ANNEXURE-I TO DIRECTORS' REPORT

MANAGEMENT DISCUSSION AND ANALYSIS REPORT
[Pursuant to Clause 49 (IV) (F) of the Listing Agreement]

The Management of the Company is pleased to present its report on Industry Scenario including Company's performance during the financial year 2013-14.

1. INDUSTRY STRUCTURE AND DEVELOPMENT

Industry Overview

The financial year 2013-14 saw a capacity addition of 17,825 MW vis-à-vis addition of 20,623 MW in previous fiscal which was 13.57 % lesser on year on year basis. The major contribution came from Thermal stream having constituted 94 % of the total capacity addition. Out of 17,825 MW, the private sector share was 66.7 % and more than 70 % of total thermal capacity addition came from the private developers. The electricity generation was 6 % higher than the achievement of 912 BUs in the year 2012-13. The actual electric energy generation during the fiscal 2014 was 966.4 BUs against the generation of 912 BUs in the previous fiscal.

The total Power Supply deficit during the fiscal 2014 was 4.3 % whereas the Peak Power deficit stood at 4.5 % . In fiscal 2013, total power deficit was 8.7 % which was 10.2 % and 7.5 % in fiscal 2012 and fiscal 2011, respectively. Similarly peak power deficit in fiscal 2013 was 9.0 % compared to 11.1 % in fiscal 2012 and 10.3 % in fiscal 2011. Among all regions, the Power Supply deficit and Peak Power deficit was highest in Southern region followed by Northern region.

As on March 31, 2014, the total installed capacity of the country was 2,43,029 MW which was 8.8 % increase over that at the end of previous fiscal. Therefore, during the first two years of XII five year plan, 38,448 MW was added against the targeted capacity addition of 88,537 MW in the XII five year plan.

The power generation capacity has increased substantially in recent years. The capacity addition during XI five year plan was 88 % of the revised target of 62,374 MW. However, in the previous five year plans, the generation capacity had not increased as expected and achievement was not more than 50 % of the plan targets. The XII five year plan targets for power envisage adding 88,537 MW of capacity. In light of the fact that more than 43 % capacity has been added during the first two years of the current Plan, the target of the XII five year plan seems achievable.

The overall requirement of funds for the power sector for XII five year plan period (fiscal 2013-2017) has been estimated at around ₹ 14 lakh crore. For the XIII five year plan period, Planning Commission estimates that in order to meet the projected demand requirement by 2022 at a GDP growth rate of 9 % , capacity addition of 94,000 MW would be required along with matching expansion required in transmission and distribution systems.

Industry Structure

Generation

The installed generation capacity in the country stood at 2,43,029 MW as on March 31, 2014 with 92,187 MW (37.93 %) in the State Sector, 68,125 MW (28.03 %) in the Central Sector and 82,715 MW (34.03 %) in the Private Sector. The share of the Private sector has seen an increase over the last two years.

In terms of the generation capacity by type as on March 31, 2014, capacity in Thermal was 1,68,255 MW (69.29 %), 40,531 MW (16.67 %) was in Hydro and 29,463 MW (12.12 %) was in Renewable Energy Sources. The nuclear capacity witnessed no new addition during the period which stood at 4,780 MW (1.96 %).

Despite the increase in capacity, the sector is still in the midst of the policy imbroglio and struggling hard to meet burgeoning demand due to major bottlenecks like slippages of long term coal linkages to the projects identified, failure to achieve planned targets from captive coal mine blocks, inability to ramp up indigenous coal and gas production, rising imported fuel prices, land acquisition, R & R and environmental issues etc. The Government of India has taken proactive initiatives of augmenting existing indigenous manufacturing capacity, encouraging latest technology interventions and facilitating developers getting speedy clearances and fuel linkages. To reduce dependence on Coal, lower auxiliary consumption, extract higher efficiency and reduce Carbon footprint, most of the Projects are planned to be based on Supercritical technology in the XIII five year plan.

To support economic growth in the XII five year plan, the Planning Commission has projected that about 88.5 GW of generation capacity needs to be added up by 2017. Further, to maintain a sustained economic growth of 8%, through to fiscal 2032, as per the Planning Commission, India needs to increase its electricity generation several times over for which the power generation capacity must increase to around 8,00,000 MW by fiscal 2032.

