahi
N. Ganga Ram
Y. P. Gupta
S. S. Dua
K. H. Mankad

Registered Office
Nagin Mahal (6th Floor)
82 Veer Nariman Road
Mumbai 400 020

Corporate Office
E-4 & 7, MIDC Area, Marol
Andheri (East)
Mumbai 400 093
Phone : 22-8327619
Fax : 22-8387597
Gram : SUPERPOWER
email : info@bses.com
Internet : www.bses.com

Power Station
BSES Nagar
Dahanu Road 401 602
Thane District

Auditors
Messrs Haribhakti & Co.

Solicitors
Messrs Mulla & Mulla &
Craigie Blunt & Caroe

Principal Bankers
American Express Bank Ltd
ANZ Grindlays Bank plc
Canara Bank
State Bank of India
UCO Bank

Investor Service Centre
E-4, MIDC Area, Marol
Andheri (East)
Mumbai 400 093
Phone : 22-8387711
Fax : 22-8389368

Contents

Board of Directors

R. V. Shahi
Chairman & Managing Director

J. P. Thacker
Partner
Mulla & Mulla &
Craigie Blunt &
Caroe

N. Ganga Ram
Former Executive
Director, IDBI

S. S. Dua
Director (Technical)

K. H. Mankad
Director (Finance)

Y. P. Gupta
Chief Executive
LIC Housing Finance
Limited

Girish Mehta
Vice Chairman
ICICI Investors'
Services Limited

Dr. Nitish Sengupta
Former Union Revenue
Secretary

Chairman's Statement

Dear Shareholders,

I have great pleasure in extending to you all a hearty welcome to this 68th Annual General Meeting of your Company. It gives me greater pleasure in sharing with you the highlights of the operations of your Company for the year ended 31st March, 1997 and its plans and prospects for the years to come.

The year 1996-97 was indeed yet another year of trail blazing performance, characterised by achievement of several milestones and establishment of new benchmarks of efficiency in operating parameters.

Both the operating Divisions viz. Dahanu Power Station and Supply Division excelled on their performance and contributed significantly to the bottom line of your Company. While the PLF achieved by the Power Station far exceeded the norms of the Central Electricity Authority (CEA) and the national average, the Supply Division brought down the system loss further. The Company commissioned the second of the 220 kV double circuit transmission lines, linking the Power Station to the Company's Receiving Stations in Mumbai to ensure reliable power evacuation. More importantly, the Company recorded distinct and significant improvement in turnover and profitability.

The Economy

Before giving details of operational and financial highlights, I will now briefly dwell upon the economic scenario.

In the backdrop of excellent growth recorded in the previous year, the year 1996-97 passed off with average growth in various sectors. The growth in GDP which touched 7.1% in the previous year, marginally declined to 6.8% in 1996-97. The decline in the industrial growth from the double digit of 11.7% in the previous year to 7.5% in 1996-97 is being attributed inter alia to the sharp fall in the growth of electricity sector from 8.6% in the previous year to 3.8% in 1996-97. The country's exports also declined to 4.01% in dollar terms from 21.4% in the previous year. However, the silver lining is the rise in foreign exchange reserves which now stand at upwards of US $ 29 billion. On the basis of a sample of over 1,700 companies, CMIE has reported that the performance of the corporate sector was not at its best during 1996-97. The aggregate profit after tax (PAT) declined by 11%, for the first time in the ten years since 1987-88.

Overall, the major factor leading to the deceleration in growth is the under utilisation of assets. For a sustained development of the economy, you will agree that no efforts should be spared to achieve optimum utilisation of available resources, giving adequate importance to infrastructural support.

In this context, the Union Budget for 1997-98 formulated by the Finance Minister, Mr P Chidambaram assumes significance. The Budget is indeed futuristic and path-breaking. Significant reduction in corporate tax rates as also in customs duties and excise duties and other Budget concessions for encouraging the infrastructure sector will provide the desired stimulus to the growth of the economy. Besides, the removal of tax on dividend income is a welcome relief to the investors. It is hoped that the Budgetary and other fiscal and monetary measures recently taken by the Government of India, will further encourage the reform process and spur industrial growth.

The Power Sector

As India celebrates 50 years of Independence, we need to take stock of the country's achievements and failures. While the successive plans have helped the nation towards industrialisation and contributed to the growth in GDP, the nation is beset with the perennial problem of infrastructural bottlenecks, particularly in the power sector. The sector is bedevilled with inefficiencies like under utilisation of capacities, system losses, mounting arrears and growing subsidies. Our per capita electricity consumption of 320 units is one of the lowest in the world. Even China, despite her larger population than India has a better per capita consumption of 650 units. China and India alone need almost 40% of additional requirement of electricity in the world. China has added as much

Chairman's Statement

as 75,000 MW of capacity in the last five years alone and plans to add further 1,80,000 MW in the next ten years.

