



Presenting Rural India in a whole new light

ANNUAL REPORT 2004 - 2005



**Rural Electrification Corporation Limited**  
A Government of India Enterprise

■ **COMPANY SECRETARY**

Shri B.R. Raghunandan

■ **REGISTERED OFFICE**

Core-4, SCOPE Complex,  
7, Lodhi Road, New Delhi-110003

■ **STATUTORY AUDITORS**

M/s K.B. Chandna & Co.  
Chartered Accountants

■ **BANKERS**

Reserve Bank of India  
State Bank of India  
State Bank of Hyderabad  
Vijaya Bank  
Dena Bank  
Corporation Bank  
Union Bank of India  
HDFC Bank  
Central Bank of India  
ICICI Bank  
IDBI Bank  
Syndicate Bank

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# Board of Directors

1. **Shri M.N. Prasad** Chairman & Managing Director (Upto 1.8.2005-F/N)
2. **Shri A.K. Lakhina** Chairman & Managing Director (From 1.8.2005-A/N)
3. **Shri H.D. Khunteta** Director (Finance)
4. **Shri Bal Mukand** Director (Technical)
5. **Shri Ajay Shankar** Director (Upto 6.9.2005)
6. **Shri Arvind Jadhav** Director
7. **Shri M. Sahoo** Director



**Shri A.K. Lakhina**  
Chairman and Managing Director



**Shri H.D. Khunteta**  
Director (Finance)



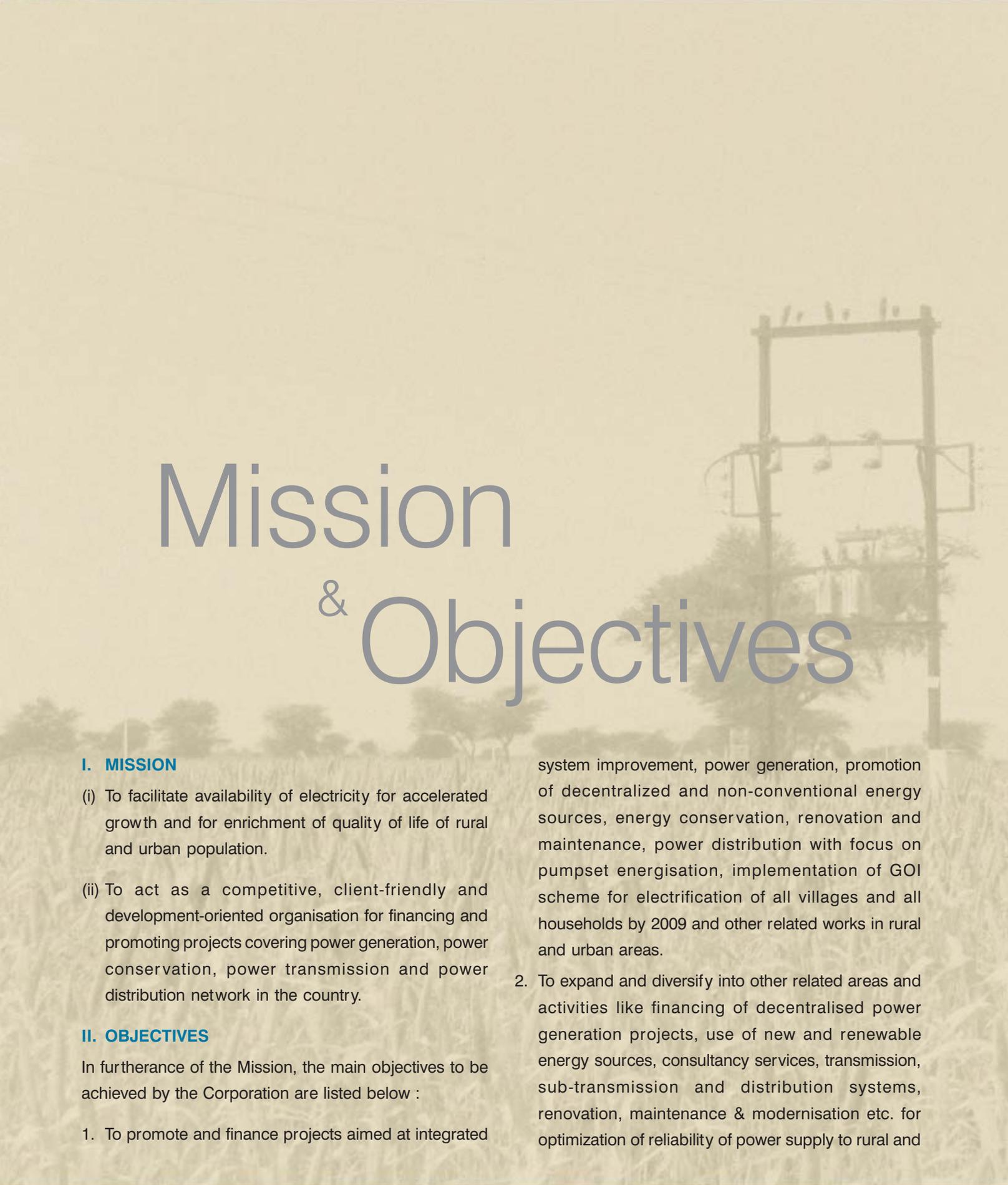
**Shri Bal Mukand**  
Director (Technical)



**Shri Arvind Jadhav**  
Jt. Secy. MOP and Director REC



**Shri M. Sahoo**  
Jt. Secy. & Financial Adviser,  
MOP and Director REC



# Mission & Objectives

## I. MISSION

- (i) To facilitate availability of electricity for accelerated growth and for enrichment of quality of life of rural and urban population.
- (ii) To act as a competitive, client-friendly and development-oriented organisation for financing and promoting projects covering power generation, power conservation, power transmission and power distribution network in the country.

## II. OBJECTIVES

In furtherance of the Mission, the main objectives to be achieved by the Corporation are listed below :

1. To promote and finance projects aimed at integrated

- system improvement, power generation, promotion of decentralized and non-conventional energy sources, energy conservation, renovation and maintenance, power distribution with focus on pumpset energisation, implementation of GOI scheme for electrification of all villages and all households by 2009 and other related works in rural and urban areas.
2. To expand and diversify into other related areas and activities like financing of decentralised power generation projects, use of new and renewable energy sources, consultancy services, transmission, sub-transmission and distribution systems, renovation, maintenance & modernisation etc. for optimization of reliability of power supply to rural and

- urban areas including remote, hill, desert, tribal, riverine and other difficult/remote areas.
3. To mobilise funds from different sources including raising of funds from domestic and international agencies and sanction loans to the State Electricity Boards, State Governments Power utilities, Rural Electric Cooperatives, Non-Government Organisations (NGOs) and private developers.
  4. To optimise the rate of economic and financial returns for its operations while fulfilling the corporate goals viz. (i) laying of power infrastructure; (ii) power load development; (iii) rapid socio-economic development of rural and urban areas, and (iv) technology up-gradation.
  5. To ensure client satisfaction and safeguard customers' interests through mutual trust and self respect within the organisation as well as with business partners by effecting continuous improvement in operations and providing the requisite services.
  6. To assist State Electricity Boards/Power Utilities/State Governments, Rural Electric Cooperatives and other loanees by providing technical guidance, consultancy services and training facilities for formulation of economically/financially viable schemes and for accelerating the growth of rural and urban areas.

## Fifteen years at a glance

Particulars	2004-05	2003-04	2002-03	2001-02	2000-01	1999-00
<b>RESOURCES</b> (at the end of the year) (Rs. Lakhs)						
Equity Capital	78060	78060	78060	78060	73060	68060
<b>BORROWINGS</b> (Rs. Lakhs)						
From Govt. of India	14017	118336	220341	480947	566779	559894
By issue of bonds	1360591	1197511	1049404	671927	372068	277573
From LIC	350000	150000	—	—	—	—
Other Banks	213200	44000	20000	21000	—	—
Reserves & Surplus (Net)	299830	248377	208105	168570	141769	121105
<b>FINANCING OPERATIONS</b> (During the year) (Rs. Lakhs)						
Number of projects approved	1523	1322	1060	979	1301	1379
Financial assistance sanctioned	1631636	1597791	1212534	676394	630809	467820
Disbursements	788509	601704	660664	472193	410922	305105
Repayments by borrowers	468324	358732	471594	266998	216262	155259
Outstanding at the end of the year	2106218	1830470	1593565	1418534	1218919	1029368
<b>ACHIEVEMENTS UNDER THE PROJECTS</b>						
<b>Villages electrified</b>						
During the year	765	122	—	207	581	1996
Upto the end of the year	305829	305064	304942	304942	304735	304154
<b>Pumpsets energised</b>						
During the year	175772	132914	134583	139917	206071	252877
Upto the end of the year	8383254	8207482	8074568	7939985	7800068	7593997
<b>Working Results</b> (For the year) (Rs. Lakhs)						
Total income	230209	199671	205389	166466	141961	129401
Personnel & Admn. Expenses	4434	4659	5866	4972	3141	2544
Interest on borrowings	120475	114220	120274	109879	93216	79189
Depreciation	115	103	104	151	621	623
Profit Before Tax	103665	80154	76663	50120	44647	41936
Provision for Tax	23590	18915	18811	11355	10958	10502
Profit After Tax	80075	61239	57852	38765	33690	31434
Dividend on Equity	23450	18300	17400	12000	6700	5000

1998-99	1997-98	1996-97	1995-96	1994-95	1993-94	1992-93	1991-92	1990-91
68060	63060	58260	53460	48660	44260	39010	36260	32260
501749	455591	422402	394369	363936	332669	303740	277651	251571
209102	197517	179901	162456	154501	141353	123760	128008	122757
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	2491	3541
89827	65307	56843	49522	47967	46074	38905	48282	40351
1468	1261	1290	1224	2286	1623	1169	1320	1990
287873	121368	113645	102822	126402	73687	50223	95415	96183
220260	109381	78721	82893	102797	69198	47426	58784	70909
111024	41483	26574	39188	41764	21226	17429	23692	14322
884231	779923	715081	662897	619192	565463	517491	487524	452615
2502	3045	3274	3728	3541	3217	3354	5574	10219
302158	299661	296616	293342	289713	286172	282955	279601	274027
279201	242173	300792	335446	398877	323429	330827	398837	513400
7341120	70611919	6819746	6518954	6183501	5784631	5461202	5130375	4731538
113631	79596	71428	59040	53898	52687	33021	50340	43861
2400	1792	1647	1261	1088	957	949	861	755
69372	63163	58509	52743	47187	42373	39395	36201	32632
607	601	585	570	2124	25	23	26	21
38454	12073	8552	1987	1927	6702	(-) 9377	12531	10474
8530	2576	1300	—	—	—	—	3890	2984
29924	9497	7252	1987	1927	6702	(-) 9377	8641	7490
5000	1000	—	—	—	—	—	704	664

## NOTICE

Notice is hereby given that the **Thirtysixth Annual General Meeting** of the members of Rural Electrification Corporation Limited **will be held on Thursday the 22<sup>nd</sup> September, 2005, at 3.00 P.M.** at the Registered Office of the Corporation at Core-4, SCOPE Complex, 7, Lodi Road, New Delhi, to transact the following business:

### ORDINARY BUSINESS

1. To receive, consider and adopt the Audited Balance Sheet as at 31<sup>st</sup> March, 2005 and the Profit & Loss Account for the period ended on that date and the Report of the Directors and Auditors thereon.
2. To declare Dividend for the year 2004-2005.
3. To fix the remuneration of Auditors.

### SPECIAL BUSINESS

4. To consider and if thought fit, to pass with or without modification/s, the following resolution **as a Special Resolution:**

#### “RESOLVED

that, the Articles of Association of the Corporation be altered by substituting the following Article in place of existing Article 84(2) of the Articles of Association of the Corporation :

“**84.** Without prejudice to the general powers conferred by preceding Articles and the other powers conferred by these Articles and subject to the provisions of Section 292, 293, 294 and 297 of the (Companies) Act, the directors shall have the following powers, that is to say powers:-

**(2) Work of capital nature** – to incur capital expenditure to the extent of Rs.300 crore or equal to the net worth of the Corporation, whichever is lower, without seeking approval of the Government of India”.

5. To consider and if thought fit, to pass with or without modification/s, the following resolution as an Ordinary Resolution:

#### “RESOLVED

that, the consent of the Members be and is hereby accorded, in pursuance of Section 293(1) (d) of the Companies Act, 1956, to the Board of Directors of the Corporation to increase the total borrowing limit from Rs.25,000 crore (Rupees Twentyfive Thousand crore only) to Rs 35000 crore ( Rupees Thirtyfive Thousand crore only ) for the purpose of the business of the Corporation notwithstanding that the moneys to be borrowed together with the moneys already borrowed by the Corporation (apart from temporary loans obtained from the Bankers in the ordinary course of business) will exceed the aggregate of the paid-up capital of the Corporation and its free reserves.”

By the order of the Board of Directors,  
For Rural Electrification Corporation Limited



(B.R. Raghunandan)  
GM (Law) & Company Secretary

New Delhi  
Dated the 6<sup>th</sup> September, 2005

To

1. All Members of the Corporation.
2. Statutory Auditors of REC

**Notes :**

1. A Member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and vote instead of himself and the proxy need not be a Member of the Company. The proxy, in order to be effective, must be deposited at the registered office of the company not less than 48 hours before the commencement of the meeting.
2. The Explanatory Statement in respect of the proposed Special Business, pursuant to Sec.173 of the Companies Act 1956, is annexed hereto.
3. Consent of all the members is being obtained for calling the AGM and circulation of Notice of the meeting and other requisite documents at shorter notice than 21 days.

## **Explanatory Statement in respect of Item No. 4 and 5 of the Notice pursuant to Section 173 (2) of the Companies Act, 1956**

### **ITEM NO. 4**

Article 84 of the Articles of Association of REC dealing with "Specific powers to Directors" provides that the Directors shall have the power to authorize the undertaking of works of a capital nature subject to the condition that all cases involving a capital expenditure exceeding Rs. 15 lakhs shall be referred to the Central Government for approval before authorization.

The above limit of Rs.15 lakhs for incurring capital expenditure was fixed in the year 1972 and was not revised subsequently, although there has been exponential growth in the volume and scale of business of REC. In keeping with the exponential business growth of REC over the last 3 decades, as well as in keeping with the present status of REC as a Mini Ratna Grade-I which provides for enhanced delegation of powers to the Board of Directors for incurring capital expenditure upto Rs.300 crore, approval of the Board of Directors of REC and the Ministry of Power have already been obtained for suitable amendment to Article 84(2) of Articles of Association of REC, subject to obtaining further approval of the Company in a General Meeting as required under the Companies Act, 1956.

The Board accordingly recommends passing the special resolution as contained in Item No.4 of the Notice attached hereto.

None of the Directors of the Company is interested or concerned in this resolution.

### **ITEM NO. 5**

The Members of the Corporation at their Thirtyfifth Annual General Meeting held on 16<sup>th</sup> September, 2004 had accorded their consent under Section 293 (1)(d) of the Companies Act to the Board of Directors of the Corporation for borrowing moneys upto a total amount of Rs.25,000 crore for the purpose of its business.

As on 31.03.2005, the net borrowings were about Rs.19,600 crore against paid-up equity capital of Rs.780.60 crore and reserves of Rs.2998.30 crore. The projected level of borrowings during the next financial year 2006-07 may go beyond the present permissible limit of Rs.25000 crore. It is therefore proposed to take advance action for increasing the total borrowing limit of the Corporation from Rs.25000 crore to Rs.35000 crore to take care of future requirements.

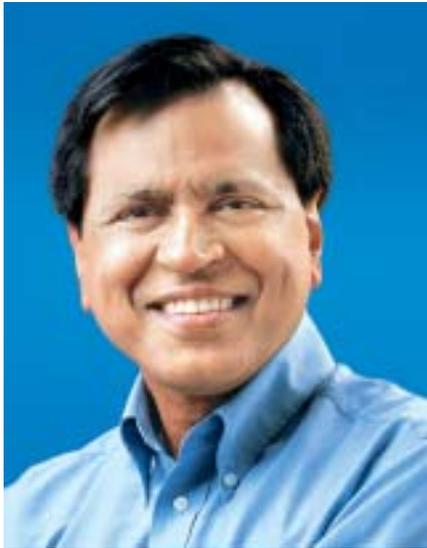
Approval of the Board of Directors has been obtained for the above proposal at their 295<sup>th</sup> Meeting held on 30<sup>th</sup> August, 2005 subject to obtaining the consent of the shareholders at a general meeting of the Corporation, in terms of Section 293(1)(d) of the Companies Act, 1956 and subject further to any other statutory and procedural formalities to be complied with in this regard.

The Board accordingly recommends passing the Ordinary Resolution as contained in Item No.5 of the Notice attached hereto.

None of the Directors of the Company is interested or concerned in this resolution.

Electrified villages will  
spark off a whole new  
generation of bright minds.





# Chairman's Speech

## Dear Members,

It is my privilege to extend a warm welcome to you at the Thirty Sixth Annual General Meeting of your Corporation.

Having taken over charge as Chairman and Managing Director of the Corporation on 1<sup>st</sup> August 2005, it is a privilege and a challenge to be steering the Corporation at this point in its history. The Corporation has accelerated its growth both in performance and profitability, declaring higher dividends and consistently breaking its previous records. The year 2004-05 under review has been no exception.

Before I present the outlines of performance for the year 2004-05, I wish to share with you the current Power scenario, dynamics and achievements that would drive REC's future strategy and initiatives.

India is sitting on the blitzkrieg of becoming a super power and it is the Indian rural sector that is going to drive that super growth. World-class power structure is a pre-requisite to sustain higher GDP realization and consistent development of the urban and rural sectors.

The domestic power sector is adversely affected by huge capacity shortages, a high level of transmission, distribution and commercial losses, a lack of grid discipline, an unnecessarily large workforce, ageing networks, and a lack of commercial orientation. Installed capacity is 7.3% lower than demand, with peak shortages as high as 11.7%. To combat this challenge, the Government of India has taken various initiatives from the creation of The Electricity Act 2003 ... to the

launching of the Rajiv Gandhi Grameen Vidyutikaran Yojna (RGGVY). These measures would need an investment of around Rs. 8,00,000 crores by 2012. **REC is on the threshold of great opportunities.**

## Performance. Packed with Power.

During the year under review, the Corporation sanctioned loans amounting to Rs.16316 crores compared to Rs.15978 crores in the previous year. Disbursements were Rs.7885 crores, compared to Rs.6017 crores in the previous year (31% increase). Recoveries including interest touched Rs.6817 crores, compared to Rs.5003 crores in the previous year (36% increase). Profit before tax crossed the Rs.1000 crore mark for the first time, reaching Rs 1038 crores from Rs.803 crores in the previous year (29% increase). Your directors have recommended highest-ever dividend of Rs.234.50 crores for the year (28% increase), including an interim dividend of Rs.58 crores paid earlier, against Rs.183 crores for the previous year. This year's dividend amounts to 30% on the Corporation's paid-up equity capital of Rs.780.60 crores.

During the year, the Corporation mobilized Rs.8501 crores from the market for its business operations. This included Rs.5029 crores by way of priority/non-priority sector bonds, capital gains tax exemption bonds and infrastructure bonds. The debt instruments of REC continued to enjoy an AAA rating – the highest rating assigned by CRISIL, CARE and FITCH. During the year, there was a substantial increase of about 90,000 investors bringing the total investor base in REC Bonds to around 2,00,000 by the end of March 2005.

REC continued to keep its cost of borrowing to a minimum, by raising funds at competitive rates. Besides timely repayment of Government loans and redemption of bonds, REC pre-paid a high-cost loan of Rs.976.73 crores to the Government. The Corporation also pre-paid an amount of Rs.2194.55 crores to bond holders by exercising call options in respect of four series, carrying a higher rate of interest. This has reduced the average cost of borrowings. REC is now exploring the possibility of resorting to external commercial borrowings, subject to receiving the necessary approval from RBI.

During the year under review, overdues of Madhya Pradesh SEB have been settled by a re-scheduled package involving the issue of bonds amounting to Rs. 1414.80 crores by the Govt. of MP, bearing interest @ 8%, payable bi-annually. Overdues from the Jharkhand State Electricity Board were fully settled by cash payment. Overdues from Assam State Electricity Board have also been re-scheduled during the current year 2005-06 and an agreement with Bihar State Electricity Board is under finalization. Your Corporation has contained the NPA level to an insignificant ratio of less than one percent.

#### Powerful Contribution.

During the year 2004-05, REC paid to the Central Exchequer, a sum of Rs.1649 crores. This included the repayment of Government loan of Rs.1043 crores, interest on Government loan of Rs.101 crores, Income Tax of Rs.213 crores, Dividend of Rs.241 crores, Dividend Tax of Rs.31 crores and Income Tax amounting to Rs.20 crores, for the earlier year.

#### MOU with Ministry of Power.

Your Corporation has been securing an 'Excellent' performance rating for 11 consecutive years, as against an annual Memorandum of Understanding signed with the Ministry of Power, Government of India. For the 12<sup>th</sup> year in succession (2004-05), the Corporation is poised for an 'Excellent' rating once again. We have entered into a fresh MOU with the Ministry of Power for 2005-06 that includes several new performance indicators. For the first time, the targets for sanctions and disbursement for generation and other schemes have been fixed separately. Accordingly, your Corporation will move in these business segments to serve the needs of power infrastructure.

#### Empowering Rural India - Rajiv Gandhi Grameen Vidyutikaran Yojna (RGGVY).

The Government of India has made rural economic development in general, and rural infrastructure development in particular, its key priority. Rural electrification is the top goal. Your Corporation has been entrusted with the responsibility of providing access to electricity to about 5 lakh villages and 78 million households in the entire country. The programme will cost over Rs.16,000 crores and has to be completed by 2009.

RGGVY has two distinct components. One is the last mile connectivity to every unelectrified BPL household. The other is encouraging franchisee development for the collection of tariff, the maintenance of the distribution system, and sustainability of returns. The franchisees would become better private business enterprises at the



Shri A.K. Lakhina, CMD, REC handing over Dividend Cheque for 2004-05 to Hon'ble Minister of Power Shri P.M. Sayeed

grass root levels. The relevance of your Corporation will dramatically increase when tens of thousands of franchisees are created within the next 3 to 5 years, seeking enlarged roles and opening up immense business opportunities.

SEBs and CPSUs have been involved in the implementation of RGGVY. Your Corporation has already succeeded in concluding agreements with West Bengal, Bihar, UP and Rajasthan during the year. A total outlay of Rs.4326 crores was sanctioned, covering the electrification of 54,159 villages and 23,45,412 households.

