



Bharat Heavy Electricals Limited

Registered Office : BHEL House Siri Fort, New Delhi-110049, India.
Website : www.bhel.com



*Powering Progress... Brightening Lives
Touching Every Indian Home*

Chairman's Address
48th Annual General Meeting
19th September 2012



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Ladies and Gentlemen,

On behalf of the Board of Directors & employees of BHEL, I have great pleasure in welcoming you to the 48th Annual General Meeting of your Company. I would like to sincerely thank you all for being with us on this important occasion.

The report of the Directors and Audited Accounts for the year ending 31st March 2012, with the reports of Auditors and comments of Comptroller and Auditor General have already been circulated to the shareholders, and with your permission, I shall take them as read.

2011-12 was a year of continued challenges for BHEL. Despite uncertainty surrounding domestic business environment coupled with upheaval in global economy, your company has maintained its growth trajectory during 2011-12 by registering highest-ever Turnover and Profit. Stellar performance in project execution was achieved with the highest ever commissioning of Utility sets in a year. The company achieved the ambitious goals set for 2011-12 in Strategic Plan 2007-12.

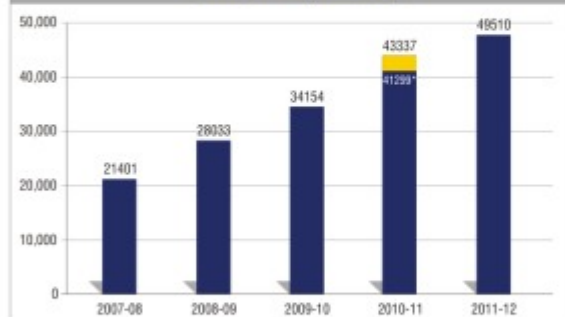
However, the prevailing economic and business headwinds are posing an immense challenge to sustain past growth rates in the near term. The company expects the business sentiment to improve in the medium and long term. Against such a backdrop, efforts are being made to transform your company into one that is more efficient and focused; a company that can meet the tough challenges posed by increasing competition and exploit great opportunities that lie ahead. In a bid to steer BHEL towards becoming a global engineering enterprise, your company has drawn up its 7th Strategic Plan 2012-17.

I would like to first present the key highlights of your Company's performance during the year gone by:

Key Performance Indicators

- Gross Turnover for the year grew by 20% to **Rs. 49,510 crores**. Profit after Tax rose by 24% to **Rs 7,040 Crores** (Growth figures exclude onetime impact of change in policy related to provisions for warranty obligations in 2010-11). With this your company has become eligible for 'Maharatna' status.
- Despite stagnation in Power Sector and intense competitive pressure in Domestic and International markets, orders worth **Rs. 22,096 Core**, have been booked. At the end of the year, total orders in hand for execution in 2012-13 and beyond, stand at about **Rs. 1,35,300 Core**. Major orders include:
 - 2x660 MW Steam Generator for Mauda supercritical thermal project of NTPC, 2x660 MW supercritical sets from DB Power (MP) Ltd.
 - Main plant equipment package for 2x600 MW Singareni Thermal Power Project from Singareni Collieries Co Ltd.
 - New rating thermal set of 300 MW from Abhijeet Projects Ltd
 - 765/400 kV substation at Raichur from PGCIL - Maiden entry into 765 kV substation segment
 - 6x170 MW Punatsangchhu-II Hydroelectric Project, Bhutan.
 - Maiden entry into Ukraine with 27 MW Steam Turbine Generator (STG) package from the Arcelor Mittal group.
 - Sixth Fr6B GTG from IOCL, Vadodara
 - First Fr6FA GTG with Chiller-based Cogen plant from KRIBHCO

TURNOVER (₹ in crore)



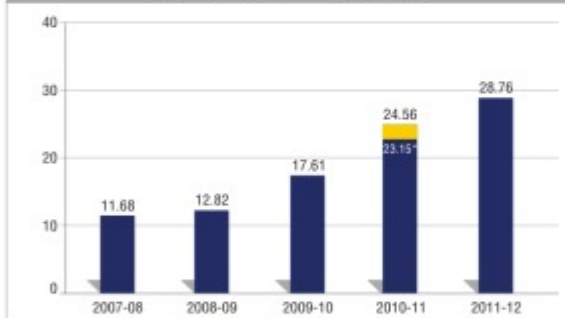
*Excluding one time impact of change in policy of warranty obligation for earlier years.

PROFIT BEFORE TAX / PROFIT AFTER TAX (₹ in crore)



*Excluding one time impact of change in policy of warranty obligation for earlier years.