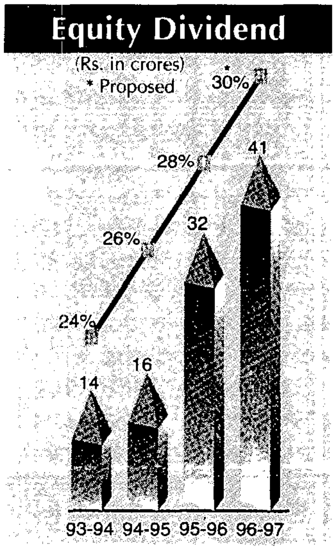
Though it needs to be acknowledged that India has raised its installed capacity to over 85,000 MW from a mere 2,000 MW in 1947, the capacity addition has not kept pace with the ever growing demand. The Eighth Plan concluded with severe slippage, with capacity addition of merely 18,000 MW against the need based requirement of 48,000 MW and target of 30,500 MW. This left a peak demand shortage of 24% and overall power shortage of about 10%. To meet the growing energy needs of industry and domestic consumers, a minimum of 50,000 MW of capacity addition will be required during the Ninth Plan (1997-2002).

Such capacity addition will involve capital outlay of the order of about Rs. 200,000 crores on power generation and an equal amount for transmission, distribution and fuel. Mobilisation of such massive resources in the course of the next five years will prove to be a Herculean task and substantial external funding will be required. Effective steps will need to be taken to attract and encourage the flow of foreign capital to the vital power sector. In this context, there is perhaps no alternative for the authorities but to address the fundamental issue of re-structuring and opening up the transmission and distribution sectors to the initiatives of private enterprises. Only when these sectors are made commercially viable and efficient, the power sector including power generation will become self reliant and achieve the desired progress. After five years of private power policy, it is time now to recognise that distribution side of the power industry is the right end of privatisation. I believe, compulsions of simple economics will eventually prevail, paving way for greater role to the private enterprises.

Performance Highlights

While the Company achieved all-round improvement in its performance, the year under review witnessed several achievements and accomplishments.

* The Company recorded the highest ever turnover of Rs. 1,900 crores, a growth of 20% from Rs. 1,585 crores in the previous year.
* Profit After Tax rose by 23% from Rs. 173 crores in the previous year to Rs. 213 crores in 1996-97.
* Total assets of the Company increased to Rs. 2,871 crores from Rs. 2,542 crores in the previous year.
* Dahanu Power Station achieved an average Plant Load Factor (PLF) of 73% for the year as a whole, with PLF of more than 95% during the last six months.
* Dahanu Power Station improved upon all major operating norms like heat rate, specific oil consumption and auxiliary power consumption.
* The second line of the double circuit 220 kV dedicated transmission lines was commissioned, having overcome the right of way problems, facilitating the reliability of power evacuation from the Dahanu Power Station to the Company's distribution network in Mumbai.
* All the three state-of-the-art 220 kV Receiving Stations at Ghodbunder, Versova and Aarey were made operational, enhancing reliability of power supply from the Dahanu Power Station to Mumbai.
* The overall sale of units (including sale to WREB) crossed the five billion unit mark, notching a growth of 17% over the previous year.



* The maximum demand registered in the distribution system crossed the 1,000 MVA mark for the first time, recording 1,020 MVA, up from 926 MVA in the previous year.
* Distribution loss declined for the third year in succession to 11.7% from 14.9% in 1993-94, 13.9% in 1994-95 and 12.5% in 1995-96.
* Over 1,03,000 consumers, the largest number ever, were connected to the system during the year.

Chairman's Statement

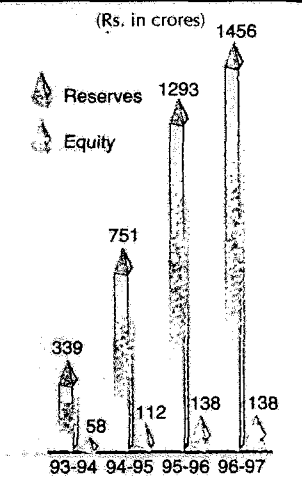
* The Contracts and Computer Divisions achieved an all time high turnover of Rs. 82 crores, recording a growth of 15% from Rs. 71 crores in the previous year.
* The Equity Shares of the Company were admitted to the depository system for dematerialisation of shares.
* All petitions filed by the Company for recovery of its investments were disposed off by the Hon'ble Special Court with orders passed in favour of the Company.
* BSES Institute of Power System and Distribution Management which became operational during the year, conducted a number of courses on management subjects, for upgrading professional skills of managerial personnel.
* Alternative site at Palghar (Maharashtra) was identified for setting up the 495 MW of additional capacity.