During the year, your Corporation has succeeded in creating 309 Sub-stations of various voltage levels to provide the infrastructure back bone for rural electrification schemes in various States in the country. The Corporation has supported the electrification of 765 villages, 6561 Dalit Bastis, 5907 hamlets, 1,75,772 pumpsets and electrification of 56,492 households under the Kutir Jyoti and BPL programme.

**Development of State Electricity Boards(SEBs).**

A very large portion of the business of your Corporation is conducted with State Electricity Boards. There is a general perception that the sagging financial viability of SEBs impacts the long-term standing of REC. The reforms launched by the Ministry of Power are changing this perception. Significant changes have occurred in the last couple of years in the unbundling of monolithic and monopolistic State Electricity Boards. Your Corporation was doing business with 30 SEBs till recently. They have happily grown into 60 decentralised units (Generation, Transmission and Distribution)

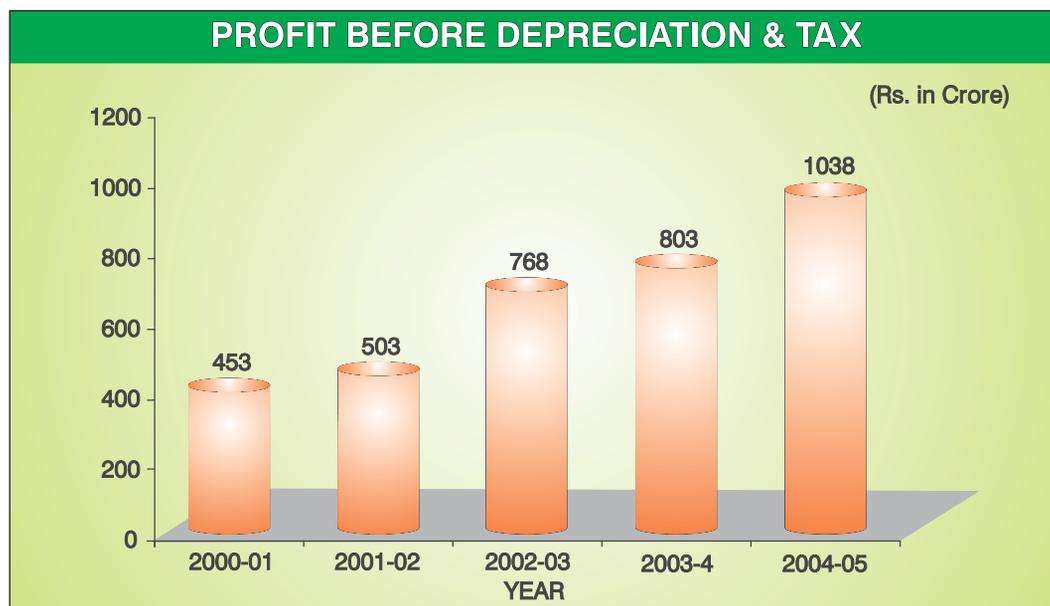
competing with each other and with private enterprises. The SEBs and their successor units are performing stellar roles and still control 90% of distribution and nearly half of power generation. REC's role, therefore, is two fold:-

- i) to engage them into targeted development of larger generation, transmission and sub-transmission activities and reduction in T&D losses, and
- ii) to strengthen these nascent undertakings into viable and competitive business entities by offering them structured financial solutions on their present and future assets.

There is already a perceptible reduction in T&D losses, an increase in transmission infrastructure, and an improvement in generation capacity, indicating a beginning of a turn-around. Most of the States have drawn medium-term business plans and are engaged in evaluation of their assets and appraisal of their financial capabilities. They are on the way to either breaking even, or creating surpluses within the next 5 years. We are gratified to note that most of the Discoms are seriously involved in system improvement with funds provided by your Corporation, and are taking losses southwards. Your Corporation will continue to encourage SEBs and their successor companies to revive, and will not rest till they become profitable organizations.

**Playing a Lead Role.**

The Ministry of Power, Government of India, enlarged the business mandate of REC in the year 2002, to cover the financing of all categories of power generation projects, irrespective of size and location. Your Corporation has captured sizeable amount of the business, aggregating Rs. 14,357 crores in generation



projects alone, for both public and private sectors up to the end of the year. REC will aggressively strive to play a lead role in the financing of generation and transmission projects.

#### International Co-operation.

REC is taking initiatives to seek international co-operation to boost the development of rural electrification by obtaining cheap international funds and using modern technology. A new Division has been set up to approach external multi-lateral agencies like JBIC, Kfw, World Bank, USAID etc to fund various REC programmes on concessional terms. Your Corporation is confident of securing credit from these agencies, increase its average margins and gain larger profits in the years to come.

#### The Road Ahead

Today, REC is India's giant conglomerate and an acknowledged source of integrated system improvement, power generation, power conservation, power distribution, pumpset energisation, rural household electrification and other related work in the rural areas. It has a staff strength of 666 people, deployed in 17 field formations.

The key result areas for your Corporation in the years to come will be a focus on the financial systems and important financial performance matrices. These would include the return on capital for you, our shareholders, investors and all other stakeholders, the expansion of the scope, services and size of the balance sheet. Our objective is to safely and efficiently achieve the mandate of rural electrification, widen the capital base, bring down

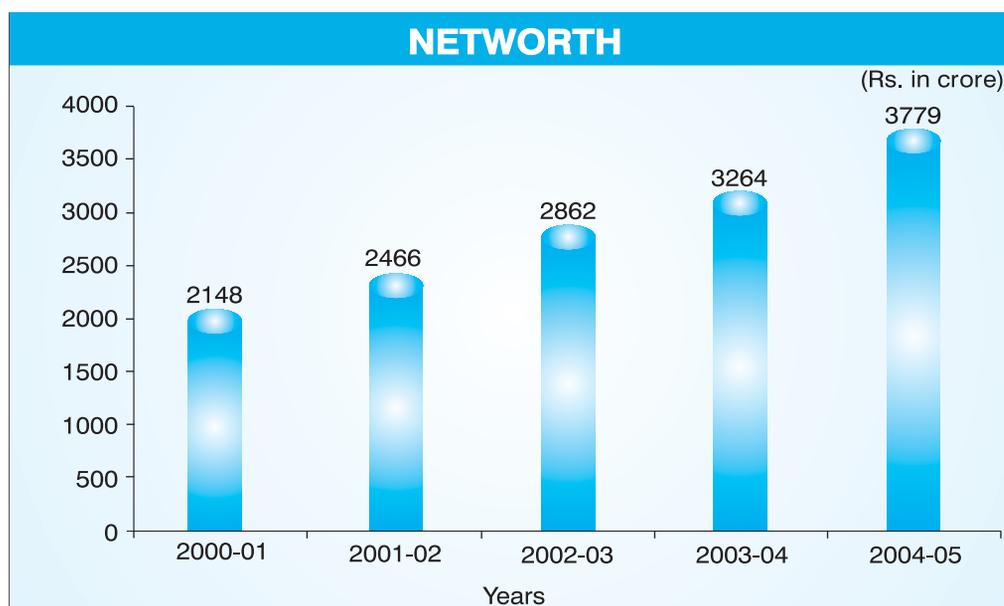
the cost of funds, ensure prudent financial management, create a foolproof asset liability management system, and add value to the power generation and distribution companies in the State and private sectors.

REC aspires to be an international organization, to lend its expertise to the rural electrification programmes in other needy countries. With a view to playing this new role, REC proposes to develop a robust business plan, undertake capacity building exercises in the engineering and financial sectors, promote R&D and standardization of materials, create corporate communications, and provide training to all the functionaries in public, private and NGO sectors engaged in power sector. Its future plans will be to develop and promote IT in its own field formations and the State Electricity Boards. The year 2005-06 will see the results of initiatives undertaken in these directions, so that larger business flows in and shores up its surpluses.

#### Our Thanks

In all its endeavours and achievements, REC has been receiving constant guidance and support from the Ministry of Power, Ministry of Finance, and the Planning Commission.

Your Corporation is deeply grateful to the immense support received from Shri P.M. Sayeed, Hon'ble Minister for Power and Shri R.V. Shahi, Secretary (Power) Government of India. Without their constant guidance REC could not have achieved such an excellence during the year. REC is also thankful to Shri M.N. Prasad, IAS who functioned as the CMD for the entire period of 2004-05.



I would like to place on record REC's gratitude for the valued guidance, co-operation and support received from Reserve Bank of India.

REC thankfully acknowledges the timely financial assistance extended by Life Insurance Corporation of India and other Banks, and the continuing confidence reposed in us by our valued investors who have subscribed generously to the bonds issued by the Corporation from time to time.

I would also like to place on record my appreciation of the sincere efforts by all the officers and staff of REC in

achieving excellent results for yet another year in succession.



**A.K.Lakhina**  
Chairman & Managing Director

New Delhi  
September 22, 2005

Electrification will spawn a **multitude**  
of cottage **industries**. And, in no time,  
our very own rural industrial **revolution**.



## DIRECTORS' REPORT

To

The Shareholders,

The directors have pleasure in presenting the Thirty-sixth Annual Report of the Corporation together with the audited accounts for the year ended 31<sup>st</sup> March, 2005.

### 2. PERFORMANCE HIGHLIGHTS

- 2.1** Over the last eight years, the Corporation has recorded substantial growth in all performance parameters. During the year 2004-05, the profit before tax crossed the Rs. 1000 crore mark for the first time.
- 2.2** The total amount of loan sanctioned during the year 2004-05 was Rs.16316 crore against Rs.15978 crore sanctioned during the previous year. The total amount of disbursements made was at an all time high of Rs.7885 crore against Rs.6017 crore disbursed in the previous year. The amount recovered during the year was also the highest at Rs.6817 crore against the last year's recoveries of Rs.5003 crore. The profit before tax and depreciation was also the highest ever at Rs.1038 crore as against Rs.803 crore for the previous year.

### 3. FINANCIAL REVIEW

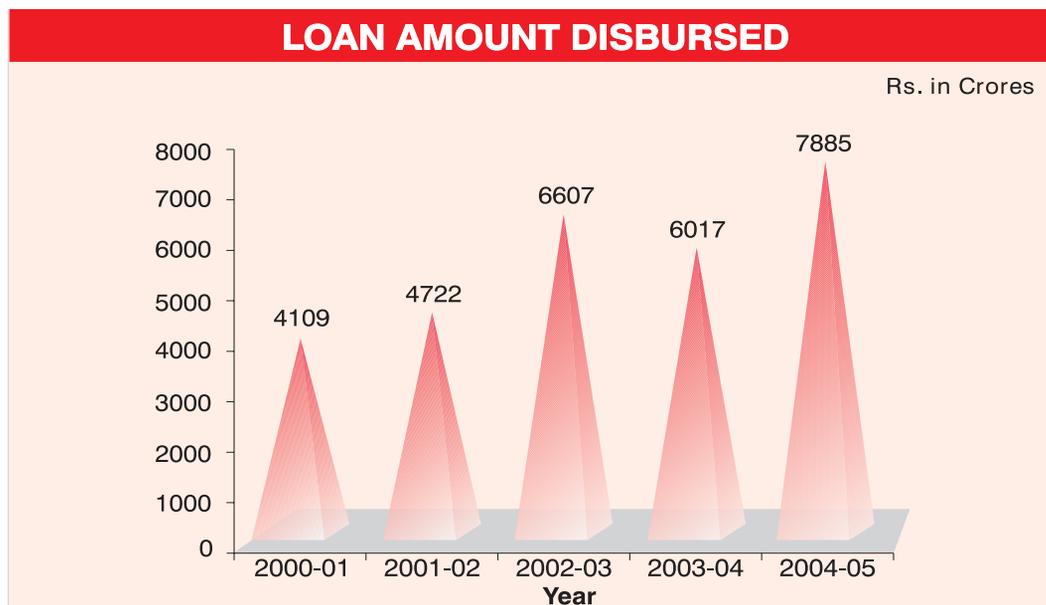
- 3.1** The summary of financial results of the Corporation for the year ended 31<sup>st</sup> March, 2005 are as given below:-

(Rs. in Crore)

	2004-05	2003-04
Sanctions	16316.00	15977.91
Disbursements	7885.09	6017.04
Gross Income	2302.09	1996.71
Profit before tax and depreciation	1037.80	802.57
Depreciation	1.15	1.03
Provision for Income Tax & Wealth Tax	235.90	189.15
Net Profit	800.75	612.39
Transfer to Special Reserve	380	245.65
Transfer to Reserve for Bad & Doubtful Debts	35	27.69
Transfer to General Reserve	95	129.00
Proposed Dividend/Interim Dividend	234.50	183.00
Dividend Tax	32.33	23.45
Balance carried forward	4.53	0.38

- 3.2** There was no addition to the equity share capital during the year 2004-05 and the paid-up equity share capital as on 31<sup>st</sup> March, 2005 stood at Rs.780.60 crore against the authorized share capital of Rs.1200 crore.
- 3.3** The amount mobilized from the market during the year 2004-05 was Rs.8501 crore, which includes Rs.2000 crore raised by way of term loan from Life Insurance Corporation of India, Rs.1472 crore by way of syndicated loan from commercial banks, Rs. 2440 crore by way of capital gains tax exemption bonds and infrastructure bonds, Rs. 2589 crore by

### LOAN AMOUNT DISBURSED



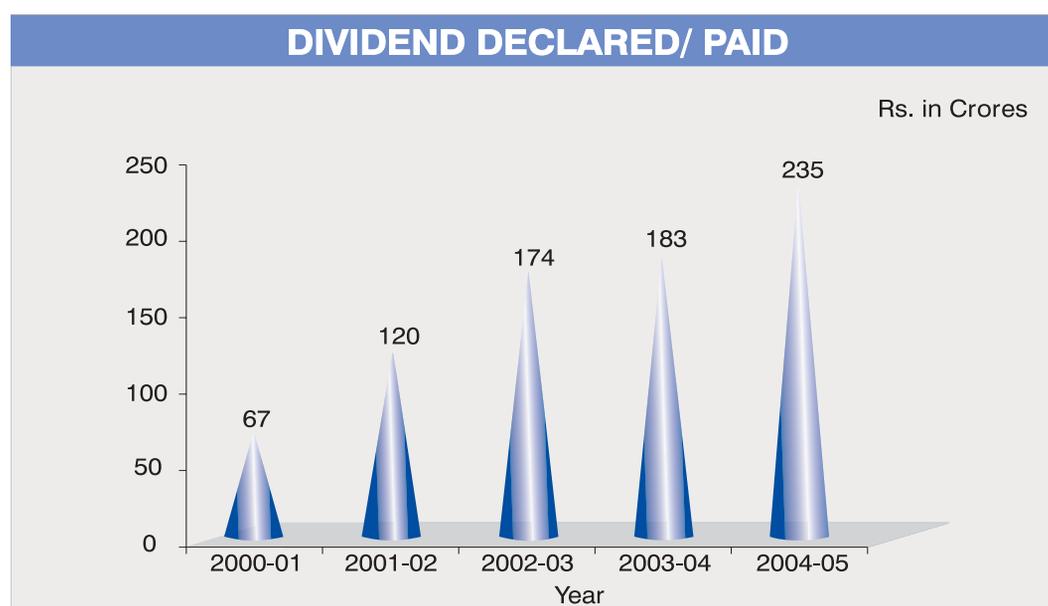
way of priority & non-priority sector bonds including Rs.250 crore raised through structured deal with swap option as long term funds. Besides, cash credit limits of Rs.1200 crore were tied up with different banks for day-to-day operations. The debt instruments of REC continued to enjoy AAA rating – the highest rating assigned by CRISIL, CARE and FITCH.

- 3.4** During the year, the Corporation repaid to the Government a total sum of Rs.1043.19 crore which includes pre-payment of Rs.976.73 crore. The Corporation also repaid a total sum of Rs.2524.55 crore to non-priority/priority sector bond holders including redemption amount of Rs.330 crore towards three bonds series which became due for redemption and Rs.2194.55 crore paid to bond holders on exercise of call option by the Corporation in respect of four series carrying higher rate of interest. In addition, capital gain tax exemption & infrastructure bonds to the tune of Rs.914.16 crore were also redeemed.
- 3.5** The Corporation initiated steps to raise ECB and got good offer, but due to non-receipt of RBI permission the transaction could not materialize. Further, as per RBI notification, facility of raising funds through priority sector bonds also ceased as on 31.3.2005, together with the facility of raising of bonds under Section 88 of Income Tax Act due to proposed amendments in the Income Tax Act. This is likely to push cost of borrowing during the year 2005-06.

**3.6** The year under review witnessed substantial increase in investor base, and approximately 90,000 investors were added to the portfolio. The number of investors in REC Bonds has thus risen to around 2 lakhs as on 31.3. 2005.

**3.7** For the year ended 31.3.2005, the profit before depreciation and tax was Rs.1037.80 crore. After providing for depreciation, tax, prior period adjustments, adjustment towards income/interest tax for earlier years and making necessary appropriation towards Statutory reserves amounting to Rs.415 crore, **your directors are happy to recommend payment of dividend of Rs.234.50 crore for the year 2004-05, including interim dividend of Rs.58 crore already paid during the year, as against Rs.183 crore declared for the year 2003-04.** The balance surplus of Rs.95 crore is proposed to be transferred to General Reserve.

**3.8** At the close of the financial year 2004-05, the total resources of the Corporation were Rs.23156.98 crore comprising equity share capital of Rs.780.60 crore, reserves and surplus of Rs.2998.30 crore, Government loan of Rs.140.17 crore, cash credit/short term loans from LIC and commercial banks of Rs.5632 crore, market borrowing of Rs. 13605.91 crore. These funds were deployed as long/short term loans of Rs.21062.18 crore and fixed assets of Rs.25.55 crore, investments of Rs.1417.22 crore and working capital of Rs.652.03 crore.



#### 4. DIRECTORS' RESPONSIBILITY STATEMENT

In pursuance of Section 217 (2AA) of the Companies Act, 1956, your Directors certify -

- (i) that in the preparation of the annual accounts, the applicable accounting standards had been followed along with proper explanation relating to material departures;
- (ii) that the directors had selected such accounting policies and applied them consistently and made judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the company at the end of the financial year and of the profit or loss of the company for that period;
- (iii) that the directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities;
- (iv) that the directors had prepared the annual accounts on a going concern basis.

#### 5. ACCELERATED ELECTRIFICATION OF ONE LAKH VILLAGES AND ONE CRORE HOUSEHOLDS

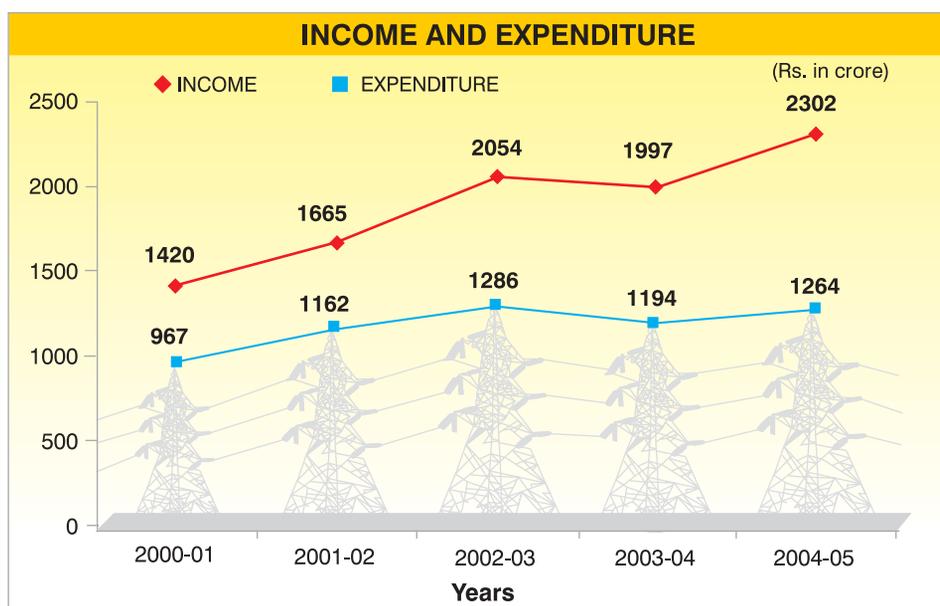
5.1 In accordance with the guidelines issued by Ministry of Power on 12<sup>th</sup> May 2004 for implementation of "Accelerated Electrification of

One lakh villages and One crore households" programme, all States were informed about the introduction of the new scheme of the Government of India and were requested to avail of this facility and formulate suitable action plan for expeditious electrification of unelectrified villages and households.

5.2 The Corporation had signed MOUs with the four CPSUs namely POWERGRID, NHPC, DVC and NTPC under which they would provide their services to accelerate implementation of rural electrification projects in the states. The States of West Bengal, Bihar and Uttar Pradesh have availed the services of the CPSUs for their projects during 2004-05.

5.3 For effective and expeditious implementation of the programme, the following guidelines of REC for project implementation were finalized and put in place after discussions in a Technical Workshop held in September, 2004 in New Delhi with functionaries of State Governments and the concerned State power utilities of 12 states (Uttar Pradesh, Jharkhand, Bihar, Orissa, West Bengal, Assam, Uttaranchal, Meghalaya, Madhya Pradesh, Arunachal Pradesh, Chhattisgarh and Rajasthan) and CPSUs of POWERGRID, NTPC, NHPC and DVC:-

- (i) Scheme formulation;
- (ii) Equipment/ material specifications and construction standards for sub-transmission and distribution systems;





Launch of Rajiv Gandhi Grameen Vidyutikaran Yojana on 4th April, 2005

(iii) Procurement of goods and services;

(iv) Bidding procedure.

**5.4** For effective and expeditious implementation of programme, REC also concluded the following agreements, during 2004-05:

(i) Four-party agreement amongst REC, State Govt., State power utilities and concerned CPSU(s) in the States of West Bengal, Bihar, and Uttar Pradesh.

(ii) Three-party agreement amongst REC, State Govt. and State power utilities in the States of West Bengal, Uttar Pradesh and Rajasthan.

**5.5** To facilitate expeditious formulation of projects, workshops were also organised by REC in Bihar, Chhattisgarh, Rajasthan, Uttar Pradesh, Uttaranchal and West Bengal.

#### PROJECT SANCTION

**5.6** With the above implementation framework, at the close of financial year 2004-05, based on the proposals submitted by the states of UP, Bihar, Rajasthan and West Bengal, 111 projects covering electrification of 54,159 villages and 23,45,412 households (including 18,29,823 BPL households) involving a total outlay of Rs. 432557.79 lakh have been sanctioned by the Corporation as per details given in **Table 1** attached.

