

CHAIRMAN'S STATEMENT



Gentlemen,

It is my great pleasure and privilege to welcome you to the 27th Annual General Meeting of your Company. The Company has been firmly progressing in its mission of providing reliable and quality power in large quantities at a competitive price. It has also taken up in mission-mode the task of timely realization of revenues. Your Company has been building upon its strength and has taken concrete steps to enter into new business areas in order to become an integrated utility and to create its presence in international markets. The Company has revisited its Corporate Plan. The new Corporate Plan for 2002-2017 has remodelled the approach for these initiatives in a scenario marked by major changes in the economy and in the power sector.

THE ECONOMIC SCENARIO

The Tenth Five-Year Plan covering the period 2002 – 2007 sets an annual growth target of 8% and envisages conditions for further acceleration over the subsequent five years (2007-2012) so that there is a doubling of per capita income by the year 2012.

The major drivers of rapid growth will be (i) technology (ii) competition and (iii) benchmarking to the best international practices. India is moving towards macro-economic stability through a combination of fiscal and monetary policies. India is now one of the top emerging market economies in terms of foreign exchange-reserves and a large consumer base. The economic planning is being done with a global mindset. Based on the experience of certain other economies and the analysis of the Indian economy, it is thought feasible to have an average annual growth rate of 8% during the Tenth Plan. The different

segments of the economy also need to operate with global mindset and global comparability.

THE POWER SECTOR

Adequate infrastructure support by the power sector would serve to increase the efficiency of capital utilization in the country. The Government's programme to add generation capacity of over 1,00,000 MW and to build the required transmission and distribution infrastructure would require a massive investment of Rs. 9,00,000 cr. Thus, the development of the sector requires enormous investments.

The capacity addition target for the Tenth Plan is 41,110 MW. Out of this, 22,832 MW (55.6%) is to be done by the Central Sector. Out of this Central sector target, your Company is to add 9,370 MW, which is 22.8% of the total and 41% of the Central Sector contribution. Your Company is fully geared to play the pivotal role in the growth of the sector. However, support and timely clearance from various statutory bodies and other agencies will be necessary for achieving the capacity addition targets.

The provisions of the newly enacted Electricity Act, 2003 will have major impact on the growth and performance of the sector and of your Company. The Act throws up issues as well as opportunities for the Company. Allowing non-discriminatory open access to transmission with immediate effect and to distribution lines at a later date for use by generating companies and trading / distribution licensees and ultimately to the consumers will bring in change and competition. Provisions regarding market determined tariff with maximum / minimum

threshold and regarding tariff through competitive bidding will influence business modalities and encourage competition. Trading may also emerge as a major activity. Generators are allowed to enter distribution business. Regulators will have a very important role in infusing dynamism into the sector and ensuring flow of investment into the sector while providing really sustainable benefit to the end consumers.

The Electricity Act does provide a very sound framework. But the real success will lie in effective implementation through appropriate policies. The Union Ministry of Power has circulated a 'Discussion Paper' on tariff policy and the CERC has issued 'Discussion Papers' on terms and conditions of tariff, 'open access' and power trading.

Besides enactment of the Electricity Act, the Ministry of Power has also given a major thrust to Accelerated Power Development and Reform Programme and to rural electrification. A 50,000 MW Hydroelectric initiative has been launched by Hon'ble Prime Minister of India. The One-Time-Settlement of the dues of SEBs to CPSUs is also likely to help the sector. It will improve the balance sheets of the signatory SEBs. They can now raise resources on the strength of their improved balance sheet and thereby invest in the areas of distribution upgradation, R&M of existing plants and creation of new generation capacities.

However, the overall success of the various reform initiatives will be seen in the ability of the sector to attract and utilize adequate investment. Here, it may be noted that in totality, the cost of power in India is not high. The high level of cross subsidies makes the tariff structure rather skewed. Thus, much will depend on effective determination and realization of user charges which must cover the cost of service and provide incentives to the investors comparable to alternate investments. The success of the initiative to provide power for all by 2012 will, to a great extent, be determined by the ability of the power sector to attract fresh investments.

STRATEGIC INITIATIVES TAKEN BY NTPC

New Corporate Plan

The Company has redrafted its Corporate Plan. The new Corporate Plan for the period 2002-2017 is both, a mid-course review of the earlier Corporate Plan made for the period 1997-2012, and also a new road-map chalked out in view of emerging changes, issues and opportunities in the sector.

The new 'Corporate Mission' contains new directions and it also underlines more firmly certain initiatives already taken by the Company. Some elements of the Mission Statement are:

- Adopt a broad-based capacity portfolio including hydropower, LNG, nuclear power, and non-conventional and eco-friendly fuels.

- Be an integrated utility by implementing strategic diversifications in areas such as power trading, distribution, transmission, coal mining, coal beneficiation, etc.
- Develop a strong portfolio of profitable businesses in overseas markets including technical services, generation assets etc.
- Lead fundamental and applied research for adoption of state-of-the-art technologies, breakthrough efficiency improvements and new fuels.
- Lead developmental efforts in the Indian power sector including assisting state utility reform, policy advocacy etc.

