

INDEPENDENT AUDITORS' REPORT

To,
 The Members,
 Rural Electrification Corporation Limited
 New Delhi

Report on the Financial Statements

1. We have audited the accompanying financial statements of **Rural Electrification Corporation Limited** ("the Company"), which comprise the Balance Sheet as at 31st March, 2014, and the Statement of Profit and Loss and Cash Flow Statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

2. Management's Responsibility for the Financial Statements

Management is responsible for the preparation of these financial statements that give a true and fair view of the financial position, financial performance and cash flows of the Company in accordance with the Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956 ("the Act"). This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatements, whether due to fraud or error.

3. Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

4. Opinion

In our opinion and to the best of our information and according to the explanations given to us, the financial statements give the information required by the Act in the manner so required and give a true and fair view in conformity with the accounting principals generally accepted in India:

- (a) in the case of Balance Sheet, of the state of affairs of the Company as at 31st March, 2014;
- (b) in the case of Statement of Profit and Loss, of the profit 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.

5. Report on Other Legal and Regulatory Requirements

- (i) As required by the Companies (Auditors' Report) Order, 2003 ("the Order") issued by the Central Government of India in terms of sub-section (4A) of Section 227 of the Act, we give in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the Order.
- (ii) As required by section 227(3) of the Act, we report that:
 - a. 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;
 - b. in our opinion, proper books of account as required by law have been kept by the Company so far as appears from our examination of those books;
 - c. the Balance Sheet, Statement of Profit and Loss and Cash Flow Statement dealt with by this report are in agreement with the books of account;
 - d. in our opinion, the Balance Sheet, Statement of Profit and Loss and Cash Flow Statement comply with the Accounting Standards referred to in sub-section (3C) of Section 211 of the Companies Act, 1956;
 - e. 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.
 - f. Since the Central Government has not issued any notification as to the rate at which the cess is to be paid under section 441A of the Companies Act, 1956 nor has it issued any Rules under the said section, prescribing the manner in which such cess is to be paid, no cess is due and payable by the Company.

For Raj Har Gopal & Co.
 Chartered Accountants
 Firm Regn No. 002074N

(Gopal Krishan)
 Partner
 M. No. 081085

Place : New Delhi
 Date : 26th May, 2014

For P. K. Chopra & Co.
 Chartered Accountants
 Firm Regn No. 006747N

(K. S. Ponnuswami)
 Partner
 M. No. 070276

ANNEXURE TO THE INDEPENDENT AUDITOR'S REPORT REFERRED TO IN PARAGRAPH 5(i) OF OUR REPORT OF EVEN DATE ON THE ACCOUNTS OF RURAL ELECTRIFICATION CORPORATION LIMITED FOR THE YEAR ENDED ON 31ST MARCH, 2014

- (i) (a) The Company has maintained fixed assets records to show full particulars including quantitative details and situation of its fixed assets.
- (b) The Company has a phased manner of physical verification of its fixed assets, which in our opinion is reasonable having regard to the size of the Company and the nature of its assets. In accordance with this programme, substantial assets were physically verified by the management during the year. Discrepancies noticed on such verification have been properly dealt with in the books of account.
- (c) In our opinion and according to the explanations given to us, during the year, the Company has not disposed off substantial part of fixed assets; therefore going concern is not affected. Hence, this clause of the order is not applicable.
- (ii) The company being Non Banking Financial Company, does not have any inventory; as such this clause is not applicable.
- (iii) (a) According to the information and explanations given to us, the Company has not granted any loans secured or unsecured to any Corporation, firm or other parties covered in register maintained under section 301 of Companies Act, 1956. Accordingly, clause 4(iii)(a), 4(iii)(b), 4(iii)(c) and 4(iii)(d) of the order are not applicable.
- (b) According to the information and explanations given to us, the Company has not taken any loans, secured or unsecured, from any Corporation, firm, or other parties covered in the register maintained under section 301 of the Companies Act 1956. Accordingly clause 4(iii)(e), the clause 4(iii)(f) and 4(iii)(g) of the order are not applicable.
- (iv) In our opinion and according to information & explanations given to us, internal controls for purchase of fixed assets and for the financial services are generally commensurate with the size of the Company and the nature of its business. However, in certain areas internal control needs further strengthening like monitoring and supervision of loans given to various SEBs/ DISCOMS/ TRANSCOS/ GENCOS including obtaining search reports for charges created against the loans given and physical verification of assets charged to REC as security after Commercial Operations Date.
- (v) According to information and explanations given to us, the Company has not entered into any contract with the Companies or Entities covered u/s 301 of the Companies Act, 1956. Accordingly, this clause of the order is not applicable.
- (vi) According to the information and explanations given to us, the Company has not accepted any deposit from public to which the provisions of Sections 58A and 58AA or any other relevant provisions of the Companies Act, 1956 and the Rules framed there under, apply.
- (vii) In our opinion, the Company has an internal audit system generally commensurate with its size and nature of its business.
- (viii) To the best of our knowledge and as explained, the Central Government has not prescribed the maintenance of cost records under clause (d) of sub section (1) of section 209 of the Companies Act, 1956, for the products/services of the Company. Accordingly, this clause of the order is not applicable to the Company.
- (ix) (a) The Company is generally regular in depositing with the appropriate authorities undisputed statutory dues including provident fund, investor's education protection fund, employees state insurance, income tax, wealth tax, service tax, custom duty and other material statutory dues applicable to it.
- (b) According to the information and explanations given to us, no undisputed amounts payable in respect of income tax, service tax, wealth tax were in arrears as at 31st March, 2014 for a period of more than six months from the date they became payable.
- (c) According to the information and explanations given to us, there are no dues of income tax, wealth tax, service tax, sales tax, custom duty and cess which has not been deposited on account of dispute.
- (x) The Company does not have any accumulated losses as at 31st March, 2014. The Company has also not incurred cash losses during the year covered by our audit and in the immediate preceding financial year. Accordingly, this clause of the order is not applicable.
- (xi) In our opinion and according to the information and explanations given to us, the Company has not defaulted in repayment of dues to a financial institution, bank and bond holders as at the Balance Sheet date.
- (xii) In our opinion and according to the information and explanations given to us, the Company has maintained records and documents in respect of 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 securities.
- (xiii) In our opinion and according to the information and explanations given to us, the Company is not a chit fund or a nidhi or mutual benefit fund or society, therefore, this clause of the order is not applicable to the Company.
- (xiv) In our opinion and according to the information and explanations given to us, the Company is not dealing or trading in shares, securities, debenture and other investment, therefore this clause of the order is not applicable to the Company.
- (xv) In our opinion and according to the information and explanations given to us, the Company has not given any guarantee for loans taken by others from banks or financial institutions during the year. Accordingly, this clause of the order is not applicable to the Company.
- (xvi) In our opinion and according to the information and explanations given to us, the term loans were applied for the purpose for which they were raised.
- (xvii) According to the information and explanations given to us and on the overall examination of the balance sheet of the Company, we report that no funds raised on short term basis have been used for long term investment.
- (xviii) According to the information and explanations given to us, during the year the Company has not made any preferential

