

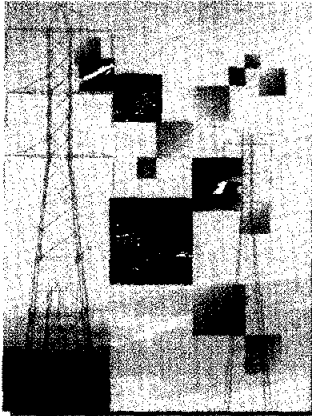
73rd Annual Report

2001-2002

Growth through Consolidation

Report Junction.com

BSES
BSES Limited



Growth through Consolidation

BSES - India's premier power supplier has evolved into a solid entity.

An entity that has mobilised resources for growth.

A growth that has been vertical as well as horizontal.

A growth that is now being consolidated to create new strengths.

In addition to providing power solutions to the ever demanding customers, BSES also indulges in corporate sustainability.

As the future beckons, BSES is all set to consolidate its growth further. And aim higher.

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 including two electricity distribution companies of Delhi provide electricity service to about 5 million consumers in areas covering about 1,24,300 sq.kms. and with an estimated population of 45 million in major parts of Mumbai, Delhi and the State of Orissa.

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 Group* designs and installs transmission lines and sub-stations. *Contracts and EPC Division* render comprehensive value-added services in construction, erection and commissioning through a nationwide network of regional offices. The *Computer Division* offers a wide range of utility related computer services.

BSES has forayed into the telecommunication sector with Internet services, optical fibre network and information technology services through its wholly-owned subsidiary, BSES Telecom Limited. Its joint venture, ST-BSES Coal Washeries Limited, has set up India's first ever coal washery based on the coal beneficiation technology.

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

CORPORATE MISSION



To make available **reliable,**
uninterrupted & quality power
to its customers.

To provide
specialized skilled services
in construction, commissioning,
operation and
modernization in power and other
infrastructure sectors.

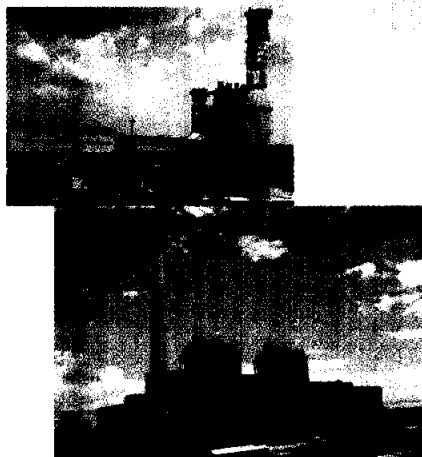
To provide **value-added service**
for development of power
and core infrastructure sectors,
computerization, data communication
and networking.



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The Seventy-third Annual General Meeting will be held on Saturday, September 21, 2002 at 10.00 a.m. at Shri Bhaidas Maganlal Sabhagriha, U-1, Juhu Development Scheme, Vile Parle (West), Mumbai 400 056.

GROWTH THROUGH CONSOLIDATION



BSES has metamorphosed from a supplier of electricity to the suburbs of Mumbai, into a leading utility of India with businesses encompassing generation, transmission and distribution of electricity as also value-added services in turnkey contracts and various electrification works. In its quest to achieve further and faster growth in the years to come, BSES places greater focus and thrust on three areas of its core competence : generation, transmission and distribution as also value-added services.

Generation

The Generation Division of BSES undertakes designing, engineering, erection, installation and commissioning of coal-based and liquid and gas-based combined cycle power projects. It has demonstrated capability and expertise in undertaking power projects, from concept right upto commissioning.

BSES operates a state-of-the-art 500-megawatt coal-based power station at Dahanu near Mumbai which caters to a part of the requirement of its customers. The power station has achieved high standards in all parameters of operation. Its plant availability and plant load factor (PLF) are comparable with the best performing power stations in the country. The number of trippings was minimal and comparable with international standards. The specific oil consumption of the power station is probably the best in the country.