**5.7** In addition, as per the provisions of GOI scheme, based on the requests received from State Governments/Power Utilities, the Corporation has also sanctioned schemes for 350 districts covering electrification of 5,29,934 BPL households in the electrified villages of 18 states as per details given in **Table 2** attached.

#### UTILISATION OF FUNDS

**5.8** During the year, full utilization of Rs. 400 crore (RE) has been made, which was released by Ministry of Power as capital subsidy as against request of REC for release of Rs.525 crore as capital subsidy. However, the progress achieved in this regard was of the order of Rs.444.36 crore (Capital Subsidy - provisional). The total disbursement made by REC for the sanctioned projects was Rs.1022.77 crore involving capital subsidy of Rs.444.36 crore and loan assistance by REC of Rs. 578.41 crore as per details given in **Table 3** attached.

#### 6. LAUNCHING OF RAJIV GANDHI GRAMEEN VIDYUTIKARAN YOJANA

**6.1** In order to fulfil the National Common Minimum Programme (NCMP) objective of providing electricity to all households and improving rural electricity infrastructure, a new scheme "Rajiv Gandhi Grameen Vidyutikaran Yojana" has been approved by the Government of India vide OM No. 44/19/2004-D(RE) dated 18<sup>th</sup> March 2005 of the Ministry of Power.

**6.2** The scheme was formally launched by the Hon. Prime Minister Dr. Manmohan Singh on 4<sup>th</sup> April, 2005 at Vigyan Bhavan, New Delhi. 14 States and UTs viz Andhra Pradesh, Assam, Bihar, Jharkhand, J & K, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Orissa, Rajasthan, Uttar Pradesh and West Bengal and Lakshadweep, participated in the launching ceremony through video conferencing.

**6.3** This scheme merges the existing "Accelerated Electrification of One lakh villages and One crore households" and the Minimum Needs Programme

(MNP) for rural electrification and has the objective to provide access to electricity to all rural households. Under the scheme :

- i) Ninety percent capital subsidy would be provided by the Central Government for overall cost of the project.
- ii) The scheme would create the necessary infrastructure through :
  - a) REDB (Rural Electricity Distribution Backbone). Provision of at least one 33/11 KV (or 66/11 KV) sub-station of adequate capacity in each block.
  - b) VEI (Village Electrification Infrastructure). Electrification of every village with a distribution transformer in each habitation.
  - c) DDG (Decentralized Distributed Generation & Supply) System in villages where grid connectivity is not feasible or cost effective.
- iii) Below Poverty Line (BPL) households to get electricity connection free of charge.
- iv) Revenue sustainability of electricity supply to be ensured through franchisees, who could be NGOs, users associations, co-operatives or individual entrepreneurs with association of panchayat raj institutions.
- v) No discrimination in hours of supply between rural and urban households.
- vi) Services of Central Public Sector Undertakings (CPSUs) made available to states willing to utilize their services for implementation of the programme.

## 7. DEBT REFINANCING

The Corporation introduced a scheme of debt refinancing in December, 2002 for replacement of high cost debts taken by State power utilities, Central PSUs, IPPs etc. from other banks/financial Institutions by REC loans at cheaper interest rates. During the year 2004-05, the Corporation sanctioned a loan assistance of Rs. 477 crore under this scheme of debt refinancing.

## 8. EXTERNALLY AIDED PROJECT

- 8.1 Under the Agreement between Govt. of India and Govt. of United States of America for the Energy Conservation and Commercialization (ECO) Project entered into on 28.01.2000, it has been decided to conduct a project entitled Distribution Reforms Upgrade and Management (DRUM) to enhance access to electricity and water through power distribution reform activities which will include

improving capacity building in designing techno-commercial models at the distribution/retail supply level and demonstrate best managerial, commercial and technological practices that improve the quality and reliability of "last mile" power distribution. One of the key intervention under DRUM Project would be to help development of alternative financing/lending mechanism to support broad distribution reform. For this purpose, assistance of Rural Utility Services (RUS) of the United States Department of Agriculture (USDA) would be provided to Indian DFIs like Rural Electrification Corporation under Participating Agency Service Agreement (PASA).

- 8.2. The DRUM Project was formally launched on 14<sup>th</sup> October 2004 and a Joint Statement was signed by RUS, USDA and REC expressing their intention to cooperate under DRUM Project in developing, testing and replicating models that would result in improved rural electrification in India. The key objective of this cooperation is to exchange rural electrification best practices, lessons learned and information between India and the United States to promote REC's program to:

- (i) Design financial programs for rural electricity distribution entities based on sound lending principles.
- (ii) Develop institutional capacity to implement alternative models such as electric cooperatives for improved electricity service provision and revenue collection in rural areas.
- (iii) Establish financial performance, technical and engineering standards relevant to Indian rural electricity distribution companies.

- 8.3. REC-RUS cooperation activities have started in January 2005 in accordance with a Work Plan developed jointly by REC and RUS.

## 9. LOANS SANCTIONED, DISBURSEMENTS AND RECOVERIES

- 9.1 Loans worth Rs.16316 crore were sanctioned during the year for 1523 schemes as against Rs.15978 crore in the previous year. The state-wise and category-wise break-up of loans sanctioned during the year are given in **Tables 4 and 5** respectively. A total sum of Rs.7885 crore was disbursed during the year. The state-wise disbursements and repayments by the borrowers during the year 2004-05 together with cumulative figures thereon and outstandings as on 31.3.2005 are given in **Table-6**. The cumulative state-wise position of sanctions upto the end of 2004-05 is given in **Table-7**.

**9.2** The amount, including those of defaulting SEBs, that became due for recovery during the year was Rs.5316.88 crore compared to Rs.5590.37 crore due during the previous year. The amount due during the year exclusive of defaulting SEBs was Rs.5217.69 crores. The Corporation recovered a total sum of Rs.6816.64 crores. The details of overdues from defaulting borrowers as on 1.4.2004, the amount which became due during the year, the recoveries made during the year and the overdues at the close of the financial year are placed at **Table-8**. The Corporation has been making all possible efforts towards recovery/settlement of these dues.

## 10. PHYSICAL PERFORMANCE

### 10.1 Village and Dalit Bastis Electrification

During the year 765 villages were reported as electrified. State wise cumulative position of villages reported as electrified under REC financed schemes up to the end of March 2005 is given in **Table 9**. During the year 6561 dalit bastis were reported as electrified. With this, 177315 dalit bastis have been reported as electrified cumulatively with the Corporation's assistance as on 31.3.2005. The state wise details are given in **Table 10**.

### 10.2 Pumpsets Energisation

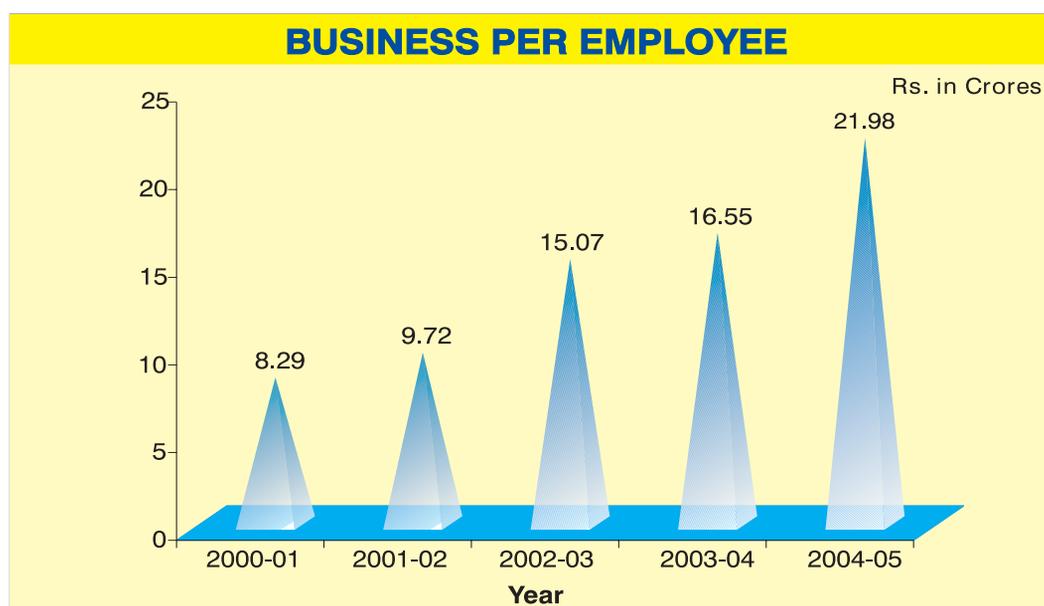
During the year, 175772 electric irrigation pumpsets were reported energized under REC financed scheme. The state wise details and cumulative position upto 31.3.2005 are given in **Table-11**.

### 10.3 BPL Household Electrification (erstwhile Kutir Jyoti Programme)

During 2004-05, Government of India has approved a new scheme "Accelerated Electrification of One lakh villages & One crore households". This new scheme replaced Kutir Jyoti Programme. Under this new scheme, in electrified villages, 100% grant was eligible for electrification of BPL households as per existing guidelines of Kutir Jyoti Scheme. Based on request from the implementing utilities, 5.29 lakh BPL connections were sanctioned involving a grant amount of Rs.82.62 crore. The implementing agencies have reported release of 5.65 lakh connections during the year.

### 10.4 System Improvement

Thrust on schemes for improvement of power distribution network for reducing T&D losses and improving the quality of power supply was continued. During the year 2004-05, a total of 410 system improvement schemes were sanctioned involving a loan outlay of Rs. 2635.43 crore. This included counterpart funding under Accelerated Power Development & Reforms Programme (APDRP) of Ministry of Power for 61 schemes involving loan outlay of Rs. 210.11 crore. The system improvement schemes also include 38 schemes involving a loan assistance of Rs. 368.04 crore for financing investment in the distribution system by way of installation of essential equipment like transformers and meters.



## 10.5 Generation

Under its expanded mandate of financing of all power projects, including transmission and generation, the Corporation sanctioned 21 generation projects (including R&M Projects) with a financial outlay of Rs.5586.37 crore, including consortium financing with other financial institutions, during the year 2004-05. Cumulatively, Since 2002-03 and upto 31<sup>st</sup> March, 2005, REC has sanctioned financial assistance of Rs.12214.52 crore for thermal hydro & generation projects. This will create additional generating capacity of nearly 6196.25 MW to cater to the needs of the nation. REC disbursed Rs.1180.35 crores, against the above sanctioned projects during the year 2004-05 which is a quantum jump of about 450% over the previous year.

## 11 ACTIVITIES IN NORTH EASTERN STATES

**11.1** For the financial year 2004-05, REC has sanctioned term loan for two major generation projects in North Eastern States envisaging a capacity addition of 880 MW and term loan amounting to Rs. 1324.05 crore, out of which additional loan of Rs.94.00 crore was sanctioned against already sanctioned project in Meghalaya. During the year, disbursement of Rs.87.15 crore has been made against the ongoing generation projects in the North-Eastern States.

**11.2** A loan assistance of Rs.23.13 crore was drawn by the North Eastern States under transmission and distribution programme during the year 2004-05 as against Rs.12.02 crore during 2003-04. During the year 2004-05, 23 schemes with a loan outlay of Rs.23.28 crore were sanctioned to Arunachal Pradesh and Nagaland under Intensive Electrification category.

## 12. ACTIVITIES OF CIRE, HYDERABAD

During the year 2004-05, REC's Central Institute for Rural Electrification (CIRE) at Hyderabad has conducted a total of 16 programmes, which includes 12 open programmes and 4 sponsored programmes. The open programmes were on Metering and Billing – Trends and Developments in Distribution Switchgear and Protection, Customer Management and Information Systems in Power, Power Purchase Agreement, Energy Audit & Demand Side Management, Power Sector reforms and APDRP Projects, Power Sector Accounting with reference to ESAAR & GAAP, Legal Aspects for Power Sector, Power Quality Issues, Challenges, Strategies and Solutions, Distribution Automation, Load Management

and SCADA Systems and Power & Distribution transformers – Optimum Performance and Utilisation.

**12.2** Under sponsored programmes, CIRE has designed three one-day programmes on "Demand Side Management Measures with a focus on Agriculture Pumping System" for Andhra Pradesh Central Power Distribution Company Limited (APCPDCL) engineers and these were organized as off-campus programme at their Institute's premises. Similarly, a programme on "Electricity Act, 2003" was organized for working engineers of Electricity Department, Pondicherry at Pondicherry.

**12.3** In total, 309 participants took part in the programmes organized by CIRE accounting to 940 mandays. The participating officers were from SEB/Electricity Departments and Discoms of Andhra Pradesh, Assam, Chattisgarh, Gujarat, Goa, Haryana, Jharkhand, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Meghalaya, Orissa, Punjab, Rajasthan, Tamil Nadu, Uttar Pradesh, West Bengal, Sikkim, Tripura etc. and from Companies viz. Torrent Power ACE, NTPC, APGENCO etc. and from Regulatory Commissions viz. APERC, AERC, UPERC etc.

## Facelift of CIRE Buildings and campus

**12.4** To improve the infrastructural facilities and create better ambience, the Corporation has taken up the facelift of campus buildings at an estimated expenditure of Rs.2.64 crore through CPWD. The work is completed in hostel and 36 rooms and dining hall air-conditioned. The renovation of the administration block, teaching block and campus development as well as laying of jogging track works are in progress.

## 13. HUMAN RESOURCE DEVELOPMENT

During the year 2004-05, the Corporation sponsored/nominated 290 officers for seminar/workshop and programmes on Official Language (Hindi) conducted by the reputed institutions/bodies and in-house and outside the country.

## 14. SCHEDULED CASTE/SCHEDULED TRIBE RESERVATIONS

The directives issued by the Government regarding reservations for SC/ST in appointment and promotion to various posts were complied

with. The groupwise details of SC and ST employees out of the total strength as on 31<sup>st</sup> March, 2005, are placed at **Table 12**.

## 15. INDUSTRIAL RELATIONS

Industrial relations continued to be harmonious and cordial. Efforts were made to inculcate team spirit and motivate the employees to fully develop their potential.

## 16. STAFF WELFARE

- 16.1** Welfare of the employees received due attention during the year and a number of steps were taken in the area of staff welfare including the following:-  
The facility of direct payment of medical expenses in respect of empanelled hospitals for indoor treatment to the retired employees covered under the "REC's Contributory Scheme for Post Retirement Medical Facilities" on the lines as applicable to the regular employees was extended.

Following hospitals added to the empanelled list of hospitals for indoor medical treatment for the benefit of employees in corporate office/project office and their dependent family members under Direct Payment Scheme.

- Sitaram Bhartia Institute of Science & Research, New Delhi.
- Vivekananda Polyclinic, Lucknow
- The Heart Center, New Delhi
- Escorts Hospital, Faridabad.

- 16.2** There was no complaint of sexual harassment of any women employee.

## 17. PERSONNEL

There was no person employed for the whole and/or part of the year in the Corporation drawing remuneration exceeding Rs.24,00,000/- per annum or Rs.2,00,000/- per month for the purpose of Section 217(2A) of the Companies Act, 1956.

## 18. PUBLIC GRIEVANCE REDRESSAL MACHINERY

In accordance with the guidelines issued by the Government of India, the Corporation has constituted a Grievance Redressal Committee to redress the grievances of officers and staff. The scope of the Committee has been further enlarged to cover public grievance also. One day during a week has been fixed as meeting day to

attend the grievances by the heads of divisions at corporate office as well as project offices.

## 19. VIGILANCE

- 19.1** The Vigilance Division headed by the Chief Vigilance Officer (of the rank of Functional Director) constantly endeavoured to inculcate values of probity in the employees to promote professionalism, organizational ethics and work culture.

- 19.2** The vigilance organization, though small, has been an effective managerial tool in enhancing the performance of the Corporation. There being no C.B.I. case against any employee of the Corporation and only one complaint presently pending, is an indication of the effectiveness of the Vigilance Division.

- 19.3** In an effort to prevent loss due to malafide, motivated and reckless performance of duties, FDRs of Special Reserve Fund of RE Cooperatives whose validity expired long ago, were revalidated retrospectively. The procedures for hypothecation of movable properties of borrowers were reviewed and instructions were issued to streamline them. CTE-like inspections were carried out on construction sites of office buildings of Project Offices to ensure compliance of quality and planned construction.

- 19.4** A major thrust was given on the preventive vigilance. Employees were made aware during Vigilance Inspections and during regular interactions that carelessness in observance of rules, procedures may attract punitive actions. This message was particularly reiterated during the Vigilance Awareness Week programmes organized from 1.11.04 to 6.11.2004 at Corporate Office as well as at all the Field Offices of the Corporation.

- 19.5** Informations/intelligence with a vigilance bias were scrutinized carefully. Annual Property Returns of the employees were scrutinized systematically, clarifications sought wherever necessary, and necessary guidance/instructions given. Vigilance Division initiated measures to streamline and strengthen office systems and procedures after some systemic failures were noticed. Thus Vigilance Division played a positive and constructive role in achieving the organizational goal.

**19.6** Agreed lists were finalized in respect of all the 18 Project Offices/Training Institute of REC in addition to its Corporate Office at Delhi after close interaction with local branches of CBI. List of officers of Doubtful Integrity was prepared.

**19.7** During the financial year, 7 senior and middle level officers were deputed on Vigilance-related training courses organized by CBI Academy, Ghaziabad, Marcos Evons (India), RIPA International and Department of Public Enterprises & ICWA.

**19.8** Performance of Vigilance Division was reviewed regularly by the CMD-REC, CVO-MOP, CVC in addition to constant reviews undertaken by CVO- REC, as per norms prescribed by CVC.

## **20. PROGRESSIVE USE OF HINDI**

**20.1** The Corporation continued its efforts during the year to ensure the effective implementation of the Official Language Policy.

**20.2.** Annual Programme received from Raj Bhasha Vibhag, Ministry of Home Affairs was discussed meticulously in order to achieve the targets and implement Official Language Policy of the Govt. of India. For smooth and systematic implementation and use of more and more Hindi in day-to-day official work, an action plan was also prepared and extensive efforts were made to achieve Annual Programme 2004-05. Hindi Pakhwara was celebrated from 01.09.04 to 14.09.04, in which nine Hindi competitions were organized and the winners awarded Hindi literature, cash prizes and certificates. Inspections of five divisions in corporate office as well as six project offices were carried out to ensure compliance of policy directives. During the year, Parliamentary Committee on Official Language also inspected the Hindi work being done in REC project office at Kolkata.

**20.3** The Corporation continued its efforts to encourage progressive use of Hindi in day-to-day official work. Regular quarterly meetings of Official Language Implementation Committee were held at corporate office. Six Hindi workshops in corporate office & two workshops in project offices were organised to remove the hesitation of employees for doing their day to day work in Hindi in which 58 officers and 72 staff members actively participated. Many

officials were deputed for Hindi computer training sponsored by Rajbhasha Vibhag at NPTI Office in Faridabad. All incentive schemes sponsored by Deptt. Of Official Language are implemented in REC. To give impetus to correspondence in Hindi, standard letters and formats have been made available on LAN. About 68% of library budget was spent on purchase of Hindi books during the year. Project Office, Chandigarh was awarded by Town Official Language Implementation Committee, Chandigarh for doing Excellent work in Hindi .

## **21. MEMORANDUM OF UNDERSTANDING (MOU)**

**21.1** The performance of the Corporation in terms of Memorandum of Understanding signed with the Govt. of India in the Ministry of Power for the financial year 2003-04, has been rated as "Excellent". This is the 11<sup>th</sup> year in succession that the Corporation has received "Excellent" rating since the year 1993-94 when the first MOU was signed with the Government.

**21.2** For the year 2004-05 also, the Corporation is poised for excellent rating. The Corporation has achieved/exceeded the targets for excellent rating in respect of all the performance indicators. The Corporation has reached new milestones in new sanctions and disbursement.

## **22. COMPLIANCE WITH CORPORATE GOVERNANCE**

**22.1** Since some of the debt securities / bonds issued by the Corporation are listed with the Stock Exchanges, the Corporation was hitherto complying with applicable Clause 49 of the general Listing Agreement relating to Corporate Governance. After the issue of Circular dated 1-11-2004 by SEBI introducing Model Listing Agreement for listing of Debt Securities, the Corporation is required to comply with Clauses 1 and 3 of the Model Listing Agreement as applicable to companies whose debentures/ bonds are issued on private placement basis only. Accordingly, the Corporation has taken adequate measures to comply with applicable Clauses 1 and 3 of the Model Listing Agreement.

**22.2** As per Clause 3.5 of the Model Listing Agreement, the Corporate Governance requirements specified in Clause 2.18 of the Model Listing Agreement are recommendatory and may be implemented as per discretion of the issuing

company. In such an event, the company agrees to disclose adoption of the same, if any, in the Annual Report or such other document. The Corporation has decided not to adopt Clause 2.18 of the Agreement formally, but continue to comply with the Corporate Governance requirements as hitherto and at the same time endeavour to comply with the additional requirements as envisaged in Clause 2.18 in a phased manner. Accordingly, a Management Discussion and Analysis Report is annexed as **Annexure-I**, a Report on Corporate Governance is annexed as **Annexure-II** and a certificate on Corporate Governance issued by a Practising Company Secretary is annexed as **Annexure-III**.

### 23. BOARD OF DIRECTORS

Shri M.N. Prasad relinquished charge as CMD on the forenoon of 1<sup>st</sup> August, 2005 and Shri A.K. Lakhina assumed charge as CMD on the afternoon of 1<sup>st</sup> August, 2005. The Board of Directors of the Corporation presently comprises of Shri A.K. Lakhina, CMD, Shri H.D.Khunteta, Director(Finance), Shri Bal Mukand, Director(Technical) as whole-time directors and Shri Ajay Shankar, Shri Arvind Jadhav and Shri M.Sahoo as part-time official directors.

### 24. STATUTORY AUDITORS

**24.1** M/s K.B. Chandna & Co., Chartered Accountants, were appointed by the Comptroller & Auditor General of India as Statutory Auditors of the Corporation for the financial year 2004-05.

**24.2** The Statutory Auditors have audited the Accounts of the Corporation for the year ended 31<sup>st</sup> March, 2005. The audited accounts, cash flow statement and the annexure prescribed by RBI for NBFC Companies for the said period together with the Auditors' Report dated 29<sup>th</sup> April, 2005 thereon **are annexed to this Report**.

**24.3** Para-wise replies of the management of REC, to the qualifications/observations made by the Auditors in their Auditors' Report, as required under Section 217(3) of the Companies Act, 1956, **are attached as addendum to this Report**.

**24.4** An Errata to Auditors' Report dated 29<sup>th</sup> April, 2005 received from Auditors under cover of their letter dated 8<sup>th</sup> August, 2005 is **annexed to this Report**. A copy of the same has been forwarded to the C&AG of India.

