

Expanding horizons generating growth

39TH ANNUAL REPORT 2007-08



Efficient energy. Infinite possibilities.

Rural Electrification Corporation Limited

A Government of India Enterprise

“Every horizon,
upon being reached,
reveals another
beckoning in the distance...”

COMPANY INFORMATION

CORPORATE OFFICE

Shri P. Uma Shankar
Chairman & Managing Director

Shri H.D. Khunteta
Director (Finance)

Shri Bal Mukand
Director (Technical)

Shri Arun Kumar
Chief Vigilance Officer

Shri Rama Raman
Executive Director
(T&D/RGGVY/Admn./IT)

Shri Vinod Behari
Executive Director
(HR)

Shri V.K. Arora
General Manager
(Finance)

Shri B.R. Raghunandan
General Manager
(Law) & CS

Shri Guljit Kapur
General Manager
(T & D)

Shri P.J. Thakkar
General Manager
(RGGVY)

Shri B.P. Yadav
General Manager
(IA / IT)

Shri Subodh Garg
General Manager
(DDG)

Shri D.S. Ahluwalia
General Manager
(Finance)

Shri Ajeet Kumar Agarwal
General Manager
(Finance)

Shri Ashok Awasthi
General Manager
(IC & D/CP/BD/P&C)

Shri Sanjiv Garg
General Manager
(Generation)

Shri Sunil Kumar
General Manager
(RGGVY)

ZONAL OFFICES

Southern Zone, Hyderabad
Shri J. Kalyana Chakravarty
Zonal Manager

Central Zone, Jabalpur
Shri T.S.C. Bosh
Zonal Manager

Western Zone, Mumbai
Shri Rakesh Arora
Zonal Manager

Northern Zone, Panchkula
Shri V.K. Sharma
Zonal Manager

Eastern Zone, Kolkata
Shri Ghosh Dastidar
Zonal Manager

East Central Zone, Lucknow
Shri K.D. Chaudhary
Zonal Manager

REGISTERED OFFICE

Core-4 SCOPE Complex, 7, Lodhi Road, New Delhi-110003
Tel: 91 11 24365161, Fax: 91 11 24360644, E-mail: reccorp@recl.nic.in Website: www.recindia.nic.in

COMPANY SECRETARY

B.R. Raghunandan

REGISTRAR & SHARE TRANSFER AGENT

Karvy Computershare Private Limited
Plot 17 to 24, Vittalrao Nagar, Madhapur, Hyderabad - 500081, India, Tel: 91 40 23420815-824
Fax: 91 40 23420814, E-mail: einward.ris@karvy.com, Website: www.karvycomputershare.com

SHARES LISTED AT

National Stock Exchange of India Limited Bombay Stock Exchange Limited

DEPOSITORIES

National Securities Depository Limited Central Depository Services (India) Limited

STATUTORY AUDITORS

G.S. Mathur & Co.
Chartered Accountants

BANKERS

Reserve Bank of India	Dena Bank	IDBI Bank	Axis Bank
State Bank of India	Corporation Bank	Syndicate Bank	Kotak Mahindra Bank
State Bank of Hyderabad	HDFC Bank	Bank of India	
Vijaya Bank	ICICI Bank	Standard Chartered Bank	

SUBSIDIARY COMPANIES OF REC

REC Transmission Projects Company Limited
REC Power Distribution Company Limited
North Karanpura Transmission Company Limited
Talcher II Transmission Company Limited

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PERFORMANCE HIGHLIGHTS

CONSISTENT GROWTH OVER 10 YEARS

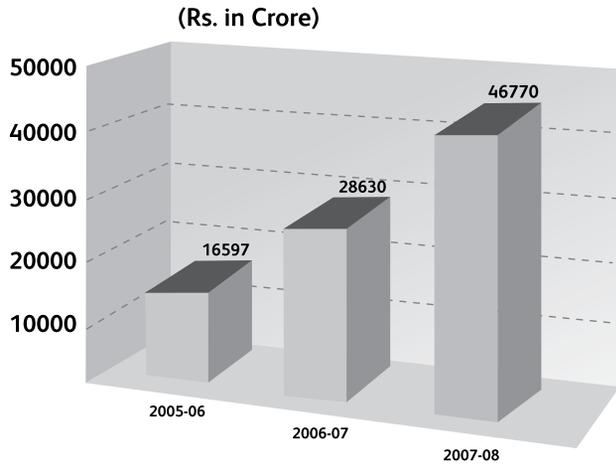
Particulars	2007-08	2006-07	2005-06	2004-05	2003-04	2002-03	2001-02	2000-01	1999-00	1998-99
RESOURCES										
(at the end of the year)										
Equity Capital (Rs. Lacs)	85866	78060	78060	78060	78060	78060	78060	73060	68060	68060
BORROWINGS (Rs. Lacs)										
From Govt. of India	8192	10048	11997	14017	118336	220341	480947	566779	559894	501749
By issue of bonds	2408962	2248372	1675724	1360591	1197511	1049404	671927	372068	277573	209102
From LIC	350000	350000	350000	350000	150000	—	—	—	—	—
Foreign currency borrowings	104845	87209	--	--	--	--	--	--	--	--
Other Banks	556230	332471	366200	213200	44000	20000	21000	—	—	—
Reserves & Surplus (Net)	450904	323211	341773	299830	248377	208105	168570	141769	121105	89827
FINANCING OPERATIONS										
(During the year) (Rs. Lacs)										
Number of projects approved	881	748	661	1523	1322	1060	979	1301	1379	14681
Financial assistance sanctioned	*4676976	*2862985	*1659689	1631636	1597791	1212534	676394	630809	467820	287873
Disbursements	1630370	1373299	800658	788509	601704	660664	472193	410922	305105	220260
Repayments by borrowers	606987	403444	350646	468324	358732	471594	266998	216262	155259	111024
Outstanding at the end of the year	3861483	3126218	2456368	2106218	1830470	1593565	1418534	1218919	1029368	884231
ACHIEVEMENTS										
Villages electrified										
During the year	*38262	+40233	181	765	122	—	207	581	1996	2502
Upto the end of the year	394674	^356412	306010	305829	305064	304942	304942	304735	304154	302158
Pumpsets energised										
During the year	181244	174750	182239	175772	132914	134583	139917	206071	252877	279201
Upto the end of the year	8921487	8740243	8565493	8383254	8207482	8074568	7939985	7800068	7593997	7341120
Working Results										
(For the year) (Rs. Lacs)										
Total income	353766	285399	224506	230209	199671	205389	166466	141961	129401	113631
Personnel & Admn. Expenses	11112	6416	5770	4434	4659	5866	4972	3141	2544	2400
Interest on borrowings	206272	174089	133913	120475	114220	120274	109879	93216	79189	69372
Depreciation	138	113	110	115	103	104	151	621	623	607
Profit Before Tax	131242	100619	82983	103665	80154	76663	50120	44647	41936	38454
Provision for Tax	45227	34593	19232	23590	18915	18811	11355	10958	10502	8530
Profit Af ter Tax	86014	66026	63751	80075	61239	57852	38765	33690	31434	29924
Dividend on Equity	25759	17700	19126	23450	18300	17400	12000	6700	5000	5000
Net Worth	536771	401271	419833	377890	326437	286165	246630	214829	189165	157887

* Excluding grants under RGGVY.

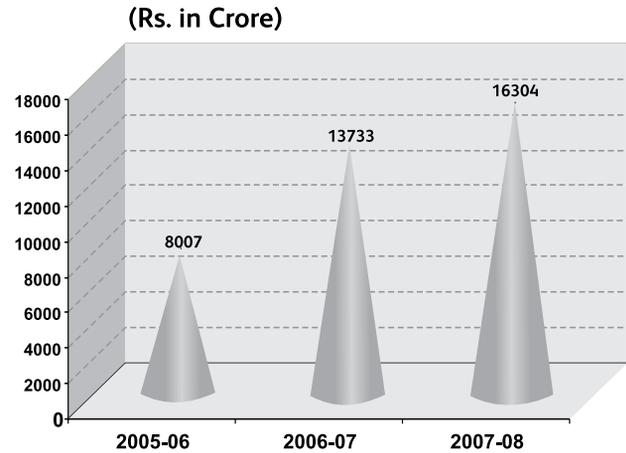
The number of villages where electricity works completed during the year 2007-08 under RGGVY. This includes intensive electrification of 28961 villages.

+ The no. of villages where electrification works completed during the year 2006-07 under RGGVY. This includes intensive electrification of 11,527 villages.

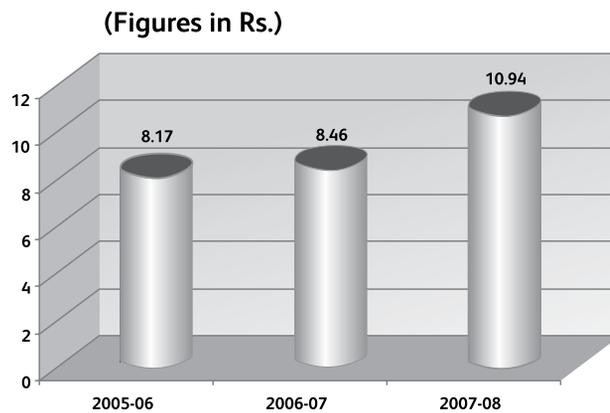
^ During 2005-06, works in 10,169 villages (including intensive electrification in 350 electrified villages) completed under RGGVY, are also included.



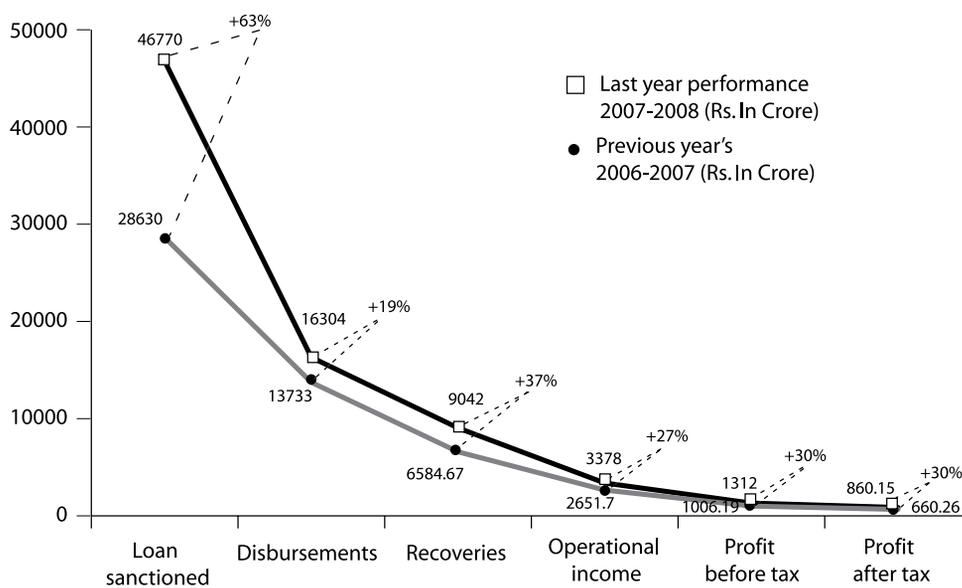
LOAN SANCTIONED



DISBURSEMENT



EARNING PER SHARE



PERFORMANCE HIGHLIGHTS

MISSION & OBJECTIVES

MISSION

- To facilitate availability of electricity for accelerated growth and for enrichment of quality of life of rural and urban population.
- 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.

OBJECTIVES

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

- 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 Rajiv Gandhi Grameen Vidyutikaran Yojana, a Government of India scheme for rural electricity infrastructure and household electrification.
- 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, modernisation & maintenance etc. for optimization of reliability of power supply to rural and urban areas including remote, hill, desert, tribal, riverine and other difficult/remote areas.
- To mobilise funds from various sources including raising of funds from domestic and international agencies and sanction loans to the State Electricity Boards, Power Utilities, State Governments, Rural Electric Cooperatives, Non-Government Organisations (NGOs) and private power developers.
- 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.
- 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.
- 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 and financially viable schemes and for accelerating the growth of rural and urban India.

LETTER TO SHAREHOLDERS



Ladies and Gentlemen,

I extend a very warm welcome to all the shareholders on the occasion of the Thirtieth Annual General Meeting of the Company.

INITIAL PUBLIC OFFER (IPO)

The financial year 2007-08 has been a landmark year in the history of Rural Electrification Corporation Limited (REC). The Company went for a maiden Public Offer of 15,61,20,000 Equity Shares in February 2008, which comprised fresh issue of 7,80,60,000 Equity Shares by the Company and an Offer for Sale of another equal number of Shares by the President of India. The Initial Public Offer (IPO) got a phenomenal response and was oversubscribed by about 27 times. REC raised a total amount of Rs. 819.63 crore through the IPO to meet its expanding funding operations. The total number of Shareholders including the President of India which was only 8 before IPO increased to 5,05,267 after IPO, and the Shareholding of the Government of India has reduced from 100% to 81.82%, the balance 18.18% being held by the public. In the process of the IPO, many employees of your Company have also become proud owners by subscribing to the shares of the Company.

The Company was listed on the National Stock Exchange of India Ltd. and the Bombay Stock Exchange Ltd. on 12th March 2008.

Such an overwhelming response to the IPO would not have been possible without your unstinted support and I express the Company's gratitude to all the enlightened investing community, including the Qualified Institutional Buyers and the High Networth Individuals, in recognising the consistent growth record, profitability and the strong fundamentals of the Company, and reposing confidence in its future growth potential too, especially at a time when the capital market was passing through a very vulnerable and volatile phase. Your Company has now transformed into a Global Player with a large number of investors in India and abroad.

NAVRATNA STATUS

There was yet another historic achievement for your Company in May 2008 when it was conferred "Navratna" Status by the Government of India. This is the highest recognition for any Central Public Sector Enterprise (CPSE) and only a few selected CPSEs in the country enjoy this elite status.

REC IN RETROSPECT

I joined your Company as Chairman and Managing Director on 1st March 2008, just after the successful completion of the IPO process. It is a matter of great pride and honour to be steering your Company at a time when it has achieved several landmarks in its historic and eventful journey of 39 years since its inception. Set up in July 1969 primarily to finance rural electrification schemes in the country to accelerate the pace of rural electrification in the overall context of planned programmes for increased agricultural production, your Company has come a long way by expanding its mandate of financing to power generation, transmission and distribution projects, without any territorial or other restrictions. The Company has recorded exponential growth over the years, by sanctioning cumulatively Rs. 1,79,526 crore and disbursing Rs. 75,243 crore upto 31st March 2008. I can imagine and sense the efforts and energy which would have gone into, in arriving at this colossal milestone. This should indeed be a matter of great satisfaction not only to the Government of India, but also to several of my predecessors, who steered the organisation over the years with great vision and missionary zeal with persistent support from the employees of the Company, and to all its stake holders.

SECTORAL OUTLOOK

At the macro level, the economy has grown consistently around 9 per cent with an expectation of similar growth in the coming years. There is a tremendous upswing in the power sector, with huge generation capacity addition of 78,577 MW planned in the Eleventh Plan period. Corresponding transmission and distribution capacities are also to be added. This means that massive funding of over Rs.10,316 billion would be required. Of this, REC plans to lend about Rs. 1,000 billion and has geared itself for extending loans of this magnitude, which involves greater amount of work and challenges. Your Company expects the power sector to continue to remain bullish despite the immediate challenges due to inflationary pressures, rising interest rates and liquidity constraints.

REC'S EXPANDING ROLE

Changes in economic scenario, although challenging, are also perceived as opportunities by your Company to take stock and review its past strategies and make appropriate changes wherever necessary. Your Company has already taken steps to diversify its business by floating wholly owned subsidiary companies to explore and participate in the growth opportunities emerging in the transmission and distribution sectors. REC is also exploring the joint venture route through public private partnership with the twin objective of capitalising on its rich and specialised experience acquired over the years in formulating and financing electrification schemes, especially in rural and semi-urban areas, and join hands with private sector to share the enormous synergy and infrastructure required, in creating alternative and self-sustainable models of distribution across the country by effecting cost-effective measures and controlling AT & C losses.

RGVY

The other challenge is the Rajiv Gandhi Grameen Vidyutikaran Yojana (RGVY), launched by the Government of India in April 2005, for the attainment of the National Common Minimum Programme goal of providing access to electricity to all households in five years. The RGVY programme aims at electrification of 1.15 lakh unelectrified villages and providing free connections to 2.34 crore rural below poverty line (BPL) households. REC is the nodal agency appointed by the Government of India for overseeing this ambitious programme wherein the Government funds 90 percent of the programme by way of grant and the remaining 10 percent is provided by REC as loan.

PERFORMANCE HIGHLIGHTS

It is heartening to note that during the year 2007-08 under review, your Company has registered robust performance, creating an all-time record in all key operational parameters. The amount of loans sanctioned increased by 63 % over the previous year to Rs. 46,770 crore from Rs. 28,630 crore, excluding Grants under RGGVY. The amount of disbursements increased by 19 % to Rs. 16,304 crore from Rs. 13,733 crore, which included Grants under RGGVY. The recoveries increased by 37 % to Rs. 9,042 crore from Rs. 6,585 crore. The operating income increased by 27 % to Rs. 3,378 crore from Rs. 2,652 crore. The Profit before tax increased by 30 % to Rs. 1,312.42 crore from Rs. 1,006.19 crore. Similarly, the Profit after tax also increased by 30 % to Rs. 860.15 crore from Rs. 660.26 crore.

DIVIDEND

After making necessary appropriations towards statutory reserves, your directors have recommended payment of dividend @ 30 % (i.e. Rs. 3 per equity share of Rs. 10 each) with a total dividend pay-out of Rs. 257.59 crore for the year 2007-08, against Rs. 177 crore for the previous year.

RESOURCE MOBILISATION

Besides raising Rs. 819.63 crore from the Public Issue of shares, the Company mobilised Rs. 8,377.23 crore from the market during the year 2007-08 to meet its funding operations. This included Rs. 3,402.74 crore by way of Capital Gain Tax Exemption Bonds and Rs. 178.19 crore by way of Official Development Assistance (ODA) loan from Kreditanstalt für Wiederaufbau (KfW), Germany and Japan Bank for International Cooperation (JBIC). The domestic debt instruments of REC continued to enjoy "AAA" rating i.e. the highest rating assigned by CRISIL, CARE, FITCH and ICRA – Credit Rating Agencies. REC also enjoys international credit rating equivalent to sovereign rating of India from International Credit Rating Agencies such as Moody's and FITCH. For the year 2007-08, since your Company continued to be eligible to raise money through Capital Gain Tax Exemption Bonds under Section 54 EC of the Income Tax Act, 1961, it helped the Company in keeping the cost of borrowing at a comparatively low level and deliver debt financing at competitive rates.

FINANCING T & D

In the conventional areas of financing, REC has ramped up its level of involvement, in the recent years, in creating new infrastructure and improving the power transmission and distribution networks. In addition, loan assistance to power utilities under system improvement portfolio have helped strengthen and improve Transmission, Sub-transmission and Distribution Systems in the country, reduce A T & C losses, improve voltage profile and bring down instances of failure of Distribution transformers leading to improved reliability and quality of power supply to consumers. The Company's bulk financing schemes have enabled power utilities to take up large scale installation / replacement of meters in order to meet the target of 100 % metering set by the Government. Your Company has thus been fully supporting the state power utilities under its various loan portfolios to achieve the country's objectives of (a) providing power for all by the year 2012, (b) reducing the A T & C losses, (c) expanding and strengthening the transmission network, and (d) modernising the distribution system.

FINANCING GENERATION

From the year 2002, REC has diversified into financing of Generation projects for creation of new generation capacity. REC currently finances Thermal energy power generation projects, Hydro energy power generation projects as well as Renovation, Modernisation and Life extension schemes in the public sector, joint sector and private sector. Cumulatively upto the end of the year 2007-08, your Company has sanctioned 23 Hydro projects with a total loan outlay of Rs. 8,102 crore for total capacity addition of 6,000 MW, 50 Thermal projects with a total loan outlay of Rs. 47,894 crore for total capacity addition of 22,559 MW, and 26 R & M projects with a total loan outlay of Rs. 1,269 crore. Cumulatively, the Company has sanctioned till the end of the year 2007-08 Rs. 57,265 crore which involves capacity addition of 28,559 MW of power.

TRANSMISSION SUBSIDIARY

In the year 2006-07, the Government of India initiated a scheme that involved inviting private sector investment in major transmission projects. The scheme entailed private developers eventually becoming transmission service providers on a "Build, Own and Operate" basis. Out of the 14 projects identified under this scheme, a subsidiary company of REC was appointed as Bid Process Coordinator for 2 of the projects i.e. North Karanpura Transmission System and Talcher Augmentation Transmission System. REC set up a separate subsidiary company by name "REC Transmission Projects Company Limited" for this purpose. This company, in turn, has established two project-specific subsidiary companies.

DISTRIBUTION SUBSIDIARY

REC has also established another Subsidiary Company by name "REC Power Distribution Company Limited". The main objective of this Company is to promote, develop, construct, own, operate, distribute and maintain 66 KV and below voltage class Electrification/Distribution Electric supply lines distribution system and manage Decentralized Distributed Generation and associated distribution system, besides offering consultancy services in the above areas for other agencies and Government bodies. This Company aims to capitalize on the emerging needs and demands of power sector, and diversify the business activities. Although this Subsidiary Company was incorporated only recently on 12th July 2007, it has already bagged a few major high value contracts from Jodhpur Vidyut Vitran Nigam Ltd., Punjab State Electricity Board and Ajmer Vidyut Vitran Nigam Ltd. which cover quality monitoring, supervision and inspection of the village electrification work awarded on turnkey basis under Rajiv Gandhi Grameen Vidyutikaran Yojana, and consultancy services for selection of developers through International Competitive Bidding Process for supply of 1,800 MW 10 % power on tariff based bidding to PSEB. In the first year of operation itself, this Company has registered a profit after tax of Rs. 1.78 crore from its operations.

PRUDENTIAL NORMS AND LENDING POLICY

Your Company believes in adopting prudent management and lending practices matching with other similar organisations. Although as a Government owned Non-Banking Finance Company (NBFC), REC is exempt from the applicability of the Prudential Norms prescribed by RBI for other NBFCs, your Company has formulated and adopted its own Prudential Norms. The Company has also a Risk Management Policy which covers inter alia Asset Liability Management, Derivatives and Investment of Surplus Funds. As prescribed by RBI, your Company has also formulated a Fair Practices Code for putting in place Fair Lending Practices by the Company which also includes Grievance Redressal Mechanism.

CORPORATE GOVERNANCE

As a listed Company, REC complies with all the requirements of Corporate Governance as stipulated in the Listing Agreement as well as the provisions notified by the Department of Public Enterprises, Government of India, in this regard.

MOU WITH MINISTRY OF POWER

Your Company's performance has been rated as "Excellent", in terms of annual MOUs signed with the Government of India in the Ministry of Power, for the 14th year in succession for the financial year 2006-07. For the year 2007-08 also, the Company has reached new milestones in sanctions and disbursements and it is poised again for "Excellent" rating.

ERP

REC has initiated implementation of Company-wide ERP based Integrated Information System to increase the efficiency and effectiveness of the functional processes and to create a robust MIS system with seamless flow of data from various offices of the Company and to provide management support at all levels. The ERP system has reached advanced stage and is expected to become operational during the current financial year 2008-09. REC has also implemented Quality Management Systems as per ISO 9001:2000 standards in six major Divisions in Corporate Office and nine Project Offices across the country.

CORPORATE SOCIAL RESPONSIBILITY

The concept of Corporate Social Responsibility (CSR) has acquired significance at the national as well as international level as a strategic tool for sustainable development. Your Company has recently formulated a Policy on CSR and allocated specific budget provision for its implementation. The Company would be drawing an action plan to identify specific areas / projects where the money allocated for CSR Projects can be spent.

National Foundation for Communal Harmony (NFCH), an autonomous organisation of the Government of India, is engaged in promoting and undertaking activities for fostering communal harmony and national integration and brotherhood in the country. Considering the cause undertaken by NFCH and its national status, your Company has contributed a sum of Rs.10 lakh during the year 2007-08 as a part of Corporate Social Responsibility.

WAY FORWARD

The power sector will continue to provide one of the biggest avenues to participate in the development of India's infrastructure. The demand for power and the associated transmission and distribution systems is likely to be higher than what most current estimates show. Many traditional as well as non-traditional opportunities will emerge across the entire value chain. Winning in the sector will require crafting business models tailored to meet the emerging opportunities. Our efforts in this direction will not only contribute to the wellbeing of more than One billion of our countrymen but in the process pave the way for your Company to become one of the largest financing companies in the world, adding value to the investors who have reposed immense confidence in us.

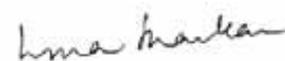
ACKNOWLEDGEMENTS

I am deeply grateful to the immense support received for the Company from the Hon'ble Minister for Power, the Hon'ble Minister of State for Power, the Secretary (Power), the Joint Secretary (Rural Electrification) and other officers in the Ministry of Power, the officers in the Ministry of Finance, Planning Commission and the Reserve Bank of India, the Comptroller & Auditor General of India and the Statutory Auditors for all their support and guidance extended in ensuring smooth operations of the Company. I take this opportunity to express my special thanks to my predecessor, who steered the Company for major period during the year 2007-08, and to my colleagues on the Board for their valuable guidance and support in enabling such excellent around performance of the Company.

The continued excellent performance of the Company year after year, the resounding success in the IPO, the conferring of Navratna status to your Company by the Government of India – all these accolades stand testimony to the hard work, dedication and commitment by the entire family of REC at all levels, which I feel proud to place on record.

I convey my special thanks to all the other stakeholders of the Company for extending their valuable support and cooperation.

With best wishes,



(P. Uma Shankar)

Chairman & Managing Director

NOTICE

Notice is hereby given that the Thirty Ninth Annual General Meeting of the Rural Electrification Corporation Ltd. will be held at 10.00 A.M. on Wednesday, the 24th September, 2008 at Air Force Auditorium, Subroto Park, Dhaula Kuan, New Delhi-110010 to transact the following business:-

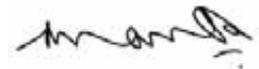
ORDINARY BUSINESS

- 1) To receive, consider and adopt the audited Balance Sheet as at 31st March, 2008 and Profit and Loss Account for the financial year ended on that date along with Report of the Board of Directors and Auditors thereon.
- 2) To declare a dividend for the financial year 2007-08.
- 3) To appoint a Director in place of Shri Bal Mukand, Director, who retires by rotation and being eligible, offers himself for re-appointment.
- 4) To appoint a Director in place of Shri Devender Singh, Director, who retires by rotation and being eligible, offers himself for re-appointment.

SPECIAL BUSINESS

- 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 Company be and is hereby accorded to the Board of Directors of the Company under the provisions of Section 293(1) (d) of the Companies Act, 1956 for increasing the total borrowing limit of the Company from Rs. 45,000 Crore (Rupees Forty Five Thousand Crore only) to Rs. 60,000 Crore (Rupees Sixty Thousand Crore only) for the purpose of the business of the Company notwithstanding that the moneys to be borrowed, together with the moneys already borrowed by the Company (apart from temporary loans obtained from the Company’s bankers in the ordinary course of business), will exceed the aggregate of the paid-up capital of the Company and its free reserves.”
- 6) 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 Company be and is hereby accorded under the provisions of Section 293 (1) (a) of the Companies Act, 1956 to the Board of Directors of the Company to mortgage and / or create charge on all or any of the immovable and / or movable properties of the Company, both present and future, or the whole or substantially the whole of the undertaking or undertakings of the Company for securing loans upto a total amount of Rs. 60,000 Crore (Rupees Sixty Thousand Crore only) for the purpose of the business of the Company.”
- 7) To consider and, if thought fit, to pass with or without modification(s) the following resolution as a **Special Resolution** in terms of Section 17 (1)(d) of the Companies Act, 1956:-
“**RESOLVED THAT** pursuant to Section 17(1)(d) and other applicable provisions, if any, of the Companies Act, 1956, the existing Objects Clause of the Memorandum of Association of the Company be and is hereby altered by inserting the following new sub-clause (10) after sub-clause (9) thereof under the Main Objects Clause III (a) of the Memorandum of Association:-
(10) To finance and to provide assistance for those activities having a forward and/or backward linkage with power projects, (including but not limited to), such as development of coal and other mining activities for use as fuel in power projects, development of other fuel supply arrangements for the power sector, and to meet other enabling infrastructure facilities that may be required for the speedy and effective development of the power sector.

By order of the Board of Directors



(B.R.Raghunandan)
GM (Law) & CS

Registered Office:
Core-4, SCOPE Complex,
7 Lodi Road,
New Delhi-110003

Dated: 11th August, 2008

NOTES:-

1. **A Member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote on a poll instead of himself/herself and such proxy need not be a Member of the Company. Proxies, in order to be effective, must be deposited at the Registered Office of the Company, not less than forty-eight hours before the commencement of the Annual General Meeting. Blank proxy form is enclosed.**
2. An Explanatory Statement pursuant to Section 173 of the Companies Act, 1956, relating to the Special Business to be transacted at the meeting is annexed hereto.
3. As required by Clause 49 of the Listing Agreement entered into with the Stock Exchanges, the relevant details of Shri Bal Mukand and Shri Devender Singh, Directors retiring by rotation and seeking re-appointment under Item No. 3 and 4 of the notice in accordance with applicable provisions of the Articles of Association of the Company, are annexed. The tenure of Shri Bal Mukand is upto 30.11.2008 and tenure of Shri Devender Singh is until further orders from the Ministry of Power, Government of India, as per terms of their appointment by the Government of India.
4. **The Register of Members and Share Transfer Books of the Company will remain closed from September 10, 2008 to September 24, 2008 (both days inclusive).The dividend on equity shares, as recommended by the Board of Directors, subject to the provisions of Section 206A of the Companies Act, 1956, if approved by the members at the Annual General Meeting, will be paid on or after 30th September, 2008 to the Members or their mandates whose names appear on the Company's Register of Members on 24th September, 2008 in respect of physical shares. In respect of Dematerialised shares, the dividend will be payable to the "beneficial owners" of the shares whose name appear in the Statement of Beneficial Ownership furnished by National Securities Depository Limited and Central Depository Services (India) Limited at the close of business hours on 9th September, 2008.**
5. Corporate Members are requested to send a duly certified copy of the Board Resolution / Power of Attorney authorizing their representative to attend and vote on their behalf at the Annual General Meeting.
6. **Members are requested to:-**
 - a. note that copies of Annual Report will not be distributed at the Annual General Meeting and they will have to bring their copies of Annual Report.
 - b. **deliver duly completed and signed Attendance Slip at the entrance of the meeting venue as entry to the Auditorium will be strictly on the basis of the Entry Slip available at the counters at the venue to be exchanged with the Attendance Slip.**
 - c. quote their Folio / Client ID & DP ID Nos. in all correspondence.
 - d. **note that due to security reasons brief cases, eatables and other belongings are not allowed inside the Auditorium.**
 - e. **note that no gifts / coupons will be distributed at the Annual General Meeting.**
7. Members are advised to submit their Electronic Clearing System (ECS) mandates, to enable the Company to make remittance by means of ECS. Those holding shares in physical form may obtain and send the ECS mandate form to Registrar & Share Transfer Agent of the Company i.e. Karvy Computershare Private Limited, at Plot No. 17-24, Vittalrao Nagar, Madhapur, Hyderabad - 500 081, India. Those holding shares in Electronic Form may obtain and send the ECS mandate form directly to their Depository Participant (DP). Those who have already furnished the ECS mandate Form to the Company / Registrar & Share Transfer Agent / DP with complete details need not send it again.

The Shareholders who do not wish to opt for ECS facility may please mail their bankers' name, branch address and account number to Karvy Computershare Private Limited, Registrar and Transfer Agent of the Company to enable them to print these details on the dividend warrant.
8. Members are requested to send all correspondence concerning registration of transfers, transmissions, subdivision, consolidation of shares or any other shares related matter and / or change in address and bank account, to Karvy Computershare Private Limited, Registrar and Share Transfer Agent of the Company.
9. Pursuant to Section 205A read with Section 205C of the Companies Act, 1956, the dividend amounts which remain unpaid/unclaimed for a period of seven years, are required to be transferred to the Investors Education & Protection Fund of the Central Government. After such transfer, there remains no claim of the members whatsoever on the said amount. Therefore, members are advised to encash their Dividend warrants immediately.
10. Pursuant to Section 619(2) of Companies Act, 1956, the Auditors of a Government Company are to be appointed or re-appointed by the Comptroller and Auditor General of India (C & AG) and, in terms of Section 224 (8) (aa) of the Companies Act, 1956, their remuneration shall be fixed by the company in general meeting or in such manner as the company in general meeting may determine. In pursuance of the same, C & AG of India had appointed M/s G.S. Mathur & Co, Chartered Accountants, as Statutory Auditors for the year 2007-08. The members of the Company in the 38th Annual General Meeting

(AGM) held on 27th September, 2007 fixed payment of remuneration of Rs. 7,82,000/-, plus payment of service tax, provisionally, to the Statutory Auditors, as recommended by the Board of Directors and authorised the Board of Directors to fix the final remuneration of Statutory Auditors for the year 2007-08 after completion of audit. Accordingly, the Board of Directors in their 337th Meeting held on 26th May, 2008 enhanced the audit fee payable to the Statutory Auditors to Rs. 9,38,000/-, plus service tax as applicable, for the financial year 2007-08.

Further, the members of the Company at the aforesaid AGM held on 27th September, 2007 also resolved that the Board of Directors be and are hereby authorised for fixation of annual audit fees to the Statutory Auditors for the year 2008-09 onwards, on year to year basis, as and when the appointment of Statutory Auditors is notified by the C & AG of India in pursuance of Section 224(8) (aa) of the Companies Act, 1956.

11. Annual Listing fee for the year 2008-09 has been paid to the Stock Exchanges where the shares of the Company are listed.
12. Members desirous of making a nomination in respect of their shareholding in the Company, as permitted under Section 109A of the Companies Act, 1956, are requested to write to Karvy Computershare Private Limited, Registrar & Share Transfer Agent of the Company in Form- 2B as prescribed in the Companies (Central Government's) General Rules and Forms, 1956. In case of shares held in dematerialized form, the nomination form has to be lodged directly with the respective Depository Participant (DP).
13. Members who hold shares in physical form are requested to notify immediately any change in their addresses to the Registrar and Share Transfer Agent of the Company, and, in case shares are held in electronic mode, to their respective depository participants.
14. **Members desirous of getting any information on any items of business of this meeting are requested to address their queries to the Company Secretary at the Registered Office of the Company at least ten days prior to the date of the meeting, so that the information required can be made available at the time of the meeting.**
15. Any documents referred to in the accompanying notice or the statutory registers, as applicable to the Company, are open for inspection at the Registered Office of the Company on all working days (barring Saturday and Sunday) between 11.00 a.m. to 1.00 p.m. prior to the date of Annual General Meeting.
16. The entire text of Annual Report is also available at the Company's web-site www.recindia.nic.in.

EXPLANATORY STATEMENT PURSUANT TO SECTION 173(2) OF THE COMPANIES ACT, 1956 IN RESPECT OF SPECIAL BUSINESS SET OUT IN THE NOTICE.

ITEM NO. 5

As per the provisions of Section 293(1) (d) of the Companies Act, 1956, the Board of Directors of the Company shall not except with the consent of the Company in General Meeting borrow moneys, together with the moneys already borrowed by the Company, in excess of the paid-up capital and free reserves of the Company. At the Extra Ordinary General Meeting of the Company held on May 15th, 2007, the shareholders of the Company had by resolution granted powers to the Board of Directors of the Company to borrow moneys upto a total amount of Rs. 45,000 crore (Rupees Forty Five Thousand crore only). The Company has already raised approximately Rs. 34,000 crore as on 31st March, 2008.

The operations of the Company have increased substantially and to meet its growing fund requirement, the Company will have to borrow from the market and a sum of Rs. 16,000 crore is likely to be raised during the financial year 2008-09, which may cross the existing limit of borrowing. Since the amount already borrowed and the amount proposed to be borrowed may exceed the existing overall borrowing limit of Rs. 45,000 crore, the consent of the shareholders is required under Section 293(1) (d) of the Companies Act, 1956 for increasing the limit from Rs. 45,000 crore to Rs. 60,000 crore to cover the further requirement of borrowings.

The Board of Directors of the Company at the 339th Meeting held on 28th July, 2008 has approved the above proposal and recommends the passing of the proposed ordinary resolution by members of the Company as contained in the Notice.

None of the Directors is interested or concerned in the proposed ordinary resolution.

ITEM NO. 6

As per the provisions of Section 293(1) (a) of the Companies Act, 1956, the Board of Directors of the Company shall not except with the consent of the Company in General Meeting create mortgage and/or charge on all or any of the immovable and/or movable properties of the Company, both present and future, or of the whole or substantially the whole of the undertaking or undertakings of the Company.

The operations of the Company have increased substantially and in order to meet the growing fund requirement of the Company additional funds are required to be raised by creation of security on the immovable/movable properties of the Company. Therefore it is proposed to authorise the Board of Directors of the Company to mortgage/create charge on immovable and/or movable properties of the Company, both present and future, for securing loan upto Rs. 60,000 crore for the purpose of the business of the Company.

The Board of Directors of the Company at the 339th Meeting held on 28th July, 2008 has approved the above proposal and recommends the passing of the proposed ordinary resolution by members of the Company as contained in the Notice.

None of the Directors is interested or concerned in the proposed ordinary resolution.

ITEM NO. 7

In accordance with Clause III (a) of the Memorandum of Association of the Company, the Main Objects for which the Company is established are as under:-

- (1) To finance rural and other electrification schemes in the country.
- (2) To subscribe to special rural electrification bonds that may be issued by the State Electricity Boards on conditions to be stipulated from time to time.
- (3) To promote and finance rural electricity co-operatives in the country.
- (4) To administer the moneys received from time to time from Government of India and other sources as grants or otherwise for the purpose of financing rural electrification in the country in general.
- (5) To promote, organize or carry on the business of consultancy services and/or project implementation in any field of activity in which it is engaged in India and abroad.
- (6) To finance and/or execute works on small/mini/micro and other generation projects, promotion and development of other energy sources and to provide financial assistance for leasing out or to directly lease out or otherwise the above sources of energy including small/mini/micro and other generation projects.
- (7) To finance survey and investigation of projects falling in the ambit of REC.
- (8) To promote, develop and finance viable decentralised power system organization in cooperative, joint, private sector, panchayat and/or local self bodies.
- (9) To subscribe or invest by way of units or other securities in Venture Capital Funds, and/or to set up trust under the Indian Trust Act for establishment of Venture Capital Fund or similar funds, formed for the purpose of financing and/or investment in companies, partnership firms, co-operative societies, users associations, decentralized power system organizations, non-governmental organizations, panchayat institutions, franchisees or such other bodies or entities which are engaged in electricity generation, transmission and/or distribution projects or implementation of such projects or in promotion and development of other energy sources.

As per Section 17(1)(d) of the Companies Act, 1956, a company may, by special resolution, alter the provisions of its memorandum with respect to the objects of the company so far as may be required to enable it to carry on some business which under the existing circumstances may conveniently or advantageously be combined with the existing business of the Company.

The Board of Directors, with a view to effectively meet the challenges and competition in the future in financing power projects and related infrastructure development, proposes to enlarge the scope of activities currently undertaken by the Company. For this purpose, it is proposed to alter the existing Objects Clause III(a) of the Memorandum of Association of the Company by insertion of new sub-clause (10) after the existing sub-clause (9) as stated in the Notice of the Meeting.

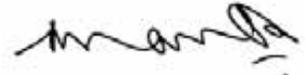
The Board of Directors have passed a resolution in this regard at their 338th Board Meeting held on 9th July 2008 approving the above proposal subject to obtaining the approval of President as required under Article 126(iii) of the Articles of Association of the Company and also subject to the approval of the Company by passing a Special Resolution at a General Meeting as required under Section 17 of the Companies Act, 1956, and authorized the CMD of the Company to take further action in this regard.

Approval of the President, under Article 126(iii) of the Articles of Association of the Company has been conveyed by the Ministry of Power vide their letter No 46/8/2007-RE dated 11th August, 2008.

The Board accordingly recommends the passing of the Resolution as contained in Item No.7 of the Notice under the Special Business, by the members of the Company, as a Special Resolution in terms of Section 17(1)(d) and other applicable provisions, if any, of the Companies Act, 1956.

None of the Directors is concerned or interested in the proposed Special Resolution

By order of the Board of Directors



(B.R.Raghunandan)
GM (Law) & CS

Registered Office:
Core-4, SCOPE Complex,
7 Lodi Road,
New Delhi-110003

Dated : 11th August, 2008

BRIEF RESUME OF THE DIRECTORS SEEKING RE-ELECTION AT THE 39TH ANNUAL GENERAL MEETING.

Name	Date of Birth & Age	Date of Appointment	Qualifications	Expertise in specific Functional area	Directorship held in other Companies	Membership/ Chairmanship of Committees across all Public Companies
Shri Bal Mukand	05th November, 1948, 59 Years	24th May, 2004	Bachelor's Degree in Mechanical Engineering	Sh. Bal Mukand has over 36 years of experience in the power/ Industrial Sector and specifically three years in financing of power and infrastructure projects. He has worked with National Fertilizers Limited, Hindustan Zincs Smelters Projects, NHPC and also has been associated with Construction and Maintenance of hydro electric Projects.	Nil	Nil
Shri Devender Singh	20th July, 1962, 46 Years	29th August, 2007	Bachelor's Degree in Engineering from Delhi College of Engineering and Masters in Business Administration from the Indian Institute of Management, Ahmedabad	Sh. Devender Singh has been part of the IAS since 1987 in the Haryana cadre and has been in the civil services for about 20 Years. Presently he is the Joint Secretary in the Ministry of Power where he is in charge of Rural Electrification, Energy Conservation, Training and Research. He has also served as Secretary, Haryana Board of School Education and Deputy Commissioner, Gurgaon, Haryana. He has also been the Managing Director, Haryana Dairy Development Cooperative Federation Limited previously.	Nil	Chairman-Shareholders/ Investors' Grievances Committee

DIRECTORS PROFILE



SHRI P. UMA SHANKAR *Chairman & Managing Director*

Shri P. Uma Shankar, 54 years, is our Chairman & Managing Director. He holds a Masters Degree of Science in Mathematics from IIT, Madras and M.Sc in Social Policy and Planning in Developing Countries from London School of Economics. He has been a Member of Indian Administrative Service (IAS) since 1976 in UP cadre. He has about 30 years of leadership experience in Government spanning revenue, law and order, development work, rural infrastructure, finance, housing & urban development, industries, municipal affairs and relief. Prior to being appointed on our Board, Shri Uma Shankar was Managing Director, National Cooperative Development Corporation, New Delhi wherein he was involved in nation-wide planning, promoting and financing of cooperatives engaged in marketing, storage and processing of agricultural produce and notified commodities. Earlier, he was Joint Secretary (Sugar & Sugar Administration), Ministry of Consumer Affairs, Govt. of India. Prior to this, as Additional CEO, Greater NOIDA, he was involved in development, management and maintenance of urban infrastructure for Greater NOIDA. Because of his pioneering efforts in privatisation of number of services, Greater NOIDA has emerged as a high profile township with state-of-art services. In cooperative sector at State level he was responsible for their development and growth in Uttar Pradesh as Registrar of Cooperative Societies during 1994-96. The task included development of over 8000 rural credit societies as well as district cooperative banks numbering 60 through forward and backward linkages for arranging of inputs and their sale to farmers, purchase of produce through marketing societies. He has also been Managing Director of UP State Sugar Corporation which is the biggest public sector undertaking in the State of Uttar Pradesh. Among the papers written by Shri Uma Shankar are "Enhancing effectiveness of Cooperatives: Major Problems & Policy Implications" in Cooperative Perspective, April-June '99 and "Housing the Urban Poor: Problems and Prospects" in Nagarlok. Shri P. Uma Shankar was holding 121 equity shares in his individual capacity and 100 equity shares as nominee of the President of India, in the Company as on 31st March 2008.