The Company's subsidiaries have set up a 220-megawatt natural gas-based combined-cycle power station at Samalkot in Andhra Pradesh and a 165-megawatt naphtha-based combined-cycle power station at Kochi in Kerala.

The Business Plan 2002-2012 of BSES envisages construction of aggregate 9,000 megawatts of generating capacity.

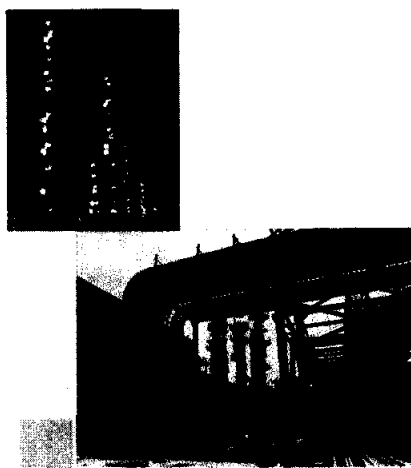
Transmission and Distribution

BSES supplies electricity to 2.2 million customers covering an estimated population of about 7.5 million in the suburbs and surrounding areas of Mumbai. Its consistent endeavour to achieve optimum levels of efficiency and quality has resulted in a distribution loss of only about 11.5%, the lowest in the country. It benchmarks its service standards with almost 99.9% on-line reliability, one of the highest among utilities.

Three subsidiary companies of BSES supply electricity to the major part of the State of Orissa, catering to the requirement of 1.15 million customers covering an estimated population of about 30.5 million. BSES has recently acquired two electricity distribution companies of Delhi which supply electricity to 1.7 million customers covering an estimated population of about 7 million.

Thus, BSES and its group companies cater to the power requirement of an aggregate 5.05 million customers covering an estimated population of 45 million.

BSES would continue to pursue emerging business opportunities in power transmission and distribution sectors.



Value Added Services

The Contracts Division of BSES provides a portfolio of value-added services in the areas of construction, erection, commissioning, operation and maintenance, etc. of substations, power stations and industrial electrification works for various industries. The Division has a countrywide network of 12 regional offices.

The Engineering, Procurement and Construction (EPC) Group undertakes turnkey contracts covering installation, commissioning, operation and maintenance of the power stations of its clients.

BSES, as a fully integrated power company, is uniquely positioned to seize the business opportunities emerging in the Indian power sector. And aims at consolidation of its various business activities as the strategy for the achievement of sustained growth.

CORPORATE INFORMATION

Board of Directors

S S Dua

Acting Chairman & Managing
Director and Director (Technical)

Y P Gupta

S Rajgopal

Satish Seth

Amitabh Jhunjunwala

P N Bhandari

Ravi B Budhiraja

K H Mankad

Director (Finance)

K D Kulkarni

Director (Human Resource
Development)

Company Secretary

Ramesh Shenoy

Auditors

Haribhakti & Co.
Chartered Accountants
43 Free Press House
215 Nariman Point
Mumbai 400 021

Solicitors

Mulla & Mulla &
Craigie Blunt & Caroe
Mulla House
52 Mahatma Gandhi Road
Mumbai 400 001

Audit Committee

S Rajgopal (*Chairman*)
Y P Gupta
Satish Seth
P N Bhandari

Environment and Safety Committee

S Rajgopal (*Chairman*)
Y P Gupta
S S Dua
Amitabh Jhunjunwala

Finance Committee

S S Dua
Y P Gupta
S Rajgopal
Satish Seth
K H Mankad

Remuneration Committee

Y P Gupta (*Chairman*)
S Rajgopal
Satish Seth

Nomination Committee

P N Bhandari (*Chairman*)
Y P Gupta
S Rajgopal
Amitabh Jhunjunwala

Shareholders/Investors'

Grievances Committee

S Rajgopal (*Chairman*)
Y P Gupta
K H Mankad
Amitabh Jhunjunwala

Registered Office

Nagin Mahal (6th Floor)
82 Veer Nariman Road
Mumbai 400 020
Telephone : (022) 204 3287
Facsimile : (022) 204 1280

