
Directors' Report

To,

The Members,

I, on behalf of the Board of Directors' present the fifth Report of Power System Operation Corporation Limited (POSOCO) together with the audited Statement of Accounts, Auditors' Report and Review of the Accounts by the Comptroller and Auditor General of India for the Financial Year 2013-14.

In line with its mission to have reliable and secure operation of regional and national power systems while ensuring economy & efficiency in operation, the Regional Load Despatch Centres (RLDCs) and National Load Despatch Centre (NLDC) under POSOCO are operating with the state-of-the-art technology implemented by the Company and are greatly contributing to bringing economy and efficiency in operation of power system, besides improving visibility and transparency. Supervisory Control And Data Acquisition (SCADA) and other state of the art facilities are being upgraded continuously at all RLDCs and NLDC for improving visualization of the power system of the country. Total 62 nos. of Phasor Measurement Units (PMUs) are in operation across India. This technology is helping in grid event analysis and understanding the power system transients at national level.

The MoU for the F.Y. 2014-15 was signed on 25th March, 2014. The MoU includes various targets to be achieved by POSOCO during the F.Y. 2014-15 including financial parameters, dynamic parameters and enterprise specific & efficiency parameters. In compliance with the DPE Guidelines and the Companies Act, 2013, the mandatory non-financial parameters i.e. CSR and R&D have also been included in the MoU. Based on overall targets, your Company is poised to get "Excellent MoU rating" for F.Y 2013-14.

Revenue stream of POSOCO

The CERC (Fees and Charges of Regional Load Despatch Centres and other Related Matters) Regulations, 2009 have ensured an independent revenue stream and financial autonomy for the Company. The revenue is being realised by levying the Fees and Charges on the Users like Generating stations/Sellers, Distribution Licensees/ Buyers and the Transmission Licensees towards the services provided to them. Realisation of more than 97% was achieved against billed revenue of ₹194.93 Crore during the year.

Financial Highlights

	2013-14	2012-13
Total Income	250.29	266.37
Gross Margin	116.76	134.79
Profit before Interest and Taxes(PBIT)	97.73	125.31
Profit Before Tax(PBT)	90.96	130.35
Profit After Tax(PAT)	60.81	85.65
Gross Fixed Assets	286.35	291.10
Net Worth	84.72	81.21

₹ crore

Dividend Payout

Your Board of Directors have recommended a final dividend of ₹3.5 per share for the F.Y. 2013-14, in addition to an interim dividend of ₹5.0 per share paid in December, 2013. The final dividend shall be paid after your approval at the Annual General Meeting. The total dividend pay-out for the year would amount to ₹26.04 Crore.

Power System Operation

As per the Electricity Act, 2003, RLDCs are apex bodies to ensure integrated operation of the power system in the concerned region. Further, vide Ministry of Power notification dated 2.3.2005, NLDC has been designated as apex body to ensure integrated operation of National Power System. The RLDCs are responsible for carrying out the real time operation of the grid and despatch of electricity within the region through secure and economic operation of the regional grid in accordance with the Grid Standards notified by CEA and the Grid Code notified by the Central Electricity Regulatory Commission (CERC). There are five regional grids, namely North, West, East, North- East and South which have been progressively synchronized from 1991 thereby establishing synchronized National Grid in India in 2013.

System Operation Highlights

- All India Energy Met 967 BUs during F.Y. 2013-14 as against 918 BUs during F.Y. 2012-13
- All India Peak Demand Met 129 GW during F.Y. 2013-14, as against 119 GW during F.Y. 2012-13.
- All India Hydro Generation during F.Y. 2013-14 was 134 BUs as against 113 BUs during F.Y. 2012-13.
- Inter-Regional Exchange during F.Y. 2013-14 was 78 BUs as against 66 BUs during F.Y. 2012-13.

Power Market Operation

A vibrant electricity market is operating in the country. About 10% of the total energy generated in the country is traded in the Short Term Electricity Market which comprises of Bilateral Transactions (direct or through traders) and Collective Transactions through Power Exchanges. Two Power Exchanges (IEX and PXIL) are operational in the country. The RLDCs where the drawl point is situated are the designated Nodal Agency for Bilateral Transactions and NLDC is the nodal agency for Collective Transactions. During F.Y. 2013-14, about 34,000 transactions and about 87 BUs of energy was approved under Short Term Open Access (STOA) which has been facilitated by the RLDCs/NLDC.