SHRI HARI DAS KHUNTETA *Director (Finance)*



Shri Hari Das Khunteta, 55 years, is our Director (Finance). He holds a Bachelor's Degree in Commerce from the University of Rajasthan. He is also a Member of the ICAI. Shri Khunteta has 30 years of professional experience in the area of financial management including resource mobilization from domestic and international markets, investor servicing and corporate governance. Prior to being appointed as Director (Finance) on our Board, he held the position of Executive Director (Finance and Accounts) in National Hydroelectric Power Corporation Limited ("NHPC") and also a Non Executive Director on the Board of the Narmada Hydroelectric Development Corporation, a joint venture of NHPC and Government of Madhya Pradesh. He joined our Board on May 5, 2004. He is in charge of all aspects of finance and accounts in our Company. Shri Hari Das Khunteta was holding 23760 equity shares in his individual capacity and 100 equity shares as nominee of the President of India, in the Company as on 31st March 2008.



SHRI BAL MUKAND *Director (Technical)*

Shri Bal Mukand, 59 years, is our Director (Technical). He holds a Bachelor's Degree in Mechanical Engineering from Kurukshetra University. He has over 36 years of experience in the power/industrial sector and specifically four years in financing of power infrastructure projects. Besides being associated with major national projects such as the National Fertilisers Limited at Panipat and Hindustan Zincs Smelters Project in Vishakhapatnam, he has been associated with the construction and successful commissioning, operation and maintenance of hydro-electric projects in Salal and Dulhasti in Jammu and Kashmir and Loktak in Manipur. Prior to joining our Board, he was Executive Director (Planning and Consultancy) in NHPC. He joined our Board on May 24, 2004. He is in charge of all technical and operational aspects of various projects in the generation, transmission and distribution sectors as well as rural electrification projects under the RGGVY scheme. Shri Bal Mukand was holding 23760 equity shares in his individual capacity and 100 equity shares as nominee of the President of India, in the Company as on 31st March 2008.

SHRI DEVENDER SINGH *Director - Government Nominee*



Shri Devender Singh, 45 years, currently the Joint Secretary in the Ministry of Power, where he is in charge of Rural Electrification, Energy Conservation, Demand Side Management and Distribution. He holds a Bachelor's Degree in Electronics and Communication from the Delhi College of Engineering, Delhi and Master's Degree in Business Administration from the Indian Institute of Management (IIM), Ahmedabad. He has been a part of the IAS since 1987 in the Haryana cadre and has been in the Civil Services for about 20 years. Prior to the joining, Ministry of Power, Government of India, he has also served as Deputy Commissioner, Gurgaon, Haryana, Deputy Commissioner Karnal, Director Industries and Managing Director, Haryana Supply and Marketing Federation. He was Managing Director, Haryana Dairy Development Cooperative Federation Limited. He joined our Board on 29th August, 2007. Shri Devender Singh was holding 100 equity shares as nominee of President of India, in the Company as on 31st March 2008.

SHRI VENUGOPAL N. DHOOT *Independent Director*

Shri Venugopal N. Dhoot, 56 years, is an Independent Director on the Board of our Company. He holds a Bachelor's Degree in Engineering from Pune University. He has been associated in the consumer electronics and home appliances business for over 30 years. He is one of the promoters of the Videocon group of companies and has been instrumental in growth and promotion of the Videocon group. He was the President of the Associated Chambers of Commerce and Industry in India and is an Advisor to the Government of Orissa on issues of industrial development in Orissa. He is also holding the post of the President of the Electronic Industries Association of Marathwada. He joined our Board on December 20, 2007.



Shri Venugopal N. Dhoot was holding Nil equity shares in the Company as on 31st March 2008.

DR. M. GOVINDA RAO *Independent Director*


Dr. M. Govinda Rao, aged 60 years, is an Independent Director on the Board of our Company. He has a Doctorate Degree in Economics from Sambalpur University, Orissa. Presently, Dr. Rao is the Director, National Institute of Public Finance and Policy, New Delhi. He is also a Member, Economic Advisory Council to the Prime Minister. His past positions include Director, Institute for Social and Economic Change, Bangalore (1998-2002) and Fellow, Research School of Pacific and Asian Studies, Australian National University, Canberra, Australia (1995-98). He has visiting assignments at University of Maryland, College Park, Maryland, University of Toronto and University of Montreal, Montreal, Canada. Dr. Govinda Rao has a number of advisory roles which include Chairman, Technical Experts Committee on VAT (2005-06), Chairman, Expert Group on Taxation of Services (2000-01), Member Expert Committee on Multilevel Planning, Planning Commission, Ministry of Panchayat Raj, Government of India, and Chairman, Financial Resources Group, Bihar Development Council, Government of Bihar. He is also a Member of Steering Committee for the South Asia Network of Economic Research Institutions (SANEI). Dr. Rao has been a Consultant to the World Bank, International Monetary Fund, Asian Development Bank and the UNDP. He is also a Member of RBI's Southern Area Local Board. He joined the Board on December 20, 2007.

Dr. M. Govinda Rao was holding Nil equity shares in the Company as on 31st March 2008.

SHRI P.R. BALASUBRAMANIAN *Independent Director*

Shri P.R. Balasubramanian, 64 years, is an Independent Director on the Board of our Company. He holds a Bachelor's Degree in Mechanical Engineering from the University of Kerala. He is also a Member of Fellow of the Institution of Engineers, Kolkata and Fellow of the Indian Council of Arbitration, New Delhi. Shri Balasubramanian has 38 years of experience in the power and industrial sector and has served for five years as Director (Power) of Neyveli Lignite Corporation Limited. Prior to joining our Board, he was the Chairman and Managing Director of Fertilizers and Chemicals Travancore Limited. He has also served as the Executive Director in Gas Authority of India Limited and has also worked with the Atomic Energy Establishment and Engineers India Limited. He joined our Board on December 20, 2007. He is also an Independent Director on the Board of Indian Rare Earths Limited (a PSU under the Department of Atomic Energy).



Shri P.R. Balasubramanian was holding Nil equity shares in the Company as on 31st March 2008.

DR. DEVI SINGH *Independent Director*


Dr. Devi Singh, 55 years, is an Independent Director on the Board of our Company. He holds a Bachelor's Degree and a Master's Degree in Economics from Rajasthan University. He was also a Fellow at the Indian Institute of Management at Ahmedabad. He has a total work experience of more than 30 years with an expertise in International Finance, Financial Management and International Business. He is the Director of the Indian Institute of Management, Lucknow. He has also served as a Director of the Management Development Institute, Gurgaon. He has been a Visiting Professor at the Faculty of Management, McGill University, Montreal and the International Centre for Public Enterprises in Developing Countries, Ljubljana, Slovenia. He has also been a Professor at the International Management Institute, New Delhi. He has been honoured by the American Biographical Institute, USA with the "Man of the Millennium Award" in 2000. He joined our Board on January 7, 2008.

Dr. Devi Singh was holding Nil equity shares in the Company as on 31st March 2008.

DIRECTORS' REPORT

To

The Shareholders,

The Directors have pleasure in presenting the Thirty-Ninth Annual Report of your Company - Rural Electrification Corporation Ltd. (REC) for the year ended 31st March, 2008 along with the Audited Statements of Accounts.

This is the first Report to the shareholders after REC launched Initial Public Offer (IPO) of equity shares in February 2008.

1. PERFORMANCE HIGHLIGHTS

1.1 Record breaking loan sanctions, disbursements, recoveries, operating income and profits

Over the past decade your Company had sustainable growth in almost all key performance parameters and the performance for the year 2007-08 has been outstanding as highlighted below, breaking all previous records since inception:-

Parameter	2007-08 (Rs. in crore)	2006-07 (Rs.in crore)	Percentage increase
Loans sanctioned	46770.00	28630.00	+63 %
Disbursements	16304.00	13733.00	+19 %
Recoveries	9042.00	6584.67	+37 %
Operating income	3378.21	2651.70	+27 %
Profit before tax	1312.42	1006.19	+30 %
Profit after tax	860.15	660.26	+30 %

1.2 Dividend

After providing for tax and making necessary appropriation towards statutory reserves, your directors are happy to recommend payment of dividend @ 30 % (Rs.3 per equity share of Rs.10 each) for the year 2007-08.

2. LOANS SANCTIONED

REC sanctioned loans worth Rs. 46770 crore during the year 2007-08, as against Rs. 28630 crore in the previous year excluding grants under RGGVY. The cumulative amount of sanctions made since inception upto 31.3.2008 was Rs.179525.76 crore.

3. DISBURSEMENTS

A total sum of Rs.16304 crore was disbursed during the year 2007-08 as against Rs.13733 crore in the previous year including grants under RGGVY. The cumulative amount disbursed since inception upto 31.3.2008 was Rs.75243.31 crore.

4. RECOVERIES

The amount due for recovery during the year 2007-08 was Rs. 9002.73 crore as compared to Rs. 6629.59 crore during the previous year. This figure included the dues from defaulting SEBs. The Company recovered a total sum of Rs. 9041.99 crore during the year 2007-08. The details of overdues from defaulting borrowers as on 1.4.2007, the total dues receivable during the year 2007-08 and the recoveries made during the year 2007-08 are given below:-

	Total (Rs.in crore)
Overdues as on 01.04.2007	339.60
Less : Manipur overdues rescheduled	90.57
Balance	249.03
Dues receivable during the year 2007-08	9002.73
Received during the year 2007-08	9041.99
Overdues as on 31.03.2008	209.77

The Company has been taking effective steps for recovery of the same.

5. FINANCIAL REVIEW

5.1 A summary of financial results

The summary of financial results of the Company for the year ended 31st March, 2008 is given below:-

(Rs. in crore)

Particulars	2007-08	2006-07
Gross Income	3537.66	2854.00
Profit before tax	1312.42	1006.19
Depreciation	1.38	1.13
Provision for Income Tax, Deferred Tax & FBT	452.27	345.93
Net Profit/Profit after Tax	860.14	660.26
Transfer to Special Reserve	255.00	345.00
Transfer to Reserve for Bad & Doubtful Debts	58.00	34.00
Transfer to General Reserve	140.00	72.00
Proposed Dividend	257.59	177.00
Dividend Tax	43.78	30.08
Balance carried forward	105.77	2.18

5.2 Initial Public Offer (IPO) of Shares

In February 2008 the Company made an Initial Public Offer (IPO) of 15,61,20,000 equity shares of Rs. 10 each through 100 % book-building process with price

band of Rs.90 to 105 per share. The Issue was priced at Rs. 105 per share. The Issue comprised of a fresh issue of up to 7,80,60,000 equity shares and an Offer for Sale of up to 7,80,60,000 equity shares by the President of India acting through Ministry of Power, Government of India. The Issue got a phenomenal response and it was oversubscribed by about 27 times. The Qualified Institutional Buyers (QIB) portion got subscribed 39.31 times, the Non-Institutional portion 21.88 times, the Retail portion 7.52 times and the Employee Reservation portion 0.9 times. The total number of applications received was 7,53,768. The Issue was priced at Rs. 105 per share including a premium of Rs. 95 per share. The fresh equity shares were allotted on 5th March 2008 and the total amount raised by the Company through IPO was Rs. 819.63 crore. The proceeds of the fresh issue of equity shares have been utilized for the purpose of the business of the Company as mentioned in the Prospectus. The equity shares of the Company were listed on the National Stock Exchange and Bombay Stock Exchange on 12th March 2008, and requisite Listing Fees have been paid to each of these Stock Exchanges.

In the Post-IPO scenario, the shareholding of the Government of India has reduced from 100% to 81.82% and the balance 18.18% is held by others.

5.3 Paid-up-Share Capital

The Issued and Paid up Share Capital increased from Rs. 780.60 crore to Rs. 858.66 crore as on 31.03.2008 after IPO, against the Authorized Capital of Rs.1200 crores, and an amount of Rs. 719.81 crore (net of Issue expenses of Rs. 21.76 crore) has been taken to Security Premium Account.

5.4 Resource Mobilization

The Company mobilized Rs. 8377.23 crore from the market during the year 2007-08. This includes Rs. 2228 crore by way of syndicated loans from commercial banks, Rs. 3402.74 crore by way of Capital Gain Tax Exemption Bonds and Rs. 2568.30 crore by way of Non-priority Sector Bonds and Rs. 178.19 crore by way of Official Development Assistance (ODA) loan from Kreditanstalt für Wiederaufbau (KfW)/ Japan Bank for International Cooperation (JBIC). The domestic debt instruments of REC continued to enjoy 'AAA' rating i.e. the highest rating assigned by CRISIL, CARE, FITCH and ICRA - Credit Rating Agencies.

5.5 External Commercial Borrowings

The Company has entered into an ODA loan agreement with the KfW, Germany in the financial year 2006-07 for Euro 70 million at a fixed rate of 3.73% for the purpose of conversion of LT lines to High Voltage Distribution lines Project to be implemented by State Discoms. Tenor of the loan is 12 years including grace period of 3 years. Euro 7,585,496.76 has been drawn till 31.3.2008 against this facility.

The Company has also entered into an ODA loan agreement with JBIC, Japan in the financial year 2006-07 for JPY 20.63 billion at a fixed rate of 0.75%

per annum to improve the sub-transmission system, to reduce T&D losses and to expand the access to electricity for un-electrified household and other rural loads. Tenor of the loan is 15 years with moratorium of 5 years. JPY 3,251,751,977.77 has been drawn till 31.3.2008 against this facility.

5.6 Sovereign rating

REC enjoys international credit rating equivalent to sovereign rating of India from International Credit Rating Agencies such as Moody's and FITCH (which are "Baa3" and "BBB-" respectively).

5.7 Maintaining low cost of borrowing.

As per the Finance Act 2006, only REC and National Highway Authority of India (NHAI) were eligible to raise money through bonds issued under Section 54 EC of the Income Tax Act, 1961. This helped in keeping the cost of borrowing at a low level. The overall cost of funds was 7.65% during the year 2007-08. As a result REC is able to deliver debt financing at competitive rates.

5.8 Redemption and Pre-Payment

During the year, the Company repaid a sum of Rs. 18.56 crore to the Government of India. It also redeemed a total sum of Rs. 655 crore owed to non-priority/ priority sector bond holders. In addition, Rs.2635.09 crore worth of Capital Gain Tax Exemption Bonds and Rs. 202.97 crore of Infrastructure Bonds were also redeemed. The company also redeemed long term and short term loans from Banks of Rs.462 crore.

5.9 Particulars regarding Conservation of Foreign Exchange Earnings & Outgo

The particulars regarding foreign exchange outgo during the year under review are given in Schedule 17 point 16 to the Notes to the Accounts forming part of the Annual Accounts.

No foreign exchange was earned during the year under review.

5.10 Financial status at the close of the year

At the close of the financial year 2007-08, the total resources of the Company stood at Rs. 40467.57 crore. Out of this sum, Equity Share Capital contributed Rs.858.66 crore, Reserves and Surplus stood at Rs.4509.04 crore, Loans from LIC, Commercial Banks and Market Borrowings accounted for Rs.34282.79 crore and deferred tax provision of Rs.817.08 crore. These funds were deployed as Long / Short term Loans of Rs.39316.51 crore and Fixed Assets of Rs.77.90 crore, Investments of Rs.1147.39 crore and balance (of Rs.74.23 crore) in Net Current Assets.

6. DIRECTORS' RESPONSIBILITY STATEMENT

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

- (i) That the applicable accounting standards had been followed in the preparation of the annual accounts, along with proper explanation relating to material departures;

- (ii) That the directors had selected such accounting policies and applied them consistently and made judgments 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 to maintain adequate accounting records as per 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.

7. FINANCING ACTIVITIES

REC has been funding power generation, transmission & distribution projects besides electrification of villages. Various initiatives in this regard are enumerated below:

7.1 Generation

During the year 2007-08, the Company sanctioned 26 nos. of new generation / R&M loans and 4 no. additional loan assistance with total financial outlay of Rs.27274.66 crore, including consortium financing with other financial institutions. Since 2002-03 and upto 31.3.2008, REC has sanctioned financial assistance of Rs.58001 crore for R&M, thermal and hydro generation projects. REC has disbursed Rs.4308 crore during 2007-08 against the on-going generation projects.

The sector wise break up of loans sanctioned including additional loan assistance is as below :-

	No. of Loans	Loan Amount (Rs. in crore)
STATE SECTOR		
Fresh Loan	16	
Additional Loan	1	21845.66
PRIVATE SECTOR		
Fresh Loan	10	
Additional loan	3	5429.00
Total	26+4=30	27274.66

During the current financial year 2008-09 (upto 30.6.2008), the Company has sanctioned loan assistance to four projects amounting to Rs.6560 crore and has disbursed approx. Rs.978 crore against the on-going generation projects.

7.2 Transmission & Distribution

REC continued to play an active role in creating new infrastructure and improving the existing ones under the transmission and distribution network in the country under its T&D portfolio. In line with the country's objective to provide power for all by the year 2012 and also reduce the AT&C losses, REC has been financing schemes for expansion and strengthening of the transmission network and more importantly, modernizing of the distribution system.

During the year 2007-08, REC has sanctioned loans of Rs.15033.19 crore for 494 transmission and distribution projects and disbursed Rs.7063 crore as compared to Rs.4784 crore in the previous year 2006-07, an increase of 48 %.

During current financial year 2008-09 (upto 30.6.2008) the Company has sanctioned Rs.5182.52 crore and disbursed Rs.1168.55 crore for T&D projects.

7.3 System Improvement:

To strengthen and improve the Transmission, Sub-transmission and Distribution System in the country and to reduce the T&D losses, REC provides loan assistance to the Power utilities under its System Improvement portfolio. In keeping with the tradition, thrust on financing of such schemes for improvement of power transmission and distribution network for reducing T&D losses and improving the quality of power supply was continued during the year also.

7.4 Bulk loan financing:

Apart from System Improvement projects, REC is also financing the procurement and installation/replacement of various equipment required in the system. For example, most of the power utilities are taking up large scale installation/replacement of meters to meet the target of 100% metering set by the Govt. in order to have an accurate measure of the energy flow in the system, for which REC provides finance to meet their requirements. Similarly, to meet the ever increasing requirement of financial support for installation and replacement of transformers, capacitors, poles, conductors etc. REC has continued the financing of schemes for bulk procurement of these items.

7.5 System Improvement & Bulk Loan

During the year 2007-08, a total of 363 system improvement schemes and bulk loan schemes were sanctioned involving a loan outlay of Rs.14131.67 crore. This included: (i) counterpart funding under Accelerated Power Development & Reforms Programme (APDRP) of Ministry of Power for involving loan outlay of Rs. 180.55 crore, (ii) 27 schemes involving a loan assistance of Rs. 921.53 crore for financing investment in the distribution system by way of installation of essential equipment like transformers, capacitors and meters, (iii) 64 schemes involving a loan assistance of Rs.1668.20 crore for conversion of Low Voltage Distribution to High Voltage Distribution System (HVDS), and (iv) 135 schemes for Rs.7584.83 crore for improving the transmission network.

7.6 Pumpset energization:

REC's loan portfolio also includes extension of loan assistance for energization of agricultural pumpsets. Out of the total of around 154.71 lakh pumpsets reported to be energized in the country upto 31.3.2008, about 57% pumpsets have been energized under schemes funded by REC.

During the year 2007-08, 181244 electric irrigation pumpsets were reported energized under REC financed schemes. 89 nos. new schemes for a loan assistance of Rs.618.59 crore were sanctioned during the year under this category.

7.7 Activities in North Eastern (NE) States

A loan assistance of Rs. 41.27 crore was disbursed to the NE states under T&D programme during the year 2007-08 as compared to Rs.16.21 crore during the previous year. 11 schemes for a loan assistance of Rs.38.42 crore were sanctioned to Nagaland during 2007-08 under System Improvement category.

8. ELECTRIFICATION OF VILLAGES

8.1 Rajiv Gandhi Grameen Vidyutikaran Yojana (RGGVY)

Government of India, in April 2005, launched the scheme "Rajiv Gandhi Grameen Vidyutikaran Yojana (RGGVY)– Scheme of Rural Electricity Infrastructure and Household Electrification", vide OM No. 44/19/2004 D(RE), dated 18th March 2005, for the attainment of the National Common Minimum Programme (NCMP) goal of providing access to electricity to all households in five years. The scheme is being implemented through REC. Under the scheme ninety per cent capital subsidy is being provided by Govt. of India for overall cost of the projects. This approval was for implementation of Phase I of the scheme for capital subsidy of Rs.5000 crore during the 10th Plan period.

235 projects covering 178948 villages (67012 un-electrified and 111936 electrified villages) with the total sanctioned project cost of Rs. 9696 crore were sanctioned for implementation by the Ministry of Power in X Plan period.

Further sanction for continuation of the scheme in XI Plan for attaining the goal of providing access to electricity to all households, electrification of about 1.15 lakh un-electrified villages and electricity connections to 2.34 crore BPL households by 2009 has been conveyed vide OM No. 44/37/07-D(RE) dated 6th Feb. 2008 issued by Ministry of Power.

316 projects covering 282164 villages (47658 un-electrified and 234506 electrified villages) with the total sanctioned project cost of Rs. 15553.22 crore have been sanctioned for implementation in XI Plan period by the Ministry of Power during 2007-08.

Under the scheme, it has been reported that works have been completed for 38,262 villages (including 9301 un-electrified and 28961 electrified villages) and connections to 20.41 Lakh rural households including 16.21 Lakh BPL households have been provided during 2007-08.

Cumulatively, works in 88,664 villages (47826 un-electrified and 40838 electrified villages) have been completed and connections to 27.71 Lakh rural households including 22.93 Lakh BPL households have been released under the scheme up to 31.03.2008.

8.2 Decentralized Distributed Generation (DDG)

RGGVY provides for DDG from conventional or renewable (non-conventional) sources such as biomass,

bio gas, mini hydro, and solar etc. for villages where grid connectivity is either not feasible or not cost effective.

DDG systems are small power generation units with local distribution system.



Launch of RGGVY Web Portal by Hon'ble Minister of Power Shri Sushil Kumar Shinde on 28.05.08

Ninety per cent capital subsidy would be provided under RGGVY towards overall cost of the DDG projects under the scheme, excluding the amount of state or local taxes, which will be borne by the concerned State/ State Utility. 10% of the project cost would be contributed by states through own resources/loan from financial institution.

A provision of Rs 540 Crore has been kept as subsidy for DDG projects under XIth Plan.

The Guidelines for DDG projects under RGGVY are under finalization. DDG projects under RGGVY will be taken up after finalization of these Guidelines.

8.2.1 Details of Renewable Projects handled by DDG Group

So far REC has financed various Renewable Projects as per details given below as on 31.03.08 :

Projects Under Implementation and Projects Commissioned

Sl. No.	Description	Projects under Implementation	Projects Commissioned	TOTAL
(i)	Value of Loan sanctioned (Rs. Crore)	365.21	80.73	445.94
(ii)	Disbursement made so far (Rs Crore)	188.75	78.34	267.09
(iii)	Value of Projects Sanctioned (Rs Crore)	633.85	180.11	813.96
(iv)	MW of Projects	104.7	36.60	145.30

9. INTERNATIONAL COOPERATION & DEVELOPMENT

9.1 Japan Bank for International Cooperation (JBIC)

- (i) REC had entered into a loan agreement with JBIC on 31.3.2006 for a loan assistance of 20.629 billion Japanese Yen (approx. Rs.784 crore with an exchange rate of 100 Yen = Rs.38.01 – As on 31.3.2006) under the Official Development Assistance (ODA) loan package for the Rural Electricity Distribution Backbone (REDB) Project of REC. The project is being implemented in the states of Andhra Pradesh, Maharashtra and Madhya Pradesh. The Drawal of funds from JBIC in respect of this loan has commenced during the financial year 2007-08. An amount of Rs 140.03 crore (approx.) has been disbursed to the sub-borrowers and an amount Rs 124.91 crore (approx.) equivalent loan amount has been drawn from JBIC in the financial year 2007-08. Out of 749 nos 33/11 kv new substations and 510 augmentation of substations envisaged under the project, a total number of 113 substations and 97 augmentation of substations have been completed in the financial year 2007-08.
- (ii) REC entered into a second loan agreement with JBIC on 10.03.08 for ODA loan of 20.902 billion Japanese Yen (approx. Rs.833 crore with an exchange rate of 100 Yen=Rs.39.86–Ason10.3.2008)for implementation of transmission system project in the state of Haryana for strengthening intra-state transmission systems in the state. The drawal of funds from JBIC in respect of this loan is expected to commence in the financial year 2008-09.

9.2 Indo-German Bilateral Cooperation Programme

- (i) REC entered into a loan agreement with KfW on 8.8.2006 for ODA loan of 70 Million Euro (approx. Rs.418 crore with an exchange rate of 1 Euro = Rs.59.74 – As on 08.08.2006) for implementation of High Voltage Distribution System (HVDS) Project under KfW- Energy Efficiency Programme-I in the Chittoor and Kadapa Districts in the state of Andhra Pradesh. The drawal of funds from KfW in respect of this loan has commenced during the financial year 2007-08. An amount of Rs 78.91 crore (approx.) has been disbursed to the sub-borrowers and equivalent amount has been drawn from KfW in the financial year 2007-08. The Project is being implemented as per schedule. Further, the implementation of various Technical Assistance (TA) grant component as per the Financing Agreement of KfW Energy Efficiency Programme-I and drawal of funds from KfW has commenced during the financial year 2007-08.
- (ii) KfW has committed a 2nd line of credit for 70 million Euro to REC under their Energy Efficiency Programme –II. A HVDS Project proposal of Uttar Haryana Bijli Vitaran Nigam (UHBVN) has been proposed by REC for consideration of loan under the programme and the project has been appraised by KfW Mission. The loan agreement in this regard is expected to be signed in the current financial year 2008-09, after pledge of loan by Government of Germany.

10. STANDARDISATION & QUALITY CONTROL

REC has continually provided technical expertise in distribution systems to State Power Utilities. The technical specifications and standards issued by REC are used extensively by all State Power Utilities. REC, in order to promote new technologies, has been continuously looking for innovations using latest R&D in the field of power distribution. REC has recently issued / updated technical specifications on single phase distribution transformers, battery and battery charger, internal wiring and Vacuum Circuit Breaker (VCB).

In order to ensure proper quality in implementation of RGGVY, 3 tier Quality Control Manual has been prepared & finalised.

11. ERP BASED INTEGRATED INFORMATION SYSTEM

REC has initiated implementation of Company-wide ERP system to increase the efficiency and effectiveness of the functional processes across the Company. The objective is to create a robust MIS system for all functions with seamless flow of data from various offices of the Company and to provide management support at all levels. The implementation of Company-wide ERP system has reached advanced stage during the year.

12. CENTRAL INSTITUTE FOR RURAL ELECTRIFICATION (CIRE)

Central Institute for Rural Electrification (CIRE) was established at Hyderabad in 1979 under the aegis of REC to cater to the training and development needs of engineers and managers of Power and Energy Sector and other organizations concerned with Power and Energy. CIRE is located in the Institutional area near Acharya NG Ranga Agricultural University on the way to Rajiv Gandhi International Airport, on National Highway No.7 leading to Bangalore. The Institute Campus is spread over about 14 acres with Administration, Teaching, Library and Hostel blocks.

CIRE conducts regular programs on various aspects of Transmission and Distribution of Power Sector; besides it conducts sponsored programs like Drum Reforms Upgrades and Management (DRUM) and also custom made programs on request from the power companies. The Institute is empanelled by the Ministry of External Affairs to conduct international programs to the officers of the power sector in Afro-Asian countries, under Indian Technical Economic Cooperation (ITEC) and Special Commonwealth Africa Assistance Plan (SCAAP). It collaborates with other management training institutions / agencies to conduct specialized programs and also seminar and workshops on topical areas.

The Institute, as on 31st March 2008, has organized 785 training programmes and 16,213 officers from State Electricity Boards, Power Distribution Companies, Electricity Departments, Rural Electric Cooperatives, Banks, Regulatory Commissions, Power Utilities, Power Companies, and Rural Development Agencies etc. participated in various programmes.

13. REC IS AN NBFC

The Company was registered with Reserve Bank of India (RBI) as a Non-Banking Finance 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, Government Companies conforming to Section 617 of the Companies Act, 1956, 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 Government Company under Section 617 of the Companies Act, 1956.

14. PRUDENTIAL NORMS

The Board of Directors of REC in its meeting held on 13th December 2006 approved a set of Prudential Norms to be followed by the Company. The Norms for concentration of credit / investment as stated in the Prudential Norms were made effective from 13th December 2006 itself. The other Prudential Norms were made effective from 1st April 2007. Accordingly, for the year 2007-08, REC has prepared its accounts applying these Prudential Norms. Salient features of these Norms are given in the Significant Accounting Policies attached to the Statement of Accounts. As per the Prudential Norms, provisioning is required to be made even in respect of assets guaranteed by State Government. The impact of such change for provisioning in respect of State Government guaranteed loans, in the audited Statement of Accounts for the year 2007-08, is to the extent of Rs.3999.39 Lakh.

15. RISK MANAGEMENT

15.1 Asset Liability Management

The Company has a Risk Management Policy which covers inter alia Asset Liability Management, Derivatives and Investment of Surplus Funds. An Asset Liability Management Committee (ALCO) is currently functioning under the leadership of CMD with reporting responsibility to the Board. ALCO also comprises of Director (Finance), Director (Technical) and the General Managers in Finance, Generation and T&D Divisions.

Asset Liability Management Committee (ALCO) monitors risk related to liquidity, interest rates and currency rates. The liquidity risk is being monitored with the help of liquidity gap analysis. Based on the cash liquidity gap analysis, the Committee managed the liquidity risk through a mix of strategies, like a forward looking resource raising program based on projected disbursement and maturity obligations. The interest rate risk is also managed through interest rate sensitivity analysis.

15.2 Foreign Currency Risk Management

The Company has put in place a derivative policy to manage risk associated with the Foreign currency borrowings. The company enters in to derivative transactions to cover exchange rate and interest rate risk through various instruments. During the year the

Company has fully hedged (principal plus coupon) its JPY loan of equivalent USD 200 million at a fixed rate of 6.50% p.a payable semi annually. As on 31st March, 2008 the total Foreign currency liabilities outstanding are 26822 million in JPY and 7.59 million in Euro out of which the JPY loans are fully hedged as on date.

16. ISO 9001:2000 QUALITY ASSURANCE CERTIFICATION

REC has implemented Quality Management Systems as per ISO 9001:2000 standards in six major Divisions of Corporate Office and nine major Project Offices across the country. This was Certified by BSI Management Systems under accreditation by UKAS (United Kingdom Accreditation Service) Quality Management, UK. The Quality Policy of the Corporation demonstrates the Management's commitments for the continual improvement in customer satisfaction and in quality work culture.

17. FAIR PRACTICES CODE

In pursuance of Notification dated 28th September, 2006 issued by the Reserve Bank of India directing all NBFCs to frame Fair Practices Code, the Board of Directors of REC approved in March 2007 the Fair Practices Code which also includes Grievances Redressal Mechanism. The Code aims at putting in place Fair Lending Practices of the Company in a transparent manner, covering in detail matters relating to the processing of loan applications for Generation, Transmission and Distribution Projects, loan appraisal and its sanction, terms and conditions of disbursement of loans, post disbursement supervision etc. At the Board Meeting held on 26th May 2008, the coverage of the Code has been extended to processing of loan applications for Short Term Loan also. As directed by the Board, half-yearly Status reports on compliance with Fair Practices Code and Grievances Redressal Mechanism are to be submitted to the Board for periodic review.

18. POLICY FOR PREVENTION OF FRAUD

In order to facilitate the development of controls which will aid in the detection and prevention of fraud in or against REC, a policy for prevention of frauds in REC has been framed with the approval of the Board of Directors. The said Policy provides a system for detection and prevention of fraud, reporting of any fraud that is detected or suspected and fair dealing of matters pertaining to fraud.

19. CODE OF CONDUCT FOR BOARD MEMBERS AND SENIOR MANAGEMENT

As required under the Listing Agreement executed with Stock Exchanges, the Board of Directors of REC at its meeting held on 10th July 2007 has approved a Code of Conduct for Board Members and Senior Management of the Company. The Code of Conduct has been posted on the Website of the Company. The Board Members and Senior Management personnel have affirmed compliance with the Code as applicable to them for the period upto March, 2008.

20. CODE FOR PREVENTION OF INSIDER TRADING IN REC EQUITY SHARES / SECURITIES

In terms of Securities and Exchange Board of India (Insider Trading) Regulations, 1992, the Company has formulated a comprehensive Code for Prevention of Insider Trading to preserve the confidentiality and to prevent misuse of un-published price sensitive information. Every Director, officer and designated employee of the Company has a duty to safeguard the confidentiality of all such Information obtained in the course of his or her work at the Company and not to misuse his or her work at the Company and not to misuse his or her position or information regarding the Company to gain personal benefit or to provide benefit to any third party. The Code lays down guidelines and procedures to be followed and disclosures to be made while dealing with the shares of the Company and the consequences of non-compliance. The Company Secretary has been appointed as Compliance Officer and is responsible for adherence to 'Code for prevention of Insider Trading'. A Copy of the Code has been posted on the Company's website.

In line with the requirement of the said Code, trading window was closed whenever some price sensitive information was submitted to the Board. Notice of closure of Trading Window was issued to all employees well in advance and proper announcements were also made, restraining all the employees not to deal in the shares of the Company when the window is closed.

21. HUMAN RESOURCES MANAGEMENT

In the context of growing business and challenges of the organization, Human Resource Management has acquired considerable significance. A great deal of emphasis is being placed on acquisition, retention and development of quality Human Resources to enable the organization to achieve its business objectives. The task of inducting professionally qualified personnel across the hierarchy continued during the year under review, thereby strengthening the cadre of managers across the hierarchy. As on 31st March 2008, the total inventory of human resources stood at 699 which included 364 executives and 335 non-executives. During the year 28 executives were appointed across hierarchy through open advertisement. Additionally 5 executives were inducted through a process of campus recruitment which is now introduced as a means to infuse young professionals in the organization.

21.1 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 group wise details of SC and ST employees out of the total strength as on 31-03-2008 are given below :

Group	Total No. of employees	SC	ST
A	294(284)	28(27)	6(6)
B	183(187)	22(23)	4(6)
C	115(116)	20(21)	1(1)
D	107(111)	33(34)	5(5)
Grand Total:	699(698)	103(105)	16(18)

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

21.2 Training & Human Resource Development

As a means of equipping employees with a range of skills including their renewal, to enable them perform their responsibilities, Training and HRD continued to receive a place of priority during the year. Based on the assessed needs and as means to satisfy them, the Company sponsored 280 employees to various training programmes, workshop etc. within the country and abroad. In addition, 14 training programmes were conducted in-house, which were attended by 293 employees including 5 programmes conducted at CIRE, Hyderabad exclusively for REC employees. Taken together, these initiatives enabled the Company to significantly out-perform MOU targets (as against 360 man days we achieved a figure of 1709 for the year). In order to enable them develop global exposure, several officers were sent to attend various programmes abroad to various countries which included Japan, Singapore, France, Switzerland, Belgium, Netherlands etc.

21.3 Staff Welfare

The Company undertook several steps in the area of Staff Welfare during the year. These included expansion of list of empanelled hospitals for improved and decentralized health care delivery, as also raising the benchmark for medical expenses at par with Sir Ganga Ram Hospital.

21.4 Women Cell

A Women Cell is in operation for looking after the issues concerning women employees. In addition to that, a Complaints Committee on Gender Harassment and Justice is also in operation in REC, which includes a representative of NGO as per the guidelines of the Hon'ble Supreme Court of India.

21.5 Industrial Relations:

Corporation maintained healthy, cordial and harmonious relations at all levels. The role of REC Employees' Union and REC Officers' Association has been laudable in maintenance of harmonious relations. Motivated employees worked in team spirit and collectively enabled the organization outperform its business goals by a significant margin during the year.

21.6 Public Grievance Redressal Machinery

In accordance with the guidelines issued by the Govt. of India, the Company has constituted a Grievance Redressal Committee to redress the grievances of officers and staff. The scope of the Committee has further been enlarged to cover Public Grievances also.

22 PARTICULARS OF EMPLOYEES UNDER SECTION 217(2A) OF THE COMPANIES ACT, 1956

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.

23. VIGILANCE ACTIVITIES

Vigilance Wing of the company headed by Chief Vigilance Officer, has played its role in maintaining integrity in the organization apart from inculcating habits of adherence to systems and procedures amongst the employees. The Vigilance Division pursued framing of policies/ proper guidelines for conducting business in a proper manner/systematically. It has also ensured that CVC's instructions were strictly implemented by the company.

The company continued to accord a major thrust on preventive vigilance, streamlining and strengthening systems and procedures in addition to transparency in policy matters and management functions. The message of making the officials aware of the measures towards increasing efficiency and transparency in Customers Oriented Programmes was reiterated also during the Vigilance Awareness Programmes.

As per instructions of CVC regarding increasing efficiency and transparency in customer oriented programmes, the measures initiated inter alia include (i) a system of lodging online complaint for speedy redressal of grievances (ii) adoption of anti-fraud policy (iii) adoption of Fair Practices Code etc.

Agreed List for the year 2007 in respect of all Project Offices/CIRE were finalized in addition to its Corporate Office at Delhi after close interaction with local branches of CBI.

24. PROGRESSIVE USE OF HINDI AS OFFICIAL LANGUAGE

Continued efforts were made to comply with the directives of the Department of Official Language and the Official Languages Act, and most of the targets have been achieved.

As a result of increased interest shown by the officers and staff, there has been significant increase in the notings and correspondence in Hindi.

Quarterly review meetings of Official Language Implementation Committee were regularly held during the year 2007-08 under the chairmanship of CMD.

To promote use of Hindi in official work, eight Hindi workshops were organized. 126 employees participated in these workshops. To give impetus to the correspondence in Hindi, standard formats have also been made available on Intranet. Bilingual working facilities have been made available in all the computers.



Visit to REC by IInd Sub Committee of Parliamentary Committee on Rajbhasha, on 8th April, 2008

During the year, Technical & Financial Glossary and Conduct, Discipline & Appeal Rules were published bilingually for use of all the employees so that they can work in Hindi more conveniently and in an effective manner. About 95% of Library budget was utilized for purchase of Hindi books. The Company's Monthly House Journal 'E-Darpan' is published on line in digitized version, which includes activities of the Company and progress made in Hindi work.

The Parliamentary Committee on Official Language inspected REC's Project Offices at Hyderabad in July 2007 and at Bangalore in October 2007. Rajbhasha Division also inspected 12 (twelve) internal Divisions as well as 7(seven) Project Offices during the year. Ministry's officials were also associated during some of the inspections. Project Offices of Chandigarh, Thiruvananthapuram got first and third prize respectively from Town Official language Committee for excellent work in Hindi. Project Office, Lucknow, also got a certificate for organizing workshops on Hindi.

During the year, Zonal Office/Project Office Hyderabad, CIRE and Bangaluru were notified under Rule 10 (4) of Official Language Rules.

The Company organized nine Hindi competitions separately for General Managers/Executive Directors, Middle level Managers and Non-Executives as well as Sulekh competition for Class IV employees during the Hindi Pakhwara from 14.9.2007 to 28.9.2007. 57 officers and 45 employees participated in these competitions. Cash prizes and certificates given to 45 officers and staff & ten prizes were awarded for doing original noting/drafting throughout the year. A special function was organized at which winners of these competitions were awarded prizes by the Chief Guest - Shri Uday Partap Singh, Hon'ble Member of Parliament and Member of Parliamentary Committee on Rajbhasha. Shri Ranjit Issar, Secretary, Rajbhasha, Ministry of Home Affairs was Guest of Honour at the function. On this occasion, artists from Song & Drama Division, Ministry of Information & Broadcasting presented folk dances of India on the theme of "Unity in Diversity".

REC's website is available both in Hindi and English and is regularly being updated from time to time. All publications, reports, memoranda, press releases, mailers, tenders, advertisements relating to IPO, ERP, etc. were issued bilingually.

25. MOU WITH MINISTRY OF POWER

The performance of the company in terms of Memorandum of Understanding signed with the Govt. of India in the Ministry of Power for the financial year 2006-07 has been rated as "Excellent". This is the 14th year in succession that the company has received "Excellent" rating since the year 1993-94 when the first MOU was signed with the Government.



Signing of MOU by REC with Ministry of Power for 2008-09

For the year 2007-08, the company has reached new milestones in sanctions and disbursement and is poised again for excellent rating.

26. NAVRATNA STATUS

In pursuance of the national policy objective to make the public sector more efficient and competitive, Government of India had decided in the year 1997 to grant enhanced autonomy and delegation of powers to the profit making public sector enterprises, subject to certain eligibility criteria and guidelines, and confer the status of Navratna/Mini Ratna on select Public Sector Undertakings (PSUs) fulfilling the prescribed criteria. In fulfilment of the prescribed criteria, Government of India had earlier granted Mini Ratna Grade I Status to REC in September 2002.

REC continued its consistently excellent performance and profitability in the subsequent years also and fulfilled the following enhanced criteria applicable for grant of Navratna status:

- a) Existing Mini Ratna Grade I status and a Schedule 'A' PSU;
- b) "Excellent" or "Very Good" MOU rating in 3 of the last 5 years.
- c) Getting Composite Score of 60 or above as per the Evaluation Criteria covering six specific performance indicators viz. (i) Net Profit to Networth, (ii) Manpower cost to total cost of services, (iii) PBDIT to Capital employed, (iv) PBIT to Turnover, (v) Earning per share, and (vi) Inter Sectoral Performance.

In recognition of the excellent overall performance and qualifying all the prescribed criteria, and its continued significant contribution to the development of Indian Power Sector, Government of India recently granted "Navratna Status" to REC on 5th May 2008. This prestigious status of Navratna is the highest recognition that any PSU can strive for, and only very few select PSUs in India enjoy this status. It is a matter of great pride and jubilation for all the stakeholders of the Company, as this enhanced status provides REC a greater flexibility and autonomy in terms of making investment and operational decisions, and would also help in further consolidating its position and continue its stellar role in funding the ever growing needs of Indian Power Sector.

27. COMPLIANCE WITH CORPORATE GOVERNANCE

Till March 2008, the Code of Corporate Governance was not mandatory to REC, as only its Debt Securities/Bonds, issued on private placement, were listed on the Stock Exchanges and the Company was only required to comply with limited provisions of the Model Listing Agreement as notified by SEBI. Even then, REC has been endeavouring to implement and maintain good Corporate Governance norms even when they were not mandatory.

However, after the Initial Public Offer of equity shares and consequent listing of equity shares of the Company on the Stock Exchanges in March 2008, the Code of Corporate Governance as per Clause 49 of the Listing Agreement has become mandatory. In addition, REC being a Central Public Sector Undertaking, with 88.12% of its paid up share capital currently held by the Government of India, the additional provisions relating to Corporate Governance as notified by the Department of Public Enterprises, Government of India are also applicable to REC.