Corporate Office

BSES House, Santa Cruz (East)
Mumbai 400 055
Telephone : (022) 615 4284
Facsimile : (022) 615 4291
email : info@bses.com
Web site : www.bses.com

Power Station

BSES Nagar
Dahanu Road 401 602
Thane District

Investor Service Centre

E-4, MIDC Area, Marol
Andheri (East), Mumbai 400 093
Telephone : (022) 838 7711
Facsimile : (022) 838 9368
email:bsesinvestor@bses.co.in

Principal Bankers

Canara Bank
UCO Bank
Union Bank of India
Standard Chartered Grindlays
Bank Limited
HDFC Bank Limited
ICICI Bank Limited
ABN AMRO Bank N. V.
State Bank of India

This Annual Report can be
accessed at www.bses.com

CHAIRMAN'S STATEMENT



Dear Shareholders,

It gives me great pleasure in welcoming you all to this 73rd Annual General Meeting of your Company, especially as this is the first such meeting to be held after I assumed office as acting Chairman & Managing Director of your Company. Also, this is the first AGM to be held after

your Company took a controlling equity stake in two of the three electricity distribution companies of Delhi, marking yet another landmark in the annals of your Company and giving the BSES group the opportunity and privilege of supplying electricity to a major part of the capital city of India. Another milestone in our growth is the crossing of the five million mark in the aggregate number of consumers served by the distribution networks of BSES and its group companies in Mumbai, Orissa and Delhi.

While your Company continues to take trend-setting initiatives in the pursuit of sustained growth, we also recognize the importance and need of consolidation of our various business activities. In recent years, your Company has branched out into several States for setting up projects and forayed into telecommunication, the coal washery business, infrastructure financing, etc. Some of these projects involve large capital and medium- to long-term gestation. Your Company is currently reviewing/evaluating these projects and business opportunities, so as to focus more sharply on the areas of our core competency and prioritize the projects for implementation, taking into account the expected returns from them. The crux of this exercise is to consolidate our business activities in a beneficial manner, achieving sustained growth in turnover and profits in the years to come.

The Power Sector

With the estimation of building over 1,00,000 Megawatts of additional power capacity and the associated transmission and distribution infrastructure, nearly Rs. 8,00,000 crore of investments would be needed in the next decade. Investors have been wary of this sector due to their lack of confidence in getting returns on their investments. This requires us to identify different sources of funds including Government funding, multilateral and bilateral assistance, institutional financing, market borrowings, internal resources, private investment, etc.

For optimal development of electric energy in its totality, an integrated approach should be adopted. As a step in this direction, the Union Power Ministry has taken a comprehensive and realistic review of the various power projects to prioritize those which can be commissioned in the 10th and 11th Five Year Plans. Given that addition of new capacity takes a relatively longer time, strategies have been formulated to augment power supply in the short/medium run. As power is a concurrent subject under the Constitution and because the States have control of about 60 per cent of the country's generation capacity, 70 per cent of the transmission network and almost the entire distribution, they need to play a very proactive role in effecting institutional and result-oriented changes.

The toughest roadblock in power sector development has been the poor financial health of the State Electricity Boards. The major reason for this is the poor performance on the distribution front. Key strategies should be developed to overcome this shortcoming. The Government, on its part, is providing the much-needed assistance by the introduction of Accelerated Power Development Programme and then Accelerated Power Development and Reform Programme schemes, facilitating financial support for capital work relating to upgradation of transmission and distribution facilities and loss reduction. This will improve the bottom line of the utilities. Power sector development will accelerate only if such issues are addressed with full commitment by all the players.

To make the power sector truly efficient and competitive in the changing scenario, steps have already been taken to impart greater thrust to research and development, a rather neglected area. The Ministry is planning to recast the role of the Central Electricity Authority to enable it to perform more effectively. Steps are also being taken to expedite the enactment of a composite Electricity Bill to accelerate the reform process. The Electricity Bill 2001 has been introduced in Parliament. The implementation of all these development strategies will enable the country to achieve a healthy growth in the power sector, which also is the major contributor to GDP growth.

