

CHAIRMAN'S LETTER TO SHAREHOLDERS



Ladies and Gentlemen,

On behalf of the Board of Directors of Rural Electrification Corporation Limited (REC) and on my own behalf, I am pleased to welcome you on the occasion of the Forty Fifth Annual General Meeting of the Company.

I am privileged to head a "Navratna" Company having a consistent record of excellent all-round performance, growth and profitability over the past 45 years since its inception and is today one of the leading public financial institutions in the country funding almost all needs of entire Power Infrastructure space.

I hope that all of you have received the Annual Report for the year ending March 31, 2014 along with the Directors' Report and audited Annual Accounts of the Company, as ready reference for your Company's performance.

Before I proceed to read out the performance highlights of the Company during the year 2013-14, let me share with you, very briefly, the economic & financial environment, which had a strong bearing on the overall performance of the Company.

ECONOMIC ENVIRONMENT

During the financial year 2013-14, the global economic condition remained highly uncertain and weak, reflecting subdued growth in almost all the major economies of the world. Throughout the year 2013, the macroeconomic situation was bleak and continues to face high interest rates, inflationary pressure, escalating energy prices, weak investment sentiments, structural bottlenecks, market volatility, political instability and macroeconomic imbalances. The slowdown in a number of emerging economies under the year of review was "hard" enough, and many of these emerging economies remained vulnerable in the outlook. Though the mild recovery in global economic activities is set, risk to the global economy is still not over. Global GDP grew by 3.0 % in 2013 as against 3.1 % registered in 2012 and poised to grow by 3.5 % in 2014. Our economy has been also impacted by the slowdown in the global economy.

During the financial year 2013-14, India continued to show a deceleration in growth with the GDP growth rate at lower than 5 %. The macroeconomic scenario was difficult with a slowdown in the investment cycle, persistently high headline inflation and a volatile currency and interest rates. The trend of declining private investment in Infrastructure continued during the year. The issues faced by the infrastructure sector are well known and the Government initiated some steps to reduce the bottlenecks faced in project execution. It is expected that the new Government with a clear majority, will be able to clear the bottlenecks that have affected the economy and the infrastructure sector in particular. It is imperative to kick start the investment cycle and restore investors' confidence which has taken a beating over the past couple of years. Investors are looking for signs of stability and predictability in Government policy and reduced execution challenges before returning to the sector.

POWER SECTOR

The Indian power sector continues to face challenges on the fuel front. With the total installed generating capacity in the country now at over 249 GW, thermal plants which constitute highest generating capacity, are struggling with inadequate supply of fuel which has led to their operating at low PLFs. Despite having the fourth largest coal reserves in the world, the country's power sector does not get the coal it needs. Coal India's production has been unable to keep pace with the increase in domestic coal based power capacity. It is expected that coal imports for the power sector, would continue to rise. Based on a presidential directive, Coal India has now signed Fuel Supply Agreements (FSAs) with nearly 78 GW of power plants which are under construction. The situation with gas based plants continues to be uncertain with no clear visibility on a resolution. Further, a healthy power distribution sector is critical for the overall viability of the power sector. The financial restructuring programme for Distribution Companies (DISCOMs) has met with mixed success. While several DISCOMs have accepted the scheme, there is not much headway in its implementation in several states. Renewable Energy has seen an unprecedented growth and its share is itself an indication of major shift imminent in the fuel mix for generation sources in the country.

But for the major challenges faced by the Indian Power sector currently viz. slippages of long term Coal linkages to the projects identified, failure to achieve planned targets from captive coal mine blocks, rising imported fuel prices, land acquisition, Rehabilitation and Resettlement (R & R), Environment and water related issues, shortage of qualified Balance of Plant (BoP) suppliers and Delay in Financial Closure etc, the capacity addition would have been much higher.

The XII five year plan targets for power envisage capacity addition of 88,537 MW. The overall funds requirement for the power sector for XII five year plan period 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.

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 burgeoning 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.

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 Electricity Regulatory Commissions (ERCs) directive for revision in most of the states, 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.

To turnaround 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 R-APDRP and NEF, devising utility wise turnaround plan and monitoring its implementation at the highest level.

