



“In the new millennium, there is appreciable recognition of the immense potential that convergence of technologies holds for power utilities.”

Dear Shareholders,

I welcome you all to the 71st Annual General Meeting of your Company, the last of such meetings in the twentieth century before the next calendar year ushers in the dawn of the new millennium.

It gives me great pleasure to report that your Company fully harnessed the potential of electrical energy during the current century, by first introducing electricity to our customers in the suburbs of Mumbai in the late twenties and then by ensuring its high quality and reliability of supply. Not only did we plan for and cater to the needs of our customers, but we also, as a distribution utility, successfully integrated into power generation and transmission, utility-related computer services and all activities of electrical contracting from concept to commissioning of power plants.

Our past performance has been highly gratifying. The future holds even greater opportunities and challenges. The convergence of telecommunication and information technology unfolds new growth potential for a utility with a distribution network like ours. It is relevant to note here that major utilities across the globe, particularly in the West and the Far East, have fully exploited the opportunities of this convergence to render services with state-of-the-art facilities to customers. A concept of ‘total-package-of-service-to-customer’, with huge inherent business avenues, is emerging. India, yet a developing country, has responded admirably to the surging wave of the new economy and its contribution to knowledge-based industries has already received global recognition.

The Economy

The business environment in India has shown signs of buoyancy with confidence rising on positive sentiments. The economy during the financial year 1999-2000 remained stable, overcoming the crises in South-East Asian economies and the fall-out of the Kargil conflict. During 1999-2000, the Gross Domestic Product (GDP) registered a growth of 6.4% as against 6.8% recorded in the previous year. The utilities sector of electricity, gas and water grew by 7.4% against 7.9% in 1998-99. The growth in the manufacturing sector was as high as 8.5% compared to 3.6% in the previous year, thanks to the several reforms initiated by the Government that gave a stimulus to industrial growth and imparted dynamism to the overall growth process. Inflation as measured in terms of Wholesale Price Index was at its lowest level of 2.9%. Foreign exchange reserves improved further to over US\$ 36 billion.

To give further impetus to the reforms process, Monetary and Credit Policy for 2000-01 of Reserve Bank of India focuses on long-term structural reforms and has introduced a number of measures to widen and deepen financial markets. These policy measures would, no doubt, hasten the pace of growth of Indian financial markets and would further contribute to industrial development.



Meanwhile, macro-economic indicators confirm the trend of sustained recovery of the economy, fuelled by second generation reforms. To give a further fillip to the tempo of growth, it is necessary that the infrastructure sector including the power sector continues to be the thrust area and engine of growth for the economy.

The Power Sector

It is now well recognized and appreciated that to achieve significant growth in GDP of the order of 7%-8% over the years, we need to step up the installed power generating capacity growing at the rate of 8%-10%. The existing capacity of 97,000 MW needs to be enhanced by an additional 1,50,000 MW over the next 12 years. This will entail an investment of about Rs. 6,00,000 crore on power generation plants, besides matching investments in transmission and distribution facilities. This demand-supply gap might be bridged by improved efficiencies through demand and supply side management, reduction in transmission and distribution losses, energy conservation measures and renovation and modernization of power stations and distribution networks; but there is a compelling need to attract private capital.

Towards this, it is gratifying that the authorities concerned, both regulatory and administrative, are evolving measures to raise the confidence level of investors by way of providing adequate returns on investments. However, issues such as bankability of new project capacities, creditworthiness of Electricity Boards, availability of adequate escrow arrangement and payment comfort mechanisms for mega-power projects continue to remain unresolved. Restructuring of the power industry aimed at long-term solutions has started, but the process could be faster.

The Ministry of Power, Government of India is contemplating a new, comprehensive legislation for which the Draft of Electricity Bill 2000 is under debate on a national basis. The Bill seeks to integrate the three existing legislations: the Indian Electricity Act, 1910, the Electricity (Supply) Act, 1948 and the Electricity Regulatory Commissions Act, 1998. It is expected that this Electricity Bill, 2000, when enacted, will aim at restructuring and rationalization of the electricity industry and will provide for measures conducive to the development and growth of the industry in an efficient, economic and competitive manner. It is hoped that the

various provisions of this Act would create an investor-friendly climate imperative for the type of expansion that this industry needs.