EARNING PER SHARE (in ₹)



Figures prior to 2011-12 are restated on post-split on number of shares on like to like basis
*Excluding one time impact of change in policy of warranty obligation for earlier years.

- Single largest order for 85 sets 25 kV AC EMU (Conv.) from ICF, Chennai and for 870 sets of Wheel and Axle assembly from the Railway Board.
- With a capital investment of Rs.1,122 Crore during the year 2011-12, BHEL has made a total capital investment of Rs. 6,298 Crore during XI plan period in augmenting manufacturing capacities & modernisation of facilities in its manufacturing units and power projects. This has enabled your company to realise manufacturing capability to deliver 20,000 MW of Power Equipments per year with effect from the year 2012-13.
- Net worth of the company has gone up from Rs. 20,154 Crore to Rs. 25,373 Crore, a 26% y-o-y increase.
- EPS is placed at Rs. 28.76 - an increase of 24% over that of 2010-11 on post split numbers of share basis.
- A final dividend of 184% has been recommended by the Board, in addition to the interim dividend of 136% for the year. Total dividend (excluding



CMD, BHEL presenting the Interim Dividend cheque for FY 2011-12 to Hon'ble Union Minister of Heavy Industries & Public Enterprises

dividend Tax) for the year 2011-12 is Rs. 1,566.47 Crore as against Rs.1,524.85 Crore for the previous year.

- Continuing its focus on Engineering and R&D, the company invested Rs. 1,199 Crore in R&D and filed 351 nos. of patents and copyrights during the year. With this intellectual capital of your company has grown to 1786 enabling it to consolidate innovation capabilities in existing and new areas. Significantly, 20% of the turnover in 2011-12 is from in-house developed products.

Equipment Performance

Upholding its tradition of exhibiting cutting edge performance, BHEL Thermal sets (coal based) generated 460 BUs during the year 2011-12 as against 435 BUs last year, showing an increase of 5.63% and contributed 75% to the country's generation from thermal utility sets (613 BUs).

The overall PLF of coal based sets supplied by your company continues to be the highest at 75.5% against national average of 73.3%. Of these, 61 sets registered PLF of over 90% and 82 sets achieved PLF



Vindhyachal STPS equipped with BHEL sets - winner of Gold Award 2010-11 for meritorious performance

between 80% - 90%. Further, during the year, BHEL supplied 195/ 200/ 210/ 250/ 500 MW coal based sets which form the backbone of country's power generation achieved PLF of 78.9%. As a testimony to superior quality of equipments supplied by your company, 149 Thermal Sets of BHEL make have achieved Operating Availability higher than or equal to 90%.

Commissioning

During the year 2011-12, your company has commissioned/ synchronized 9,270 MW of power plants- highest ever. This includes commissioning of 8,410 MW in utilities, 535 MW in captive sets in the country and 325 MW in the overseas market. Out of 8,410 MW commissioned in utilities, capacity addition of 8,138 MW were achieved (29% higher than previous year) and 272 MW synchronised but awaiting clearance from utilities for capacity addition. A landmark achievement was set by your company when it added a cumulative capacity of 1,625 MW comprising of Thermal and Hydro Units in various power stations across the country within a span of just 24 Hours. Significantly during XI Plan Period your company has commissioned 25,385 MW of utility sets, nearly double of that commissioned by it during X plan.

Performance of Subsidiaries

1. BHPV

BHPV Visakhapatnam has been exhibiting good performance since 2010-11. During 2011-12, the subsidiary company achieved net profit of Rs. 10.44 Crore with the turnover of Rs. 156 Crore, registering a y-o-y growth of 14%. BHEL is providing all resources to BHPV in terms of technology support, order booking, capacity enhancement, working capital and policy &



*2x525 MW Right Bank Malthon Thermal Power Project
commissioned by BHEL*

procedures alignment. The process of merger with BHEL has been initiated.

2. BHEL EML

A new subsidiary of your company "BHEL Electrical Machines Limited", Kasargod, was incorporated on 19th January, 2011 with BHEL holding majority stake of 51% and Govt. of Kerala retaining 49%. The company has plans to develop specialised alternators in various fields. The subsidiary company posted a turnover of Rs. 21.14 Crore during the nine month period, as full commercial activities began only in June 2011. BHEL is extending supports like working capital loan, order booking, R&D support to meet the objectives of BHEL EML.

Growth & Innovation

In today's global economy, all organizations including BHEL are faced with five major challenges viz. (a) increasing global competition emanating from free trade, mobility of capital, labour and knowledge; (b) increasing advances in technologies providing endless opportunities for new types of products and

services; (c) changing and diverse market needs – Customers want to have choice and control, to interact with others, and to express their individuality; (d) increasing volatility of natural resources and (e) finally increasing environmental concerns and maintaining sustainability.