Market Operation Highlights

- Total Transactions approved during F.Y. 2013-14, under STOA were 33917 (10290 bilateral transactions and 23627 collective transactions) as against 10113 Bilateral Transactions, 21953 Collective Transactions and Total 32006 Transactions during F.Y. 2012-13.
- Total Energy approved under STOA were 87 BUs (30 BUs under collective transactions, 57 BUs under bilateral transaction) as against 15 BUs (Collective Transactions), 52 BUs (Bilateral Transactions) and Total 67 BUs during F.Y. 2012-13.

Implementing Agency for Sharing of Inter state Transmission Charges & Losses – POC Mechanism

NLDC has been designated as the Implementing Agency for Sharing of Inter State Transmission Charges and Losses (POC Charges and Losses) in accordance with the Regulations notified by CERC w.e.f 1st July 2011. The computations of Point of Connection (PoC) Charges and Losses are carried out on a quarterly basis and the latest one was for first quarter of F.Y. 2014-2015.

Operational feedback

NLDC Rules, 2005 specifies providing Operational Feedback to Central Electricity Authority (CEA) and Central Transmission Utility (CTU) as one of the functions of NLDC. Quarterly Feedback on Transmission Constraints is being submitted to CEA & CTU at regular intervals. NLDC has submitted Operational Feedbacks on various issues, like feedback on Transmission Constraints, requirement of Special Protection Schemes, Market and Operational Issues, Dedicated lines for Transmission systems and Synchro – phasor Initiatives in India. These are subsequently taken up by CTU / CEA in the Standing Committee on Transmission Planning and measures to alleviate the same are discussed with the stakeholders.

Forum of Load Despatchers (FOLD)

NLDC as Secretariat of FOLD has conducted three meetings of FOLD during F.Y. 2013-14 on various issues of mutual interest such as implementation of new CERC Regulations, frequency response, etc.

Participation in International Forums

With the objective of benchmarking System Operation, your Company participated in the International Benchmarking of Transmission System Operators conducted by TSO Comparison Group which is a group of 18 international electrical transmission system operators. As one of the founder members of the Very Large Power Grid Operators (VLPGO) group (now GO-15), your Company participated in the VLPGO Annual meeting as well as Governing Board meetings.

POSOCO has been actively associated with the activities pertaining to energy cooperation in the SAARC region and the development of a SAARC Electricity Market.

POSOCO representatives attended the 5th International Conference on Power and Energy Systems held in Oct.'13 at Nepal. Representatives from NLDC / RLDC(s) also attended a study visit to Lawrence Berkeley Lab, California, USA in Nov' 2013.

There have been several visits to the National Load Despatch Center by foreign delegations. These include a high level delegation led by Dy. Prime Minister of Ethiopia, delegations from organizations such as World Bank, USAID, Nigerian Civil Service, Kenya Transmission Company, etc. In January, 2014, under Indian Technical and Economic Cooperation (ITEC) Programme which is a bilateral assistance programme of Ministry of External Affairs (MEA), Government of India, there was a visit by 22 member delegation of system operators from countries like Kazakhstan, Tanzania, South Sudan, Iran, Egypt, Myanmar, Uzbekistan, Yemen, Nepal, Nigeria, Bhutan, Tajikistan, Estonia, Sri Lanka, Uganda and Cuba.

Participation in Regulatory Reforms Process

The RLDCs and NLDC have been giving feedback and inputs to CERC at various stages of formulation of the regulations on design and operational aspects pertaining to the system operations, market operation and renewables. The RLDCs and NLDC strive towards implementing these Regulations through feedback and participation in the Regulatory process.

Following the grid disturbances in July, 2012, POSOCO had taken up with the CERC the need for certain basic changes in the Indian Electricity Grid Code (IEGC) and the Unscheduled Interchange (UI) Regulations. The emphasis was on the need to quickly move to tighten control on draws vis-à-vis schedules and the need to maintain the system frequency within a very narrow band. The CERC has notified the Deviation Settlement Mechanism (DSM) Regulation on pricing of deviation from schedule effective from February'14.