Performance Highlights:

The year under review was a year of consolidation of achievements and sustained progress in all areas of our business operations. The highlights of our significant accomplishments and the various initiatives taken by your Company during the year are:

- The gross assets of the Company rose to Rs. 4,205 crore from Rs. 4,015 crore in the previous year.
- The turnover rose to Rs. 2,430 crore from Rs. 2,349 crore in the previous year.
- The gross profit (before tax) rose to Rs. 397 crore compared to Rs. 350 crore in 1998-99. Profit after tax rose to Rs. 307 crore with distributable profit rising to Rs. 301 crore.
- Dahanu Power Station achieved the highest-ever average Plant Load Factor (PLF) of 88.7% (76.6% in the previous year), generating 3,895 MUs (previous year 3,353 MUs). The Plant Availability rose to 98%, up from 92% in 1998-99, the highest among power utilities in the country. Unit II of the Station operated for 207 consecutive days, without any interruption during the year.
- Dahanu Power Station achieved some of the best operating norms in the country on parameters like specific oil consumption (0.1670 ml/Kwh) and station heat rate (2,313 Kcal/Kwh) while station trippings were insignificant at 0.2892 per 1000 hours; the Station improved upon auxiliary power consumption to 7.04% and demineralized water consumption of 0.90%.
- Distribution loss of the Supply Division declined for the sixth successive year to 11.50% from 14.95% in 1993-94, 13.90% in 1994-95, 12.49% in 1995-96, 11.71% in 1996-97, 11.58% in 1997-98 and 11.53% in 1998-99.
- Vigilance efforts in the Supply Division were further stepped up by conducting a record number of raids resulting in the detection of 2,248 cases of theft with recovery of 16.54 million units.
- Pursuant to the Order passed by the Hon'ble Special

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Court, the Company received the entire balance amount due to BSES, including the accrued yield upto the contractual dates of transactions, of Rs. 18.36 crore in the form of various securities from the subsidiary of a nationalized bank.

- The Company pre-paid the entire outstanding loans of Rs. 43 crore availed at high coupon rate from Indian Financial Institutions. Also, part pre-payment of Rs. 77.18 crore was made of a loan from the International Bank for Reconstruction and Development (IBRD).
- Contracts Division and EPC Business Group notched a turnover of Rs. 391 crore including Rs. 170 crore as the turnover of the International Division.
- BSES Management Institute conducted 100 courses on management subjects and issues related to power generation and distribution for its executives and managerial personnel.
- Elastimold Division commenced manufacture of components of the three-phase transmission system for locomotives newly introduced by Indian Railways.
- The Government of Maharashtra approved the 495 MW Palghar Project of the Company and the remaining clearances and approvals are being pursued.
- The Company's wholly-owned subsidiary, BSES Telecom Limited, launched its Internet service, powersurfer.net in Mumbai and has drawn up plans for optical fibre network business.
- All the 3 Units in the open cycle mode of the Kochi Power Station of the Company's subsidiary BSES Kerala Power Limited have been commissioned and erection of steam turbines for the combined cycle has also been completed. The Station is now ready for trial operation followed by commercial operations.
- The Company's subsidiary, BSES Andhra Power Limited, achieved further progress in the construction of its 220 MW combined cycle plant at Samalkot in Andhra Pradesh.

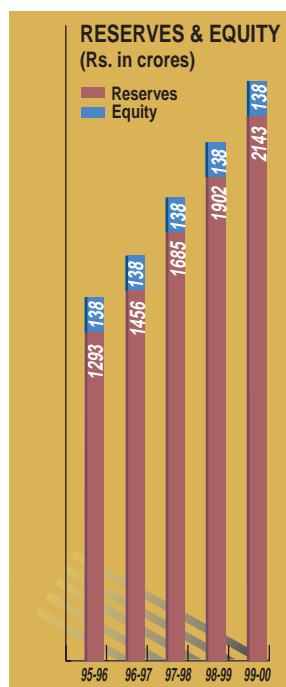
- The foundation stone was laid for the 1000 MW Maithon Power Project proposed to be developed by BSES and Damodar Valley Corporation in a joint venture.
- There has been encouraging response to dematerialization of shares with currently almost 90% of the Company's shares being held by depositories.
- The Company commissioned its entire Wind Farm located in North Karnataka, consisting of 33 wind turbines with aggregate capacity of 7.59 MW.

These performance achievements have naturally impacted favourably on the Company's financial performance.

Financial Performance

The heartening, all-round progress achieved by all the Divisions of the Company has contributed to improved financial results. The turnover of the Company improved from Rs. 2,349 crore to Rs 2,430 crore. The Company achieved a profit before tax of Rs. 397 crore (Rs. 350 crore last year) and recorded further improvement in profit after tax from Rs. 270 crore to Rs. 307 crore.

Financial Ratios: The Company continued to improve on almost all financial and operating ratios, leading to stronger financial fundamentals. Due to pre-payment of loans to Indian financial institutions, the Debt Equity Ratio of the Company further improved to 0.40:1 compared to 0.50:1 of the previous year. Return on Fixed Assets was 14.56% as against 13.03% in the previous year, reflecting improved utilization of Fixed Assets by the Company. Earnings Per Share was Rs. 21.44 per Equity Share as compared to Rs. 18.89 per Equity Share in the previous year. Likewise, Cash Earnings Per Share was Rs. 34.76 per Equity Share as compared to Rs. 31.33 per Equity Share in the previous year. The Book Value per Equity Share was Rs. 165.60 as compared to Rs. 148.11 in the previous year. Your Company ranks high in most of the parameters of operational performance when compared with peers in the industry.