In compliance with the provisions of the Listing Agreement, a Management Discussion and Analysis Report is enclosed as **ANNEXURE – I**, a detailed Report of the Company on Compliance with Corporate Governance is enclosed as **ANNEXURE – II** and a Certificate on Corporate Governance issued by the Statutory Auditors of the Company is enclosed as **ANNEXURE – III**.

28. CORPORATE SOCIAL RESPONSIBILITY (CSR) POLICY

A policy on Corporate Social Responsibility has been adopted by the Company. The details of the policy are posted on the REC's website.

29. BOARD OF DIRECTORS

As on the date of the last Annual General Meeting of the Company held on 27-9-2007, the Board of Directors comprised of following five directors:-

- 1) Shri A.K.Lakhina, Chairman and Managing Director;
- 2) Shri H.D.Khunteta, Director (Finance);
- 3) Shri Bal Mukand, Director (Technical);
- 4) Shri Rajesh Verma, part-time Government Nominee Director /Joint Secretary & Financial Adviser in the Ministry of Power, Govt. of India;
- 5) Shri Devender Singh, part-time Government Nominee Director / Joint Secretary in the Ministry of Power, Govt. of India.

Prior to the Initial Public Offer of equity shares, the Company was required to comply with the Code of Corporate Governance as prescribed by SEBI in the matter of composition of its Board of Directors i.e. in case the Chairman of the Company is an executive/full-time director, at least half of the Board had to comprise of independent directors as defined in Clause 49 of the Listing Agreement.

Accordingly, in terms of Articles of Association of the Company, the Ministry of Power, Govt. of India appointed following part-time non-official / independent directors on the Board of REC for a period of three years:-

- i. Shri Venugopal N. Dhoot, CMD, VIDEOCON Group of Companies, Mumbai (w.e.f. 20-12-2007);
- ii. Dr. M. Govinda Rao, Director, National Institute of Public Finance & Policy, New Delhi (w.e.f. 20-12-2007);
- iii. Shri P.R.Balasubramanian, Retired CMD, FACT, Bangalore (w.e.f. 20-12-2007);
- iv. Dr. Devi Singh, Director, IIM, Lucknow (w.e.f. 7-1-2008).

The Ministry of Power, Govt. of India, withdrew the services of Shri Rajesh Verma, Joint Secretary & Financial Adviser, Ministry of Power, from the Board of REC as Government Nominee Director w.e.f. 9-1-2008.



REC Board Meeting in Progress

Shri A.K. Lakhina relinquished the charge of the post of Chairman and Managing Director of REC, on superannuation, w.e.f. 29-2-2008. In terms of the Articles of Association of REC, the Ministry of Power, Govt. of India, appointed Shri P. Uma Shankar as Chairman and Managing Director of REC w.e.f. 1-3-2008.

The Board of Directors of REC currently comprises of eight directors, i.e. three full-time functional directors including Chairman and Managing Director, one part-time Government Nominee Director and four part-time non-official / independent directors.

30. JOINT VENTURE OF REC WITH IDFC

On 25th February 2008, Board of Directors of REC has accorded in principle approval to set up a Joint Venture Company along with Infrastructure Development and Finance Corporation Limited on a 50:50 equity participation basis in order to enter into the area of power distribution and consultancy.

31. SUBSIDIARY COMPANIES

The provisions in the Electricity Act, 2003 provide new opportunities and challenges in the field of

Transmission & Distribution and promotion of competition in the electricity industry is one of the key components. Ministry of Power, GOI notified "tariff based competitive bidding guidelines for transmission service" on 13.04.2006, enabling the framework for private sector investment in transmission sector. The main objectives of the guidelines are promoting competitive procurement of transmission services, and encouraging private investment in transmission lines.

To identify projects for development under this scheme, an empowered committee under the chairmanship of Member, CERC was constituted. This committee identified 14 Projects for development through tariff based competitive bidding, for construction through the private sector participation, on Build Own and Operate (BOO) basis. Out of these 14 Transmission systems, two projects viz (i) Evacuation system for North Karanpura and (ii) Talcher Augmentation system, were allocated to REC for selection of the developer through competitive bidding. To avail the benefits of these new opportunities and meet the challenges in power sector, REC has set up the following subsidiary Companies :-

31.1 REC Transmission Projects Company Ltd. (REC TPCL)

REC TPCL was incorporated on January 8, 2007 as a Public Limited Company. It received its Commencement of Business Certificate on February 5, 2007. The main object of REC TPCL is to promote, organize and carry on the business of consultancy services and/ or Project implementation in any field of activity relating to transmission & distribution of electricity in India or abroad.

REC TPCL has already taken up the task of selection of developer for the two transmission projects entrusted to REC. Technical consultants and Bid Process Consultants to assist REC TPCL in the process have already been appointed. Subsequently, under REC Transmission Projects Company Limited, two project specific SPVs namely (i) North Karanpura Transmission Company Limited (NKTCL), and (ii) Talcher II Transmission Company Limited (TTCL) have also been formed subsequently. These SPVs would be merged with the Transmission Service provider (TSP) of the Transmission system after the developer is granted a license by the CERC.

31.1.1 Financial Performance during 2007-2008:

Since REC TPCL and its two subsidiaries namely NKTCL and TTCL have not yet started its commercial operations, profit & loss account for these Companies were not prepared for the first financial year ended 31st March, 2008. In place there of Statement of Incidental Expenditure during Construction Period were prepared.

The total expenditure as per the Statement of Incidental Expenditure of these Companies for the period ended 31-03-2008 are as under :-

S. No.	Name of the Company	Total Incidental Expenditure during Construction for the period ended 31-03-2008 (Figures in Rupees)	Remark
1	REC Transmission Projects Company Ltd. (REC TPCL)		A total expenditure of Rs. 20,24,909 incurred by REC TPCL have been allocated to its two Subsidiaries NKTCL and TTCL in equal proportion.
2	North Karanpura Transmission Company Limited (NKTCL)	10,37,030	Includes Rs. 10,12,455 allocated by REC TPCL
3	Talcher II Transmission Company Limited (TTCL)	10,23,786	Includes Rs. 10,12,454 allocated by REC TPCL
Total		20,60,816	

31.2 REC Power Distribution Company Limited. (RECPDCL)

RECPDCL was incorporated on July 12, 2007 as a Wholly Owned Subsidiary Company of REC Ltd. It received certificate of commencement of business on July 31st, 2007. The main objectives of Company, as set out in the Memorandum of Association, are as follows:

- 1) To promote, develop, construct, own, operate, distribute and maintain 66 KV and below voltage class Electrification/Distribution Electric supply lines/ distribution system.
- 2) To promote, develop, construct, own and manage Decentralized Distributed Generation (DDG) and associated distribution system.
- 3) Consultancy/execution of works in the above areas for other agencies/Govt. bodies in India and abroad.

31.2.1 Business during 2007-08

RECPDCL has signed agreements with the following State power utilities:-

- 1) The Company has signed an agreement with Jodhpur Vidyut Vitran Nigam Limited (JdVVNL) on 1.10.2007 for third party quality monitoring, supervision and inspection of the village electrification work awarded on turnkey basis by JdVVNL under Rajiv Gandhi Grameen Vidhyutikaran Yojana (RGGVY) covering 4399 nos. villages in 7 districts having project cost of Rs. 84.88 crore. RECPDCL would get a Consultancy fee of 2% of the project cost from JdVVNL.

- 2) The Company has signed an agreement with Punjab State Electricity Board (PSEB) on 10.12.2007 for consultancy services for selection of developer through International Competitive Bidding Process for supply of 1800 MW \pm 10% power to PSEB on tariff based bidding under Case-I of MOP Guidelines. RECPDCL would get a Consultancy fee of Rs. 12.5 Crore from PSEB.
- 3) The Company has signed an agreement with Ajmer Vidyut Vitran Nigam Limited (AVVNL) on 4.3.2008 for third party quality monitoring, supervision and inspection of party quality monitoring, supervision and inspection of the village electrification work awarded on turnkey basis by AVVNL under Rajiv Gandhi Grameen Vidhyutikaran Yojana (RGGVY) covering 4693 villages in 5 districts having project cost of Rs. 127.63 crore and Feeder Renovation Programme (FRP) works for 1783 feeders under execution and 651 completed feeders having project cost of Rs. 850.38 crore & Rs. 323.01 crore respectively. RECPDCL would get a Consultancy fee of 2% of the project cost for RGGVY & FRP (feeders under execution) works and 1% of the project cost for FRP (completed feeders) works from AVVNL.

31.2.2 Financial Performance during 2007-08

During the first accounting period ended 31st March, 2008, RECPDCL has been able to generate an Income of Rs.3.59 crore and Profit before Tax & after Tax is Rs. 2.70 crore & Rs.1.78 crore respectively.

32. RIGHT TO INFORMATION ACT 2005

Necessary action has been taken by the Corporation towards implementation of Right To Information (RTI) Act 2005 in REC. An independent RTI Cell has been created to ensure compliance of the provisions of the RTI Act and attending to the requests for information. REC website has been updated and contains information on all the 17 items as required under Clause 4.1(b) of RTI Act, 2005.

32.1 RTI Machinery in REC

CORPORATE OFFICE:

- (A) Departmental Appellate Authority
Shri Rama Raman,
Executive Director (T&D)
- (B) Public Information Officer
Shri B.R.Raghunandan,
General Manager (Law) & Company Secretary
- (C) Asstt. Public Information Officer
Shri A.K. Arora,
Chief Manager(RTI/P&C)

33. STATUTORY AUDITORS

M/s G.S. Mathur & Co., Chartered Accountants were appointed by the Comptroller and Auditor General of India as Statutory Auditors of the Company for the financial year 2007-08, for the Third year in succession. The Statutory Auditors have audited the Accounts of the Company for the year ended 31st March, 2008. Accordingly, following documents are annexed to this Report :-

- a) Audited Accounts of the Company and Cash Flow Statement for the year ended 31st March 2008;
- b) Annexure to be enclosed with the audited Balance Sheet for NBFC Companies as prescribed by RBI;
- c) Audited consolidated Financial Statements of the Company for the year ended 31st March 2008;
- d) Auditors' Report on the Audited Accounts of the Company for the year ended 31st March 2008;
- e) Non-Banking Financial Companies Auditors' Report, as prescribed by RBI.
- f) Auditors' Report on the Consolidated Financial Statements of the Company and its Subsidiaries.

34. COMMENTS OF CA&G OF INDIA

The Comptroller and Auditor General of India has reported that on the basis of audit, nothing significant has come to their knowledge which would give rise to any comment upon or supplement to Statutory Auditors' Report under Section 619(4) of the Companies Act, 1956.

35. FINANCIAL STATEMENTS / DOCUMENTS UNDER SECTION 212 OF THE COMPANIES ACT, 1956.

The financial statements and other documents in respect of above Subsidiary Companies are included as a part of the Annual Report in pursuance of Section 212 of the Companies Act, 1956.

36. ACKNOWLEDGEMENTS

The Directors are grateful to the Government of India particularly the Ministries of Power & Finance, the Planning Commission and the Reserve Bank of India for their continued co-operation, support and guidance in effective management of Company's affairs and resources.

The Directors thank the State Governments, State Electricity Boards, State Power Utilities and other Borrowers for their continued interest and trust in the Company.

The Directors also extend their special thanks to the Ministries of Power & Finance including the Department of Disinvestment, Securities and Exchange Board of India and Reserve Bank of India for their timely intervention and support in successful completion of Initial Public Offering of shares by the Company.

The Directors take this opportunity to express their sincere gratitude to all the esteemed Investors for the trust and faith reposed by them in the Company and making its Initial Public Offering of shares a grand success and facilitating oversubscription of IPO by almost 27 times, when the capital market was very volatile.

The Directors also place on record their sincere appreciation for the continued support and goodwill of the esteemed Investors in REC Bonds, Banks, Life Insurance Corporation, KfW of Germany and JBIC of Japan in the fund raising programmes of the Company.

The Directors also thank the Statutory Auditors M/s G.S. Mathur & Co. and the Comptroller & Auditor General of India for their valued cooperation.

The Directors also sincerely appreciate and thank the employees of the Company at all levels for their valuable contribution and dedicated efforts in steering the Company successfully to break the previous records of excellent performance and move forward to climb greater heights and enabling conferment of Navratna Status on the Company by the Government of India.

For and on behalf of the Board of Directors



New Delhi
28th July, 2008

(P. Uma Shankar)
Chairman & Managing Director

MANAGEMENT DISCUSSION AND ANALYSIS REPORT

(Pursuant to Clause 49.IV(F) of the Model Listing Agreement with Stock Exchanges)

1. INDUSTRY STRUCTURE AND DEVELOPMENTS

In the recent years, there has been a higher growth in electricity generation capacity in the country, when compared to earlier years. In fiscal 2008, the electricity generation grew by 6.33%. However energy shortages remain, which have consistently widened over the years, due to higher growth in demand. According to a report of Central Electricity Authority (CEA), the peak shortage during fiscal 2008 was 16.6% whereas the energy deficit stood at 9.8%. Both the figures were highest since five years.

As at the end of 10th Five Year Plan i.e. end of fiscal 2007, the total installed generation capacity stood at 132330 MW. The target for generation capacity addition during the 11th plan has been finalized at 78577 MW.

The three key components of the power industry include: Generation, Transmission and Distribution.

Generation

A total of 9263 MW of installed generation capacity was commissioned during the fiscal 2008 with aggregate installed capacity at 143061 MW as of March 31, 2008, which was the first year of the 11th Five Year plan.

(MW)

Sector	Installed Capacity at the end of 10th Plan(2007)	Capacity Addition Target (2012)	Installed Capacity as on 31.03.2008
State	70096	27952	74615.0
Central	45121	39865	19835.0
Private	17113	10760	48611.0
Total	132330	78577	143061

*Source CEA report

The electricity supply industry in India is also characterized by a large amount of captive generation, which has been established by energy intensive industries such as steel and aluminium. Under the Electricity Act, captive generators are able to sell excess power to consumers.

According to the Report of the Working Group on Power for Eleventh Plan, the total fund requirement for generation projects, during the Eleventh Plan

period is estimated at Rs.4,108,960 million, with Rs. 2,020,670 million being required for the central sector, Rs.1,237,920 million being required for the state sector and Rs. 850,370 million being required for the private sector. The total fund requirement includes the fund requirement estimated at Rs. 1,891,950 million for start-up generation projects benefiting in the Twelfth Plan.

Transmission

The transmission of electricity is typically defined as the bulk transfer of power over a long distance at a relative high voltage. In India, the transmission and distribution system is a 3-tier structure comprising distribution networks, state grids, and regional grids. These distribution networks and state grids are principally owned and operated by SEBs or other state utilities, or state governments (through state electricity departments). At present there are five regional grids operating in India, in the Northern, Eastern, Western, Southern and North eastern regions. Regional or interstate grids facilitate the transfer of power from a region with a surplus to one with a deficit.

In 1991 the Government of India began to encourage private sector participation in the power industry. The Electricity Act allows for increased private involvement in power sector development with the result that the industry has been moving from a single-buyer market to a multi-buyer and multi seller system. The aim is to give the private sector access to the state electricity board transmission grids thereby allowing private power producers to sell directly to large industrial consumers.

In Fiscal 2007, the GoI launched a scheme under the Electricity Act to invite private sector investments in major transmission projects pursuant to which private developers are proposed to become transmission service providers on a "build, own and operate" basis. The GoI has identified 14 transmission-related projects to be implemented on a build, own and operate basis.

In order to optimize the utilization of generation capacity across various regions, the GoI in 1981 approved a plan to establish a national grid. According to data from the Ministry of Power, GoI's transmission perspective plans focus on the creation of a national grid in a phased manner by adding over 60,000 km of transmission network by 2012. It is intended that integrated grid will evacuate an additional 100,000 MW by the year 2012 and carry 60% of the power generated in the country. The existing inter-regional power transfer capacity of 9,000 MW is to be further enhanced to 30,000 MW by Fiscal 2012 through

creation of “Transmission Super Highways”. In order to enable the exchange of power and to encourage competition in power market, there is need to accelerate implementation of national power grid programme.

According to the Report of the Working Group on Power for Eleventh Plan, the total fund requirement for transmission system development and related schemes during the Eleventh Plan period is estimated at Rs. 1,400,000 million, with Rs.750,000 million being required for the central sector and Rs. 650,000 million being required for the state sector.

Distribution

Technically efficient and financially viable distribution segment is a key constituent of the entire power sector reform process. Therefore distribution reforms have been identified as a key focus area in the power sector reform process by the GoI. The reforms in this segment are limited by the poor financial health of the SEBs and State Public Utilities and their resultant inability to upgrade the distribution network.

According to the Report of the Working Group on Power for Eleventh Plan, the total fund requirement for sub transmission and distribution system development for urban and rural areas, during the eleventh Plan period is estimated at Rs. 2,870,000 million inclusive of Accelerated Power Development Reforms Programme (APDRP) and Rajiv Gandhi Gramin Vidyutikaran Yojana (RGGVY) schemes

Progressive Policies

In recent years, the Government of India (GoI) has taken significant action to restructure the power sector and attract investments. The most significant reform package has been the introduction of the Electricity Act, 2003 which has modified the legal framework governing the electricity sector and has been designed to alleviate many of the problems facing India’s power sector and to attract capital for large scale power projects.

The National Electricity Policy, notified in February 2005, includes among others, the following key features (i) Access to Electricity for all households in the next five years; (ii) Energy and peaking shortages to be overcome and power demand to be fully met by 2012 (iii) Supply of reliable and quality power of specified standards in an efficient manner and at reasonable rates (iv) Minimum lifeline consumption of 1 unit / household / day as a merit good by year 2012 (v) Financial turnaround and commercial viability of the electricity sector; and (vi) Protection of consumer interests.

The National Tariff Policy notified in the first week of January 2006, aims to ensure financial viability of the power sector, attract investments, ensure availability of electricity to consumers at reasonable rates, and promotes transparency and consistency in regulatory

approach for tariff setting. An Appellate Tribunal for electricity has also been started in July 2005.

Distribution Reforms were identified as the key area to bring about the efficiency and improve financial health of the power sector. Among other various initiatives, the GoI approved a scheme called “Accelerated Power Development and Reforms Programme (APDRP)” in March 2003 to accelerate distribution sector reforms, primarily with the objective of reducing Aggregate Technical & Commercial (AT&C) losses and bring about commercial viability in the power sector. The task force for 11th Plan has recommended continuation of the programme during the 11th Plan with certain modifications.

The Rural Electrification Policy, notified on 23rd August 2006, is aimed at improving access and quality of electricity supply in rural areas. The basic aim of the Rural Electrification Policy is to ensure rapid economic development by providing electricity as an input for productive uses in agriculture, rural industries etc. Electrification of rural communities also serve social purposes by supplying electricity for lighting of rural homes and hearths, shops, community centres, public places etc. in all villages. It improves the quality of life of the rural people.

The Rajiv Gandhi Grameen Vidyutikaran Yojana (RGGVY) was launched by the Government of India in April 2005 to attain the National Common Minimum Programme (NCMP) objective of providing access to electricity to all households in five years. Under RGGVY, electricity distribution infrastructure is envisaged to establish (i) Rural Electricity Distribution Backbone (REDB) with at least a 33/11 KV sub-station; (ii) Village Electrification Infrastructure (VEI) with at least one Distribution transformer in a village or hamlet; and (iii) Stand alone grids with generation where grid supply is not feasible. Subsidy towards capital expenditure to the tune of 90% is canalised through REC, which is a nodal agency for implementation of the scheme. Electrification of un-electrified Below Poverty Line (BPL) households is financed with 100% capital subsidy @ Rs. 1500/- per connection in all rural habitations. The Management of Rural Distribution is undertaken through franchisees.

Under RGGVY the target was to electrify an estimated about 1.25 lakh un-electrified villages and about 2.34 crore BPL households by 2009 and to provide access to electricity to all rural households. The original estimated outlay of RGGVY was Rs. 16,000 crore. Approval was accorded for Rs. 5,000 crore for the last 2 years of the tenth plan i.e. 2005-06 & 2006-07. Subsequently, an amount of Rs 28000 Crore has been approved for continuation in the 11th plan upto 2009.

Under the RGGVY scheme, 551 projects in 539 districts of 27 states covering 461112 villages including 114670 un-electrified villages have been sanctioned.

These villages together have coverage of 241.1 lakh BPL households.

Since the launch of the RGGVY scheme in 2005, electrification in a total of 88664 villages has been achieved, of which 47826 were un-electrified villages. Accordingly, connections to 27.71 lakh rural households have been released of which BPL households account for 22.93 lakh connections, since the inception of the scheme. In terms of achievement during 2007-08, a total of 38262 villages, including 9301 un-electrified villages, have been electrified. These constitute about 20.41 lakh rural households including 16.21 lakh BPL households.

2. OPPORTUNITIES

Eleventh Plan of GoI envisages a capital expenditure of more than Rs.10,00,000 crore in power sector to ensure "Power for All". The Common Minimum Program of the GoI focuses on 100% village electrification by 2009 and 100% household electrification by 2012. These programs open up tremendous business opportunities for financing by REC.

REC, being a nodal agency for implementation of "Rajiv Gandhi Grameen Vidyutikaran Yojana" (RGGVY), is shouldering the socio-economic responsibility of ensuring accessibility of electricity to Rural India.

To expand its activities, the Company is constantly exploring new areas for financing apart from the traditional sectors. Business Development Division has prepared a perspective five year Business Development Plan to tap future business opportunities. Steps have also been taken for mobilizing resources from foreign lending agencies such as JBIC, KfW, ADB and others.

3. PRODUCT-WISE PERFORMANCE

REC, 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 projects. 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 Company has sanctioned loan assistance of Rs. 46770 crore excluding grants under RGGVY and disbursed Rs.16304 crore including grants under RGGVY in line with the mandate given by the Govt. enlarging the areas of operation of REC to cover financing of all projects in power sector. The major component of the sanctions of REC were for generation schemes which was Rs.27275 crore. In addition, an amount of Rs.15553 crore was sanctioned under RGGVY, Rs.15033 crore under Transmission & Distribution (T&D) scheme and Rs.2,685 crore under Short Term Loan. The disbursement includes Rs.4308 crore under Generation, Rs.3751 crore under RGGVY (including subsidy), Rs.6662 crore under T&D schemes and Rs.1582 crore for Short Term Loan.

4. THREATS, RISKS AND CONCERNS

The continued weak financial health of the SEBs in spite of their reforms is a matter of concern though SEBs are

increasingly becoming competent to borrow prudently and make all due payments.

5. OUTLOOK

On a per capita basis, energy consumption in India is relatively low in comparison to much of the rest of the world, including other developing nations. According to data from MoP, in the very long term, the primary energy supply would need to increase by 3 to 4 times and electricity generation capacity by 6 times, through the next 25 years in order for India to maintain a sustained growth of 8% to 9% per annum. Therefore substantial increases in generation capacity would continue to be required, along with improved transmission and distribution systems, all of which will require significant investment. Therefore the outlook remains quite robust for the sector.

6. INTERNAL CONTROL SYSTEM AND THEIR ADEQUACY

The Company has formulated various policies and procedures, as part of its Internal Control System, for orderly and efficient conduct of its business, including adherence to management's policies, safeguarding of assets, prevention and detection of fraud and error, accuracy and completeness of the accounting records, and the timely preparation of reliable financial information.

The Company has a separate Internal Audit Division which verifies compliance to the policies and procedures framed by the management. The Internal Audit Division covers all areas of operations of REC as per the Annual Internal Audit Programme. The Division helps in improving accuracy and efficiency of transactions and operations by undertaking scrutiny of payments and expenditure, detection & prevention of frauds and examination of financial and technical records of the Company.

The audit of various Zonal Offices / Project Offices / CIRE located in different parts of the country and various divisions of the Company at the Corporate Office are also carried out on bi-annual, annual and biennial basis during the year.

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. Periodical reviews are also carried out to ensure follow up on the audit observations.

7. DISCUSSION ON FINANCIAL PERFORMANCE WITH RESPECT TO OPERATIONAL PERFORMANCE

The loan sanctioned during the year 2007-08 was Rs. 46770 crore as compared to Rs. 28630 crore during the year 2006-07 excluding grants under RGGVY. The disbursement during the year also increased to Rs.16304 crore as compared to Rs.13733 crore during the year 2006-07 including grants under RGGVY. The recovery rate during the year 2007-08 was 98.42%.

During the financial year, the Company registered an increase of Rs.726 crore in operational income which went up to Rs.3378 crore in 2007-08 from Rs.2652 crore during the year 2006-07. Profit before tax was at Rs.1312 crore in 2007-08 in comparison to Rs.1006 crores in 2006-07. Net profit of the company in 2007-08 is Rs.860 crore, an increase of Rs.200 crore over the previous year. Net worth of the Company as on 31st March, 2008 is Rs.5368 crore.

8. MATERIAL DEVELOPMENTS IN HUMAN RESOURCE/INDUSTRIAL RELATIONS FRONT, INCLUDING NUMBER OF PEOPLE EMPLOYED.

There has been significant growth in the business of the organisation and at the same time the challenges for increase in productivity and profitability has also grown manifold. In order to meet the challenges and achievement of business objectives a great deal of emphasis has been laid on acquisition retention and development of quality human resources. In order to strengthen the professional manpower of the Company, induction of professionally qualified personnel across the hierarchy continued during the year 2007-08 when 28 executives were appointed at various levels through open advertisement and 5 through campus recruitment.

Training and HRD for development of the skills and managerial capacity of employees continued to receive priority during the year when the Company sponsored 573 employees to various training programmes, workshops etc. within the country and abroad. With a view to expose the executives to global practices of governance and functioning, several officers were also sent abroad to attend various programmes with a view to expose the executives to global practices of governance and functioning.

The staff welfare too received due importance and several steps were undertaken for the benefits of the employees such as empanelment of more hospitals like Apollo, Fortis and Max group of hospitals located at Delhi, NCR and other States of the country. Reimbursement of expenses related to treatment obtained in private hospitals were revised from those of AIIMS, New Delhi to that of Sir Ganga Ram Hospital, New Delhi.

The industrial relations scenario in the organisation was cordial and an atmosphere of cooperation and mutual understanding prevailed.

9. CORPORATE SOCIAL RESPONSIBILITY (CSR) POLICY

At the 337th Meeting of Board of Directors held on 26th May, 2008 a policy on Corporate Social Responsibility has been approved. The brief details of the policy are given below:-

Policy

REC's Corporate Social Responsibility Policy is:-

"To remain a responsible corporate entity mindful of its social responsibilities to all stakeholders including

consumers, share holders, employees, local community and society at large".

Aims and Objectives

As a responsible corporate entity, Rural Electrification Corporation will consistently strive for opportunities to meet the expectation of its stake holders by pursuing the concept of sustainable development with focus on the following :-

- 1) To facilitate demonstration of commercially viable rural electricity delivery models with appropriate intervention and support on a selective basis such that they can be replicated elsewhere.
- 2) Promotion of rural enterprises and livelihood including skill development and training.
- 3) Providing development support to common facility centers /production centers in rural areas.
- 4) Promotion and development of rural technologies for micro enterprises promotion.
- 5) Making sustained efforts for environmental preservation.
- 6) Promotion of sports and games.
- 7) Promotion of the development and well being of employees and their families.
- 8) Undertaking relevant community development programmes.
- 9) Supporting initiatives of vocational, technical and higher education to the most disadvantaged and marginalized section of the society.
- 10) To be a part of national/local initiatives to provide relief/ rehabilitation in times of natural Disaster/calamities.

Mandatory Corporate Social Responsibility Activities

- (i) To offer employment opportunity to members of, Scheduled Caste, Scheduled Tribes, other Backward Classes, in conformity with various guidelines from Government of India as may be applicable from time to time.
- (ii) To offer employment opportunity to persons who are physically challenged persons (suffering from various disabilities such as visual, orthopedic disability etc.) in compliance to various mandatory guidelines issued by Government of India as applicable from time to time.
- (iii) To offer necessary social security benefits to the employees of the Corporation in the form of benefits under Contributory Provident Fund Scheme ,payment of gratuity etc. as may be applicable from time to time under various statutory provisions or otherwise under companies policy.
- (iv) To offer necessary facilities to the employees and their dependent family members in the area of health and medical facilities including prevention of various diseases, disabilities etc. as may be outlined in various policies of the company or statutory provisions under various laws.
- (v) To provide necessary measures of social security to women employees of the Corporation in terms of allowing maternity benefits as applicable under various statutory provisions or as may be decided by the Company from time to time.

REPORT ON CORPORATE GOVERNANCE

BACKGROUND

At the top of governance hierarchy, in the case of a business enterprise, is the Board of Directors. Boards of companies need not be uniform with respect to their composition, thinking styles and functioning methodologies. Their strength, in fact, lies in their diversity. Rigidities in thinking styles and composition are likely to reduce the Boards to mere ornamental organs. Such Boards fail to meet the multifaceted demands made on them by the emerging business –economic environment. As business enterprises extend their horizons to international sphere, it becomes imperative for them to attune their governing organs to the expectations of their international counterparts as well. Liberalization and Globalization initiatives have made it essential for Indian corporate to make appropriate changes in their Boards as well as their governance practices.

Globalization of the marketplace has ushered in an era wherein the quality of corporate governance has become a crucial determinant of survival of corporates. The compatibility of corporate governance practices with global standards has also become an important constituent of corporate success. The practice of good corporate governance has therefore become a necessary pre-requisite for any Company to manage effectively in the globalized market.

OBJECTIVES OF CORPORATE GOVERNANCE

Good governance is integral to the very existence of a company. It inspires and strengthens investors' confidence by ensuring company's commitment to higher growth and profits. It seeks to achieve following objectives:

- (i) A properly structured Board capable of taking independent and objective decisions is in place at the helm of affairs;
- (ii) The Board is balanced as regards the representation of adequate number of non - executive and independent directors who will take care of the interests and well-being of all the stakeholders;
- (iii) The Board adopts transparent procedures and practices and arrives at decisions on the strength of adequate information;
- (iv) The Board has an effective machinery to subserve the concerns of stakeholders;
- (v) The Board keeps the shareholders informed of relevant developments impacting the company;
- (vi) The Board effectively and regularly monitors the functioning of the management team; and
- (vii) The Board remains in effective control of the affairs of the company at all times.

The overall endeavour of the Board should be to take the organization forward, to maximize long-term value and shareholders' wealth.

APPLICABILITY OF THE CODE OF CORPORATE GOVERNANCE TO REC

REC is a listed Company both by virtue of its debt securities and equity shares. Till previous year the Code of Corporate Governance was not mandatory as only debt securities were listed as per the Model Listing Agreement. However, the Board of REC had endeavored to comply with the requirements of the Code in a phased manner.

REC is thus committed to implement and maintain high standards of Corporate Governance norms and has been practicing the principles of good Corporate Governance even when they were not mandatory.

However with the subsequent Listing of Equity Shares of REC pursuant to the recently concluded Initial Public Offer, the Code has become mandatory for REC. Further, the Guidelines on Corporate Governance for CPSEs as notified by the Department of Public Enterprises, Govt. of India, also makes it mandatory.

The Company is committed to sound corporate practices based on conscience, openness, fairness, professionalism and accountability paving the way in building confidence among various stake holders for achieving sustainable long term growth and profitability.

A report in line with the requirement of the Listing Agreement is given below and the Auditors Certificate on compliance to the provisions of Corporate Governance is also enclosed separately:-

1. COMPANY'S PHILOSOPHY ON CODE OF CORPORATE 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 also committed to facilitate availability of electricity for accelerated growth and for enrichment of quality of life of rural and urban population.

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.

2. BOARD OF DIRECTORS

(A) Composition of Board:

The Board of Directors of REC comprises of 8 (eight) Members out of which 3 (three) are Functional Directors including the Chairman and Managing Director and

there are five Non Executive Directors out of which one is the nominee of the Government of India.

In accordance with the stipulations of Clause 49 of the Listing Agreement, half of the Board members are independent Directors. The composition of Board of Directors as on the date of the report is as follows:

Executive Directors

Shri P. Uma Shankar - Chairman and Managing Director,
 Shri H.D. Khunteta - Director (Finance),
 Shri Bal Mukand - Director (Technical),

Non-Executive Directors

Shri Devender Singh - Director (Government Nominee)
 Dr. M. Govinda Rao - Independent Director
 Shri P.R Balasubramanian - Independent Director
 Shri Venugopal N. Dhoot - Independent Director
 Dr. Devi Singh - Independent Director

(B) Non Executive Directors compensation and disclosures

Board at its 328th Meeting held on 18th January, 2008 decided to pay following as sitting fees to non-Executive/ Independent Directors:-

Rs. 12,000 for Board Meetings.

Rs. 10,000 for Committees Meetings.

(C) Other provisions as to Board and Committees

i) Details of Board Meetings held during the Financial Year 2007-08

During the Financial Year 2007-08, 23 Board Meetings were held (including adjourned meetings) and the details

of Dates of Meetings, Boards strength and number of Directors present at each meeting are given below:-

Date of Meeting	Board Strength	No. of Directors Present
17th April 2007	5	5
7th May 2007 (Emergency Board Meeting)	5	4
30th May 2007	5	4
13th June 2007	5	4
10th July 2007	5	3
31st July 2007	5	5
6th August 2007	5	5
13th August 2007	5	5
22nd August 2007	5	5
7th September 2007	5	4
10th September 2007 (Adjourned Meeting)	5	5
25th October 2007	5	4
30th October 2007	5	4
13th November 2007	5	4
14th December 2007	5	5
18th January 2008	8	8
25th January 2008	8	7
27th January 2008 (Emergency Meeting)	8	6
1st February 2008	8	6
25th February 2008	8	6
28th February 2008	8	5
5th March 2008	8	5
31st March 2008	8	7

Detailed Agenda Notes with information as enumerated in the Listing Agreement were circulated in advance to the Board. The maximum intervals between two Meetings during this period was less than four months.

ii) Details of Designation, Category of Directors, Number of Board Meetings attended, attendance at last AGM, number of other Directorships (in Public Limited Companies) /Committee Memberships (viz Audit Committee and Shareholders Grievance Committee) other than REC, held by them during the year 2007-08 are tabled below:-

Sl. No.	Directors (Category)	Board Meetings (including adjourned Meetings)		Attendance at Last AGM (held on 27-09-07)	No. of other Directorships as on 31/3/2008	No. of other Committee Memberships as on 31/3/2008	
		Held during the tenure	Attended			As Chairman	As Member
1.	Shri A.K. Lakhina (CMD) (See Note-1)	21	21	Yes	N.A	N.A	N.A
2	Shri P. Uma Shankar (CMD) (See Note-2)	2	2	NA	2	Nil	Nil
3.	Shri H.D. Khunteta Director (Finance)	23	22	Yes	Nil	Nil	Nil
4.	Shri Bal Mukand Director (Technical)	23	21	Yes	Nil	Nil	Nil
5.	Shri M. Sahoo (See Note-3)	5	1	N.A	N.A	N.A	N.A
6.	Shri Jayant Kawale (See Note-4)	9	9	N.A	N.A	N.A	N.A
7.	Shri Rajesh Verma {Govt. Director} (see Note-5)	10	9	Yes	N.A	N.A	N.A

8.	Shri Devender Singh {Govt. Director} (see Note-6)	14	12	Yes	Nil	Nil	Nil
9.	Shri Venugopal N. Dhoot {Independent Director} (See Note-7)	8	1	N.A	10	1	Nil
10.	Dr. M. Govinda Rao {Independent Director} (See Note-8)	8	3	N.A	Nil	Nil	Nil
11.	Shri P.R. Balasubramanian {Independent Director} (See Note-9)	8	8	N.A	Nil	Nil	Nil
12.	Dr. Devi Singh {Independent Director} (See Note-10)	8	7	N.A	2	1	Nil

Note-1: Shri A.K Lakhina relinquished the charge of the post of CMD on 29th February, 2008, on superannuation.

Note-2: Shri P. Uma Shankar was appointed as CMD w.e.f. 1st March, 2008 vide Office Order of the Ministry of Power (MOP) dated 29th February 2008.

Details of other Directorship of Shri P. Uma Shankar, CMD:

(i) REC Transmission Projects Company Limited –Chairman & Director.

(ii) REC Power Distribution Company Limited-Chairman & Director

Note-3: Shri M. Sahoo ceased to be Director on 18th July 2007 vide Office Order of MOP dated 18th July 2007.

Note-4: Shri Jayant Kawale ceased to be a Director on 29th August 2007 vide Office Order of MOP dated 29th August 2007.

Note-5: Shri Rajesh Verma was appointed as Director w.e.f. 18th July 2007 in place of Shri M. Sahoo vide Office Order of MoP dated 18th July 2007 and ceased to be a Director on 9th January 2008 vide Office Order of MOP dated 9th January 2008.

Note 6: Shri Devender Singh was appointed as Director w.e.f. 29th August 2007 in place of Shri Jayant Kawale vide Office Order of MOP dated 29th August 2007.

Note-7: Shri Venugopal N. Dhoot was appointed as an Independent Director w.e.f. 20th December 2007 vide Office Order of MOP dated 20th December 2007.

Details of Directorships/ Committee Memberships of Shri Venugopal N. Dhoot:

Directorships:

(i) Videcon Industries Limited; (ii) Trend Electronics Limited; (iii) Videcon Appliances Limited; (iv) Kitchen Appliances India Limited; (v) Uttaranchal Appliances Limited; (vi) Shree Dhoot Trading and Agencies Limited; (vii) Next Retail India Limited; (viii) Videcon Realty and Infrastructre Limited; (ix) Videcon International Electronics Limited; (x) Bharat Hotels Limited

Committee Membership:

(i) Kitchen Appliances India Ltd-Chairman-Audit Committee

Note-8: Dr. M. Govinda Rao was appointed as an Independent Director w.e.f. 20th December 2007 vide Office Order of MOP dated 20th December 2007.

Note-9: Shri P.R Balasubramanian was appointed as an Independent Director w.e.f. 20th December 2007 vide Office Order of MOP dated 20th December 2007.

Note-10:Dr. Devi Singh was appointed as an Independent Director vide w.e.f. 7th January 2008 vide Office Order of MOP dated 7th January 2008.

Directorship:

(i) Rites Limited; (ii) Sunbeam Auto Limited

Committee Membership:

(i) Rites Ltd-Chairman-Audit Committee

None of the Directors on the Board is a member of more than 10 Committees (as specified in Clause 49) across all the Companies in which they are Directors.

Information available to the Board:

The Board has complete access to all the relevant information within the Company. The information regularly supplied to the Board specifically includes:

- Annual operating plans, budgets and any updates therein.
- Capital budgets and any update therein.
- Quarterly results for the Company and its operating divisions or business segments.
- Minutes of meeting of Audit Committee and other Committees of the Board.
- Information on recruitment /remuneration of senior officers just below the Board level.
- Show cause, demand, prosecution notices and penalty notices, if any, which are materially important.
- Fatal or serious accidents, dangerous occurrences, any material effluent or pollution problems, if any.
- Any material default in financial obligations to and by the Company or substantial non-payment for services provided by the Company.
- Any issue which involves possible public or product liability claims of substantial nature, if any.
- Details of any joint venture or collaboration agreement.
- Transactions involving substantial payment towards goodwill, brand equity or intellectual property.
- Significant labour problems and their proposed solutions, if any. Any significant development in Human Resources Industrial Relations front like signing of wage agreement, implementation of voluntary retirement scheme etc, if any.
- Sale of material nature, of investments, subsidiaries,

assets which is not in the normal course of business.

- Quarterly details of foreign exchange exposure and the steps taken by management to limit the risks of adverse exchange rate movement, if material.
 - Non-compliance of any regulatory, statutory nature or listing requirements and shareholders service.
 - Other materially important information.
- (iii) Compliance with Applicable Laws:

The Board of Directors have in their Meeting held on 29th March, 2007 identified an indicative list of laws applicable to the Company and the Officers responsible for compliance with such applicable laws. The Board reviews compliance with the applicable laws based on quarterly report submitted to the Board and there have been no case of non-compliance as on 31-03-2008.

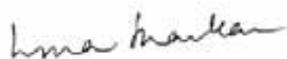
(D) Code of Conduct

In accordance with the provisions of the Code of Corporate Governance, a Code of Conduct for the Board Members and Senior Management was framed and approved by the Board of Directors of REC on 10th July 2007. The said Code of Conduct is prepared to ensure observance with highest standards of integrity, transparency and ethical behaviour in conduct of day to day affairs of the Company and enables it to publicly state to its shareholders, stakeholders and other outside parties, the way in which it intends to do business. The provisions of the Code are binding on the Board Members including the Functional Directors, Independent Directors and Government Directors and the Senior Management Personnel, thereby entrusting responsibility on them for due compliance with

the Code in the interest of the Corporation.

Based on the affirmation received from Board Members and Senior Management Personnel, declaration regarding compliance of Code of Conduct made by Chairman & Managing Director is given below:

All the members of the Board and Senior Management Personnel have affirmed compliance of respective Code of Conduct for the Financial Year ended on 31st March, 2008.



Shri P. Uma Shankar
Chairman & Managing Director

(E) Code for Prevention of Insider Trading

In terms of Securities and Exchange Board of India (Insider Trading) Regulations, 1992, the Company has formulated a comprehensive Code for Prevention of Insider Trading to preserve the confidentiality and to prevent misuse of un-published price sensitive information. Every Director, officer and designated employee of the Company has a duty to safeguard the confidentiality of all such Information obtained in the course of his or her work at the Company and not to misuse his or work at the Company and not to misuse his or her position or information regarding the Company to gain personal benefit or to provide benefit to any third party. The Code lays down guidelines and procedures to be followed and disclosures to be made while dealing with the shares of the Company and the consequences of non-compliance. The Company Secretary has been appointed as Compliance Officer and is responsible for adherence to 'Code for prevention of Insider Trading'. A Copy of the Code has been posted on the Company's website.

In line with the requirement of the said Code, trading window was closed from time to time, whenever some price sensitive information was submitted to the Board. Notice of closure of Trading Window was issued to all employees well in advance and proper announcements were also made, restraining all the employees not to deal in the shares of the Company when the window is closed.

3. AUDIT COMMITTEE

Composition and Terms of Reference

Prior to the appointment of Independent Directors on the Board of REC, the constitution of the Audit Committee was as under:-

Shri Devender Singh, Government Nominee Director, Chairman
Shri Rajesh Verma, Government Nominee Director, Member
Shri Bal Mukand, Director (Technical), Member

Consequent upon the appointment of Independent Directors on the Board, the Company reconstituted the Audit Committee in its 328th Board Meeting held on 18th January, 2008, to comply with the requirements of the Listing Agreement.

Accordingly the current composition of the Audit Committee is as under:

1. Dr. M. Govinda Rao- Independent Director, Chairman
2. Shri P.R. Balasubramanian - Independent Director, Member
3. Dr. Devi Singh-Independent Director, Member

The terms of reference of the Audit Committee are as under:

- a) to comply with the requirements in accordance with Section 292A of the Companies Act;
- b) to comply with the requirements relating to the Audit Committee as envisaged in Clause 2.18 of the Model Listing Agreement and Clause 49 of the Listing Agreement and also to comply with the guidelines of Corporate Governance of the Department of Public Enterprise (CPSEs), 2007 in a phased manner;
- c) to take on record and/or to review unaudited/audited quarterly/half-yearly/annual financial statements of the Company.