In order to realize the Mission, the Company has laid down its objectives in the areas of (i) business portfolio growth, (ii) customer focus (iii) making the corporation agile (iv) performance leadership (v) human resources development (vi) financial soundness (vii) sustainable power development and (viii) research & development.

Integration

The gradual opening up of the sector, now being facilitated by the Electricity Act 2003, presents new business opportunities. These opportunities need to be exploited by the Company in order to strengthen its competitive advantage in generation and to allow growth opportunities to its workforce while leveraging its skills.

By way of **backward integration**, your Company is diversifying into captive coal mining. The objective is to fill the gaps in fuel availability to NTPC plants as an internal fuel security measure and also to attempt a better price benchmark.

In order to improve gas availability for the existing plants and to ensure gas availability for the expansion projects, your Company has initiated the process of international competitive bidding for LNG, its regassification and transportation. Your Company would consider investing a minimum of 26% in the regassification ventures and may also consider investment in associated liquefaction terminals.

By way of **forward integration**, your Company is entering into the business of distribution and trading of power. Your Company has set up a wholly owned subsidiary '**NTPC Electric Supply Company Limited**' for establishing its presence in distribution and is in process of identifying and acquiring appropriate distribution segments.

In view of the expected increase in the volume of energy trading, your Company has set up a wholly owned subsidiary '**NTPC Vidut Vyapar Nigam Limited**'. In the long run, the Company contemplates to establish a national power exchange utilizing state-of-the-art technology.

By way of **lateral integration**, the Company has set up a wholly owned subsidiary '**NTPC Hydro Limited**' to carry out the business of implementing and operating small and medium hydro power projects with less than 250 MW capacity. This subsidiary has been given the 108 MW Lata Tapovan Project by the Uttaranchal Government. This is in addition to the direct hydro capacity development by NTPC at Koldam (800 MW), Loharinag Pala (520 MW) and Tapovan Vishnugad (360 MW). New capacity addition is also being planned under joint ventures with SAIL at Bhilai (500 MW), with Railways at Nabinagar (1000 MW), and with the Tamil Nadu Electricity Board at Ennore (1000 MW).

NTPC in the Global Market

In view of the significant demand for EPC, O&M and R&M related services in domestic and international markets, the Company is seeking strategic alliances with reputed international players. It has also joined hands with BHEL for executing contracts abroad. NTPC has joined in expression of interest as power plant service provider in Algeria, Oman, Saudi Arabia and Iran in an effort to expand its business to international boundaries towards its goal of becoming an Indian MNC.

Other Initiatives

In order to give a quantum thrust to its research & development activities, the Company has decided to set up a 'Power Technology & Research Centre', which would conduct research in alternate fuels, non-conventional energy resources and new technologies. Blending R&D with Corporate Social Responsibility, the proposed Centre will develop commercial options for distributed power generation. The Company has decided to earmark 0.5% of its profits for R&D activities.

The Company is also examining the feasibility of setting up a 100 MW IGCC demonstration plant based on domestic coal at its Dadri power station with the association of USAID and also with the association of BHEL at one of its power stations.

The Company is also an active member of National R&D Committee constituted by the Principal Scientific Advisor to the Government of India for development of indigenous IGCC technology suitable for Indian coal.

Your Company has begun the implementation phase of the corporate transformation project called '**DISHA**' with the help of M/s A.T. Kearney. As part of the Project DISHA, the Company has initiated an Enterprise Resource Planning (ERP) project called '**LAKSHYA**'. The ERP initiative is likely to impart a cutting edge to the Company in terms of increased efficiency, quicker response to stakeholders' demands and flexibility as well as transparency of decisions.

ALL ROUND PERFORMANCE

Capacity Addition

The Company has 5800 MW capacity under construction, which is the highest simultaneous construction activity so far undertaken by the Company. In addition to this, orders are going to be placed in a month or two for 1710 MW capacity. Further, bids have already been invited for 3960 MW capacity. Work is likely to commence within a year on setting up 1500 MW capacity in joint-ventures with SAIL (500 MW) and Railways (1000 MW) respectively. This is by far the largest capacity addition endeavour for the Company and also for any organization in the sector.

The initiatives of your Company are primarily based upon the confidence generated by its sustained performance at high levels. The performance during the year 2002-03 has been in keeping with the company's robust track record. Some of the highlights are:

- Turnover of Rs. 199.84 billion (US \$ 4.129 billion).
- Net Profit of Rs. 36.07 billion (US \$ 745 Million).
- Generation of 140.868 Billion Units (Twh), which is 5.76% higher than the generation during 2001-2002. The Company contributed over 47% of the incremental annual generation of the country.
- Contributing 26.51% of the entire country's generation with only 19.44% of national capacity.
- Highest ever Plant Load Factor of 83.6% against the all India average of 72.1%.
- Providing power at highly competitive average tariff of 147.12 paise / Kwh (US Cents 3.04 / Kwh).
- Much improved current realisation of 92.3% in 2002-03, which further increased to 99.3% during April-August 2003.
- Dividend paid and proposed Rs.7.08 billion for the year(US\$ 146.296 million).
- Net worth of the Company as on 31 March 2003 was Rs. 315.04 billion (US \$ 6.509 billion).