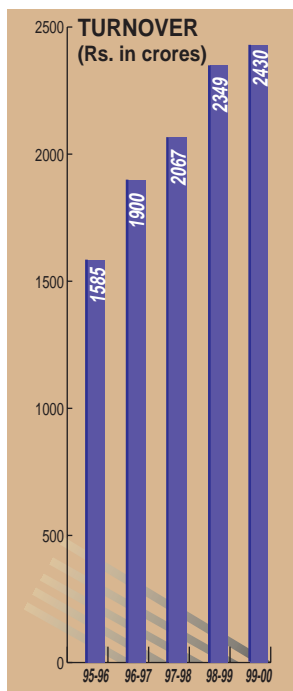


Pre-payment of Loans: Your Company, in order to reduce its interest burden, pre-paid all the loans availed from Financial Institutions for the Dahanu Power Station, except for a part of the loan sanctioned by IBRD. This will not only strengthen the Balance Sheet of the Company but also substantially improve leverage on its equity capital when the Company seeks finance for its various greenfield projects.

Market Capitalization: Market capitalization of the Company during March, 2000 rose to Rs. 4,269 crore as against Rs. 2,087 crore during March 1999, an increase of 105%. It may be noted that the growth in market capitalization was mainly on account of better valuation given to the Company's scrip on the bourses.

Dividend: The Board of Directors has stepped up the dividend by paying an interim dividend of 37% for 1999-2000 (which is proposed as final dividend) in tune with the Company's progressive track record. The dividend payout including corporate tax would amount to Rs. 57 crore (previous year Rs. 52 crore). This is the eighth consecutive year that the dividend rate has been stepped up. The Company, as you are aware, has the unique distinction of making uninterrupted dividend payment ever since its incorporation.

The improvements in financial performance are largely as a result of improvements in your Company's operating performance.



Operating Performance

I now dwell on some of the significant achievements of various Divisions of the Company.

Dahanu Power Station

The Power Station recorded the highest-ever Plant Load Factor (PLF) of 88.7% during the year against PLF of 76.6% during the previous year. The Company continues to demonstrate its capability by showing considerable improvement on almost all

parameters of operational efficiencies, with an all-time high of 98.42% in Plant Availability being the highest among Indian power utilities. The Station is currently implementing an Enterprise Resource Planning (ERP) package to give total ERP solutions for the power station, which includes financial, logistics, maintenance and human resource models. The Station continues to excel in its efforts to promote and protect the ecology.

Supply Division

Modernising and Strengthening the Distribution System:

With a view to improving quality and reliability of our supply, as also service to our customers, we have planned a series of innovative measures primarily aimed at modernizing and strengthening the distribution system and improving the level of automation and computerization in our system network.

During the current year, we propose to (i) set up new Receiving Stations in the Northern, South-Central and Eastern zones, (ii) decentralize Zonal Offices by creating 3 more centres at Powai, Bhayander and Bandra and (iii) introduce Geographical Information System (GIS) with digitized land-based maps in South and South-Central zones. We have made fairly good progress in installing the SCADA system. Operative in South and South-Central Zones, this system will enable the system controller to monitor the real time parameters and operational personnel to operate switchgears by remote control, thus saving time during interruptions.

We will continue our drive to replace old and defective meters by solid-state energy meters, mainly to our commercial and industrial consumers. The Research and Development Department is being strengthened to check the quality of incoming materials and suggest modifications in these materials. Greater emphasis is being laid on training of staff at all levels, particularly in computer, technical and behavioural attitudes. It is proposed to install one 100 MVA Transformer to augment the system capacity. This will result in improvement in the ratio of installed capacity to aggregate maximum demand to 1.50 times, thereby assuring our customers of reliable and quality power supply.

System Loss: The Electricity Supply Division continued to make proactive efforts with a series of actions on various fronts like detection of thefts, replacement of defective and stopped meters, replacement of electro-

mechanical meters by static meters, and strengthening of distribution network for improved system performance. During the year, the Company carried out raids that resulted in the detection of 2,248 cases of theft with recovery of 16.54 million units. Due to these efforts, the system loss marginally declined for the sixth year in succession to 11.50%, down from 14.95% in 1993-94, 13.90% in 1994-95, 12.49% in 1995-96, 11.71% in 1996-97, 11.58% in 1997-98 and 11.53% in 1998-99.

Customer Care: The Electric Supply Division continued with improvements in service and facilities to our customers. The major measures taken include single-window customer service at zonal offices, online counter enquiry facility for new/additional load requirements, online commercial enquiry, additional customer service sub-counters, enquiry telephone exchanges including voice mail and interactive system, centralized telephone service for no-supply complaints for prompt response and service, touch-screen kiosks for guidance on various procedures, periodic customer-meets and a customer-friendly environment at consumer centres.