Transmission and Distribution

Transmission

The transmission system planning in the country, in the past, has traditionally been linked to generation projects as part of the evacuation system. The ability of the power system to safely withstand a contingency without generation rescheduling or load-shedding was the main criteria for planning the transmission system. However, due to various reasons such as spatial development of load in the network, non-commissioning of load centre generating units originally planned and deficit in reactive compensation, certain pockets in the power system could not safely operate even under normal conditions. This had necessitated backing down of generation and operating at a lower load generation balance in the past. Transmission planning has therefore moved away from the earlier generation evacuation system planning to integrated system planning keeping in view the long term power perspective.

In India, the transmission and distribution system is a three-tier structure comprised of regional grids, State grids and distribution networks. The five regional grids, configured on a geographical contiguity basis, enable transfer of power from a power surplus State to a power deficit State. The regional grids also facilitate the optimal scheduling of maintenance outages and better co-ordination between power plants. Presently, these regional grids are operating as an integrated unit of national grid with an inter-regional transfer capacity of more than 32,000 MW, whereby surplus power from a region could be redirected to another region facing power deficits thus allowing an optimal utilization of the National generating capacity.

With connection of the Southern grid to the already operating grid, the interregional grid connectivity has been achieved thereby bringing more flexibility and resilience in the system. The Country has now one of the largest operating synchronous grids in the World after synchronous connection of Southern grid to National grid through Raichur-Sholapur 765 kV transmission line. Also the efforts are on to provide unconstrained inter-regional power transfer, availability of open access, adoption of new EHV and HVDC technologies. Further, proper checks and balances are being put in place to strengthen the grid discipline to avoid any major grid collapse. Efforts are on for making suitable amendments in Electricity Act 2003 thereby endowing special powers to RLDCs and NLDC for regulating the grid which may also include legal provisions for their empowerment. The RLDCs would then have the power to disconnect load to States not adhering to Grid discipline.

At the end of fiscal 2014, the total length of transmission lines aggregated about 2.91 lakh ckm as compared to about 2.74 lakh cKm at the end of previous year.

The breakup of installed transmission line system is as per the following table:

Transmission Lines	As on 31.03.2014 (cKm)	As on 31.03.2013 (cKm)	Increase (ckm)
765 kV	11,096	6,459	4,637
400 kV	1,25,957	1,18,180	7,777
220 kV	1,44,851	1,40,517	4,334
+/- 500 kV HVDC	9,432	9,432	0
Total	**2,91,336**	**2,74,588**	**5,895**

At the end of fiscal 2014, the aggregated substation transformation capacity at 765 kV, 400 kV and 220 kV level stood at 5.30 lakh MVA. The aggregated capacity was 4.73 lakh MVA at the end of fiscal 2013.

As per the Planning Commission estimates for the XII five year plan, the funds requirement for Transmission System development would be about ₹ 2-3 lakh crore including Central and State Sector share. The aim is to build a robust integrated grid network that will allow large transfers of power from one part of the country to another.

Distribution

Distribution Sector, the revenue generating link in the Generation - Transmission - Distribution chain is clearly the weakest link in the power sector value chain and is threatening to derail the entire process of power sector reforms as also jeopardize India's growth story. While the power generation sector in the Country is struggling to meet rising demand, the Distribution

sector has been reeling under losses and has been in focus with various measures being taken by the Government of India to make the State DISCOMs/Utilities viable.

The issues pertaining to the Distribution sector are not similar to Generation and Transmission sector. Distribution provides the crucial last mile connectivity and has disparate, numerous and varied consumers. Though most of the SEBs have been unbundled, distribution is still largely under the control of Government Utilities. Post unbundling, their operations on sound commercial principles under the regulatory supervision has not yielded the desired results. Worsening financial condition of power distribution utilities owing to high Aggregate Technical & Commercial (AT&C) Losses, inability to revise tariffs strictly in principle and spirit, despite respective ERCs directive for revision in most of the States since long, increasing Subsidy burden, cross subsidization by the industry to domestic consumer and farmers, billing inefficiencies and more importantly need to buy expensive power to tide over short-term deficits are eating away the benefits of the policy initiatives. The gap between their Average Cost of Supply (ACS) and Average Revenue Realized (ARR) is increasing and has crossed ₹ 1.50 per Kwh, resulting in further erosion of the net worth of these utilities.