Meetings and Attendance

During the year 2007-08, five Audit Committee meetings were held on 30th May, 2007, 31st July, 2007, 7th September, 2007, 30th October, 2007, 31st March, 2008.

Meetings attended by individual members during the year 2007-08 are detailed below:-

Name	Designation	No. of meetings held during his tenure	Meetings attended
Shri M. Sahoo (ceased to be Director w.e.f. 18/07/07)	Director (Government Nominee)	1	1
Shri Jayant Kawale (ceased to be Director w.e.f. 29/08/07)	Director (Government Nominee)	2	1
Shri Bal Mukand (ceased to be Member w.e.f. 18/01/08)	Director (Technical)	4	4
Shri Rajesh Verma (ceased to be Director w.e.f. from 9/01/08)	Director (Government Nominee)	3	2
Shri Devender Singh (ceased to be Member w.e.f. 18/01/08)	Director (Government Nominee)	2	1
Dr. M. Govinda Rao	Independent Director	1	1
Shri P. R. Balasubramanian	Independent Director	1	1
Dr. Devi Singh	Independent Director	1	1

Director (Finance), Executive Director (Internal Audit) and the Statutory Auditors are standing invitees in the Audit Committee meetings, as prescribed under Section 292A of the Companies Act, 1956.

The then Chairman of the Audit Committee, Shri Devender Singh was present at the last AGM held on 27th September, 2007.

Remuneration Committee

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

However as required under the Corporate Governance Code, necessary disclosures with regard to remuneration of directors are made as follows:

Details of remuneration of Functional Directors of the Company during the financial year 2007-2008 are given below:

(Figure in Rs.)

Name	Salary & Allowances	Other Benefits	Bonus/ Commission	Performance linked Incentive *	Total
Shri A.K Lakhina (Ex CMD) (Superannuated on 29-02-08)	836102	642239	Nil	457244	1935585
Shri P. Uma Shankar (CMD) (Appointed on 01-03-08)	-	7544	Nil	-	7544
Shri H.D. Khunteta Director (Finance)	980384	383510	Nil	400536	1764430
Shri Bal Mukand Director (Technical)	1000308	608625	Nil	412896	2021829

*Performance Incentive is paid in accordance with the REC Performance Incentive Scheme.

Details of Payments towards sitting fees to Independent Directors during the Financial Year 2007-08 are given below:

(Figure in Rs.)

Name of Part-time non-official Directors	Sitting Fees		Total
	Board Meeting	Committee Meeting	
Shri P.R Balasubramanian	96000	10000	106000
Dr. Devi Singh	84000	10000	94000
Dr. M. Govinda Rao	36000	10000	46000
Shri Venugopal N. Dhoot	Nil	N.A.	Nil

Shri Devender Singh, Director being a Government nominee is not entitled to any remuneration and sitting fees by the Company.

Investors Grievance Committee

Constitution of Shareholders/Investors Grievances Committee

During the year 2007-08, Investors Grievance Committee was reconstituted on 18th January 2008 and renamed as "the Shareholders/Investors Grievance Committee" to specifically look into the redressal of shareholders and Investors complaints like transfer of shares, non receipt of Balance sheet, non receipt of declared dividend etc. The Committee is chaired by Shri Devender Singh, Non-Executive Director. The reconstituted Shareholders/Investors Grievance Committee comprises of the following members:

1. Shri Devender Singh - Chairman, [Government Nominee, Non-Executive Director]
2. Shri H.D Khunteta - Member, [Director (Finance), Executive Director]
3. Shri Bal Mukand - Member, [Director (Technical), Executive Director]

Investors' grievances are attended on regular basis by the Registrar & Share Transfer Agent (RTA) appointed by the Company. During the year 2007-08, one meeting of the Investors Grievance Committee was held on 21st January, 2008 to review the grievance procedure and status of pending investors' grievances.

Status of Investors' Complaints

Information of investor complaints pursuant to Clause 49 of the Listing agreement for the year ended 31st March, 2008 are as follows:-

Status of Shareholders Grievance/ Queries for the Period from 12.03.2008 (i.e. the date of Listing of Equity Shares in stock Exchange) to 31.03.2008 related to Equity Shares:

Pending at the beginning of the year	Not Applicable since shares listed on Stock Exchanges on 12.03.2008
Received for the period from 12.03.2008 to 31.03.2008	6697
Disposed off during the above period	6697
Lying unresolved as on 31.03.2008	Nil

Share Transfer Committee

Share Transfer Committee has been constituted to consider and approve requests received from shareholders for splitting/consolidation and transfer of physical shares, exceeding 500 equity shares per individual in each case.

The Share Transfer Committee comprises of

- Shri B.R Raghunandan - GM (Law) & CS
- Shri Ajeet Aggarwal - GM (Fin) Resources

Registrar and Share Transfer Agent has been authorised to consider and approve requests received from shareholders for splitting/consolidation and transfer of physical shares, upto 500 equity shares per individual in each case.

Sub-Committee for Borrowings other than Debentures

The Board of Directors have constituted a Sub-Committee for approving Borrowings other than Debentures. The Sub-Committee consists of CMD, Director (Finance) and Director (Technical). During the year seven Meetings of the Sub-Committee were held on 28th June 2007, 3rd September 2007, 24th September 2007, 18th October 2007, 20th November 2007, 11th December 2007 and 25th February 2008.

Sub-Committee for review of lending rates

The Board of Directors have constituted a Sub-Committee for reviewing the lending rates of both short term and long term loans. The Sub-Committee consists of CMD, Director (Finance) and Director (Technical). During the year four Meetings of the Sub-Committee were held on 19th April 2007, 24th September 2007, 11th December 2007 and 25th March 2008.

IPO Committee

The Board of Directors have constituted a IPO Committee during the year to take specific decisions related to Initial Public Offering of the Company. The IPO Committee consists of CMD, Director (Finance) and Director (Technical). During the year seven Meetings of the IPO-Committee were held on 21st June 2007, 8th August 2007, 13th August 2007, 17th January 2008, 23rd January 2008, 31st January 2008, 25th February 2008.

4. SUBSIDIARY COMPANIES

The Company does not have any "material non-listed Indian subsidiary" as defined in Clause 49 of the Listing Agreement. The Minutes of the Board Meetings of Unlisted Subsidiary Companies were placed before the Board of REC for information.

5. ANNUAL GENERAL MEETINGS

No.	Year	Location	Date & Time	Whether any Special Resolution passed
36 th	2004-05	Registered Office, Core-4, Scope Complex, 7, Lodhi Road, New Delhi-110003	22nd September 2005 3.00 P.M.	Yes
37 th	2005-06	Registered Office, Core-4, Scope Complex, 7, Lodhi Road, New Delhi-110003	22nd September 2006 4.00 P.M.	No
38 th	2006-07	Registered Office, Core-4, Scope Complex, 7, Lodhi Road, New Delhi-110003	27th September 2007 3:00P.M.	No

6. DISCLOSURES

- (i) There are no materially significant transactions with related parties i.e., promoters, directors or the management, conflicting with the Company's interest.
- (ii) There were also no instances of non-compliance on any matter related to the Capital Markets during the last three years. There were no penalties imposed or strictures passed against the Company by the statutory authorities in this regard.
- (iii) Whistle Blower Policy is not a mandatory requirement. Company is yet to frame a policy in this regard.
- (iv) The Company has adopted all suggested items to be included in the Report on Corporate Governance. Information on adoption /non adoption of the non mandatory requirement is given hereunder:

Non-Mandatory Requirements

1. The Board: The Company is headed by an Executive Chairman. All the Independent Directors on the Board of the Company were appointed for the first time in December 2007/ January 2008 and the question of the period exceeding, in aggregate, a period of nine years does not arise.
2. Remuneration Committee: The appointment of Directors and payment of their remuneration are decided by the President of India as per the Articles of Association of the Company. As such the Company has no Remuneration Committee.
3. Audit Qualification: There are no audit qualifications.
4. Training to Board Members: It is need based.
5. Mechanism for evaluating non-executive Board Members: No mechanism in place.
6. Whistle Blower Policy: Not yet framed by the Company.
- (v) All Members of Senior Management have made disclosures to the Board relating to all material financial and commercial transactions, where they have personal interest that may have a potential conflict with the interest of the Company at large (for eg. Dealing in company shares, commercial dealings with bodies, which have shareholding of management and their relatives etc).
- (vi) There is no inter se relationship between directors of the Company, as per declarations received.

7. MEANS OF COMMUNICATION

Quarterly/Half yearly Financial Results of the Company are communicated to the Stock Exchange and published in financial and national newspapers like The Economic Times, The Times of India, Hindustan Times, Navbharat Times (Hindi) etc. These results are also made available on Company's Website at www.recindia.nic.in

The Company also communicates with its institutional shareholders through investor conferences.

All important information pertaining to the Company is also mentioned in the Annual Report of the Company containing inter alia Audited Accounts, Directors Report, Auditors Report, Report on Corporate Governance which is circulated to the members and others entitled thereto for each financial year.

Management Discussion and Analysis Report is annexed to the Directors Report.

8. CEO/CFO CERTIFICATION

As required by the revised clause 49 of the Listing Agreement, the certificate duly signed by Shri P. Uma Shankar, Chairman and Managing Director and Shri H.D Khunteta Director (Finance) was placed before the Board of Directors at the meeting held on 26th May, 2008.

9. GENERAL SHAREHOLDER INFORMATION

(i) Annual General Meeting

Date	Time	Venue
24 th September, 2008	10.00 A.M.	Air Force Auditorium, Subroto Park, New Delhi

(ii) Financial Year: 2007-08

(iii) Date of Book Closure

The Register of Members and Share Transfer Books of the Company will remain closed from 10th September, 2008 to 24th September, 2008 inclusive of both days.

(iv) Record date for payment of Dividend

The record date for the Payment of Dividend for the Financial Year 2007-08 is 9th September, 2008.

(v) Listing on Stock Exchange

REC shares are listed on the following stock exchanges:

National Stock Exchange of India Limited

Scrip Code: RECLTD

Bombay Stock Exchange Limited

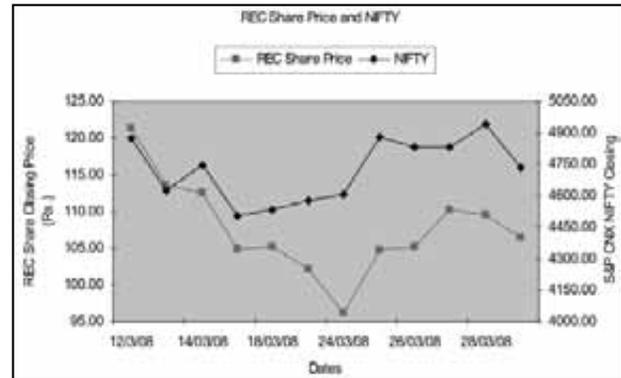
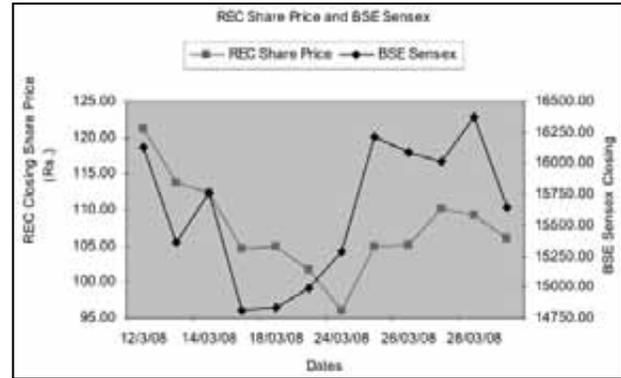
Scrip Code: 532955

(vi) Stock Code: INE020B01018

(vii) Market Price Data (Since shares were listed only on 12th March 2008, data for March 08 is furnished)

NSE		
Month	High (Rs.)	Low (Rs.)
March'08	129.90	92.65
BSE		
Month	High (Rs.)	Low (Rs.)
March'08	128.40	92.65

(viii) Performance in comparison to indices



(ix) Registrar and Transfer Agents

Karvy Computershare Private Limited
Plot 17 to 24, Vittalrao Nagar, Madhapur,
Hyderabad - 500081, India, Tel: 91 40 23420815-824
Fax: 91 40 23420814, E-mail: einward.ris@karvy.com,
Website: www.karvycomputershare.com

(x) Share Transfer System

The shares under physical segment are transferred through Karvy Computershare Private Limited. Karvy receives the shares to be transferred along with the transfer deed from transferee, verifies it, prepares the Memorandum of transfer etc. Request for transfer of shares upto 500 shares are approved directly by M/s Karvy Computershare Private Limited.

Pursuant to Clause 49 of the Listing Agreement, a Share Transfer and Investor Service Committee has also been constituted to consider and approve requests from shareholders for physical transfers exceeding 500 equity shares per individual in each case and for approving the request for splitting/consolidation of shares.

A qualified Practising Company Secretary carried out Secretarial Audit to reconcile the total admitted capital with National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL) and the total issued and listed capital. The secretarial audit report confirms that the total issued /paid-up capital is in agreement with the total number of shares in physical form and the total number of dematerialized shares held with NSDL and CDSL as on 31st March 2008.

(xi) Distribution of Shareholding

- **Distribution of shareholding as on 31st March, 2008**

Number of shares	Number of shareholders	% of shareholders	Total No. of shares	Amount	% of shares
1-5000	402090	99.21 %	35898492`	358984920	4.18 %
5001-10000	1260	0.31 %	982674	9826740	0.11 %
10001-20000	598	0.15 %	873830	8738300	0.10 %
20001-30000	250	0.06 %	623409	6234090	0.07 %
30001-40000	125	0.03 %	438451	4384510	0.05 %
40001-50000	163	0.04 %	747439	7474390	0.09 %
50001-100000	305	0.08 %	2241265	22412650	0.26 %
100001 & Above	482	0.12 %	816854440	8168544400	95.13 %
Total	405273	100%	858660000	858660000	100%

- **Shareholding pattern as on 31st March, 2008**

Category	Total no. of Shares	% to Equity
President of India *	702540000	81.82 %
Banks	3095502	0.36 %
HUF	2449394	0.29 %
Foreign Institutional Investor	63423515	7.39 %
Bodies Corporate	15359965	1.79 %
Non-Resident Indians	293227	0.03 %
Insurance Companies	4187931	0.49 %
Resident Individuals	42514500	4.95 %
Trusts	82318	0.01 %
Clearing Members	892721	0.10 %
Mutual Funds	2364565	2.75 %
Indian Financial Institutions	177362	0.02 %
TOTAL	858660000	100.00%

(*Including 700 shares held by 7 nominees of President of India)

(xii) Dematerialization of shares

Number of shares held in dematerialized and physical mode as on 31st March, 2008.

Category	No. of Holders	No. of shares	% of total capital issued
Physical	7	700	Negligible
NSDL	282059	843714035	98.26 %
CDSL	123207	14945265	1.74 %
Total	405273	858660000	100 %

(xiii) Outstanding GDRs/ADRs/Warrants or any convertible instruments, conversions date and likely impact on equity.

No GDRs/ADRs/Warrants or any Convertible instruments has been issued by the Company.

(xiv) Plant Locations: Not Applicable**(xv) Address for correspondence**

Rural Electrification Corporation Limited.
Core-4, SCOPE Complex, 7, Lodhi Road
New Delhi-110003, INDIA.

(xvi) Company Secretary

Shri B.R Raghunandan

Tel: 91 11 24367305 Fax: 91 11 24362039

E-mail: brraghu@recl.nic.in

Public Spokesperson

Shri Ajeet Agarwal, GM (Finance)

91 11 24365161/41757035

Auditors Certificate on Corporate Governance

To,
The Members
Rural Electrification Corporation Limited,

We have examined the compliance of conditions of Corporate Governance by Rural Electrification Corporation Limited, ("the Company") for the year ended 31st March, 2008 as stipulated in Clause 49 of the Listing Agreement of the said Company with the Stock Exchanges.

The compliance of conditions of Corporate Governance is the responsibility of the management. Our examination has been limited to review of the procedures and implementation thereof, adopted by the Company, for ensuring the compliance with the conditions of Corporate Governance. It is neither an audit nor an expansion of opinion of financial statements of the Company.

In our opinion and to the best of our information and according to the explanations given to us, we certify that the Company has complied with the conditions of Corporate Governance as stipulated in Clause 49 of the above - mentioned Listing Agreement.

As required by the Guidance Note issued by the Institute of Chartered Accountants of India, we have reviewed and found that no investor grievances were pending for a period exceeding one month as per the records maintained by the Company.

We further state that such compliance is neither an assurance as to the future viability of the Company nor the efficiency or effectiveness with which the management has conducted the affairs of the Company.

For G.S. Mathur & Co.
Chartered Accountants

K.K. Gangopadhyay
Partner
Membership No. 13442
27th June, 2008

BALANCE SHEET AS AT 31ST MARCH 2008

(Rs. in Lacs)

	Sch.No.	As at 31.03.2008	As at 31.03.2007
SOURCES OF FUNDS			
Shareholders' Funds:			
Capital	1	85,866.00	78,060.00
Reserves and Surplus	2	450,904.80	323,211.09
		536,770.80	401,271.09
Loan Funds:			
Secured Loans	3	2,942,195.13	2,653,397.19
Unsecured Loans	4	486,083.51	374,702.94
		3,428,278.64	3,028,100.13
Deferred Tax Liability	8	81,707.82	73,966.79
Total		4,046,757.26	3,503,338.01
APPLICATIONS OF FUNDS			
Fixed Assets:			
Gross Block	5	8,383.36	6,755.42
Less Depreciation		1,357.78	1,218.46
Net Block		7,025.58	5,536.96
Capital Work in Progress		764.49	826.01
Investments	6	114,739.70	119,453.88
Loans	7	3,931,651.18	3,209,910.10
Current Assets, Loans & Advances:			
Cash and Bank Balances	9	125,303.79	229,726.89
Other Current Assets		49,911.99	31,235.87
Loans and Advances		62,038.29	23,648.97
		237,254.07	284,611.73
Less: Current Liabilities & Provisions:			
Liabilities	10	148,656.92	71,446.93
Provisions		96,020.84	45,553.74
		244,677.76	117,000.67
Net Current Assets		(7,423.69)	167,611.06
Total		4,046,757.26	3,503,338.01

Notes on accounts

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Schedule 1 to 17 and Significant Accounting Policies form an integral part of Accounts.

In terms of our Report of even date
 For G.S. Mathur & Co.
 Chartered Accountants

For and on behalf of the Board

Rajiv Wadhawan
 Partner
 M.No. 91007.

B.R. Raghunandan
 Company Secretary

H.D. Khunteta
 Director (Finance)

P. Uma Shankar
 Chairman & Managing Director

Place: New Delhi
 Date: May 26, 2008

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH 2008

(Rs. in Lacs)

	Sch. No.	Year ended 31.03.2008	Year ended 31.03.2007
INCOME			
Operating Income (Net)	11	337,821.94	265,169.55
Other Income	12	15,944.16	20,230.38
Total		353,766.10	285,399.93
EXPENSES			
Interest and Other Charges	13	206,240.38	174,272.09
Establishment Expenses	14	9,230.01	4,981.57
Administration Expenses	15	1,823.77	1,435.04
Bond/ Debt Instrument Issue Expenses	16	1,035.07	2,206.33
Provision for bad & doubtful debts		3,999.34	2,104.45
Depreciation		138.55	112.89
Total		222,467.12	185,112.37
PROFIT FOR THE YEAR BEFORE PRIOR PERIOD ITEMS		131,298.98	100,287.56
Prior period adjustment - expenses/ (Income) (net)		56.65	(331.68)
PROFIT BEFORE TAX		131,242.33	100,619.24
Provision for Tax:			
Tax-Current Year		37,380.10	21482.25
Tax-Earlier Year		-	1,414.60
Deferred tax - Current Year		7,741.03	11,629.12
Deferred tax - Earlier Years		-	44,817.00
Less: transferred from General Reserve		-	(44,817.00)
Fringe Benefit Tax		106.55	67.18
Total		45,227.68	34,593.15
PROFIT AFTER TAX AND AVAILABLE FOR APPROPRIATION		86,014.65	66,026.09
Appropriations:			
Transfer to Special Reserve u/s 36(1)(viii) of the Income Tax Act,1961		25,500.00	34,500.00
Reserve u/s 36(1)(viiia) of the Income Tax Act,1961 for Bad & Doubtful Debts		5,800.00	3,400.00
Proposed Dividend		25,759.80	17,700.00
Dividend Tax on Proposed Dividend		4,377.88	3,008.12
Transfer to General Reserve		14,000.00	7,200.00
Surplus carried to Balance Sheet		10,576.97	217.97
Total		86,014.65	66,026.09

Basic & diluted Earning Per Share of Rs 10/- each-
 Amount in Rs. [refer note on accounts (Schedule-17)]

10.94

8.46

Notes on accounts

17

Schedule 1 to 17 and Significant Accounting Policies form an integral part of Accounts.

In terms of our Report of even date
 For G.S. Mathur & Co.
 Chartered Accountants

For and on behalf of the Board

Rajiv Wadhawan
 Partner
 M.No. 91007.

B.R. Raghunandan
 Company Secretary

H.D. Khunteta
 Director (Finance)

P. Uma Shankar
 Chairman & Managing Director

Place: New Delhi
 Date: May 26, 2008

SCHEDULE '1' - SHARE CAPITAL

(Rs. in Lacs)

	As at 31.03.2008	As at 31.03.2007
Authorised 1200,000,000 (Previous Year 1200,000,000) Equity shares of Rs.10 each	120,000.00	120,000.00
Issued, Subscribed and Paid up 858,660,000 (Previous Year 780,600,000) fully paid up Equity shares of Rs 10 each	85,866.00	78,060.00
Total	85,866.00	78,060.00

SCHEDULE '2' - RESERVES AND SURPLUS

(Rs. in Lacs)

	Opening Balance as on 01.04.2007	Additions/ adjustments during th e Year	Deductions/ adjustments during the Year	Closing Balance as at 31.03.2008
a) Capital Reserve (Grant from USAID)	10,500.00	-	-	10,500.00
b) Security Premium**	-	74,157.00	2,176.47	71,980.53
c) Special Reserve created u/s 36(1) (viii) of the Income Tax act,1961 upto Fin. year 1996-97	5,173.77	-	-	5,173.77
d) Special Reserve created u/s 36(1) (viii) of the Income Tax act,1961 from Fin. year 1997-98	219,106.00	25,500.00	-	244,606.00
e) Reserve for Bad and doubtful debts u/s u/s 36(1)(viii) of the Income Tax act, 1961	20,569.13	5,800.00	-	26,369.13
f) General Reserve	65,551.17	14,000.00	163.79	79,387.38
g) Surplus	2,311.02	10,576.97	-	12,887.99
Total	323,211.09	130,033.97	2,340.26	450,904.80

** An amount of Rs. 2,176.47 lac have been deducted on account of issue expenses. [Refer note on accounts (schedule 17)]

SCHEDULE '3' - SECURED LOANS

(Rs. in Lacs)

	As at 31.03.2008	As at 31.03.2007
TERM LOANS FROM BANKS/ INSTITUTIONS (Secured against the receivables of the State Electricity Boards/ State Power Corporations)	232,200.00	192,200.00
OVERDRAFT AGAINST TERM DEPOSIT Secured against FDR of Rs 110 Crores placed with the bank	-	10,000.00
LOAN FROM LIFE INSURANCE CORPORATION OF INDIA (LIC) (Secured against receivables of the Electricity Boards/State Power Corpn.)	350,000.00	350,000.00
LOAN THROUGH BONDS (Cumulative & Non- Cumulative) (Secured by charge against loans advanced to SEB's , State Power Corporations etc. and/ Immovable propoerty at Maharashtra & Delhi as per the terms of the private placement and to the satisfaction of the respective trustees).		
I TAXFREE SECURED BONDS		
a) Long Term		
41st Series - 8.25 % Redeemable at par on 22.02.2010	7,500.00	7,500.00

53rd Series - 7.10 % Redeemable at par on 23.03.2011	5,000.00	5,000.00
II TAXABLE SECURED BONDS		
76th Series - 6.00 % Redeemable at par on 15.03.2008	-	32,000.00
Long term		
64th Series - 6.90 % Redeemable at par on 27.09.2009	15,000.00	24,000.00
66th Series - 6.00 % Redeemable at par on 31.01.2010	13,900.00	27,400.00
69th Series - 6.05 % Redeemable at par on 23.01.2014	66,920.00	66,920.00
72nd Series - 6.60 % Redeemable at par on 18.08.2011	38,570.00	38,570.00
73rd Series - 6.90 % Redeemable at par on 08.10.2014	23,390.00	23,390.00
75th Series - 7.20 % Redeemable at par on 17.03.2015	50,000.00	50,000.00
77th Series - 7.30 % Redeemable at par on 30.06.2015	98,550.00	98,550.00
78th Series - 7.65 % Redeemable at par on 31.01.2016	179,570.00	179,570.00
79th Series - 7.85 % Redeemable at par on 14.03.2016	50,000.00	50,000.00
80th Series - 8.20 % Redeemable at par on 20.03.2016	50,000.00	50,000.00
81st Series - 8.85 % Redeemable at par on 20.01.2017	31,480.00	31,480.00
82nd Series - 9.85 % Redeemable at par on 28.09.2017	88,310.00	-
83rd Series - 9.07 % Redeemable at par on 28.02.2018	68,520.00	-
CAPITAL GAINS BONDS		
Series-I - Capital Gain Tax Exemption Bonds Redeemable at Par	3,349.70	43,295.30
Series-II - Capital Gain Tax Exemption Bonds Redeemable at Par	6,969.70	22,121.10
Series-III - Capital Gain Tax Exemption Bonds Redeemable at Par	15,425.70	24,971.10
Series-IV - Capital Gain Tax Exemption Bonds Redeemable at Par	35,930.90	228,949.80
Series-V - Capital Gain Tax Exemption Bonds Redeemable at Par	333,474.18	339,321.78
Series-VI - Capital Gain Tax Exemption Bonds Redeemable at Par	449,421.30	449,421.30
Series-VI A - Capital Gain Tax Exemption Bonds Redeemable at Par	285,867.00	285,868.00
Series-VII - Capital Gain Tax Exemption Bonds Redeemable at Par	340,274.40	-
INFRASTRUCTURE BONDS		
Series-I & II - Infrastructure Bonds Redeemable at Par	1,503.00	3,215.25
Series-III - Infrastructure Bonds Redeemable at Par	649.25	806.00
Series-IV - Infrastructure Bonds Redeemable at Par	420.00	18,847.56
Bond Application Money- 84th Series	100,000.00	-
Total Secured Loans	2,942,195.13	2,653,397.19
Due for repayment/redemption within next year	397,302.46	110,631.60

Notes to Schedule No 3 :-

- Bonds Series 76th was redeemed by the Corporation on 15-03-2008.
- 64th, 66th and 72nd Series of bonds have put/call option at the end of 5 years, i.e. 27.09.2007, 31.01.2008 and 18.08.2009 respectively. Rs 90 Crores and Rs. 135 crores of Bonds of 64th & 66th Series were redeemed on 27-09-2007 & 31.01.2008 respectively on put option exercised by Bond holders.
- 69th, 73rd and 77th series are redeemable at par in 5 equal instalments at par at the end of 6th, 7th, 8th, 9th and 10th year respectively.
- 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.
- 78th, 79th, 80th, 81st, 82nd & 83rd series are redeemable at par at the end of 10 years i.e. 31.01.2016, 14.03.2016, 20.03.2016, 20.01.2017, 28.09.2017 & 28.02.2018 respectively.
- Bond application money includes Rs. 1000 crores received against 84th series Bond (9.45 % redeemable at par on 04.04.2013) with date of allotment 04.04.2008.
- Bonds for Rs. 220 lakh are held by Trust REC CP Fund on 31.3.2008.
- Capital Gains Tax Exemption Bonds are issued for a tenure of 3/5/7 years at the rates of 5.15 % to 8.70 % payable semiannually/annually & with cumulative options. These bonds have put/call option at the end of 3/5 years. In the current year (07-08) Capital Gain Exemption Bond Issue Sr VII has a 3 years tenor at 5.5 % payable annually. Infrastructure bonds have been issued for a tenure of 3 to 5 years at different interest rates varying between 6.00 % to 9.00 % payable annually. These bonds have put option at the end of 3/5 years from the date of allotment. The Capital Gains Tax Exemption Bonds and Infrastructure Bonds are secured by a legal mortgage respectively over the REC's immovable properties and Book Debts (Loans) for Rs. 4305.09 crore, to the satisfaction of the trustees. The book value of these immovable properties are Rs. 52.58 lakhs. Charge has been created with ROC in favour of Trustees.

SCHEDULE '4' - UNSECURED LOANS

(Rs. in Lacs)

	As at 31.03.2008	As at 31.03.2007
LOAN FROM GOVERNMENT OF INDIA	8,192.48	10,048.44
TERM LOANS		
(a) Long term Loan from Banks (Due for repayment within one year Rs. 23,821 Lac, Previous year Rs. 5,000 Lac)	211,280.00	187,480.00
(b) Short term Loan from Banks	112,800.00	-
CASH CREDIT LIMITS	-	30,000.00
FOREIGN CURRENCY BORROWINGS		
(a) Long term		
ECB- Syndicated Loan from Banks	87,026.32	87,209.00
JBIC Loan- Govt. of India Guaranteed	13,033.02	-
Kfw Loan- Govt. of India Guaranteed	4,785.69	-
LOAN THROUGH BONDS		
(Non- Cumulative ,Guaranteed by Government of India)		
(a)Short Term		
18th Series - 11.5 % Redeemable at par on 12.12.2008	6,858.00	6,858.00
24th Series - 13.0 % Redeemable at par on 17.02.2008	-	5,502.00
35th Series - 12.3 % Redeemable at par on 26.03.2008	-	5,497.50
(b) Long term		
21st Series - 11.5 % Redeemable at par on 29.12.2009	6,908.00	6,908.00
22nd Series - 11.5 % Redeemable at par on 27.12.2010	4,900.00	4,900.00
23rd Series-1 - 12.0 % Redeemable at par on 05.12.2011	2,265.00	2,265.00
23rd Series-2 - 12.0 % Redeemable at par on 21.02.2012	3,035.00	3,035.00
74th Series - 7.22 % Redeemable at par on 31.12.2014	25,000.00	25,000.00
Total Unsecured Loans	486,083.51	374,702.94
Due for repayment/redemption within next year	6,858.00	45,999.50

Notes:-

Bonds for Rs.2.00 lacs are held as on 31.03.2008 by REC Ltd. CP Fund Trust

SCHEDULE- 5 - SUMMARY OF FIXED ASSETS FOR THE YEAR ENDED 31ST MARCH 2008

(Rs in Lacs)

FIXED ASSETS	GROSS BLOCK			DEPRECIATION BLOCK			NET BLOCK	
	As on 01.04.2007	Additions during the year	Sales/ adjustment during the year	As on 01.04.2007	Dep during the year	Disp/Written off during the year	As at 31-03-2008	As at 31.03.2007
Freehold Land	3,246.95	1,426.92	-	-	-	-	4,673.87	3,246.95
Leasehold Land	145.51	-	-	11.32	1.47	-	132.72	134.18
Buildings	2,173.09	20.83	-	428.31	35.84	-	1,729.78	1,744.78
Furniture & Fixtures	386.74	17.19	0.77	231.15	24.51	0.10	147.60	155.59
EDP Equipments	442.25	97.00	0.24	311.91	36.18	-	190.92	130.34
Office Equipments	260.07	54.11	1.72	164.03	17.31	0.93	132.03	96.04
Vehicles	97.27	-	2.89	70.44	9.01	2.18	17.11	26.83
Minor Value Assets- Furniture	-	7.41	-	-	7.41	-	-	-
Minor Value Assets- EDP	-	0.96	-	-	0.96	-	0.96	-
Minor Value Assets- Office Equipments	-	9.15	-	-	9.15	-	9.15	-
Other Intangible Assets (Computer Software)	3.54	-	-	1.30	0.68	-	1.98	2.25
Grand Total	6,755.42	1,633.57	5.63	1,218.46	142.52	3.21	7,025.58	5,536.96
Previous Year	3,480.87	3,287.39	12.84	1,105.56	112.89	-	5,536.96	2,375.29
Capital WIP	826.01	180.59	242.11	-	-	-	764.49	826.01
Previous Year	4,063.82	4.31	3,242.12	-	-	-	826.01	4,063.82

Note: (1) Other Intangible Assets include computer software purchased from outside and in terms of AS-26 these are amortized over 5 years.
 (2) Minor Value Assets are the Assets costing less than Rs. 5,000.
 (3) Current year depreciation includes Prior period depreciation of Rs. 3.97 lac.

SCHEDULE '6' - INVESTMENTS

(Rs. in Lacs)

	As at 31.03.2008	As at 31.03.2007
Long Term (Unquoted)		
Non-Trade Investements		
8 % Government of Madhya Pradesh Power Bonds-II, Maturing in 30 equal half yearly Installments w.e.f. 1.04.05 (24 Bonds of Face Value of Rs 4716 Lacs each) (Previous year 25 Bonds of Face Value of Rs 4716 Lacs each)	113,184.00	117,900.00
KSK Energy Ventures Limited 1,44,70,381 units of "Small is Beautiful" Fund at Net assets Value (NAV) of Rs. 9.818 per unit (Previous Year 1,59,90,942 units of "Small is Beautiful" Fund at Net assets Value (NAV) of Rs. 9.686 per unit) (Face Value per unit is Rs 10/-)	1,420.70	1,548.88
Investment in Indian Energy Exchange-12,50,000 Equity shares of Rs. 10/- each (Previous Year -Nil)	125.00	-
Investment in REC Power Distribution Co.Ltd,Subsidiary Co. 50,000 equity shares of Rs 10 each paid up	5.00	5.00
Investment in REC Transmission Project Co. Ltd,Subsidiary Co. 50,000 equity shares of Rs 10 each paid up (Previous Year -Nil)	5.00	-
Total	114,739.70	119,453.88

SCHEDULE '7' - LOANS

(Rs. in Lacs)

	As at 31.03.2008		As at 31.03.2007	
(i) State Electricity Boards/Corpn., Co-operatives and State Governments				
(a) Unsecured, considered good and guaranteed by respective State Governments		1,907,561.52		1,786,639.61
(b) Classified Doubtful	15,564.37			
Less: Prov. for Bad & doubtful debts	3,999.39	11,564.98		
(ii) State Electricity Boards/Corpn. (Secured by hypothecation of materials with respective State Electricity Boards/ Corpn.)				
(a) Considered Good		1,639,950.32		1,087,506.85
(b) Classified Doubtful	-		140.99	
Less: Prov. for Bad & doubtful debts	-	-	70.50	70.49
(iii) Others (Secured by hypothecation of tangible assets) consider good				
(a) Considered Good		125,481.68		44,837.74
(b) Classified Doubtful	16,054.05		15,349.57	
Less: Prov. for Bad & doubtful debts	4,174.90	11,879.15	4,104.45	11,245.12
(iv) Others (Unsecured)- Considered good		156,870.93		191,743.45
(v) Interest accrued and due on Loans		2,523.59		1,196.94
(vi) Interest accrued on rescheduled loans		75,819.01		86,669.90
Total		3,931,651.18		3,209,910.10

SCHEDULE '8' - DEFERRED TAX LIABILITY/(ASSETS)

(Rs. in Lacs)

	As at 31.03.2008		As at 31.03.2007	
Opening Balance	73,966.79		(1,542.20)	
Add: Addition during the Year				
- From General Reserves for Earlier Years			63,879.87	
- From Profits of Current Year	7,741.03		11,629.12	
		81,707.82		73,966.79
Total		81,707.82		73,966.79

SCHEDULE '9' - CURRENT ASSETS, LOAN & ADVANCES

(Rs. in Lacs)

	As at 31.03.2008		As at 31.03.2007	
I CURRENT ASSETS				
A) Cash and bank balances :				
(i) Cash/Cheque in hand/transit (incl.Postage & imprest)		0.26		0.12
(ii) In current accounts				
- with RBI		78.96		67.86
- with Scheduled Banks		24,913.49		11,228.19
- with Scheduled Banks (for RGGVY Scheme)		58,752.76		63.80
- with Scheduled Banks (Funds for AG & SP Sch.)		3,719.06		6,329.57
(iii) In Deposit accounts with Scheduled Banks		37,839.26		211,850.00
(iv) Remittances in Transit		-		187.35
Total -(A)		125,303.79		229,726.89
B) Other Current Assets				
(ii) Interest accrued but not due on term deposits		80.71		1,792.46
(iii) Interest accrued but not due				
- on Loans		45,249.76		28,977.91
- on Govt. Securities		4,014.41		-
- on loans to employees		208.18		209.22
(iv) Recoverable from SEB /Govt. Deptts.	330.20		197.45	
Less: Provision for Bad & Doubtful Debt	180.20	150.00	180.20	17.25
(v) Recoverable from GOI		208.93		239.03
Total -(B)		49,911.99		31,235.87
II LOANS AND ADVANCES				
A) Loans				
(i) Employees (Secured)		271.01		233.45
(ii) Employees (Unsecured)		117.77		155.63
B) Advances				
(Unsecured considered good)				
(i) Advances recoverable in cash or in kind or for value to be received		982.82		175.30
(ii) Advance Income-Tax & TDS		60,666.40		23,084.30
(iv) Income Tax recoverable (Bond)		0.29		0.29
Total -(C)		62,038.29		23,648.97
Total -(A+B+C)		237,254.07		284,611.73

SCHEDULE '10' - CURRENT LIABILITIES AND PROVISIONS

(Rs. in Lacs)

	As at 31.03.2008		As at 31.03.2007	
A) CURRENT LIABILITIES				
(a) Advance Receipts		934.36		1,356.99
(b) Other Liabilities		8,548.32		4,480.01
- Dues of creditors other than small scale ind. Undertakings				
(c) Grant from Government of India for disbursement	919,899.56		529,609.65	
Less : Disbursed to Beneficiaries	(848,044.01)	71,855.55	512,102.55	17,507.10
(d) Interest accrued but not due				
- on bonds	54,009.44		35,288.95	
- Government/ LIC Loans	12,488.16	66,497.60	12,255.03	47,543.98
(e) Unclaimed Interest & Principal On Bonds and Govt. Loans				
- Interest	709.52		488.89	
- Principal	111.57	821.09	69.96	558.85
Total -(A)		148,656.92		71,446.93
B) PROVISIONS				
(a) Income Tax		58,993.44		21,613.44
(b) Staff Benefits		3,643.43		2,170.48
(c) Gratuity		207.88		49.70
(d) Provision for Incentive & Ex Gratia		2,204.37		1,011.75
(e) Wealth Tax		0.20		0.25
(f) Fringe Benefit Tax		17.00		-
(g) Proposed Dividend		25,759.80		17,700.00
(h) Dividend Tax on Proposed Dividend		4,377.88		3,008.12
(i) Wage Revision		816.84		-
Total -(B)		96,020.84		45,553.74
Total -(A+B)		244,677.76		117,000.67

SCHEDULE '11' - OPERATING INCOME

(Rs. in Lacs)

	Year ended 31.03.2008		Year ended 31.03.2007	
A. On Lending Operations				
Interest on Loans				
-Long term financing	307,560.77		221,452.39	
Less: Rebate for timely payments/completion etc	1,799.56	305,761.21	2,156.00	219,296.39
-Short term financing		30,290.22		35,825.94
B. Income on Reschedulement of Loans		-		8,777.30
		336,051.43		263,899.63
C. Processing fees, Upfront fees, Service charges etc		1,310.38		1,223.58
D. Prepayment Premium		-		46.34
E. Agency Charges for RGGVY Implementation		460.13		-
Total		337,821.94		265,169.55

SCHEDULE '12' - OTHER INCOME

(Rs. in Lacs)

	Year ended 31.03.2008		Year ended 31.03.2007	
A. On Investment/Deposit Operations				
Interest on deposits	6,449.97		8,664.78	
Interest on Govt. Securities (TDS Rs. 1,047.27 lac, Previous Year Rs. 1,085.20 lac)	9,243.36	15,693.33	9,997.92	18,662.70
B. Other Income				
-Income Tax				
Excess Provision written back		18.35		
Income Tax			1,305.28	
Others			37.15	1,342.43
Interest on staff advances		28.31		31.90
Profit on Investment in Venture Fund		33.02		106.45
Miscellaneous Income		146.86		82.35
Profit on sale of assets		0.41		3.76
Provision of Fall in Value of Investments in Venture Fund written back		23.88		0.79
Total		15,944.16		20,230.38

SCHEDULE '13' - INTEREST AND OTHER CHARGES

(Rs. in Lacs)

	Year ended 31.03.2008		Year ended 31.03.2007	
Interest on -				
- Govt. Loans		660.84		807.20
- REC Bonds		137,112.06		120,388.31
- Banks/Fin Insts.		62,434.99		49,510.10
- External Commercial Borrowings		4,898.71		19.85
- Others		-		-
		205,106.60		170,725.46
Difference in Exchange Rates		959.53		182.68
Interest on AREP Subsidy		148.60		201.45
Guarantee Fee		25.65		3,162.50
Total		206,240.38		174,272.09

SCHEDULE '14' - ESTABLISHMENT EXPENSES

(Rs. in Lacs)

	Year ended 31.03.2008		Year ended 31.03.2007	
Salaries and Allowances		6,566.87		3,500.36
Post Retirement Medical expenses		1,233.47		575.70
Contribution to Provident and Other Funds		435.48		224.79
Staff Welfare expenses		994.19		680.72
Total		9,230.01		4,981.57

SCHEDULE '15' - ADMINISTRATION EXPENSES

(Rs. in Lacs)

	Year ended 31.03.2008		Year ended 31.03.2007	
Rent- office		210.62		98.70
Rates and Taxes		22.48		24.96
Electricity and Water Charges		48.29		47.87
Insurance Charges		2.79		4.00
Repairs and Maintenance				
Building	292.92		168.66	
Others	37.06	329.98	40.38	209.04
Printing and Stationary		73.70		46.83
Travelling and Conveyance				
- Directors	44.99		46.48	
- Others	430.96	475.95	301.91	348.39
Postage, Telegram and Telephone		108.59		93.32
Publicity & Promotion Expenses		146.73		255.08
Auditors' Remuneration		15.25		18.14
Miscellaneous Expenses		264.47		228.77
Consultancy Charges		113.50		58.44
Donations & Charity		10.20		1.50
Loss on Sale of Assets		1.22		-
Total		1,823.77		1,435.04

SCHEDULE '16' - BOND/ DEBT INSTRUMENT ISSUE EXPENSES

(Rs. in Lacs)

	Year ended 31.03.2008		Year ended 31.03.2007	
Bonds Handling Charges		535.77		202.37
Bonds Brokerage A/c		102.99		1,161.76
Commitment Fees		97.75		40.70
Bonds Stamp Duty		6.01		6.01
Arrangement fee for ECB		-		632.48
Others		292.55		163.01
Total		1,035.07		2,206.33

SCHEDULE '17' - NOTES ON THE ACCOUNTS

1. Contingent Liabilities not provided for in respect of:

(Rs. in Lacs)

	As at 31.3.2008	As at 31.3.2007
(a) Claims against the Corporation not acknowledged as debts, (including Rs. 5153.60 lacs pending in various courts as on 31.03.2008 (Previous year Rs. 463.19 lacs)	6,331.37	1,631.15
(b) Estimated amount of the contracts remaining to be executed on capital account and not provided for	360.21	671.46
(c) Others	56,489.00	8,777.00

Contingent liabilities are dependent upon the outcome of court/out of court settlement, the amount being called up term of contractual obligations, development and raising of demand by the concerned parties, disposal of appeals respectively.

