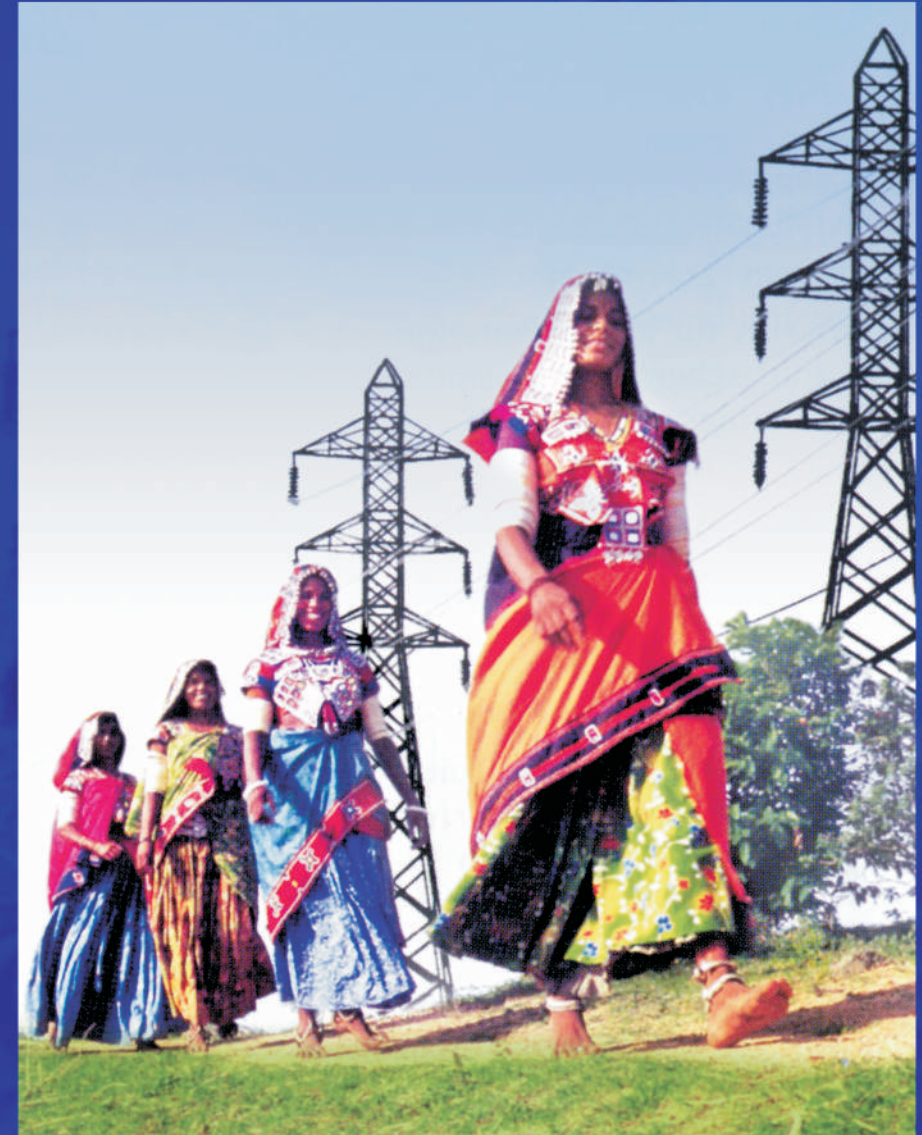


Empowering
Rural India's steady march
towards progress



Rural Electrification Corporation Limited

A Government of India Enterprise

Energising India

www.recindia.nic.in



Rural Electrification Corporation Limited

A Government of India Enterprise



Redefining India's image

A. K. Lakhina
Chairman & Managing Director

Dear Members,

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

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

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

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

“CHAIRMAN'S SPEECH”

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The domestic power sector is adversely affected by huge capacity shortages, a high level of transmission, distribution and commercial losses, a lack of grid discipline, an unnecessarily large workforce, ageing networks, and a lack of commercial orientation. Installed capacity is 7.3% lower than demand, with peak shortages as high as 11.7%. To combat this challenge, the Government of India has taken various initiatives from the creation of The Electricity Act 2003 ... to the launching of the Rajiv Gandhi Grameen Vidyutikaran Yojna (RGGVY). These measures would need an investment of around Rs. 8,00,000 crores by 2012.

REC is on the threshold of great opportunities.

Performance. Packed with Power.

