CHAIRMAN'S STATEMENT

10th Annual General Meeting of Torrent Power Limited

28th July, 2014

Dear Shareholders,

I extend you all a very warm welcome to this 10th Annual General Meeting of our Company on behalf of the Board of Directors and on my personal behalf.

I believe you would have read the Annual Report of the Company for the Financial Year 2013-14 and would have noted the developments in the Company.

Financials

Results

In brief, as compared to the Previous Year the turnover increased by 6.62% to Rs. 8,817 Crore in FY 2013-14 and the Company earned a profit after tax of Rs. 95 Crore during the year as against Rs. 385 Crore in the Previous Year.

Dividend

The Company, as a policy, endeavours to distribute 30% of its annual profit after tax as dividend, in one or more tranche(s). In line with the said policy, the Board has recommended dividend of 5% for the year under review.

Before I proceed further on the affairs of the Company, let me give you all an overview of the current Indian power sector scenario.

Power Sector Scenario

India with installed capacity of 245 GW as of March, 2014 has become the world's fourth largest power generator. However, its per capita annual electricity consumption still remains significantly low with more than one third of the country's population living without electricity. This, nevertheless, provides enormous opportunity for substantial investment in the power sector to support India's pursuit for energy. I am sure that this opportunity will be fully tapped by various participants under the impetus being provided by the new Government under the leadership of Hon'ble Prime Minister Shri Narendra Modi.

Generation

Let me throw light upon the three major power segments. In generation, more than 43% of the target of the installed capacity addition has already been met in the first two years of the 12th Five Year Plan i.e. FY 2012-13 and FY 2013-14. The achievement of 151% of its target capacity addition by Private sector for FY 2013-14 is commendable.

As you all may be aware, the power sector is grappling with fuel crisis. On the domestic coal front, delays in environment and legal clearances as well as lack of diligent efforts to ramp up the production continue to impact adversely the growth in coal output. Domestic gas availability too, continues to be a major constraint with power sector not receiving gas from KG-D6 basin since March, 2013 due to its reduced production. More than 19,000 MW gas based capacity is idle or is operating at a very low PLF. Further, 7,000 MW under advanced stage of construction is stranded for want of gas. The production from RIL's new wells in KG basin of about 13 mmscmd is expected to start from 2017-18 if approvals are provided in time. Also, GSPL would start producing gas up to 5.24 mmscmd by 2017-18. Further, India would receive 6 mmscmd from FY 2015-16 and 22 mmscmd from FY 2016-17 under its two long term contracts with Australia and US respectively. Mozambique has also agreed to supply LNG in significant quantity to India from one of its largest field. We expect all these future developments to augment the gas availability in India.

The decision on doubling the gas price based on Rangarajan Panel's formula approved by the previous government has been deferred by the New Government till September, 2014. It is appreciable that the New Government wants to have a comprehensive review and discussions and consultations with stakeholders before implementing any gas price hike. We hope the Government will take a pragmatic decision on the gas price keeping in mind the public interest.

In yet another major development, the new CERC Tariff Regulations with stricter norms have become applicable from 1st April, 2014 for a period of five years.

Transmission

FY 2013-14 was a year of significance for the transmission segment. The nation became one of the largest operating synchronous grids in the world with the connectivity of the Southern Grid to the NEWNE Grid. Now, there is 'One Nation – One Grid – One Frequency' ensuring relief to the power-starved southern region, increased stability, better management and smooth delivery of power to the consumers. There is however, an urgent need for increasing the transmission capacity in line with the generation capacity. Right-of-Way issues, non-availability or delay in getting forest clearance and delay in land acquisition for setting up sub-stations also remain to be tackled.

Distribution

The distribution segment continues to be the weakest link in the power sector. High technical and commercial losses plague the segment. Despite tariff hikes by various SERCs in the range of 4%-29% during FY 2013-14, the inability of the Regulators to fully convert the increased generation costs into tariff hikes is resulting into accumulation of huge regulatory assets. The poor financial health of the State Discoms is also a matter of great concern. However, availment of the scheme of Financial Restructuring by eight states so far is a good step. As way forward State Discoms should encourage workable franchise models to come out of such financial crisis.