Another basic issue taken up with CERC was that of providing connectivity to the Inter State Transmission System (ISTS) to different entities in the grid. Increasing number of entities getting connected to the ISTS without long term access is leading to a situation where adequate transmission is not being planned/built leading to congestion in the operational phase. The matter was also discussed in the Central Advisory Committee (CAC) constituted by CERC.

Renewable Energy Certificate (REC) Mechanism

REC Mechanism provides a means to address the dispersed availability of renewable energy sources across various States in the Country. It separates the 'green' component from the 'electricity' component and facilitates meeting of the RPO by the obligated entities. A pan-India market has been created with NLDC as Nodal Agency for implementation of REC Mechanism for trading in RECs through the Power Exchanges. About 15 million RECs have been issued and more than six million RECs have been traded at a value of ₹ 1260 crore since implementation of REC Mechanism

Integrated Management System

In our continued endeavour to provide quality services to our valued stakeholders, Integrated Management System at POSOCO for PAS:99 recertification was achieved in F.Y. 2013-14 for a period of three years for the following standards:

- ISO 9001 : 2008 – Quality Management System
- ISO 14001 : 2004 – Environment Management System
- ISO 18001 : 2007 – Occupational Health & Safety Management System
- ISO 27001 : 2005 – Information Security Management System

Leveraging Technology: System Logistics

The ability of the system operators to take decisions in real-time is dependent on their 'Situational Awareness' derived from the data/information available with them in real-time. Conventionally, real-time grid management is done based on the data acquired through SCADA/Energy Management System (EMS). Regional SCADA/EMS system was implemented progressively between the year 2002 to 2006 under the Unified Load Dispatch and Communication (ULDC) scheme. Replacement and up-gradation of existing SCADA/EMS system of RLDCs are under implementation. SCADA/EMS up-gradation project of other regions are expected to be completed during the F.Y. 2014-15 except for North-Eastern region.

To securely manage the large and complex systems, new measurement and monitoring technology like WAMS (Wide Area Measurement System) is being experimented worldwide. This technology is able to provide dynamic visibility of the grid unlike SCADA/EMS system which could provide only steady state view of the grid due data acquisition limitation only once in 4 to 10 seconds. WAMS are able to acquire data 25 to 50 times in a second.

A full fledged WAMS named as Unified Real Time Dynamic State Measurement (URTDSM) is being implemented by our Holding Company, POWERGRID under which the visualization tools , data archiving, event analysis tools, etc. will be installed at NLDC and all RLDCs and SLDCs.

For providing better visualization, SCADA displays for All India as well as States maps have been updated to give geographical location views based on longitude and latitude of power stations, sub stations, etc.

A Video Conference system has been commissioned at NLDC having connectivity with RLDCs and the SLDCs. NLDC is also doing video conferencing meeting on International levels, like operation coordination meeting with Bangladesh, educational workshop from U.K., etc.

Employees – our Assets

Capacity Building

POSOCO is committed to creating value proposition for its employees by developing a culture that incubates innovation and excellence through capacity building. As an organization it focuses on contributing to an individual's functional proficiency and encouraging continued Professional Development. Several initiatives have been organized in order to encourage the same.

Basic level Certification for Power System Operators from SLDCs, RLDCs and NLDC is an important programme that focuses on fostering benchmark competence. POSOCO in association with NPTI organizes training programs at PSTI, Bangalore for the System Operators for meeting this objective. The certification programs at specialist level have also been introduced as per the recommendations of the Report of the Committee on Manpower, Certification and Incentives for System Operation and Ring fencing Load Despatch Centres constituted by the Ministry of Power. The training expenses of the system operators of the SLDCs is met by POSOCO from the LDC Development Fund in accordance with the approval of the Central Electricity Regulatory Commission. Scheme for Cash Award for Basic Level Certification has also been introduced.

Specialist level programmes on Power System Reliability and Regulatory Framework in Power Sector are also being organized for developing expertise in these focus areas.

Till date three basic level certification exams and one specialist level certification exam have been conducted through online examination on all India basis. About 255 system operators from POSOCO have passed the basic level exam. Further there are 45 specialists level certified system operators in POSOCO.