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

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

REC continued to keep its cost of borrowing to a minimum, by raising funds at competitive rates. Besides timely repayment of Government loans and redemption of bonds, REC pre-paid a high-cost loan of Rs.976.73 crores to the Government. The Corporation

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Fifteen years at a glance

| Particulars | 2004-05 | 2003-04 | 2002-01 | 2001-02 | 2000-01 | 1999-00 |
|--|---------|---------|---------|---------|---------|---------|
| RESOURCES (at the end of the year) (Rs. Lakhs) | | | | | | |
| Equity Capital | 78060 | 78060 | 78060 | 78060 | 73060 | 6806 |
| BORROWINGS (Rs. Lakhs) | | | | | | |
| From Govt. of India | 14017 | 118336 | 220341 | 480947 | 566779 | 559894 |
| By issue of bonds | 1360591 | 1197511 | 1049404 | 671927 | 372068 | 277573 |
| From LIC | 350000 | 150000 | | | | |
| Other Banks | 213200 | 44000 | 20000 | 21000 | | |
| Reserves & Surplus (Net) | 299830 | 248377 | 208105 | 168570 | 141769 | 121105 |
| FINANCING OPERATIONS (During the year) (Rs. Lakhs) | | | | | | |
| Numbers of projects approved | 1523 | 1322 | 1060 | 979 | 1301 | 1379 |
| Financial assistance sanctioned | 1631636 | 1597791 | 1212534 | 676394 | 630809 | 467820 |
| Disbursements | 788509 | 601704 | 660664 | 472193 | 410922 | 305105 |
| Repayments by borrowers | 468324 | 358732 | 471594 | 266998 | 216262 | 155259 |
| Outstanding at the end of the year | 2106218 | 1830470 | 1593565 | 1418534 | 1218919 | 1029368 |
| ACHIEVEMENTS UNDER THE PROJECTS | | | | | | |
| Villages electrified During the year | 765 | 122 | — | 207 | 581 | 1996 |
| Upto the end of the year | 305829 | 305064 | 304942 | 304942 | 304735 | 304154 |
| Pumpsets energised During the year | 175772 | 132914 | 134583 | 139917 | 206071 | 252877 |
| Upto the end of the year | 8383254 | 8207482 | 8074568 | 7939985 | 7800068 | 7593997 |
| Working Results (For the year) (Rs. Lakhs) | | | | | | |
| Total interest income | 230209 | 199671 | 205389 | 166466 | 141961 | 129401 |
| Personnel & Admn. Expenses | 4434 | 4659 | 5866 | 4972 | 3141 | 2544 |
| Interest on borrowings | 120475 | 114220 | 120274 | 109879 | 93216 | 5000 |
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NOTICE

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

ORDINARY BUSINESS

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

SPECIAL BUSINESS

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

Special Resolution:**“RESOLVED**

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

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

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

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

“RESOLVED

that, the consent of the Members be and is hereby accorded, in pursuance of Section 293(1) (d) of the Companies Act, 1956, to the Board of Directors of the Corporation to increase the total borrowing limit from Rs.25,000 crore (Rupees Twentyfive Thousand crore only) to Rs 35000 crore (Rupees Thirtyfive Thousand crore only) for the

purpose of the business of the Corporation notwithstanding that the moneys to be borrowed together with the moneys already borrowed by the Corporation (apart from temporary loans obtained from the Bankers in the ordinary course of business) will exceed the aggregate of the paid-up capital of the Corporation and its free reserves.”

By the order of the Board of Directors,
For Rural Electrification Corporation Limited
(B.R. Raghunandan)
GM (Law) & Company Secretary

New Delhi

Dated the 6th September, 2005

Fifteen years at a glance

pre-paid an amount of Rs.2194.55 crores to bond holders by exercising call options in respect of four series, carrying a higher rate of interest. This has reduced the average cost of borrowings. REC is now exploring the possibility of resorting to external commercial borrowings, subject to receiving the necessary approval from RBI.

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

Powerful Contribution.

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

MOU with Ministry of Power.

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

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

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

RGGVY has two distinct components. One is the last mile connectivity to every unelectrified BPL household. The other is encouraging franchisee development for the collection of tariff, the maintenance of the distribution system, and sustainability of returns. The franchisees would become better private business enterprises at the grass root levels. The relevance of your Corporation will dramatically increase when tens of thousands of franchisees are created within the next 3 to 5 years, seeking enlarged roles and opening up immense business opportunities.

SEBs and CPSUs have been involved in the implementation of RGGVY. Your Corporation has already succeeded in concluding agreements with West Bengal, Bihar, UP and Rajasthan during the

year. A total outlay of Rs.4326 crores was sanctioned, covering the electrification of 54,159 villages and 23,45,412 households.

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

Development of State Electricity Boards(SEBs).

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



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- i) to engage them into targeted development of larger generation, transmission and sub-transmission activities and reduction in T&D losses, and
- ii) to strengthen these nascent undertakings into viable and

competitive business entities by offering them structured financial solutions on their present and future assets.

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



Playing a Lead Role.

The Ministry of Power, Government of India, enlarged the business mandate of REC in the year 2002, to cover the financing of all categories of power generation projects, irrespective of size and location. Your Corporation has captured sizeable amount of the business, aggregating Rs. 14,357 crores in generation projects alone, for both public and private sectors up to the end of the year. REC will aggressively strive to play a lead role in the financing of generation and transmission projects.

International Co-operation.