This kind of sustained performance and continuous improvement is an outcome of well planned measures taken to reduce project-implementation-time-cycle, adoption of best operation and maintenance practices and several other steps taken in different areas. The strategy of expanding the capacity in existing projects has also helped in reducing project implementation cost and time. This ultimately means power availability at lesser price to the consumer.

Under its comprehensive Corporate Mission, your Company has been contributing to India's power supply while taking

significant initiatives in the areas of Corporate Social Responsibility. Your Company has developed global linkages and standards in these areas too. The Company is committed to the principles of the Global Compact under the United Nations. The contribution of the Company has been acknowledged by the most esteemed agencies and forums. Some major awards given to the Company in the areas of environment management and Corporate Social Responsibility include:

- **US Environment Protection Agency's 'Climate Protection Award'** for the year 2003 won by NTPC's Centre for Power Efficiency & Environmental Protection (CENPEEP).
- The **'Climate Technology Initiative (CTI) Award'** by CTI, an initiative of the **International Energy Agency (IEA) and OECD countries also won by CENPEEP.**
- **'ICC – UNEP World Summit Business Award for Sustainable Development Partnership'** for promoting Sustainable Energy Development.
- The **'Platts Global Energy Award for Community Development'** as the best organization in 'Community Development'.
- **'Shell Helen Keller Award 2002'** given by the National Centre for Promotion of Employment for Disabled People.
- **TERI's 'Corporate Social Responsibility Award'** for year 2003.

For NTPC, Corporate Social Responsibility includes adherence to principles of corporate governance. Besides having established appropriate systems much before they were made mandatory under statutes, the Company has been continuously sensitizing and educating its employees about the need for value based and transparent working through training programmes, workshops and administrative measures.

This kind of all round contribution to, and excellence in, various areas on a sustained basis has been made possible by the dedication and commitment of the employees of your Company. The Company has been taking a number of HR initiatives based upon the four foundation blocks of (i) competency (ii) commitment (iii) culture and (iv) system. Development centres, 360 degrees feed back for business leaders on voluntary basis, psychometric tests for all new recruits, learning initiatives like Professional Circles, Mentoring System, values actualization drive and such other activities have been strengthening our progressive HR interventions. A new performance management system has been introduced. The cumulative impact of all these activities results in higher productivity and employee morale. Last year, I shared with you that an intensive organizational climate survey in the Company had indicated very high sense of organizational pride among the employees. I am glad to share

with you that this year, this sense of pride and fulfillment has been acknowledged in a rigorous and extensive comparison of 220 major companies operating in India by **'Business Today and Hewitt Associates Best Employers in India 2003' Survey**. NTPC has been **ranked third best employer**. Indian operations of leading MNCs like Proctor & Gamble, American Express, Johnson & Johnson, and Glaxo SmithKline Healthcare are the other Companies among the top five. The survey has rated the Company very high in terms of senior leadership commitment to employees, people practices, commitment to employee learning and development, adherence to strong values, employee participation, paying close attention to employees' quality of life, positive perception of employees about the Company and business alignment of HR policies. The survey revealed that the employees feel proud of the organization and are highly dedicated to do the very best possible to contribute to the organization's success. This vindication of our faith in the commitment of our employees gives us greater confidence to move ahead and realize our ambitious targets. I wish to place on record my appreciation for the hard work put in and the commitment demonstrated by the members of the NTPC team.

I want to express our thanks to the State Governments, State Electricity Boards and successor utilities, our consultancy clients and other associates who have reposed confidence in the Company. I express my sincere gratitude and appreciation for all fellow members on the Board for their invaluable support and contribution. We gratefully acknowledge the guidance and support we have been receiving from the Union Ministry of Power, the Central Electricity Authority and other departments of the Government of India. We are grateful to the Central Electricity Regulatory Commission for its initiatives to impart grid discipline, systematize power regulation when necessary, and for other measures to improve the working of the sector. We are thankful to the banks, financial institutions and lending agencies who have provided us with the financial resources. We also thank the statutory auditors of the Company and the Comptroller and Auditor General of India for their constructive suggestions.

I take this opportunity to assure all the stakeholders that NTPC is firmly on course to a brighter future and thereby enhance its contribution to the growth of the power sector and the Indian economy.



(C.P. JAIN)
CHAIRMAN & MANAGING DIRECTOR
NATIONAL THERMAL POWER
CORPORATION LIMITED

Date: September 24, 2003