Unlike the sale of commodity items, BSES' business does not end with the delivery of power to customers, but begins at that point of service. Therefore, the Company encourages Consumer Awareness Programmes because they prompt reasonable expectations from customers which in turn evoke quicker response and better service and thus benefit both the customer and the Company. BSES complements its quality services with state-of-the-art infrastructural facilities.

We continually seek technology-based solutions, take technology-driven initiatives and extend technology-oriented solutions in order to achieve superior customer-satisfaction. This also enables us to benchmark our services against the best in the Indian utilities sector and against global standards.

Tariff: Your Company has been consciously and consistently endeavouring to earn reasonable return by continuously improving performance in all its operational areas, and without resorting to periodic tariff revision. Thus, except for a marginal tariff revision impacting a small number of consumers from 1st March 1997 merely to offset bulk supply tariff revision, our tariff rates have been maintained at the August 1994 level.

The Company's improved performance indicated elsewhere in this Statement (and past Statements) and

the increased Gross Profit of Rs. 397 crore in 1999-2000 as against Rs. 147 crore in the year 1994-1995, convincingly demonstrate that operational efficiencies without tariff revisions do yield higher profits. I am sure the authorities concerned will consider measures to reward such efficiencies rather than subject all utilities to a uniform earning model.

Contracts Division and EPC Business Group

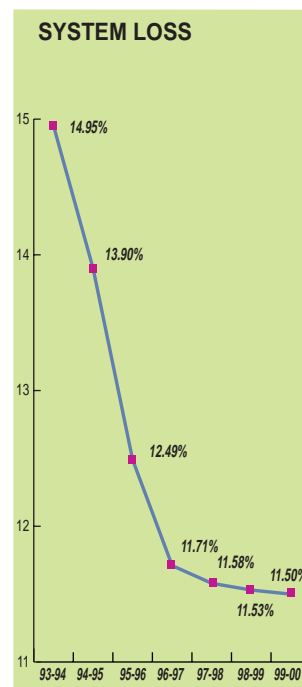
The Contracts Division including the EPC Business Group achieved a turnover of Rs. 391 crore during the year. The Division has booked orders amounting to Rs. 665 crore, an increase of about 45% over the previous year. During the year, two more Regional Offices were opened at Kochi and Bhopal for carrying out contracting activities.

Some of the prestigious projects completed by the Division during the year were electrification work for the erstwhile Andhra Pradesh State Electricity Board (which has since been restructured), the installation of switchyards and electrical installations for a sugar plant and a refinery and electrification of Currency Note Press of Reserve Bank of India, Haldia Petrochemicals complex and Nhava Sheva Port of New Mumbai.

Convergence of Technologies

In the new millennium, there is appreciable recognition of the immense potential that convergence of technologies holds for power utilities. A networked infrastructure has substantial synergy with IT-based services including Web-related business.

Thus, a large number of US utilities have immensely benefited from the convergence of technologies and a good part of the optical fibre network in the USA is owned



by power utilities. Nearer home, a South Korean utility has laid optical fibre cables on its transmission lines in preparation for future developments. These technologies, when adopted and applied with ingenuity, can dramatically improve efficiencies, drive down costs and add real value for the customer.

It is in this emerging technological scenario that BSES proposes to leverage on its strength as a first and fast mover and envisions BSES Telecom Limited (BTL), its wholly-owned subsidiary, as the key growth driver in the new economy milieu.

BTL currently focuses on four areas of priority, viz. Internet services, optical fibre networks, IT services and utility software services with commercial engineering. BTL has taken off with Internet service and proposes to use optical fibre network as the backbone for providing broadband ISP services and transforming the optical fibre cable network into a unique selling proposition for e-commerce, database services, multimedia services and portals. BSES is totally committed to building up capacities and promoting capabilities to fully exploit the emerging business potential in these areas.

Another project of BTL, located at Dadra, is for the manufacture of single-phase and three-phase electronic meters both for the captive requirements of the Company and its subsidiaries and for marketing to other utility customers. The project is in an advanced stage of implementation.

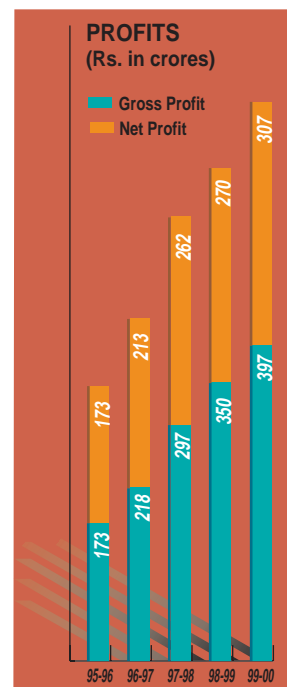
New Projects:

The Company continues to make satisfactory progress on the other projects that are under various stages of implementation.