In order to enable the turnaround of the State DISCOMs and ensure their long term viability, a financial restructuring scheme for the State owned DISCOMs viz Transitional Finance Mechanism (TFM) has been formulated by the Government of India. The mechanism includes measures such as approval of Financial restructuring plan (FRP) from State Government and the respective State Electricity Regulatory Commission (SERC), revision of tariff, thereby reducing the gap between Average Revenue Realised (ARR) and Average Cost of Supply (ACS), release of subsidies only to State Government to be later adjusted in the ARR, posting of Audited Accounts on regular basis, incentivisation through technology interventions in Restructured Accelerated Power Development and Reforms Programme (R-APDRP) and National Electricity Fund (NEF), devising utility wise turnaround plan and monitoring its implementation at the highest level. Therefore, it is necessary that all the interventions are dovetailed and integrated to overcome the major challenges like exorbitantly high transmission and distribution losses, suboptimal internal functioning of regulatory institutions, mismatch in tariffs, etc., so as to help turn around the power distribution sector.

On the Policy front an integrated rating methodology has been developed covering the State Power Distribution Utilities. The objective is to rate all utilities on the basis of their performance and their ability to sustain commercially viable operations in the long run. The mechanism focuses on ranking and incentivizing/dis-incentivising the entities in order to stimulate and improve their operational & financial performance and is expected to facilitate Banks/FIs adopt a uniform and realistic assessment of the risks associated with funding needs of different Utilities. It would also enable funding with appropriate loan covenants for stimulating and enhancing operational, financial and managerial performance. The methodology may serve as a basis for Government assistance to the State Power Utilities through various schemes like APDRP, NEF etc.

To help Power utilities access funds the policy of subsidizing the interest on loans taken by them for cutting distribution losses as well as to incentivize investment in improvement of distribution infrastructure in the country, National Electricity Fund has been launched in financial year 2012-13. The utilities/DISCOMS shall be eligible for discount on interest rates depending on performance.

Technical interventions such as implementation of Feeder separation scheme, High Voltage Distribution Systems (HVDS) in the distribution network, installation of Smart energy meters such as Automatic Meter Reading (AMRs) with 100 % coverage having two-way real-time digital communication and facility of remote metering, usage of information technology in operation & maintenance coupled with harnessing best management practices are the measures being undertaken to ensure safe and reliable delivery of power with minimal losses and at reduced costs.

Harnessing intelligent Smart-grid technologies for providing two way communications between the consumer and the utility would completely change the way electricity is used and delivered. Since Indian distribution sector is a weak link in the power value chain, the Smart-Grid projects to be implemented by the utilities for efficient, reliable and delivery of quality power would be a long term business opportunity.

To improve and turn around the power distribution sector in the country, the Company in coordination with MoP, GoI has initiated major initiatives by its involvement in programmes like RGGVY(Nodal Agency), R-APDRP, NEF(Nodal Agency), Financial Restructuring Plan (FRP), Smart Grid task force etc. With all these major interventions your Company is optimistic of a better and improved distribution scenario when the results and effect of these programmes in conjunction with the reforms measures taken by the respective states starts trickling in and transform the entire land scape of distribution.

Approximately, Rupee One Lakh crore was utilised for the sub-transmission and distribution system development inclusive of R-APDRP and RGGVY schemes. For the XII five year plan, the Planning Commission estimates investment of ₹ 3.14 lakh crore inclusive of investments planned towards Demand Side Management (DSM) and energy efficiency for the sector.

Power Sector Policy Environment

In past few years, owing to persistent power shortages and given the estimated rate of increase in demand for electricity in India, the GoI has taken significant measures to restructure the power sector, increase capacity, improve transmission, and sub-transmission & distribution network.

These major policy initiatives taken by Government of India have helped in enabling and redefining the power sector thus making it an attractive investment destination.

With the advent of Electricity Act, 2003 in its new shape and modified legal framework governing the Electricity sector, arranging capital and establishing large Power projects became a reality. The Act replaced the multiple legislations that previously governed the Indian electricity sector and introduced a multi-buyer and a multi-seller system. Furthermore, the regulatory regime was granted more autonomy in determining tariffs, without being constrained by rate-of-return regulations. This was followed by the notification of National Electricity Policy. Subsequently, National Tariff Policy, RE Policy, National Hydro Policy and Mega Power Policy were notified.

