

CMD's Address at the 41st AGM of BHEL



Dear Shareowners,

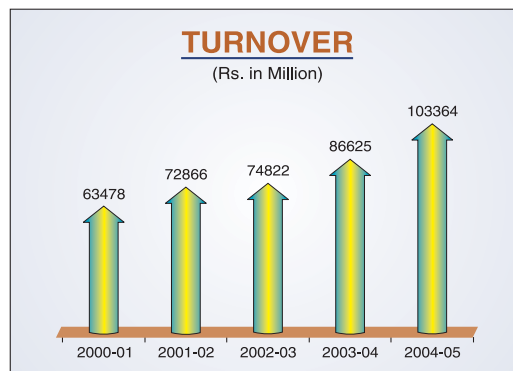
It gives me great pleasure to welcome you to the Forty-first Annual General Meeting of your company. The Company's accounts for the year ended March 31, 2005, along with Directors' and Auditors' Reports, Management Discussion and Analysis, and comments of the Comptroller and Auditor General have already been circulated to you. With your permission, I would like to take them as read.

Your company's Bhopal plant which heralded the beginning of heavy electrical industry in India is completing fifty glorious years. BHEL's other major plants at Haridwar, Hyderabad and Tiruchirapalli have completed forty years. The company's fortunes have been shaped by its great leaders since inception and helped in making it what it is today – a great company that the country is proud of. The reason that the company stood the test of time has been that it has been able to re-calibrate itself to meet various challenges. During the early sixties, when BHEL was formed, the challenge was on setting up various factories and learning the nuances of manufacture of power plants. Seventies saw consolidation and integration and charting out the first corporate plan for the company, a practice which became the very essence of all future transformations. Moving with the times, in the eighties, the company adopted a market orientation with the formation of business sectors to front end with the customers. With the opening up of the economy, nineties witnessed the

need for providing innovative solutions to customers. This was a period when the Indian industry had to contend with real changes in the market environment. Your company's exposure to competitive markets since late seventies when it faced international competition in the Indian market, stood it in good stead. Now, in this new century, we are again at a threshold where the company needs yet another re-calibration. With a view to meet the changing needs, requisite initiatives have been set in motion to position the company for accelerated growth. I firmly believe that your company has a great future in times to come. I shall elaborate on this shortly. Let me share with you the context in which we have been operating.

GLOBAL SCENE

Electric power is an essential ingredient for economic growth. Global GDP growth is estimated by IMF at 5.1% in 2004. Though overall world economic growth



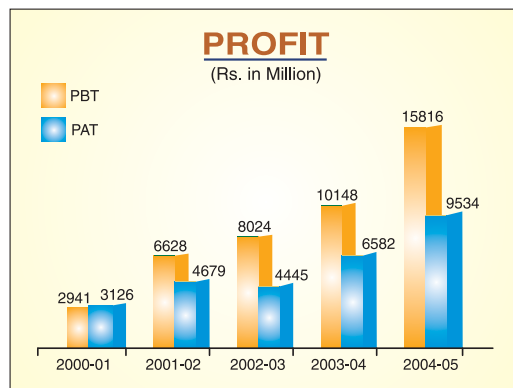
is expected to slacken to 4.3% during 2005, for Asian economies, growth has continued to exceed expectations despite adverse impact of rise in oil prices.

The global power plant equipment industry has started looking up since 2004. The world original equipment market is forecast to grow at 2.5% over the next six years with greatest gains in developing economies such as India & China and relatively slower growth in USA and Europe. While Gas based plants took a lion's share of orders in the last 6-7 years, conventional steam based plants are expected to come back into demand for the next few years, due to volatility in pricing of gas, emergence of more environment friendly clean coal technologies and growing demand from Asian countries rich in coal reserves. Also, in tune with the power generation capacity addition, the power Transmission and Distribution equipment demand is also expected to steadily rise in the near and medium term.