- The Company during the year commissioned its entire Wind Farm consisting of 33 wind mills with aggregate capacity of 7.59 MW at Jogimatti in North Karnataka on schedule and without any cost overrun. After successful trial operation, the wind mills have commenced commercial operations. It is expected that during the windy period of April to September 2000, the Wind Farm will demonstrate its optimum capacity based on the potential of the wind power.
- Your Company attaches top priority to supply power on the most competitive terms. To ensure maximum cost-effectiveness and to enhance self-reliance, the

Company has planned to expand its capacity. The Government of Maharashtra has approved the proposal of the Company for setting up a 495 MW Power Station to be located at Saphale in Palghar, Maharashtra. The Company is pursuing various other permissions and clearances related to the Project. Meanwhile, evaluation of offers for supply of the main plant and equipment and erection thereof has been completed.

- The Coal Washery of ST-BSES Coal Washeries Limited (SBCW), our joint venture, commenced commercial operation during the year and supplied washed coal to the Company's Power Station at Dahanu thereby reducing dependence on imported coal. Considering the demand for washed coal, SBCW plans to expand its capacity by setting up coal washeries in other parts of the country.
- BSES Kerala Power Limited (BKPL), a joint venture with Kerala State Industrial Development Corporation Limited (KSIDC), successfully synchronized all the 3 units of the open cycle mode and the power station is ready for trial operation and commercial production. The erection of the main power plant equipment for the combined cycle mode of operation of 165 MW is nearing completion. The power station is located at Kochi, the industrial heart of Kerala.
- BSES Andhra Power Limited (BAPL), a subsidiary of the Company, has made satisfactory progress on its 220 MW naphtha-based Power Project at Samalkot, near Kakinada port of Andhra Pradesh. The civil work is in an advanced stage of completion on the land acquired for the project and BAPL has entered into a Power Purchase Agreement with APTRANSCO. The main equipment for the power station with state-of-the-



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art technology is being supplied by M/s Ansaldo of Italy to facilitate economical and efficient generation of power. The finance requirement for the project has been fully tied up with a consortium of banks.

- In order to meet the target set in the corporate plan of the Company, we propose to co-promote a 1,000 MW pithead thermal power project at Maithon in Dhanbad district of Bihar, in a joint venture with Damodar Valley Corporation. The project enjoys the status of Mega-Power Project and will be eligible for a host of facilities and concessions available in the Mega-Power Project Policy of the Government of India. The project has secured most of the clearances and approvals from the authorities concerned and is under implementation. Being a pithead power station, the cost of electricity generated at this Station will be substantially lower.
- Tamil Nadu Industries Captive Power Company Limited (TICAPCO), a subsidiary of the Company, is following up the techno-economic clearance from Central Electricity Authority to its 250 MW lignite based Power Project proposed to be set up at Srimushnam in Tamil Nadu. It has submitted a revised draft Power Purchase Agreement to TNEB for its consideration. TICAPCO has obtained the administrative sanction of the State Government for acquisition of land and has completed the land survey, soil investigation study, water feasibility study, railway siding study, etc. at the site.
- BSES Infrastructure Finance Limited (BIFL), a wholly-owned subsidiary of the Company, reported satisfactory financial results and declared a dividend at 10% on the equity capital of the Company. BIFL advises associate companies of BSES on capital structuring and negotiates long-term loans, lease financing and syndicated placement of securities for funding the various projects under implementation.
- Utility Powertech Limited (UPL), a joint venture with National Thermal Power Corporation Limited (NTPC), also recorded satisfactory performance during the year and declared a dividend of 10% on the equity capital of the Company. UPL has secured contracts to undertake maintenance jobs of NTPC Power Stations in the areas of engineering, construction management, non-conventional energy and maintenance of power projects including renovation and modernization.

- Despite the super-cyclone that devastated parts of Orissa, the three distribution companies of Orissa viz. North-Eastern Electricity Supply Company of Orissa Limited, Southern Electricity Supply Company of Orissa Limited and Western Electricity Supply Company of Orissa Limited are on the path of staging improvements in their operational areas. Having identified the weaknesses in the system network, these companies have chalked out a series of measures for toning up their system efficiencies and achieving speedy turnaround in their financial results. In the first phase, these companies propose to install around 6 lakh meters at a cost of about Rs. 60 crore. A plan to overhaul the distribution system in order to improve the quality of power, at a cost of around Rs. 300 crore for each circle, is under implementation. These companies are confident of cutting down the transmission and distribution losses substantially over the next three to four years from the present level of about 50%.

It is hoped that these companies would break even financially over the next 2 to 3 years. Positive response to our strategies is seen, particularly in WESCO which could see a turnaround during the next fiscal year.

Human Resource Development

Our Human Resource philosophy is to align our HR Policies to achieve organizational and business goals and to motivate empowered employees to respond to the emerging challenges and opportunities of a competitive environment.