For the XII five year plan, the Planning Commission estimates investment of ₹ 3.14 lakh crore for the sector inclusive of Restructured Accelerated Power Development and Reforms Programme (R-APDRP) and Rajiv Gandhi Grameen Vidyutikaran Yojana (RGGVY) schemes. The focus of the R-APDRP is on actual, demonstrable performance in terms of sustained loss reduction, establishment of reliable and automated systems for sustained collection of accurate base line data and the adoption of Information Technology in the areas of energy accounting. RGGVY Scheme seeks Rural Electricity Infrastructure and Household Electrification for providing access to electricity to all rural households. 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.

The power sector is thus poised to remain vibrant and attract significant investments in the future.

PERFORMANCE HIGHLIGHTS

Your Company continued to register higher growth and record performance for the financial year 2013-14, in key areas of Disbursements of Loans, Recoveries, Operating Income and Profits. A total sum of ₹ 37,969.99 crore (including subsidy under RGGVY and DDG) was disbursed during the financial year 2013-14 as against ₹ 40,183.06 crore in the previous year. Your Company's Non-performing Assets (NPAs) continued to be at low levels. The total operating income of your Company for the financial year 2013-14 increased by 26% to ₹ 17,017.98 crore from ₹ 13,537.37 crore during the previous year. The profit after tax increased by 23% to ₹ 4,683.70 crore from ₹ 3,817.62 crore for the previous year.

Your Company enjoys international credit rating from International Credit Rating Agencies Moody's and Fitch which are "Baa3" and "BBB-" respectively equivalent to sovereign rating of India. "Baa3" rated obligations denote moderate credit risk and "BBB-" rated obligations denote that expectations of default risk are currently low. Further, during the financial year 2013-14, your Company continued to get the highest rating "AAA" from domestic rating agencies - the highest assigned by CRISIL, CARE, India Ratings & Research and ICRA for its specific Resource Mobilization programme. Consistent high ratings bear testimony to REC's stature as an institution with strong fundamentals and inherent financial strength.

Your Company mobilized ₹ 36,934.37 crore from the market during the financial year 2013-14 for its operational requirements. This includes ₹ 17,403 crore through issue of Institutional Bonds, ₹ 6,000 crore (₹ 1,500 crore through private placement and

₹ 4,500 crore through public issues) raised by way of Tax Free Secured Redeemable Non-convertible Bonds u/s 10(15) (iv) (h) of the Income Tax Act, 1961. The Company raised ₹ 5,349.91 crore by way of Capital Gains Tax Exemption Secured Redeemable Non-convertible Taxable Bonds, under Section 54EC of the Income Tax Act, 1961. Further, ₹ 4,986.16 crore was mobilised through Commercial Paper (CP) and ₹ 1,195 crore through Term Loans. The Company also raised ₹ 1,780.28 crore by way of External Commercial Borrowings and ₹ 220.02 crore by way of Official Development Assistance (ODA) loan from KfW, Germany and Japan International Cooperation Agency (JICA), Japan.

DIVIDEND

In addition to interim dividend of ₹ 7.75 per share paid on February 28, 2014, the Board of Directors of your Company have recommended a final dividend of ₹ 1.75 (One Rupee and Seventy Five paise only) per share (on the face value of ₹ 10/- each) for the financial year 2013-14, which is subject to approval of the Shareholders in the 45th Annual General Meeting. The total dividend for the financial year 2013-14 will work out to ₹ 9.50 (Rupees Nine and Fifty Paise only) per share (on the face value of ₹ 10/- each), representing 95.00 % of the paid-up share capital of the Company, as against ₹ 8.25 per share, representing 82.50 % of the paid-up share capital of the Company, in the previous year. The total dividend pay-out for the financial year will amount to ₹ 938.09 crore (excluding dividend distribution tax of ₹ 159.40 crore).

FINANCING POWER PROJECTS

The Company has been funding power generation, transmission and distribution projects besides electrification of villages and pumpset energisation. It continued to play an active role in creating new infrastructure and improving the existing ones under the transmission and distribution network in the country. In line with the country's objective to reduce the AT&C losses and provide electricity to all, the Company has been laying special thrust in expansion and strengthening of existing transmission network and more importantly modernising of the distribution system by financing investment in transformers, meters, capacitors etc. and for conversion of Low Voltage Distribution to High Voltage Distribution System (HVDS).