Amount under 1(c) refers to Corporation's share of LC issued by the bankers of the borrowers for the generation projects for which Corporation has issued letter of Comforts to these bankers.

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 the non applicability of the provisions of section 45 (I) C of the RBI Act, 1934 regarding creation of Reserve Fund, the Reserve Fund is not created.

The Board of Directors in its meeting held on 13.12.2006 approved a set of Prudential Norms for the Corporation to be applicable with effect from 01.04.2007. As per the Prudential Norms, provisioning is required to be made even in respect of assets guaranteed by State government. The impact of such change for provisioning in respect of State Government guaranteed loans is to the extent of Rs. 3999.39 Lacs besides there are minor addition in the accounting policy on income recognition

which are of clarificatory nature. Further few accounting policies which were not required have been deleted and there is no financial impact.

3. There has been shortfall in creation of Special Fund by some of the RE Cooperative Societies amounting to Rs.501.18lacs (Previous year Rs.731.98lacs as on 31.3.2007) and the societies are pursued to create the required Special Fund.
4. Balance confirmation has been received from some of the borrowers.
5. Income Tax as applicable in respect of Interest accrued on bonds is deducted at source at the time of actual payment of interest to the bond holders since such bonds are freely transferable.
6. The formalities regarding conveyance deeds, etc. in respect of some of the premises acquired by the Corporation amounting to Rs.5,792.70 lacs (Previous year Rs. 4,192.83 lacs) are in the process of completion.
7. Total overdues recoverable from the defaulting borrowers as on 31.03.2008 amount to Rs.20,977 lacs (Previous year Rs.33,960 lacs) and effective steps are being taken for recovery of the same. Suits filed in the DRT against defaulting wind farm borrowers and coop. societies for recovery of dues are at different stages of hearing /legal proceedings. For some of the defaulting Societies, Court decrees have been issued and execution thereof is in progress. Further even State Govt. guarantees have been invoked in respect of dues of some societies of MP, AP, UP, Orissa and J&K and such guarantees have not been repudiated. The Govt. of MP has even paid Rs.1816 lacs towards the dues of 5 Coop. Societies of MP and has assured to clear the dues of the balance Societies also.
8. In terms of Accounting Policy No. 11.2, the balances in respect of Interest Warrants Accounts as on 31.3.2008 held in specified banks are Rs.12,045.48 lacs (previous year Rs. 52,754.39 lacs).
9. 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 realized during the ordinary course of business and all known liabilities have been provided.
10. Provision for impairment loss as required under Accounting Standard-28 on impairment of Assets is not necessary as in the opinion of management there is no impairment of the Corporation's Assets in terms of AS-28.
11. The company has no outstanding liability towards Micro, Small and Medium undertakings.
12. No Bond Redemption Reserve has been created 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, BRR 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.
13. Corporation had entered into two derivative transactions of Rs.250 Crore linked to USD with ICICI Bank and Rs.500

Cre linked to JPY with axis Bank, Yes Bank, ABN AMRO & Bank Of America. The Mark to Market gain/(loss) in respect of above two derivative transactions as on 31.03.2008 is as below:

Name of Bank	Notional amount (Rs.)	MTM Gain/ (Loss)
ICICI BANK	25,000 Lacs	1,408.63 Lacs
AXIS-YES - AMRO BANK & BOA	50,000 Lacs	(484.64) Lacs
Net gain		923.99 Lacs

During the year the company has earned Rs.953.32 Lacs (previous year Rs. 1,049.59 Lacs) on account of Swap (coupon only) transactions, which has been effected in the decrease in cost of borrowing to that extent.

14. Directors' Remuneration:

(Rs. in lacs)

	Year ended 31.3.2008	Year ended 31.3.2007
Salaries and Allowances	40.87	32.51
Perquisites/reimbursement	14.97	17.56
Retirement Benefits	1.45	1.54
Total	57.29	51.61

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

Loans and Advances include Rs 0.81 lacs (Previous year Rs 1.90 lacs) due from Directors of the Corporation, maximum amount outstanding during the year Rs 1.89 lacs (Previous year Rs.2.62 lacs).

15. Auditors' Remuneration includes

(Rs. in lacs)

	Year ended 31.03.2008	Year ended 31.3.2007
a) Audit fees – Current year	13.14	8.78
b) Tax Audit Fee	0.25	2.24
c) Reimbursement of expenses	1.29	2.10
d) Payment for Other services (including for IPO certification)	15.57	5.01
Total	30.25	18.13

16. Expenditure in Foreign Currency:

(Rs. in lacs)

Particulars	Year ended 31.03.2008	Year ended 31.3.2007
Royalty, Know-how, Professional, consultation fees	1.06	Nil
Interest	241.08	17.77
Finance Charges	97.75	746.61
IPO Expenses	86.40	10.13
Others Expenses	17.39	--
Total	443.68	774.51

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.

17. Information in relation to the interest of the Company in Joint Venture as required under Accounting Standard –27 issued by ICAI.

Investment include Rs.1,447.04Lacs (previous year Rs.1,599.09Lacs) representing company's contribution in the units of Joint venture Small is Beautiful fund (SIB Fund) Venture Capital fund promoted by KSK Energy Ventures Limited

Name of the Company	Contribution towards Fund	Country of Residence	Proportion of ownership
SIB Fund of KSK Energy Ventures Ltd	Rs.1,447.04 Lacs	India	9.74%

During the year the Corporation has invested Rs.194.80 lacs in units of "Small is Beautiful" fund bringing the total investment in units to Rs.2,250 lacs during the year against our committed capital contribution of Rs.2,250 lacs. Out of this portion of investment up-to 31.03.2008 of Rs.802.95 lacs has also been disinvested.

18. Related Party Disclosure

A. Key Management Personnel

Shri P Uma Shankar	Chairman and Managing Director (w.e.f. 01.03.2008)
Shri Anil Kumar Lakhina	Chairman and Managing Director (up-to 29.02.2008)
Shri H.D Khunteta	Director (Finance)
Shri Bal Mukand	Director (Technical)
Shri Devender Singh	Govt. Nominee Director (w.e.f. 29.08.2007)
Sh. Rajesh Verma	Govt. Nominee Director (up to 08.01.2008)
Sh. Jayant Kawale	Govt. Nominee Director (up to 29.08.2007)
Sh. M. Sahoo	Govt. Nominee Director (up to 17.07.2007)
Shri Venugopal N.Dhoot	Independent Director (w.e.f. 20.12.2007)
Dr. M.Govinda Rao	Independent Director (w.e.f 20.12.2007)
Shri P.R. Balasubramanian	Independent Director (w.e.f. 20.12.2007)
Dr. Devi Singh	Independent Director (w.e.f 07.01.2008)

Remuneration to whole time Directors including Chairman & Managing Director is disclosed in Note No.14

Advance due from whole time Directors including Chairman & Managing Directors has been disclosed in Note No.14

- B. Other Related Parties with whom transaction exist:

Subsidiary Companies	Relationship
1. REC Transmission Projects Company Ltd.	Subsidiary
2. REC Power Distribution Company Ltd.	Subsidiary

Wholly owned Subsidiary of REC Transmission Projects Company Ltd :

1. North Karanpura Transmission Company Ltd.	Fellow Subsidiary
2. Talcher-II Transmission Company Ltd.	Fellow Subsidiary

- C. Loans and advances due from subsidiaries:

Rs. In lacs

Name of Subsidiary	Outstanding Balance 31.03.08	Maximum Amount 31.03.08
1. REC Trns. Proj. Com. Ltd	30.80	30.80
2. REC Power Dist. Co. Ltd.	71.85	71.85

Transactions during the year with related parties.

Rs. In lacs

Nature of transaction	Subsidiaries	Key Mang. Personnel
1. Loans & advances	71.85	
2. Unsecured Loans	30.80	0.81
3. Expenses (Salary)		
Sh. A.K.Lakhina		19.36
Sh. P.Uma Shankar		.07
Sh. H.D.Khunteta		17.64
Sh. Bal Mukund		20.22
3. Sitting Fees		2.46
4. Investment (Share Capital)	5.00	

19. Subsidy Under Accelerated Generation & Supply Programme (AG&SP): -

The Corporation is maintaining a Interest Subsidy Fund Account and is claiming subsidy from Govt. of India at net present value calculated at indicative rates in accordance with GOI's letter vide D.O.No. 32024/17/97-PFC dated 23.09.1997 and O.M.No.32024/23/2001-PFC dated 07.03.03 irrespective of the actual repayment schedule, moratorium period and duration of repayment. The impact of difference between the indicative rate and period considered at the time of drawl and the actual can be ascertained only after the end of the respective schemes. During the year Corporation refunds Rs.2015 lacs on which interest liability of Rs.171.44 lacs being the difference between NPV and average interest earned is provided.

20. Disclosure in respect of Intangible Assets as required in AS-26 "Intangible Assets":

i) Amortisation Rate 20% ;
100% in case of cost of asset is Rs 5,000 or less

ii) Amortisation Method Straight Line

Reconciliation Statement.	(Rs. in Lacs)	
	As at 31.03.2008	As at 31.03.2007
iii) Gross Carrying Amount	3.54	3.54
iv) Accumulated depreciation	1.98	1.30
v) Gross carrying amount- Opening Balance	3.54	1.83
Less: - Accumulated Depreciation	1.98	0.89
Carrying amount	1.56	.94
Additions during the year	NIL	1.71
Less: Amortisation during the year	0.68	0.41
Carrying amount as on Balance sheet Date	1.56	2.24

21. The Corporation has been providing for deferred tax assets / liabilities in terms of Accounting Standard No. 22 on Accounting for Taxes on Income. During the year the Corporation has provided Rs.7,741.03Lacs (previous year Rs. 11,629.12 Lacs) as deferred tax liability

Major components of deferred tax liability as on 31.03.2008 are given as under:

(Rs in Lacs)

Particulars	As at 31.03.2008	As at 31.03.2007
Deferred Tax Assets		
Provision for VRS Expenditure	NIL	3.86
Provision for Leave Encashment	427.96	208.89
Provision for Post Retirement Medical Benefits	263.28	458.96
Provision for fall in investments	8.95	17.06
Provision for other expenses	2,802.60	1,039.13
	3,502.79	1,727.90
Deferred Tax Liabilities		
Depreciation	310.46	301.37
Reserve under section 36 (i) (viii) of I.T Act	84,900.14	115 13.45
Net Deferred Tax (Liability)/ Asset	(81,707.82)	(10,086.92)
Deferred Tax Asset/(Liability) as on 31.3.2007	(73,966.79)	1,542.20
Net liability for the year charged in P&L	(7,741.03)	(11,629.12)

22. In terms of Accounting Standard No. 20 issued by the Institute of Chartered Accountants, Earning per share (Basic and Diluted) is worked out as under: -

(Rs In Lacs)

	As at 31.3.2008	As at 31.3.2007
Numerator		
Profit after Tax as per Profit and Loss Account	86,014.18	66,026.09
Denominator		
Number of equity shares	780,600,000	780,600,000
Fresh Shares allotted during the year	78,060,000	NIL
Weighted average number of Equity Shares	786,374,301	780,600,000
Basic & Diluted Earning per share (Rs./per share)	10.94	8.46

23. Some of the erstwhile State Electricity Boards (SEBs) against whom loans were outstanding or on whose behalf guarantees were given by the State Govt. were restructured by the respective State Governments and new entities were formed. Consequently, the liabilities of the erstwhile SEBs stand transferred to new entities on the execution of transfer agreements amongst the Corporation, new entities and/or the State Governments. Pending execution of such agreements, the loans outstanding against the erstwhile SEBs namely APSEB, KEB, and GEB are being serviced by APTRANSCO, KPTCL and GUVNL respectively against which loans amounting to Rs.2,337.66 Crore, Rs.662.52 Crore and Rs.612.90 Crore respectively are outstanding as on 31.03.2008.

24. On the issue of settlement of liabilities of REC between MPSEB and CSEB on bifurcation of erstwhile State of MP, there is a legal dispute between them regarding sharing of dues, as a result of which CSEB has been claiming refund of approx. Rs.16,000 lacs plus interest which if accrues shall be payable by MPSEB. Though the review petition of MPSEB in this regard against the Union of India and others has been dismissed by the Hon'ble Supreme Court, yet the original suit filed by the Govt. of MP is pending in the Hon'ble Supreme Court as a result of which they are treating the case as subjudice. On final settlement, the amount payable to CSEB if any shall in turn be payable by MPSEB.

25. The expenses of Rs.643.98 lacs incurred up to 31.03.2007 on RGGVY implementation had been adjusted from interest received on deposit made out of such grant and the Ministry Of Power has been informed accordingly. However the Corporation has approached MOP to authorize charging of agency fees on disbursements for period up to 31st March 2007 and reply is awaited. Appropriate adjustment if any shall be made accordingly.

26. Details of provision as required in AS-29

(Rs In Lacs)

	As on 31/03/2008	As on 31/03/2007
(a) Post Retirement Health Scheme		
As per last Balance Sheet	1350.27	774.57
Addition during the year	576.68	633.25
Amounts paid/utilised during the year	91.52	57.55
Closing Balance	1835.43	1350.27
(b) Leave Encashment		
As per last Balance Sheet	820.21	711.78
Addition during the year	713.66	159.23
Amounts paid/utilised during the year	69.17	50.80
Closing Balance	1464.70	820.21
(c) Sick Leave		
As per last Balance Sheet	0	-
Transition Provision from Gen. Reserve *	74.63	-
Addition during the year	51.76	-
Amounts paid/utilised during the year	-	-
Closing Balance	126.39	-
(d) Gratuity		
As per last Balance Sheet	49.70	98.76
Addition during the year	169.9	0
Amounts paid/utilised during the year	11.73	49.06
Closing Balance	207.87	49.70
(e) Settlement Allowance on Retirement		
As per last Balance Sheet	0	-
Transition Provision from Gen. Reserve *	9.63	-
Addition during the year	11.53	-
Amounts paid/utilised during the year	5.86	-
Closing Balance	15.30	-
(f) Leave Travel Concession		
As per last Balance Sheet	0	-
Transition Provision from Gen. Reserve *	79.53	-
Addition during the year	273.61	-
Amounts paid/utilised during the year	151.56	-
Closing Balance	201.58	-
(g) Provision for Wage revision		
As per last Balance Sheet	0	-
Addition during the year	816.84	-
Amounts paid/utilised during the year	0	-
Closing Balance	816.84	-
(h) Provision for Incentive/Exgratia		
As per last Balance Sheet	1011.75	523.00
Addition during the year	2204.37	1011.75
Amounts paid/utilised during the year	1011.75	523.00
Closing Balance	2204.37	1011.75
(i) Income Tax		
Opening Balance	21613.44	98167.72
Addition during the year	37380.00	21482.00
Amounts paid/utilised during the year	0	98036.28
Closing Balance	58993.44	21613.44
(j) Fringe Benefit Tax		
Opening Balance	0	-
Addition during the year	17.00	-
Amounts paid/utilised during the year	0	-
Closing Balance	17.00	-
(k) Wealth Tax		
As per last Balance Sheet	0.25	0.23
Addition during the year	0.10	0.25
Amounts paid/utilised during the year	0.15	0.23
Closing Balance	0.20	0.25
(l) Proposed Dividend		
As per last Balance Sheet	17700.00	10126.00
Addition during the year	25759.80	17700.00
Amounts paid/utilised during the year	17700.00	10126.00
Closing Balance	25759.80	17700.00
(m) Corporate Dividend Tax		
As per last Balance Sheet	3008.12	1420.17
Addition during the year	4377.88	3008.12
Amounts paid/utilised during the year	3008.12	1420.17
Closing Balance	4377.88	3008.12
* Net of Deferred Tax		

27. The Corporation has adopted AS15 (revised 2005) 'Employees Benefit'. Defined employee benefit scheme are as follows:

a. Provident Fund

Corporation pays fixed contribution of Provident Fund at a pre-determined rates to a separate trust, which invest the funds in permitted securities. The trust is required to pay a minimum rate of interest on contribution to the members of the trust. The fair value of the assets of the Provident fund including the returns of the assets thereof, as 31st March 2008 is greater than the obligation under the defined contribution plan.

b. Gratuity

The Corporation has a defined benefit gratuity plan. Every employee is entitled to gratuity as per the provision of the payment of Gratuity Act. The scheme is funded by the Corporation and is managed by separate trust. The liability of Gratuity is recognized on the basis of actuarial valuation.

c. Post-Retirement Facility

The corporation has Post Retirement Medical Facility and Settlement benefits under which entitled employee (including spouse) are covered as per Corporation's rule.

28. The summarized position of various defined benefit recognized in the Profit & Loss Account, Balance sheet and the funded status are as under:

(Rs. In lacs)

	Gratuity	Settle- ment Retire- ment Al- lowance	Post Medical Benefits
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1. Component of Employer Expenses

a. Current Service Cost	112.34	0.67	35.05
b. Interest Cost	104.19	1.17	108.02
c. Expected return on plan assets	(110.00)	0.00	0.00
d. Actuarial (Gain)/ Loss	111.36	4.74	433.61
e. Total Expenditure/ (gain)			
f. Recognized in the P&L A/c	217.89	6.57	576.69

2. Net Asset/(liability) recognized in Balance Sheet as at 31st March 2008

a. Present Value of Obligation as at 31st March 2008.	1,577.53	15.30	1,835.43
b. Fair Value of plan assets as at 31st March 2008	1,368.88	Nil	Nil
c. Assets/(Liability) recognized in Balance Sheet	(208.65)	15.30	1,835.43

3. Change in present value of obligation as on 31st March 2008

Present Value of obligation As at 31st March 2007	1,302.43	14.58	1,350.27
Current service cost	112.34	0.67	35.05
Interest Cost	104.19	1.17	108.02
Actuarial (Gain)/Loss	111.36	4.74	433.61
Benefits Paid	(52.80)	(5.86)	(91.51)
Present Value of Obligation As at 31st March 2008	1,577.53	15.29	1,835.43

4. Changes in the Fair value of Plan Assets

Present value of plan assets as on 31/3/07	1,302.43	Nil	Nil
Expected return on Plan Assets	110.00	Nil	Nil
Actual Company Contribution	9.24	Nil	Nil
Benefits Paid	(52.80)	Nil	Nil
Fair Value of plan Assets as at 31/3/08	1,368.88	Nil	Nil

5. Actuarial Assumptions

Discount Rate (per annum)	8.00	8.00	8.00
Expected rate of returns on assets (p.a.)	8.45	0.00	0.00
Future cost increase	5.50	5.50	5.50

The estimates of future salary increases, considered in actuarial valuation, take account of inflation, seniority, promotion and other relevant factors such as supply and demand in the employment market.

6. Details of the Plan Assets at cost as on 31.03.2008.

Government of India Securities.	685.32		
Corporate Bonds	567.20		
Others.	20.15		
TOTAL	1,272.67		

29. The Corporation does not have more than one reportable segment in terms of Accounting Standard No.17 issued by the Institute of Chartered Accountants of India.

30. The Corporation has come up in February 2008 with initial public offer (IPO) of 156,120,000 equity shares of Rs.10 each for cash at a price of Rs.105 per equity shares. The issue comprises a fresh issue of up to 7,80,60,000 equity shares and an offer for sale of up to 7,80,60,000 equity shares by the President of India acting through Ministry of Power Government of India. The fresh equity shares

were allotted in March 2008. Accordingly issued and paid up share capital has increased from Rs.78,060 lacs to Rs.85,866 lacs and an amount of Rs71,981 lacs (net of issue expenses of Rs.2,176.47 lacs) has been taken to Securities Premium Account. Proceeds of the fresh issue of equity shares have been utilized for the purpose of the business of the Corporation.

31. Previous year's figures have been regrouped/rearranged/recast, wherever necessary, to make them comparable with the current year's figures.
32. Figures have been rounded off to the nearest lacs.
33. Schedules 1 to 17 form an integral part of the Balance Sheet and Profit & Loss Account and have been duly authenticated
34. 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	2008
	Date	Month	Year

Amount (Rs. in lacs)

2. CAPITAL RAISED DURING THE YEAR 7,806.00

3. POSITION OF MOBILISATION AND DEPLOYMENT OF FUNDS

Total Liabilities	4,046,757.26
Total Assets	4,046,757.26

SOURCES OF FUNDS

Paid up Capital	85,866.00
Reserves and Surplus	450,904.80
Secured Loans	2,942,195.13
Unsecured Loans	486,083.51
Deferred Tax Liability	81,707.82

APPLICATIONS OF FUNDS

Net Fixed Assets (Incl Capital WIP)	7,790.07
Investments	114,739.70

Net Current Assets	(7,423.69)
Loans	3,931,651.18
Deferred Tax Assets	NIL
Misc. Expenditure	NIL
Accumulated Losses	NIL

4. PERFORMANCE OF COMPANY

	(Rs. In Lacs)
Turnover	353,766.10
Total Expenditure	222,523.77
Profit before Tax	131,242.33
Profit after Tax	86,014.65
EPS in Rs.	10.94
Dividend Rate	30%
(On an equity share of Rs. 10/- face value)	

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

Item Code No.	N.A.	Financial Services
--		Signatures to all Schedules 1 to 17

Signatures to the schedules forming part of the Balance Sheet and Profit and Loss and to the above notes.

B.R.Ragunandan Company Secretary	H.D.Khunteta Director (Finance)	P.Uma Shankar Chairman and Managing Director
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**In terms of our Report of even date
For G.S. Mathur & Co.,
Chartered Accountants**

Place: New Delhi	(Rajiv Wadhawan) Partner
Dated: 26th May 2008	Membership No.91007

SIGNIFICANT ACCOUNTING POLICIES

1. BASIS OF PREPARATION OF FINANCIAL STATEMENTS.

- (a) Accounting Convention: - The financial statements are prepared under the historical cost convention on accrual basis and in accordance with generally accepted accounting principles and applicable accounting standard in India. The financial statements adhere to the relevant presentational requirement of the Companies Act, 1956.
- (b) Use Of Estimates: - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumption that affect the reported amounts of assets and liabilities and disclosure thereof at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period particularly in respect of major items such as Interest on loan and Bonds, Provision for outstanding liabilities, Depreciation, Doubtful Debts & Advances, Contingent liabilities etc. Actual results could differ from those estimates.

2. REVENUE RECOGNITION.

With effect from 01.04.2007, the Corporation has formulated its own detailed Prudential Norms which are broadly based on the Prudential Norms prescribed by RBI for NBFCs. Accounting is done in accordance with these Prudential Norms of REC and the salient features of the same for Income Recognition, Asset classification and Provisioning are as under:

2.1. Income Recognition

Income on Non Performing Assets where interest/principal has become overdue for two quarters or more is recognized as and when received and appropriated. Any such income recognized before the asset becomes non-performing and remaining unrealized is reversed.

Unless otherwise agreed, the recoveries from the borrowers are appropriated in the order of (i) costs and expenses of REC (ii) penal interest including interest tax, if any (iii) overdue interest including interest tax, if any, and (iv) repayment of principal, the oldest being adjusted first.

In respect of loans whose terms are renegotiated / rescheduled / restructured, income is recognized on accrual basis when it is reasonably expected that there is no uncertainty of receipt of dues from the borrowers and a legally binding Memorandum of Agreement has been executed and there has been satisfactory performance under the renegotiated or rescheduled or restructured terms till a period of at least one year from the effective date of the corresponding MOU.

Income of Agency Charges on RGGVY schemes is recognized at the time of disbursement of subsidy /loan in proportion to the amount disbursed

ASSETS CLASSIFICATION/PROVISIONING NORMS

2.2. Assets Classification

Loans and advances and any other form of credit are classified into the following classes, namely:

- (i) Standard Assets
- (ii) Sub-Standard Assets
- (iii) Doubtful Assets
- (iv) Loss Assets

For the purpose of application of Prudential Norms and provisioning Norms,

- i. Facilities granted to State/Central Sector entities are considered loan wise.
- ii. Facilities granted to other entities are considered borrower wise.

2.3. Provisioning against Loans

The provisioning requirement in respect of loans, advances and other credit facilities including bills purchased and discounted shall be as under:

- (i) **Loss Assets** – The entire asset shall be written off. If the assets are permitted to remain in the books for any reason, 100 % of the outstanding shall be provided for:
- (ii) **Doubtful assets** –
 - (a) 100 % provision to the extent to which the advance is not covered by the realizable value of the security to which REC has a valid recourse shall be made. The realizable value is to be estimated on a realistic basis; Loans covered by Central/State Govt. guarantee or State Govt. Undertaking for deduction from Central Plan Allocation or loans to any State Govt. shall be treated as secured;
 - (b) In addition to item(a) above, depending upon the period for which the asset has remained doubtful, provision to the extent of 20 % to 50 % of the secured portion (i.e. estimated realizable value of the outstanding) shall be made on the following basis :-

Period for which the asset has been considered as doubtful	% of provision
Up to one year	20 %
1 to 3 years	30 %
More than 3 years	50 %

- (iii) **Sub-standard assets** - A provision of 10 % shall be made.

An asset which has been renegotiated or rescheduled or restructured shall be a sub-standard asset or continue to remain in the same category in which it was prior to its renegotiation or rescheduling or restructuring, as a doubtful asset or a loss asset as the case may be. Necessary provision is required to be made as applicable to such asset till it is upgraded.

3. FIXED ASSETS.

Fixed Assets are shown at historical cost less accumulated depreciation. The cost includes any cost attributable of bringing the assets to its working condition for its intended use.

4. DEPRECIATION.

- 4.1. Depreciation on 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.
- 4.2. 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 assets purchased during the year up to Rs 5, 000/- is provided @ 100 %.
- 4.4. Leasehold land is amortized over the lease period.

5. INTANGIBLE ASSETS.

An Intangible Assets is recognized where it is probable that the future economic benefits attributable to the assets will flow to the company. These Assets are amortized over a period of 5 years.

6. INVESTMENTS.

Long term investments are carried at cost less provisions, if any, for diminutions in the value of such investment. Current investments are carried at the cost or fair value whichever is lower.

7. CURRENT TAX AND DEFERRED TAX.

Income Tax expenses comprises current Income Tax inclusive of Fringe Benefit Tax (Amount of tax for the period determined in accordance with the income tax law) and deferred tax charge or credit (reflecting the tax effects of timing differences between accounting income and taxable income for the period) is determined in accordance with Accounting Standard-22 of the Institute of Chartered Accountants of India. The deferred tax charge or credit and the corresponding deferred tax liabilities or assets are recognized using the tax rates that have been enacted or substantially established by the Balance Sheet date. Deferred Tax Assets are recognized and carry forward to the extent that there is a reasonable certainty that sufficient future taxable income will be available against which such Deferred Tax Assets can be realized.

8. IMPAIRMENT OF ASSETS.

At each balance sheet date, the Company reviews the carrying amounts of its fixed assets to determine whether there is any indication that those assets suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of impairment loss. Recoverable amount is the higher of assets net selling prices and value in use.

9. PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS.

A provision is recognized when the company has a present obligation as a result of past event and it is

probable that an outflow of resources will be required to settle the obligation and reliable estimate of amount of the obligation can be made. Provisions are determined based on management estimate required to settle the obligation at the Balance Sheet date. These are reviewed at each Balance Sheet date and adjusted to reflect the current management estimates.

10. BOND ISSUE.

- 10.1. Expenditure on raising of funds by way of bonds is charged to revenue in the year of issue of such bonds.
- 10.2. 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.

11. CASH FLOW STATEMENT.

Cash flows are reported using the indirect method, whereby profit before tax is adjusted for the effects of transactions of a non-cash nature and any deferrals or accruals of past or future cash receipts or payments. The cash flows from regular operating, financing and investing activities of the Company are segregated.

12. PRIOR PERIOD ADJUSTMENTS.

- 12.1. 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 is so ascertained/determined.
- 12.2. Expenses not exceeding Rs.10,000/- in each case are accounted for under natural heads of account.

13. EMPLOYEES BENEFITS.

- 13.1. The liability for employees benefit in respect of Gratuity is ascertained on actuarial valuation is provided and funded separately.
- 13.2 Short term employee benefit are recognized as an expense at the undiscounted amount in the profit and loss account of the year in which the related services is rendered.
- 13.3 Post employment and other long term employee benefits are recognized as an expense in the profit and loss account for the year in which the employees has rendered services. The expense is recognized at the present value of the amounts payable determined using actuarial valuation techniques. Actuarial gains and losses in respect of post employment and other long term benefits are charged to the profit & loss account.

14. TRANSACTION IN FOREIGN CURRENCY

- 14.1. Foreign Currency transactions are initially recorded at the exchange rate prevailing on the date of transaction. Foreign Currency loans/liabilities are translated/ converted with reference to the rates of exchange ruling at year end.

CASH FLOW STATEMENT FOR THE YEAR ENDED 31st MARCH, 2008

(Rs in Lacs)

PARTICULARS	YEAR ENDED 31.03.2008	YEAR ENDED 31.03.2007
A. Cash Flow from Operating Activities :		
Net Profit before Tax	131,242.33	100,619.24
Adjustments for:		
1. Profit / Loss on Sale of Fixed Assets	0.81	(3.76)
2. transfer from General reserve	(163.79)	
3. Depreciation	138.55	112.89
4. Provision for fall in value of investments	(23.88)	(0.79)
5. Provision for Bad & doubtful debts	3,994.34	2,104.45
6. Excess Provision written back	(18.35)	(1305.28)
7. Profit on sale/income of investment in units of "small is Beautiful Fund"	(33.02)	(106.45)
8. Loss on Exchange Rate fluctuation	959.53	
Operating profit before working Capital Charges :	136,096.52	101,420.30
Increase / Decrease :		
1. Loans	(725,735.42)	(679,453.62)
2. Other Current Assets	(18,676.12)	(669.26)
3. Other Loans & Advances	(807.25)	(89.05)
4. Current Liabilities	63,917.48	14,210.89
Cash outflow from Operations	(545,204.79)	(564,580.73)
1. Advance Income Tax Paid	(74,962.20)	(21,968.38)
2. Wealth Tax paid	(0.15)	(0.23)
3. Fringe Benefit tax paid	(106.55)	(67.18)
Net Cash used in Operating Activities	(620,273.69)	(586,616.52)
B. Cash Flow from Investing Activities		
1. Sale of Fixed Assets	1.61	16.59
2. Purchase of Fixed Assets (incl. Advance paid for Capital exp.)	(1,567.94)	(49.58)
3. Redemption of 8 % Government of Madhya Pradesh Power Bonds-II	4,716.00	14,148.00
4. Investments in units of "Small is Beautiful" Fund	(194.81)	(1,553.09)
5. Sale of Investments in units of "Small is Beautiful" Fund	379.86	562.54
6. Investment in Shares of Subsidiary Co. "REC Power Distribution Co.Ltd,	(5.00)	-
7. Investment in REC Transmission Project Co. Ltd, Subsidiary Co.	0.00	(5.00)
8. Investment in Shares of Indian Energy Exchange	(125.00)	-
Net Cash used in investing Activities	3,204.72	13,119.46
C. Cash Flow from Financial Activities		
1. Issue of Bonds	607,392.38	872,091.18
2. Redemption of Bonds	(359,593.94)	(386,652.81)
3. Raising of Term Loans/STL from Banks/FIs	437,250.00	119,980.00
4. Repayment of Term loans/STL from Banks/Fis	(300,650.00)	(66,500.00)
5. Raising of Foreign Currency Loan	16,676.53	87,209.00
6. Grants received from GOI (Net of refund)	390,289.91	300,167.09
7. Disbursement of grants	(335,941.46)	(300,940.07)
8. Repayment of Govt. Loan	(1,855.96)	(1,948.72)
9. Dividend paid	(17,700.00)	(10,126.00)
10. Corporate Dividend Tax paid	(3,008.12)	(1,420.17)
11. Issue of shares	79,786.53	
Net Cash in-flow from Financing Activities	512,645.87	611,859.50
Net Increase/Decrease in Cash & Cash Equivalents	(104,423.10)	38,362.43
Cash & Cash Equivalents as at 1st April, 2007	229,726.89	191,364.46
Cash & Cash Equivalents as at 31st March, 2008	125,303.79	229,726.89
Net Increase/Decrease in Cash & Cash Equivalents	(104,423.10)	38,362.43

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

In terms of our Report of even date
For G.S. Mathur & Co.
Chartered Accountants

For and on behalf of the Board

Rajiv Wadhawan
Partner
M.No. 91007.

B.R. Raghunandan
Company Secretary

H.D. Khunteta
Director (Finance)

P. Uma Shankar
Chairman & Managing Director

Place: New Delhi
Date: May 26, 2008

ANNEXURE TO BE ENCLOSED WITH BALANCE SHEET AS AT 31ST MARCH 2008.
 (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 Lakh)

Particulars	Amount Outstanding	Amount Overdue	
LIABILITY SIDE:			
Loans and advances availed by the NBFCs inclusive of interest accrued thereon but not paid:			
(a) Debentures/Bonds :			
(i) Secured	2,359,995.13	-	
(ii) Unsecured	48,966.00	-	
(b) Foreign Currency Loan	104,845.03		
(c) Term Loan from Govt. of India	8,192.48	-	
(d) Term Loan from Financial Institution	350,000.00	-	
(e) Term Loan from Banks	556,280.00	-	
(f) Overdrafts from Bank	-	-	
(g) Cash Credit from Banks	-	-	
ASSET SIDE :			
Break-up of Loans and Advances including bills receivable			
(a) Secured	1,777,311.15		
(b) Unsecured	2,154,340.03		
Borrower Group-wise classification of all leased assets,stock-on-hire and loans and advances :			
	AMOUNT NET OF PROVISIONS		
Category	Secured	Unsecured	Total
1. Related Parties			
(a) Subsidiaries	-	-	-
(b) Companies in the same Group	-	-	-
(c) Other related Parties	-	-	-
2. Other than Related Parties			
	1,777,311.15	2,154,340.03	3,931,651.18
Total	1,777,311.15	2,154,340.03	3,931,651.18
Other Information			
Particulars			Amount
(i) Gross Non-Performing Assets			
(a) Related Parties			-
(b) Other than related Parties			31,618.00
(ii) Net Non-Performing Assets			
(a) Related Parties			-
(b) Other than related Parties			23,444.00
(iii) Asset acquired in satisfaction of debts			
			-

In terms of our Report of even date
 For G.S. Mathur & Co.
 Chartered Accountants

For and on behalf of the Board

Rajiv Wadhawan
 Partner
 M.No. 91007.

B.R. Raghunandan
 Company Secretary

H.D. Khunteta
 Director (Finance)

P. Uma Shankar
 Chairman & Managing Director

Place: New Delhi
 Date: May 26, 2008

AUDITORS' REPORT

To

The Members Of

Rural Electrification Corporation Ltd,

1. We have audited the attached Balance Sheet of **RURAL ELECTRIFICATION CORPORATION LIMITED** as at 31st March 2008 and also the Profit & Loss Account and the Cash Flow Statement for the year ended 31st March 2008 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 the management, as well as evaluating the overall financial statements 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) We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;
- ii) In our opinion, proper books of accounts as required by 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.

vi) 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 and accounting policies 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 2008.
- 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 G.S. MATHUR & CO.
Chartered Accountants

(Rajiv Wadhawan)

Partner

Membership. No.91007

Place: New Delhi
Dated: 26.05.2008

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, 2008)

1. In respect of its Fixed Assets :-

- (a) The Company has maintained fixed assets records for the year under review
- (b) The fixed assets of the company have been physically verified by the management during the year ending 31st March 2008; and as certified by management, no discrepancy has been found out on such physical verification.
- (c) Substantial parts of fixed assets have not been disposed off during the year.

2. In respect of its Inventories: -

The Company, being Non-banking Financial Company, does not have any inventory.

3. In respect of its loans given or taken u/s 301 of The Companies Act, 1956: -

- a) According to information & explanation given to us, the company has granted unsecured loan to two of its subsidiary companies, who are listed in the register maintained u/s 301 of companies Act 1956. The maximum amount involved during the year was Rs.102.65 Lacs and the year end balance of loans granted to such companies was Rs.102.65 Lacs. There is no stipulation as to interest and repayment of principal amount.
- b) According to the information & explanation given to us, the Company has not taken any loans, secured or unsecured, from companies, firms and other parties covered in the register maintained under section 301 of the Companies Act 1956. Accordingly, paragraphs 4 (iii) (f) and (g) of the order are not applicable.

4. In respect of its internal control: -

In our opinion and according to information & explanations given to us, internal controls in certain areas are commensurate with the size of the company & the nature of its business. However in certain areas internal control needs further strengthening like financial including Loan accounting; Loan pricing being linked to rating linked policy; Review of T&D lending norms prescribing appropriate debt equity ratios; adoption of control records regarding status of loan documents including formulation of legal manual ; Receipt, disbursement & utilization of grants received under various schemes; monitoring of loans given to various SEBs/DISCOMS/TRANSCOS/GENCOS including obtaining search reports for charges created against the loans given.

5. In respect of its transaction u/s 301 of The Companies Act, 1956: -

According to information and explanations given to us, the Company has not entered into any transaction of business with the Companies or Entities covered u/s 301 of the Companies Act, 1956.

6. In respect of its Deposit from public u/s 58A and 58AA of the companies Act, 1956 and the Companies (Acceptance of Deposits) Rules 1975: -

Company has issued bonds which were partly unsecured at the time of issue and are covered under the definition of public deposits thus attracting the provisions of Non Banking Financial Companies Acceptance of Deposit (Reserve Bank) Direction 1998 read with section 45-1 (bb) of the Reserve Bank of India Act 1934. These were subsequently made secured during the year by creating charge against the receivables and Book debts in favour of Trustees to the Bond holders.

7. In respect of its Internal Audit System-

Corporation having internal audit department responsible for carrying out the Internal Audit of various departments at head office and at project offices at periodical intervals as per the approved audit plan. Internal Audit has been conducted as per approved plan and there is considerable improvement as compared to earlier years, Internal Audit needs to be further strengthened with identification of critical areas for risk based audit.

8. In respect of its Cost Record u/s 209(1) (d) of The Companies Act, 1956: -

The Corporation being Non-Banking Financial Company, the provisions of Section 209(1) (d) of the Companies Act, 1956 are not applicable.

9. In respect of its Statutory Dues: -

- (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:

Non-deduction & consequently non-deposit of TDS on interest accrued in respect of certain Bonds, which are transferable by way of endorsement & delivery.

- (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 31.03.2008 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 Sales Tax, Income Tax, Custom Duty,

Wealth Tax, Excise Duty and Cess, which has not been deposited on account of dispute.

10. In respect of its Accumulated Losses and Cash Losses: -

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 respect of its default in repayment of dues to Financial Institution or Bank: -

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 bondholders.

12. In respect of its Loans & Advances Granted: -

The Company has maintained records and documents in respect loan granted by it to various State Electricity Boards, Transmission, Distribution and Generation companies including independent power producers on the basis of security including collateral security by way of pledge of share and other security.

13. In respect of special statute applicable to Chit Fund / Nidhi Company: -

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 respect of Dealing/Trading in Share Security, Debenture and other investment: -

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. In respect of its Guarantee for Loan taken by others: -

According to the information and explanation obtain by us the Company has not given guarantee for loans, taken by others, from banks or financial institutions.

16. In respect of its end use of Term Loan: -

In our opinion the term loan has been applied for the purpose for which they were raised.

17. In respect of its use of Funds: -

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 deployment/ investment.

18. In respect of its Preferential Allotment of Shares: -

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. In respect of its Creation of Securities for Debenture issued: -

According to the information and explanation given to us, during the period covered by our audit report, the company had issued 15683 Institutional bonds of Rs. 10 Lacs each and 3402744 Capital Gain tax exemption bonds of Rs. 10000/-each. The company has created security in respect of Institutional & capital gain tax exemption bonds in the form of charge on current assets (book debts) and legal mortgage on the immovable properties of the Company at Mumbai & Delhi.

20. In respect of its end use of money raised by Public issue:

We have verified the end use of money raised by Public Issue as disclosed in the notes to the financial statements.

21. In respect of its Fraud on or by the Company: -

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.

For G.S. MATHUR & CO.
Chartered Accountants

(Rajiv Wadhawan)
Partner

Place: New Delhi
Dated: 26.05.2008

Membership. No.91007

NON-BANKING FINANCIAL COMPANIES AUDITORS' REPORT

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

Dear Sir,

As required by the Non-Banking Financial Companies Auditors' 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 10.02.1998 having Registration No. 14000011.
2. As per amendments to NBFC Regulations vide notification nos. 134 to 140 dated 13.01.2000, the Government Companies have been exempted from applicability of provisions of RBI Act relating to maintenance of liquid assets and certain of Reserve Funds and the directions relating to acceptance of public deposits and prudential norms.
3. The Corporation has not accepted any public deposits during the year 2007-08. However in earlier years corporation has issued Bonds which were partly unsecured at the time of issue and are covered under the definition of public deposits thus attracting the provisions of Non Banking Financial Companies Acceptance of Deposit (Reserve Bank) Direction 1998 read with section 45-1 (bb) of the Reserve Bank of India Act 1934. These were subsequently made secured during the year by creating charge against the receivables and Book debts in favour of Trustees to the Bond holders.

However the Board of Directors of the Corporation has passed resolution for acceptance of Public Deposit in 299th Board meeting held on 23.02.06 to convert the company from NBFC not accepting public deposits to an NBFC accepting Public Deposits and accordingly made necessary application to RBI for obtaining permission thereof.

4. For the Financial year ended 31.03.2008 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, subject to our comments in annexure to auditors Report.

For G.S. MATHUR & CO.
Chartered Accountants

(Rajiv Wadhawan)
Partner
Membership No.91007

Place: New Delhi
Dated: 26.05.08.

COMMENTS OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA UNDER SECTION 619(4) OF THE COMPANIES ACT, 1956 ON THE ACCOUNTS OF RURAL ELECTRIFICATION CORPORATION LIMITED FOR THE YEAR ENDED 31ST MARCH 2008

The preparation of financial statements of Rural Electrification Corporation Limited for the year ended on 31st March 2008 in accordance with the financial reporting framework prescribed under the Companies Act, 1956 is the responsibility of the management of the company. The Statutory Auditor appointed by the Comptroller and Auditor General of India under Section 619(2) of the Companies Act, 1956 is responsible for expressing opinion on these financial statements under section 227 of the Companies Act, 1956 based on independent audit in accordance with the auditing and assurance standards prescribed by their professional body the Institute of Chartered Accountants of India. This is stated to have been done by them vide their Audit Report dated 26th May 2008.

I on behalf of Comptroller and Auditor General of India have conducted a supplementary audit under section 619(3)(b) of the Companies Act, 1956 of the financial statements of Rural Electrification Corporation Ltd. for the year ended 31st March 2008. This supplementary audit has been carried out independently without access to the working papers of the statutory auditors and is limited primarily to inquiries of the statutory auditors and company personnel and a selective examination of some of the accounting records. On the basis of my audit nothing significant has come to my knowledge which would give rise to any comment upon or supplement to Statutory Auditors' report under section 619(4) of the Companies Act, 1956.

For and on behalf of the
Comptroller and Auditor General of India

(Saroj Punhani)
Principal Director of Commercial Audit
& Ex-officio Member Audit Board – II,
New Delhi

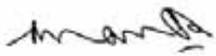
Place: New Delhi
Dated: 09.07.2008

STATEMENT PURSUANT TO SECTION 212 OF THE COMPANIES ACT, 1956 RELATING TO SUBSIDIARY COMPANIES.