ENERGISING GROWTH IN THE ECONOMY

India is emerging as an engine of global growth along with China. Effective macroeconomic management during the year ensured that India remained one of the fastest growing economies among the emerging market economies and the overall GDP growth was almost 7 per cent during 2004-05. This was mainly driven by a robust growth in Industry & Services sectors.

An area of specific interest to your company is the performance of Capital Goods sector which during the year surged ahead with a growth of 13.6%. Index of Industrial Production (IIP) also showed an increase from 7% in 2003-04 to 8.3% in 2004-05. A resurgent manufacturing sector coupled with well distributed industrial recovery boosted overall economic activity during the year. The good news is that the resurgence in manufacturing is expected to continue. Investments are underway in several industrial sectors, like steel, non-ferrous metals, cement, oil & gas, paper, etc. The external sector continues to be robust and foreign exchange reserves stood at around US \$ 140 billion.



However a steep rise in the prices of inputs like ferrous & non-ferrous materials and crude oil in the international market is a cause for concern. As per Reserve Bank of India, the leading indicators and available information for 2005-06 suggest that the Indian economy would build upon the gains in macroeconomic performance secured in 2004-05.

Let me share with you, the company's achievements in the year just gone by.

COMPANY PERFORMANCE DURING 2004-05

It was yet another outstanding year for your Company. The financial results demonstrate the effectiveness of our strategies :

- ◆ turnover reached Rs.103,364 million, a new record, up by 19%
- ◆ value addition stood at Rs.42,540 million, up by 16%
- ◆ net profit at Rs.9,534 million, up by 45%
- ◆ net asset value per share went up to Rs.246.24, up by 14%
- ◆ earnings per share (EPS) at Rs.38.95, up by 45%
- ◆ economic value added (EVA) reached Rs.5,045 million, up by 38%

In line with the excellent performance, the company's Board of Directors have recommended an all time high dividend of 80% for the financial year 2004-05. This includes an interim dividend of 35% paid in December 2004. With this, BHEL has maintained its track record of paying dividends uninterruptedly for the last 29 years.

I would now like to briefly dwell upon some of the impressive achievements of your company.

Business Realisation

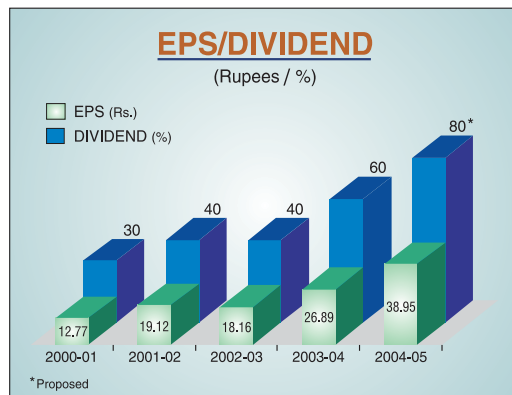
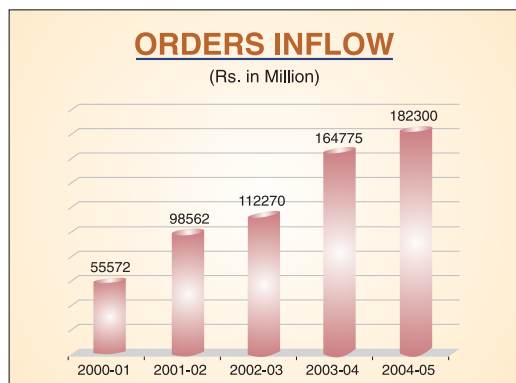
Against the backdrop of expanding markets in the segments that BHEL serves, your company secured orders worth Rs.182,300 million in 2004-05. Coming on the back of the earlier year's high order inflow of Rs.164,780 million, this indeed is a commendable performance while operating in a fiercely competitive environment.

Both Power Sector and Industry sector order inflows registered new highs at Rs.134,750 million and Rs.41,170 million respectively during 2004-05. Physical export order inflows saw an upward momentum with orders from Australia, Oman, Thailand, etc.

Your Company in fact closed the year with outstanding orders in hand at Rs.320,000 million.