FINANCING GENERATION PROJECTS

During the financial year 2013-14, your Company sanctioned 23 nos. of Generation/R&M loans including 9 nos. of additional loan assistance with total financial outlay of ₹ 28,723.50 crore, including consortium financing with other financial institutions and has disbursed ₹ 12,987.43 crore against the ongoing generation projects (including renewable energy projects).

FINANCING TRANSMISSION & DISTRIBUTION PROJECTS

Your Company continued to play an active role in creating new infrastructure and improving the existing ones under the transmission and distribution network in the country. In line with the national objective to reduce the AT&C losses and provide electricity to all, your Company has been financing schemes for expansion and strengthening of the transmission network and more importantly, modernising of the distribution system. During the financial year 2013-14, the Company sanctioned a total sum of ₹ 32,014.99 crore and disbursed a total sum of ₹ 10,789.09 crore for transmission and distribution projects.

FINANCING RENEWABLE ENERGY AND OTHER PROJECTS

During the financial year 2013-14, besides financing to Generation and T&D projects, your Company sanctioned loan assistance of ₹ 295.48 crore to 6 new, grid-connected Renewable Energy projects with installed generation capacity aggregating 98 MW which included 3 Solar photo-voltaic projects of 75 MW; 2 Small Hydro Projects of 21 MW; and 1 Wind project of 2MW and disbursed an amount of ₹ 134.99 crore for Renewable Energy projects.

RAJIV GANDHI GRAMEEN VIDYUTIKARAN YOJANA (RGGVY)

Government of India is according topmost priority to rural electrification to realise the objective of 'Power to all villages' and 'Provide access to electricity to all' through its flagship programme Rajiv Gandhi Grameen Vidyutikaran Yojana (RGGVY). Under the scheme, 90% capital subsidy is being provided by Government of India for overall cost of the projects. Continuation of the Scheme in XII and XIII five year plans was also approved by Ministry of Power with capital subsidy of ₹ 35,447 crore, out of which ₹ 23,397 crore would be met through Gross Budgetary Support (GBS) for XII five year plan and remaining ₹ 12,050 crore from XIII five year plan. Under RGGVY, cumulatively up to March 31, 2014, works in 1,08,280 un-electrified villages have been completed and electricity connections to 2.16 crore BPL households have been provided. During this financial year, an amount of ₹ 2,686.97 crore (including subsidy of ₹ 2,394.71 crore under RGGVY and ₹ 29.26 crore under DDG subsidy) has been disbursed.

SUBSIDIARY COMPANIES & JOINT VENTURE

Your Company has following Wholly Owned Subsidiaries, to focus on additional business of consultancy in the areas of distribution, transmission etc.:

- (i) REC Power Distribution Company Limited; and
- (ii) REC Transmission Projects Company Limited

Further, Ministry of Power (MoP), Government of India, has also designated REC Transmission Projects Company Limited (RECTPCL) (a Wholly Owned Subsidiary of REC) as “Bid Process Coordinator” (BPC) for selection of Transmission Service Provider (TSP) for independent transmission projects allocated by MoP from time to time, through Tariff Based Competitive Bidding Process notified for Inter State transmission projects.

Accordingly, in order to initiate development of each allocated transmission project, RECTPCL has incorporated a Project Specific Special Purpose Vehicle (SPV) as Wholly Owned Subsidiary Company and after the selection of successful bidder, the respective Project Specific SPV along with its all assets and liabilities is to be transferred to the successful bidder. As on date, the following project specific Special Purpose Vehicles (SPVs) exist as Subsidiary Companies of RECTPCL:

- (i) Nellore Transmission Limited (NTL)
- (ii) Baira Siul Sarna Transmission Limited (BSSTL)
- (iii) NRSS XXIX Transmission Limited*
- (iv) NRSS XXXI (A) Transmission Limited*
- (v) NRSS XXXI (B) Transmission Limited*
- (vi) Gadawara (A) Transco Limited[#]
- (vii) Gadawara (B) Transmission Limited[#]

**After the selection of successful bidder through Tariff Based Competitive Bidding Process, NRSS XXXI (A) Transmission Limited and NRSS XXXI (B) Transmission Limited have been transferred to M/s Power Grid Corporation of India Limited & M/s Essel Infraprojects Limited, respectively, on May 12, 2014. NRSS XXIX Transmission Limited has also been transferred to M/s Sterlite Display Technologies Private Limited (investing affiliate of Sterlite Grid Limited) on August 4, 2014.*

[#] Incorporated after March 31, 2014.