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

The Road Ahead

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

The key result areas for your Corporation in the years to come will be a focus on the financial systems and important financial performance matrices. These would include the return on capital for you, our shareholders, investors and all other stakeholders, the expansion of the scope, services and size of the balance sheet. Our objective is to safely and efficiently achieve the mandate of rural electrification, widen the capital base, bring down the cost of funds, ensure prudent financial management, create a foolproof asset liability management system, and add value to the power generation and distribution companies in the State and private sectors.

REC aspires to be an international organization, to lend its expertise to the rural electrification programmes in other needy countries. With a view to playing this new role, REC proposes to develop a robust business plan, undertake capacity building exercises in the engineering and financial sectors, promote R&D and standardization of materials, create corporate communications, and provide training to all the functionaries in public, private and NGO sectors engaged in power sector. Its future plans will be to develop and promote IT in its own field

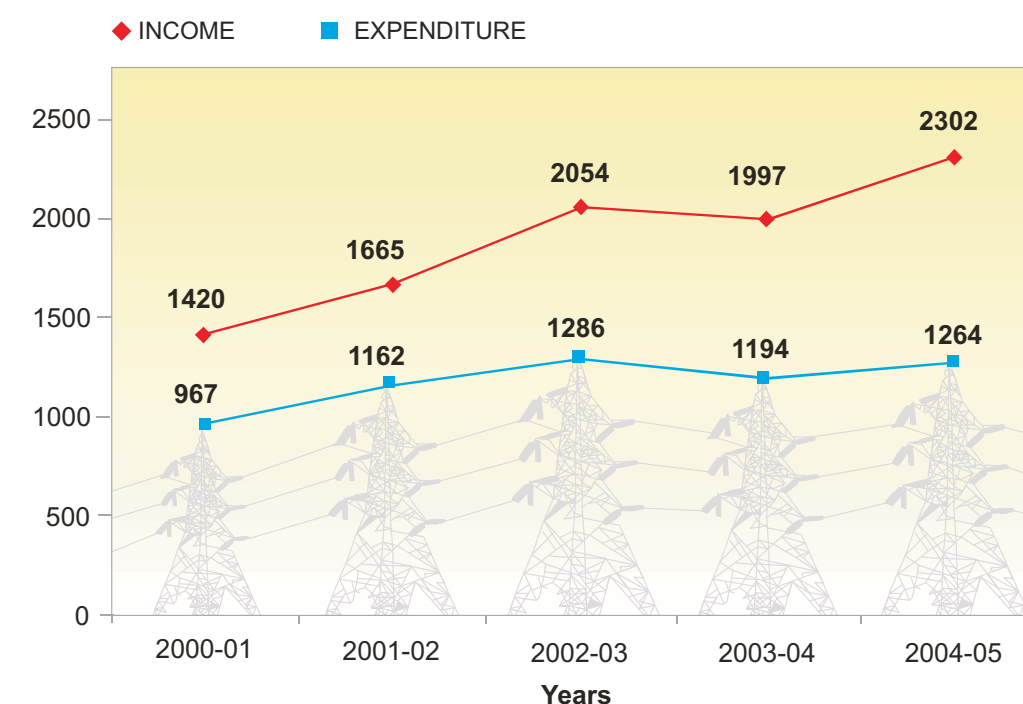


Table-5 : Category-wise Projects Sanctioned during 2004-05 under REC financed schemes

| Sr. No. | Category | Category Code | No. of Projects | Loan Amount (Rs. in lakh) | Pumpsets | Dalit Bastis | Villages |
|---------------------------|--|----------------------|-----------------|---------------------------|---------------|--------------|-------------|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | |
| T & D Projects | | | | | | | |
| 1. | Project : Intensive Electrification- P:IE | P:IE | 125 | 26800.2 | 586 | 13 | |
| 2. | Special Project Agriculture : Pumpset Energisation | SPA:PE | 258 | 38025 | 119606 | — | — |
| 3. | Project : System Improvement | P:SIDist. | 252 | 71393 | — | — | — |
| 4. | Project : System Improvement | P:SI Transmission | 59 | 134336 | — | — | — |
| 5. | Project : Dalit Bastis | PDB | 252 | 30877 | — | — | — |
| 6. | APDRP | APDRP | 61 | 21011 | — | — | — |
| 7. | System Improvement : Meters | SI : Mtr | 18 | 10033 | — | — | — |
| 8. | System Improvement : Transformers | SI : Transformers | 20 | 26770 | — | — | — |
| S. Total | | | 1045 | 359245 | 120192 | 18898 | — |
| 9. | Project : Generation | P:Gen | 17 | 558637 | — | — | — |
| 10. | Debt Refinance | | | 46414 | — | — | — |
| 11. | Short Term Loan | STL | | 226519 | — | — | — |
| 12. | AREP Projects (including BPL)** | | 461 | 440821 | — | — | 54159 |
| G. Total | | | 1523 | 1631636 | 120192 | 18898 | 5415 |

* Weaker section colonies/DB-130nos.

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

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Network of the Organisation