Apart from these major operational achievements, the Company continued to record satisfactory financial results.

The Financial Performance

Contrary to the general corporate trends during the year under review to which I referred to earlier and in keeping with its record, your Company posted improved financial results in all its business activities. The turnover rose to an all time high from Rs. 1,585 crores to Rs. 1,900 crores, an increase of 20%. The profit after tax rose by 23% from Rs. 173 crores to Rs. 213 crores. Gross block also increased from Rs. 1,752 crores to Rs. 2,094 crores. The Company improved its earnings per share to Rs. 15.06 on the fully diluted equity capital following the GDR Issue.

Reserves & Equity



Dividend : In line with the Company's progressive dividend record, the Board of Directors have recommended stepping up the equity dividend for 1996-97 to 30%. The dividend will be payable on the enlarged equity capital (arising out of the GDR Issue) for the full year. Since dividend now attracts 10% Corporate tax, the effective rate of dividend for the Company will be 33%. The dividend pay-out on this basis would be Rs. 45.45 crores as compared to Rs. 31.78 crores in 1995-96 and Rs. 16.19 crores in 1994-95. In making their dividend recommendation, the Board of Directors have duly taken into account the future profitability and cash flow prospects as also the quantum of internal funds to be deployed for the Company's expansion and diversification projects, proposed and under implementation.

GDRs : The Company remained in frequent touch with its GDR investors, from around the world, apprising them of the operational performance and prospects of the Company. Initiative was also taken by the Chairman and other members of the Board to visit these investors and make inter-active presentations on group and one-to-one basis as also at international conferences. This initiative has been widely welcomed and appreciated by overseas investors.

The Company's GDRs are amongst the select few Indian scrips which continue to be actively traded and quoted at substantial premium over the domestic price as well as the Issue price, and is the only Indian power company scrip to quote at premium to its Issue price.

Stock appreciation : The measures of reforms and liberalisation in the power sector initiated by the Government of India and the reasonably attractive package of incentives extended by them to the industry have yielded improved results for power companies. Over the last decade, the investors in BSES have gained handsomely on their investments.

As an example, an investment of Rs. 10,000 in 62 shares of Rs. 100 each in 1987 which were sub-divided into 620 shares of Rs.10 each in 1989 fetched for investors (a) further 620 shares by Bonus Issue in 1990; (b) additional 1,426 shares (including oversubscription provision) by preferential issue at a nominal premium of Rs. 15 each in 1991 (additional investment of Rs. 35,650) and finally (c), further 1,333 shares at a premium of Rs. 50 each in 1994 (additional investment of Rs. 79,980). The original investment of Rs. 10,000 in 620 shares together with additional

Chairman's Statement

investment as above would have grown into 4,000 shares of the present market value of about Rs. 9.80 lakhs @ Rs. 245 per share, without taking into account interest and dividend income. Even in a short period of little over a year under review, the BSES share price has appreciated from an average of Rs.163 to around Rs. 245, or by over 50%.

Considering the enormous opportunities available, I believe that there will be continued encouragement to the private sector in the years to come and consequently, shares of power companies will have good potential for further appreciation in the medium to long term perspective.

The Operational Performance

All the Divisions of the Company reported encouraging performance. Sustained efforts by groups of employees at all levels led to improvement in efficiency norms and performance parameters.

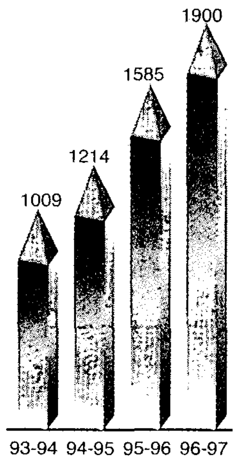
Dahanu Power Station : A multi-pronged strategy overcame the problem of inadequate coal supply which affected the operation of the Power Station in the previous year and also for a few months during the current year. With assured coal supply from both indigenous and overseas sources, the Power Station operated at more than 100% PLF in the last quarter of the year under review. Overall, the Power Station achieved an average PLF of 73% during 1996-97. With the working of the Power Station completely stabilised, I am reasonably confident that the Station will record a higher average of PLF during 1997-98.