### 25. COMMENTS OF THE C&AG OF INDIA

The Comments of C&AG of India under Section 619(4) of the Companies Act 1956 on the Accounts of the Corporation for the year ended 31<sup>st</sup> March, 2005 together with the Corporation's replies thereto, and the Review of the said Accounts of the Corporation by the C&AG of India **are appended to this Report**.

### 26. ACKNOWLEDGEMENTS

**26.1** The Corporation is grateful for the co-operation and continued assistance extended by the Government of India, particularly the Ministries of Power and Finance, the Planning Commission and the Reserve Bank of India.

**26.2** The Directors thank the State Governments, State Electricity Boards, State Power Utilities and other borrowers, as well as the Reserve Bank of India for their continued interest in the Corporation.

**26.3** The Directors also place on record their appreciation for the continued support extended and confidence reposed by the esteemed Investors, Banks and Life Insurance Corporation of India in the fund raising programme of the Corporation.

**26.4** The Directors also thank the Statutory Auditors M/s K.B. Chandna & Co., and the Comptroller and Auditor General of India for their valued cooperation.

**26.5** The Directors sincerely appreciate and commend the valuable contribution made by the employees of the Corporation at all levels in the pursuit of achieving excellent results for another year in succession.

For and on behalf of the Board of Directors



(A.K. Lakhina)  
Chairman & Managing Director

Dated : 30 August 2005  
New Delhi

**Table-1 : Project sanctions by REC under “Accelerated Electrification of one lakh villages and one crore Households” during 2004-05**

## Sanction

Sl. No.	State	No. of Projects	Total (For the year 2004-05)		
			Estimated Cost of Project (Rs. Lakh)	No. of Unelectrified villages covered	No. of unelectrified households covered
1	2	3	4	5	6
1	West Bengal	13	38503	4283	145918
2	Bihar	28	161804	18602	928217
3	Uttar Pradesh	62	229141	30802	1258844
4	Rajasthan	8	3110	472	12433
	<b>Total</b>	<b>111</b>	<b>432558</b>	<b>54159</b>	<b>2345412</b>

**Table-2 : Projects sanctioned for Electrification of BPL/KJ households in electrified villages during 2004-05**

Sl. No.	State	State Power Utility	Schemes Sanctioned During 2004-05		
			No. of districts covered	No. of BPL HH covered	Grant amount (Rs. Lakh)
1	2	3	4	5	6
1	Andhra Pr.	APTRANSCO	22	100000	1500
2	Arunachal Pr.	POWER DEPT	14	25000	450
3	Assam	ASEB	26	20000	360
4	Bihar	BSEB	38	25800	387
5	Chhattisgarh	CSEB	16	80000	1200
6	Gujarat	GEB	25	3000	45
7	Haryana	UHBVNL	7	5000	75
8	Himachal Pr.	HPSEB	11	1000	18
9	Jharkhand	JSEB	13	16000	240
10	Karnataka	KPTCL	—	—	—
11	Kerala	KSEB	14	100000	1500
12	Madhya Pr.	MPSEB	45	22634	339.51
13	Maharashtra	MSEB	33	8000	120
14	Mizoram	Power Deptt.	8	3500	63
15	Nagaland	Power Deptt.	11	3000	54
16	Punjab	PSEB	17	20000	300
17	Rajasthan	(i) Jaipur VVNL	12	15000	225
	Rajasthan	(ii) Jodhpur VVNL	11	15000	225
	Rajasthan	(iii) Ajmer VVNL	10	15000	225
18	Tamilnadu	TNEB	—	—	—
19	Tripura	POWER DEPTT	4	12000	216
20	Uttar Pradesh	UPPCL	—	—	—
21	Uttaranchal	UPCL	13	40000	720
		<b>TOTAL</b>	<b>350</b>	<b>529934</b>	<b>8262.51</b>

**Table-3 : Disbursement by REC under the programme “Accelerated Electrification of One Lakh Villages and One Crore Households” during 2004-05**

As on 31.03.2005

Sl. No.	State	Disbursement by REC						
		No. of Projects	Estimated Cost of Project (Rs. Lakh)	No. of Villages to be electrified	No. of Rural Household to be electrified	Total Amount Disbursed (Rs. Lakh)	Loan Amount (Rs. Lakh)	Total Capital Subsidy (Rs. Lakh)
1	2	3	4	5	6	7	8	9
1.	West Bengal	12	38473.75	4280	145803	11449	6869	4580
2.	Bihar	13	66746.59	7604	316251	20024	12014	8010
3.	Uttar Pradesh	61	213320.75	28862	1154241	63996	38398	25598
4.	Rajasthan	8	3109.76	472	12433	933	560	373
	<b>Total</b>	<b>94</b>	<b>321650.85</b>	<b>41218</b>	<b>1628728</b>	<b>96402</b>	<b>57841</b>	<b>38561</b>
			<b>Disbursements of grants for release of connections to BPL households/ Kutir Jyoti in electrified villages</b>			<b>5875</b>		<b>5875</b>
			<b>Total Disbursements</b>			<b>102277</b>	<b>57841</b>	<b>44436</b>

**Table-4 : Projects sanctioned during 2004 - 05 under REC financed schemes**

Sl. No.	State	No. of projects	Loan Amount (Rs. in Lakh)	Coverage			
				Pumpsets	Dalit Bastis	Villages	Households
1	2	3	4	5	6	7	8
<b>T&amp;D Projects</b>							
1.	Andhra Pradesh	256	68762	41070	5936*	—	—
2.	Arunachal Pradesh	14	798	—	—	—	—
3.	Gujarat	9	5387	490	—	—	—
4.	Haryana	17	15562	—	—	—	—
5.	Himachal Pradesh	4	614	—	—	—	—
6.	Karnataka	183	28022	—	12554	—	—
7.	Kerala	109	25671	586**	408	—	—
8.	Madhya Pradesh	24	17809	—	—	—	—
9.	Maharashtra	186	47450	45386	—	—	—
10.	Nagaland	9	1530	—	—	—	—
11.	Punjab	61	34156	15850	—	—	—
12.	Rajasthan	87	13865	4860	—	—	—
13.	Tamil Nadu	78	42962	11950	—	—	—
14.	Uttar Pradesh	7	7931	—	—	—	—
15.	DVC	1	48726	—	—	—	—
<b>Sub-total</b>		<b>1045</b>	<b>359245</b>	<b>120192</b>	<b>18898</b>	<b>—</b>	<b>—</b>
<b>Gen. projects</b>							
1.	State sector	12	500284	—	—	—	—
2.	Private Sector	5	58353	—	—	—	—
<b>Sub-total</b>		<b>17</b>	<b>558637</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Debt Refinance</b>							
1.	Haryana	—	12725	—	—	—	—
2.	Madhya Pradesh	—	33689	—	—	—	—
<b>Sub-total</b>		<b>—</b>	<b>46414</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Short Term Loan</b>							
1.	Andhra Pradesh	—	10000	—	—	—	—
2.	Bihar	—	5000	—	—	—	—
3.	Gujarat	—	70000	—	—	—	—
4.	Himachal Pradesh	—	10000	—	—	—	—
5.	Karnataka	—	10000	—	—	—	—
6.	Maharashtra	—	15000	—	—	—	—
7.	Orissa	—	30000	—	—	—	—
8.	Rajasthan	—	15000	—	—	—	—
9.	Uttar Pradesh	—	60000	—	—	—	—
10.	CCI-Pvt. Party	—	1519	—	—	—	—
<b>Sub-total</b>		<b>—</b>	<b>226519</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>AREP Projects ***</b>							
1.	Bihar	28	161803	—	—	18602	928217
2.	Rajasthan	8	3110	—	—	472	12433
3.	Uttar Pradesh	62	229141	—	—	30802	1258844
4.	West Bengal	13	38504	—	—	4283	145918
<b>Sub-total</b>		<b>111</b>	<b>432558</b>	<b>—</b>	<b>—</b>	<b>54159</b>	<b>2345412</b>
<b>BPL Projects****</b>		<b>350</b>	<b>8263</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>529934</b>
<b>G. Total</b>		<b>1523</b>	<b>1631636</b>	<b>120192</b>	<b>18898</b>	<b>54159</b>	<b>2875346</b>

\* Weaker section colonies/DB-130nos., under P:IE category.

\*\* under P:IE category

\*\*\* The project outlay sanctioned under AREP project comprise capital subsidy and loan.

\*\*\*\* Project outlay sanctioned under BPL is a grant by GOI.

**Table-5 : Category-wise Projects Sanctioned during 2004-05 under REC financed schemes**

Sl. No.	Category	Category Code	No. of Projects	Loan Amount (Rs. in lakh)	Coverage			
					Pumpsets	Dalit Bastis	Villages	Households
1	2	3	4	5	6	7	8	9
	<b>T &amp; D Projects</b>							
1.	Project : Intensive Electrification- P:IE	P:IE	125	26800.2	586	130*	—	—
2.	Special Project Agriculture : Pumpset Energisation	SPA:PE	258	38025	119606	—	—	—
3.	Project : System Improvement	P:SI Dist.	252	71393	—	—	—	—
4.	Project : System Improvement	P:SI Transmission	59	134336	—	—	—	—
5.	Project : Dalit Bastis	PDB	252	30877	—	18768	—	—
6.	APDRP	APDRP	61	21011	—	—	—	—
7.	System Improvement : Meters	SI : Mtr	18	10033	—	—	—	—
8.	System Improvement : Transformers	SI: Transformers	20	26770	—	—	—	—
	<b>S. Total</b>		<b>1045</b>	<b>359245</b>	<b>120192</b>	<b>18898</b>	—	—
9.	Project : Generation	P:Gen	17	558637	—	—	—	—
10.	Debt Refinance			46414	—	—	—	—
11.	Short Term Loan	STL		226519	—	—	—	—
12.	AREP Projects (including BPL)**		461	440821	—	—	54159	2875346
	<b>G. Total</b>		<b>1523</b>	<b>1631636</b>	<b>120192</b>	<b>18898</b>	<b>54159</b>	<b>2875346</b>

\* Weaker section colonies/DB-130nos.

\*\* The project outlay sanctioned under AREP project comprise capital subsidy and loan. Project outlay sanctioned under BPL is a grant by GOI.

**Table-6 : Statement showing state-wise and programme-wise disbursement and repayment by borrowers during the year 2004-05 and outstandings as on 31.03.2005**

Sl. No.	Name of Borrowers	Programme-wise Disbursement																Disbursed upto the end of the year		Repayments upto the end of the year		outstanding at the end of the year 31-Mar-05 (23-25)			
		P:VE/OA	P:VE/OB	P:HE	DB/HB	SPA/BP/OP	CEN/ SI	SI (EHV)	SI (MM)	SI(T)	SI (Com/ Rea.)	SI (VCB/ CB)	SI (Lines)	SPD/GS	Generation Bridge Loan	P-R/H/E	Advance: TNEB	JBC (OECF)	STL/ Debt Refin.	Total Disb (30/21)	Disbursed upto the end of the year		During the year	upto the end of the year	
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26
1	Andhra Pradesh	0	1571	3122	11660	8903	42411	0	1048	9425	2122	0	47	5568	2891	0	0	0	0	5000	93768	718898	109096	320065	398833
2	Arunachal Pradesh	245	0	0	0	0	0	0	0	0	0	0	0	0	133	0	0	0	0	0	378	15852	966	5106	10746
3	Assam	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	26477	0	4645	21832
4	Bihar	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	12014	0	6519	18533	40084	1254	10031	30053	
5	Chhattisgarh	0	0	0	0	0	0	0	0	0	0	0	0	0	42599	0	0	0	0	0	42599	75479	0	32817	42662
6	Goa	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1479	181	1144	335
7	Gujarat	0	0	0	0	756	8067	1235	0	651	0	0	0	0	1419	0	0	0	0	70000	82128	391716	33266	258112	133604
8	Haryana	529	0	0	0	211	2519	7251	0	998	160	0	0	1583	0	0	0	0	0	11966	25217	142652	19584	87035	55617
9	Himachal Pradesh	1074	0	0	0	0	401	0	0	14	0	0	0	0	550	0	0	0	0	10000	12039	102389	3217	33483	68906
10	Jammu & Kashmir	428	115	0	0	21	2649	0	0	0	0	0	0	0	670	18000	0	0	0	21883	58124	5621	23378	34746	
11	Jharkhand	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	15334	12537	15334	0
12	Karnataka	2574	0	0	0	0	19854	0	0	325	0	0	0	0	197	0	0	0	0	1500	24125	278863	31886	192545	86318
13	Kerala	6401	0	0	0	734	10911	0	0	0	0	0	0	0	0	0	0	0	0	0	18371	317559	48776	213575	103984
14	Madhya Pradesh	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	33400	33400	190642	91311	120962	69680
15	Maharashtra	817	0	0	0	6403	14038	5004	0	3534	3652	0	0	356	0	0	0	0	0	15000	49959	475536	46711	306106	169430
16	Manipur	107	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	107	15241	208	2425	12816
17	Meghalaya	0	0	0	0	0	0	0	0	0	0	0	0	0	5832	0	0	0	0	0	5832	24639	75	11977	12862
18	Mizoram	0	0	0	658	0	0	0	0	0	0	0	0	0	2750	0	0	0	0	0	3408	13302	660	2324	10978
19	Nagaland	306	0	0	0	0	997	0	0	0	0	0	0	0	140	0	0	0	0	0	1303	8864	529	3995	4869
20	Orissa	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	30000	91603	6114	35730	55873
21	Punjab	5278	0	0	0	51	9154	1355	0	1086	2129	344	25	3394	30374	0	0	0	0	0	53190	348691	9475	234494	114197
22	Rajasthan	2274	0	0	0	5270	9946	523	0	971	0	0	0	0	0	0	560	0	0	5000	24544	428128	37131	276167	151961
23	Sikkim	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	3442	175	2127	1315
24	Tamil Nadu	7702	0	0	0	3884	31696	0	0	0	0	0	0	525	4800	0	0	15000	0	0	63607	276553	11800	99324	177229
25	Tripura	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	11055	701	5021	6034
26	Uttar Pradesh	0	0	0	0	0	0	0	0	0	4621	0	0	0	0	0	38398	0	0	60000	103019	247586	19	37882	209704
27	Uttaranchal	0	4836	1574	0	0	0	655	0	0	0	0	0	0	1120	0	0	0	0	0	8185	35938	0	1581	34357
28	West Bengal	0	1758	8565	3702	0	885	0	0	0	0	0	0	0	6559	0	6869	0	0	0	28338	95696	31	11274	84422
29	Wind Energy	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	3013	0	158	2855
<b>Total</b>		27735	8280	13261	16020	26233	153528	7906	9165	17004	12524	504	72	11426	100034	18000	57841	15000	1155	248385	744073	4455035	468324	2348817	2106218
<b>Kutir Jyoti/BPL Grant and AREEP Subsidy</b>																									
<b>Grand Total</b>																									
		788509 4455035 468324 2348817 2106218																							

RE Coop/HB/SDR Disbursement Added in respective states.

**Table-7 : Cumulative Statewise sanctions under REC Projects  
during the last 35 years upto 31.03.2005**

(Rs. in Lakh)

Sl. No.	State	No. of Projects	Loan sanctioned
1	2	3	4
1	Andhra Pradesh	5677	1168839
2	Arunachal Pradesh	209	117576
3	Assam	419	33344
4	Bihar	1730	222462
5	Chhattisgarh	18	272800
6	Delhi	8	48140
7	Goa	16	2007
8	Gujarat	1878	557797
9	Haryana	1308	209042
10	Himachal Pradesh	453	139955
11	Jammu & Kashmir	527	142684
12	Jharkhand	13	240
13	Karnataka	2751	517589
14	Kerala	1737	424565
15	Madhya Pradesh	5181	348013
16	Maharashtra	5206	662840
17	Manipur	146	20696
18	Meghalaya	106	44751
19	Mizoram	60	13337
20	Nagaland	92	10509
21	Orissa	1638	152881
22	Punjab	1461	626451
23	Rajasthan	3347	554423
24	Sikkim	36	2910
25	Tamil Nadu	3394	399817
26	Tripura	177	50148
27	Uttar Pradesh	3106	570507
28	Uttaranchal	63	36044
29	West Bengal	1450	444068
30	DVC	1	48726
31	Generation Pvt.	11	122543
32	CCI-Pvt. Party	—	1519
33	NEEPCO	—	10000
	<b>Grand Total</b>	<b>42219</b>	<b>7977223</b>

**Table-8 : Details of overdues from defaulting Borrowers  
as on 31.03.2005**

	ASEB	BSEB	JSEB	MPSEB	Others**	Total
Overdues as on 01.04.2004	343.68	256.65	225.58	2276.10	217.41	3319.42
Due during the year (includes Interest on NPA, not accounted for in books of account)	71.23	27.96	0.00	0.00	5217.69	5316.88
Other adjustments (JSEB & MPSEB re-scheduled)	0.00	0.00*	-55.58	-861.30	0.00	-916.88
Received during the year	0.00	30.29	170.00	1414.80	5201.55	6816.64
Overdues as on 31.03.2005	414.91	254.32	0.00	0.00	233.55	902.78

\* In case of BSEB, the overdues of Rs. 254.32 crore has not been adjusted against re-schedulement as MOA is yet to be signed between BSEB and REC.

\*\* Represents temporary year-end overdues of paying states due to few days' delays and overdues of co-operative societies, private borrowers etc.

**Table-9 : Villages electrified under the projects financed by REC during 2004-05 and cumulative position upto 31.03.2005**

Sl. No.	State	Achievement during 2004-05	Cumulative Achievement upto 31.03.2005
1	Andhra Pradesh	—	14907
2	Arunachal Pradesh	—	1316
3	Assam	—	16363
4	Bihar	—	32490
5	Gujarat	—	7712
6	Haryana	—	90
7	Himachal Pradesh	—	11143
8	Jammu & Kashmir	2	4416
9	Karnataka	—	8907
10	Kerala	—	151
11	Madhya Pradesh	—	54411
12	Maharashtra	—	13322
13	Manipur	—	1720
14	Meghalaya	—	2321
15	Mizoram	—	531
16	Nagaland	—	793
17	Orissa	—	26648
18	Punjab	—	3908
19	Rajasthan	—	26477
20	Sikkim	—	277
21	Tamil Nadu	—	807
22	Tripura	—	3223
23	Uttar Pradesh	—	49881
24	Uttaranchal	458	458
25	West Bengal	305	23557
	<b>Total</b>	<b>765</b>	<b>305829</b>

**Table-10 : Projects sanctioned for electrification of Dalit Bastis during 2004-05 and cumulative position upto 31.03.2005 under REC financed programme**

Sl. No.	State	No. of Projects		Loan Sanctioned (Rs. Lakh)		Dalit Bastis electrified	
		During 2004-05	Upto 31.3.2005	During 2004-05	Upto 31.3.2005	During 2004-05	Upto 31.3.2005
1	Andhra Pradesh	96	709	8154	31198	4766	35338
2	Bihar	—	204	—	1959	—	21554
3	Gujarat	—	22	—	52	—	2063
4	Haryana	—	43	—	431	—	5967
5	Himachal Pradesh	—	1	—	9	—	81
6	Jammu & Kashmir	—	46	—	488	—	994
7	Karnataka	142	426	21676	43403	—	9110
8	Kerala	14	84	1046	1520	—	3113
9	Madhya Pradesh	—	264	—	2920	—	19655
10	Maharashtra	—	34	—	365	—	7503
11	Orissa	—	179	—	1303	—	6219
12	Punjab	—	6	—	46	—	467
13	Rajasthan	—	424	—	791	—	15393
14	Tamil Nadu	—	3	—	18	—	457
15	Uttar Pradesh	—	4	—	28	—	46576
16	West Bengal	—	79	—	13852	1795	2825
	<b>Total</b>	<b>252</b>	<b>2528</b>	<b>30876</b>	<b>98383</b>	<b>6561</b>	<b>177315</b>

**Table-11 : Pumpsets energised under the projects financed by REC during 2004-05 and cumulative position upto 31.03.2005**

Sl. No.	State	Achievement during 2004-05	Cumulative Achievement upto 31.03.2005
1	Andhra Pradesh	64600	1446505
2	Assam	—	1922
3	Bihar	—	113354
4	Gujarat	1403	415789
5	Haryana	1346	223257
6	Himachal Pradesh	411	5474
7	Jammu & Kashmir	209	7805
8	Karnataka	213	862387
9	Kerala	14168	316777
10	Madhya Pradesh	—	1054106
11	Maharashtra	42945	1556010
12	Manipur	—	29
13	Meghalaya	—	58
14	Nagaland	—	164
15	Orissa	—	63015
16	Punjab	8614	469065
17	Rajasthan	9960	470790
18	Tamil Nadu	31903	913471
19	Tripura	—	1530
20	Uttar Pradesh	—	379544
21	West Bengal	—	82202
	<b>Total</b>	<b>175772</b>	<b>8383254</b>

**Table-12 : Groupwise details of SC and ST employees as on 31.03.2005**

<b>Group</b>	<b>Total No. of employees</b>	<b>SC</b>	<b>ST</b>
A	174 (162)	14 (15)	4 (4)
B	199 (202)	22 (24)	8 (8)
C	184 (182)	33 (32)	1 (1)
D	112 (120)	35 (37)	5 (6)
<b>Grand Total :</b>	<b>669 (666)</b>	<b>104 (108)</b>	<b>18 (19)</b>

(Figures in bracket give the corresponding position in the previous year)

**ANNEXURE-I****MANAGEMENT DISCUSSION AND ANALYSIS REPORT****(Pursuant to clause 2.18 of the Model Listing Agreement with Stock Exchanges)****a) Industry structure and developments**

Rural Electrification is a vital programme for socio economic development of rural areas. The objective is to trigger economic development and generate employment by providing electricity as an input for productive uses in agriculture and rural industries and improve the quality of life of the rural people by supplying electricity for lighting of rural homes, shops, community centers and public places in all villages.

Rural Electrification programmes are formulated and implemented by the concerned State Electricity Boards/State Power Utilities from the Plan funds as approved and provided in their respective State Plans. The inter se priorities for various rural electrification programmes and their total quantum are also determined and decided by the State Governments/State Power Utilities who own and operate the distribution system in the States, as per the policies and directions of the State Governments. As per statistics made available by Central Electricity Authority (CEA), out of 5.87 lakh inhabited villages in the country (as per 1991 census), 4.99 lakh villages have been electrified. Similarly, 144 lakh pumpsets have been energized upto March, 2005 out of the total estimated potential for 196 lakh electric irrigation pumpsets. Investments in such works are financed either out of the concerned utilities' own resources or through borrowed funds.