Industry- Academia Interface

For furthering capability enhancement for System Operators and developing research capacity by promoting Industry-academia partnership, POSOCO signed an MoU with Indian Institute of Technology, Kanpur and Jamia Milia Islamia (JMI). In this context, a programme on "Power Market and Economics" was organized at IIT, Kanpur and a program on SCADA and EMS was organized at JMI.

Silver Jubilee Celebrations

POSOCO marked Silver Jubilee of its Holding Company, i.e. POWERGRID by a series of celebrations including Marathon and cultural evening for employees and their families. A 5 kilometer run and a 2 kilometer walk was organized in Delhi, which saw enthused participation from employees and their families.

A cultural evening was also organized. This occasion was used as an opportunity to express gratitude and recognize the efforts of superannuated employees of POSOCO.

Rajbhasha Related Activities

Your Company is committed to implementation of Government of India's Rajbhasha policy. *Hindi Pakhwara* was celebrated in all the RLDCs and NLDC wherein series of Inspirational Talks, seminars, symposia and competition for employees were organized. Several workshops were also organized throughout the year orienting employees to adopt the use of Hindi in their routine work and especially integrating Technology with encouraging Hindi usage. A 'Haasya Kavi Sammelan' was also organized for promotion of Hindi literature.

Corporate Social Responsibility and Sustainability

In compliance with the DPE Guidelines and considering its commitment towards the society and its sustainable development, your Company as a responsible Corporate is promoting development of underprivileged sections of the society and has also undertaken several initiatives towards conserving the environment. An allocation of ₹2.44 crore, i.e. three percent (3%) of the Profit After Tax (PAT) after excluding REC surplus for the F.Y 2012-13 was made. Expenditure on CSR and Sustainability schemes was met from the LDC Development Fund as approved by CERC vide Order dt. 28.09.2012. The projects undertaken towards Corporate Social Responsibility (CSR) and Sustainability during the F.Y. 2013-14 included providing solar lanterns including cooking stoves, Awards in the field related to Power Systems to encourage excellence in the area, Awareness programs for school children on energy efficiency, environment friendly technologies and non-conventional energy sources, Scholarships to meritorious students in Govt. Schools; Procurement of Renewable Energy Certificates and providing of Solar lighting system.

The activities were successfully implemented during the year at a total cost of ₹2.38 Crore. An amount of ₹6 lakh remained unspent during the year. This pertained to the providing of Relief work in Uttarakhand. This amount has been transferred to CSR Reserve.

Research & Development

In accordance with the DPE guidelines, 0.5% of Profit after Tax of the F.Y. 2012-13 was earmarked for the implementation of R&D activities of POSOCO. Schemes envisaged under R&D for F.Y 2013-14 included PMU Applications, Cloud computing for RLDCs and NLDC and Study of a State with high penetration of Wind Energy potential. For implementation of the activities covered under R&D, in addition to the deployment of in-house resources, external/ specialized agencies were also engaged for executing them. Your Company in association with National Institute of Advanced Studies (NIAS), Bangalore carried out a study project in Karnataka State having high renewable energy potential named "The extent to which Karnataka's future electricity demand can be met through renewable energy". ₹ 6.14 lakh were spent on engagement of NIAS for this activity. Further, ₹ 7.24 lakh were spent on availing consultancy services for development of WAMS based disturbance analytic tool in WRLDC (PMU application). In-house resources were deployed for carrying out the other R&D related activities.

Management Discussions and Analysis

In addition to the issues in the Directors' Report, some issues have been brought out in the report on Management Discussion & Analysis placed at **Annexure – I**.

Particulars of employees – Sec 217(2A)

Being a wholly owned subsidiary of POWERGRID, the manpower has been provided by POWERGRID on secondment basis. Policies, all other benefits/welfare schemes applicable to the employees posted in POSOCO, shall continue to be the same as that of the parent organisation i.e. POWERGRID. The disclosure under Section 217(2A) of Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975 as amended is enclosed at **Annexure-II**.

Conservation of energy, technology absorption, foreign exchange earning & outgo

Particulars in respect of conservation of energy, technology absorption and foreign exchange earnings and outgo are enclosed at **Annexure-III**.