Realising gravity of these challenges, your company has adopted innovation as the central driver for implementing its strategy and achieving growth. The company has always stood above the rest in the engineering sector in the country in research and development efforts to improve its performance in indigenising products & systems meeting not only the needs of the country but also to stand competitive. Today, your company is deeply focused on innovation than ever before.

Your company has adopted a new R&D Policy to transform R&D and innovation in a structured and focused manner in order to have strong capabilities in product development and engineering. As part of Strategic Plan 2012-17, the company has identified a number of Mission Projects to build and consolidate capabilities in emerging and existing areas. Your

company is putting in place all enablers like people capabilities, infrastructure, processes and organization support to succeed in its ambitious technology endeavours. Active partnerships and alliances are being worked out with national and international science and technology establishments of repute like IITs, IISc, CSIR etc. Company has signed a Memorandum of Collaboration for pursuing R&D in the area of Solar Energy consisting of Solar PV and Solar Thermal-CSP with IOCL & IIT-Rajasthan. Focus areas are clean coal technologies, renewable energy, 765/1200 kV transmission systems and products, transportation, system engineering and futuristic technologies.

Your company has indigenously developed, manufactured & tested 333 MVA, 1200 KV Class Ultra High Voltage Transformer for efficient bulk energy transmission systems and first 765 kV, 80 MVAR single phase Shunt Reactor during 2011-12. Further, to remain contemporary in technology, BHEL has implemented State-of-the-art C&I platform to address compatibility between Control Panel and Human Machine interface. In a bid to build excellence



765 kV, 80 MVAR single-phase Shunt Reactor



Plasma Nitriding System at Corporate R&D, Hyderabad

in its products and systems and to pursue developmental work in futuristic technologies, your company during the year has established four new Centres of Excellence in the areas of Advanced Fabrication Technology, Coal Research, Nano Technology application & UHV Lab for GIS development.

In cognisance of the fact that the streak of innovation must be visible in breakthrough development of products and systems, your company aspires to continually strengthen its orbit shifting innovation-led growth approach to remain current both in terms of technology & features vis-à-vis global benchmarks.

Order Inflows: In a Troubled Environment

It is an undeniable fact that the entire business environment was beset with a bleak performance during 2011-12 pummelled by various issues like high cost of capital, demand contraction in the economy, uncertainty in finalisation of projects and so on. In the backdrop of subdued investment in infrastructure in the country, your company has demonstrated its competitive advantage in **Power Sector** business



Contract signing between BHEL & PHPA-II for Electro-Mechanical package of 6x170 MW Punatsangchhu-II HEP, Bhutan

segment by winning most of the power plant & associated equipment orders placed during the year in the country. Orders worth **Rs. 14,012 Crore** were secured during the year in this segment while in its **Industry Sector** business segment BHEL has secured orders worth **Rs. 8,782 Crore** for a wide range of products and systems for application in Captive Power, Transportation, Transmission, Oil & Gas, Renewable Energy and other industry segments.

Your company has introduced a new rating 300 MW set with maiden order secured from Abhijeet Projects Limited. With this new introduction, BHEL has enhanced its range of thermal sets on offer in subcritical segment.

During the year, major successes included maiden entry into 765 kV substation segment with order for 765/400 kV substation at Raichur from PGCIL, single largest Raw Material Handling System (RMHS) order from NMDC for their 3 MTPA Integrated Steel Plant being set up at Nagarnar, Chhattisgarh and order for supply of 6 nos. state-of-the-art AC Drilling Rigs from ONGC.



2x660 MW Barh Supercritical Power Project under execution by BHEL

Other significant orders in Industry business segment were single largest order for 85 sets 25 kV AC EMU from ICF, Chennai; 870 sets of Wheel and Axle assembly from the Railway Board; 217 motors from CHP/AHP suppliers and 15 nos. of 980-6500 KW motors from Manikgarh Cement. Nine new customers were added in the industrial motors business, which significantly enhanced business reach of your company.

In **International arena**, the year 2011-12 witnessed confidence falling sharply due to barrage of shocks like devastating tsunami in Japan, political volatility in Middle East & North Africa (MENA) region and widespread financial instability in Europe impacting BHEL's international business prospects. On the face of such challenges, BHEL has made persistent efforts in maintaining its volume of international business. Though certain large orders expected to be finalised during the year were delayed, concerted efforts have helped us maintain our footprints with orders from 21 countries across the world.