Project Commissioning

BHEL added 21 sets amounting to 3,548 MW to the country's installed power generating base. With this, BHEL has far exceeded the CEA's target for power capacity addition for the first three years of the tenth five year plan, even making up for the shortfall of others. With this, BHEL sets now account for 74,780 MW maintaining a share of nearly 65% in the country's total installed capacity and power generation from them contributed to nearly 73 per cent of power generated during the year, a testimony to the performance of BHEL sets.



Equipment Performance

Overall, BHEL thermal sets continued to operate at a PLF which was higher than the national average. The combined PLF of BHEL thermal sets ranging from 500 MW to 195 MW which form the backbone of country's power generating capacity, registered the highest ever PLF of 80.8 per cent. They also registered an operating availability of 84.3% – a new benchmark. You would be happy to note that 23 out of the 27 Power Stations awarded with the Government of India's Gold Shield for excellent performance were equipped with BHEL sets.

Customer Service

Maintaining the commitment to provide prompt and efficient customer service aimed at facilitating uninterrupted power supply and keeping power plants in good running condition, your company overhauled 91 thermal utility and industrial sets, including 4 non-BHEL sets. BHEL took up overhauling and RLA of a 500 MW set of NTPC on war footing and restored the unit in just 23 days, setting a new benchmark. Also the country's first 250 MW unit commissioned by BHEL at Dahanu TPS of BSES was overhauled in a record time of just 9 days. Responding to customer's emergency call from ISRO's Liquid Propulsion System Centre, BHEL repaired a Heat exchanger in the shortest possible time enabling production of liquid hydrogen used as propellant in launch vehicles. In fact as these examples show, over the years, your company has developed a strong service capability for catering to Aftermarket Services.



View of Ramagundam Super Thermal Power Station

Technology Development

Your company operates in a technology dominated field and hence R&D and technology development are of strategic importance. During the year we spent Rs.1,252 million on R&D programmes. A significant highlight was the in-house development of the largest size 60 MW Bubbling Fluidized Bed Combustion Boiler. Another important development, an indigenously designed and optimized Bowl Mill named BHEL 280 Mill for pulverizing coal in 500 MW super thermal power plants was successfully commissioned at MSEB's Chandrapur site. This optimized mill can reduce the number of mills required for thermal power stations.

In line with the approach that establishing centres of excellence in certain fields would enable developing better capabilities to provide customers with solutions, your company has established world-class 'Centres of Excellence' for Computational Fluid Dynamics (COE-CFD) and Permanent Magnet Machines (COE-PMM) at its Corporate R&D, Hyderabad.

Capital Investment

A capital investment of Rs.1,550 million was made during the year aimed at modernization of the

manufacturing technology and facilities and augmentation of manufacturing capacity.

Awards

Organizations thrive because of their people. When certain people excel in their fields and they are recognized for their contributions, the whole organization rises to salute them. For his contribution to science and engineering, Mr. B.L. Chouksey, an employee of BHEL Bhopal has been conferred with 'Padma Shri' by the President of India.

14 workmen of BHEL have got 8 Prime Minister's Shram Awards including the solitary Shram Bhushan awarded this year. Also 11 employees won 5 Vishwakarma Rashtriya Puraskar Awards. Other significant awards include 4 National Safety Awards, EEPC's Top Export Award for the fourteenth year in succession, Safety Initiative Award of the Institution of Engineers (India), CII's Energy Excellence Award, British Safety Council's Safety Award and the Govt. of Karnataka's Honest Tax Payer Award 2004-05.

I would now like to dwell on the country's energy imperative which holds enormous challenges as well as opportunities for your company.