During the Financial Year 2013-14, REC Power Distribution Company Limited (RECPDCL) has not only carried out Third Party Inspection (TPI) but also been involved in preparation of Detailed Project Reports through GPS based field survey. During the year, RECPDCL has prepared 98 Detailed Project Reports (DPRs) under RGGVY XII five year plan and 33 DPRs under RE works for Rajasthan DISCOMs and carried out Third Party Inspection (TPI) of more than 11,000 Villages as REC Quality Monitors.

The performance of RECPDCL has improved and the financial performance of the company is on the fast trajectory growth path. The company's gross income during the financial year 2013-14 has increased by 145.5% to ₹ 75.16 crore compared to the previous year income of ₹ 30.61 crore. The Profit Before Tax (PBT) during the financial year 2013-14 has increased by 214% to ₹ 50.18 crore as compared to ₹ 15.98 crore in the previous year. The Profit After Tax (PAT) during the financial year 2013-14 has also increased by 205.36% to ₹ 33 crore from ₹ 10.81 crore during the previous year. The Net-worth of RECPDCL is now ₹ 60.22 crore (previous year ₹ 27.52 crore) in its 7th year of operation as against initial capital of ₹ 0.05 crore, injected by REC.

During the financial year 2013-14, RECTPCL has concluded the two stage bidding process featuring separate Request for Qualification (RfQ) and Request for Proposal (RfP), for selection of TSP for three projects out of five transmission projects allocated in the year 2012-13 and the respective Project Specific SPV along with its all assets and liabilities is transferred to the successful bidder. Accordingly, two project specific SPVs i.e. Vizag Transmission Limited (VTL) and Unchahar Transmission Limited (UTL), have been transferred to M/s Power Grid Corporation of India Limited (successful bidder) on August 30, 2013 & March 24, 2014 respectively, on payment of acquisition price. Similarly, another project specific SPV i.e. Kudgi Transmission Limited (KTL) has also been transferred to M/s L&T Infrastructure Development Projects Limited (successful bidder) on August 30, 2013 after payment of acquisition price.

In addition to the above, during the current financial year i.e. 2014-15, Ministry of Power has also allocated the following five transmission projects to RECTPCL:

- i. Transmission system associated with Gadawara STPS (2x800 MW) of NTPC (Part - A);
- ii. Transmission system associated with Gadawara STPS (2x800 MW) of NTPC (Part - B);

- iii. Connectivity lines for Maheshwaram (Hyderabad) 765/400kV Pooling S/s;
- iv. Transmission System for LTA of 400 MW for 2x500 MW Neyveli Lignite Corporation Ltd. TS-I (Replacement) (NNTPS) in Neyveli; and
- v. Transmission System Strengthening associated with Vindhyachal-V.

In order to initiate development of each of the above listed transmission systems, RECTPCL has incorporated two Wholly Owned Subsidiary (WOS) Companies namely "Gadarwara (A) Transco Limited" and "Gadarwara (B) Transmission Limited" on August 5, 2014 and July 30, 2014 respectively, relating to transmission projects detailed at Sl. No. (i) and (ii) above and the incorporation of other three subsidiary companies is under process.

During the financial year ended March 31, 2014, REC Transmission Projects Company Limited has been able to generate an income of ₹ 35.18 crore. The Profit before tax and Profit after tax for the year is ₹ 34.30 crore and ₹ 23.86 crore respectively. The Net-worth of RECTPCL is now ₹ 68.92 crore as against initial capital of ₹ 0.05 crore injected by REC, in year 2007.

Further, your Company along with three other PSUs namely NTPC, PGCIL and PFC as equal partners, had formed a Joint Venture Company by the name Energy Efficiency Services Limited (EESL) on December 10, 2009. The business plan of EESL envisages taking up projects in Energy Conservation Building Codes, Agriculture Demand Side Management, Municipal DSM, Bachat Lamp Yojana, promoting usage of energy efficient appliances and concept of Energy Service Companies (ESCOs) etc., besides taking over the current commercial roles being discharged by the Bureau of Energy Efficiency (BEE).