Auditor's Report

The qualification in Statutory Auditors' Report and Management's reply thereto is given at **Annexure-IV (a)**.

Comments of the Comptroller and Auditor General of India

The Comments of the Comptroller and Auditor General of India on the accounts for the year ended 31st March, 2014 under Section 619(4) of the Companies Act, 1956 are attached at **Annexure-IV (b)**.

Corporate Governance

A Report on the Corporate Governance (**Annexure-V**), forming part of this report, together with the Certificate thereon is given at **Annexure-VI** of this Report.

Directors' Responsibility Statement

Pursuant to the requirements under Section 217(AA) of the Companies Act, 1956 with respect to Directors' Responsibility Statement, it is hereby confirmed that:

- i) In the preparation of the annual accounts for the year ended 31st March, 2014, the applicable accounting standards have been followed;
- ii) The Directors have selected such accounting policies and applied them consistently and made judgments and estimates that were reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit or loss of the Company for that period;
- iii) The Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- iv) The Directors have prepared the annual accounts on a going concern basis.

Statutory Auditors of the Company

M/s Dinesh Mehta & Co., Chartered Accountants and M/s S.C. Ajmera & Co., Chartered Accountants were appointed by C&AG as joint Statutory Auditors of the Company for the F.Y. 2013-2014.

POSOCO's Board

Ministry of Power, Govt. of India, vide its Order No.11/20/2005-PG dt.10.02.2014 had nominated Shri P.K. Pahwa, Member (GO&D), Central Electricity Authority as Govt. nominee Director on the Board of POSOCO. Further, vide its Order No.11/20/2005-PG dt.20.03.2014, Smt. Jyoti Arora, JS (Transmission) was nominated as Govt. nominee Director on the Board of POSOCO. Smt. Rita Acharya, JS (Transmission), Ministry of Power superannuated from Ministry of Power on 28.02.2014 and consequently, in terms of Article 40 (d)(v), ceased to be a Director w.e.f 28.02.2014. Smt. Neerja Mathur, Member (GO&D) tendered her resignation w.e.f. 23.12.2013 in view of her elevation as Chairperson, CEA. The Board placed on record the contributions made by Smt. Rita Acharya and Smt. Neerja Mathur as our Directors and wished them good luck in their future roles.

At present, Shri R.N.Nayak, Shri R.T. Agarwal, Shri I.S. Jha, Shri Santosh Saraf, Shri P.K. Pahwa and Smt. Jyoti Arora are on the Board of the Company.

Acknowledgement

The Board of Directors, with a deep sense of appreciation, extends its sincere thanks to the Ministry of Power, Department of Public Enterprises, Central Electricity Authority, Central Electricity Regulatory Commission, Regional Power Committees and other concerned agencies and stakeholders for extending their valuable support in operating the power system of the country and discharging the other functions assigned to POSOCO and above all POWERGRID for their patronage and directions. The Directors also take this opportunity to thank the Principal Director of Commercial Audit and Ex-Officio Member Audit Board-III for the cooperation extended during the year. The Board also acknowledges the valuable suggestions and guidance received from the statutory auditors during the audit of accounts of the company for the year under review.

For and on behalf of
Power System Operation Corporation Limited

(R.N. Nayak)
Chairman
DIN:02658070

Date : 14th August, 2014

Place: Mumbai

Management Discussion and Analysis

Indian Power Sector

A reliable and secure power infrastructure is essential for sustained growth of our economy. With a production of 967 BUs, India is the fifth largest producer and consumer of electricity in the world after US, China, Japan and Russia. India's power sector has witnessed drastic changes in the past decade. The Electricity Act, 2003 paved way for the advent of reforms and competition in the power sector. A slew of policies and regulations followed, to facilitate an accelerated growth in the sector. The process started with the reforms and restructuring at generation, transmission and distribution at both Central as well as State Level. The Indian power sector is one of the most diversified in the world.