COUNTRY'S ENERGY IMPERATIVE

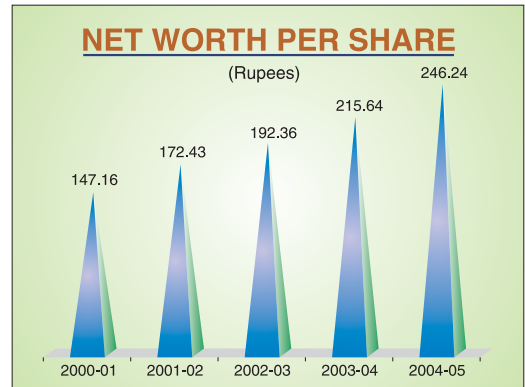
Real GDP growth in the first three years of the tenth five year plan period averaged 6.5 per cent, lower than the target of 8 per cent per annum. It is well recognized that the country's developmental objectives can only be met with a sustained annual economic growth in the region of 8 per cent plus. Keeping this in view, an energy policy for the country is being drawn up. The challenge is to secure adequate, reliable and quality supplies of energy needed to meet India's stated growth imperatives. Studies by Planning Commission show, to sustain 8% annual GDP growth, India's energy needs must rise by at least 5.2% annually under the low-energy-growth scenario; and by 5.9% annually under the high-energy-growth scenario. For these scenarios to materialize in the long term, basic capacities in the energy sector and related physical infrastructure such as rail, shipping, and ports would need to grow 3 to 8 times the 2003-04 levels by 2031-32. Also, a substantial step up in Nuclear power capacity by 2031-32 is envisaged.

India's current commercial energy mix is dominated by coal with a share of 51% compared to 26% for the rest of the world. It is expected that coal would continue to be the most important domestic energy resource for India even under aggressive assumptions about the level of contribution from domestic hydro, nuclear and gas resources. This would continue to be the dominant fuel for the power generating stations in the future.

What is of significant interest to your company is that the capacity and investment needs for Power Generation (utilities plus captive) is projected to rise by 4.8 to 5.9 times the 2003-04 level (131,424 MW) to reach a level of 627,000 - 778,000 MW by 2031-32, indicating the long term growth opportunities.

MEETING CHALLENGES AND DELIVERING A SUSTAINABLE PERFORMANCE

Various reform measures and other policy initiatives of the government together with positive impulses in the economy are leading to improved business



opportunities in the infrastructure sector including power. Your company has initiated several steps to capitalize on these emerging opportunities.

Focus on manufacturing capacity enhancement

For the immediate future, in order to encash on the opportunities thrown up by the country's ambitious target of capacity addition of over 60,000 MW during the XI five year plan period, your company has devised a roadmap for a larger share in the opportunities. As a first step, BHEL is already in the process of enhancing its equipment manufacturing capacity to 10,000 MW annually and is investing over Rs.10,000 million.

Focus on Portfolio enhancement

BHEL is going ahead with the acquisition of technology to produce next generation boilers with supercritical parameters. This coupled with the arrangements already in place for STG sets would enable the company to produce supercritical thermal sets in the range of 800-1000 MW unit ratings. In addition, BHEL is also organizing for introducing advance class Gas Turbines of above 250 MW rating and higher rating hydro sets.

Focus on technologies for the future

BHEL's R&D efforts which have hitherto successfully adapted imported technologies to Indian conditions and developed certain state-of-the-art products is going to be given a major fillip in future. Your company is presently pursuing R&D in emerging new technologies viz., Integrated Gasification Combined Cycle (IGCC),

Fuel Cells, etc. The company is also taking steps to strengthen the engineering and R&D functions.

Focus on enhancing competitive edge

Your company has embarked on a major exercise of 'Positioning BHEL for Accelerated Growth' to address all aspects of its operations to enhance its strategic positioning which include initiatives on improving competitive edge like Design-to-Cost, Purchasing and Supply Management, etc. IT effectiveness, Focus on project deliveries, Structured product development, Enhancing system design capability, etc., are other initiatives which should enable BHEL face the future with confidence.

Focus on Quality

Having obtained ISO 9001 certification and upgrading the same to the latest ISO 9001:2000 version, the company has also taken several initiatives for Business Excellence under CII-EFQM model. Earlier, several units of BHEL were recipients of CII-EXIM awards. Quality Management is now a part of Business Ethos in positioning the organization for accelerated growth.