Currently, EESL is implementing Municipal Street Lighting projects with various municipal corporation and AgDSM projects for replacement of inefficient Agricultural Pump sets in agriculture Sector, DSM Based Efficient Lighting Programme (DELP) in domestic residential sector in Energy Service Company (ESCO) mode with various Utilities and CSR projects of various companies.

CENTRAL INSTITUTE FOR RURAL ELECTRIFICATION

The Company had established a National Institute in Hyderabad 33 years ago, called Central Institute for Rural Electrification (CIRE), to cater to the training and development needs of engineers and managers of Power and Energy Sector and other organisations concerned with Power and Energy. CIRE conducts regular programmes on various aspects of Transmission and Distribution for national and international Power Sector Executives, as well as in-house training programmes for the Company's employees. In keeping with the needs of the 21st century, we plan to further modernise CIRE, along with establishment of an 'Energy Park' in its premises to give a practical orientation to the training.

HUMAN RESOURCE MANAGEMENT

Training and HRD continued to receive a place of priority as a means of equipping employees with aim of sharpening business skills and competence required for better employee performance and providing all possible opportunities and support to the employees to improve their performance and productivity. Based on the assessed needs and as means to satisfy them, the Company sponsors its officers and staff to various training programmes, workshops etc. within the country and abroad. In addition, training programmes are conducted in-house including at CIRE training institute owned by REC.

INFORMATION TECHNOLOGY INITIATIVES

Your Company has been making continuous efforts at upgrading and implementing state-of-the-art IT enabled and IT based systems for improving internal systems and processes. Your Company has already implemented an integrated Oracle based ERP system covering all major business functions. It covers all important business functions of the Company including Finance, Project, Disbursements, Loan Accounts, Treasury, Payroll, CPF, Cash management, Banking, Purchases across all Offices. Your Company has extended the benefit of ERP directly to Borrower by developing an online "Borrower Portal" to facilitate them in knowing status of loans and schemes on real time basis. In addition to that your Company has already implemented a number of other systems also including Document Management System, e-procurement system, Workflow Management System (WMS), Intranet etc. for greater transparency and better e-governance. Further during the financial year 2013-14, your Company has a full fledged Disaster Recovery Centre for ERP operation, a Work-Flow Management system for electronic movement of decision making in selected divisions and offices. All these have led to improvement of internal efficiency and greater customer satisfaction. Your Company has initiated implementation of integrated HR-ERP solution for automation of entire HR functions including Employee Self Service Portal across the Company. The Company has also redesigned and revamped the existing static Corporate website to an interactive and dynamic website.

CORPORATE GOVERNANCE

As a listed Public Sector Enterprise, your Company has been complying with the requirements of Corporate Governance as stipulated in the Companies Act, Listing Agreements and also the provisions of Guidelines notified by the Department of Public

Enterprises (DPE), Government of India in this regard. However, during the financial year 2013-14, in absence of requisite number of Independent Directors, the composition of the Board of Directors was not in compliance with the statutory requirements. Corporate Governance at Rural Electrification Corporation Limited (REC), is managing the business in an ethical and responsible manner for sustainable value creation of various stakeholders within the prevalent regulatory framework. The Company believes in adopting the best practices that are followed in the area of Corporate Governance across the globe.

Further, as a responsible Corporate Citizen, your Company has actively supported the implementation of 'Green Initiative' of Ministry of Corporate Affairs (MCA) and effected electronic delivery of Annual Report, Postal Ballot Notice alongwith annexures and intimation of Final/Interim Dividend to those shareholders whose email ids were registered.

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.

CORPORATE SOCIAL RESPONSIBILITY AND SUSTAINABLE DEVELOPMENT

During the financial year 2013-14, the Corporate Social Responsibility and Sustainable Development (CSR & SD) initiatives of the Company were continued with a view to integrate REC's business operations with social processes while recognizing the interests of its stakeholders. CSR & SD projects were linked with the principle of sustainable development. The strategic focus was aimed at CSR & SD initiative towards fulfilling the National Plan goals and objectives including Millennium Development Goals ensuring the gender sensitivity, skill enhancement, entrepreneurship and employment generation by co-creating value with local institutions/people. While identifying such initiatives the Company has adopted an integrated approach to address the community, societal and environmental concerns measured in terms of triple bottom line approach.