With the objective of developing large capacity power projects in India, the concept of Ultra Mega Power Projects (UMPPs) involving each contracted capacity of 3,500 MW or above has been introduced. The economies of scale in terms of large generation capacities based at a single location, utilization of super critical technology for reducing emissions and tariff based on international competitive bidding process adopted for the selection of developers have driven the electricity generating tariffs potentially downwards. To expedite the activities starting from preliminary site investigation to obtaining appropriate regulatory and other approvals (including for land, water, the environment and for power selling), conducting bidding process and finally handing over these projects, Special Purpose Vehicle (SPVs) are created. The role of the SPVs ends once the project is transferred to successful bidders. Four of these SPVs have already been transferred to successful bidders. A tariff based competitive bidding process is already in place for Independent Power Transmission Companies (IPTCs) for the development of Inter-state and Intra-state transmission systems on similar lines to that followed for UMPPs. The IPTCs aim to evacuate power from generating stations and transmit the power from pooling stations to other grid stations, resulting in system strengthening across India. A number of transmission projects have been transferred to the developers in last 2-3 years.

In a bid to attract private funds in the development of hydroelectric projects, the Hydro Power Policy was implemented in the year 2008. The policy aimed at attracting private funds by encouraging joint ventures with private developers and the use of the IPP model, in addition to promoting power trading and speeding up the availability of statutory clearances. The policy provides guidelines for accelerated development of the hydropower industry in India, particularly in the Himalayan States.

National Electricity Fund (Interest Subsidy) Scheme has been set up by Ministry of Power to provide interest subsidy linked to the progress achieved in reform linked parameters on loans disbursed to the State Power Utilities, Distribution Companies (DISCOMs) - both in public and private sector, to improve the infrastructure in distribution sector on works which have not been covered under R-APDRP or RGGVY. National Electricity Fund would provide interest subsidy aggregating ₹ 8,466 crore spread over 14 years for loan disbursement amounting to ₹ 25,000 crore for distribution schemes sanctioned during the 2 years *viz.*, 2012-13 and 2013-14. Your Company is the designated nodal agency to operationalize the scheme for channelizing the interest subsidy amounts to the utilities.

In an attempt to tide over severe fuel shortage as well as funding issues hurting the power sector, a slew of steps for fast tracking the solution of issues obstructing the project progress as well as commissioning have been undertaken.

Renewable Energy Sources

To mitigate the challenges posed on climate, National Action Plan for Climate Change (NAPCC) was announced in June 2008. The effort is to increase the share of renewable energy in total electricity consumption in the country. To bring momentum to the initiative, purchase obligation of Renewable Energy Certificates (RECs) has been imposed mandatorily on the State Utilities. The mechanism will enable sale and purchase of renewable energy component across the State boundaries without being linked to carbon credits.

National Solar Mission

The MNRE has approved a new policy on development of solar energy in India by the Jawaharlal Nehru National Solar Mission. The mission recommends the implementation of an installed capacity of 20,000 MW in three stages by the end of the XIII five year plan (2017-2022). It proposes to establish a single window investor-friendly mechanism, which reduces

risk and at the same time, provides an attractive, predictable and sufficiently adequate tariff for the purchase of solar power from the grid. The key driver for promoting solar power would be through a renewable purchase obligation mandated for power utilities, with a specific solar component.

Accelerated Power Development & Reforms Programme

The Government of India approved a scheme called "Accelerated Power Development and Reforms Programme (APDRP)" in March 2003 which has been re-launched as Restructured APDRP (R-APDRP) by making it more performance-based and financially attractive.

The APDRP programme has been restructured by the Government of India, in order that reliable and verifiable baseline data of revenue and energy in APDRP Project areas is attained over an IT platform and that AT & C loss reduction is achieved on a sustained basis. The R-APDRP was launched by Ministry of Power, Government of India in July 2008 as a central sector scheme for the XI five year plan.

The Rural Electrification Policy was notified in August 2006, with the objective of improving access and quality of electricity supply in rural areas to ensure rapid economic development by providing electricity as an input for productive uses in agriculture, rural industries etc.

RGGVY

The Rajiv Gandhi Grameen Vidyutikaran Yojana (RGGVY) which was launched by the Government of India in April 2005 aimed to establish (i) Rural Electricity Distribution Backbone (REDB) with at least a 33/11 KV sub-station in the blocks where it does not exist; (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. The Management of Rural Distribution is undertaken through franchisees. A three-tier quality monitoring has been built into the scheme. RGGVY has thus resulted in huge investments in providing electricity connections in rural India.