Utmost attention is being paid by the project team to maintain the Plant in sound condition. Such efforts promote efficient functioning of the Power Station. These efforts have been lauded by the World Bank Mission in the following words :

> "The Mission was impressed by the generating station at Dahanu for its overall cleanliness, excellent upkeep, effective management and the dedication of a highly motivated staff to make it a show-piece of a power plant."

Turnover

(Rs. in crores)



The improved performance by the Power Station goes a long way in meeting the fast growing requirement of the Company's distribution system.

Power Supply Growth : The Company's licensed area continues to witness rapid development with proliferation of commercial complexes, housing colonies and dwellings of weaker sections of the society. The magnitude of this development can be better appreciated if we take into consideration the number of consumers connected to the system. During the year, the Company added further 1,03,980 consumers to the system, the highest ever, taking the total to 17,35,002. As against this, the total number of consumers in 1962 was just 1 lakh which rose to about 5 lakhs in 1978.

Another interesting feature of this tempo of development is that the per capita consumption of our consumers has also been steadily rising from about 900 units in 1978 to almost 1,300 units, with greater use of white goods like TVs, refrigerators, washing machines and other domestic appliances. This trend is expected to continue in the coming years. With a view to maintaining the reliability of the power supply, constant efforts have been made to strengthen the system network.

During the year 1996-97, the Company continued the implementation of its five year programme of augmentation and modernisation of the system to bring about improvement in reliability of power supply. A larger amount of Rs. 160 crores was spent on upgradation, modernisation and expansion of the facilities as compared to Rs. 96 crores in 1995-96. For the five year period of 1996-2000, the comprehensive programme for the augmentation, renovation and modernisation envisages a capital outlay of the order of Rs. 860 crores, which would further improve the system efficiency.

System Loss Reduction : The bane of the Indian power industry is the high level of distribution loss, ranging from 20 to 50%. The only way a distribution system can become healthy and financially self-reliant is by bringing down the loss to a reasonable level. The

Chairman's Statement

Company's concerted efforts and strict vigilance in the last three years have paid rich dividends by reversing the rising trend of loss from 14.9% in 1993-94 to 13.9% in 1994-95, 12.5% in 1995-96 and now to 11.7%, the lowest in the last several years and also the lowest in the country. These reductions in the loss have resulted in a commensurate contribution towards improvement in profitability to the extent of about Rs. 48.5 crores.

Since this is an area where there is further scope to bring down the loss, efforts made and results obtained are being closely and effectively monitored periodically by the senior management as well as by the Audit Committee of the Board.

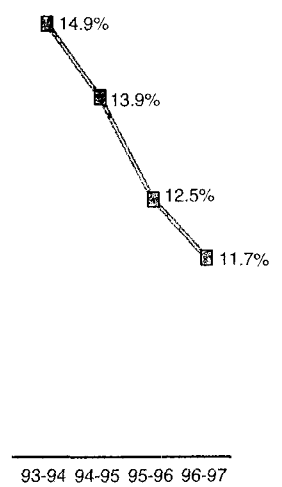
Consumer Care : Your Company has been able to achieve steady growth due to sustained development in our licensed area and growing demand from our consumers. To sustain this relationship with our consumers, your Company attaches great emphasis on consumer care and service.

Steps have been taken to modernise the customer centres in each of the zones by connecting them with on-line computer facilities. Sufficient stress has been laid on training of staff to bring about customer orientation in their approach and efforts to solve customer problems. Periodic consumer meets were organised to ascertain feedback and perception of consumers about our service and to remain in continued contact with them for understanding their difficulties and needs.

Based on a comprehensive study done by a premier Management Institute aimed at finding out areas of improvement, a Workshop on 'Caring for Customers' was organised for the middle and senior management team. For enhancing the level of service, the concept of performance benchmarking has been introduced. Action plan drawn is being monitored for effective implementation.

We fully recognise that though our services are generally satisfactory, there is need and scope for further improvements. To set higher standards of service, under the concept of bench-marking , one of the consumer centres has been identified and its working is being improved from all angles. Having achieved this, we expect all our consumer centres to improve their standard to the benchmark set by the model consumer centre. Similarly, in other aspects of service to customers, benchmarks and models are being developed.

System Loss



Your Company will continue to introduce consumer-friendly measures so as to improve the standard of service, commensurate with the expectations of consumers and maintain its credentials as the best utility in the country.

As a result of streamlining the procedure for providing new connections, the Company could connect a record number of over 1 lakh consumers to its system during the year.

Tariff : The offtake of energy by residential consumers account for the largest chunk (about 52%) of the Company's energy sales. While on the one hand, such consumption has been steadily rising, the Company's capacity to cross subsidise these consumers cannot be stretched further, due to constraints of comparatively much lower commercial and industrial load.