Performance Highlights

Your Company's commitment to the pursuit of improvement, progress and growth enabled it to deliver satisfactory performance for yet another year.

Let me now briefly present some highlights of our significant achievements, as also the forward-looking measures taken by your Company during the year.

- Gross assets of your Company stood at Rs. 4,424 crore.
- Dahanu Power Station achieved an Availability of 93.02%

CHAIRMAN'S STATEMENT

and Plant Load Factor (PLF) of 87.83% against 92.33% and 82.68% respectively, of last year.

- The customer base of your Company's Electricity Supply Division crossed the 2 million mark, covering a population of nearly 8.5 million.
- System Loss was contained at 11.58% as against 11.60% during the previous year.
- Vigilance efforts in the Supply Division were further stepped up and your Company carried out 13,511 raids resulting in the detection of 2,855 cases of theft of electricity, with recovery of 25 million units (previous year, 19.10 million units).
- The Contracts Division and Engineering, Procurement and Construction (EPC) Business Group achieved a turnover of Rs. 438 crore. The Contracts Division booked orders worth Rs. 694.10 crore.
- BSES Management Institute conducted 92 courses on management subjects and topics related to power generation and distribution for its executives and managerial personnel, as also for a number of other organizations. A couple of programmes were conducted for delegates from SAARC countries.
- The 7.59 MW Wind Farm Project consisting of 33 wind mills achieved a PLF of 30.19% compared to around 20%-25% PLF recorded for most of the wind farms in the country.
- Utility Powertech Limited recorded a turnover of Rs. 68 crore, earned a profit of Rs. 3.5 crore and announced a dividend of 30% for 2001-02.
- BSES Infrastructure Finance Limited earned a profit after tax of Rs. 3.6 crore during the year and announced a dividend of 10% for 2001-02.
- ST-BSES Coal Washeries Limited, the joint venture of your Company, achieved a turnover of Rs. 42.05 crore with a net profit of Rs. 3.39 crore and announced a dividend of 8.5% for 2001-02.

Financial Performance

The turnover during the year under review rose to Rs. 2,783 crore, up from Rs. 2,778 crore in the previous year. Profit after tax declined to Rs. 281 crore from Rs. 321 crore in the previous year. In line with accounting principles and as a matter of abundant caution, a provision of Rs. 95 crore has been made for certain future contingencies. The impact of the provision is offset by a change in the accounting policy for foreign exchange

fluctuation, but for which the Net Profit for the current year would have been lower by Rs. 67.76 crore.

With margins under pressure, all the divisions of your Company are striving to enhance profitability by improving efficiency norms further and by cost-reduction.

Financial Ratios

Your Company continued to improve on a number of financial and operating ratios, leading to stronger financial fundamentals. The debt-equity ratio of your Company further improved to 0.24:1 compared to 0.3:1 of the previous year. Return on Fixed Assets was 14.39%. Earnings per Share was Rs. 22.02 as compared to Rs. 20.93 per equity share in the previous year. Likewise, Cash earnings per share rose to Rs. 36.60. The Book Value per equity share was Rs. 204.06 as compared to Rs. 182.48 in the previous year. All of these demonstrate the sound financial fundamentals of your Company despite the lower Net Profit recorded during the year under review.

Dividend

The Board of Directors has stepped up dividend to 43% for 2001-02, in keeping with your Company's progressive track record. This is the tenth consecutive year that the dividend rate has been stepped up. Your Company, as you are aware, has the unique distinction of making uninterrupted dividend payment ever since its inception.