allotment of shares to companies, firms or other parties needs to be listed in the register maintained u/s 301 of the Companies Act.

(xix) According to the information and explanations given to us, the Company has created security in respect of Institutional Bonds, Tax Free Secured Bonds, and 54EC Capital Gain Tax Exemption Bonds in the form of charge on receivables and Registered Mortgage on the immovable properties of the Company at Maharashtra, Delhi, Tamil Nadu & Gujarat.

(xx) The Company had made public issue of Tax Free Bonds of face value of ₹ 1,000.00 each aggregating to ₹ 2,148.41 Crores in two tranches during the financial year 2012-13 in addition to a private placement issue of the Tax Free Bonds of ₹ 500.00 Crores. The issue proceeds of ₹ 0.63 Crores remaining unutilized as on 31st March, 2013 have since been utilized for the purposes as mentioned in the Offer document.

The Company has made a public issue of Tax Free Bonds of face value of ₹ 1,000 each aggregating to ₹ 4,500 Crores during the financial year 2013-14 in addition to a private placement of the Tax Free Bonds of ₹ 1,500 Crores. The bonds under public issue had been allotted in line with the prescribed guidelines and within the financial year 2013-14. The issue proceeds have been utilised for the purposes as mentioned in the Offer

document except for ₹ 5.96 Crores which is kept in designated public issue account pending its utilisation.

(xxi) During the course of our examination of the books of account carried out in accordance with the generally accepted auditing practices in India, and according to the information and explanations given to us, we have neither come across any instance of fraud on or by the Company, noticed or reported during the year, nor have we been informed of such case by the management.

Referred in paragraph 5 (i) of report of even date, clauses (ii) (b) & (c), (iii) (c) & (d), (v) (b), (viii) (a) (b) (c) (d) of Companies (Auditor's Report) Order, 2003 are not applicable to the Company.

For Raj Har Gopal & Co.

Chartered Accountants
Firm Regn No. 002074N

(Gopal Krishan)

Partner
M. No. 081085

Place : New Delhi

Date : 26th May, 2014

For P. K. Chopra & Co.

Chartered Accountants
Firm Regn No. 006747N

(K. S. Ponnuswami)

Partner
M. No. 070276

ERRATA TO INDEPENDENT AUDITORS' REPORT DATED 26th MAY, 2014

- In sub-paragraph 2 of Paragraph 3 "Auditor's Responsibility", first line should be read as "An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements."
- Point (ii)(f) of Paragraph 5- "Report on Other Legal and Regulatory Requirements" may be considered as deleted.
- Point (i)(b) of "Annexure to the Independent Auditor's Report" should be read as "All the assets have not been physically verified by the Management during the year, but there is a regular programme of verification to cover all assets, which is reasonable having regard to the size of the Company and the nature of its assets. No material discrepancies were noticed on such verification."
- Point (ix)(c) of "Annexure to the Independent Auditor's Report" should be read as below:

The disputed Statutory dues aggregating to ₹ 50.92 crores that have not been deposited on account of matters pending before appropriate authorities are detailed below:

| Name of Statute | Nature of dues | Forum where dispute is pending | ₹ Crores |
|----------------------|----------------|--------------------------------|--------------|
| Income Tax Act, 1961 | Income Tax | CIT (Appeals) | 17.75 |
| | | ITAT | 13.21 |
| | | Delhi High Court | 3.79 |
| | | Supreme Court of India | 16.17 |
| | | Total | 50.92 |

- Last Paragraph to "Annexure to the Independent Auditor's Report" should be read as "Referred in paragraph 5 (i) of report of even date, clauses (ii) (a), (b) & (c), (iii) (a), (b), (c), (d), (e), (f) & (g), (v) (a) & (b), (viii), (xiii) (a) (b) (c) & (d) and (xiv) of Companies (Auditor's Report) Order, 2003 are not applicable to the Company."

For Raj Har Gopal & Co.

Chartered Accountants
Firm Regn No. 002074N

(Gopal Krishan)

Partner
M. No. 081085

Place : New Delhi

Date : 24.06.2014

For P. K. Chopra & Co.

Chartered Accountants
Firm Regn No. 006747N

(K. S. Ponnuswami)

Partner
M. No. 070276