The business of utilities is undergoing extensive changes, both operationally and technologically. BSES therefore attaches utmost priority to human resource development, with the focus on regularly upgrading the knowledge and skills of our employees and equipping them with the necessary expertise to face the challenges of change and growth successfully.

Towards this end, the BSES Management Institute conducted 100 well-designed programmes during the year in which 1,998 officers (including multiple participation) participated. These programmes covered



a wide range of management topics like information technology, quality, customer service, distribution system, environment, HRD, etc. Likewise, the technical training centres of the Electric Supply Division at Versova and of the Generation Division at Dahanu conducted 313 training programmes on generation and related subjects. Over 2,500 staff members attended these courses.

Besides, a Millennium Workshop was organized for the senior executives of the Company to provide them with a better appreciation of the challenges in the achievement of business success in the next millennium. The Institute, jointly with the International Institute of Education, USA also conducted a week-long professional training course in which senior executives of the Company and representatives associated with utilities participated.

The Company confers Meritorious Performance Awards to deserving members of the staff with a view to recognizing and appreciating outstanding contributions from employees. During the year, 44 staff members were conferred with such awards for their exceptional contributions. Similarly, Group Awards were conferred for productivity, safety and housekeeping on various Divisions of the Company.

Shareholder Value

The steady progress of your Company on various projects under implementation including its foray into fibre optic and Internet-related services through its subsidiaries will, I am sure, immensely contribute to maximization of shareholder value of the Company in the years to come. We have already witnessed revaluation of our scrip by discerning investors in the recent months, as evidenced from the following:

- The market capitalization of BSES surged to Rs. 4,269 crore in March 2000 from Rs. 2,087 crore in March 1999 i.e. a stock appreciation of 105%.
- The Price to Earnings Ratio rose to 11.05 as against 7.68 in the previous year.
- The Book Value of the BSES Equity Share improved to Rs. 165.60, the highest among Indian utilities, as against Rs. 148.15 in the previous year.

In a Shareholder Value analysis carried out by a popular Indian portal www.equityresearchindia.com, the power sector was placed at the 11th position for shareholder value creation since 1994, close behind the computer

hardware industry, pharmaceutical multinational companies and much ahead of the engineering industry, hotel industry, etc. The analysis further reveals that in the power sector, BSES leads the industry, accounting for value-creation of about Rs. 1,697 crore during the period 1994-2000.

Investor Care

Your Company continues to take several proactive measures to render the best of facilities to the shareholders of the Company. The major initiatives taken during the year were:

- The series of improvements made in the functioning of the Investor Service Centre which led to significant reduction in investors' grievances. Investors' queries and complaints declined to 1,760 during the year under review, down from 6,585 in 1997-98 and 5,025 in 1998-99.
- Remittance of dividend through the Electronic Clearing Service (ECS) of Reserve Bank of India at 9 major cities of India. The Company continues to encourage the Members to avail of this facility at all the 45 cities currently covered under the ECS Scheme, so as to widen the spread of dividend remittance under this Scheme.
- The launch of a pilot project, in arrangement with National Securities Depository Limited (NSDL), for dividend remittance by direct deposit of dividend amounts into the bank accounts of Members holding shares in electronic form. This Direct Deposit Scheme (DDS), the first ever such project undertaken in the country, eliminates fraudulent encashment and loss in transit of dividend warrants. The Company could cover as much as 84% of the interim dividend amount under the ECS and DDS Schemes. NSDL is examining a few observed system deficiencies, so as to further improve the remittance Scheme.
- Special arrangements during April to May 2000 to ensure dematerialization of shares within 2 to 5 working days of receipt of demat requests by the Company from the shareholders in major cities.
- Mailing of dividend warrants on the very day following the approval of dividend by the Members at the Annual General Meeting.

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- Online coverage of the highlights of the proceedings of the Annual General Meeting on the Internet. Nearly 65,000 investors visited the site www.bsesagm.com for first-hand information of the proceedings of the Meeting.
- The availability of the CD-ROM version of the Annual Report 1998-1999 to institutional Members.

The Company is committed to servicing its investors with state-of-the-art facilities to ensure secure and speedier service to them and to establish benchmarks in its service standards.

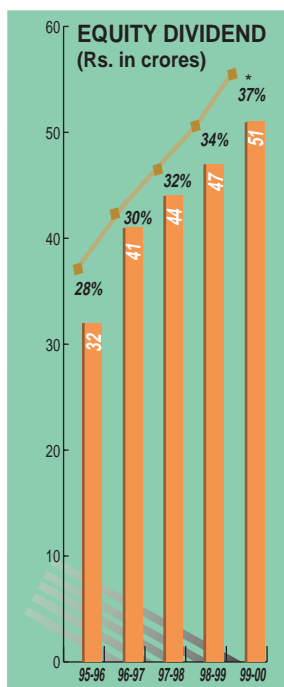
Quality

In order to ensure continued compliance with the Quality Procedure manuals, extensive technical audits were carried out during the year in various Departments of the Company, in addition to surveillance audits by the certifying body, Bureau Veritas Quality International (BVQI). The reports were monitored at the level of Chairman and Managing Director every month. In order to ensure wider coverage of ISO certification, it is proposed to seek ISO 9002 and ISO 14001 certifications for the remaining functional areas of the Company.