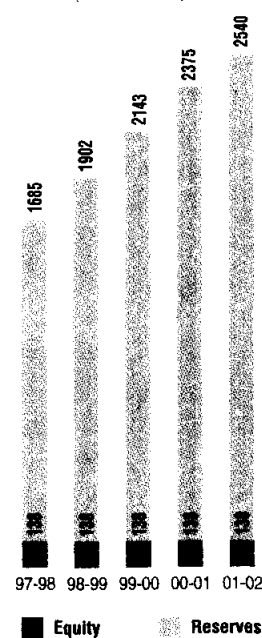
Operating Performance

The Dahanu Power Station and the Electricity Supply Division continued to record satisfactory improvements in their performance, with a number of significant accomplishments.

Dahanu Power Station

The Power Station recorded a Plant Availability of 93.02%, which is marginally lower than the best achieved in the country of 94.23%. The Station achieved a Plant Load Factor of 87.83% which is the fifth-best in the

Reserves & Equity
(Rs. in Crores)



CHAIRMAN'S STATEMENT

country, close to the country's best recorded benchmark of 91%. Some of the norms achieved by the Power Station during the year were the best in the country, viz. 0.2455 trippings per 1,000 running hours, the lowest in the country; 0.1659 Kcal/KWH specific oil consumption, the lowest in the country; 7.827% auxiliary power consumption, the second-best after the country's best norm of 7.76%; and 0.739% demineralised make-up water, the third-best in the country. In addition, the Power Station continues to make the best of contribution to promote and protect the ecology.

Supply Division

Reform in the power sector to an ordinary consumer of electricity means economical, reliable and quality power supply being made available at his doorstep. For a utility to achieve this and thereby meet the expectations of the customer, commitment to customers through effective customer care is the key.

In its pursuit of excellence in the quality of service provided to customers, your Company has been continuously taking various proactive measures to reach out to all its customers in fulfilling their needs. A few of the major steps taken were:

- The introduction of computerized recording of complaints and networking of complaint centres, linking them to the headquarters of the Supply Division to ensure effective redressal of grievances as also tracking and monitoring of the redressal mechanism.
- The regular conduct of consumer meets with various groups of consumers wherein the concerns, complaints and suggestions of consumers are taken note of with a view to improving our service standards.
- A web site designed by the Electricity Supply Division, www.bsessupply.com, which provides online services and

information relating to billing and payments that is useful to the customers. The unique feature of this site is that it enables consumers to calculate their energy consumption using an energy calculator thereby helping them to monitor their own consumption. Similarly, www.bsesnewconnection.com provides online information regarding pending customers.

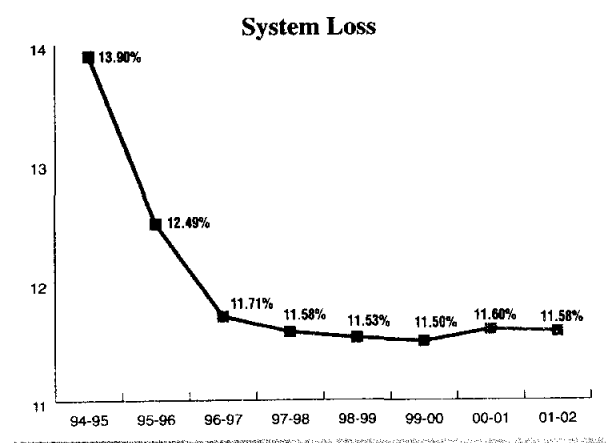
- The installation of automatic cheque payment receipt machines to facilitate payment round the clock.
- BSES has taken up installation of Supervisory Control and Data Acquisition (SCADA) system for all its 33 or 22/11 KV receiving stations. BSES has laid optical fibre cables in its licensed area connecting 48 receiving stations. This cable is used as the communication medium for SCADA operations connected with its receiving stations. This system is a real-time operating system. It keeps a close watch on the distribution system and any abnormalities are immediately reported to the zonal/master control centre for initiating remedial action to ensure continuity of supply.