In order to give a boost to electrify the remaining large number of unelectrified villages especially in the states of Bihar & Jharkhand, West Bengal, Uttar Pradesh & Uttaranchal, Orissa, Assam, Arunachal Pradesh, Meghalaya, Madhya Pradesh & Chattisgarh and Rajasthan, the Govt of India has launched a new scheme "Rajiv Gandhi Grameen Vidyutikaran Yojana". The scheme will fulfill the National Common Minimum Programme (NCMP) objective of providing electricity to all households and improving rural electricity infrastructure in five years.

The scheme was formally launched by the Hon'ble Prime Minister Dr. Manmohan Singh on 4<sup>th</sup> April, 2005 at Vigyan Bhavan, New Delhi. AP, Assam, Bihar, Jharkhand, J&K, Karnataka, Kerala, MP, Maharashtra, Orissa, Rajasthan UP and WB and

Lakshdweep participated in the launching ceremony through video conferencing.

This scheme merges the existing "Accelerated Electrification of One lakh villages and One crore households" and Minimum Needs Programme (MNP) for rural electrification and has the objective to provide access to electricity to all rural households. Under the Scheme :

- i. Ninety percent capital subsidy would be provided by the Central Government for overall cost of the project.
- ii. The scheme would create the necessary infrastructure through :
  - (a) REDB (Rural Electricity Distribution Backbone). Provision of at least one 33/11 KV (or 66/11KV) sub-station of adequate capacity in each block.
  - (b) VEI (Village Electrification Infrastructure). Electrification of every village with a distribution transformer in each habitation.
  - (c) DDG (Decentralized Distributed Generation and Supply) System in villages where grid connectivity is not feasible or cost effective.
- iii. Below Poverty Line (BPL) households to get electricity connection free of charge.
- iv. Revenue sustainability of electricity supply to be ensured through franchisees, who could be NGOs, users Associations, Cooperatives or Individual entrepreneurs with association of Panchayati Raj Institutions.
- v. No discrimination in hours of supply between rural and urban households.
- vi. Services of Central Public Sector Undertakings (CPSUs) made available to States willing to utilize their services for implementation of the programme.

**b) Opportunities , Threats , Risks and Concerns**

To improve their power sector areas, the SEBs are in dire need of funds and the Corporation has various categories of loan portfolios to cover their requirements. Under the Accelerated Power Development and Reforms Programme of the Govt. of India, 50% of project cost is given as counterpart funding by Financial Institutions, which provides the Corporation with ample scope for funding the SEBs for improving their sub transmission and distribution sectors.

With the enactment of Electricity Act, 2003, the scope for financing of decentralized distribution generation in rural areas is expected to increase involving Cooperative Societies, Local Bodies, Private Entrepreneurs as well as public sector and commercial banks etc. The Corporation, accordingly, is gearing itself to provide financial assistance for such activities against viable proposals. MOUs have already been signed between REC and NTPC,PGCIL,NHPC and DVC for expeditious implementation of “Rajiv Gandhi Grameen Vidyutikaran Yojana”.

Increased liquidity in the money market and poor credit off take has resulted in other banks and financial institutions competing to lend money at more concessional rates. The continued poor financial health of the SEBs in spite of their reforms is a big threat as SEBs may not be inclined to borrow funds, in the absence of adequate returns.

To expand its activities the Corporation has also taken steps to create a separate unit for Business Development to explore new areas for financing apart from the traditional sectors. Steps have also been taken for mobilizing International borrowings from World Bank, JBIC, USAID etc.

#### **c) Segment wise or product wise performance**

The Corporation as a financial institution supplements the resources of the SEBs/State Power Utilities/State Power Departments by providing them interest bearing loans for schemes covering various components of rural electrification as are sponsored by them for financial assistance. REC has already devised and also continuously modifies/updates/extends loan portfolios to suit the emerging requirements of the borrowing power utilities.

During the year, the Corporation has sanctioned loan assistance of Rs.16316 crores and disbursed Rs.7885 crores. In line with the mandate given by the Govt. last year enlarging the areas of operation of REC to cover financing of all projects in the power sector including transmission and generation, beyond the erstwhile limits on population, geographical location or size of the generation projects. The major component of the sanctions of REC were for generation schemes which was Rs.5586 crores. In addition Rs.4326 crores sanctioned under AREP and Rs.83 crores under KJ/BPL households, Rs.3592 crores under T&D scheme and Rs.2265 crores under Short Term Loan and Rs.464 crore under Debt Refinancing. The disbursement includes Rs.1180

crores for generation, Rs.964 crores under AREP and additional Rs.59 crores under BPL/KJ households, Rs.3198 crores under T&D Schemes, besides Rs.2030 crores for Short term loan and Rs.454 crores under Debt refinancing.

#### **d) Outlook**

Expediting the reform process by facilitating investment opportunities of the Reforming utilities, enlargement of areas of operation of REC by Govt. of India, enactment of the Electricity Act by the Parliament, and the target fixed by the Govt. to complete rural electrification of all households in five years under the newly launched programme of “Rajiv Gandhi Grameen Vidyutikaran Yojana”, will create ample scope for the Corporation to enhance its business of providing financial assistance to the various SEBs/Utilities/State Power Departments and also private entrepreneurs in the coming years on account of enhanced plans for power generation and transmission capabilities of the utilities.

#### **e) Internal Control Systems and their adequacy**

The Corporation has separate Internal Audit Division which is responsible for ensuring internal control system, and helps in achieving accuracy and efficiency, scrutiny of payments and expenditure, detection & prevention of errors, examination of financial, technical & statistical and other records of the Corporation.

The audit of various Project Offices located in different parts of the country and various divisions of the Corporation at the Corporate Office are carried out once in a year to help achieving operational efficiency and compliance of rules and regulations.

The significant findings of the internal audit are submitted to the Audit Committee of the Board of Directors for information and further follow up for compliance of the audit observations. This further improves the efficiency of the work and enforce law of the Corporation. Periodical reviews are also carried out to ensure follow up on the audit observations.

#### **f) Discussions on financial performance with respect to operational performance**

The Corporation has been able to achieve tremendous growth in its profitability. During the current financial year, i.e. 2004-05, the Net Profit after Tax and Depreciation increased by 31% i.e. Rs.800.75 crores as compared to Rs.612.39 crores

during the year 2003-04. The loan sanctioned during the year 2004-05 were higher at Rs.16316 crores as compared to Rs.15978 crores during 2003-04. The disbursements during the year 2004-05 were substantially higher at Rs.7885 crores as compared to Rs.6017 crores during 2003-04. Similarly, the recoveries during the year 2004-05 raised to Rs.6817 crores as compared to Rs.5003 crores during 2003-04.

**g) Material developments in Human Resource/ Industrial Relations front, including number of people employed**

- (1) The Corporation had introduced its first Voluntary Retirement Scheme for its employees in January,2003. A total number of 221 employees opted for VRS and the Corporation accepted the options of 211 employees. The Corporation surrendered 211 posts.
- (2) The Corporation introduced its 2<sup>nd</sup> Voluntary Retirement Scheme (VRS) during June, 2004 for further reduction in the surplus manpower. Under its 2<sup>nd</sup> VRS, 6 employees of the Corporation proceeded on VR.
- (3) The total manpower at the close of the financial year 2004-05 i.e. as on 31.03.2005 was 669 which includes 260 Executives and 409 Non- Executives.
- (4) 290 employees of the Corporation were sent on training in different areas of specialization including use of Raj Bhasha. This number includes few employees who were sent abroad for specialized training etc.

## Report on Corporate Governance

REC is a Government Company by virtue of its entire paid-up share capital being held by or on behalf of the Govt. of India. It is however a listed company by virtue of some of its debenture series listed on the Stock Exchanges. As per Model Listing Agreement, Clause 2.18 of the Agreement relating to Corporate Governance is not a mandatory requirement. However the Board has decided that REC would continue to comply with the Corporate Governance requirements as hithertofore, and endeavour to comply with additional requirements in a phased manner. Accordingly some of the aspects of Corporate Governance as provided in Clause 2.18 are furnished below:-

### 1. Company's Philosophy on code of governance.

REC is committed to good corporate governance supported by appropriate transparent systems and practices to protect, promote and safeguard the interests of all its stake holders.

REC is committed to act as a competitive, client-friendly and development-oriented organization for financing and promoting projects covering power generation, power conservation, power transmission and power distribution network in the country.

REC is also committed to facilitate availability of electricity for accelerated growth and for enrichment of quality of life of rural and semi-urban population.

### 2. Board of Directors

The Articles of Association of REC provide for a minimum of three, and a maximum of fifteen Directors.

The present strength of the Board of Directors of REC is six comprising as under:-

#### Executive Directors

Shri A.K. Lakhina - Chairman and MD,  
 Shri H.D. Khunteta - Director (Finance),  
 Shri Bal Mukand - Director (Technical),

#### Non-Executive Directors

Shri Ajay Shankar - Additional Secretary,  
 Ministry of Power  
 Shri Arvind Jadhav - Joint Secretary, Ministry  
 of Power  
 Shri M. Sahoo - Joint Secretary &  
 Financial Adviser,  
 Ministry of Power

The provisions relating to appointment of independent directors are not presently applicable to REC since the debt securities/bonds of REC are not issued either through public or right issue and are issued only on private placement basis. However, since REC has been granted Mini Ratna Grade I Status as per approval conveyed by the Ministry of Power, Govt. of India, REC is required to restructure its Board of Directors by inducting at least three non-official directors to become entitled to exercise enhanced delegation of authority applicable for Mini Ratna PSUs as notified by The Department of Public Enterprise, Govt. of India. As the appointment of Directors is to be made by the President of India, in terms of the Articles of Association of REC, read with exemption applicable to a Government Company, Ministry of Power, Govt. of India have been requested to appoint requisite number of non-official directors.

#### Board Meetings and attendance of Directors

Ten Board Meetings were held during the Financial Year 2004-05 i.e. on 22.04.2004, 30.04.2004, 10.07.2004, 30.07.2004, 26.08.2004, 16.09.2004, 26.10.2004, 24.12.2004, 21.02.2005 and 28.03.2005. The last AGM was held on 16.09.2004.

Details of attendance of each Director at the above Board Meetings and at the AGM are given below:-

Name of Director	No. of Meetings held during his tenure	No. of Meetings attended	Attendance at AGM	Remarks
<b>S/Shri</b>				
1. Arvind Jadhav, Ex-CMD	10	10	Yes	Director since 23.5.2002. Appointed as CMD from 23.2.2004 and ceased to be CMD from 3.6.2004
2. M.N. Prasad CMD	8	8	Yes	Appointed as CMD from 4.06.2004
3. H.D. Khunteta, Director(Fin.)	8	8	Yes	Appointed as Director(F) from 5.5.2004.
4. Bal Mukand, Director(Tech.)	8	8	Yes	Appointed as Director (Technical) from 24.5.2004.
5. Ajay Shankar, Director	10	10	Yes	-
6. M. Sahoo, Director	10	8	No	-

Details of Membership/Chairmanship of other Boards or Board Committees held by each Director of REC as on 31.3.2005 are as follows:

Name of Director	Category	No. of Directorship held in other companies	No. of Membership in Committees of the Board of other Companies	No. of Chairmanship in Committees of the Board of other Companies
Sh. M.N. Prasad	CMD	-	-	-
Sh. H.D.Khunteta	Functional Director	-	-	-
Sh. Bal Mukand	Functional Director	-	-	-
Sh. Ajay Shankar	Govt. Nominee	2	1	-
Sh. Arvind Jadhav	Govt. Nominee	5	2	-
Sh. M. Sahoo	Govt. Nominee	4	2	1

#### Details of remuneration of Directors

During the year 2004-05, details of remuneration paid to Directors are as given below:-

SI. No.	Name	Salary & Allowances (Rs.)	Other benefits (Rs.)
1.	Shri M.N. Prasad - CMD	560733	23014
2.	Shri H.D. Khunteta - Director (F)	500034	261411
3.	Shri Bal Mukand - Director (T)	496724	250585

**The Audit Committee constituted by the Board comprised of following Members as on 31.03.2005 :**

1. Shri Ajay Shankar - Chairman, Non Executive
2. Shri Arvind Jadhav - Director, Non Executive
3. Shri M. Sahoo - Director, Non Executive

The functions and responsibilities of the Committee are as spelt out in the Listing Agreement and Section 292A of the Companies Act, 1956.

Three meetings of the Committee were held during the year 2004-05 i.e. 30.04.2004, 26.10.2004 and 25.01.2005. There was full attendance of members at all the 3 meetings except absence of 1 Member at the meeting held on 25.01.2005 of the Audit Committee.

**4. REMUNERATION COMMITTEE**

As provided in the Articles of Association of REC, remuneration and/or other allowances payable to directors are determined by the President of India. Hence, no Committee of Directors has been constituted for the purpose.

**5. INVESTOR GRIEVANCE COMMITTEE**

The Investors Grievance Committee constituted by the Board comprised of following Members as on 31.03.2005 :

1. Shri Arvind Jadhav - Director – Non Executive and Chairman of the Committee
2. Shri M. Sahoo - Director- Non Executive
3. Shri H.D. Khunteta - Director (Finance)

One meeting of the Committee was held during the year 2004-05 i.e. 18.03.2005. There was full attendance of members at the meeting of the Committee.

**6. GENERAL BODY MEETINGS**

The last three AGMs were held on 29.5.2002 (adjourned and held on 31.5.2002), 28.8.2003, 16.9.2004 at the Regd. Office of the Corporation.

**7. DISCLOSURES ON MATERIALLY SIGNIFICANT RELATED PARTY TRANSACTIONS AND DETAILS OF NON-COMPLIANCE BY THE COMPANY, IF ANY.**

Nil.

**8. MEANS OF COMMUNICATION**

Quarterly and Half-yearly Unaudited Financial Results of the Corporation are published in one National Newspaper and one Regional Language Newspaper, and copies of the same are sent to Stock Exchanges and posted on the website of the Corporation (Website : - [www.recindia.nic.in](http://www.recindia.nic.in)). Management Discussion and Analysis Report is annexed to the Directors Report.

**9. GENERAL SHAREHOLDER INFORMATION**

The entire paid-up equity share capital of the Company is held in the name of the President of India and his nominees. AGM details are furnished at (6) above. Board of Directors has recommended payment of dividend of Rs. 234.50 crore for the year 2004-05 (including interim dividend of Rs. 58 crore), at its Meeting held on 29.4.2005. The equity shares are not listed on Stock Exchanges.

## Certificate on Corporate Governance

Registration No. of the Company : 5095  
Nominal Capital Rs. 1200 Crores

To the members of

Rural Electrification Corporation Limited

We have examined all relevant records of the Corporation relating to the compliance of conditions of Corporate Governance by Rural Electrification Corporation Limited for the year ended 31st March, 2005 as stipulated in Clause 49 of the Listing Agreement executed with the stock exchanges and, after replacement by Model Listing Agreement notified by SEBI on 1.11.2004, as provided in Clause 2.18 of the Model Listing Agreement, though this clause is not presently applicable to the Corporation, since in the interest of investors and better corporate governance the Corporation has decided to comply with the conditions of Corporate Governance in a phased manner.

The compliance of conditions of Corporate Governance is the responsibility of the management. Our examination was limited to procedures and implementation thereof by the Corporation for ensuring the compliance of the conditions of the Corporate Governance. It is neither an audit nor an expression of opinion on the financial statements of the Corporation.

In our opinion and to the best of our information and according to the explanations given to us, we certify that the Corporation has complied with all the mandatory conditions of Corporate Governance as stipulated in the above mentioned Listing Agreements except the following:

(a) The Board of Directors did not comprise of independent directors as was required in terms of Clause 49 I(A) and Clause 49 II (A) (i) of the Listing Agreement.

We were informed that as the appointment of directors including independent directors is to be made by the President of India, the Corporation had taken up the matter with the Administrative Ministry i.e. the Ministry of Power, to appoint requisite number of independent directors for complying with the above requirements.

(b) On 30th July, 2004 the Audit Committee was reconstituted with three non-executive directors as members. Earlier in the year, one of the members of the Audit Committee was the Chairman and Managing Director, whereas as per the conditions of the Corporate Governance all the members of this Committee should have been non-executive directors. However, there were only two non-executive directors on the Board during that time.

For P.P. Agarwal & Co.  
Company Secretaries

**Pramod P. Agarwal**  
Prop.  
C. P. No. 4994

Place : New Delhi  
Date : 19th July, 2005

Electrified homes.  
Empowered women.  
Enlightened nation.



**BALANCE SHEET AS AT 31ST MARCH, 2005**

(Rs. in Lacs)

	Schedule No.	As at 31.03.2005	As at 31.03.2004
<b>SOURCES OF FUNDS</b>			
<b>Shareholders' Funds:</b>			
Capital	A	78,060.00	78,060.00
Reserves and Surplus	B	299,830.36	248,377.46
<b>Loan Funds:</b>			
Secured Loans	C	1,744,938.18	1,345,689.57
Unsecured Loans	D	192,901.28	164,240.58
<b>Total</b>		<b>2,315,729.82</b>	<b>1,836,367.61</b>
<b>APPLICATIONS OF FUNDS</b>			
<b>Fixed Assets:</b>			
Gross Block	E1	3,558.89	3,250.50
Less Depreciation		1,003.81	897.17
Net Block		2,555.08	2,353.33
<b>Advances for Capital Expenditure Investments</b>	E2	-	87.16
		141,722.37	-
<b>Current Assets, Loans &amp; Advances:</b>			
Cash and Bank Balances	F	48,545.43	7,609.93
Other Current Assets		11,331.04	6,449.18
Loans and Advances		2,266,576.76	1,961,962.66
		2,326,453.23	1,976,021.77
Less:			
<b>Current Liabilities &amp; Provisions:</b>			
Liabilities	G	53,075.00	62,943.85
Provisions		101,925.86	79,150.80
		155,000.86	142,094.65
<b>Net Current Assets</b>		<b>2,171,452.37</b>	<b>1,833,927.12</b>
<b>Total</b>		<b>2,315,729.82</b>	<b>1,836,367.61</b>
<b>Significant Accounting Policies</b>	L		
<b>Notes on the Accounts</b>	M		

In terms of our Report of even date

**For K.B.Chandna & Co.**  
Chartered Accountants

**H. D. Khunteta**  
Director ( Fin)

**M.N. Prasad**  
Chairman & Managing Director

**V.K.Gureja**  
Partner  
Membership No.16521

**B.R.Ragunandan**  
Company Secretary

Place : New Delhi  
Date : April 29th, 2005

## PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 2005

( Rs. in Lacs )

	Schedule No.	Year ended 31.03.2005	Year ended 31.03.2004
<b>INCOME</b>			
Income from Operations	H	219,981.12	198,488.61
Other Income	I	10,227.75	1,182.11
<b>Total</b>		<b>230,208.87</b>	<b>199,670.72</b>
<b>EXPENDITURE</b>			
Cost of Borrowings			
- Govt. Loans		4,960.66	16,051.65
- REC Bonds		92,209.82	96,287.38
- Bank/ Financial Institution Loans		23,092.13	1,880.79
Interest on AREP Subsidy		212.25	-
Payments to and			
provisions for employees	J	3,289.66	3,972.76
Establishment and other Expenses	K	1,144.18	686.70
Bond/Debt Instrument Issue Expenses		1,520.34	534.20
<b>Total</b>		<b>126,429.04</b>	<b>119,413.48</b>
<b>PROFIT BEFORE TAX AND DEPRECIATION</b>		<b>103,779.83</b>	<b>80,257.24</b>
Depreciation		114.85	103.15
Provision for Income Tax		23,511.86	18,870.00
Provision for Deferred Tax		77.76	45.46
<b>NET PROFIT AFTER TAX AND DEPRECIATION</b>		<b>80,075.36</b>	<b>61,238.63</b>
Prior period adjustments(Net)		10.65	-
Income tax /Interest Tax for earlier years		1,928.41	321.94
<b>PROFIT AVAILABLE FOR APPROPRIATIONS</b>		<b>78,136.30</b>	<b>60,916.69</b>
Appropriations:			
Special Reserve u/s 36(1)(viii) of the Income Tax Act,1961		38,000.00	24,565.00
Reserve u/s 36(1)(vii) of the Income Tax Act,1961 for Bad & Doubtful Debts		3,500.00	2,769.00
Proposed Dividend		17,650.00	18,300.00
Interim Dividend		5,800.00	-
Dividend Tax		3,233.40	2,344.69
Transfer to General Reserve		9,500.00	12,900.00
Surplus carried to Balance Sheet		452.90	38.00
		<b>78,136.30</b>	<b>60,916.69</b>
<b>Significant Accounting Policies</b>	L		
<b>Notes on the Accounts</b>	M		

In terms of our Report of even date

**For K.B.Chandna & Co.**  
Chartered Accountants

**H. D. Khunteta**  
Director ( Fin)

**M.N. Prasad**  
Chairman & Managing Director

**V.K.Gureja**  
Partner  
Membership No.16521

**B.R.Raghunandan**  
Company Secretary

Place : New Delhi  
Date : April 29th, 2005

**SCHEDULE : A - SHARE CAPITAL**

(Rs. in Lacs)

	As at 31.03.2005	As at 31.03.2004
<b>Authorised</b>		
1200,000,000 Equity shares of Rs.10 each (Previous year 1200,000,000 Equity shares of Rs 10 each)	<b>120,000.00</b>	120,000.00
<b>Issued, Subscribed and Paid up</b>		
780,600,000 Equity shares of Rs 10 each fully paid up (Previous year 780,600,000 Equity shares of Rs 10 each)	<b>78,060.00</b>	78,060.00
<b>Total</b>	<b>78,060.00</b>	78,060.00

**SCHEDULE : B - RESERVES AND SURPLUS**

(Rs. in Lacs)

	Opening Balance as at 01.04.2004	Additions/ adjustments during the year	Deductions/ adjustments during the year	Closing Balance as at 31.03.2005
a) Capital Reserve ( Grant from USAID )	10,500.00	-	-	<b>10,500.00</b>
b) Special Reserve created u/s 36(1) (viii) of the Income Tax Act,1961 upto Fin.year 1996-97	5,173.77	-	-	<b>5,173.77</b>
c) Special Reserve created u/s 36(1) (viii) of the Income Tax Act,1961 from Fin.year 1997-98	120,106.00	38,000.00	-	<b>158,106.00</b>
d) Reserve for Bad and doubtful debts u/s 36(1)(vii) of the Income Tax Act,1961	10,919.13	3,500.00	-	<b>14,419.13</b>
e) Bonds Redemption Reserve	8,850.00	-	-	<b>8,850.00</b>
f) General Reserve	91,631.05	9,500.00	-	<b>101,131.05</b>
g) Surplus	1,197.51	452.90	-	<b>1,650.41</b>
<b>Total</b>	<b>248,377.46</b>	<b>51,452.90</b>	-	<b>299,830.36</b>
Previous Year	208,105.46	40,272.00	-	<b>248,377.46</b>