Name of the subsidiary	REC Transmission Projects Company Limited	REC Power Distribution Company Limited	North Karanpura Transmission Company Limited [#]	Talcher-II Transmission Company Limited [#]
1. Financial year of the Subsidiary ended on	31.03.2008	31.03.2008	31.03.2008	31.03.2008
2. Date from which they become subsidiary	08.01.2007	12.07.2007	23.04.2007	01.05.2007
3. Share of the subsidiary held by the company as on 31st March, 2008.				
a) Number & face value	50,000 equity shares of Rs. 10/- each	50,000 equity shares of Rs. 10/- each	50,000 equity shares of Rs. 10/- each	50,000 equity shares of Rs. 10/- each
b) Extent of holding	100 %	100 %	100 %	100 %
4. The net aggregate amount of the subsidiary Companies Profit/(Loss) so far as it concerns the member of the holding Company				
a) Not dealt with in the holding Company's accounts				
i) For the financial year ended 31st March, 2008	No Profit earned by the Company. *	Rs.1,77,88,587	No Profit earned by the Company. *	No Profit earned by the Company. *
ii) upto the previous financial year of the subsidiary company	This is first financial year of the Company	This is first financial year of the Company	This is first financial year of the Company	This is first financial year of the Company
b) Dealt with in the holding Company's accounts				
i) For the financial year ended 31st March, 2008	Nil	Nil	Nil	Nil
ii) For the previous financial year of the subsidiary company since they become the holding Company's subsidiaries	Nil	Nil	Nil	Nil

*Since the Company has not yet started its business it has not earned any profit for the year.

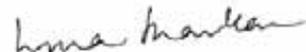
100 % Shares of these Companies are held by REC Transmission Projects Company Limited which is a direct subsidiary of the Company. In pursuance of provision of Section 4 (1) (c) of the Companies Act, 1956, these companies are also subsidiaries of Rural Electrification Corporation Limited.



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



H.D. Khunteta
Director (Finance)



P. Uma Shankar
Chairman & Managing Director

SUBSIDIARY COMPANIES

REC TRANSMISSION PROJECTS COMPANY LIMITED

DIRECTORS' REPORT

Your Directors have pleasure in presenting herewith the First Annual Report of the Company together with the Audited Accounts for the period from 8th January, 2007 being the date of Incorporation to 31st March, 2008.

REVIEW OF OPERATIONS

Since this is the First Financial year, business of the Company has not yet started, therefore the Company has not earned any profit for the year.

FINANCIAL RESULTS

CAPITAL STRUCTURE

Capital	Amount (Rs.)
Authorised Capital	500,000
Issued, Subscribed and Paid up Capital	500,000

FINANCIAL PERFORMANCE DURING 2007-2008

Since the Company has not yet started its commercial operation, no profit & loss account was prepared for the first financial year ended 31st March, 2008. In place thereof a statement of Incidental Expenditure during Construction Period was prepared. A total Expenditure of Rs. 20,24,909/- was incurred during the period year ended 31-03-2008 which was allocated to the two wholly owned subsidiaries viz North Karanpura Transmission Company Limited and Talcher-II Transmission Company Limited in equal Proportion.

PAYMENT OF DIVIDEND

Your Directors regret their inability to recommend any Dividend for the year ended March 31, 2008.

BOARD OF DIRECTORS

Sl. No.	Name	Designation	Date of Appointment	Date of Superannuation
1.	Shri A.K. Lakhina	Ex-Chairman	08.01.2007	29.02.2008
2.	Shri P. Uma Shankar	Chairman	01.03.2008	Continuing
3.	Shri Rama Raman	Director	08.01.2007	Continuing
4.	Shri Guljit Kapur	Director	08.01.2007	Continuing
5.	Shri P. J. Thakkar	Director	08.01.2007	Continuing

Shri Rama Raman, Shri Guljit Kapur & Shri P.J. Thakkar, First Directors shall retire at the First Annual General Meeting and be appointed as Directors liable to retire by rotation.

STATUTORY AUDITORS

M/s Rattan Vinod Anil & Co. Chartered Accountants were appointed by the Comptroller & Auditor General of India as Statutory Auditors of the Company for the first Financial year i.e., 8th January, 2007 to 31st March, 2008. The certificate under section 224 (1B) of the Companies Act, 1956 has been obtained from them.

The Statutory Auditors have audited the Accounts of the Company for the above said period. The audited accounts, cash flow statement and the required annexure together with the Auditors Report thereon are annexed to this Report.

NOTES ON ACCOUNTS

The observation of Auditors and the Notes on Accounts are self explanatory. Hence no comments are required

PARTICULARS OF EMPLOYEES

There was no employee throughout the financial year who was in receipt of remuneration of Rs. 24,00,000/- or more per annum or employed for part of the year who was in the receipt of remuneration at the rate of Rs. 2,00,000/- or more per month and therefore no particulars are given under section 217 (2A) of the Companies Act, 1956 read with Companies (Particulars of employees) Rules, 1975.

DEPOSITS

Your Company has not accepted any public deposit during the period under review

DIRECTORS' RESPONSIBILITY STATEMENT U/S 217 (2AA)

Pursuant to Section 217 (2AA) of the Companies Act, 1956, the Directors based on the representation received from the operative management, confirm :

- that in the preparation of the annual accounts, the applicable accounting standards have been followed and that no material departures have been made from the same;

- that they have selected such accounting policies and applied them consistently and made judgments 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 financial year and of the profit or loss of the Company for that period;
- that they have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956, for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- that they have prepared the annual accounts on a going concern basis.

PERSONNEL

No permanent employees have been appointed in the Company, the employees of the REC, its holding Company, were given additional duty to carry out day to day work of the Company.

APPRECIATION

The Directors place on record their deep appreciation of all the valuable contribution made by Ex-Chairman Shri Anil Kumar Lakhina in the formation of the Company.

COMMENTS OF THE C&AG OF INDIA

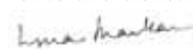
The Comment of the Comptroller & Auditor General (C&AG) of India under Section 619 (4) of the Companies Act, 1956 on the Accounts of the Company for the period ended 31st March, 2008 is appended herewith.

ACKNOWLEDGEMENT

The Directors take this opportunity to record their appreciation for the employees and gratitude for the valuable support extended to the Company by its bankers & members.

The Directors also thanks to the Statutory Auditors Rattan Vinod Anil & Co. and the Comptroller and Auditor General of India for their valued cooperation.

On behalf of the Board


 (P. Uma Shankar)
 Chairman

Place: New Delhi

Date: 02/07/2008

COMMENTS OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA UNDER SECTION 619 (4) OF THE COMPANIES ACT, 1956 ON THE ACCOUNTS OF REC TRANSMISSION PROJECTS COMPANY LIMITED FOR THE YEAR ENDED 31 MARCH 2008

The preparation of financial statements of **REC TRANSMISSION PROJECTS COMPANY LIMITED** for the year ended **31 March 2008** in accordance with the financial reporting framework prescribed under the Companies Act, 1956 is the responsibility of the management of the company. The Statutory Auditor appointed by the Comptroller and Auditor General of India under Section 619 (2) of the Companies Act, 1956 is responsible for expressing opinion on these financial statements under section 227 of the Companies Act, 1956 based on independent audit in accordance with the auditing and assurance standards prescribed by their professional body the Institute of Chartered Accountants of India. This is stated to have been done by them vide their Audit Report dated 16.05.2008.

I on behalf of Comptroller and Auditor General of India have conducted a supplementary audit under section 619 (3) (b) of the Companies Act, 1956 of the financial statements of **REC TRANSMISSION PROJECTS COMPANY LIMITED** for the year ended **31 March 2008**. This supplementary have been carried out independently without access to the working papers (in case of non-review of working papers) of the statutory auditors and is limited primarily to inquiries of the statutory auditors and company personnel and a selective examination of some of the accounting records. On the basis of my audit nothing significant has come to my knowledge which would give rise to any comment upon or supplement to Statutory Auditors' report under section 619 (4) of the Companies Act, 1956.

For and on behalf of the
 Comptroller and Auditor General of India

(Saroj Punhani)
 Principal Director of Commercial Audit
 & Ex-officio Member Audit Board-II,
 New Delhi

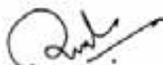
Place: New Delhi

Dated: 25/06/2008

STATEMENT PURSUANT TO SECTION 212 OF THE COMPANIES ACT, 1956 RELATING TO SUBSIDIARY COMPANIES.

NAME OF THE SUBSIDIARY	North Karanpura Transmission Company Limited	Talcher-II Transmission Company Limited
1. Financial year of the Subsidiary ended on	31.03.2008	31.03.2008
2. Date from which they became subsidiary	23.04.2007	01.05.2007
3. Share of the subsidiary held by the company as on 31st March, 2008		
(a) Number & face value	50,000 equity shares of Rs. 10/- each	50,000 equity shares of Rs. 10/- each
(b) Extent of holding	100 %	100 %
4. The net aggregate amount of the Subsidiary Companies Profit/(Loss) so far as it concerns the members of the holding Company		
(a) Not dealt with in the holding Company's accounts:-		
(i) For the financial year ended 31st March, 2008	*No Profit earned by the Company.	*No Profit earned by the Company.
(ii) upto the previous financial year of the subsidiary company	This is first financial year of the Company	This is first financial year of the Company
(b) Dealt with in the holding Company's accounts:-		
(i) For the financial year ended 31st March, 2008.	Nil	Nil
(ii) For the previous financial year of the subsidiary company since they became the holding Company's Subsidiaries.	Nil	Nil

* Since the Company has not yet started its business it has not earned profit for the year.



Subodh Garg
CEO



Guljit Kapur
Director



Parkash J. Thakkar
Director

AUDITORS' REPORT

To

The Members of

REC Transmission Projects Company Limited,

1. We have audited the attached Balance Sheet of **REC TRANSMISSION PROJECTS COMPANY LIMITED** as at 31st March 2008 and also the Statement of Incidental Expenses during the Construction period ended on that date and Cash Flow Statement for the period Annexed hereto. Since the company has not started its operation, no Profit and Loss Account has been prepared for the period ended 31st March 2008. 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 the management, as well as evaluating the overall financial statements 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 Company.
4. Further to our comments in the Annexure referred in paragraph 3 above, we report that:
 - i) We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;
 - ii) In our opinion, proper books of accounts as required by law have been kept by the company so far as appears from our examination of such books;
 - iii) The Balance Sheet, Incidental Expenses during the Construction period and Cash Flow Statement dealt with by this report are in agreement with the books of accounts;
 - iv) In our opinion, the Balance Sheet, Incidental Expenses during the Construction period and Cash Flow Statement 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-CLV 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.
 - vi) 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 and accounting policies 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, 2008;
 - b) In the case of the statement showing Incidental Expenses during the Construction Period for expenses incurred for the period ended on that date; and
 - c) In the case of the Cash Flow Statement, of the Cash flows for the period ended on that date.

For Rattan Vinod Anil & Co.
Chartered Accountants

(Anil Kumar)
Partner
M. No. 084295

Place : New Delhi
Date : 16/05/2008

ANNEXURE TO THE AUDITORS' REPORT

(Referred to in paragraph 2 of our report of even date on the Accounts) for the period ended 31st March, 2008 of **REC TRANSMISSION PROJECTS COMPANY LIMITED**

In terms of the information and explanations given to us and the books and records examined by us in the normal course of audit and to the best of our knowledge and belief, we state as under:

- 1 (a) The company had granted unsecured loans to its wholly owned subsidiaries, North Karanpura Transmission Company Limited and Talcher-II Transmission Company Limited as covered under section 301 of the Companies Act, 1956. The amount outstanding at the

year end and the maximum amount outstanding during the year was Rs. 7,12,455/- and Rs. 8,12,454/-.

- (b) The company had taken unsecured loans from the holding company as covered in the register maintained under section 301 of the Companies Act, 1956. The amount outstanding at the year end and the maximum amount outstanding during the year was Rs.30,79,832/-.
- In our opinion, the rates of interest and other terms and conditions on which loans had been given/ taken from the parties listed in the register maintained under section 301 of the Companies Act, 1956 are not prima facie prejudicial to the interest of the company.
- 2 There is an adequate internal control procedure commensurate with the size of the company.
 - 3 (a) The Company is depositing undisputed statutory dues including Provident Fund, Employees' State Insurance, Income Tax, cess and any other statutory dues with the appropriate authorities through its holding company Rural Electrification Corporation Limited as explained to us.
 - (b) No undisputed amounts payable in respect of above Statutory dues were in arrears as at 31st March, 2008 for a period of more than six months from the date they became payable as explained to us.
 - 4 During the course of audit no fraud case has come to our notice. Further as informed to us the company has not noticed/ reported any fraud case during the year.
 - 5 The provision of para I, II, V, VI, VII, VIII, X, XI, XII, XIII, XIV, XV, XVI, XVII, XVIII, XIX and XX are not applicable during the period ended March 31, 2008.

For Rattan Vinod Anil & Co.
Chartered Accountants

(Anil Kumar)
Partner
M. No. 084295

Place : New Delhi
Date : 16/05/2008

REC TRANSMISSION PROJECTS COMPANY LIMITED BALANCE SHEET AS AT 31st MARCH 2008

Figures in Rupees

Description	Schedule No.	As at 31.03.2008
SOURCES OF FUNDS		
Shareholder's Funds:		
Share Capital	1	500,000
Loan Funds:		
Unsecured Loan	2	3,079,832
Total		3,579,832
APPLICATION OF FUNDS		
Fixed Assets:		
Gross Block		-
Less Depreciation		-
Net Block		-
Capital Work in Progress		
Investments	3	1,000,000
Current Assets, Loans & Advances		
Cash and Bank Balances	4	999,275
Loans and Advances		1,524,909
		2,524,184
Less: Current Liabilities & Provisions		
Liabilities	5	11,236
Net Current Assets		2,512,948
Miscellaneous Expenditure		66,884
(To the extent not written off or adjusted)		
Total		3,579,832

Significant accounting policies 6
Notes on accounts 7

Schedule 1 to 7 form an integral part of Accounts

In terms of our report of even date For and on behalf of the Board

For Rattan Vinod Anil & Co. Subodh Garg Guljit Kapur Parkash J.Thakkar
Chartered Accountants CEO & MD Director Director

(Anil Kumar)
Partner

Place : New Delhi
Date : 16/05/2008

REC TRANSMISSION PROJECTS COMPANY LIMITED
INCIDENTAL EXPENDITURE DURING CONSTRUCTION
FOR THE PERIOD ENDED 31st MARCH 2008

Figures in Rupees	
Description	Period ended 31.03.2008
Expenses	
Administration expenses	
Salary and other establishment expenses allocated by REC	927,710
Administration expenses	222,654
Meeting and conference	697,758
Printing and Stationery	5,650
Bank charges	725
Sub-Total	1,854,497
Interest	159,176
Statutory Auditors' fee	11,236
Sub- Total	2,024,909
Less : Allocated to:	
- North Karanpura Transmission Company Limited	1,012,455
- Talcher-II Transmission Company Limited	1,012,454
Sub- Total	2,024,909
Balance carried to Balance Sheet (CWIP)	-

Schedule 1 to 7 form an integral part of Accounts

In terms of our report of even date For and on behalf of the Board

For Rattan Vinod Anil & Co. Subodh Garg Guljit Kapur Parkash J.Thakkar
Chartered Accountants CEO & MD Director Director

(Anil Kumar)
Partner

Place : New Delhi
Date : 16/05/2008

SCHEDULE '1' - SHARE CAPITAL

Figures in Rupees	
Description	As at 31.03.2008
Authorised	
50,000 Equity shares of Rs. 10 each	500,000
Issued, Subscribed and Paid up	
50,000 fully paid up Equity shares of Rs 10 each	500,000
Total	500,000

SCHEDULE '2' - UNSECURED LOANS

Figures in Rupees	
Description	As at 31.03.2008
Rural Electrification Corporation Limited (Holding Company)	3,079,832
Total	3,079,832

SCHEDULE '3' - INVESTMENTS

Figures in Rupees	
Description	As at 31.03.2008
Long Term (Unquoted)	
Non-Trade Investments	
Subsidiary Company - North Karanpura Transmission Projects Co. Ltd.	500,000
50000 equity shares of Rs. 10 each paid up	
Subsidiary Company - Talcher-II Transmission Company Limited	500,000
50000 equity shares of Rs. 10 each paid up	
Total	1,000,000

SCHEDULE '4' - CURRENT ASSETS, LOAN AND ADVANCES

Figures in Rupees	
Description	As at 31.03.2008
I CURRENT ASSETS	
(A) Cash and bank balances:	
In current account	
- with Scheduled Bank	999,275
Total - (A)	999,275
II LOANS AND ADVANCES	
(A) Advances:	
(Unsecured considered good)	
- Dues from Subsidiaries	
- North Karanpura Transmission Company Limited	712,455
- Talcher-II Transmission Company Limited	812,454
Total - (B)	1,524,909
Total	2,524,184

SCHEDULE '5' - CURRENT LIABILITIES AND PROVISIONS

Figures in Rupees	
Description	As at 31.03.2008
Other Liabilities	11,236
Total	11,236

SCHEDULE '6' - SIGNIFICANT ACCOUNTING POLICIES

- BASIS OF PREPARATION OF FINANCIAL STATEMENTS**
Accounting Convention – The financial statements are prepared under the historical cost convention on accrual basis and in accordance with generally accepted accounting principles and applicable accounting standards in India. The financial statements adhere to the relevant presentation requirement of the Companies Act, 1956.
 - FIXED ASSETS**
Fixed Assets are shown at historical cost less accumulated depreciation. The cost includes any cost attributable of bringing the assets to its working condition for its intended use.
 - DEPRECIATION**
 - Depreciation on assets is provided on pro rata basis on straight-line method at the rates prescribed under schedule XIV of the Companies Act, 1956.
 - 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.
 - Depreciation on assets purchased during the year up to Rs. 5,000/- is provided @ 100%.
 - CAPITAL WORK IN PROGRESS**
Expenditure incurred on Survey/ Studies/ Investigations/ Consultancy/ Administration/ Depreciation/ Interest has been treated as Capital Work In Progress.
 - LOANS**
Expenditure incurred by the company for the Project is financed by the Holding Company and considered as Unsecured Loan. Interest has been charged on funds deployed by them.
 - CASH FLOW STATEMENT**
Cash flows are reported using the indirect method, whereby Incidental Expenditure during construction is adjusted for the effects of transactions of non-cash nature and any deferrals or accruals of past or future cash receipts or payments. The cash flows from regular operating, financing and investing activities of the Company are segregated.
- SCHEDULE '7' - NOTES ON ACCOUNTS**
- The Company was incorporated on January 08, 2007 and Certificate for Commencement of Business was issued on February 05, 2007. Accordingly, this being the first Accounting period of the Company commencing from date of incorporation January 08, 2007 till 31st March, 2008, previous year figures are not applicable.
 - The Company is a wholly owned subsidiary of Rural Electrification Corporation Limited (A Govt. of India Enterprise). The Key Management Personnel of the Company are employees of the Holding Company (REC Ltd) deployed on part time basis. No management remuneration is paid to such representatives by the company.

The details of such Key Management Personnel are as follows:-

S. No.	Name	Designation	Date of Appointment	Date of Superannuation
1.	Shri P. Uma Shankar	Chairman	01.03.2008	Continuing
2.	Shri A.K. Lakhina	Ex-Chairman	08.01.2007	29.02.2008
3.	Shri Rama Raman	Director	08.01.2007	Continuing
4.	Shri Guljit Kapur	Director	08.01.2007	Continuing
5.	Shri P. J. Thakkar	Director	08.01.2007	Continuing

The other personnel working for the Company are also from the Holding Company. The related expenses in respect of Mr. Guljit Kapur, Director and other personnel working for the Company are paid by the Holding Company and allocated to the subsidiary company as part of administration expenses of Holding Company.

- All payments relating to the company are made by Holding Company and statutory requirements with regard to deduction of Tax at Source and Fringe Benefit Tax and deposit thereof as applicable are complied with by the Holding Company on behalf of the Company.
- REC Transmission Projects Company Limited shall pay interest to REC on the expenditure incurred by it. Interest Payable on unsecured loan given by the Rural Electrification Corporation Limited Ltd is accounted for on the basis of general lending rate of Rural Electrification Corporation Ltd., holding company, applicable for T&D schemes.
- The common employees/ establishment cost and administration expenses of the Holding Company have been accounted for as apportioned by Holding company.
- The company has not yet commenced its commercial operations therefore no Profit & Loss account has been prepared. Expenditures incurred during construction period has been treated as Incidental Expenditure during Construction Period and further, since the Company is incurring these expenses for its two subsidiaries, North Karanpura Transmission Company Limited and Talcher-II Transmission Company Limited, the expenses have been allocated at the year end in the ratio of 50:50 to its two Subsidiaries.
Further expenditure incurred on filing/legal fees regarding formation of the Company and all expenses incurred prior to the incorporation of the company have been treated as Preliminary expenses. No provision has been made for write off of Preliminary expenses during the year. The same will be written off after commencement of Business of the company in five years.
- The Company has complied with all the applicable Accounting Standards issued by the Institute of Chartered Accountants of India.

- Meeting and conference expence of Rs. 6,97,758/- has been accounted for on the basis of a letter dated 26th June, 2007 of Power Finance Corporation Limited with summary of the expenses, addressed to Rural Electrification Corporation Limited (Holding Company) for sharing of 50% of the expence amounting to Rs. 13,95,516/- towards holding of Bidders' Conference for the Independent Transmission Projects through Private participation held on 11th January, 2007 on the basis of mutually agreed terms of sharing of the expenses.
- The Company has no outstanding liability towards small-scale industries/ undertakings.
- Figures have been rounded off to the nearest rupees.
- The disclosure as per AS18 – Related Party Disclosure :
The REC Transmission Projects Company Limited is a wholly owned subsidiary of Rural Electrification Corporation Limited. All key decisions are taken by the Board of REC Transmission Projects Company Limited where the REC nominees exercise the control.
The related Party Transactions was done only with Holding Company, details are as follows:-
Loans payable – Rs. 30,79,832/- (inclusive of interest Rs. 1,59,176/-)

CASH FLOW STATEMENT FOR THE PERIOD ENDED 31st MARCH 2008

Figures in Rupees

Description	Period ended 31.03.2008
A. Cash Flow from Operating Activities:	
Incidental Expenditure During Construction	-
Adjustment for:	
- Depreciation	-
B. Cash Flow from Investing Activities:	
- Purchase of Fixed Assets	-
- Capital Work in Progress	-
- Investments	-1,000,000
- Preliminary Expenses	-66,884
C. Cash Flow from Financing Activities:	
- Share Capital	500,000
- Current Liabilities	11,236
- Unsecured Loan	3,079,832
- Loans and Advances and Current assets	-1,524,909
Net Increase/ Decrease in Cash and Cash Equivalents	999,275
Cash and Cash Equivalents as at 8th January 2007	-
Cash and Cash Equivalents as at 31st March 2008	999,275
Net Increase in Cash and cash Equivalents	999,275

TALCHER-II TRANSMISSION COMPANY LIMITED

DIRECTORS' REPORT

Your Directors have pleasure in presenting herewith the First Annual Report of the Company together with the Audited Accounts for the period from 01st May, 2007 being the date of Incorporation to 31st March, 2008.

REVIEW OF OPERATIONS

As you all know the Company has not yet started its Business, hence no comment is required.

FUTURE OUTLOOK

Your directors have decided and initiated the proceedings to start the Business of the Company.

FINANCIAL RESULTS

• **CAPITAL STRUCTURE**

Particulars	Amount (in Rs.)
Authorized Capital	500,000
Issued, Subscribed and Paid up Capital	500,000

• **FINANCIAL PERFORMANCE DURING 2007-2008**

Since the Company has not yet started its commercial operation, no profit & loss account was prepared for the first financial year ended 31st March, 2008. In place thereof a statement of Incidental Expenditure during Construction Period was prepared. A total Expenditure of Rs. 10,23,786/- was incurred during the period year ended 31-03-2008.

• **PAYMENT OF DIVIDEND**

Since company is yet to commence its Business and to earn profit, There is no amount of Dividend.

BOARD OF DIRECTORS

The Board of Directors comprises of three Directors .i.e, Shri Parkash.J. Thakkar, Chairman, Smt. Valli Natrajan, Director, Smt. Harinder Kaur Chani, Director. All the Directors were appointed at the date of incorporation.

All the first Directors will retire at the First Annual General Meeting and will be appointed as Directors liable to retire by rotation.

STATUTORY AUDITORS

M/s Aqil & Sharma Associates, Chartered Accountants were appointed by the Comptroller & Auditor General of India as Statutory Auditors of the Company for the first financial year .i.e., 1st May, 2007 to 31st March,2008. The certificate under section 224 (1B) of the Companies Act, 1956 has been obtained from them.

The Statutory Auditors have audited the Accounts of the Company for the above said period. The audited accounts, cash flow statement and the required annexure together with the Auditors Report dated 19th May, 2008 thereon are annexed to this Report.

NOTES ON ACCOUNTS

The observation of Auditors and the Notes on Accounts are self explanatory. Hence no comments are required.

PARTICULARS OF EMPLOYEES

None of the employees of the Company is in receipt of remuneration in excess of limits prescribed under section 217 (2A) of the Companies Act, 1956 and the Rules framed there under.

DEPOSITS

Your Company has not accepted any public deposit during the period under review.

DIRECTORS' RESPONSIBILITY STATEMENT

The Directors confirm:

- that in the preparation of the annual accounts, the applicable accounting standards have been followed and that no material departures have been made from the same;
- that they have selected such accounting policies and applied them consistently and made judgments 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 financial year and of the profit or loss of the Company for that period;
- that they have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956, for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- that they have prepared the annual accounts on a going concern basis.

COMMENTS OF THE C&AG OF INDIA

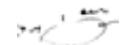
The Comment of the Comptroller & Auditor General (C&AG) of India under Section 619 (4) of the Companies Act, 1956 on the Accounts of the Company for the period ended 31st March, 2008 is appended herewith.

ACKNOWLEDGEMENT

The Directors take this opportunity to record their appreciation for the employees and gratitude for the valuable support extended to the Company by its bankers & members.

The Directors also thanks to the Statutory Auditors Aqil & Sharma Associates and the Comptroller and Auditor General of India for their valued cooperation.

On behalf of the Board


(P.J. Thakkar)
Chairman

Place: New Delhi
Date: 30/06/2008

COMMENTS OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA UNDER SECTION 619 (4) OF THE COMPANIES ACT, 1956 ON THE ACCOUNTS OF TALCHER-II TRANSMISSION COMPANY LIMITED FOR THE YEAR ENDED 31 MARCH 2008

The preparation of financial statements of **TALCHER-II TRANSMISSION COMPANY LIMITED** for the year ended **31 March 2008** in accordance with the financial reporting framework prescribed under the Companies Act, 1956 is the responsibility of the management of the company. The Statutory Auditor appointed by the Comptroller and Auditor General of India under Section 619 (2) of the Companies Act, 1956 is responsible for expressing opinion on these financial statements under section 227 of the Companies Act, 1956 based on independent audit in accordance with the auditing and assurance standards prescribed by their professional body the Institute of Chartered Accountants of India. This is stated to have been done by them vide their Audit Report dated 19.05.2008.

I on behalf of Comptroller and Auditor General of India have conducted a supplementary audit under section 619 (3) (b) of the Companies Act, 1956 of the financial statements of **TALCHER-II TRANSMISSION COMPANY LIMITED** for the year ended **31 March 2008**. This supplementary have been carried out independently without access to the working papers (in case of non-review of working papers) of the statutory auditors and is limited primarily to inquiries of the statutory auditors and company personnel and a selective examination of some of the accounting records. On the basis of my audit nothing significant has come to my knowledge which would give rise to any comment upon or supplement to Statutory Auditors' report under section 619 (4) of the Companies Act, 1956.

For and on behalf of the
Comptroller and Auditor General of India

(Saroj Punhani)
Principal Director of Commercial Audit
& Ex-officio Member Audit Board-II,
New Delhi

Place: New Delhi
Dated: 28/06/2008

AUDITORS' REPORT

To
The Members of
Talcher II Transmission Company Limited,

- We have audited the attached Balance Sheet of **TALCHER II TRANSMISSION COMPANY LIMITED** as at 31st March 2008 and also the Statement of Incidental Expenses during the Construction period ended on that date and Cash Flow Statement for the period Annexed hereto. Since the company has not started its operation, no Profit and Loss Account has been prepared for the period ended 31st March 2008. 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.
- 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 the management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.
- 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 Company.
- Further to our comments in the Annexure referred in paragraph 3 above, we report that:
 - We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;
 - In our opinion, proper books of accounts as required by law have been kept by the company so far as appears from our examination of such books;
 - The Balance Sheet, Incidental Expenses during the Construction period and Cash Flow Statement dealt with by this report are in agreement with the books of accounts;
 - In our opinion, the Balance Sheet, Incidental Expenses during the Construction period and Cash Flow Statement 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-CLV 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.
- vi) 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 and accounting policies 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:
- In the case of the Balance Sheet of the State of Affairs of the Company as at 31st March, 2008;
 - In the case of the statement showing Incidental Expenses during the Construction Period for expenses incurred for the period ended on that date; and
 - In the case of the Cash Flow Statement, of the Cash flows for the period ended on that date.

For Aqil & Sharma Associates
Chartered Accountants

(Aditya Kumar Sharma)
Partner
M. No. 085805

Place : New Delhi
Date : 19/05/2008

ANNEXURE TO THE AUDITORS' REPORT
(Referred to in paragraph 2 of our report of even date on the Accounts) for the period ended 31st March, 2008 of
TALCHER II TRANSMISSION COMPANY LIMITED

In terms of the information and explanations given to us and the books and records examined by us in the normal course of audit and to the best of our knowledge and belief, we state as under:

- (a) The company had taken unsecured loans from REC Transmission Projects Company Limited (Holding Company) and Rural Electrification Corporation Limited (Holding Company of REC Transmission Projects Company Limited) as covered in the register maintained under section 301 of the Companies Act, 1956. The amount outstanding at the year end and the maximum amount outstanding during the year was Rs.8,12,454/- and 39,754/- respectively.
- In our opinion, the rates of interest and other terms and conditions on which loans had been given/ taken from the parties listed in the register maintained under section 301 of the Companies Act, 1956 are not prima facie prejudicial to the interest of the company.
- There is an adequate internal control procedure commensurate with the size of the company.
- (a) The Company is depositing undisputed statutory dues including Provident Fund, Employees' State Insurance, Income Tax, cess and any other statutory dues with the appropriate authorities through its holding company Rural Electrification Corporation Limited as explained to us.
- (b) No undisputed amounts payable in respect of above Statutory dues were in arrears as at 31st March, 2008 for a period of more than six months from the date they became payable as explained to us.
- During the course of audit no fraud case has come to our notice. Further as informed to us the company has not noticed/ reported any fraud case during the year.
- The provision of para I, II, V, VI, VII, VIII, X, XI, XII, XIII, XIV, XV, XVI, XVII, XVIII, XIX and XX are not applicable during the period ended March 31, 2008.

For Aqil & Sharma Associates
Chartered Accountants

(Aditya Kumar Sharma)
Partner
M. No. 085805

Place : New Delhi
Date : 19/05/2008

TALCHER-II TRANSMISSION COMPANY LIMITED
BALANCE SHEET AS AT 31st MARCH 2008

Figures in Rupees

Description	Schedule No.	As at 31.03.2008
SOURCES OF FUNDS		
Shareholder's Funds:		
Share Capital	1	500,000
Loan Funds:		
Unsecured Loan	2	852,208
Total		1,352,208
APPLICATION OF FUNDS		
Fixed Assets:		
Gross Block		-
Less Depreciation		-
Net Block		-
Capital Work in Progress		1,023,786
Current Assets, Loans & Advances	3	499,700
Cash and Bank Balances		499,700
Less: Current Liabilities & Provisions	4	
Liabilities		208,427
Net Current Assets		291,273
Miscellaneous Expenditure (To the extent not written off or adjusted)		37,149
Total		1,352,208

Significant accounting policies 5
Notes on accounts 6

Schedule 1 to 6 form an integral part of Accounts

In terms of our report of even date For and on behalf of the Board

For Aqil & Sharma Associates
Chartered Accountants

(Aditya Kumar Sharma) Harinder Kaur Chani Valli Natrajan Parkash J.Thakkar
Partner Director Director Director

Place : New Delhi
Date : 19/05/2008

TALCHER-II TRANSMISSION COMPANY LIMITED
INCIDENTAL EXPENDITURE DURING CONSTRUCTION
FOR THE PERIOD ENDED 31st MARCH 2008

Figures in Rupees

Description	Period ended 31.03.2008
Expenses	
Administration expenses	
Salary, establishment and administration expenses allocated by REC-TPCL	1,012,454
Printing and Stationery	550
Bank charges	300
Sub-Total	1,013,304
Interest	2,055
Statutory Auditors' fee	8,427
Balance carried to Balance Sheet (CWIP)	1,023,786

Schedule 1 to 6 form an integral part of Accounts

In terms of our report of even date For and on behalf of the Board

For Aqil & Sharma Associates
Chartered Accountants

(Aditya Kumar Sharma) Harinder Kaur Chani Valli Natrajan Parkash J.Thakkar
Partner Director Director Director

Place : New Delhi
Date : 19/05/2008

SCHEDULE '1' - SHARE CAPITAL

Figures in Rupees

Description	As at 31.03.2008
Authorised	
50,000 Equity shares of Rs. 10 each	500,000
Issued, Subscribed and Paid up	
50,000 fully paid up Equity shares of Rs 10 each	500,000
Total	500,000

SCHEDULE '2' - UNSECURED LOANS

Figures in Rupees

Description	As at 31.03.2008
REC Transmission Projects Company Limited (Holding Company)	812,454
Rural Electrification Corporation Limited (Holding Company of REC Transmission Projects Co. Ltd.)	39,754
Total	852,208

SCHEDULE '3' - CURRENT ASSETS, LOAN AND ADVANCES

Figures in Rupees

Description	As at 31.03.2008
CURRENT ASSETS	
Cash and bank balances:	
In current account	
- with Scheduled Bank	499,700
Total	499,700

SCHEDULE '4' - CURRENT LIABILITIES AND PROVISIONS

Figures in Rupees

Description	As at 31.03.2008
Earnest Money	200,000
Other Liabilities	8,427
Total	2,08,427

SCHEDULE '5' - SIGNIFICANT ACCOUNTING POLICIES

- BASIS OF PREPARATION OF FINANCIAL STATEMENTS**
Accounting Convention – The financial statements are prepared under the historical cost convention on accrual basis and in accordance with generally accepted accounting principles and applicable accounting standards in India. The financial statements adhere to the relevant presentation requirement of the Companies Act, 1956.
- FIXED ASSETS**
Fixed Assets are shown at historical cost less accumulated depreciation. The cost includes any cost attributable of bringing the assets to its working condition for its intended use.
- DEPRECIATION**
 - Depreciation on assets is provided on pro rata basis on straight-line method at the rates prescribed under schedule XIV of the Companies Act, 1956.
 - 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.
 - Depreciation on assets purchased during the year up to Rs. 5,000/- is provided @ 100 %.
- CAPITAL WORK IN PROGRESS**
Expenditure incurred on Survey/ Studies/ Investigations/ Consultancy/ Administration/ Depreciation/ Interest has been treated as Capital Work In Progress.
- LOANS**
Expenditure incurred by the company for the Project is financed by Rural Electrification Corporation Limited, holding Company of REC Transmission Projects Company Limited, which in turn is the Holding Company of Talcher-II Transmission Company Limited and considered as Unsecured Loan. Interest has been charged on funds deployed by them.
- CASH FLOW STATEMENT**
Cash flows are reported using the indirect method, whereby Incidental Expenditure during construction is adjusted for the effects of transactions

of non-cash nature and any deferrals or accruals of past or future cash receipts or payments. The cash flows from regular operating, financing and investing activities of the Company are segregated.

SCHEDULE '6' - NOTES ON ACCOUNTS

- The Company was incorporated on May 01, 2007 and Certificate for Commencement of Business was issued on August 06, 2007. Accordingly, this being the first Accounting period of the Company commencing from date of incorporation May 01, 2007 till 31st March, 2008, previous year figures are not applicable.
- The Company is a wholly owned subsidiary of REC Transmission Projects Company Limited (REC-TPCL), which is further wholly owned by Rural Electrification Corporation Limited (REC). The Key Management Personnel of the Company are employees of REC, deployed on part time basis. No management remuneration is paid to such representatives by the company.

The details of such Key Management Personnel are as follows:-

S. No.	Name	Designation	Date of Appointment	Date of Resignation
1.	Shri Parkash J. Thakkar	Chairman & Director	01.05.2007	Continuing
2.	Smt. Valli Natrajan	Director	01.05.2007	Continuing
3.	Smt. Harinder Kaur Chani	Director	01.05.2007	Continuing

The other personnel working for the Company are also from REC. The related expenses in respect of Ms. Valli Natrajan Director and other personnel working for the Company are paid by REC and allocated to the subsidiary company (REC-TPCL) as part of administration expenses of Holding Company, which is further allocated by REC-TPCL to its two subsidiaries, North Karanpura Transmission Company Limited and Talcher-II Transmission Company Limited in equal proportion .

- All payments relating to the company are made by REC and statutory requirements with regard to deduction of Tax at Source and Fringe Benefit Tax and deposit thereof as applicable are complied with by REC on behalf of the Company.
 - Talcher-II Transmission Company Limited shall pay interest to REC on the expenditure incurred by it. Interest Payable on unsecured loan given by REC is accounted for on the basis of general lending rate of REC, applicable for T&D schemes.
 - The company has not yet commenced its commercial operations therefore no Profit & Loss account has been prepared. Expenditures incurred during construction period has been treated as Incidental Expenditure during Construction Period. In addition, the incidental expenditure during construction period appearing in REC-TPCL's books at the year end is allocated at year end to its two wholly owned subsidiaries North Karanpura Transmission Company Limited and Talcher-II Transmission Company Limited in equal proportion
Further expenditure incurred on filing/legal fees regarding formation of the Company and all expenses incurred prior to the incorporation of the company have been treated as Preliminary expenses. No provision has been made for write off of Preliminary expenses during the year. The same will be written off after commencement of Business of the company in five years.
 - The Company has complied with all the applicable Accounting Standards issued by the Institute of Chartered Accountants of India.
 - The Company has no outstanding liability towards small-scale industries/ undertakings.
 - Figures have been rounded off to the nearest rupees.
 - The disclosure as per AS18 – Related Party Disclosure :
Talcher-II Transmission Company Limited is wholly owned subsidiary of REC Transmission Projects Company Limited, which is further a wholly owned subsidiary of Rural Electrification Corporation Limited. All key decisions are taken by the Board of REC Transmission Projects Company Limited where the REC nominees exercise the control.
The related Party Transactions done with REC-TPCL and REC are as follows:-
- | | | |
|---------------|---|--|
| REC | | |
| Loans payable | – | Rs. 39,754/- (inclusive of interest Rs. 2,055/) |
| REC-TPCL | | |
| Loans payable | – | Rs. 8,12,454/- (inclusive of interest Rs. 79,588/) |

CASH FLOW STATEMENT FOR THE PERIOD ENDED 31st MARCH 2008

Figures in Rupees

Description	Period ended 31.03.2008
A. Cash Flow from Operating Activities:	
Incidental Expenditure During Construction	--
Adjustment for:	
- Depreciation	--
B. Cash Flow from Investing Activities:	
- Purchase of Fixed Assets	--
- Capital Work in Progress	-1,023,786
- Preliminary Expenses	-37,149
C. Cash Flow from Financing Activities:	
- Share capital	500,000
- Current Liabilities	2,08,427
- Unsecured Loan	8,52,208
Net Increase/ Decrease in Cash and Cash Equivalents	4,99,700
Cash and Cash Equivalents as at 01 May 2007	
Cash and Cash Equivalents as at 31st March 2008	4,99,700
Net Increase in Cash and cash Equivalents	4,99,700

NORTH KARANPURA TRANSMISSION COMPANY LIMITED DIRECTORS' REPORT

Your Directors have pleasure in presenting herewith the First Annual Report of the Company together with the Audited Accounts for the period from 23rd April, 2007 being the date of Incorporation to 31st March, 2008.

REVIEW OF OPERATIONS

As you all know the Company has not yet started its Business. So, there is no profit of the Company, therefore no comment is required.

FUTURE OUTLOOK

Your directors have decided and initiated the proceedings to start the Business of the Company.

FINANCIAL RESULTS

CAPITAL STRUCTURE

Particulars	Amount (in Rs.)
Authorized Capital	5,00,000
Issued, Subscribed and Paid up Capital	5,00,000

FINANCIAL PERFORMANCE DURING 2007-2008

Since the Company has not yet started its commercial operation, no profit & loss account was prepared for the first financial year ended 31st March, 2008. In place thereof a statement of Incidental Expenditure during Construction Period was prepared. A total Expenditure of Rs. 10,37,030/- was incurred during the period year ended 31-03-2008.

PAYMENT OF DIVIDEND

Since Company is yet to commence its Business and to earn profit, the directors regret their inability to propose Dividend for the year.

BOARD OF DIRECTORS

The Board of Directors comprises of three Directors i.e., Shri Guljit Kapur, Chairman, Smt. Valli Natrajan, Director, Smt. Harinder Kaur Chani, Director. All the Directors were appointed at the date of incorporation.

All the first Directors will retire at the First Annual General Meeting and will be appointed as Directors liable to retire by rotation.

STATUTORY AUDITORS

M/s S S A S & Associates Chartered Accountants were appointed by the Comptroller & Auditor General of India as Statutory Auditors of the Company for the First Financial year i.e., 23rd April, 2007 to 31st March, 2008. The certificate under section 224 (1B) of the Companies Act, 1956 has been obtained from them.

The Statutory Auditors have audited the Accounts of the Company for the above said period. The audited accounts, cash flow statement and the required annexure together with the Auditors Report thereon are annexed to this Report.

NOTES ON ACCOUNTS

The observation of Auditors and the Notes on Accounts are self explanatory. Hence no comments are required.

PARTICULARS OF EMPLOYEES

None of the employees of the Company is in receipt of remuneration in excess of limits prescribed under section 217 (2A) of the Companies Act, 1956 and the Rules framed there under.

DEPOSITS

Your Company has not accepted any public deposit during the period under review.

DIRECTORS' RESPONSIBILITY STATEMENT

The Directors confirm:

- that in the preparation of the annual accounts, the applicable accounting standards have been followed and that no material departures have been made from the same;
- that they have selected such accounting policies and applied them consistently and made judgments 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 financial year and of the profit or loss of the Company for that period;
- that they have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956, for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- that they have prepared the annual accounts on a going concern basis.

COMMENTS OF THE C&AG OF INDIA

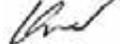
The Comment of the Comptroller & Auditor General (C&AG) of India under Section 619 (4) of the Companies Act, 1956 on the Accounts of the Company for the period ended 31st March, 2008 is appended herewith.

ACKNOWLEDGEMENT

The Directors take this opportunity to record their appreciation for the employees and gratitude for the valuable support extended to the Company by its bankers & members.

The Directors also thanks to the Statutory Auditors S S A S & Associates Chartered Accountants and the Comptroller and Auditor General of India for their valued cooperation.