Environment

The Company's commitment to the environment, as before, is absolute. We believe in sustainable development by ensuring that the projects we promote are in harmony with the environment. Towards this end, we adopt technologies that help us to achieve stringent environmental norms.

Our concern for the environment has won us national and global recognitions, with awards sponsored by prestigious organizations and authorities. The most prized of these awards is the first-ever Millennium Business Award for Environmental Achievement sponsored by International Chamber of Commerce and United Nations Environment Programme, in recognition of our outstanding contribution to environmental management. The aim of the award is to give recognition to companies that have taken important steps to promote excellence in corporate environmental management.



For yet another year, the Dahanu Power Station improved upon its environmental performance, setting new benchmarks. The power station can now boast of some of the best norms achieved among power stations in the country. The Company's performance has been substantially within the very stringent operational norms made applicable to our power station by the regulatory authorities.

ISO 14001: The Power Station was subjected to periodical surveillance audit by BVQI. These audits not only monitor the continued compliance with the applicable regulatory provisions by the power station, but also lead to continuous improvement in our procedures and practices related to the environment.

Green Electricity: During the year, we made a successful foray into the generation of green electricity by commissioning the entire Wind Farm consisting of 33 wind mills in North Karnataka. These wind mills have been set up at a capital outlay of Rs. 40.11 crore with an aggregate capacity of 7.59 MW.

While India has huge wind power potential estimated at 45,000 MW, the total wind power capacity installed in the country is only about 1,100 MW. With a view to stepping up wind power capacity, several State Governments have offered fiscal incentives. BSES is therefore exploring the feasibility and viability of setting up more such wind farms. BSES ceaselessly pursues options in its commitment to seek pollution-free energy solutions.

Afforestation work in the surrounds of our Power Station proceeds apace. The lush green environment created around the Station abounds in botanical specimens and continues to attract fauna, very much like the migrating flamingoes that flocked to the Power Station site last winter. Spurred by such success, efforts to further improve our environmental performance would continue.

Social Responsibilities

BSES continued to contribute actively to community welfare measures particularly



in and around Dahanu. During the aftermath of the super-cyclone that devastated parts of Orissa, your Company deputed a team of engineers and support staff for restoration of electricity in the affected areas, particularly those serviced by our subsidiary companies. The timely assistance rendered by our team was effective and widely commended.

The Company during the year completed the construction of the BSES Junior College of Science building at Dahanu, constructed three primary-school-cum- community-halls in neighbouring villages and distributed educational and teaching materials to students of several primary schools in Dahanu. The Company has introduced BSES Merit Scholarships for Engineering and Medical Students of Dahanu Taluka in association with a social welfare agency of Dahanu. With a view to eradicating illiteracy in the local tribal community, the Company launched the "BSES Adult Education Programme" through Rotary volunteers by providing them with adult educational and material kits.

The Company continues to take up various schemes to extend health care facilities to the weaker sections of society. Work on the 100-bed BSES Municipal Hospital at Andheri in Mumbai is in an advanced stage of completion. We also sponsored an ambulance for a local social service organization.

The Dahanu Power Station rendered assistance to over 48,000 children of Dahanu Taluka during the National Programme for Eradication of Polio. The Company also sponsored a medical camp with the assistance of a social club at Dahanu which included supply of medicines and other medical material. BSES distributed deworming medicines to over 6,000 children of Anganwadis and Balwadis. During the monsoon, the Company supplied chlorine in plastic bottles for purification of drinking water to over 5,000 tribal community members.

As a part of the "Adopt a Village" programme, the Company in association with

Forest Department of the Government of Maharashtra adopted Kainad village for its strategy of developing rural areas. Under the programme, BSES assisted in constructing smokeless 'chulhas' (stoves) and toilet blocks for tribal families and installed photovoltaic street lights in the village.

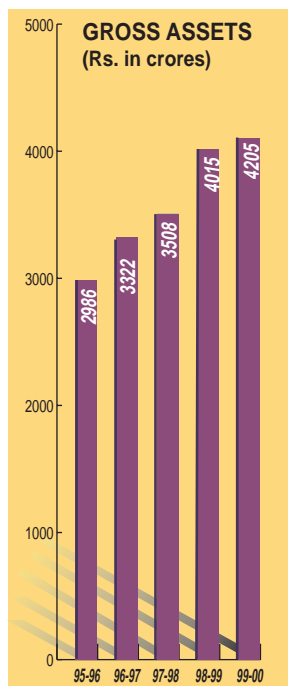
Corporate Governance

BSES has been proactive in its endeavours to benchmark itself with the best practices of governance. The Company has been closely following the principles and practices of corporate governance being adopted in India and abroad, in order to embody them in its own corporate ethos and values so as to be responsive to the expectations of all its stakeholders.