CMD, BHEL receiving the NDTV Profit Business Leadership Award 2011 in the Engineering category from the then Union Minister of Finance

The credibility of your company has won the confidence of existing customers in overseas business in terms of repeat orders for supply of 2500 kW and 1400 kW Slip Ring Induction Motors from Mombasa Cement Ltd., Kenya.

Your company has been successful in making an entry into Ukraine, a new market, by securing order for 27 MW STG package from Arcelor Mittal group. Your company also secured maiden export order for Wellheads from Georgia. Continued focus on After-Sales-Services led to orders for Spares & Services from different parts of the world including Australia, Bangladesh, Bhutan, Georgia, Indonesia, Iraq, Kazakhstan, Malaysia, Malta, Oman, Saudi Arabia, Sri Lanka, UAE, United States, Vietnam and Yemen.

Awards & Accolades

During the year 2011-12, like in previous years, BHEL's performance in terms of MoU Excellence, Top performing CPSE, Innovation Management, Occupational Health & Safety, Business Leadership, Quality Management etc has been aptly recognised



CMD, BHEL receiving 'SCOPE MoU Award for Excellence & Outstanding Contribution to Public Sector Management 2009-10' from the Hon'ble Prime Minister of India



Hon'ble Union Minister for Commerce & Industry presenting the Intellectual Property Award 2011 to CMD, BHEL & Director (E, R&D)

through various national and international awards. Your company has been honoured with several awards which include 'MoU Excellence Award 2009-10' as the Top Performing CPSE in 'Industrial Sector'; 'SCOPE Meritorious Award for R&D, Technology Development and Innovation'; 'NDTV Profit Business Leadership Award' for the second year in succession; 'Golden Peacock Award for Occupational Health & Safety 2011' & the 'Golden Peacock Award for Innovation Management 2011'; three Quality Circles won Gold Medals for their case studies at the International Quality Circle Conference (ICQCC – 2011) held in Yokohama, Japan; 8 Prime Minister's 'Shram Awards' including 2 'Shram Bhushan' and 5 'Vishwakarma Rashtriya Puraskars'.

Positioning for the Future

Today your company finds itself at crossroads where on one hand the company has acquired tremendous capabilities while on the other hand the business environment is not propitious for harnessing our capabilities due to muted growth in domestic



Hon'ble Prime Minister of India with Shram Award winners from BHEL

economy and contagion effect of subdued global economy.

The recent trend of subdued performance of industry due to negative sentiments is unlikely to continue on back of strong fundamentals of the economy. Demand revival is expected over mid to long term bouncing back the economy to its earlier stead. In this context, I must share with you that:

1. Your company has adopted its 7th Corporate Plan, Strategic Plan 2012-17, to steer the company with a vision of becoming a global engineering enterprise. It comprises expanding our offerings in the power sector by building EPC capability, focus on industry businesses, expansion of spares & services and adoption of a collaborative approach. Towards this, company is focusing on increasing its value contribution. Focus will be on enhancing EPC business and enlarging scope of offer in power sector. JV of your company with NTPC namely NBPPL would be the manufacturing base for certain BOP equipment like AHP and CHP etc. BHEL is also working with GE India to offer water

management solutions for power sector. Secondly, potential business areas like Transportation, Transmission, and Renewable etc. will get more attention so as to maintain a balanced portfolio of offerings from your company. In addition, there would be an increased emphasis on technology and R&D efforts to meet emerging business requirements.

2. It is a matter of pride that your company, in recent years, has expanded its manufacturing capability to deliver 20,000 MW of power equipment per year - highest amongst the peers in the domestic industry. Various initiatives are being taken to streamline manufacturing value chain for full exploitation of a strong manufacturing base.
3. In spite of the prevailing situation in power sector, company believes that the power sector will continue to remain a major contributor to its top line with Transportation and Transmission emerging as the next big business verticals. In view of increasing intensity of competition in this segment, your company is pursuing various cost reduction strategies to retain leadership position in Indian market. Your company will continue to strengthen its presence in the Nuclear, Renewable and Water segments.
4. Development of innovation-led capabilities in product development and engineering will continue to receive focused attention by the company. To uphold reputation for excellence in its core capability of 'Engineering & Technology', the company will continue to upgrade existing products and systems to contemporary levels and develop new products through continuous in-house efforts as well as through acquisition of new technologies.