On behalf of the Board



(Guljit Kapur)
Chairman

Place: New Delhi
Date: 30/06/2008

COMMENTS OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA UNDER SECTION 619 (4) OF THE COMPANIES ACT, 1956 ON THE ACCOUNTS OF NORTH KARANPURA TRANSMISSION COMPANY LIMITED FOR THE YEAR ENDED 31 MARCH 2008

The preparation of financial statements of NORTH KARANPURA TRANSMISSION COMPANY LIMITED for the year ended 31 March 2008 in accordance with the financial reporting framework prescribed under the Companies Act, 1956 is the responsibility of the management of the company. The Statutory Auditor appointed by the Comptroller and Auditor General of India under Section 619 (2) of the Companies Act, 1956 is responsible for expressing opinion on these financial statements under section 227 of the Companies Act, 1956 based on independent audit in accordance with the auditing and assurance standards prescribed by their professional body the Institute of Chartered Accountants of India. This is stated to have been done by them vide their Audit Report dated 16.05.2008.

I on behalf of Comptroller and Auditor General of India have conducted a supplementary audit under section 619 (3) (b) of the Companies Act, 1956 of the financial statements of NORTH KARANPURA TRANSMISSION COMPANY LIMITED for the year ended 31 March 2008. This supplementary have been carried out independently without access to the working papers (in case of non-review of working papers) of the statutory auditors and is limited primarily to inquiries of the statutory auditors and company personnel and a selective examination of some of the accounting records. On the basis of my audit nothing significant has come to my knowledge which would give rise to any comment upon or supplement to Statutory Auditors' report under section 619 (4) of the Companies Act, 1956.

For and on behalf of the
Comptroller and Auditor General of India

(Saroj Punhani)
Principal Director of Commercial Audit
& Ex-officio Member Audit Board-II,
New Delhi

Place: New Delhi
Dated: 29/06/2008

AUDITORS' REPORT

To
The Members of
North Karanpura Transmission Company Limited,

- We have audited the attached Balance Sheet of NORTH KARANPURA TRANSMISSION COMPANY LIMITED as at 31st March 2008 and also the Statement of Incidental Expenses during the Construction period ended on that date and Cash Flow Statement for the period Annexed hereto. Since the company has not started its operation, no Profit and Loss Account has been prepared for the period ended 31st March 2008. 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.
- 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 the management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.
- 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 Company.

- Further to our comments in the Annexure referred in paragraph 3 above, we report that:
 - We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;
 - In our opinion, proper books of accounts as required by law have been kept by the company so far as appears from our examination of such books; The Balance Sheet, Incidental Expenses during the Construction period and Cash Flow Statement dealt with by this report are in agreement with the books of accounts;
 - In our opinion, the Balance Sheet, Incidental Expenses during the Construction period and Cash Flow Statement comply with the Accounting Standards referred to in sub-section (3C) of Section 211 of the Companies Act, 1956;
 - Vide notification No. 2/5/2001-CLV 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.
 - 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 and accounting policies 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:
 - In the case of the Balance Sheet of the State of Affairs of the Company as at 31st March, 2008;
 - In the case of the statement showing Incidental Expenses during the Construction Period for expenses incurred for the period ended on that date; and
 - In the case of the Cash Flow Statement, of the Cash flows for the period ended on that date.

For S S A S & Associates
Chartered Accountants

(Alpana Saxena)
Partner

Place : New Delhi
Date : 13/05/2008

M. No. 095837

ANNEXURE TO THE AUDITORS' REPORT

(Referred to in paragraph 2 of our report of even date on the Accounts) for the period ended 31st March, 2008 of NORTH KARANPURA TRANSMISSION COMPANY LIMITED

In terms of the information and explanations given to us and the books and records examined by us in the normal course of audit and to the best of our knowledge and belief, we state as under:

- (a) The company had taken unsecured loans from REC Transmission Projects Company Limited (Holding Company) and Rural Electrification Corporation Limited (Holding Company of REC Transmission Projects Company Limited) as covered in the register maintained under section 301 of the Companies Act, 1956. The amount outstanding at the year end and the maximum amount outstanding during the year was Rs.7,12,455/- and 2,95,997/- respectively. In our opinion, the rates of interest and other terms and conditions on which loans had been given/ taken from the parties listed in the register maintained under section 301 of the Companies Act, 1956 are not prima facie prejudicial to the interest of the company.
- There is an adequate internal control procedure commensurate with the size of the company.
- (a) The Company is depositing undisputed statutory dues including Provident Fund, Employees' State Insurance, Income Tax, cess and any other statutory dues with the appropriate authorities through its holding company Rural Electrification Corporation Limited as explained to us.
(b) No undisputed amounts payable in respect of above Statutory dues were in arrears as at 31st March, 2008 for a period of more than six months from the date they became payable as explained to us.
- During the course of audit no fraud case has come to our notice. Further as informed to us the company has not noticed/ reported any fraud case during the year.
- The provision of para I, II, V, VI, VII, VIII, X, XI, XII, XIII, XIV, XV, XVI, XVII, XVIII, XIX and XX are not applicable during the period ended March 31, 2008.

For S S A S & Associates
Chartered Accountants

(Alpana Saxena)
Partner

Place : New Delhi
Date : 13/05/2008

M. No. 095837

NORTH KARANPURA TRANSMISSION COMPANY LIMITED
BALANCE SHEET AS AT 31st MARCH 2008

Figures in Rupees

Description	Schedule No.	As at 31.03.2008
SOURCES OF FUNDS		
Shareholder's Funds:		
Share Capital	1	500,000
Loan Funds:		
Unsecured Loan	2	1,008,452
Total		1,508,452
APPLICATION OF FUNDS		
Fixed Assets:		
Gross Block		-
Less Depreciation		-
Net Block		-
Capital Work in Progress		1,037,030
Current Assets, Loans & Advances		
Cash and Bank Balances	3	499,700
Loans and Advances		243,000
		742,700
Less: Current Liabilities & Provisions		
Liabilities	4	308,427
Net Current Assets		434,273
Miscellaneous Expenditure (To the extent not written off or adjusted)		37,149
Total		1,508,452

Significant accounting policies 5

Notes on accounts 6

Schedule 1 to 6 form an integral part of Accounts

In terms of our report of even date For and on behalf of the Board
 For S S A S & Associates
 Chartered Accountants

(Alpana Saxena) Harinder Kaur Chani Valli Natrajan Guljit Kapur
 Partner Director Director Director

Place : New Delhi
 Date : 13/05/2008

NORTH KARANPURA TRANSMISSION COMPANY LIMITED
INCIDENTAL EXPENDITURE DURING CONSTRUCTION
FOR THE PERIOD ENDED 31st MARCH 2008

Figures in Rupees

Description	Period ended 31.03.2008
Expenses	
Administration expenses	
Salary, establishment and administration expenses allocated by REC-TPCL	1,012,455
Printing and Stationery	550
Bank charges	300
Sub-Total	1,013,305
Interest	15,298
Statutory Auditors' fee	8,427
Balance carried to Balance Sheet (CWIP)	1,037,030

Schedule 1 to 6 form an integral part of Accounts

In terms of our report of even date For and on behalf of the Board
 For S S A S & Associates
 Chartered Accountants

(Alpana Saxena) Harinder Kaur Chani Valli Natrajan Guljit Kapur
 Partner Director Director Director

Place : New Delhi
 Date : 13/05/2008

SCHEDULE '1' - SHARE CAPITAL

Figures in Rupees

Description	As at 31.03.2008
Authorised	
50,000 Equity shares of Rs. 10 each	500,000
Issued, Subscribed and Paid up	
50,000 fully paid up Equity shares of Rs 10 each	500,000
Total	500,000

SCHEDULE '2' - UNSECURED LOANS

Figures in Rupees

Description	As at 31.03.2008
REC Transmission Projects Company Limited (Holding Company)	712,455
Rural Electrification Corporation Limited (Holding Company of REC Transmission Projects Co. Ltd.)	295,997
Total	1,008,452

SCHEDULE '3' - CURRENT ASSETS, LOAN AND ADVANCES

Figures in Rupees

Description	As at 31.03.2008
I CURRENT ASSETS	
(A) Cash and bank balances:	
In current account	
- with Scheduled Bank	499,700
Total - (A)	499,700
II LOANS AND ADVANCES	
(A) Advances:	
(Unsecured considered good)	
- Advances recoverable in cash or in kind or for value to be received	243,000
Total - (B)	243,000
Total	742,700

SCHEDULE '4' - CURRENT LIABILITIES AND PROVISIONS

Figures in Rupees

Description	As at 31.03.2008
Earnest Money	300,000
Other Liabilities	8,427
Total	308,427

SCHEDULE '5' - SIGNIFICANT ACCOUNTING POLICIES
1. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

Accounting Convention – The financial statements are prepared under the historical cost convention on accrual basis and in accordance with generally accepted accounting principles and applicable accounting standards in India. The financial statements adhere to the relevant presentation requirement of the Companies Act, 1956.

2. FIXED ASSETS

Fixed Assets are shown at historical cost less accumulated depreciation. The cost includes any cost attributable of bringing the assets to its working condition for its intended use.

3. DEPRECIATION

- 3.1 Depreciation on assets is provided on pro rata basis on straight-line method at the rates prescribed under schedule XIV of the Companies Act, 1956.
- 3.2 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.
- 3.3 Depreciation on assets purchased during the year up to Rs. 5,000/- is provided @ 100 %.

4. CAPITAL WORK IN PROGRESS

Expenditure incurred on Survey/ Studies/ Investigations/ Consultancy/ Administration/ Depreciation/ Interest has been treated as Capital Work In Progress.

5. **LOANS**

Expenditure incurred by the company for the Project is financed by Rural Electrification Corporation Limited, holding Company of REC Transmission Projects Company Limited, which in turn is the Holding Company of North Karanpura Transmission Company Limited, and considered as Unsecured Loan. Interest has been charged on funds deployed by them.

6. **CASH FLOW STATEMENT**

Cash flows are reported using the indirect method, whereby Incidental Expenditure during construction is adjusted for the effects of transactions of non-cash nature and any deferrals or accruals of past or future cash receipts or payments. The cash flows from regular operating, financing and investing activities of the Company are segregated.

SCHEDULE '6' - NOTES ON ACCOUNTS

- The Company was incorporated on April 23, 2007 and Certificate for Commencement of Business was issued on August 06, 2007. Accordingly, this being the first Accounting period of the Company commencing from date of incorporation April 23, 2007 till 31st March, 2008, previous year figures are not applicable.
- The Company is a wholly owned subsidiary of REC Transmission Projects Company Limited (REC-TPCL), which is further wholly owned by Rural Electrification Corporation Limited (REC). The Key Management Personnel of the Company are employees of REC, deployed on part time basis. No management remuneration is paid to such representatives by the company.
The details of such Key Management Personnel are as follows:-

S. No.	Name	Designation	Date of Appointment	Date of Resignation
1.	Shri Guljit Kapur	Chairman & Director	23.04.2007	Continuing
2.	Smt. Valli Natrajan	Director	23.04.2007	Continuing
3.	Smt. Harinder Kaur Chani	Director	23.04.2007	Continuing

The other personnel working for the Company are also from REC. The related expenses in respect of Mr. Guljit Kapur and Ms. Valli Natrajan, Directors and other personnel working for the Company are paid by REC and allocated to the subsidiary company (REC-TPCL) as part of administration expenses of Holding Company, which is further allocated by REC-TPCL to its two subsidiaries, North Karanpura Transmission Company Limited and Talcher-II Transmission Company Limited in equal proportion.

- All payments relating to the company are made by REC and statutory requirements with regard to deduction of Tax at Source and Fringe Benefit Tax and deposit thereof as applicable are complied with by REC on behalf of the Company.
- North Karanpura Transmission Company Limited shall pay interest to REC on the expenditure incurred by it. Interest Payable on unsecured loan given by REC is accounted for on the basis of general lending rate of REC, applicable for T&D schemes.
- The company has not yet commenced its commercial operations therefore no Profit & Loss account has been prepared. Expenditures incurred during construction period has been treated as Incidental Expenditure during Construction Period. In addition, the incidental expenditure

during construction period appearing in REC-TPCL's books at the year end is allocated at year end to its two wholly owned subsidiaries North Karanpura Transmission Company Limited and Talcher-II Transmission Company Limited in equal proportion

Further expenditure incurred on filing/legal fees regarding formation of the Company and all expenses incurred prior to the incorporation of the company have been treated as Preliminary expenses. No provision has been made for write off of Preliminary expenses during the year. The same will be written off after commencement of Operations of the company in five years.

- The Company has complied with all the applicable Accounting Standards issued by the Institute of Chartered Accountants of India.
- The Company has no outstanding liability towards small-scale industries/ undertakings.
- Figures have been rounded off to the nearest rupees.
- The disclosure as per AS18 – Related Party Disclosure :
North Karanpura Transmission Company Limited is wholly owned subsidiary of REC Transmission Projects Company Limited, which is further a wholly owned subsidiary of Rural Electrification Corporation Limited. All key decisions are taken by the Board of REC Transmission Projects Company Limited where the REC nominees exercise the control.

The related Party Transactions done with REC-TPCL and REC are as follows:-
REC

Loans payable – Rs. 2,95,997/- (inclusive of interest Rs. 15,298/)

REC-TPCL
Loans payable – Rs. 7,12,455/- (inclusive of interest Rs. 79,588/)

**CASH FLOW STATEMENT FOR THE PERIOD ENDED
31st MARCH 2008**

Figures in Rupees

Description	Period ended 31.03.2008
A. Cash Flow from Operating Activities:	
Incidental Expenditure During Construction	-
Adjustment for:	
- Depreciation	-
B. Cash Flow from Investing Activities:	
- Purchase of Fixed Assets	-
- Capital Work in Progress	-1,037,030
- Preliminary Expenses	-37,149
C. Cash Flow from Financing Activities:	
- Share capital	500,000
- Current Liabilities	308,427
- Unsecured Loan	1,008,452
- Loans and Advances and Current assets	-243,000
Net Increase/ Decrease in Cash and Cash Equivalents	499,700
Cash and Cash Equivalents as at 23rd April 2007	-
Cash and Cash Equivalents as at 31st March 2008	499,700
Net Increase in Cash and cash Equivalents	499,700

REC POWER DISTRIBUTION COMPANY LIMITED

DIRECTORS' REPORT

Your Directors have pleasure in presenting herewith the First Annual Report of the Company together with the Audited Accounts for the year ended 31st March, 2008 (from the date of Incorporation i.e. 12th July, 2007 to 31st March, 2008).

REVIEW OF OPERATIONS

Since this is the First Financial year of the Company your Directors have pleasure to stating that the Company has earned the Total Income of Rs. 35,932,882/-. However, the Net Profit for the year ended stood at Rs. 17,788,587/-. This is pleasure stating that your Company has got some good contracts during the year. The Agreements signed by the Company during the year were as follows:

1. An agreement with Jodhpur Vidyut vitran Nigam Limited (JdVVNL) on 1.10.2007 for third party quality monitoring, supervision and inspection of the village electrification work awarded on turnkey basis by JdVVNL under Rajiv Gandhi Grameen Vidyutikaran Yojana (RGGVY) covering 4399 nos. villages in 7 districts having project cost of Rs. 84.88 crore. The Company would get a consultancy fee @ 2% of Project Cost.
2. An agreement with Punjab State Electricity Board (PSEB) on 10.12.2007 for consultancy services for selection of developers through International Competitive Bidding Process for supply of 1800 MW \pm 10% power to PSEB on tariff based bidding under case-1 of MOP Guidelines. The Company would get a Consultancy fee of Rs. 12.5 Crore from PSEB.
3. An agreement with Ajmer Vidyut Vitran Nigam Limited (AVVNL) on 04.03.2008 for third party quality monitoring, supervision and inspection of the village electrification work awarded on turnkey basis by AVVNL under Rajiv Gandhi Grameen Vidyutikaran Yojana (RGGVY) covering 4693 villages in 5 Districts having project cost of Rs. 127.63 crore and Feeder Renovation Programme (FRP) works for 651 nos. completed feeders & 1783 nos. feeders under execution having combined projects cost of Rs. 1173.39 Crore. The Company would get a consultancy fee of Rs. 22.79 Crore from AVVNL.

FINANCIAL RESULTS

A Summary of the financial performance of the Company for the year ended 31st March, 2008 is as under:

(Amount in Rs.)

Particulars	March 31, 2008
Gross Income	35,932,882
Profit before Tax	26,948,322
Provision for Taxation	9,159,735
Profit after Tax	17,788,587

CAPITAL STRUCTURE

Capital	Amount (Rs.)
Authorised Capital	200,000,000
Issued, Subscribed and Paid up Capital	500,000

PAYMENT OF DIVIDEND

Since this is the first year of the Company various plan are yet to be executed and started, which requires huge amount of the capital investment. Further the Company has also liability as the amount of the Capital was lent by its Holding Company i.e. REC, hence your Directors regret their inability to recommend any Dividend for the year ended March 31, 2008.

BOARD OF DIRECTORS

Sl. No.	Name	Designation	Date of Appointment	Date of Resignation/ Superannuation	Remarks
1.	Shri A.K. Lakhina	Ex-Chairman	13.07.2007	29.02.2008	Superannuation
2.	Shri Rama Raman	Director	12.07.2007	Continuing	-
3.	Shri A.B.L. Srivastava	Director	12.07.2007	11.02.2008	Resignation
4.	Shri A. Anantha	Director	12.07.2007	10.08.2007	Resignation
5.	Shri Sanjeev Garg	Director	10.08.2007	Continuing	-
6.	Shri D.S. Ahluwalia	Director	04.04.2008	Continuing	-
7.	Shri P. Uma Shankar	Chairman	01.03.2008	Continuing	-

Shri Rama Raman, Shri Sanjeev Garg and Shri D.S. Ahluwalia, Directors shall retire at the First Annual General Meeting and be appointed as Directors liable to retire by rotation.

STATUTORY AUDITOR

M/s Satyendra Jain & Associates, Chartered Accountants were appointed by the Comptroller & Auditor General of India as Statutory Auditors of the Company for the first Financial Year i.e., 12th July, 2007 to 31st March, 2008. The certificate under section 224 (1B) of the Companies Act, 1956 has been obtained from them.

The Statutory Auditors have audited the Accounts of the Company for the above said period. The audited Profit and Loss and Balance Sheet, cash flow statement and the required annexure together with the Auditors Report dated 24.05.2008 thereon are annexed to this Report.

NOTES ON ACCOUNTS

The observation of Auditors and the Notes on Accounts are self explanatory. Hence no comments are offered.

PARTICULARS OF EMPLOYEES

There was no employee throughout the financial year who was in receipt of remuneration of Rs. 24,00,000/- or more per annum or employed for part of the year who was in the receipt of remuneration at the rate of Rs. 2,00,000/- or more per month and therefore no particulars are given under section 217 (2A) of the Companies Act, 1956 read with Companies (Particulars of employees) Rules, 1975.

ADDITIONAL INFORMATION REQUIRED UNDER SECTION 217 (1) (E) OF THE COMPANIES ACT, 1956.

As regards disclosure under section 217 (1) (e) of the Companies Act, 1956 read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988, the statement showing required particulars is annexed hereto and forms part of this report.

DEPOSITS

Your Company has not accepted any public deposit during the period under review. (As mentioned at Point No VI of the Annexure to the Auditors Report.)

DIRECTORS' RESPONSIBILITY STATEMENT U/S 217 (2AA)

Pursuant to Section 217 (2AA) of the Companies Act, 1956, the Directors based on the representation received from the operative management, confirm:

- a) that in the preparation of the annual accounts, the applicable accounting standards have been followed and that no material departures have been made from the same;
- b) that they have selected such accounting policies and applied them consistently and made judgments 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 financial year and of the profit or loss of the Company for that period;
- c) that they have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956, for safeguarding the assets of the Company and for preventing and detecting of any fraud and other irregularities;
- d) that they have prepared the annual accounts on a going concern basis.

PERSONNEL

No permanent employees have been appointed in the Company, three employees of the REC, its holding Company, has been deputed to work for RECPDCL. The employer- employee relations throughout the year were very cordial. The Directors also wish to place on record the support and confidence reposed in the management by the employees. Total quality in every sphere of activities and development continues to be on the top priority of your management.

APPRECIATION

The Directors place on record their deep appreciation of contribution made by ex Chairman Shri Anil Kumar Lakhina, Shri A. Anantha (Director) and Shri A.B.L. Srivastava (Director).

COMMENTS OF THE C&AG OF INDIA

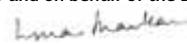
The Comment of the Comptroller & Auditor General (C&AG) of India under Section 619(4) of the Companies Act, 1956 on the Accounts of the Company for the year ended 31st March, 2008 is appended herewith.

ACKNOWLEDGEMENT

The Directors take this opportunity to record their appreciation for the employees and gratitude for the valuable support extended to the Company by its bankers & members.

The Directors also thanks to the Statutory Auditors Satyendra Jain & Associates and the Comptroller and Auditor General of India for their valued cooperation.

For and on behalf of the Board



(P. Uma Shankar)
(Chairman)

Place: New Delhi
Date: 17/07/2008

ANNEXURE TO THE DIRECTORS' REPORT

Statement pursuant to section 217 (1) (e) of the Companies Act, 1956 read with the Companies (Disclosure of particulars in the reports of Board of Directors) rules, 1988.

A. CONSERVATION OF ENERGY

The Company has always been conscious about the need for conservation of energy. Energy saving is one of the factor for the economic growth of the Company it remained an area of high priority for the Company.

B. TECHNOLOGY ABSORPTION, ADAPTATION AND INNOVATION

The Company is continuously making efforts to introduce latest Information Technology to the Company and is up to date on the latest happenings in its field.

C. FOREIGN EXCHANGE EARNINGS AND OUTGO

There have been neither earnings nor outgo of foreign exchange during the year.

For and on behalf of the Board



(P. Uma Shankar)
(Chairman)

Place: New Delhi

Date: 17/07/2008

COMMENTS OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA UNDER SECTION 619 (4) OF THE COMPANIES ACT, 1956 ON THE ACCOUNTS OF REC POWER DISTRIBUTION COMPANY LIMITED FOR THE YEAR ENDED 31 MARCH 2008

The preparation of financial statements of REC POWER DISTRIBUTION COMPANY LIMITED for the year ended 31 March 2008 in accordance with the financial reporting framework prescribed under the Companies Act, 1956 is the responsibility of the management of the company. The Statutory Auditor appointed by the Comptroller and Auditor General of India under Section 619 (2) of the Companies Act, 1956 is responsible for expressing opinion on these financial statements under section 227 of the Companies Act, 1956 based on independent audit in accordance with the auditing and assurance standards prescribed by their professional body the Institute of Chartered Accountants of India. This is stated to have been done by them vide their Audit Report dated 24.05.2008.

I on behalf of Comptroller and Auditor General of India have conducted a supplementary audit under section 619 (3) (b) of the Companies Act, 1956 of the financial statements of REC POWER DISTRIBUTION COMPANY LIMITED for the year ended 31 March 2008. This supplementary have been carried out independently without access to the working papers (in case of non-review of working papers) of the statutory auditors and is limited primarily to inquiries of the statutory auditors and company personnel and a selective examination of some of the accounting records. On the basis of my audit nothing significant has come to my knowledge which would give rise to any comment upon or supplement to Statutory Auditors' report under section 619 (4) of the Companies Act, 1956.

For and on behalf of the
Comptroller and Auditor General of India

(Saroj Punhani)

Principal Director of Commercial Audit
& Ex-officio Member Audit Board-II,
New Delhi

Place: New Delhi

Dated: 25/06/2008

AUDITORS' REPORT

TO THE MEMBERS OF
REC POWER DISTRIBUTION COMPANY LIMITED
CORE-4, SCPOE COMPLEX, 7, LODHI ROAD,
NEW DELHI 110003

We have audited the attached Balance Sheet of REC POWER DISTRIBUTION COMPANY LIMITED as on 31st March, 2008 and also the Profit and 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.

We conducted our audit in accordance with 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.

1. As required by the Companies (Auditor's Report) Order, 2003 ('Order') issued by the Central Government of India in term 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 & 5 of the said Order to the extent applicable to the Company.
We report that considering the point no.7 of Schedule No. 6 on the Notes on Accounts, section 22 of the "THE MICRO, SMALL AND MEDIUM ENTERPRISES DEVELOPMENT ACT, 2006" is not applicable.
Further to our comments in the Annexure referred to the above, we report that: without considering the point no.8 of Schedule 6 (Notes on Accounts) to the Balance Sheet the effect of which has not been quantified by the management .
 - (i) We have obtained all the information and explanation, 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 law have been kept by the Company so far as appears from our examination of those books;
 - (iii) The Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report are in agreement with the books of account;
 - (iv) In our opinion, the Balance Sheet, Profit and Loss Account and the Cash Flow Statement comply with the requirements of the Accounting Standards referred to in section 211(3C) of the Companies Act, 1956.
 - (v) In our opinion, and based on the information and explanations given to us, none of the directors are disqualified as on 31st March 2008 from being appointed as a director in terms of clause (g) of the sub-section(1) of section 274 of the Companies Act, 1956.
 - (vi) In our opinion and to the best of our information and according to the explanation given to us, the said accounts 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 Balance Sheet, of the state of affairs of the Company as at 31st March 2008;
 - b) in the case of profit and Loss Account, of the Profit for the year ended on that date;
 - c) in the case of Cash Flow Statement, of the Cash-Flows for the year ended on that date;

For Satyendra Jain & Associates
CHARTERED ACCOUNTANTS

(Anil Kumar Jain)
Partner
Membership No. 072783

Place : New Delhi

Dated: 24/05/2008

ANNEXURE REFERRED TO IN PARAGRAPH 1 OF THE AUDITOR'S REPORT TO THE MEMBERS OF REC POWER DISTRIBUTION COMPANY LIMITED ON THE ACCOUNTS FOR THE YEAR ENDED MARCH, 2008.

This is the Annexure referred to in our report on the balance sheet of REC POWER DISTRIBUTION COMPANY LIMITED, as at 31st March 2008.

- (i) The company has no fixed assets therefore paragraph 4(i) of the order is not applicable.
- (ii) The company has no inventories therefore paragraph 4(ii) of the order is not applicable .
- (iii) Company has neither granted nor taken any loans, secured or unsecured, to/from companies, firms or other parties listed in the register, maintained under section 301 of the Companies Act, 1956, however there exists a CURRENT LIABILITY of Rs. 7184935 on Balance Sheet date in the name of HOLDING COMPANY on account of various expenditure incurred by them .
- (iv) In our opinion and according to the information and explanations given to us, there are adequate internal control procedures commensurate with the size of the Company and the nature of the business with regard to purchase of inventories, fixed assets and for the sale of goods. In our opinion, there is no continuing failure to correct major weakness in internal control.
- (v) There are no transactions of purchase and sale of goods, materials and services made in pursuance of contract or arrangements entered in the register maintained under section 301 of the Companies Act 1956

- aggregating during the year to Rs. 5,00,000/- or more in respect of each party.
- (vi) Since the Company has not accepted deposits from the public, paragraph 4(vi) of the Order is not applicable.
- (vii) Since the Company is not a listed Company or neither having Paid Up Share Capital including reserves exceeding Rs. 50 Lacs nor an average annual turnover exceeding five crores, paragraph 4(vii) of the Order is not applicable.
- (viii) We were informed that the maintenance of cost records has not been prescribed by the Central Government under section 209 (1) (d) of the Companies Act, 1956.
- (ix) According to the records of the company, the company is regular in depositing undisputed statutory dues including Provident Fund, Employees' state Insurance, Income Tax, Sales Tax, Wealth Tax, Customs Duty, Excise Duty, Cess and other statutory dues with appropriate authorities. According to the information and explanation given to us, there are no undisputed amounts payable in respect of such statutory dues which have remained outstanding as at 31st March 2008 for a period more than six months from the date they become payable.
- (x) The Company does not have accumulated losses at the end of the financial year. Further, the Company has not incurred cash losses in the financial year as well as in the immediately preceding financial year.
- (xi) The company has not defaulted in repayment of its dues to the financial institution and banks.
- (xii) Since the Company has not granted any loans or advances on the basis of security by way of pledge of shares, debentures or other securities, paragraph 4(xii) of the Order is not applicable.
- (xiii) Since the provision of special statute applicable to chit fund, nidhi or mutual benefits fund / societies are not applicable to the Company, paragraph 4(xiii) of the Order is not applicable.
- (xiv) Since the company is not dealing or trading in shares, securities, debentures or other investments and hence, paragraph 4 (xiv) is not applicable.
- (xv) As informed to us, the Company has not given any guarantee for loans taken by others from banks and financial institutions.
- (xvi) The term loan taken during the year from the bank has been applied for purpose for which the loan was taken.
- (xvii) On the basis of our examination, the funds raised on short- term basis have not been used for long- term investments and vice-versa.
- (xviii) The Companies has not made any preferential allotments of shares to parties and companies covered in the Register maintained under Section 301 of the Companies Act,1956.
- (xix) Since the Company has not issued any debentures, paragraph 4(xix) of the Order is not applicable.
- (xx) Since the company has not raised any money by way of public issue, paragraph 4(xx) of the Order is not applicable.
- (xxi) As informed to us, there has not been any fraud on or by the Company noticed or reported during the year.

**FOR SATYENDRA JAIN & ASSOCIATES
CHARTERED ACCOUNTANTS**

(Anil Kumar Jain)
PARTNER
M. NO. 072783

Place : New Delhi
Dated : 24/05/2008

REC POWER DISTRIBUTION COMPANY LIMITED
BALANCE SHEET AS AT 31st MARCH 2008

Figures in Rupees

Description	Schedule No.	As at 31.03.2008
SOURCES OF FUNDS		
Shareholder's Funds:		
Share Capital	1	500,000
Reserve & Surplus	2	17,788,587
Loan Funds:		
Secured Loans		-
Unsecured Loan		-
Total		18,288,587
APPLICATION OF FUNDS		
Fixed Assets:		
Gross Block		-
Less Depreciation		-
Net Block		-
Capital Work in Progress		-
Investments		-
Current Assets, Loans & Advances	3	
Cash and Bank Balances		24,239,760
Other Current assets		226,540
Loans and Advances		9,816,207
		34,282,507
Less: Current Liabilities & Provisions	4	
Current Liabilities		8,002,259
Provisions		9,159,735
		17,161,994
Net Current Assets		17,120,513
Miscellaneous Expenditure (To the extent not written off or adjusted)		1,168,074
Total		18,288,587

Significant accounting policies 5

Notes on accounts 6

Schedule 1 to 8 form an integral part of Accounts

Satyendra Jain & Associates
Chartered Accountants

For and on behalf of the Board

Anil Kumar Jain
M. No. 072783
Partner

B.P. Yadav D.S. Ahulwalia Sanjiv Garg
CEO Director Director

Place : New Delhi
Date : 22/05/2008

REC POWER DISTRIBUTION COMPANY LIMITED
PROFIT & LOSS ACCOUNT

FOR THE PERIOD ENDED 31st MARCH 2008

Figures in Rupees

Description	Schedule No.	Period ended 31.03.2008
INCOME		
Operating Income		35,494,220
(Income from Consultancy Services)		
Other Income (Interest on Term Deposits)		438,662
Total		35,932,882
EXPENSES		
Direct Overheads for Consultancy Business		2,887,897
Establishment Expenses	7	4,393,362
Administration expenses	8	1,411,283
Preliminary Expenses Written Off		292,018
Total		8,984,560
Profit for the Year		26,948,322
Profit before Tax		26,948,322
Provision for Taxation		9,159,735
Profit after Tax		17,788,587

Schedule 1 to 8 form an integral part of Accounts

In terms of our report of even date

Satyendra Jain & Associates
Chartered Accountants

For and on behalf of the Board

Anil Kumar Jain
M. No. 072783

B.P. Yadav CEO
D.S. Ahulwalia Director
Sanjiv Garg Director

Place : New Delhi
Date : 22/05/2008

SCHEDULE '1' - SHARE CAPITAL

Figures in Rupees

Description	As at 31.03.2008
Authorised 20000000 Equity shares of Rs. 10 each	200,000,000
Issued, Subscribed and Paid up 50,000 fully paid up Equity shares of Rs 10 each	500,000
Total	500,000

SCHEDULE '2' - RESERVES & SURPLUS

Figures in Rupees

Description	As at 31.03.2008
Profit and loss Account	
Profit for the Period	17,788,587
Total	17,788,587

SCHEDULE '3' - CURRENT ASSETS, LOAN AND ADVANCES

Figures in Rupees

Description	As at 31.03.2008
I CURRENT ASSETS	
(A) Cash and bank balances:	
(i) In current account with Scheduled Bank	4,239,760
(ii) In Deposit Accounts with Scheduled Banks	20,000,000
Total (A)	24,239,760
(B) OTHER CURRENT ASSETS	
(i) Interest accrued but not due on term deposits	226,540
Total - (B)	226,540
II LOANS AND ADVANCES	
(C) Advances:	
(Unsecured considered good)	
(i) Advance Income -Tax	9525000
(ii) Income Tax Recoverable	58776
(iii) Service Tax (CENVAT)	232431
Total - (C)	9,816,207
Grand Total :	34,282,507

SCHEDULE '4' - CURRENT LIABILITIES AND PROVISIONS

Figures in Rupees

Description	As at 31.03.2008
(A) Current Liabilities	
(a) Creditors for Expenses	
Dues of Sml Scale Ind. Undertakings	
Dues of creditors other than small scale Ind. Undertakings	597,778
(b) Earnest money Deposits	40,000
(c) Rural Electrification Corporation Limited (Holding Company)	7,184,935
(d) Other Liabilities	96,727
(e) TDS Payable	82,819
Total A	8,002,259
(B) Provisions	
Income Tax	9,159,735
Total B	9,159,735
Total (A+B)	17,161,994

SCHEDULE '5' - SIGNIFICANT ACCOUNTING POLICIES

1. **Accounting Convention**

The financial statements are prepared under the historical cost convention on accrual basis and in accordance with generally accepted accounting principles and applicable accounting standards in India. The financial statements adhere to the relevant presentation requirement of the Companies Act, 1956.

2. **Fixed Assets**

Fixed Assets are shown at historical cost less accumulated depreciation. The cost includes any cost attributable for bringing the assets to its working condition for its intended use.

3. **Depreciation**

3.1 Depreciation on assets is provided on pro rata basis on straight-line method at the rates prescribed under schedule XIV of the Companies Act, 1956.

3.2 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.

3.3 Full amount is provided as depreciation on assets purchased during the year for a value up to Rs. 5,000/- .

4. **Expenditure Incurred by Holding Company**

Expenditures incurred by the Holding Company on behalf of our company are recognised on accrual basis, and same are classified as Current Liabilities payable to Holding Company.

5. **Cash Flow Statement**

Cash flows are reported using the indirect method, whereby profit before tax is adjusted for the effects of the transactions of a non- cash nature and any deferrals or accruals of past of future cash receipts and payments. The cash flows from regular operating, financing and investing activities of the Company are segregated.

6. **Revenue Recognition**

6.1 Income and expenses are accounted for on accrual basis.

6.2 Consultancy fee is recognized as income on the basis of terms and conditions of the consultancy contract where due and receipt of such fee is stipulated as a separate item and linked with the scope of work defined in the consultancy contract. However initial /advance fees received as per terms of contract is recognised as income immediately on mobilisation of activities and resources required for execution of consultancy work.

6.3 In case of lump-sum contracts:

(i) As per invoice (bill) raised in accordance with the contractual stipulations.

(ii) Where payments are received in advance irrespective of the progress of the work, consultancy income is recognised as income on mobilisation of activities and resources required for execution of consultancy work.

6.4 The recoverable/adjustable mobilisation advance is recognised as income at the time adjustment of advance from running bill.

6.5 Consultancy fees is taken as income excluding the amount of Service Tax collected as payable under the Service Tax Act 1994.

7. Preliminary /Preoperative Expenditure (To the extent not written off)

Preliminary and preoperative expenses relating to the formation of the company are classified as Miscellaneous Expenses (To the extent not written off) and total expenditure is written off over a period of five years from the year of incorporation of the company.

SCHEDULE '6' - NOTES ON ACCOUNTS

- The Company was incorporated on July 12, 2007 and Certificate for Commencement of Business was issued on July 31, 2007. Accordingly, this being the first Accounting period of the Company commencing from date of incorporation 12th July, 2007 till 31st March, 2008, previous year figures are not applicable.
- The Company is a wholly owned subsidiary of Rural Electrification Corporation Limited (A Govt. of India Enterprise). The Key Management Personnel of the Company are employees of the Holding Company (REC Ltd) deployed on part time basis. No management remuneration is paid to such representatives by the company.

The details of such Key Management Personnel are as follows:-

Sl. No.	Name	Designation	Date of Appointment	Date of Resignation
1.	Shri A.K. Lakhina	Chairman	13.07.2007	29.02.2008
2.	Shri Rama Raman	Director	12.07.2007	Continuing
3.	Shri A.B.L. Srivastava	Director	12.07.2007	11.02.2008
4.	Shri A. Anantha	Director	12.07.2007	10.08.2007
5.	Shri Sanjeev Garg	Director	10.08.2007	Continuing
6.	Shri D.S. Ahulwalia	Director	04.04.2008	Continuing
7.	Shri P. Uma Shankar	Chairman	01.03.2008	Continuing

- In respect of the expenditure payments relating to our company, which are incurred by Holding Company, the statutory requirements with regard to Fringe Benefit Tax and deposit thereof as applicable are complied with by the Holding Company on behalf of the Company.
- The common employees/ establishment cost and administration expenses of the Holding Company have been accounted for as apportioned by Holding company on the following basis.
For employees of holding company working on full time basis for subsidiary Company (RECPDCL), total Cost to the Company (CTC) of employees on full time basis have been recognised as expenditure whereas for the employees of holding company working partially for the subsidiary company, percentage of total cost of employees on part time basis according to the estimated time spent by these employees, have been recognised as expenditure, on the basis of cost ratio details provided by holding company. Interest on cost incurred by holding company on behalf of our company is provided as per the average cost of borrowings (of the holding company excluding borrowings under section 54 EC of the Income Tax Act).
Administrative overheads allocation of holding company has been taken on the basis of total basic salary of employees working in our company multiplied by ratio of total overhead cost and the total basic salary of the holding company.
- The Company has complied with all the applicable Accounting Standards issued by the Institute of Chartered Accountants of India.
- The Company has no outstanding liability towards micro, small & medium undertakings.

- The contracts on account of consultancy services (revenue items) amounting to Rs.4800000/- remains to be executed.
- Tax auditors for the year 2007-08 are yet to be appointed and their fees is yet to be decided therefore provision of the same has not been made. Figures have been rounded off to the nearest rupees.
- The disclosure as per AS18-Related Party Disclosure.
The REC Power Distribution Company Limited is a wholly owned Subsidiary of Rural Electrification Corporation Limited. All key decisions are taken by the Board of REC Power Distribution Company Limited where the REC nominees exercise the control.
The related Party Transactions was done only with Holding Company, details are as follows:-
Current Liabilities payable : Rs. 71,84,935/- (inclusive of interest Rs.2,77,066/-)

SCHEDULE '7' - ESTABLISHMENT EXPENSES

Figures in Rupees

Description	As at 31.03.2008
Manpower Cost Allocation by Holding Co.	4,393,362
Total	4,393,362

SCHEDULE '8' - ADMINISTRATION EXPENSES

Figures in Rupees

Description	As at 31.03.2008
Administration Overhead allocation by Holding company	1,054,415
Bank Charges	35,480
Legal Charges	1,000
Misc. Expenses	625
Audit Fees	33,708
Consultancy Fees	8,989
Interest (Payable to Holding Co.)	277,066
Total	1,411,283

**CASH FLOW STATEMENT FOR THE PERIOD ENDED
31st MARCH 2008**

Description	Period ended 31.03.2008
A. Cash Flow from Operating Activities:	
Net profit before Tax and extraordinary Activities	26,948,322
Adjustment for Extraordinary activities	-
Operating profit before working capital changes	26,948,322
Increase/(Decrease)	
Other Current Assets	-226,540
Other Loans & Advances	-9,816,207
Current Liabilities	17,161,994
Cash Inflow from Operations	34,067,569
Income Tax Provision	-9,159,735
Net Inflow from Operating Activities	24,907,834
B. Cash Flow from Investing Activities:	
Preliminary Expenses	-1,168,074
C. Cash Flow from Financing Activities:	
Share capital	500,000
Net Increase/ Decrease in Cash and Cash Equivalents	24,239,760
Cash and Cash Equivalents as on 12th July 2007	-
Cash and Cash Equivalents as on 31st March 2008	24,239,760
Net Increase in Cash and Cash Equivalents	24,239,760

Balance Sheet Abstract and Company's General Business Profile as per Part VI of the Companies Act 1956 :

1. REGISTRATION DETAILS :			
Registration No.		U40101DL2007G01165779	
Balance Sheet Date :	31	03	2008
	Date	Month	Year
			Amount (Rs. in lacs)
2. CAPITAL RAISED DURING THE YEAR :			5
3. POSITION OF MOBILISATION AND DEPLOYMENT OF FUNDS			
Total Liabilities	355	Total Assets	355
SOURCES OF FUNDS			
PAID UP CAPITAL	5	Reserves & Surplus	178
Secured Loans	-	Unsecured Loans	-
Deffered Tax Liability	-		-
APPLICATIONS OF FUNDS:			
Net Fixed Assets (Incl. Capital WIP)	-	Investments	-
Net Current Assets	171	Loans	-
Deferred Tax Assests			
Accumulated Losses	-	Misc. Expenditure	12
4. PERFORMANCE OF COMPANY			
Turnover including other income	359	Total Expenditure	90
Profit before Tax	269	Profit after Tax	178
EPS in Rs. (On a share of Rs.10/-)	930*	Dividend Rate	
5. GENERIC NAMES OF PRINCIPAL PRODUCTS/SERVICES OF THE COMPANY			
		Consulting Engineers	
Item Code No..	N.A.	Signature to all Schedules 1 to 8	

*Date of Allotment of shares is 13.11.2007.

Signatures to the schedules forming part of the Balance Sheet and Profit and Loss and to the above notes.

B.P. Yadav
C.E.O.

D.S. Ahulwalia
Director

Sanjiv Garg
Director

In terms of our Report of even date
For Satyendra Jain & Associates
Chartered Accountant

(Anil Kumar Jain)
Chartered Accountant
Membership No. 072783

Place : New Delhi
Dated : 22/05/2008

Errata to Notes on Accounts, Schedule - 6

The disclosure made as per Schedule VI (Part-IV) of the Companies Act 1956 relating to Balance Sheet Abstract and Company's General Business Profile in the financial statement mentioned as "Part-VI of the Companies Act 1956" may be read as "Schedule VI (Part-IV) of the Companies Act 1956"

B.P. Yadav
C.E.O.

In terms of our Report of even date
For Satyendra Jain & Associates
Chartered Accountant

(Anil Kumar Jain)
Chartered Accountant
Membership No. 072783

Place : New Delhi
Dated : 19/06/2008

CONSOLIDATED BALANCE SHEET AS AT 31ST MARCH 2008

Rs. In Lacs

	Sch. No.	As At 31.03.08
SOURCES OF FUNDS		
Shareholders' Funds:		
Capital	1	85,866.00
Reserves and Surplus	2	451,082.68
		536,948.68
Loan Funds:		
Secured Loans	3	2,942,195.13
Unsecured Loans	4	486,083.51
		3,428,278.64
Deferred Tax Liability	8	81,707.82
Total		4,046,935.14
APPLICATIONS OF FUNDS		
Fixed Assets:		
Gross Block	5	8,383.36
Less Depreciation		1,357.78
Net Block		7,025.58
Capital Work in Progress		785.09
Investments	6	114,729.70
Loans	7	3,931,651.18
Current Assets, Loans & Advances:	9	
Cash and Bank Balances		125,568.43
Other Current Assets		49,914.42
Loans and Advances		62,030.46
		237,513.31
Less: Current Liabilities & Provisions:	10	
Liabilities		148,670.38
Provisions		96,112.44
		244,782.82
Net Current Assets		(7269.51)
Misc Exp. To the extent not written off		13.10
Total		4,046,935.14

Notes on accounts

17

Schedule 1 to 17 and Significant Accounting Policies form an integral part of Accounts.