As we know the New Government has unveiled its first budget on 10th July, 2014 providing various measures for the power sector. We welcome these measures, especially the extension of tax holiday for power projects under section 80 IA of the Income Tax Act till 31st March, 2017. This would bring back certainty to the investors. The New Government has shown its commitment to revive the Special Economic Zones. However, the cost of power generation would bear an upward pressure with the increase in Clean Energy Cess on coal from Rs. 50 per tonne to Rs. 100 per tonne coupled with the increase in customs duty on coal and recently announced railway freight hike.

Let me now touch upon the developments in various units of the Company which impacted FY 2013-14 profits and continue to impact FY 2014-15 profits as well.

SUGEN

Due to continued non-availability of domestic gas from RIL's KG-D6 basin and reluctance of beneficiaries to off-take power based on expensive LNG, SUGEN's PLF declined to 23% in FY 2013-14 from 41% in Previous Year.

Although commissioned on 4th April, 2013, the 382.5 MW gas based SUGEN 40 remained non-operational throughout the year due to the same reasons. Hon'ble CERC has determined the tariff for SUGEN 40 on the Project cost of Rs. 1,833 Crore. However, this tariff is yet to be adopted by Hon'ble GERC due to which the recovery of this cost by the regulated distribution business is in abeyance.

AMGEN

AMGEN successfully uprated its E station to 121 MW from 110 MW and synchronized the same with the grid on 21st October, 2013. The total capacity of coal based stations at AMGEN is now 422 MW.

During the year, AMGEN's coal based stations achieved PLF of 75% against 81% during the Previous Year. This was mainly due to the uprating activities carried out at E & F stations during FY 2013-14.

Regulated Distribution

During the year, T&D loss marginally increased to 6.54% from 6.52% during the Previous Year for Ahmedabad and Surat license areas, still one of the lowest in the country, which continues to be a matter of pride for all of us. Open access, conversely, has impacted the sales growth of Ahmedabad license area to the tune of 323 Mus in FY 2013-14. Also, the reduced offtake of power from our gas based stations has necessitated short term power purchase.

Hon'ble GERC has issued the tariff order for FY 2014-15 on 29th April, 2014 allowing an average tariff hike of 44 paise per kWh, an approximate increase of 7.5%, effective from 1st May, 2014. After reduction of positive difference between incremental base power purchase rate and base FPPPA the effective increase works out to ~29 paise per kwh.

During the year, the FPPPA mechanism was corrected to provide for pass through of mix variance. However, the Regulated distribution business of the Company could not recover fully the additional cost on account of purchase of short term power, for a good part of the year. The Regulated distribution business in Ahmedabad and Surat, with its resolute efforts constantly endeavours to increase its efficiency with respect to transmission & distribution losses, operating costs, service quality, etc., yet it does not get due recognition or incentives for its efficient operations in the current regulatory framework.

Despite its genuine efforts, the Company has not been fully successful to meet its Renewable Purchase Obligation for FY 2013-14 mainly due to supply constraints and other factors beyond the control of the Company. However, in recognition of the sincere efforts by the Company, Hon’ble GERC has revised the RPO targets for FY 2012-13 as per actuals.

Distribution Franchise Operations

15 days strike by Power loom industry and wide spread agitation, pursuant to increase in tariff at Bhiwandi, resulted in de-growth of sales by 2.58%. This in turn has affected AT&C loss which was higher at 22.68% in FY 2013-14 as against 21.68% during the Previous Year. However, the Collection Efficiency increased from 94.97% in FY 2012-13 to 97.30% in FY 2013-14 due to the continuous efforts made by the Company.

The sales at Agra registered a growth of 14% in FY 2013-14 over FY 2012-13. AT&C loss also improved at 43.47% in FY 2013-14 as against 51.26% during the Previous Year due to network augmentation, LT network undergrounding, better meter reading efficiency and increased collection efficiency.