The most important initiative is the setting up of a Consumer Disputes Appellate Committee. The Appellate Committee consists of three members of high repute and not in the employment of the Company. Consumers are free to approach this Committee for resolution of their disputes relating to the decisions taken by the in-house dispute redressal system regarding assessment of energy consumption, amendment of bills and such other related matters.

Other major accomplishments during the year include: maintaining system reliability index at the previous year's level of 99.99%, zero breakdowns in transmission lines, bringing down the distribution transformer failure rate to a record 0.75%, improvements in power quality, sizeable reduction in operational expenses and enhanced consumer satisfaction levels gauged from the information gathered during market surveys and consumer meets organized by BSES.

Contracts Division

The slowdown in the economy during the year under review impacted the performance of the Division both in turnover and profit. Its total income declined to Rs. 438 crore from Rs. 511 crore recorded in the previous year. The Net Profit too declined to Rs. 35.70 crore from Rs. 36.92 crore achieved during 2000-01. The Division has orders on hand valued at Rs. 694.10 crore and continues to secure prestigious contracts against stiff competition.



CHAIRMAN'S STATEMENT

As the recovery of the economy gathers momentum, this Division is expected to fare well in the coming years.

Human Resource Development

Our employees are fully conscious that the consumer is the foundation of our business and deserves the best of services that we can offer. Our total human resource development efforts are therefore directed toward achieving customer satisfaction by ensuring reliability and quality of power supply. Our staff union maintained harmonious relations with the management throughout the year, which is commendable by itself.

To improve productivity norms and cost reduction in addition to routine cross-checks, we have retained the services of National Productivity Council to carry out detailed work-study on optimum utilization of manpower and productivity norms.

Investor Care

Your Company continues to take proactive initiatives to render the best of facilities to the shareholders of the Company. Some of the significant measures undertaken during the year were:

- Webcast of the highlights of the proceedings of the Annual General Meeting with live streaming video of a major part of the proceedings. Almost 90,000 investors visited the specially designed site www.bsesagm.com for information on the deliberations of the meeting.
- With further improvements in the functioning of the Investor Service Centre, investors' grievances declined for the sixth successive year to 714 during the year under review, down from 1,198 in the previous year.
- The Investor Information link at our web site www.bses.com is probably the most comprehensive and informative site among those of Indian companies, with details of all the services provided by us to our shareholders.
- The Company launched an easy dematerialization of shares scheme with special package of tariff from four prominent depository participants. Currently, over 93.72% of the equity shares of the Company are held in dematerialized form.

BSES endeavours to establish benchmarks in its service standards, with innovations and initiatives in investor servicing.

The Environment

BSES believes in sustainable development and in all its activities aims at preservation and promotion of the environment. BSES has drawn up an Environment Policy to direct its employees to

focus their attention and efforts on protection of the environment.

The Dahanu Power Station continues to maintain ISO 14001 accreditation for environmental management system, with periodical surveillance audit by the certifying agency, Bureau Veritas Quality International. The Company's environmental performance has been substantially within the very stringent operational norms made applicable to our Power Station by the regulatory authorities.

The ISO 9002 quality management system was re-certified in September 2001 and the environment management system in April 2002.

Corporate Social Responsibility

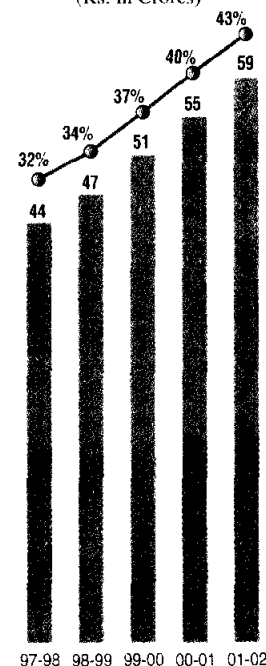
We believe that your Company needs to be socially responsible and environmentally sensitive. Your Company continues to contribute actively to community welfare measures not only in and around Dahanu, but also in its licensed area of supply in Mumbai.