For and on behalf of the Board

In terms of our Report of even date
 For G.S. Mathur & Co.
 Chartered Accountants

Rajiv Wadhawan
 Partner
 M.No. 91007.

B.R Raghunandan
 Company Secretary

H.D. Khunteta
 Director (Finance)

P.Uma Shankar
 Chairman & Managing Director

Place: New Delhi
 Date: 26th May 2008

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH 2008

Rs. In Lacs

	Sch. No.	Year Ended 31.03.2008
INCOME		
Operating Income (Net)	11	337,821.94
Other Income	12	16,303.48
Total		354,125.42
EXPENSES		
Interest and Other Charges	13	206,272.18
Establishment Expenses	14	9,273.95
Administration Expenses	15	1,837.88
Bond/ Debt Instrument Issue Expenses	16	1,035.07
Provision for bad & doubtful debts		3,999.34
Depreciation		138.55
Total		222,556.97
PROFIT FOR THE YEAR BEFORE PRIOR PERIOD ITEMS		131,568.45
Prior period adjustment-expense/(income)(net)		56.65
PROFIT BEFORE TAX		131,511.80
Provision for Tax:		
Tax-Current Year		37,471.69
Deferred tax - Current Year		7,741.03
Fringe Benefit Tax		106.55
Total		45,319.27
PROFIT AFTER TAX AND AVAILABLE FOR APPROPRIATION		86,192.54
Appropriations:		
Transfer to Special Reserve u/s 36(1)(viii) of the Income Tax Act,1961		25,500.00
Reserve u/s 36(1)(viiia) of the Income Tax Act,1961 for Bad & Doubtful Debts		5,800.00
Proposed Dividend		25,759.80
Dividend Tax on Proposed Dividend		4,377.88
Transfer to General Reserve		14,000.00
Surplus carried to Balance Sheet		10,754.86
Total		86,192.54
Earning Per Share of Rs 10/- each- Basic & Diluted		10.96

Notes on accounts

17

Schedule 1 to 17 and Significant Accounting Policies form an integral part of Accounts.

For and on behalf of the Board

 In terms of our Report of even date
 For G.S. Mathur & Co.
 Chartered Accountants

 Rajiv Wadhawan
 Partner
 M.No. 91007.

 B.R Raghunandan
 Company Secretary

 H.D. Khunteta
 Director (Finance)

 P. Uma Shankar
 Chairman & Managing Director

 Place: New Delhi
 Date: 26th May 2008

SCHEDULE '1' - SHARE CAPITAL

Rs. In Lacs

	As At 31.03.08
Authorised	
1200,000,000 (Previous Year 1200,000,000) Equity shares of Rs.10 each	120,000.00
Issued, Subscribed and Paid up	85,866.00
858,660,000 (Previous Year 780,600,000) fully paid up Equity shares of Rs 10 each	
Total	85,866.00

SCHEDULE '2' - RESERVES AND SURPLUS

Rs. In Lacs

	As At 31.03.08
a) Capital Reserve (Grand from USAID)	10,500.00
b) Share Premium	71,980.53
c) Special Reserve created u/s 36(1) (viii) of the Income Tax act,1961 upto Fin.year 96-97	5,173.77
d) Special Reserve created u/s 36(1) (viii) of the Income Tax act,1961 from Fin.year 97-98	244,606.00
e) Reserve for Bad and doubtful debts u/s 36(1)(vii) of the Income Tax act,1961	26,369.13
f) General Reserve	79,387.38
g) Surplus	13,065.87
Total	451,082.68

SCHEDULE '3' - SECURED LOANS

(Rs. in Lacs)

	As at 31.03.2008
TERM LOANS FROM BANKS/ INSTITUTIONS (Secured against the receivables of the State Electricity Boards/ State Power Corporations)	232,200.00
OVERDRAFT AGAINST TERM DEPOSIT Secured against FDR of Rs 110 Crores placed with the bank	-
LOAN FROM LIFE INSURANCE CORPORATION OF INDIA (LIC) (Secured against receivables of the Electricity Boards/State Power Corpn.)	350,000.00
LOAN THROUGH BONDS (Cumulative & Non- Cumulative) (Secured by charge against loans advanced to SEB's , State Power Corporations etc. and/ Immovable property at Maharashtra & Delhi as per the terms of the private placement and to the satisfaction of the respective trustees).	
I TAXFREE SECURED BONDS	
a) Long Term	
41st Series - 8.25 % Redeemable at par on 22.02.2010	7,500.00
53rd Series - 7.10 % Redeemable at par on 23.03.2011	5,000.00
II TAXABLE SECURED BONDS	
76th Series - 6.00 % Redeemable at par on 15.03.2008	-
Long term	
64th Series - 6.90 % Redeemable at par on 27.09.2009	15,000.00
66th Series - 6.00 % Redeemable at par on 31.01.2010	13,900.00
69th Series - 6.05 % Redeemable at par on 23.01.2014	66,920.00
72nd Series - 6.60 % Redeemable at par on 18.08.2011	38,570.00
73rd Series - 6.90 % Redeemable at par on 08.10.2014	23,390.00
75th Series - 7.20 % Redeemable at par on 17.03.2015	50,000.00
77th Series - 7.30 % Redeemable at par on 30.06.2015	98,550.00
78th Series - 7.65 % Redeemable at par on 31.01.2016	179,570.00
79th Series - 7.85 % Redeemable at par on 14.03.2016	50,000.00
80th Series - 8.20 % Redeemable at par on 20.03.2016	50,000.00
81st Series - 8.85 % Redeemable at par on 20.01.2017	31,480.00
82nd Series - 9.85 % Redeemable at par on 28.09.2017	88,310.00

83rd Series - 9.07 % Redeemable at par on 28.02.2018	68,520.00
CAPITAL GAINS BONDS	
Series-I - Capital Gain Tax Exemption Bonds Redeemable at Par	3,349.70
Series-II - Capital Gain Tax Exemption Bonds Redeemable at Par	6,969.70
Series-III - Capital Gain Tax Exemption Bonds Redeemable at Par	15,425.70
Series-IV - Capital Gain Tax Exemption Bonds Redeemable at Par	35,930.90
Series-V - Capital Gain Tax Exemption Bonds Redeemable at Par	333,474.18
Series-VI - Capital Gain Tax Exemption Bonds Redeemable at Par	449,421.30
Series-VI A - Capital Gain Tax Exemption Bonds Redeemable at Par	285,867.00
Series-VII - Capital Gain Tax Exemption Bonds Redeemable at Par	340,274.40
INFRASTRUCTURE BONDS	
Series-I & II - Infrastructure Bonds Redeemable at Par	1,503.00
Series-III - Infrastructure Bonds Redeemable at Par	649.25
Series-IV - Infrastructure Bonds Redeemable at Par	420.00
Bond Application Money- 84 th Series	100,000.00
Total Secured Loans	2,942,195.13
Due for repayment/redemption within next year	397,302.46

Notes to Schedule No 3 :-

- Bonds Series 76th was redeemed by the Corporation on 15-03-2008.
- 64th, 66th and 72nd Series of bonds have put/call option at the end of 5 years, i.e. 27.09.2007,31.01.2008 and 18.08.2009 respectively. Rs 90 Crores and Rs. 135 crores of Bonds of 64th & 66th Series were redeemed on 27-09-2007 & 31.01.2008 respectively on put option exercised by Bond holders.
- 69th, 73rd and 77th series are redeemable at par in 5 equal instalments at par at the end of 6th,7th,8th,9th and 10th year respectively.
- 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.
- 78th, 79th, 80th, 81st, 82nd & 83rd series are redeemable at par at the end of 10 years i.e. 31.01.2016, 14.03.2016, 20.03.2016, 20.01.2017, 28.09.2017 & 28.02.2018 respectively.
- Bond application money includes Rs. 1000 crores received against 84th series Bond(9.45% redeemable at par on 04.04.2013) with date of allotment 04.04.2008.
- Bonds for Rs. 220 lakh are held by Trust REC CP Fund on 31.3.2008.
- Capital Gains Tax Exemption Bonds are issued for a tenure of 3/5/7 years at the rates of 5.15% to 8.70% payable semiannually/annually & with cumulative options. These bonds have put/call option at the end of 3/5 years. In the current year(07-08) Capital Gain Exemption Bond Issue Sr VII has a 3 years tenor at 5.5% payable annually. Infrastructure bonds have been issued for a tenure of 3 to 5 years at different interest rates varying between 6.00% to 9.00% payable annually. These bonds have put option at the end of 3/5 years from the date of allotment. The Capital Gains Tax Exemption Bonds and Infrastructure Bonds are secured by a legal mortgage respectively over the REC's immovable properties and Book Debts(Loans) for Rs.4305.09 crore, to the satisfaction of the trustees. The book value of these immovable properties are Rs. 52.58 lakhs. Charge has been created with ROC in favour of Trustees.

SCHEDULE '4' - UNSECURED LOANS

(Rs. in Lacs)

	As at 31.03.2008
LOAN FROM GOVERNMENT OF INDIA	8,192.48
TERM LOANS	
(a) Long term Loan from Banks (Due for repayment within one year Rs. 23,821 Lac)	211,280.00
(b) Short term Loan from Banks	112,800.00
CASH CREDIT LIMITS	-
FOREIGN CURRENCY BORROWINGS	
(a) Long term	
ECB- Syndicated Loan from Banks	87,026.32
JBIC Loan- Govt. of India Guaranteed	13,033.02
Kfw Loan- Govt. of India Guaranteed	4,785.69
LOAN THROUGH BONDS	
(Non- Cumulative ,Guaranteed by Government of India)	
(a) Short Term	
18th Series - 11.5 % Redeemable at par on 12.12.2008	6,858.00
24th Series - 13 % Redeemable at par on 17.02.2008	-
35th Series - 12.3 % Redeemable at par on 26.03.2008	-
(b) Long term	
21st Series - 11.5 % Redeemable at par on 29.12.2009	6,908.00
22nd Series - 11.5 % Redeemable at par on 27.12.2010	4,900.00
23rd Series-1 - 12 % Redeemable at par on 05.12.2011	2,265.00
23rd Series-2 - 12 % Redeemable at par on 21.02.2012	3,035.00
74th Series - 7.22 % Redeemable at par on 31.12.2014	25,000.00
Total Unsecured Loans	486,083.51
Due for repayment/redemption within next year	6,858.00

Notes:- Bonds for Rs.2.00 lacs are held as on 31.03.2008 by REC Ltd. CP Fund Trust

SCHEDULE- 5 - SUMMARY OF FIXED ASSETS FOR THE YEAR ENDED 31ST MARCH 2008

(Rs in Lacs)

FIXED ASSETS	GROSS BLOCK			DEPRECIATION BLOCK			NET BLOCK		
	As on 01.04.2007	Additions during the year	Sales/ adjustment during the year	As at 31.03.2008	As on 01.04.2007	Dep during the year	Disp/Written off during the year	As at 31-03-2008	As at 31.03.2007
Freehold Land	3,246.95	1,426.92	-	4,673.87	-	-	-	4,673.87	3,246.95
Leasehold Land	145.51	-	-	145.51	11.32	1.47	-	132.72	134.18
Buildings	2,173.09	20.83	-	2,193.93	428.31	35.84	-	1,729.78	1,744.78
Furniture & Fixtures	386.74	17.19	0.77	403.16	231.15	24.51	0.10	147.60	155.59
EDP Equipments	442.25	97.00	0.24	539.01	311.91	36.18	-	190.92	130.34
Office Equipments	260.07	54.11	1.72	312.45	164.03	17.31	0.93	132.03	96.04
Vehicles	97.27	-	2.89	94.38	70.44	9.01	2.18	17.11	26.83
Minor Value Assets- Furniture	-	7.41	-	7.41	-	7.41	-	-	-
Minor Value Assets- EDP	-	0.96	-	0.96	-	0.96	-	-	-
Minor Value Assets- Office Equipments	-	9.15	-	9.15	-	9.15	-	-	-
Other Intangible Assets (Computer Software)	3.54	-	-	3.54	1.30	0.68	-	1.56	2.25
Grand Total	6,755.42	1,633.57	5.63	8,383.36	1,218.46	142.52	3.21	7,025.58	5,536.96
Capital WIP	826.01	201.19	242.11	785.09	-	-	-	785.09	826.01

Note: (1) Other Intangible Assets include computer software purchased from outside and in terms of AS-26 these are amortized over 5 years.
 (2) Minor Value Assets are the Assets costing less than Rs. 5,000.
 (3) Current year depreciation includes Prior period depreciation of Rs. 3.97 lac.

SCHEDULE '6' INVESTMENTS

(Rs. in Lacs)

	As at 31.03.2008
Long Term (Unquoted)	
Non-Trade Investements	
8 % Government of Madhya Pradesh Power Bonds-II Maturing in 30 equal half yearly Installments w.e.f. 1.04.05 (24 Bonds of Face Value of Rs 4716 Lacs each)	113,184.00
KSK Energy Ventures Limited 1,44,70,381 units of "Small is Beautiful" Fund at Net assets Value (NAV) of Rs. 9.818 per unit (Face Value per unit is Rs 10/-)	1,420.70
Investment in Indian Energy Exchange 12,50,000 Equity shares of Rs. 10/- each	125.00
Total	114,729.70

SCHEDULE '7' LOANS

(Rs. in Lacs)

		As at 31.03.2008
(i) State Electricity Boards/Corpn., Co-operatives and State Governments		
(a) Unsecured, considered good and guaranteed by respective State Governments		1907561.52
(b) Classified Doubtful	15,564.37	
Less: Prov. for Bad & doubtful debts	3,999.39	11,564.98
(ii) State Electricity Boards/Corpn. (Secured by hypothecation of materials with respective State Electricity Boards/ Corpn.)		
(a) Considered Good		1,639,950.32
(b) Classified Doubtful	-	
Less: Prov. for Bad & doubtful debts	-	-
(iii) Others (Secured by hypothecation of tangible assets) consider good		
(a) Considered Good		1,25,481.68
(b) Classified Doubtful	16,054.05	
Less: Prov. for Bad & doubtful debts	4,174.90	11,879.15
(iv) Others (Unsecured)- Considered good		1,56,870.93
(v) Interest accrued and due on Loans		2,523.59
(vi) Interest accrued on rescheduled loans		75,819.01
Total		39,31,651.18

SCHEDULE '8' DEFERRED TAX LIABILITY/(ASSETS)

(Rs. in Lacs)

		As at 31.03.2008
Opening Balance	73966.79	
- From General Reserves for Earlier Years		
- From Profits of Current Year	7,741.03	
Total		81,707.82

SCHEDULE 9' CURRENT ASSETS, LOAN & ADVANCES

Rs. In Lacs

		As At 31.03.08
I CURRENT ASSETS		
A) Cash and bank balances :		
(i) Cash/Cheque in hand/transit (including Postage and Imprest)		0.26
(ii) In current accounts		
- with RBI		78.96
- with Scheduled Banks		24,978.13
-with Scheduled Banks (for RGGVY Scheme)		58,752.76
- with Scheduld Banks (for AG & SP schemes)		3,719.06
(iii) In Deposit accounts with Scheduled Banks		38,039.26
Total -(A)		125,568.43

B) Other Current Assets		
(i) Interest accrued but not due on term deposits		83.14
(ii) Interest accrued but not due		-
- on Loans		45,249.76
- on Govt. Securities		4,014.41
- on loans to employees		208.18
(iii) Recoverable from SEB /Govt. Deptts	330.20	-
Less: Provision for Bad & Doubtful Debt	180.20	150.00
(iv) Recoverable from GOI		-
- RGGVY Expenses		208.93
Total -(B)		49,914.42
II LOANS AND ADVANCES		
A) Loans		
(i) Employees (Secured)		271.01
(ii) Employees (Unsecured)		117.77
B) Advances		
(Unsecured considered good)		
(i) Advances recoverable in cash or in kind or for value to be received		876.83
(ii) Advance Income-Tax & TDS		60,761.65
(iv) Income Tax recoverable		3.20
Total -(C)		62,030.46
Total -(A+B+C)		237,513.31

SCHEDULE '10' CURRENT LIABILITIES AND PROVISIONS

Rs. In Lacs

		As At 31.03.08
A) CURRENT LIABILITIES		
(a) Creditors for Expenses		
- Dues of Small scale ind. undertakings		5.97
(b) Advance Receipts		934.36
(c) Other Liabilities		8,555.81
Grant from Government for disbursement	919,899.56	-
Less : Disbursed to Beneficiaries	848,044.01	71,855.55
(e) Interest accrued but not due		-
- on bonds	54,009.44	-
- Government/ LIC Loans	12,488.16	66,497.60
Unclaimed Interest & Principal On Bonds and Govt. Loans		-
- Interest	709.52	-
- Principal	111.57	821.09
Total -(A)		148,670.38
B) PROVISIONS		
(a) Income Tax		59,085.04
(b) Staff benefits		3,643.43
(c) Gratuity		207.88
(d) Provision for Incentive & Ex Gratia		2,204.37
(e) Wealth Tax		0.20
(f) Fringe benefit Tax		17.00
(g) Proposed Dividend		25,759.80
(h) Dividend Tax on Proposed Dividend		4,377.88
(g) Wage Revision		816.84
Total -(B)		96,112.44
Total -(A+B)		244,782.82

SCHEDULE '11' OPERATING INCOME

(Rs. in Lacs)

		Year ended 31.03.2008
A. On Lending Operations		
Interest on Loans		
-Long term financing	307,560.77	
Less: Rebate for timely payments/completion etc	1,799.56	305,761.21
-Short term financing		30,290.22
B. Income on Reschedulement of Loans		-
		336,051.43
C. Processing fees, Upfront fees, Service charges etc		1,310.38
D. Prepayment Premium		-
E. Agency Charges for RGGVY Implementation		460.13
Total		3,37,821.94

SCHEDULE '12' OTHER INCOME

Rs. In Lacs

		Year ended 31.03.2008
A. On Investment/Deposit Operations		
Interest on deposits	6,449.97	0
Interest on Govt. Securities (TDS Rs.1047.27lac.)	9,243.36	15693.33
B. Other Income		0
Income Tax		0
Excess Provision written back		18.35
others		0
Interest on staff advances		28.31
Profit on Investment in Venture Fund		33.02
Miscellaneous Income		506.18
Profit on sale of assets		0.41
Provision of Fall in Value of Investments in Venture Fund written back		23.88
Exchange Rate Fluctuations		
Total		16,303.48

SCHEDULE '13' INTEREST AND OTHER CHARGES

Rs. In Lacs

		As At 31.03.08
Interest on -		
- Govt. Loans		689.72
- REC Bonds		137112.06
- Banks/Fin Insts.		62434.99
- External Commercial Borrowings		4898.71
- Others		2.92
Difference in Exchange Rates		959.53
Interest on AREP Subsidy		148.6
Guarantee Fee		25.65
Total		206,272.18

SCHEDULE '14' ESTABLISHMENT EXPENSES

Rs. In Lacs

		As At 31.03.08
Salaries and Allowances		6,610.81
Post Retirement Medical expenses		1,233.47
Contribution to Provident and Other Funds		435.48
Staff Welfare expenses		994.19
Total		9,273.95

SCHEDULE '15' ADMINISTRATION EXPENSES

Rs. In Lacs

		As At 31.03.08
Rent- office		210.62
Rates and Taxes		22.48
Electricity and Water Charges		48.29
Insurance Charges		2.79
Repairs and Maintenance		
Building	292.92	-
Others	37.06	329.98
Printing and Stationary		73.70
Travelling and Conveyance		-
- Directors	44.99	-
- Others	430.96	475.95
Postage, Telegram and Telephone		108.59
Publicity & Promotion Expenses		146.73
Auditors Remuneration		15.25
Miscellaneous Expenses		278.58
Consultancy Charges		113.50
Donations & Charity		10.20
Loss on Sale of Assets		1.22
Total		1,837.88

SCHEDULE '16' Bond/ Debt Instrument Issue Expenses

(Rs. in Lacs)

	Year ended 31.03.2008
Bonds Handling Charges	535.77
Bonds Brokerage A/c	102.99
Commitment Fees	97.75
Bonds Stamp Duty	6.01
Arrangement fee for ECB	-
Others	292.55
Total	1,035.07

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST MARCH 2008

(Rs in Lacs)

PARTICULARS	YEAR ENDED 31.03.2008
A. Cash Flow from Operating Activities :	
Net Profit before Tax	131,511.81
Adjustments for:	0.00
1. Profit / Loss on Sale of Fixed Assets	0.81
2. Transfer from General Reserve	-163.79
3. Depreciation	138.55
4. Provision for fall in value of investments	-23.88
5. Provision for Bad & doubtful debts	3,994.34
6. Excess Provision written back	-18.35
7. Profit on sale/income of investment in units of "small is Beautiful Fund"	-33.02
8. Loss on Exchange Rate Fluctuation	959.53
Operating profit before working Capital Charges :	136,366.00
Increase / Decrease :	
1. Loans	-725,735.42
2. Other Current Assets	-18,678.65
3. Other Loans & Advances	-799.42
4. Current Liabilities	64,022.63
Cash outflow from Operations	-544,824.86
1. Advance Income Tax Paid	-75,053.80
2. Wealth Tax paid	-0.15
3. Fringe Benefit tax paid	-106.55
Net Cash used in Operating Activities	-619,985.36
B. Cash Flow from Investing Activities	
1. Sale of Fixed Assets	1.61
2. Purchase of Fixed Assets (incl. Advance paid for Capital exp.)	-1,588.54
3. Redemption of 8 % Government of Madhya Pradesh Power Bonds-II	4,716.00
4. Preliminary Expenses	-13.09
5. Investments in units of "Small is Beautiful" Fund	-194.81
6. Investment in Shares of Subsidiary Co. "REC Power Distribution Co.Ltd./RecTPL	379.86
7. Investment in REC Transmission Project Co. Ltd,Subsidiary Co.	0.00
8. Investment in Shares of Indian Energy Exchange	-125.00
Net Cash used in investing Activities	3,176.03
C. Cash Flow from Financial Activities	
1. Issue of Bonds	607,392.38
2. Redemption of Bonds	-359,593.94
3. Raising of Term Loans/STL from Banks/FIs	437,250.00
4. Repayment of Term loans/STL from Banks/Fis	-300,650.00
5. Raising of Foreign Currency Loans	16,676.53
6. Grants received from GOI	390,289.91
7. Disbursement of grants	-335,941.46
8. Repayment of Govt. Loan	-1,855.96
9. Dividend paid	-17,700.00
10. Corporate Dividend Tax paid	-3,008.12
11. Issue of shares (including share premium)	79,786.53
Net Cash in-flow from Financing Activities	512,645.87
Net Increase/Decrease in Cash & Cash Equivalents	-104,163.46
Cash & Cash Equivalents as at 1st April, 2007	229,731.89
Cash & Cash Equivalents as at 31st March, 2008	125,568.43
Net (Increase)/Decrease in Cash & Cash Equivalents	104,163.46

Previous year figures have been rearranged and regrouped wherever necessary

0.00

For and on behalf of the Board

In terms of our Report of even date
For G.S. Mathur & Co.
Chartered Accountants

Rajiv Wadhawan
Partner
M.No. 91007.

B.R Raghunandan
Company Secretary

H.D. Khunteta
Director (Finance)

P.Uma Shankar
Chairman & Managing Director

Place: New Delhi
Date: 26th May 2008

SCHEDULE '17' - NOTES ON ACCOUNTS

1. The subsidiary companies considered in the consolidated financial statements are:

Name of the Subsidiaries	Country of Incorporation	Proportion of ownership interest
REC Transmission Projects Co. Ltd. (RTPCL)	India	100 %
REC Power Distribution Co. Ltd. (RPDCL)	India	100 %
North Karanpura Transmission Co. Ltd. (NKTCL)	India	100 %
(A wholly owned subsidiary of RTPCL)		
Talcher II Transmission Company Ltd. (TTCL)	India	100 %
(A wholly owned subsidiary of RTPCL)		

2. EARNING PER SHARE (EPS) 2007-08

Net profit after tax	86,192.54
Net Profit attributable to equity shareholders	86,192.54
Weighted Average number of equity shares	786,374,301
Basic and diluted earning per share	10.96
Face Value per equity shares	10

3. Contingent Liabilities not provided for in respect of :

	(Rs. In lacs)
	As at 31.3.2008
(a) Claims against the Corporation not acknowledged as debts, (including Rs. 5153.60 lacs pending in various courts as on 31.03.2008)	6331.37
(b) Estimated amount of the contracts remaining to be executed on capital account and not provided for	408.21
(c) Others	56,489

Contingent liabilities are dependent upon the outcome of court/out of court settlement, the amount being called up term of contractual obligations, development and raising of demand by the concerned parties, disposal of appeals respectively. Amount under 1(c) refers to Corporation's share of LC issued by the bankers of the borrowers for the generation projects for which Corporation has issued letter of Comforts to these bankers.

4. Auditors' Remuneration includes: (Rs. in lacs)

	Year ended 31.03.2008
a) Audit fees – Current year	13.59
b) Tax Audit Fee	0.25
c) Reimbursement of expenses	1.29
d) Payment for Other services (including for IPO certification)	15.57
Total	30.70

5. 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 the non applicability of the provisions of section 45 (I) C of the RBI Act, 1934 regarding creation of Reserve Fund, the Reserve Fund is not created.

The Board of Directors in its meeting held on 13.12.2006 approved a set of Prudential Norms for the Corporation to be applicable with effect from 01.04.2007. As per the Prudential Norms, provisioning is required to be made even in respect of assets guaranteed by State government. The impact of such change for provisioning in respect of State Government guaranteed loans is to the extent of Rs. 3999.39 Lacs. Besides there are minor addition in the accounting policy on income recognition which are of clarificatory nature. Further few accounting policies which were not required have been deleted and there is no financial impact.

6. There has been shortfall in creation of Special Fund by some of the RE Cooperative Societies amounting to Rs.501.18 lacs and the societies are pursued to create the required Special Fund.
7. Balance confirmation has been received from some of the borrowers.
8. Income Tax as applicable in respect of Interest Accrued on bonds is deducted at source at the time of actual payment of interest to the bond holders since such bonds are transferable.
9. The formalities regarding conveyance deeds, etc. in respect of some of the premises acquired by the Corporation amounting to Rs. 5792.70 lacs are in the process of completion.
10. Total overdues recoverable from the defaulting borrowers as on 31.03.2008 amount to Rs.20977 lacs (Previous year Rs.33960 lacs) and effective steps are being taken for recovery of the same. Suits filed in the DRT against defaulting wind farm borrowers and coop. societies for recovery of dues are at different stages of hearing /legal proceedings. For some of the defaulting Societies, Court decrees have been issued and execution thereof is in progress. Further even State Govt. guarantees have been invoked in respect of dues of some societies of MP, AP, UP, Orissa and J&K and such guarantees have not been repudiated. The Govt. of MP has even paid Rs.1816 lacs towards the dues of 5 Coop. Societies of MP and has assured to clear the dues of the balance Societies also.

11. In terms of Accounting Policy No. 10.2, the balances in respect of Interest Warrants Accounts as on 31.3.2008 held in specified banks are Rs.12045.48 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 realized during the ordinary course of business and all known liabilities have been provided.
13. Provision for impairment loss as required under Accounting Standard-28 on impairment of Assets is not necessary as in the opinion of the management there is no impairment of the Corporation's Assets in terms of AS-28.
14. The company has no outstanding liability towards Micro, Small and Medium undertakings.
15. No Bond Redemption Reserve has been created 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, BRR 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. Corporation had entered into two derivative transactions of Rs.250 Crore linked to USD with ICICI Bank and Rs.500 Crore linked to JPY with axis Bank, Yes Bank, ABN AMRO & Bank Of America. The Mark to Market gain/(loss) in respect of above two derivative transactions as on 31.03.2008 is as below:

Name of Bank	Notional amount (Rs.)	MTM Gain/ (Loss)
ICICI BANK	25000 Lacs	1,408.63 Lacs
AXIS-YES - AMRO BANK & BOA	50000 Lacs	(484.64) Lacs
Net gain		923.99 Lacs

During the year the company has earned Rs.953.32 Lacs on account of Swap (coupon only) transactions, which has been effected in the decrease in cost of borrowing to that extent.

17. Directors' Remuneration:

(Rs. in lacs)

	Year ended 31.3.2008
Salaries and Allowances	40.87
Perquisites/reimbursement	14.97
Retirement Benefits	1.45
Total	57.29

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

Loans and Advances include Rs 0.81 lacs due from Directors of the Corporation, maximum amount outstanding during the year Rs 1.89 lacs.

18. Expenditure in Foreign Currency:

(Rs. In lacs)

Particulars	As at 31.03.2008
Royalty, Know-how, Professional, consultation fees	1.06
Interest	241.08
Finance Charges	97.75
IPO Expenses	86.40
Others	17.39
Total	443.68

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.

Information in relation to the interest of the Company in Joint Venture as required under Accounting Standard –27 issued by ICAI.

19. Investment include Rs1447.04 Lacs representing company's contribution in the units of Joint venture Small is Beautiful fund (SIB Fund) Venture Capital fund promoted by KSK Energy Ventures Limited

Name of the Company	Contribution towards Fund	Country of Residence	Proportion of ownership
SIB Fund of KSK Energy Ventures Ltd	Rs.1,447.04 Lacs	India	9.74 %

During the year the Corporation has invested Rs.194.80 lacs in units of "Small is Beautiful" fund bringing the total investment in units to Rs.2250 lacs during the year against our committed capital contribution of Rs.2250 lacs. Out of this portion of investment up to 31.03.2008 of Rs.802.95 lacs has also been disinvested.

20. Subsidy Under Accelerated Generation & Supply Programme (AG&SP): -

The Corporation is maintaining a Interest Subsidy Fund Account and is claiming subsidy from Govt. of India at net present value calculated at indicative rates in accordance with GOI's letter vide D.O.No. 32024/17/97-PFC dated 23.09.1997 and O.M.No.32024/23/2001-PFC dated 07.03.03 irrespective of the actual repayment schedule, moratorium period and duration of repayment. The impact of difference between the indicative rate and period considered at the time of drawl and the actual can be ascertained only after the end of the respective schemes. During the year Corporation refunds Rs.2015 lacs on which interest liability of Rs.171.44 lacs being the difference between NPV and average interest earned is provided.

21. Disclosure in respect of Intangible Assets as required in AS-26 "Intangible Assets":

i) Amortisation Rate	20 %; 100 % in case of cost of asset is Rs 5,000 or less
ii) Amortisation Method	Straight Line

Reconciliation Statement

		(Rs. in Lacs)
		As at 31.03.2008
iii) Gross Carrying Amount		3.54
iv) Accumulated depreciation		1.98
v) Gross carrying amount- Opening Balance		3.54
Less: - Accumulated Depreciation Carrying amount		1.98
Additions during the year		NIL
Less: Amortisation during the year		0.68
Carrying amount as on Balance sheet Date		1.56

22. The Corporation has been providing for deferred tax assets / liabilities in terms of Accounting Standard No. 22 on Accounting for Taxes on Income. During the year the Corporation has provided Rs.7741.03 Lacs as deferred tax liability Major components of deferred tax liability as on 31.03.2008 are given as under:

		(Rs in Lacs)
		As at 31.03.2008
Deferred Tax Assets		
Provision for VRS Expenditure		NIL
Leave Encashment		427.96
Provision for Post Retirement Medical Benefits		263.28
Provision for fall in investments		8.95
Provision for other expenses		2,802.60
		3,502.79
Deferred Tax Liabilities		
Depreciation		310.46
Reserve under section 36 (i)(viii) of I.T Act		84,900.14
Net Deferred Tax (Liability)/Asset		(81,707.82)
Deferred Tax Asset/(Liability) as on 31.3.2007		(73,966.79)
Net liability for the year charged in P&L		(7,741.03)

23. On the issue of settlement of liabilities of REC between MPSEB and CSEB on bifurcation of erstwhile State of MP, there is a legal dispute between them regarding sharing of dues, as a result of which CSEB has been claiming refund of approx. Rs.16000 lacs plus interest which if accrues shall be payable by MPSEB. Though the review petition of MPSEB in this regard against the Union of India and others has been dismissed by the Hon'ble Supreme Court, yet the original suit filed by the Govt. of MP is pending in the Hon'ble Supreme Court as a result of which they are treating the case as subjudice. On final settlement, the amount payable to CSEB if any shall in turn be payable by MPSEB.

24. Some of the erstwhile State Electricity Boards(SEBs) against whom loans were outstanding or on whose behalf guarantees were given by the State Govt. were restructured by the respective State Governments and new entities were formed. Consequently, the liabilities of the erstwhile SEBs stand transferred to new entities on the execution of transfer agreements amongst the Corporation, new entities and/or the State Governments. Pending execution of such agreements, the loans outstanding against the erstwhile SEBs namely APSEB, KEB, and GEB are being serviced by APTRANSCO, KPTCL and GUVNL respectively against which loans amounting to Rs.2337.66 Crore, Rs.662.52 Crore and Rs.612.90 Crore respectively are outstanding as on 31.03.2008.

25. The expenses of Rs.643.98 lacs incurred up to 31.03.2007 on RGGVY implementation had been adjusted from interest received on deposit made out of such grant and the Ministry of Power has been informed accordingly. However the Corporation has approached MOP to authorize charging of agency fees on disbursements for period up to 31st March 2007 and reply is awaited. Appropriate adjustment if any shall be made accordingly.

26. Details of provision as required in AS-29

(Rs. In lacs)

	As on 31/03/2008	As on 31/03/2007
(a) Post Retirement Health Scheme		
As per last Balance Sheet	1350.27	774.57
Addition during the year	576.68	633.25
Amounts paid/utilised during the year	91.52	57.55
Closing Balance	1835.43	1350.27
(b) Leave Encashment		
As per last Balance Sheet	820.21	711.78
Addition during the year	713.66	159.23
Amounts paid/utilised during the year	69.17	50.8
Closing Balance	1464.7	820.21
(c) Sick Leave		
As per last Balance Sheet	0	-
Transition Provision from Gen. Reserve *	74.63	-
Addition during the year	51.76	-
Amounts paid/utilised during the year	-	-
Closing Balance	126.39	-
(d) Gratuity		
As per last Balance Sheet	49.70	98.76
Addition during the year	169.9	0
Amounts paid/utilised during the year	11.73	49.06
Closing Balance	207.87	49.70
(e) Settlement Allowance on Retirement		
As per last Balance Sheet	0	-
Transition Provision from Gen. Reserve*	9.63	-
Addition during the year	11.53	-
Amounts paid/utilised during the year	5.86	-
Closing Balance	15.30	-
(f) Leave Travel Concession		
As per last Balance Sheet	0	-
Transition Provision from Gen. Reserve *	79.53	-
Addition during the year	273.61	-
Amounts paid/utilised during the year	151.56	-
Closing Balance	201.58	-
(g) Provision for Wage revision		
As per last Balance Sheet	0	-
Addition during the year	816.84	-

Amounts paid/utilised during the year	0	-
Closing Balance	816.84	-
(h) Provision for Incentive/Exgratia		
As per last Balance Sheet	1011.75	523.00
Addition during the year	2204.37	1011.75
Amounts paid/utilised during the year	1011.75	523.00
Closing Balance	2204.37	1011.75
(i) Income Tax		
Opening Balance	21613.44	98167.72
Addition during the year	37380.00	21482.00
Amounts paid/utilised during the year	0	98036.28
Closing Balance	58993.44	21613.44
(j) Fringe Benefit Tax		
Opening Balance	0	-
Addition during the year	17.00	-
Amounts paid/utilised during the year	0	-
Closing Balance	17.00	-
(k) Wealth Tax		
As per last Balance Sheet	0.25	0.23
Addition during the year	0.10	0.25
Amounts paid/utilised during the year	0.15	0.23
Closing Balance	0.20	0.25
(l) Proposed Dividend		
As per last Balance Sheet	17700.00	10126.00
Addition during the year	25759.80	17700.00
Amounts paid/utilised during the year	17700.00	10126.00
Closing Balance	25759.80	17700.00
(m) Corporate Dividend Tax		
As per last Balance Sheet	3008.12	1420.17
Addition during the year	4377.88	3008.12
Amounts paid/utilised during the year	3008.12	1420.17
Closing Balance	4377.88	3008.12

*** Net of Deferred Tax**

27. The Corporation has adopted AS15 (revised 2005) 'Employees Benefit'. Defined employee benefit scheme are as follows:

Provident Fund

Corporation pays fixed contribution of Provident Fund at a pre-determined rates to a separate trust, which invest the funds in permitted securities. The trust is required to pay a minimum rate of interest on contribution to the members of the trust. The fair value of the assets of the Provident fund including the returns of the assets thereof, as 31st March 2008 is greater than the obligation under the defined contribution plan.

Gratuity

The corporation has a defined benefit gratuity plan. Every employee is entitled to gratuity as per the provision of the payment of Gratuity Act. The scheme is funded by the Corporation and is managed by separate trust. The liability of Gratuity is recognized on the basis of actuarial valuation.

Post-Retirement Facility

The corporation has Post Retirement Medical Facility and Settlement benefits under which entitled employee (including spouse) are covered as per Corporation's rule.

The summarized position of various defined benefit recognized in the Profit & Loss Account, Balance sheet and the funded status are as under:

	Gratuity	Settle-ment Allow-ance	Post Retirement Medical Benefits
1. Component of Employer Expenses			
Current Service Cost	112.34	0.67	35.05
Interest Cost	104.19	1.17	108.02
Expected return on plan assets (110.00)	(110.00)	0.00	0.00
Actuarial (Gain)/Loss	111.36	4.74	433.61
Total Expenditure/(gain)			
Recognized in the P&L A/c	217.89	6.57	576.69
2. Net Asset/(liability) recognized in Balance Sheet as at 31st March 2008			
Present Value of Obligation as at 31st March 2008.	1577.53	15.30	1835.43
Fair Value of plan assets as at 31st March 2008	1368.88	Nil	nil
Assets(Liability) recognized in Balance Sheet	(208.65)	15.30	1835.43
3. Change in present value of obligation as on 31st March 2008			
Present Value of obligation As at 31 st March 2007	1302.43	14.58	1350.27
Current service cost	112.34	0.67	35.05
Interest Cost	104.19	1.17	108.02
Actuarial (Gain)/Loss	111.36	4.74	433.61
Benefits Paid	(52.80)	(5.86)	(91.51)
Present Value of Obligation As at 31 st March 2008	1577.53	15.29	1835.43
4. Changes in the Fair value of Plan Assets			
Present value of plan assets as at 31/03/ 07	1302.43	NIL	NIL
Expected return on Plan Assets	110.00	NIL	NIL
Actual Company Contribution	9.24	NIL	NIL
Benefits Paid	(52.80)	NIL	NIL
Fair Value of plan Assets as at 31/03/08	1368.88	NIL	NIL
Actuarial Assumptions			
Discount Rate (per annum)	8.00	8.00	8.00
Expected rate of returns on assets (p.a.)	8.45	0.00	0.00
Future cost increase	5.50	5.50	5.50

AUDITORS REPORT TO THE BOARD OF DIRECTORS OF RURAL ELECTRIFICATION CORPORATION LIMITED ON THE CONSOLIDATED FINANCIAL STATEMENTS OF RURAL ELECTRIFICATION CORPORATION LIMITED AND ITS SUBSIDIARIES.

1. We have audited the attached Consolidated Balance Sheet of M/s Rural Electrification Corporation Ltd. Core-4, SCOPE Complex, 7 Lodi Road New Delhi-110003 as at 31st March, 2008 and also the annexed Consolidated Profit & Loss Account for the year ended on that date. These Consolidated financial statements are the responsibility of the Company's Management and have been prepared by the management on the basis of separate financial statements and other financial information regarding components. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with 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 evaluation the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. We report that the consolidated financial statements have been prepared by the company's management in accordance with the requirements of Accounting Standard (AS) 21 'Consolidated Financial Statements', issued by the Institute of Chartered Accountants of India.
4. We did not audit the financial statements of subsidiaries of the company, whose audited financial statements reflects total assets of Rs.2.93 Crores as at March 31, 2008, total revenues of Rs. 2.69 Crores for the year ended on that date. The financial statements and other financial

information of the subsidiary companies audited by other auditors, and our opinion, in so far as it relates to the amounts included in respects of these subsidiaries, is based solely on audited accounts of the subsidiary companies.

Subject to our comments, and based on our audit and on consideration of report of other auditors on separate financial statements and on other financial information of the components, and to the best of our information and according to explanations given to us, we are of the opinion that the attached consolidated financial statements of the Rural Electrification Corporation Limited give a true and fair view in conformity with the accounting principles generally accepted in India.

- i) In the case of Consolidated Balance-Sheet, of the state of affairs of the Rural Electrification Corporation Group as at 31st March, 2008.
- ii) In the case of Profit & Loss Account, Profit of the Rural Electrification Corporation Group for the period ended on that date.
- iii) In case of Consolidated Cash Flow statements, of the cash flow of the Rural Electrification Corporation Group for the period ended on that date.

For G.S. MATHUR & CO.
Chartered Accountants

(RAJIV WADHAWAN)
Partner
Membership No.91007

PLACE: New Delhi.
DATE: 26.05.2008.

RURAL ELECTRIFICATION CORPORATION LIMITED

Regd. Office : Core-4 SCOPE Complex, 7, Lodhi Road, New Delhi-110003

PROXY FORM

DP ID No.

Client ID No.

*No. of share held

Regd. Folio No.

I/We, s/oin the district of being a member/members of Rural Electrification Corporation Limited, hereby appointof as my/our proxy to attend and vote for me/us and on my/our behalf at the 39th Annual General Meeting of the Corporation to be held at 10:00 a.m. on Wednesday, the 24th Day of September 2008, and at any adjournment thereof.

Signed this Day of, 2008.

(Signature)

Affix revenue stamp of appropriate value

* Applicable for investors holding shares in Physical Form.

Note : The Proxy form duly completed and signed should be deposited at the registered office of the Company, not later than 48 hours before the commencement of the Annual General Meeting.

RURAL ELECTRIFICATION CORPORATION LIMITED

Regd. Office : Core-4 SCOPE Complex, 7, Lodhi Road, New Delhi-110003

ATTENDANCE SLIP

Member or their proxies are requested to present this form for admission, duly signed in accordance with their specimen signature registered with the Company.

NAME OF ATTENDING PERSON : _____
(IN BLOCK LETTERS)

* Regd. Folio no. : _____

No. of Shares held : _____

DP ID No. _____

Client ID No. _____

I HEREBY RECORD MY PRESENCE AT THE 39TH ANNUAL GENERAL MEETING OF THE CORPORATION BEING HELD ON WEDNESDAY THE 24TH DAY OF SEPTEMBER, 2008 AT 10:00 A.M. AT AIR FORCE AUDITORIUM, SUBROTO PARK, NEW DELHI-110010.

Please ✓ in the box

Member Proxy

Member's / Proxy's Signature

* Applicable for investors holding shares in Physical Form.



Rural Electrification Corporation Limited

(A Government of India Enterprise)

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