## SCHEDULE : C - SECURED LOANS

( Rs. in Lacs )

	As at 31.03.2005	As at 31.03.2004
<b>1. Term Loans from Banks</b>		
(Secured against receivables of the Electricity Boards/State Power Corpn.)		
Syndicate Bank	20,000.00	-
State Bank of Saurashtra	9,700.00	-
State Bank of Hyderabad	10,000.00	-
State Bank of Travancore	10,000.00	-
Bank of Maharashtra	22,500.00	-
Canara Bank	20,000.00	-
Union Bank of India	10,000.00	-
Interest accrued on above	0.95	-
<b>2. CASH CREDIT LIMITS FROM BANKS</b>		
(Secured against receivables of the Electricity Boards/State Power Corpn.)		
Canara Bank	-	17,000.00
Corporation Bank	-	17,000.00
State Bank of India	-	10,000.00
<b>3. LOAN FROM LIC</b>	<b>350,000.00</b>	<b>150,000.00</b>
(Secured against receivables of the Electricity Boards/State Power Corpn.)		
<b>4. REC BONDS</b>		
( Cumulative & Non-cumulative), secured by charge against specific loans advanced to SEBs, State Power Corporations etc. and/ immovable property at Maharashtra as per the terms of the private placement & to the satisfaction of the respective Trustees		
<b>I TAXFREE SECURED REDEEMABLE REC BONDS</b>		
<b>a) Short term</b>		
8.75% Redeemable at par on 17.11.2004 (33rd series )	-	20,000.00
8.35% Redeemable at par on 23.01.2005 (34th series )	-	10,000.00
8.7% Redeemable at par on 25.09.2005 ( 36th Series-I)	10,000.00	10,000.00
8.0% Redeemable at par on 26.11.2005 ( 36th Series-II)	3,500.00	3,500.00
<b>b) Long term</b>		
8.25% Redeemable at par on 22.02.2010 ( 41st Series)	7,500.00	7,500.00
7.10% Redeemable at par on 23.03.2011 ( 53rd Series)	5,000.00	5,000.00
<b>II TAXABLE SECURED REDEEMABLE REC BONDS</b>		
<b>Long term</b>		
11.75% Redeemable at par on 08.09.2006 ( 39th series )	-	30,000.00
11.25% Redeemable at par on 31.12.2006 ( 40th series )	-	23,700.00
10.85% Redeemable at par on 24.03.2007 ( 42nd series )	-	9,000.00
11.20% Redeemable at par on 24.03.2007 ( 43rd series )	-	15,855.00
10.85% Redeemable at par on 31.03.2007 ( 44th series )	-	4,000.00
11.20% Redeemable at par on 31.03.2007 ( 45th series )	-	8,020.00
10.70% Redeemable at par on 15.06.2007 ( 46th series )	6,325.00	6,325.00
11.00% Redeemable at par on 31.07.2007 ( 48th series )	2,250.00	2,250.00

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11.95% Redeemable at par on 31.10.2007 ( 50th series-1)	<b>18,590.00</b>	18,590.00
11.95% Redeemable at par on 31.10.2007 ( 50th series-2)	<b>15,580.00</b>	15,580.00
11.90% Redeemable at par on 30.11.2007 ( 50th series-3)	<b>5,850.00</b>	5,850.00
11.40% Redeemable at par on 15.12.2007 ( 52nd series )	<b>26,300.00</b>	26,300.00
10.45% Redeemable at par on 30.09.2008 ( 54th series )	<b>19,000.00</b>	19,000.00
10.00% Redeemable at par on 30.06.2008 ( 56th series )	-	24,650.00
9.90% Redeemable at par on 20.07.2008 ( 57th series )	-	33,040.00
9.90% Redeemable at par on 30.07.2008 ( 59th series )	-	11,690.00
9.00% Redeemable at par on 28.09.2008 ( 60th series )	-	38,100.00
8.75% Redeemable at par on 31.12.2008 ( 61st series )	-	21,400.00
8.35% Redeemable at par on 07.03.2009 ( 62nd series )	<b>16,270.00</b>	16,270.00
6.90% Redeemable at par on 27.09.2009 (64th series)	<b>24,000.00</b>	24,000.00
6.00% Redeemable at par on 31.01.2010 (66th series)	<b>27,400.00</b>	27,400.00
6.05% Redeemable at par on 31.03.2014 (69th series)	<b>66,920.00</b>	66,920.00
6.60% Redeemable at par on 31.03.2014 (72nd series)	<b>58,550.00</b>	-
6.90% Redeemable at par on 08.10.2014 (73rd series)	<b>23,390.00</b>	-
7.20% Redeemable at par on 17.03.2015 (75th series)	<b>50,000.00</b>	-
6.00% Redeemable at par on 15.03.2008 (76th series)	<b>102,000.00</b>	-
Capital Gains Tax Exemption Bonds Redeemable at par -Series-I	<b>250,426.07</b>	341,638.65
Capital Gains Tax Exemption Bonds Redeemable at par - SeriesII	<b>159,426.25</b>	159,426.25
Capital Gains Tax Exemption Bonds Redeemable at par - Series-III	<b>136,267.90</b>	116,715.20
Capital Gains Tax Exemption Bonds Redeemable at par - Series-IV	<b>199,274.30</b>	-
Infrastructure Bonds Redeemable at par - Series -I &II	<b>8,650.70</b>	8,854.55
Infrastructure Bonds Redeemable at par - Series -III	<b>1,617.15</b>	1,616.85
Bond Application money - Capital Gains Bonds / Infra Bonds	<b>48,649.86</b>	19,466.41
Interest accrued and due on all the above REC Bonds	-	31.66
<b>Total</b>	<b>1,744,938.18</b>	<b>1,345,689.57</b>

**Notes:**

36th - I & II Series of Bonds shall be redeemed on 25.09.2005 & 26.11.2005 respectively, 46th Series & 48th Series to 50th I, II & III, 52nd & 54th Series are redeemable at par with put / call option at the end of 3rd year / 5th year i.e.15.06.2005,31.07.2005, 31.10.2005,31.10.2005, 30.11.2005, 15.06.2006 and 30.03.2006 respectively. 62nd, 64th and 66th Series of Bonds have put / call option at the end of 5 year i.e. 07.03.2007, 27.09.2007 & 31.01.2008 respectively. 69th & 73rd Series are redeemable at par in 5 equal instalments at the end of 6th, 7th, 8th, 9th & 10th year respectively. 72nd Series of bonds shall be redeemed at par at the end of 7th year. 75th Series of bonds shall be redeemed at par in 10 equal instalments at half yearly intervals from 5-1/2 years to 10 years by way of STRPPs . 76th Series have put / call option at the end of 18th months from the deemed date of allotment i.e., 15.03.2005.

39th, 40th, 42nd, 43rd, 44th, 45th, 56th, 57th, 59th, 60th & 61st Series of Taxable Bonds were redeemed on 08.09.2004,31.12.2004, 24.03.2005, 24.03.2005,31.03.2005, 31.03.2005,30.06.2004, 20.06.2004, 30.06.2004, 28.04.2004 & 30.11.2004 respectively by exercising call option by the Corporation. In respect of 75th & 76th series of Bonds, hypothecation deeds are yet to be executed.

Capital Gains Tax Exemption Bonds are issued for a tenure of 5/7 years at different interest rates varying from 5.15% to 8.70% payable with 3 options viz semi annual, annual & cumulative. These bonds have put option at par at any time and in case of Capital Gains Tax Exemption Bonds - Series -IV at the end of 3 / 5 years. Infrastructure Bonds are issued for a tenure of 3/5 years at different interest rates varying between 5.60% to 9.00% payable annually.These Bonds have put option at par at the end of 36 months from the date of allotment and in case of Infrastructure Bonds - Series - IV at par at the end of 3/5 years. The Capital Gains Tax Exemption Bonds and Infrastructure Bonds are secured by a legal mortgage respectively over the REC's immovable properties and receivables to the satisfaction of the trustees. The Book value of these immovable properties and receivables are Rs 38.50 lacs. However charge to the extent of amount borrowed has been created with ROC in favour of trustees.

Pending allotment of Capital Gains Tax Exemption Bonds and Infrastructure Bonds, the amount received has been shown under the head Bonds Application Money - Capital Gains Tax Bonds / Infra Bonds.

Bonds for Rs.30.00 lacs are held by REC LTD., Gratuity Fund Trust.

## SCHEDULE : D - UNSECURED LOANS

( Rs. in Lacs )

	As at 31.03.2005	As at 31.03.2004
<b>1.From Government of India</b> (including Rs 2019.40 lacs due for payment during next year, previous year Rs 15645.22 lacs)	14,016.56	118,335.57
<b>2.TERM LOANS FROM BANKS</b>		
Canara Bank	20,000.00	-
Bank of Baroda	25,000.00	-
Interest accrued on above	7.92	-
<b>3.CASH CREDIT LIMITS FROM BANKS</b>		
Corporation Bank	28,500.00	-
State Bank of India	17,500.00	-
Bank of India	20,000.00	-
<b>4.REC BONDS</b>		
<b>A.( Non-cumulative, guaranteed by Government of India)</b>		
<b>a) Short term</b>		
12.5% Redeemable at par on 22.11.2004 (27th Series)	-	3,000.00
14% Redeemable at par on 01.03.2006 (29th Series1)	1,291.00	1,291.00
14% Redeemable at par on 29.03.2006 (29th Series2)	3,096.92	3,096.92
<b>b) Long term</b>		
11.5% Redeemable at par on 12.12.2008 (18th Series)	6,858.00	6,858.00
11.5% Redeemable at par on 29.12.2009 (21st Series)	6,908.00	6,908.00
11.5% Redeemable at par on 27.12.2010 (22nd Series)	4,900.00	4,900.00
12% Redeemable at par on 05.12.2011 (23rd Series1)	2,265.00	2,265.00
12% Redeemable at par on 21.02.2012 (23rd Series2)	3,035.00	3,035.00
13% Redeemable at par on 17.02.2008 (24th series)	5,502.00	5,502.00
13.85% Redeemable at par on 13.09.2006 (31st Series)	3,500.00	3,500.00
12.3% Redeemable at par on 26.03.2008 (35th Series)	5,497.50	5,497.50
<b>B. Other Bonds</b>		
7.22% Redeemable at par on 31.12.2014 (74th series)	25,000.00	-
Interest accrued and due on above	23.38	51.59
<b>Total</b>	<b>192,901.28</b>	<b>164,240.58</b>

Note: Bonds for Rs.68.77 lacs and Rs.16.00 lacs are held as on 31.03.2005 by REC Ltd., CP Fund Trust and REC Ltd. Gratuity Fund Trust respectively.

**SCHEDULE : E1 - FIXED ASSETS**

(Rs. in Lacs)

	GROSS BLOCK				DEPRECIATION				NET BLOCK	
	As at 1.4.2004	Additions during the year	Deductions during the year	As at 31.03.2005	Upto 31.03.2004	During the year	Disposal/ written off during the year	Upto 31.03.2005	As at 31.03.2005	As at 31.03.2004
<b>Fixed Assets</b>										
Freehold Land	65.90	-	-	<b>65.90</b>	-	-	-	-	<b>65.90</b>	65.90
Lease hold Land	145.50	-	-	<b>145.50</b>	6.92	<b>1.47</b>	-	<b>8.39</b>	<b>137.11</b>	138.58
Buildings	1,794.51	362.24	-	<b>2,156.75</b>	328.80	<b>33.13</b>	-	<b>361.93</b>	<b>1,794.82</b>	1,465.71
Furniture and Fixtures	345.27	6.61	1.18	<b>350.70</b>	171.46	<b>20.86</b>	1.16	<b>191.16</b>	<b>159.54</b>	173.81
EDP Equipments	298.37	70.60	1.88	<b>367.09</b>	214.85	<b>33.86</b>	1.88	<b>246.83</b>	<b>120.26</b>	83.52
Office Equipments	210.43	22.81	0.84	<b>232.40</b>	127.47	<b>15.51</b>	0.61	<b>142.37</b>	<b>90.03</b>	82.96
Vehicles	104.82	-	6.64	<b>98.18</b>	47.55	<b>9.60</b>	4.56	<b>52.59</b>	<b>45.59</b>	57.27
<b>Total</b>	<b>2,964.80</b>	<b>462.26</b>	<b>10.54</b>	<b>3,416.52</b>	<b>897.05</b>	<b>114.43</b>	<b>8.21</b>	<b>1,003.27</b>	<b>2,413.25</b>	<b>2,067.75</b>
Capital work-in-progress	284.64	214.17	358.27	<b>140.54</b>	-	-	-	-	<b>140.54</b>	284.64
Other Intangible Assets										
Computer software	1.06	0.77	-	<b>1.83</b>	0.12	<b>0.42</b>	-	<b>0.54</b>	<b>1.29</b>	0.94
<b>Gross Total</b>	<b>3,250.50</b>	<b>677.20</b>	<b>368.81</b>	<b>3,558.89</b>	<b>897.17</b>	<b>114.85</b>	<b>8.21</b>	<b>1,003.81</b>	<b>2,555.08</b>	<b>2,353.33</b>
<b>Previous Year</b>	<b>3,090.14</b>	<b>178.26</b>	<b>17.90</b>	<b>3,250.50</b>	<b>806.21</b>	<b>103.15</b>	<b>12.19</b>	<b>897.17</b>	<b>2,353.33</b>	<b>2,283.93</b>

1) Depreciation on AC Plant at CIRE Hyderabad is charged @ 5.15% as gainst 4.75% as per Schedule XIV of the Companies Act, 1956, such rate being continued to be charged since 1988-89, the year of installation

2) Other Intangible Assets includes computer software purchased from outside and in terms of AS-26, these are being charged over a period of 5 years.

**SCHEDULE : E2- INVESTMENTS**

(Rs. in Lacs)

	As at 31.03.2005	As at 31.03.2004
<b>Long Term Investments (Unquoted) -at Cost</b>		
8% Government of Madhya Pradesh Power Bonds-II maturing in 30 equal half yearly Instalments w.e.f. 1.04.05	<b>141,480.00</b>	-
Investments in Joint Venture- KSK Energy Ventures Limited	<b>242.37</b>	-
SIB Funds - at cost (24,23,708 units of Rs 10/- each)		
	<b>141,722.37</b>	-

## SCHEDULE : F - CURRENT ASSETS, LOANS & ADVANCES

( Rs. in Lacs )

	As at 31.03.2005	As at 31.03.2004
<b>I CURRENT ASSETS</b>		
<b>A) Cash and bank balances :</b>		
(i) Cash/Cheques in hand / transit (incl.postage & imprest)	2,246.13	0.51
(ii) In current accounts		
- with RBI	193.82	155.32
- with other Scheduled Banks	21,105.26	7,453.88
(iii) In Deposit accounts with Scheduled Banks	25,000.22	0.22
<b>Total - (A)</b>	<b>48,545.43</b>	<b>7,609.93</b>
<b>B) Other Current Assets</b>		
(i) In Public Deposit Account with Govt of India	-	1,230.02
(ii) Interest accrued but not due on term deposits	400.19	0.04
(iii) Interest accrued but not due		
- on Loans	5,069.26	5,025.47
- on Govt Securities	5,659.20	-
- on loans to employees	198.95	188.02
(iv) Recoverable from SEB /Govt. Deptts.	183.64	185.83
Less: Provision for Bad & Doubtful Debts	180.20	180.20
<b>Total - (B)</b>	<b>11,331.04</b>	<b>6,449.18</b>
<b>II LOANS AND ADVANCES</b>		
<b>C) (a) Loans</b>		
(i) State Electricity Boards/Corp., Co-operatives and State Governments Unsecured, considered good and guaranteed by respective State Governments	1,685,073.07	1,520,090.89
(ii) State Electricity Boards/Corp. (Secured by hypothecation of materials with respective State Electricity Boards/Corp.) considered Good	208,811.59	136,225.70
classified doubtful	140.99	140.99
Less: Prov. for Bad & doubtful debts	70.50	70.50
(iii) Others (Secured by hypothecation of tangible assets) considered Good	199,337.84	171,156.95
classified doubtful	2854.99	2,854.99
Less: Prov. for Bad & doubtful debts	2000.00	2,000.00
(iv) Others (Unsecured )- considered good	10,000.00	
(v) Interest accrued and due on Loans	358.42	448.36
(vi) Interest accrued but not due on Loans	82,102.53	74,239.32
(vii) Employees (Secured)	196.90	203.90
(viii) Employees (unsecured)	242.70	307.62
<b>C) (b) Advances</b> (Unsecured considered good)		
(i) Advances recoverable in cash or in kind or for value to be received	131.41	55.66
(ii) Advance Income-Tax	79,245.02	57,969.22
(iii) Deferred Tax Assets	151.51	229.27
(iv) Income tax recoverable (Bond)	0.29	0.29
(v) Advance to Gratuity fund	-	110.00
<b>Total - ( C )</b>	<b>2,266,576.76</b>	<b>1,961,962.66</b>
<b>Total (A+B+C)</b>	<b>2,326,453.23</b>	<b>1,976,021.77</b>

**SCHEDULE : G - CURRENT LIABILITIES AND PROVISIONS**

(Rs. in Lacs)

	As at 31.03.2005		As at 31.03.2004	
<b>A) CURRENT LIABILITIES</b>				
(a) Creditors for Expenses				
- Dues of small scale ind. Undertakings		-		-
- Dues of creditors other than small scale ind. Undertakings (on capital account Rs.40.96 lacs (previous year Rs.19.36 lacs)		1,552.18		902.24
(b) Advance Receipts from borrowers		154.29		1,068.88
(c) Other Liabilities		303.91		598.99
(d) Grant-in-Aid from Government of India	113,712.73		73,712.73	
Less : Disbursed to State Power Utilities / Co-operative Societies	109,997.06	3,715.67	63,285.00	10,427.73
(e) Interest accrued but not due				
- on bonds		27,868.01		43,101.09
- Government / LIC Loans		19,022.60		6,495.64
		46,890.61		49,596.73
(f) Unclaimed Interest & Principal On Bonds and Government Loans				
- Interest		154.34		44.28
- Principal		304.00		305.00
		458.34		349.28
<b>Total (A)</b>		<b>53,075.00</b>		<b>62,943.85</b>
<b>B) PROVISIONS</b>				
(b) Income Tax		80,887.31		57,375.44
(c) Wealth Tax		1.24		1.69
(d) Proposed Dividend		17,650.00		18,300.00
(e) Dividend Tax		2,475.41		2,344.69
(f) Leave Encashment		598.99		530.08
(g) Gratuity		312.91		598.90
<b>Total (B)</b>		<b>101,925.86</b>		<b>79,150.80</b>
<b>Total (A) + (B)</b>		<b>155,000.86</b>		<b>142,094.65</b>

## SCHEDULE : H - INCOME FROM OPERATIONS

( Rs. in Lacs )

	Year ended 31.03.2005		Year ended 31.03.2004	
<b>A. On Lending Operations</b>				
Interest on Loans				
- Short term financing	9,695.80		20,837.91	
- Long term financing	<u>208,660.78</u>	218,356.58	<u>160,323.15</u>	181,161.06
<b>B. Handling charges, service charges, processing fee, up-front fee, consultancy, etc</b>		570.67		269.31
<b>C. Swapping Premium</b>		1,053.87		17,058.24
<b>Total</b>		<u>219,981.12</u>		<u>198,488.61</u>

## SCHEDULE : I - OTHER INCOME

	Year ended 31.03.2005		Year ended 31.03.2004	
<b>A. On Investment/Deposit Operations</b>				
Interest on deposits	4,498.43		1,095.50	
Interest on Govt Securities	<u>5,659.20</u>	10,157.63	-	1,095.50
<b>B. Other Income</b>				
Interest on staff advances		36.52		40.52
Miscellaneous Income		18.85		44.39
Profit on sale of Assets		-		1.70
Excess Provision written back		14.75		-
<b>Total</b>		<u>10,227.75</u>		<u>1,182.11</u>

**SCHEDULE : J - PAYMENTS TO AND PROVISIONS FOR EMPLOYEES**

(Rs. in Lacs)

	Year ended 31.03.2005	Year ended 31.03.2004
Salaries and Allowances	2,351.89	3,332.43
Contribution to Gratuity Fund	314.52	-
Contribution to Provident and Other Funds	175.97	228.39
Staff Welfare expenses	396.80	379.82
Rent - Residential	50.48	32.12
<b>Total</b>	<b>3,289.66</b>	<b>3,972.76</b>

**SCHEDULE : K - ESTABLISHMENT AND OTHER EXPENSES**

	Year ended 31.03.2005	Year ended 31.03.2004
Rent- office	19.25	20.71
Rates and Taxes	11.12	8.76
Electricity and Water Charges	32.00	37.40
Insurance Charges	2.93	3.33
Repairs and Maintenance		
Buildings	141.93	88.80
Others	17.99	19.71
Internet Charges	17.68	-
Printing and Stationery	30.60	25.17
Travelling and Conveyance	228.93	171.90
Postage, Telegram and Telephone	58.38	40.17
Consultancy Charges	5.23	1.85
Contribution to P M National Relief Fund and others	226.00	-
Miscellaneous Expenses	291.26	229.16
Loss on sale of Assets	1.53	-
Entertainment	12.18	8.53
Auditors' Remuneration ( incl.reimb.of exp.)	21.46	14.58
Vehicles Maintenance	25.71	16.63
<b>Total</b>	<b>1,144.18</b>	<b>686.70</b>

## SCHEDULE 'L'

### SIGNIFICANT ACCOUNTING POLICIES

1. The financial accounts are prepared on going concern basis at historical cost under the accrual method in accordance with applicable Accounting Standards.
- 2. REVENUE RECOGNITION**
  - 2.1 Income on Non Performing Assets (defined as per RBI norms) where interest / principal has become overdue for two quarters or more, is recognised as and when received and appropriated.
  - 2.2 Unless otherwise agreed, the recoveries from the borrowers are appropriated in the order of (i) interest including penal interest with interest tax wherever applicable, the oldest dues being adjusted first, (ii) repayment of principal, the oldest being adjusted first. As in the case of recoveries from borrowers, unless otherwise decided & specified, receipts from SPV or otherwise on account of securitisation of receivables are also appropriated in the same order i.e. first towards interest (including interest accrued but not due), penal interest and interest tax, if applicable, the oldest dues being adjusted first, and then towards overdue and outstanding principal, the oldest dues being adjusted first. Upfronted income / loss on securitisation is recognised in the same year in which it is determined and received. The annual Trustee fee and other future expenses regarding the administration of PTCs / instruments till their full repayment to the PTC / instrument holders are accounted for in the year in which the expenses accrue / are incurred. In the event of operation, if any, of the recourse, the payment by REC to the SPV shall be treated as expenditure / recoverable from the borrower and the recovery being effected by REC through the available escrow mechanism or through any other manner that may be feasible including calling upon the guarantor to make the payment. In the event of making such recourse payment by REC, such payment shall be treated as expenditure if the same is made against appropriation of receipts from SPV towards interest and as Recoverable from the borrower if the payment is made against appropriation of receipts from SPV towards principal.
  - 2.3 In respect of loans whose terms are revised/renegotiated, income is recognized when it is reasonably expected that there is no uncertainty of receipts of dues from the borrowers and a legally binding Memorandum of Agreement has been executed. However, this alone would not be used as the sole criteria to judge certainty of receipts on signing of MOA, besides this the reform policy followed by the relevant State Government, consent Decree obtained from DRT, etc, would also be some of the guiding criteria. This is notwithstanding the fact that the Ministry of Power, Government of India, in the Memorandum of Understanding signed with REC had agreed to facilitate REC recover its dues from defaulting SEBs either through central appropriation or otherwise.
  - 2.4 No account is taken of interest on loans to Rural Electric Cooperative Societies upto the 5th year of loan as the Cooperatives are entitled, not to pay interest if they agree to create a special fund equivalent to the amount of such interest in terms of the loan agreement.
  - 2.5 Rebate for punctual payment is accounted for only when interest and repayment of the loan instalment is paid/received on due dates.
- 3. PRIOR PERIOD ADJUSTMENTS**
  - 3.1 Considering the nature of business, Interest income/repayment of principal for the earlier years ascertained and determined during the year, is accounted for in the year in which it is so ascertained/determined.
  - 3.2 Expenses not exceeding Rs. 10,000/- in each case are accounted for under natural heads of account.
- 4. FIXED ASSETS / DEPRECIATION**
  - 4.1 Fixed Assets are shown at historical cost less accumulated depreciation.
  - 4.2 a) Depreciation on own assets is provided on pro rata basis on straight line method at the rates prescribed under Schedule XIV to the Companies Act, 1956. In terms of option available under the Companies Act, 1956, depreciation on assets capitalized prior to 16.12.93 is charged at the rates then prevailing on the straight line method.

b) Depreciation on assets purchased / sold during the year is charged for the full month if the asset is in use for more than 15 days, instead of charging the same on pro-rata basis from the date of purchase/sale.