DGEN Mega Power Project

The Company is implementing the 1,200 MW DGEN Mega Power Project in Dahej SEZ area, through its wholly owned subsidiary, Torrent Energy Limited. The Project is expected to be completed in the second quarter of FY 2014-15.

The DGEN project cost is expected to increase by Rs. 922 Cr. as compared to the original project cost. The Company has undertaken additional works i.e. construction of gas transportation pipeline from PLL terminal to DGEN plant for Rs. 70 Cr. and Water supply system for Rs. 57 Cr. The increase in the project cost due to such additions is Rs. 127 Cr. Further, for factors beyond the control of the Company, the project cost is estimated to increase by net approx. Rs. 795 Cr. This is primarily on account of abnormal increase of Foreign Exchange rates having impact of Rs. 214 Cr., change in regulations by CERC for infirm power pricing and MoPNG restrictions on utilisation of domestic gas for commissioning resulting into purchase of LNG from spot market costing net Rs. 429 Cr. and increase in IDC due to delay in commissioning by the EPC Contractor etc. amounting to Rs. 152 Cr. However, the Company has been able to recover Rs. 506 Cr. from the EPC Contractor towards the LD for delay. Though the revised project cost is Rs. 5741 Cr. on account of these factors, the comparative revised project cost is only Rs. 5,452 Cr. against the original project cost of Rs. 5325 Cr.

Amalgamation

The Board in its meeting dated 29th October, 2013 had accorded its approval to carry out a Study and thereby evolve a suitable and optimum business model along with desirable capital structure for the power sector operations of the Torrent Group. Based on the outcome of the Study, the amalgamation of Torrent Energy Limited and Torrent Cables Limited with the Company along with appropriate re-organisation of consolidated long term financing arrangements was found to be a suitable and optimum business model for the power sector operations of the Torrent Group. The proposed amalgamation is expected to benefit all the three companies and their stakeholders in terms of synergies of operations, higher integration, concentrated management focus, increased shareholders' value and enhanced reputation of Torrent Group. In this regard, a composite scheme of amalgamation under the provisions of the Companies Act, 1956 including the share exchange ratio was recommended by the Audit Committee and approved by the Board of Directors at their respective meetings held on 12th May, 2014. The Share exchange ratio was determined by~~,~~ M/s. Price Waterhouse & Co., LLP Chartered Accountants and the fairness opinion was provided by M/s IDFC Securities Limited, Merchant Bankers, on the same.

The Company has filed the draft Scheme of Amalgamation with the Stock Exchanges for their approval.

Appreciation

Before I conclude my address, I would like to gratefully acknowledge the continued support of our valued customers in all our activities.

I am pleased to place on record the appreciation on behalf of the Board of Directors, and on my personal behalf for the continued support received from the Government of India, the State Governments, the Central and State Electricity Regulatory Commissions/Authorities, the National, Regional and State Load Dispatch Centres, Regional Power Committees, Chief Electrical Inspectors of Gujarat, Uttar Pradesh and Maharashtra, State Energy Developers, State Discoms, National and State Transmission Companies, the Corporation and Municipal authorities of the areas of Company's operation, EPC Contractors, Fuel Suppliers and Transporters, Power Exchanges, Banks, Financial Institutions and Security Trustees.

In view of difficult times experienced by the Company, we have been able to convince the employees, especially Managers & above category to accept the moderate rise in their annual compensation for FY 2013-14. This has to be viewed in the context of other industrial segments being liberal in their compensation to their employees and the country facing acute inflationary pressures. I would appreciate and thank all the employees for their commitment and dedication in the discharge of their duties.

I owe my gratitude to my colleagues on the Board who have always provided valuable guidance.

I take this opportunity to express my gratitude to all the shareholders for the trust reposed by them in the Management of the Company.

As a part of Green initiatives, I request all the members who have not registered their e-mail addresses so far to register the same for receiving all communication including Annual Report, Notices, Circulars, etc. from the Company electronically.

I sincerely thank all of you for your valuable time and attention.

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