Besides the above policies/initiatives, some of the other initiatives by Government of India towards improving power sector are Establishment of Power Exchanges and Demand Side Management initiatives like National Mission for Enhanced Energy Efficiency (NMEEE); Perform, Achieve and Trade (PAT) Scheme; and Energy Conservation Building Code (ECBC),etc.

2. OPPORTUNITIES

The investments in the Power sector are estimated at around ₹ 14 Lakh crore in the XII five year plan period (fiscal 2013 - 2017) covering a capacity addition of 88,537 MW with associated Transmission and Distribution network. Further, green energy of 30,000 MW capacity is planned to be added in the period. An addition of almost 94,000 MW in Generation capacity (this apart from 30,000 MW green energy) with back to back expansion in T&D network for handling the increased capacity is envisaged in the XIII five year plan. The idea of creating a Green corridor exclusively for Green energy projects with major stress on promoting Solar energy projects on a large scale throws a whole gamut of business opportunity in the near future. With the passage of time the share of Green energy is bound to increase substantially diluting reliance on depleting fossil fuel resources. The National Electricity Fund (NEF) - an Interest Subsidy Scheme has been launched and would be a potential source of income in future. As a nodal agency for monitoring and channelizing funds under the RGGVY program the Company continues to take up the socio - economic responsibility of village electrification. Therefore the power sector is expected to attract significant investment opportunities in future also.

3. THREATS, RISKS AND CONCERNS

The Power Sector financing industry has become increasingly competitive and broad based with entry of new players and Banks (mostly as Consortium) giving tough challenge to our Company.

Financing infrastructure projects especially Power is not bereft of risks, rather the risks are high as the time horizon associated are long, associated with the various policy aspects in the dynamic business environment. Despite the restructuring efforts taken, the condition of State Electricity Boards and State Power utilities across the country continue to present a grave picture on the financial front as most of them are reeling under severe financial stress barring a few. The failure of the entities in meeting their debt related obligations may adversely impact our Company's ability to mobilise low cost funds. Since the Company has significant exposure to these State Electricity Boards and State Power utilities, the risk perception for our Company is high.

Our Company is concerned about prevailing exposure norms, limit constraint of raising money from tax saving Bonds, financial position of State Distribution Utilities, entry of new players and competition from banks/Multilateral Agencies, uncertain business environment, prevailing high interest rate scenario, fluctuation in rupee and likely increase in cost of capital due to volatile market conditions/large requirement of funds.

The uncertain business and policy environment having cascading effect on Interest rate regime, statutory regulations and policies, cost and availability of raw materials, long gestation periods, large capital outlay, other key inputs and general economic conditions may adversely affect projects' viability affecting the borrowers' capacity of servicing the loans.

In such prevailing situation, judicious raising of resources at a low cost and ensuring most productive deployment of these funds would be the key factor for Company's profitability and growth.

4. SEGMENT WISE OR PRODUCT-WISE PERFORMANCE

The principal products of REC as a leading Public Financial Institution are interest bearing loans to SEBs, State Power Utilities/State Power Departments and Private sector for all segments of Power infrastructure. Our Company does not have any separate reportable segment.

During the financial year 2013-14, the Company sanctioned loan assistance of ₹ 70,739.48 crore. This included sanction of loans of ₹ 28,723.50 crore for the Generation Sector, ₹ 295.48 crore for Renewable Energy Sector, ₹ 32,014.99 crore for Transmission & Distribution Sector, and ₹ 9,705.50 crore for Short Term & other Loans. Decentralised Distributed Generation (DDG) Projects under RGGVY were sanctioned for a total project cost of ₹ 166.33 crore.

Aggregate disbursement of ₹ 37,969.99 crore was achieved during the financial year 2013-14. This included ₹ 12,987.43 crore under Generation (including renewable energy projects), ₹ 10,789.09 crore under T&D schemes, ₹ 1,589.00 crore under Short Term Loan, ₹ 9,917.50 crore under other Loans and ₹ 2,686.97 crore under RGGVY (including subsidy of ₹ 2,394.71 crore under RGGVY and ₹ 29.26 crore under DDG subsidy).