- 4.3 Depreciation on Leased Assets is provided on the Straight Line Method at the rates arrived on the basis of the primary period of lease, as stated in the respective lease agreements or at the rate prescribed in Schedule XIV to the Companies Act, 1956, whichever is higher.
- 4.4 Depreciation on assets purchased during the year upto Rs. 5,000 is provided @ 100%.
- 4.5 Lease hold land is amortised over the lease period.

#### **5. STAFF BENEFITS**

Present value of future liability towards gratuity and leave encashment is estimated and determined on actuarial valuation at the year end and is being provided for accordingly.

#### **6. RESEARCH AND DEVELOPMENT**

Expenditure on Research and Development is charged to revenue whenever incurred.

#### **7. BOND ISSUE**

- 7.1 Expenditure on raising of funds by way of issue of bonds is charged to revenue in the year of issue of such bonds.
- 7.2 The Corporation discharges its obligation towards payment of interest warrants relating to bonds by depositing the amount in the designated Interest Warrant Bank Accounts. Accordingly, the payments are treated as final payments and these designated accounts are not exhibited in the books but reconciliation thereof is carried out.

#### **8. INVESTMENTS**

Investments being long term are valued at cost.

#### **9. PROVISIONS/WRITE OFF AGAINST LOANS AND ADVANCES**

As per RBI guidelines, no provision is made in respect of loans outstanding with borrowers which are guaranteed by the respective State Governments and the guarantees thereof have not been repudiated by the respective State Government(s) so far. Loans other than those guaranteed by the Government, are classified and provisions are made there against on the lines of RBI guidelines.

#### **10. TREATMENT OF GRANTS RECEIVED FROM GOVERNMENT OF INDIA**

Grants received from Government of India, which are deposited in the normal bank accounts of the Corporation, are for specific purpose indicated in the respective sanctions and are utilised accordingly. The net balance at the end of the year is shown in the Current Liabilities and provisions in the books.

## SCHEDULE 'M'

### NOTES ON THE ACCOUNTS

1. Contingent Liabilities not provided for in respect of:

	As at 31.3.2005	As at 31.3.2004
		(Rs. in lacs)
(a) Claims against the Corporation not acknowledged as debts, (including Rs 2579.44 lacs pending in various courts, Previous year Rs. 2212.64 lacs)	<b>5796.27</b>	4168.30
(b) Estimated amount of the contracts remaining to be executed on capital account and not provided for	<b>126.05</b>	284.48
(c) Future recourse on account of securitisation of receivables covered by guarantee from the Govt. of Andhra Pradesh	<b>5244.76</b>	10489.48

The amount under 1(a) includes contingent liability of Rs. 2049.58 lacs towards income tax cases reopened by the Income Tax Department.

2. The Corporation was registered by RBI as a Non-Banking Financial Company (NBFC) during the year 1997-98. As per notification No. DNBS (PD), CC No. 12/D2.01/99-2000 dated 13.1.2000 of RBI, Govt. Companies conforming to Section 617 of the Companies Act have been exempted from applicability of the provisions of RBI Act relating to maintenance of liquid assets and creation of Reserve Funds and the Directions relating to acceptance of public deposits and prudential norms. The said notification is also applicable to REC, being a Govt. Company conforming to Section 617 of the Companies Act, 1956. In view of non-applicability of the provisions of Section 451C of the RBI Act, 1934 regarding creation of the Reserve Fund, the Reserve Fund is not created.
3. The Building of Central Institute for Rural Electrification at Hyderabad, free hold land and Furniture & Fixtures at Scope Complex Office, New Delhi have been capitalised on provisional basis pending receipt / finalisation of final bills. The difference in the final cost, if any, would be accounted for as and when ascertained. Further in respect of flats purchased at Thiruvanthapuram during the year 2000-01 from Kerala State Housing Board (KSHB), some landowners have disputed the amount of compensation earlier paid to them by the KSHB and as per agreement, if any more compensation is awarded to the landowners, proportionate amount shall be recovered by the KSHB from the allottees.
4. Refer Accounting Policy no.2.4. There has been shortfall in creation of Special Fund by some of the RE Cooperative Societies amounting to Rs.279.25 lacs (Previous year Rs.123.80 lacs) as on 31.3.2005 and the societies are pursued to create the required Special Fund.
5. The Corporation received subsidy of Rs.400 crore from the Government during the year for the programme of electrification of one lakh villages and one crore households. However, the disbursements against such subsidy were made to the extent of Rs.426.95 crore in the interest of the programme. The balance of Rs. 26.95 crore shall be receivable from the Government.
6. Balance confirmation has been received excepting from some of the borrowers.
7. During the year, the overdues of MPSEB and Jharkhand SEB were settled. While Jharkhand SEB settled the dues by paying Rs.170 Crores in cash and MP Govt. by providing 8% M.P.Govt. Bonds amounting to Rs.1414.80 Crores (balance Rs. 335.20 Crores is payable by MPSEB in instalments as per MOU). The amounts received have been appropriated as per accounting policy, by recognising Rs. 546.69 Crores as Interest and the balance Rs. 1038.11 Crores as Principal.
8. The formalities regarding conveyance deeds, etc. in respect of some of the premises acquired by the Corporation amounting to Rs.650.46 lacs (Previous year Rs. 530.47 lacs) are in the process of completion.
9. Total overdues recoverable from the borrowers as on 31.3.2005 amount to Rs.64846.00 lacs (Previous year Rs.331942.00 lacs) and effective steps are being taken for recovery of the same. Suits filed in the Debt Recovery

Tribunal against defaulting Electricity Boards, wind farm borrowers and cooperative societies for recovery of dues are at different stages of hearing/ legal proceedings. For defaulting Societies, Court decrees have been obtained and execution thereof is in progress.

10. The borrowers of the Corporation were given an option to swap their high cost loans with fresh loans at the prevailing lower rates of interest on payment of a swapping premium. The income on account of includes an amount of Rs.1053.87 lacs (Previous year Rs.17058.24 lacs) of swapping premium received by the Corporation during the year.
11. In terms of Accounting Policy No. 7.2, the balances in respect of Interest Warrants Accounts as on 31.3.2005 held in specified banks are Rs. 23841.26 lacs (Previous Year Rs. 10079.04 lacs).
12. In the opinion of the management, the current assets, loans and advances appearing in the balance sheet have a value equivalent to the amount stated therein if realised during the ordinary course of business and all known liabilities have been provided. There is no impairment of the Corporation's Assets in terms of AS-28.
13. Pending final approval of the pay scales of the officers by the Govt., the differential amount of Rs.7.50 crores approx. in respect of the employees who left the services on retirement or otherwise, is retained in fixed deposits in the name of the employees (FDR's pledged to REC)
14. The Corporation presently does not have more than one segment eligible for reporting in terms of Accounting Standard -17.
15. No Debenture Redemption Reserve (DRR) has been created this year because as per clarification issued by the Department of Company Affairs, Govt. of India vide no.6/3/2001-CL.V dated 18.4.2002, DRR is not required to be created in the case of privately placed debentures issued by NBFC's registered with the RBI under section 45-IA of the RBI (Amendment) Act, 1997.
16. Directors' Remuneration:

(Rs. in lacs)

	Year ended 31.3.2005	Year ended 31.3.2004
Salaries and Allowances	13.57	2.19
Perquisites/reimbursement	5.62	0.45
Retirement Benefits	1.88	0.78
	<u>21.07</u>	<u>3.42</u>

The Chairman and Managing Director and other whole time Directors have also been allowed to use Staff car including for private journey(s) upto a ceiling of 1000 kms per month on payment of monthly charges as per DPE guidelines.

17. Auditors' Remuneration includes:

(Rs. in lacs)

	Year ended 31.3.2005	Year ended 31.3.2004
a) Audit fees – Current year	6.61	5.94
– Last year	0.54	0.52
b) Tax Audit fee – Current year	2.20	1.62
– Last year	0.58	0.05
c) Reimbursement of expenses	6.98	3.10
d) Payments for other Services	4.54	3.35
	<u>21.45</u>	<u>14.58</u>

18. Loans and Advances include Rs. 1.59 lacs (Previous year Rs.0.18 lacs) due from Directors of the Corporation (Maximum amount outstanding during the year Rs.4.01 lacs (Previous year Rs. 0.37 lacs).
19. Expenditure in Foreign Currency during the year was Rs. 13.92 lacs (Previous year Rs.2.58 lacs). All other information required under para 4 (c) and 4 (d) of Part II of the Schedule VI of the Companies Act, 1956 are either nil or not applicable.

20. Schemes for Energy Conservation Projects are initially sanctioned as interest bearing loan and on the satisfactory completion of the projects, the eligible portion of the loan is converted into grant from the original date of disbursement of the loan.
21. Interest accrued but not due amounting to Rs.82102.53 lacs (previous year Rs.74239.32 lacs) in respect of accounts rescheduled in earlier years, has been transferred this year to Loans from Current Assets, being receivable over a period of more than one year.
22. Previous year's figures have been regrouped/rearranged/recast, wherever necessary, to make them comparable with the current year's figures.
23. Schedules A to M form an integral part of the Balance Sheet and Profit & Loss Account and have been duly authenticated.
24. Balance Sheet Abstract and company's General Business Profile as per Part IV of Schedule VI of the Companies Act, 1956.

#### 1. REGISTRATION DETAILS :

Registration No.	005095	State Code	55
Balance Sheet Date :	31	03	2005
	Date	Month	Year

Amount (Rs. in lacs)

#### 2. CAPITAL RAISED DURING THE YEAR

NIL

#### 3.POSITION OF MOBILISATION AND DEPLOYMENT OF FUNDS

Total Liabilities	2470730.68	Total Assets	2470730.68
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#### SOURCES OF FUNDS

Paid up Capital	78060.00	Reserves and Surplus	299830.36
Secured Loans	1744938.18	Unsecured Loans	192901.28

#### APPLICATIONS OF FUNDS

Net Fixed Assets	2555.08	Investments	141722.37
Net Current Assets and Loans	2171452.37		

#### 4. PERFORMANCE OF COMPANY

Turnover	219981.12	Total Expenditure	126543.89
Profit before Tax	103664.98	Profit after Tax	80075.36
EPS in Rs.	10.01	Dividend Rate	30%

(On a share of Rs. 10/-)

#### 5.GENERIC NAMES OF PRINCIPAL PRODUCTS/SERVICES OF THE COMPANY

Item Code No.	N.A.	Financial Services
---------------	------	--------------------

Signatures to all Schedules A to M

**M. N. Prasad**  
Chairman & Managing Director

**H.D. Khunteta**  
Director (Finance)

**B.R. Raghunandan**  
Company Secretary

In terms of our Report of even date  
**For K.B. CHANDNA & CO.**  
Chartered Accountants

Place: New Delhi  
Dated: April 29, 2005

**V.K.Gureja**  
Partner  
Membership No. 16521

## Cash Flow Statement for the year ended 31st March, 2005

(Rs.in Lacs)

	Year Ended 2004-05	Year Ended 2003-04
<b>A. Cash Flow from Operating Activities :</b>		
Net Profit before Tax and Extraordinary Items:	101,725.92	79,832.15
<b>Adjustments for:</b>		
1. Profit / Loss on Sale of Fixed Assets	1.53	- 1.70
2. Depreciation (including prior period)	114.85	103.15
<i>Operating profit before working Capital Charges :</i>	<u>101,842.30</u>	<u>79,933.60</u>
<b>Increase / Decrease :</b>		
1. Loans & Advances	-283,416.06	- 236,678.02
2. Other Current Assets	- 4,881.86	- 39,972.50
3. Current Liabilities	- 3,423.85	- 2,233.72
<i>Cash outflow from Operations</i>	<u>- 189,879.47</u>	<u>- 198,950.64</u>
1. Advance Income Tax Paid	- 21,275.80	- 27,070.64
2. Wealth Tax paid	- 0.45	-1.03
<i>Net Cash used in Operating Activities</i>	<u>- 211,155.72</u>	<u>- 226,022.31</u>
<b>B. Cash Flow from Investing Activities</b>		
1. Sale of Fixed Assets	0.79	2.94
2. Purchase of Fixed Assets	- 231.77	- 260.95
<i>Net Cash used in investing Activities</i>	<u>- 230.98</u>	<u>- 258.01</u>
<b>C. Cash Flow from Financial Activities</b>		
1. Issue of Bonds	506,950.75	204,756.88
2. Redemption of Bonds	- 343,872.43	- 56,651.00
3. Raising of Term Loans/STL from Banks/FIs	413,200.00	194,000.00
4. Repayment of Term loans/STL from Banks/Fis	- 44,000.00	- 20,000.00
5. Increase in Investments	- 141,722.37	
6. Grants received from GOI	40,000.00	10,000.00
7. Disbursement of grants	- 46,712.06	- 14,932.98
8. Repayment of Govt. Loan	- 104,319.01	-102,005.53
9. Dividend paid	- 24,100.00	- 7,400.00
10. Dividend Tax paid	- 3,102.68	- 925.00
<i>Net Cash in-flow from Financing Activities</i>	<u>252,322.20</u>	<u>206,842.37</u>
<b>Net Increase/Decrease in Cash &amp; Cash Equivalents</b>	<u>40,935.50</u>	<u>- 19,437.95</u>
Cash & Cash Equivalents as at 1st April, 2004	7,609.93	27,047.88
Cash & Cash Equivalents as at 31st March, 2005	48,545.43	7,609.93
<b>Net Increase/Decrease in Cash &amp; Cash Equivalents</b>	<u>40,935.50</u>	<u>- 19,437.95</u>

Note : Previous year's figures have been rearranged and regrouped wherever necessary.

In terms of our Report of even date

**For K.B.Chandna & Co.**  
Chartered Accountants

**H. D. Khunteta**  
Director ( Fin)

**M.N. Prasad**  
Chairman & Managing Director

**V.K.Gureja**  
Partner  
Membership No.16521

**B.R.Ragunandan**  
Company Secretary

Place : New Delhi  
Date : April 29th, 2005

## Annexure to be enclosed with Balance Sheet

( AS PRESCRIBED BY RBI )

(Particulars as required in terms of Paragraph 9BB of Non-Banking Financial Companies Prudential Norms (Reserve Bank) Directions, 1998, in so far as they are applicable to REC Ltd.)

(Rs in Lacs)

Particulars	Amount Outstanding	Amount overdue
<b>LIABILITIES SIDE:</b>		
Loans and advances availed by the NBFCs inclusive of interest accrued thereon but not paid:		
(a) Debentures :		
(i) Secured	1,292,737.23	-
(ii) Unsecured	67,876.80	-
(b) Term loans from govt. of India	14,016.56	-
(c) Term Loan from Financial Institutions	350,000.00	-
(c) Term Loan from Banks	147,208.87	-
(d) Cash Credit from banks	66,000.00	-

**ASSETS SIDE :**

Break-up of Loans and Advances including bills receivables

(a) Secured	491,732.76
(b) Unsecured	1,774,844.00

**Borrower Group-wise classification of all leased assets, stock-on-hire and loans and advances:**

Category	AMOUNT NET OF PROVISIONS		
	Secured	Unsecured	Total
<b>1. Related Parties</b>			
(a) Subsidiaries	-	-	-
(b) Companies in the same group	-	-	-
(c) Other related parties	-	-	-
<b>2. Other than Related Parties</b>	<b>491,732.76</b>	<b>1,774,844.00</b>	<b>2,266,576.76</b>
<b>Total</b>	<b>491,732.76</b>	<b>1,774,844.00</b>	<b>2,266,576.76</b>

**Other Information**

Particulars	Amount
<b>(i) Gross Non-Performing Assets</b>	
(a) Related Parties	-
(b) Other than Related Parties	66,212.00
<b>(ii) Net Non-Performing Assets</b>	
(a) Related Parties	-
(b) Other than Related Parties	64,142.00
<b>(iii) Assets acquired in satisfaction of debt</b>	-

In terms of our Report of even date  
**For K.B.Chandna & Co.**  
Chartered Accountants

**H. D. Khunteta**  
Director ( Fin)

**M.N. Prasad**  
Chairman & Managing Director

**V.K.Gureja**  
Partner  
Membership No.16521

**B.R.Raghunandan**  
Company Secretary

Place : New Delhi  
Date : April 29th, 2005

## Auditors' Report

TO

**THE MEMBERS OF RURAL ELECTRIFICATION CORPORATION LIMITED**

1. We have audited the attached Balance Sheet of **RURAL ELECTRIFICATION CORPORATION LIMITED** as at 31st March, 2005 and also the Profit & Loss Account and the Cash Flow Statement for the year ended on that date annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.
  2. We conducted our audit in accordance with the auditing standards generally accepted in India. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
  3. As required by the Companies (Auditors' Report) Order, 2003 issued by the Central Government of India in terms of sub-section (4A) of Section 227 of the Companies Act, 1956, we enclose in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order to the extent applicable to the Corporation.
  4. Further to our comments in the Annexure referred in paragraph 3 above, we report that :
    - i) In terms of Article 84 (2) of the Articles of Association of the Corporation, all cases involving capital expenditure exceeding Rs.15 lakhs shall be referred to the Central Government for approval before authorization by the Board of Directors. Hence, a sum of Rs. 716.94 lakhs incurred on capital works during the year, without making reference to the Central Government for approval, is not in conformity with existing Articles of Association.
    - ii) Balance confirmation awaited from some of the parties as referred in note no. 6
- Subject to above :
- i) We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit :
  - ii) In our opinion, proper books of accounts as required by the law have been kept by the company so far as appears from our examination of such books;
  - iii) The Balance Sheet, Profit & Loss account and cash flow statement dealt with by this report are in agreement with the books of accounts;
  - iv) In our opinion, the Balance Sheet, Profit & Loss account and Cash Flow statement dealt with by this report comply with the Accounting Standards referred to in sub-section (3C) of Section 211 of the Companies Act, 1956;
  - v) Vide notification no. 2/5/2001-CL.V dated 22.03.2002 of the Department of Company Affairs, Government of India, Government Companies have been exempted from applicability of the provisions of Section 274 (1)(g) of the Companies Act, 1956.

We further report that without considering items mentioned under paragraph 4 the impact of which could not be determined, in our opinion and to the best of our information and according to explanations given to us, the said statements of accounts read together with notes thereon give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India;

- a) in the case of the Balance Sheet of the state of affairs of the Company as at 31st March 2005;
- b) in the case of Profit & Loss Account, of the profit of the Company for the year ended on that date; and
- c) in the case of the Cash Flow Statement, of the cash flows for the year ended on that date.

For K.B. Chandna & Co.  
Chartered Accountants

V.K. Gureja  
Partner  
Membership No. 16521

Place : New Delhi  
Date : April 29, 2005

## ANNEXURE TO THE AUDITORS' REPORT

(Referred to in the paragraph '3' of our Report of even date on the Statement of Accounts of **RURAL ELECTRIFICATION CORPORATION LIMITED** as at 31st March 2005.)

1. (a) The Company has maintained proper records to show the full particulars giving details & situation of fixed assets.  
 (b) All the Fixed Assets of the company have been physically verified by the management during the year as per the physical verification programme which, in our opinion, is reasonable having regard to the size of the company and the nature of its assets. No material discrepancies were noticed on such physical verification.  
 (c) During the year, the Company has not disposed off major parts of its plant and machinery or assets.
2. The Company, being Non-Banking Financial company, does not have any inventory.
3. As informed to us, the Company has not taken any loans secured or unsecured from the Companies covered in the register maintained under Section 301 of the Companies Act, 1956.
4. In our opinion and according to information & explanations given to us, there are adequate internal control procedures commensurate with the size of the company & the nature of its business with regard to purchase and sale of fixed assets.
5. According to information and explanations given to us, the Company has not transacted any business with the Companies or Entities covered u/s 301 of the Companies Act, 1956.
6. As explained to us, provisions of Section 58A and 58AA of the Companies Act, 1956 are not applicable to the Company.
7. *As informed, in order to strengthen its internal audit system, the Corporation has recently appointed an independent firm of Chartered Accountants to carry out review of market borrowings and lending operations. In the absence of the Report from these Auditors, we are unable to comment on the adequacy of overall Internal Audit System of the Corporation.*
8. The Corporation being Non-Banking Financial Company, the provisions of Section 209(1)(d) of the Companies Act, 1956 are not applicable.
9. (a) The Company is generally regular in depositing with the appropriate authorities undisputed statutory dues including provident fund, investors education protection fund, employees state insurance, income tax, wealth tax and other material statutory dues applicable to it *except for deduction of tax at source in respect of Sales Tax on Works Contract as applicable to the contractees.*  
 (b) According to information and explanation given to us, no undisputed amounts payable in respect of income tax & wealth tax were in arrears as at 31.3.2005 for a period of more than six months from the date they became payable.  
 (c) According to information and explanation given to us, there are no dues of income tax & wealth tax which have not been deposited on account of any dispute.
10. The Company does not have any accumulated losses. The Company has also not incurred cash losses during the financial year covered by our audit and the immediate preceding financial year.
11. In our opinion and according to the information and explanation given to us, the Company has not defaulted in repayment of dues to a financial institution, bank or bond-holders.
12. We are informed that the company has not granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities.
13. In our opinion the company is not a chit fund or a Nidhi Mutual Benefit fund/society. Therefore, the provisions of clause 4(xiii) of the Companies (Auditors' Report) Order 2003 are not applicable to the company.
14. In our opinion, the company is not dealing in or trading in shares, securities, debentures and other investments. Accordingly, the provisions of clause 4 (xiv) of the Companies (Auditors' Report) Order 2003 are not applicable to the Company.
15. As informed to us, the Company has not given guarantee for loans, taken by others, from banks or financial institutions.