Focus on Services Business

With Services emerging as the economy's new growth engine, BHEL is adopting a renewed approach to tap opportunities in the area of Aftermarket services. In order to provide a single window facility to the customers for Services & Spares, it has been decided to integrate the existing functions related to the areas of spares, services, repairs, plant performance improvement etc. The synergized entity, "Spares & Services Business Group" will deal with all marketing aspects of post-warranty activities relating to power plant equipment both in Utility & Captive Power segments.

Focus on exports

Enhancing overseas business would continue to be a major focus area. Your company will continue to pursue new initiatives & strategies for export enhancement with focused attention on identified target countries & regions. It is planning enhanced emphasis on product

sales and spares & services, local tie-ups and joint ventures for manufacture / assembly /repair and servicing of equipment, positioning of BHEL as a regular EPC Contractor in the Global Market, setting up overseas joint ventures, etc.

Focus on people

In an increasingly competitive business environment, it is the quality of 'Human Resource' which differentiates winners from losers. Accordingly all HR interventions in the company are aimed at realizing people potential. Greater attention is being paid to skill & competency building to meet the challenges. Over 1,75,000 mandays of training were given during 2004-05 through in-house and external programmes to enhance their technical, functional, managerial and leadership abilities.

To encourage creativity and innovation, an e-network based Rewards Scheme called 'IMPRESS' has been introduced in the company which encourages employees to take up "Improvement Projects" aimed at enrichment of existing systems and processes in different areas so as to enhance the capability of the Company.

BHEL – A RESPONSIBLE CITIZEN

As a responsible Corporate Citizen and to meet exacting international standards in occupational health, safety and environment, your company continues to play an active role in the society through a host of community development programmes and other measures.

The process of re-certification of all its units/divisions for ISO-14000 on Environment Management System and OHSAS-18000 on Occupational Health & Safety Management System continued during the year. Further, all major units of BHEL have achieved 'Zero Effluent Discharge' status.

Your company continued to build on its commitment to advance UN's Global Compact's ten principles within the company's sphere of influence and this association has given it an unique opportunity of networking with other corporates and sharing experiences related to social responsibilities, on a global level.

BHEL has been making a meaningful contribution in the economic vicinity of its major manufacturing plants where it has adopted 56 villages and welfare activities like provision of medical aid, street lights, drinking water and infrastructure support to schools are continuing apace benefiting over 80,000 people in these villages.

Your company is committed to the development of green power. As an aid to the development of far flung-remote areas, BHEL is setting up for West Bengal Renewable Energy Development Agency (WBREDA), five more Solar Photovoltaic (SPV) power plants in the Sunderbans region of West Bengal.

BHEL and its employees once again demonstrated their solidarity with fellow citizens and victims of natural calamities which rocked the nation in the last year by contributing a total of Rs. 58.5 million, to help mitigate the suffering of the people devastated by Tsunami and the unprecedented floods in various parts of the country.

ACKNOWLEDGEMENTS

On behalf of the Board and on my own behalf, I would like to place on record my sincere thanks to all our customers in India & abroad, shareowners, financial institutions, banks, suppliers, technical collaborators, business associates, state governments, and various

ministries of the Government of India particularly the Department of Heavy Industry for their consistent support, partnership and positive contribution.

I would also like to thank all my colleagues on the Board for their valuable support and encouragement in shaping the company's progress.

None of the achievements could have been achieved without the outstanding team of 43,300 BHEL employees that it's my privilege to lead. Some of them are with us here today and I would like to thank every employee for his/her contribution to the company's success.

There is a growing momentum in our activities and growing confidence in our future. Our commitment to building a world class enterprise committed to enhancing shareholder value is unchanged. I can assure you with confidence that the best is yet to come.

Thank you for your attention.



(Ashok K. Puri)

Chairman & Managing Director

New Delhi

29th September, 2005



Bharat Heavy Electricals Limited

Website : <http://www.bhel.com>