Karnataka's single-largest Grid-Connected Solar Power Plant of 5 MW capacity commissioned by BHEL

5. BHEL has recruited more than 20,000 highly talented and competent people at all levels during last five years. Human Resource focus would be on developing each person's competencies, their performance and potential in alignment with business plans. Leadership development, competency mapping, performance linked pay, career planning and succession planning initiatives are in various stages of implementation within the company.
6. To ensure implementation of Strategic Plan 2012-17, your company would continue to pursue the '6-Point Agenda' viz. Capability Enhancement, Accelerated Project Execution, Product Cost Competitiveness & Quality, Diversification, Engineering & Technology and People Development to enable it reap an execution premium that would place it ahead of peers.

Towards Sustainable Progression of Society

Your company manages its environmental impacts across the entire manufacturing value chain.



Akshayapatra's mid-day meal van in Assam funded by BHEL as part of CSR initiatives

Internally, various integrated operations improvement initiatives enable us to optimally manage key aspects of materials, water, energy, emissions and biodiversity in the larger interest of society. BHEL facilitates its customers manage their environmental and social impacts throughout the entire operational lifecycle of the power plants by offering them state-of-the-art engineering and technology inputs for reducing green house gas emissions, water consumption, better heat rate, less auxiliary power consumption with less fuel requirement.

Various performance reports from Central Electricity Authority, India and North American Electric Reliability Corporation (NERC), USA explicitly indicate superior performance of BHEL thermal sets in terms of Plant Load factor, Operating Availability, Forced and Planned Outages. This ultimately leads to most optimal utilization of fossil fuel coal in such power plants.

BHEL has been actively contributing to the national effort of developing and promoting clean energy based products on a sustained basis. During the year,



BHEL-aided day care centre for cancer patients of Global Cancer Concern India in Gurgaon

the company set a new record in its Solar Photovoltaic (PV) business by commissioning 15 MWp of Solar Power Plants in various parts of the country.

Under the aegis of the National Mission on Clean Coal Technology, your company, in association with IGCAR, NTPC and other organizations, is developing Advanced Ultra Supercritical Technology. Once operational, plants based on this technology will operate at efficiency exceeding 45% under Indian ambient conditions. Further, the company is actively involved in development of IGCC technology, which is the clean coal technology of the future. BHEL on the strength of 6.2 MW IGCC plant installed at Trichy is working with APGENCO to set up a 182 MW plant at Vijaywada.

BHEL firmly believes this is its greatest contribution towards sustainable progression of Indian and Global society.

Being a Responsible Corporate Citizen

With a strong commitment of repaying the society at large, your company actively contributes towards

socio-economic upliftment of the people in alignment with Mission Statement of its CSR policy - "Be a Committed Corporate Citizen, alive towards its Corporate Social Responsibility". BHEL has initiated definitive measures by undertaking projects in diversified areas like health, environment enrichment, hygiene, education, water conservation, community development, self-empowerment etc. in villages and communities located in the vicinity of its manufacturing plants and project sites spread across the country. Your company generously extends financial assistance to various social welfare societies/ NGOs/ trusts that are engaged in various social welfare programmes.

Corporate Governance

Your company believes that 'results are important' but it is equally concerned with 'how it achieves results'. Commitment to this principle is the foundation of your company's Corporate Governance Policy which rests upon the four pillars of Transparency, Full Disclosure, Independent Monitoring and Fairness to all. With a clear vision and purpose based on a solid foundation



BHEL's MoU for 2012-13 with MHI&PE being signed by CMD, BHEL and Secretary (HI) in the presence of functional Directors of BHEL and senior officials of MHI&PE

of values, BHEL wants all its stakeholders, large and small, to see it as an attractive destination. Your company has been consistently making efforts in adopting best governance practices that are critical to ensure optimization of returns and satisfaction levels accruing to all its stakeholders.

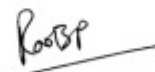
Acknowledgement

I would like to take this opportunity on behalf of the Board of Directors to thank our esteemed shareholders for their steadfast confidence reposed in our Company.

There is a powerful conviction that companies like ours continue to contribute to the country's economy in a meaningful way and the company is energised by its new vision of becoming a Global Engineering Enterprise providing solutions for better tomorrow. I would like to thank my fellow Directors on the Board and the members of the Management Committee for their wisdom and support. The support of various Ministries of the Government of India, particularly the Department of Heavy Industry, has been vital to your company's excellent results for the year. I would also like to thank our customers, business partners and vendors for their continued co-operation and support.

The employees of the company are a great source of strength. The company's journey thus far would not have been possible but for their dedicated service - and their continued contribution in building a stronger BHEL. The organization that has been built thus far provides us with a strong foundation for a new era of growth. I look forward to continued support from all stakeholders as we look to the years ahead.

Thank you.



New Delhi
September 19, 2012

(B. Prasada Rao)
Chairman & Managing Director