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16. In our opinion the term loans has been applied for the purpose for which they were raised.
17. According to information and explanation given to us and on overall examination of the Balance Sheet of the Company, we report that no funds raised on short term basis have been used for long term investment. No long term funds have been used to finance short term assets except permanent working capital.
18. According to information and explanation given to us, the Company has not made preferential allotment of shares to parties and companies covered in the register under Section 301 of the Act.
19. *According to the information and explanation given to us, during the period covered by our audit report, securities in the form of legal mortgage on the immovable properties of the Company at Mumbai having book value of only Rs. 38.50 lacs have been created against Capital Gain Tax Exemption Bonds and Infrastructure Bonds amounting to a sum of Rs. 804312 lacs.*
20. The Company has not raised any money by way of Public Issue.
21. According to information and explanation given to us, no fraud on or by the Company has been noticed or reported during the course of our audit.

Place : New Delhi  
Date : April 29, 2005

For K.B. Chandna & Co.  
Chartered Accountants

V.K. Gureja  
Partner  
Membership No. 16521

## Non-Banking Financial Companies Auditors' Report

To  
The Board of Directors,  
Rural Electrification Corporation Limited,  
SCOPE Complex, Core-IV,  
Lodhi Road,  
New Delhi - 110003.

Dear Sir,

As required by the Non-Banking Financial Companies Auditor's Report (Reserve Bank) Directions, 1998 issued by Reserve Bank of India, on the matters specified in para 3 and 4 of the said Directions to the extent applicable to the Corporation, we report that :

- 1 The Corporation had applied for registration as provided in Section 45-1A of the Reserve Bank of India Act, 1934 (2 of 1934) and has been granted certificate of registration by Reserve Bank of India on 10.2.1998 having Registration No. 14 000011.
- 2 As per amendments to NBFC Regulations vide notification nos 134 to 140 dated 13.1.2000, the Government companies have been exempted from applicability of provisions of RBI Act relating to maintenance of liquid assets and creation of Reserve Funds and the directions relating to acceptance of public deposits and prudential norms. Hence the Board of Directors of the Corporation has not passed any Resolution for non-acceptance of any public deposits during the year 2004-05.
- 3 The Corporation has not accepted any public deposits during the year 2004-05.
- 4 For the financial year ended 31.3.2005, the Corporation has complied with the accounting standards and prudential norms applicable to NBFC's relating to asset classification and provisioning for bad and doubtful debts. Income recognition is as per the accounting policies of the Corporation.

For K B CHANDNA & CO.  
Chartered Accountants

**V K Gureja**  
Partner  
Membership No. 16521

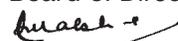
Place : NEW DELHI  
Dated : April 29, 2005

## Addendum to Directors' Report

### Para-wise replies of the management of REC to the observations contained in the Auditors' Report

Observations	Management's Reply
<p>(i) In terms of Article 84 (2) of the Articles of Association of the Corporation, all cases involving capital expenditure exceeding Rs.15 lakhs shall be referred to the Central Government for approval before authorization by the Board of Directors. Hence, a sum of Rs.716.94 lakhs incurred on capital works during the year, without making reference to the Central Government for approval, is not in conformity with existing Articles of Association.</p> <p>(ii) Balance confirmation awaited from some of the parties as referred in note no. 6</p> <p><b>Annexure to the Auditors' Report</b></p> <p>i) As informed, in order to strengthen its internal audit system, the Corporation has recently appointed an independent firm of Chartered Accountants to carry out review of market borrowings and lending operations. In the absence of the Report from these Auditors, we are unable to comment on the adequacy of overall Internal Audit System of the Corporation.</p> <p>ii) The Company is generally regular in depositing with the appropriate authorities undisputed statutory dues including provident fund, investors education protection fund, employees state insurance, income tax, wealth tax and other material statutory dues applicable to it <i>except for deduction of tax at source in respect of Sales Tax on Works Contract as applicable to the contractees.</i></p> <p>iii) According to the information and explanation given to us, during the period covered by our audit report, securities in the form of legal mortgage on the immovable properties of the Company at Mumbai having book value of only Rs. 38.50 lacs have been created against Capital Gain Tax Exemption Bonds and Infrastructure Bonds amounting to a sum of Rs. 804312 lacs.</p>	<p>Articles 84 (2) of the Articles of Association is being amended to enhance delegation of powers of the Board of Directors.</p> <p>The Corporation has taken up the matter for balance confirmation with all the borrowers, but depending upon the status of their accounts, some of the borrowers are not able to confirm balance in time.</p> <p>The independent firm of internal auditors has since submitted their report in the month of July, 2005 and the same is under examination.</p> <p>For the Corporate Office at New Delhi, the Corporation has already been deducting sales tax on works contracts wherever applicable, since December, 2004. Regarding Project Offices, action has either already been taken to deduct sales tax at source or the same is being taken, if applicable.</p> <p>Legal mortgage as stated by the auditors has been created to the satisfaction of the trustees.</p>

For and on behalf of the Board of Directors



(A.K. Lakhina)

Chairman & Managing Director

## ERRATA TO AUDITORS' REPORT

The Director (Finance),  
Rural Electrification Corporation Ltd.,  
New Delhi -110 003.

Sub : Errata to Auditors' Report dated 29.4.2005 on the accounts of  
Rural Electrification Corporation Ltd. for the year ended 31st March, 2005.

Dear Sir,

Kindly refer to our aforesaid Report issued on 29.4.2005. The Department of Company Affairs, vide its Notification dated 25.11.2004, has amended the Companies (Auditors' Report) Order, 2003. On account of the said amendment, it has become necessary to revise Annexure to our Report on the accounts for the year ended 31 st March, 2005. The changes are as under :-

1. In paragraph 4 of the Annexure, in second line, the word "procedures" shall be substituted by the word "systems".
2. In paragraph 17 of the Annexure, the last line i.e. "No long term funds have been used to finance short term assets except permanent working capital." shall be deleted.

You are, therefore, requested to submit the revised Report to all its users. It is, however, confirmed that the revision of the Auditors' Report does not affect the basic structure of our original Report and there are no additional qualifications in our revised Report.

Thanking you,

For K.B. CHANDNA & CO.  
CHARTERED ACCOUNTANTS

**V.K. GUREJA**  
Partner  
Membership No.: 16521

Place : New Delhi  
Dated : 08th August, 2005

**Comments of the Comptroller and Auditor General of India under Section 619(4) of the Companies Act, 1956 on the Accounts of the Rural Electrification Corporation Limited for the year ended 31st March, 2005**

Comments	Management's Reply
<p><b>1. Significant Accounting Policy (Schedule-L)</b> A reference is invited to Comments No. 2 of the Comptroller &amp; Auditor General of India on the accounts of the Company for the year ended 31 March, 2004 under which it was stated that as per the Accounting Policy No. 10. grants received by the Company from Government of India are deposited in normal bank account of the Company and the interest earned from the date of receipt of the grant from the Government to the date of its actual disbursement is treated by the company as its income. The Policy is not in consonance with the term of the grant which require a separate account to be maintained in respect of each grant. The Company continued its Accounting Policy during the current year in contravention of the terms of the Grants.</p>	<p>In reply to Comment No. 2 on the accounts for the year ended 31.3.2004 we have already clarified that separate accounts for the grant/subsidy are being maintained in terms of the sanctions of the Ministry of Power. Requirement for maintaining a separate bank account in respect of each grant is not there. As such, the Accounting Policy No. 10 is in consonance with the terms of the grant. However, as insisted by the Govt. Audit, we have opened a separate bank account in the month of July, 2005 for subsidies to be received from the Ministry of Power for RGGVY programme. In respect of other AREP/ AGSP subsidies, the Ministry of Power has already recovered the interest as the amount has been given to the Corporation on NPV basis, so that keeping such money idle in a separate Current Account would not be desirable as the disbursements would be spread over a number of years.</p>
<p><b>2. Significant Accounting Policy (Schedule-L)</b> The Government Companies conforming to Section 617 of the Companies Act were exempted by the Reserve Bank of India from applicability of the provisions of RBI Act relating to maintenance of liquid assets, creation of reserve funds, acceptance of public deposits and prudential norms to avoid dual control over them in the expectation that Government Department or the Ministry or Department of Public Enterprises would prescribe the norms for their operations on healthy lines and monitor their financial health. In the absence of norms from the administrative Ministry, the Company has not disclosed the norms followed by it. Accounting Policy No. 2.3 of the Company is also not in line with the RBI Prudential Norms.</p>	<p>Significant Account Policies (Schedule 'L') disclose the norms followed by the company, and such norms are generally in consonance with the RBI guidelines, which has also been observed by the statutory auditors in their NBFCs Auditors' Report. However, the matter would be taken up with the administrative Ministry. Regarding Accounting Policy no. 2.3, the same carries additional precautionary conditions for recognition of income in the case of reschedulement/ renegotiation and is, therefore, in the nature of more prudent measure than the corresponding provision of the RBI prudential norms.</p>

**A.K. Singh**  
Principal Director of Commercial Audit &  
Ex-Officio Member, Audit Board-II  
New Delhi.

For and on behalf of Board of Directors



**(A.K. Lakhina)**  
Chairman & Managing Director

Date : 28.7.2005  
Place : New Delhi

## Review of the Accounts of Rural Electrification Corporation Limited New Delhi for the year ended 31st March, 2005 by the Comptroller & Auditor General of India

(Review of the accounts has been prepared without taking into account comments under Section 619(4) of the Companies Act 1956 and qualifications contained in the Statutory Auditors Report)

### Financial Position

The table below summarises the financial position of the Company under broad headings for the last three years.

(Rs. in crore)

	2002-03	2003-04	2004-05
<b>Liabilities</b>			
a) Paid up Capital			
i) Government	780.60	780.60	780.60
ii) Others	0.00	0.00	0.00
b) Reserves & Surplus			
i) Free Reserves & Surplus	1976.05	2378.77	2893.30
ii) Share Premium Account	0.00	0.00	0.00
iii) Capital Reserve	105.00	105.00	105.00
<b>c) Borrowings :</b>			
i) From Govt. of India	2203.41	1183.35	140.17
ii) From Financial Institutions	0.00	1500.00	3500.00
iii) Foreign Currency Loans	0.00	0.00	0.00
iv) Cash Credit	200.00	440.00	660.00
v) Term Loan from Banks	0.00	0.00	1472.00
vi) Others (Bonds)	10494.05	11975.12	13605.91
vii) Interest accrued and due	0.04	0.84*	0.32
<b>d) Current Liabilities &amp; Provisions</b>			
i) Current Liabilities & Provisions	1169.45	1409.64*	1540.88
ii) Provisions for Gratuity & Leave Encashment	12.08	11.29	9.12
e) Deferred Tax Liability	0.00	0.00	0.00
<b>Total</b>	<b>16940.68</b>	<b>19784.61</b>	<b>24707.30</b>
<b>Assets</b>			
f) Gross Block	83.02	32.50	35.59
g) Less : Depreciation	61.87	8.97	10.04
h) Net Block	21.15	23.53	25.55
i) Advance for Capital Expenses	1.69	0.87	0.00
j) Investments	0.00	0.00	1417.22
k) Current Assets, Loans & Advances	16915.09	19757.92	23263.02
l) Deferred tax Assets	2.75	2.29	1.51
m) Misc. Expenditure not written off	0.00	0.00	0.00
n) Accumulated Loss	0.00	0.00	0.00
<b>Total</b>	<b>16940.68</b>	<b>19784.61</b>	<b>24707.30</b>
o) Working Capital (k - (d) (i) - c (vii))	15745.60	18347.44	21721.82
p) Average Capital Employed	15654.11	18257.84	23051.98
q) Net Worth (a+b) (i) + b (ii) - m -n)	2756.65	3159.37	3673.90
r) Net Worth per rupee of paid up capital in Rs. (q/a(i))	3.53	4.05	4.71

**Ratio Analysis**

Some important financial ratios on the financial health and working of the Company at the end of last 3 years are as under

(in percentage)

	2002-03	2003-04	2004-05
<b>A. Liquidity Ratio</b>			
Current ratio (Current Assets to Current Liabilities and Provisions excluding provisions for Gratuity and Leave Encashment [k+l/d(i) + c(vii)])	1446.60	1400.95	1509.51
<b>B. Debt Equity Ratio</b>			
Long Term debt to Net Worth [(c(i) to (vi) but excluding Short Term Loans/(q))]	454.23	453.52	504.62
<b>C. PROFITABILITY RATIOS</b>			
a) Profit Before Tax to			
i) Average Capital Employed	4.90	4.39	4.50
ii) Net Worth	27.81	25.37	28.22
iii) Operational Income	37.70	40.38*	47.12
b) Profit after Tax to Equity	74.12	78.04	100.10
c) Earnings per share (in Rs.)	7.41	7.80	10.01

\* The figures have changed due to regrouping in the accounts of the Company

(During the period under review, the Company generated funds amounting to Rs. 5062.15 Crore as compared to Rs. 2811.22 Crore during the previous year. This generation was mainly from borrowings through bonds). Funds amounting to Rs. 5062.15 crore generated from internal and external sources were utilised during the year 2004-05 as shown below:

(Rs. in crore)

<b>Sources of Funds</b>	
a) Profit After Tax	781.36
Add : Depreciation	1.15
Add : Loss on Sale of Assets	(+) 0.02
<b>Funds from operations</b>	<b>782.53</b>
b) Increase in the paid up Capital	—
c) Increase in Borrowings	4279.61
d) Realisation of Sale of Fixed Assets	0.01
<b>Total Funds Generated for 2004-05</b>	<b>5062.15</b>
<b>Utilisation of Funds</b>	
a) Increase in Fixed Assets & Capital work in progress	2.32
b) Increase in investment	1417.22
c) Increase in working capital	3376.56
d) Provision for Dividend (including Dividend Tax)	266.83
e) Less : Deferred Tax Assets	(-) 0.78
<b>Total Utilisation of Funds</b>	<b>5062.15</b>

(Rs. in crore)

	2002-03	2003-04	2004-05
<b>Working Results</b>			
1) Income	2053.89	1996.71	2302.09
2) Profit (+) / Loss (-) Before Tax and Prior Period Adjustments	766.63	801.54	1036.65
3. Prior Period Adjustments	0.08	3.22	19.39
4. Profit (+) /Loss (-) Before Tax but after Depreciation and prior period items	766.71	798.32	1017.26
5. Tax Provisions	188.11	189.15	235.90
6. Profit After Tax	578.60	609.17	781.36
7. Proposed Dividend (including Dividend Tax)	183.25	206.45	266.83

### 5. Loans Disbursed

The following table indicates the loans disbursed interest outstanding on loan repayment received and amount outstanding at the end of the last three years ending 31.03.2005

(Rs. in crore)

Year	Balance outstanding at the beginning of the year				Loans disbursed during the year	Interest for the year outstanding	Repayments received during the year	Amount outstanding at the end of the year			
	Repayment outstanding but not due	Repayment due	Total	Interest accrued and due				Repayments outstanding but not due	Repayment due	Total	Interest accrued and due
2002-03	12311.49	1873.85	14185.34	13.44	6466.25	1933.70	4715.94	14476.02	1459.63	15935.65	6.81
2003-04	14476.02	1459.63	15935.65	6.81	5956.37	1945.67	3587.32	16931.15	1373.55	18304.70	4.48
2004-05	16931.15	1373.55	18304.70	4.48	7440.73	442.61	4683.25	20856.33	205.85	21062.18	3.58

Date : 28.7.2005

**A.K. Singh**  
Principal Director of Commercial Audit  
& Ex-Officio Member, Audit Board-II,  
New Delhi



Through electricity,  
**farm mechanization** can give  
agriculture a **new lease of life.**



### Addresses of REC Offices

Sl. No.	State/Union Territory	Address	Telephone Numbers	Telegraphic Address & Fax Numbers
1	2	3	4	5
<b>Corporate Office</b>				
		Core-4, SCOPE Complex 7, Lodhi Road, New Delhi-110003	24365161	RECTRIC Fax : 011-24360644 E-mail : reccorp@recl.nic.in
<b>Project Office</b>				
1.	Andhra Pradesh	Shivramapally Post NPA Near Aramghar, National Highway No. 7 Hyderabad-500052	24014034 24014420 23511549 (R)	CIRECTRIC Fax : 040-24014235, 040-24015896 E-mail : reclhyd@sancharnet.in
2.	Assam, Nagaland Arunachal Pradesh	"Kamalalaya" (1st & 3rd Floor) Zoo, Narangi Tiniali, R.G. Baruah Road, Pinaki Path,(By Lane No. 7) P. O. : Silpukhuri, Guwahati-781003	2450485 2454702 2380768 (R)	REPO Fax : 0361-2454702 E-mail : cpmpeg@sancharnet.in E-mail : cpmpeg@sify.com
3.	Bihar	'Maurya Lok' Complex Block-C, 4th Floor Dak Bangla Road, Patna- 800001	2221131 2224596 2525573 (R.)	RECPO Fax : 0612-2224596 E-mail : recpatna@vsnl.net E-mail : pat_recl@dataone.in
4.	Gujarat, Dadara & Nagar Haveli	Plot No. 585, T.P Scheme No.2, Behind Pusti Complex, Opp. VMC Ward Office, Atma Jyoti Ashram Road, Subhanpura, Vadodara-390023	2386760 2397487 2784768 (R.)	RECPO Fax : 0265-2397652 Tel : 2386760, 2397487 E-mail : recbaroda@eth.net
5.	Haryana Delhi and Chandigarh	BAY No.7-8, Sector-2 Panchkula-134112	0172-2563822 2728458 (R)	RECPO Fax : 0172-2563864 E-mail : recchd@eth.net
6.	Himachal Pradesh	Pt. Padamdev Commercial Complex, Phase-II, First Floor, The Ridge, Shimla-171001	2653411 2804077 2624188 (R.)	RECPO Fax : 0177-2804077 E-mail : recsml@emmtel.com
7.	Jammu & Kashmir	157-A, Gandhi Nagar Behind Apsara Cinema Jammu-180004	2450868 2566701 (R)	RECPO Fax : 0191-2450868 E-mail : recpojat@sancharnet.in
8.	Karnataka	No. 1/5, Ulsoor Road, Bangalore-560042	25550240 25598244	PORECTRIC Fax : 080-25598243 E-mail : ruralblr@eth.net E-mail : spmetla@rediffmail.com
9.	Kerala and Lakshadweep	0-5, 4th Floor, "Saphallyam" Commercial Complex TRIDA Building Palayam, Thiruvananthapuram-695034	2328662 2328579 2550835 (R)	RECPO Fax : 0471-2328579 E-mail : rectvm@eth.net

10.	Madhya Pradesh	JDA Building, Madan Mahal Nagpur Road, Jabalpur-482001	2424696 2423994 2427677 (R)	RECPO Fax : 0761-2424696 E-mail : recjbp@yahoo.com E-mail : rec_jabalpur @sancharnet.in
11.	Maharashtra, Goa Daman & Diu	Mittal Tower 51-B, 5th Floor, Nariman Point Mumbai-400021	22831004 22830985 22853895 22833055 26361570 (R)	PORECTRIC Fax : 0222-2831004 0222-2831004 E-mail : porecmum@bom4.vsnl.net.in E-mail : recmumbai@eth.net
12.	Meghalaya, Manipur & Mizoram	Rinadee Old Jowai Road Lachumire Shillong-793001	2210190 2225687 2220860 (R)	REPO Fax : 0364-2225687 E-mail : recl_shillong@rediffmail.com
13.	Orissa	Deen Dayal Bhawan Fifth Floor, Ashok Nagar, Janpath, Bhubaneswar-751009	2536669 2536649 2553586 (R)	REPO Fax : 0674-2536669 E-mail : repobbsr@yahoo.co.in
14.	Rajasthan	J-4-A, Jhalana Dungari, Institutional Area, Jaipur-302004	2706986 2707840 2200132 (R)	PORECTRIC Fax : 0141-2706986 E-mail : recpojpr@bhaskar.com E-mail : recpojpr@rediffmail.com
15.	Tamil Nadu & Pondicherry	No.12 & 13 T.N.H.B. Complex,180 Luz Church Road, (Luz Corner) Mylapore, Chennai-600004	24672376 24670595 22385383 (R) 24987960	PORECTRIC Fax : 044-24670595 E-mail : cpmchennai@yahoo.com bosh_tsc@yahoo.com
16.	Uttar Pradesh	19/8, Indira Nagar Extension, Ring Road, Lucknow-226016	2317376 2316446 2331787 (R)	REPO Fax : 0522-2716815 E-mail : recup@hclinfinet.com E-mail : recuppo@yahoo.co.in
17.	West Bengal, Tripura, Sikkim, A & N Islands	AE Block, Premises No.643 Sector-I, Salt Lake City Kolkata-700064	23343884 23341652 23341646 (R)	PORECTRIC Fax : 033-23344923 E-mail : recpokol@vsnl.net

#### TRAINING CENTRE

Central Institute for Rural Electrification (CIRE)	Shivrampally, Post NPA, Near Aramghar, National Highway No. 7 Hyderabad-500052	24015897 24018583 24015901 27170888 (R)	CIRECTRIC Fax : 040-24015896 E-mail : cire@sancharnet.in
<b>Sub Office</b> Bihar	Tripathy Colony, Kadru Bye Pass Road, Near Canara Bank, P. O. Doranda, Ranchi-834002	2481372 301136 (R)	E-mail : v2vlttd2003@sify.com



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A Government of India Enterprise

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