During the financial year 2013-14, a budget @ 1 % of Profit After Tax (PAT) of previous year was allocated towards CSR and SD activities. During the year, 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.

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.

Further, it is a matter of great honour to your Company that 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.

OTHER INITIATIVES

Your Company constantly reviews and revises its lending and operation policies/ procedures to suitably align with market requirements as also with its corporate objectives. During the year, the Company has reviewed policies related to Grading of State Power Utilities, Standardization of repayment periods for T & D schemes, Renewable Energy guidelines and CSR Policy to align itself with prevailing practices and to comply with guidelines issued by Statutory Authorities from time to time.

FUTURE STRATEGY

Your Company offers a wide range of products to target customer segments to satisfy their specific financial needs. REC will strive to strengthen its core financing activities and explore new business areas in the allied fields also viz. Power equipment financing, energy efficiency related activities, equity financing etc.

Your Company is planning to enhance its presence in the Green Energy financing, such as Solar, Biomass and Wind Power, which shall help in mitigating the problem of power scarcity, carbon emissions and fuel supply. Further, your Company constantly reviews and revises its lending and operational policies/ procedures to suitably align with market requirements as also with its corporate objectives.

Your Company has formed a “Strategic Business Group” comprising of senior officers to explore new business opportunities and look for the new products with regard to the business development of the Company.

Your Company is committed to accelerate growth and will continue to achieve the best standards of Corporate Governance with emphasis on authority and freedom of management coupled with transparency, accountability and professionalism in their working with the aim of enhancing long term economic value of all the stakeholders and society at large.

LOOKING AHEAD

Even though the global economic conditions are still challenging, our policy maker has rebuilt buffers to cushion it against possible spillovers. The outlook of the country’s economy during the financial year 2014-15 is expected to be more positive since we are moving towards a stable government who will be taking positive decisions which will lead to rebound in manufacturing, credit expansion and investment growth and GDP is projected to grow at 5.5 % during the year 2014-15.

With the target of addition of 88,537 MW generation capacity in XII five year plan, together with matching transmission and distribution infrastructure, the power sector will continue to provide one of the biggest avenues to make significant contribution towards the development of Country’s infrastructure. The Asset size of the Company in the financial year 2013-14 stands at ₹ 1.49 Lakh crore. The strong foundation laid by your Company over the years, enabled it to increase the market share including capture optimal share of funding business of the estimated debt requirement of ₹ 9-10 lakh crore for XII five year plan as well as performance under all key parameters during the current year also. I would like to assure you that with the help of committed workforce, your Company is fully equipped to move forward by delivering best services to customers. This reinforces our absolute commitment to customer service which is the essence of doing business. There has been a significant sentiment change with the prospect of a stable Government for the next five years and one hopes that during this financial year we will see some definitive measures to bring back confidence and restart investment cycle and job creation.

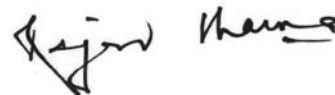
ACKNOWLEDGEMENTS

I take this opportunity to express my sincere gratitude for the immense support and guidance received by your Company from the Hon’ble Minister of State for Power (Independent Charge), the Secretary (Power), the Additional Secretary (Power), the Joint Secretary (Rural Electrification) and other officers in the Ministry of Power. I am also grateful to the officers in the Ministry of Finance, Planning Commission and the Reserve Bank of India, the Comptroller & Auditor General of India, the Joint Statutory Auditors of the Company, and the Secretarial Auditor for all their support and guidance extended in ensuring smooth and successful operations of the Company. I also express my gratitude to our lenders and investors for having reposed their trust in us.

I would also like to express my thanks and appreciation to my esteemed colleagues on the Board and to all employees of REC for their unswerving commitment to their work. I convey my special thanks to all the other stakeholders of the Company for their valuable support and cooperation and reposing continued confidence in the Company’s performance.

I am confident that with a dedicated and committed resource of employees and valuable support of our esteemed shareholders, your Company will continue to deliver its responsibilities and enhance value to its stakeholders.

With best wishes,



(Rajeev Sharma)
Chairman & Managing Director