In India, the Confederation of Indian Industry (CII), of which BSES is an active member, was the first to set desirable standards for Indian corporates, with 17 specific recommendations in its Code of Desirable Corporate Governance. BSES was among the first few Indian companies to benchmark its compliances with these recommendations and disclose them in its Annual Reports from 1997-98 onwards.

Since then, based on the recommendations of the Kumar Mangalam Birla Committee constituted by SEBI, the stock exchanges have incorporated certain mandatory and non-mandatory provisions of the committee's Report in the Listing Agreement. Though these provisions come into force by 31st March, 2001, BSES is already in compliance with most of the recommendations. We have grouped the recommendations of SEBI and CII and have presented the status of our compliances to each in a separate Report on Corporate Governance elsewhere in this Report. Besides, since the GDRs of the Company are listed on the London Stock Exchange (LSE), our Report also includes a statement on compliance with the provisions of the Combined Code of Corporate Governance of LSE which has been drawn up on the recommendations of, inter alia, various Committees including the Sir Adrian Cadbury Committee.

The Company has, in furtherance of its commitment to promote corporate governance standards for itself, formulated a model Code of Ethics in order to conduct its business in an ethical and transparent manner. The Code sets out the tenets of ethical practices to be followed by the employees of the Company. The Company has put in place a mechanism to ensure that its employees adhere to the elements of the Code.



CHAIRMAN'S STATEMENT

Our disclosures and governance practices are regularly reviewed and revised in response to the dynamic needs of our business and to ensure that our standards are on par with globally recognized practices of governance.

Rankings and Recognitions

Our continued efforts to excel in all our areas of operation and our deep concern for the environment have not only won national and global recognitions but also earned us accolades in some prestigious publications and from reputed institutions. To cite some of the laurels that we were honoured with during the year:

- * BSES improved its ranking among the top 100 companies of India, as compiled by Business India, for the second successive year, this time from the 20th position to the 16th. The rankings are based on the overall standing in terms of sales, profits, assets and market capitalization. BSES is the 7th top company of India among private sector companies, and numero uno in the power industry.
- * BSES is rated as one of the Most Respected 100 Companies of India, as per the findings of a Research survey carried out by Business World – Indica on a host of parameters like innovativeness, quality of leadership, quality of service, profitability, investor relations, employee orientation, community and eco-friendliness, etc. Despite operating in a utility business with the typical weaknesses and deficiencies associated with the industry, we are pleased that our good performance and contribution has earned respect from society. Nonetheless, we seek to improve upon these ratings and are totally committed in our endeavours in that direction.
- * The Dahanu Power Station was adjudged the best power station of the country in the 700 MW and below range, and was conferred the Environmental Award by the National Council of Power Utilities and Central Board of Irrigation and Power in association with the Union Power Ministry on the occasion of Thermal Centenary Celebrations 1999.
- * BSES bagged the first Millennium Business Award for its outstanding contribution to the environment. The award has been instituted by the International Chamber of Commerce in collaboration with the United Nations Environment Programme. BSES is the only company from India and one of the two power utilities in the world (the other being Tokyo Power Company of Japan) to have been honoured with this award.

- * I have been conferred with the Corporate Governance Award by the Rotary International of Gujarat, Madhya Pradesh and Rajasthan. The award is in recognition of my contribution as also that of two other eminent awardees in promoting corporate governance standards.

Appreciation

I am thankful to my colleagues on the Board for guiding and advising me in steering the affairs of the Company. I particularly wish to acknowledge the rich contribution of Shri J P Thacker in BSES achieving exponential growth during the 32 momentous years of his association as a Member on the Board of BSES, the longest-ever tenure by any of its Members. What is even more remarkable is that he rarely missed attending the meetings of the Board and its various Committees.

I am grateful to Financial Institutions, Banks, authorities of the Government of India such as Ministry of Power, Ministry of Environment and Forest, Central Electricity Authority, Ministry of Coal, Ministry of Finance, Coal India as also the Government of Maharashtra, particularly the Energy and Environment Ministry, Pollution Control Board, Maharashtra State Electricity Board, Tata Electric Companies, Government of Orissa, Grid Corporation of Orissa Limited, the World Bank, International Finance Corporation (Washington) and USAID for their continued support and unstinted co-operation.

I also wish to thank the regulatory authorities including Central Electricity Regulatory Commission, Orissa Electricity Regulatory Commission and Maharashtra Electricity Regulatory Commission for their guidance.

Most importantly, I wish to record our appreciation of the sincere and dedicated service put in by our employees at all levels and for the constructive co-operation extended by the Unions and the Officers' Association in taking your Company to greater heights of achievement and excellence in performance.



R V Shahi
Chairman & Managing Director

3rd July, 2000