Consequent to the revision in tariff by bulk suppliers to the Company with effect from 1st January, 1997 and increase in the operating expenditure, your Company was constrained to revise its tariff to the consumers with effect from 1st March, 1997. While the modest tariff revision was inevitable, the Company had taken, in the recent past, a series of steps and initiatives to minimise the burden of tariff revision on our consumers which amongst others include :

* The tariff revision would have been substantially higher, had the bulk suppliers raised a fixed charge by way of stand-by charges on the Company. Since these additional charges would have pushed the tariff to unacceptable levels, the Company expressed its inability to bear such charges, particularly also in view of the fact that Demand Charges paid to the bulk suppliers do take into account the element of standby.
* Timely commissioning

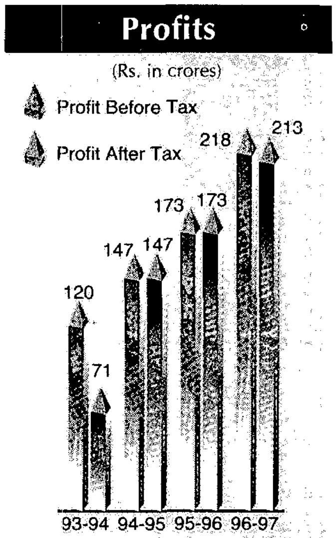
Chairman's Statement

and excellent operation of the Company's Power Station has resulted in drawal of lesser power from bulk suppliers which is comparatively costlier. Commissioning of the Power Station has also helped the Company in reducing the burden of taxation.

* The Company has succeeded in reducing its system loss for the third year in succession. Efficient control of system loss enhanced the Company's ability to contain tariff without revision for almost three years and also facilitated less burden on tariff revision.
* In any case, the tariff revision was structured in such a manner that for about 13 lakh out of our 15 lakh residential consumers, the revision meant either reduction or no change.
* To meet the demand due to rapid development mainly of residential loads in the Company's licensed area, huge investments were made over the years in augmenting and strengthening the distribution facilities largely by ploughing back the Company's earnings without raising significant debts, thus reducing the interest burden on the Company.
* Consistent improvement in efficiency resulting in increased revenue and earnings avoided the need to revise the tariff frequently.

Rate of Return : Under the provisions of Electricity (Supply) Act, 1948, the licensees like your Company are entitled to earn reasonable return at specified rate (presently 5%) over the Bank Rate. Due to two successive reduction in the Bank Rate from 12% to 11% and now to 10%, such rate of return may go down to 15% from the financial year beginning from 1st April, 1998. Since such reduction in the rate of return will adversely affect the licensees including your Company, a representation is being made to the authorities concerned to restore the rate of return. The provisions of Sixth Schedule to the Act do provide for such a consideration and dispensation.

Besides, present tariff structure permits licensees to earn the same level of return irrespective of the extent of distribution loss in their respective systems. An efficient licensee with 11 to 12% system loss and licensee with a system loss of 19 to 20% are treated on par in computation of Reasonable Returns in the present structure. There is no incentive to be efficient nor disincentive for inefficiency. The distribution loss is a national waste and efforts made to reduce such loss should be encouraged and rewarded. For achieving this, tariff structure should be cost plus efficiency based rather than just cost plus rate of return. This is also being pursued with the authorities.



Contracts and Computer Divisions

These Divisions achieved a higher turnover of Rs. 82.39 crores. The Contracts Division secured fresh business aggregating Rs. 87.20 crores. Some of the prestigious orders bagged were from State Electricity Boards, RBI, IOC, Government Mint, etc. The Computer Division made useful contribution in upgrading and strengthening system hardware and software in consumer centres, zonal and other offices of the electricity Supply Division, enabling it to manage the distribution system in Mumbai in the most efficient manner.

Orissa Experiment

Your Company was awarded the distribution management contract by Grid Corporation of Orissa Ltd. (GRIDCO), through the process of competitive bidding and after thorough evaluation taking into consideration our core competence in distribution system management. It was a part of a major initiative of the Government of Orissa towards reforms and restructuring of electricity sector aimed at gradual privatisation of distribution system. Though limitations of the management contract approach as opposed to outright privatisation was well recognised by your Company, GRIDCO and Government of Orissa, what was agreed was to give a fair trial to this approach, pending preparation for privatisation through joint venture route.

It must be recognised and appreciated that results and benefits of such strategy do not flow instantly. Your Company had initiated several medium term measures to transform the system into a vibrant, reliable and