Electricity must play a key role in achieving the strategic objectives of India's energy policy. The ever increasing complexity of the national power system with more interconnections, bulk power transfer corridors, international interconnections, higher transmission voltages, new technologies in generation and transmission, increasing presence of renewable energy sources, large size generation projects, system protection schemes, wide area controls, including integrative controls in the transmission and Smart Grid technologies have put greater responsibilities on the shoulder of system operator for ensuring reliable and secure power system.

POSOCO has an absolute commitment to reliability. Increasing the resilience of the system has become an important element of our mission as well. Our professionals are focusing on measures that will strengthen the ability of the grid to anticipate, ride through and then recover quickly from a major disruption—whether natural or man-made. In POSOCO, our focus is on reliability, as we strive every second of every day to balance supply and demand in coordination with the SLDCs and Generating Companies, manage weather impacts for one of the largest power systems in the world.

The increase in competition among participants and evolving market mechanisms are likely to increase the pressure on system operators. The challenge would be to adapt to the changing paradigm and to facilitate the functioning of the electricity market without compromising grid security and reliability. Overall, the implementation of cost effective technologies along with more emphasis on environment friendly energy resources and proper strategies to mitigate the key challenges for the development of power sector only will ensure India's march towards inclusive growth.

POSOCO is committed to neutral, impartial system operation and market operation aimed at delivering value to the stakeholders by creating robust institutional systems, leveraging technologies and deploying knowledge management.

Facilitating Market Operations

A vibrant electricity market is operating in the country. About 10% of the total energy generated in the country is traded in the Short Term Electricity Market which comprises of Bilateral Transactions (direct or through traders) and Collective Transactions through Power Exchanges. Two Power Exchanges (IEX and PXIL) are operational in the country. The RLDCs where the drawl point is situated are the designated Nodal Agency for Bilateral Transactions and NLDC is the nodal agency for Collective Transactions. During F.Y 2013-14, about 34,000 transactions (10290 bilateral transactions and 23627 collective transactions) were approved under Short Term Open Access (STOA) and about 87 BUs (30 BUs under collective transactions, 57 BUs under bilateral transaction) of energy was approved under STOA as against Total 67 BUs (15 BUs under Collective Transactions and 52 Bus under Bilateral Transactions) during F.Y. 2012-13, thereby registering an increase of about 23%.

Capacity Building in Power System Simulation and Studies

As part of capacity building, training is being imparted to all the stakeholders for using power system simulation utility. It has ensured common platform for merging of data and for carrying out power system studies for operational planning, contingency analysis, etc. Almost all the executives of RLDCs and NLDC are imparted with basic and intermediate level PSS/E training. Apart from basic level and Intermediate level training, two rounds of Advanced Training of PSS/E software has been given to experienced engineers in power system stability and dynamics.

Resolving operational challenges

POSOCO is handling challenges such as more and more System Protection Schemes (SPS) due to delay in transmission, data telemetry issues, frequent HVDC set-point toggling and STOA Curtailments and also the expectations of stakeholders for scheduled interchange of power. More parallel AC corridors are required both in upstream and downstream directions of any inter – regional corridor. Implementation of the Unified Real Time Dynamic State Measurement System (URTDSM) project is the need of the hour.

Southern Region Grid has been synchronized with the rest of the Indian Grid on 31st December, 2013 through 765 kV Raichur-Sholapur S/C line. This has been one of the landmark achievements in Indian Power System and now all the five regions are synchronously connected. Subsequently, NLDC has submitted three number of feedbacks to CEA, CTU and CERC on experience of synchronous operation of North, East, West and North - East (NEW) and Southern grid. Separate guidelines were also issued by NLDC for commissioning of second 765kV Sholapur-Raichur line in June, 2014.

CERC (Indian Electricity Grid Code) (Second Amendment) Regulations, 2013 have been notified by CERC in January 2014 wherein frequency band has been tightened to 49.9 Hz – 50.05 Hz. CERC has also notified Deviation Settlement Mechanism (DSM) and related matters Regulations, 2014. POSOCO ensures strict adherence to the Scheduled Injection / Drawl and maintaining frequency within the stipulated band. POSOCO faces operational challenges in terms of curbing over-drawl / under-drawl of Buyers / Sellers and ensuring compliance with the instructions of Load Despatch Centres. POSOCO files petitions with CERC on repeated indiscipline by entities based on which CERC initiates mitigation / disciplinary measures which may include imposition of penalties.