5. OUTLOOK

Considering the continued shortages in electricity generation in the country, low levels of per capita energy consumption, significant growth projections for the Indian economy over the long term and Government efforts to inch closer to developed economy, it is felt that the power infrastructure sector will be a significant beneficiary. Estimated, aggregate capacity addition of 180 GW during the XII and XIII five year plans put together (fiscal 2013-2022) with estimated investments of over ₹ 34 lakh crore will continue to drive the prospects of power sector in the country. Thrust in rural electrification, renewable energy with special focus on Solar Energy and decentralised distributed generation (DDG) will *inter-alia* increase the penetration of electricity in the country thereby driving the demand further. With the timely interventions by the Government of India in addressing the issues affecting the Power Industry adversely, the outlook for the sector is quite optimistic with ample market opportunities available for financial products.

Demand, supply and consumption trends will be key in defining the future of Indian power sector and the current fall in power demand could be a short term issue mainly arising from the industrial slowdown, lack of power procurement by utilities and seasonal fluctuations. The long-term outlook for power demand remains strong. Low per capita consumption and expected growth of economy are pointers to the long-term energy requirement.

India ranks among the top countries in terms of electricity generation and lags China in generation by almost 5 times within the BRICS countries. However, India has lowest per capita electricity consumption among the BRICS nations. The low per capita electricity consumption suggests a large latent demand in the country. With the exception of financial year 2013-14 the energy deficits and peak deficits during the past 10 years have remained generally in the range of 7 % to 17 %.

Further, the low per capita consumption of electricity in India compared to the world average presents significant potential for sustainable growth in the demand for electric power in India. The total energy consumption in India is estimated to grow rapidly creating huge potential for investments in Energy Sector in India.

The enormous capital expenditure, development of equally huge operational infrastructure combining ample potential for future expansion in the distribution sector creates a very optimistic business outlook for the Company. Also the performance orientation built into the R-APDRP and NEF is expected to attract and accelerate investments in distribution infrastructure, thus resulting in faster accomplishment of loss reduction goals.

6. MoU RATING & AWARDS

The performance of your Company in terms of MoU signed with the Government of India in the Ministry of Power for the financial year 2012-13 has been rated as "Excellent". This is the 20th year in succession that REC has received "Excellent" rating since the year 1993-94 when the first MoU was signed with the Government. For the financial year 2013-14 also, the performance of the Company is poised to receive "Excellent" rating. During the year, your Company received Award in the category of 'Energy & Power Sector' from India Pride Awards, Dainik Bhaskar & DNA, DSIJ PSU Award 2013 for 'Best Value creating Navratna with a Balance Sheet of more than ₹ 1 Lakh crore' and also rated among the Best Employers in India by Aeon Hewitt.

Your Company was honoured with the Helpage India 'Gold Plate Award' on the occasion of International Day for Older Persons in recognition of the project 'Multi Facility Health Package for Old Age Homes' funded under its CSR initiatives. Your Company has also been honored with RAJBHASHA SHREE SAMMAN by Bhartiya Rajbhasha Vikas Sansthan, Dehradun during the financial year 2013-14.

Further, in recognition of good Corporate Governance practices followed by the Company, the Institute of Company Secretaries of India (ICSI), a statutory body constituted under the Company Secretaries Act, 1980 has adjudged your Company as one of the 'Best Governed Company' and conferred 13th ICSI National Award for Excellence in Corporate Governance for the year 2013.

7. PREFERRED CUSTOMER POLICY

As a part of business promotion strategy, a Preferred Customer Policy was formulated in 2008 with the basic purpose of offering an enhanced level of services to the Company's customers and to have a long term mutually beneficial relationship with them. The policy lays down the eligibility criterion which takes into account various factors such as amount of loan outstanding, duration of loan relationship, repayment track record of the borrower etc, for determining preferred customers and sponsoring them for capacity building/domestic/ international seminars/training programmes organized by various external agencies as well as CIRE, Hyderabad.

During the financial year 2013-14, under this policy, participants from eight such preferred customers mostly from the State Utilities viz. Maharashtra State Electricity Distribution Company Limited (MSEDCL), Mumbai, Maharashtra State Electricity Transmission Company Limited (MSETCL), Mumbai, Maharashtra State Power Generation Company Limited (MSPGCL), Mumbai, Rajasthan Rajya Vidyut Prasaran Nigam Limited (RRVPNL), Uttar Haryana Bijli Vitaran Nigam Limited (UHBVNL), Karnataka Power Corporation Limited (KPCL), Andhra Pradesh Power Generation Corporation Limited (APGENCO) and UP Power Corporation Limited (UPPCL) were sponsored by REC for 10 days training programme on "Global Best Practices in Power Sector" held at PMI, Noida, India and also in Italy and France.