To bring the health care of global standards within the reach of every customer, BSES in association with the Municipal Corporation of Greater Mumbai has constructed a 6-storey, 100-bed, super-speciality hospital at a cost of Rs. 6.25 crore in Mumbai. The hospital building is spread on a plot of 40,000 sq.ft. Apart from medical services,

speciality services like C.T. scan, stress test, Intensive Care Unit, etc. will be made available to patients on a 'no profit no loss' basis. The management and maintenance of the hospital has been entrusted to Global Hospital & Research Centre Trust, run by Brahma Kumaris, and the hospital has become operational since May 1, 2002.

Some of the significant community welfare measures undertaken by your Company during the year under review were: supply of educational material to students of primary schools; participation in various health camps and a social awareness drive including

Equity Dividend
(Rs. in Crores)



CHAIRMAN'S STATEMENT

pulse-polio immunization programme; adoption of villages for development of infrastructure; participation in disaster-relief operations; sponsoring balwadis in the slums of Mumbai's suburbs with the help of 'Pratham', an institute engaged in social welfare; beautification of the Dahanu Railway Station; construction of Community Centre at Dahanu and repair of old and dilapidated schools.

BSES, as a responsible corporate citizen, participates actively and closely in association with local authorities and social welfare organizations in undertaking various community welfare programmes.

Corporate Governance

BSES subscribes to good governance principles and policies. Your Company was among the select few which had taken early initiatives to benchmark their governance practices with the best of national and global standards. Our governance practices are periodically reviewed and revised to respond not only to statutory obligations but also to the dynamic needs of our business, so as to meet the expectations of all our stakeholders.

Adherence to good governance principles is crucial to improve the performance of a company particularly in the utility business, like electricity distribution that BSES is engaged in. And we, at BSES, are fully committed to continually adopt and introduce the best of the emerging ethos and values in governance standards.

I am glad to report that in recognition of our good governance practices, your Company was honoured with the maiden Award for pursuit of good governance by the Institute of Company Secretaries of India. The Award citation reads, "BSES has endeavoured to set a model in Corporate Governance for other service sector companies to emulate." Your Company believes that strong and sound corporate governance practices would enable BSES to face the challenges of growth effectively and efficiently.



Quality

Our quality standards are monitored and reviewed at regular periodicity by a

Quality Steering Committee headed by an Additional Vice President with all functional heads as members. The Committee encourages quality awareness within the Company and ensures participation of employees at all levels in our mission of achieving quality objectives. Our quality systems and practices are subjected to periodical quality audit by external experts in the profession, in order to ensure their effectiveness.

With rising expectations of our customers, there is a growing need for improvements in the quality of our service aimed at meeting competition in the market place, rendering superior class of service to our customers, ensuring reliability of power supply and in redressing customers' grievances.

Appreciation

While concluding, I wish to convey my sincere thanks to all my colleagues on the Board who, inspite of other preoccupations, spared considerable time and participated actively in the lengthy deliberations of the Board on major issues and matters. Their vast and varied knowledge and sound guidance on various issues greatly enriched the deliberations of the Board. I also wish to acknowledge and record my appreciation of the invaluable contribution made by Shri R V Shahi during his tenure as Chairman & Managing Director of the Company. I also wish to appreciate the sincere and dedicated services rendered by employees at all levels and the constructive co-operation extended by the Staff Unions and the Officers Association.

I also thank, on behalf of the Company and on my own behalf, the Maharashtra Electricity Regulatory Commission, the Financial Institutions, Banks, the various authorities of the Government of India such as Ministry of Finance, Ministry of Power, Ministry of Coal, Ministry of Railways, Ministry of Environment and Forest, Central Electricity Authority, Coal India Limited, the Government of Maharashtra, particularly the Energy and Environment Department, Pollution Control Board, Dahanu Taluka Environment Protection Authority, Maharashtra State Electricity Board, Maritime Board and The Tata Power Company Limited as well as the World Bank and USAID for their continued support and unstinted co-operation.

S S Dua

Acting Chairman & Managing Director

July 5, 2002