8. INTERNAL CONTROL SYSTEM AND THEIR ADEQUACY

The Company maintains an adequate system of Internal Control including suitable monitoring procedures which ensures accurate and timely financial reporting of various transactions, efficiency of operations and compliance with statutory laws, regulations and Company policies. Suitable delegations of power and guidelines for accounting have been issued for uniform compliance. In order to ensure that adequate checks and balances are in place and internal control systems are in order, regular and exhaustive Internal Audit of various Divisions/offices are conducted by In-house Internal Audit Division and for some selected Project Offices by experienced firms of Chartered Accountants. The Internal Audit Division covers all the major areas of operations including identified critical/risk areas as per the Annual Internal Audit Programme. Audit Committee of Board of Directors periodically reviews the significant findings of different Audits as prescribed in the Companies Act and in the Listing Agreement.

9. FINANCIAL AND OPERATIONAL PERFORMANCE

The loan sanctioned during the financial year 2013-14 was ₹ 70,739.48 crore as compared to ₹ 79,470.49 crore during the previous financial year 2012-13 (excluding subsidy under RGGVY & DDG). The disbursement during the financial year 2013-14 decreased to ₹ 37,969.99 crore as compared to ₹ 40,183.06 crore during the previous financial year 2012-13 (including subsidy under RGGVY and DDG).

The amount due for recovery including interest during the financial year 2013-14 was ₹ 31,312.57 crore as compared to ₹ 26,881.04 crore during the previous year. The overdues from defaulting borrowers as on March 31, 2014 were ₹ 993.04 crore. The Company recovered a total sum of ₹ 30,755.36 crore during the year 2013-14 as against ₹ 26,728.86 crore during the previous year.

During the financial year, the Company registered an increase of ₹ 3,480.61 crore in operational income which went up to ₹ 17,017.98 crore from ₹ 13,537.37 crore during the financial year 2012-13. Profit before tax was at ₹ 6,531.12 crore in 2013-14 in comparison to ₹ 5,163.95 crore in 2012-13. Net profit of the Company in 2013-14 is ₹ 4,683.70 crore, an increase of ₹ 866.08 crore over the previous year. Net worth of the Company as on March 31, 2014 has increased by 18% to ₹ 20,669.46 crore from ₹ 17,454.38 crore.

10. HUMAN RESOURCES/ INDUSTRIAL RELATIONS

In order to professionalize the Executive strength of REC and also to infuse fresh blood, 14 Executives were appointed through open advertisement and another 14 Executives through campus recruitment drawn from premier Institutions empanelled for the purpose, during the financial year under review.

The total manpower of the Company as on March 31, 2014 was 631 employees which includes 442 executives and 189 Non-executives.

Based on the needs assessed and as a means to meet them, the Company sponsored 193 employees to various training programmes, workshops etc within the country and abroad. In addition, 13 training programmes were conducted in-house which were attended by 223 employees. Taken together, these initiatives enabled the Company to achieve 1,542 training man days and also to achieve excellent rating on MoU target on this parameter. In order to enable them develop global exposure, 27 Officers were deputed to various programmes abroad to countries like USA, Japan, Greece, Spain, France, Germany and Italy.

11. CORPORATE SOCIAL RESPONSIBILITY & SUSTAINABLE DEVELOPMENT

Corporate Social Responsibility and Sustainable Development (CSR & SD) initiatives were pursued actively. Accordingly, CSR budget @ 1% of Profit after Tax (PAT) was allocated for the financial year 2013-14, amounting to ₹ 38.18 crore. the Company has undertaken various CSR & SD initiatives in the fields of Skill Development / Up-gradation programmes, education, promotion of non-conventional sources of energy, promotion of Health care including for old age and persons with disabilities, drinking water and sanitation, installing Solar PV Smart Mini Grids, providing Solar-Lanterns to affected households and installation of Mobile-charging Solar Stations at various locations/ districts across the country. During the financial year 2013-14, under Corporate Social Responsibility and Sustainable Development, financial assistance aggregating to ₹ 66.61 crore was sanctioned and ₹ 38.40 crore was disbursed for various projects.

Cautionary Note

Certain statements in "Management Discussion and Analysis" section may be forward looking and are stated as required by applicable laws and regulations. Many factors may affect the actual results, which could be different from what the Management envisages in terms of future performance and outlook.