Evolution of Frequency Response Characteristic (FRC)

Maintaining the system frequency within a narrow specified range is necessary. Off nominal frequency operation has an adverse effect on security of the power system as well as on the steam turbines and gas turbines installed across different generating stations and some equipments connected to the grid. IEGC mandates Free Governor Mode of Operation (FGMO)/Restricted Governor Mode of Operation (RGMO)

which facilitates response of generators to frequency changes. The Procedure for monitoring frequency response characteristic (FRC) submitted by NLDC in October 2012 has been approved by CERC vide Order Dated 3rd May 2013. FRC is being evaluated for all control areas as per approved procedure by the NLDC/RLDCs and periodic reports are being submitted to CERC. In line with above, SLDCs in the respective region must also endeavour to calculate the frequency response in coordination with respective RLDC(s) in a similar manner. This would help to identify associated issues and improve the response of the State Control Areas.

POSOCO endeavours that all stakeholders comply to the CEA Grid Standards specifically in the areas of implementation of connectivity related issues, defense plans (UFRs, df/dt), islanding schemes, SCADA & communication facilities.

Various steps taken by POSOCO in line with the recommendations of the Enquiry Committee on the Grid Disturbances that occurred in July, 2012 have resulted into positive outcomes. Frequency band has been further tightened from 49.7-50.2 Hz to 49.90 to 50.05 Hz w.e.f. 17.02.2014 by CERC.

Subsequent to review of UI mechanism, CERC (Deviation Settlement Mechanism and related matters) Regulations have been implemented w.e.f. 17.02.2014. Regarding the Generation Reserves / Ancillary services. CERC circulated the staff paper on this matter in April 2013 for inviting comments of stakeholders'. The matter is under consideration of CERC.

CERC vide order dated 22nd April, 2013 approved the revised procedure for relieving the congestion in real time submitted by POSOCO. Real time security desk has been installed at NLDC. In case of planned outages, simulation studies are being conducted by RLDCs/NLDC for revision of TTC and results are being shared by operators. Updated PSS/E version 33.2 is installed in control rooms for carrying out simulation studies. NLDC/RLDCs are deputing their representative to attend monthly OCC meetings in all the five RPCs to ensure proper implementation of outage planning for inter-regional lines. Further study on dynamic reactive compensation is in progress by CTU and POSOCO in consultation with CEA.

POWERGRID has time synchronized all the existing PMUs that have been installed under pilot project in identified substations in the country and made them fully functional. Accordingly, the real time output displays of the PMUs are now available in the RLDCs and the NLDC. New systems are being developed / planned for the future dynamic security assessment capability. The status of availability of Telemetry from various stations is being monitored closely by the RLDCs/NLDC. In case of non-availability of data from any location, the matter is being taken up with the concerned agency.

Challenges

- Anticipating and Handling uncertainties in System Operation on account of geographical variations in demand growth, mismatch in commissioning new generation and transmission projects and fuel shortage.
- Climate change and the adverse natural phenomenon like cyclones, earthquakes etc. have a direct impact on the Power System operation.
- Integration of Renewables is a major challenge with Planning Criterion, Variability and Intermittency, Scheduling, SCADA / telemetry, Commercial mechanism implementation and Supply management issues.
- Further thrust in the areas of Reliability Standards, Transmission Planning Process, Ancillary Services, Primary & Secondary Control, Capacity Market and Communication system for power sector would facilitate reliable operation. A culture of compliance monitoring with respect to CEA standards and CERC Regulations across all utilities would go a long way in ensuring reliability of electricity grids in the country.
- Visualization tools and techniques for assessment of the power system, providing situational awareness and taking remedial measures is a priority for the system operators. IT Automation and Cyber Security tools have to be kept updated to the best international practices.
- Allocation of resources, attracting and retaining talent, Training & re-training, Operator Certification, Domain knowledge, Analytical abilities, Mentoring and Knowledge Management are major challenges related to human-capital management.

Outlook

India is in the midst of an energy transition to a clean and green future. The transmission network needs to adapt to allow these choices to be realized. In order to provide the energy transition, it is necessary to ensure that the rate of change of the means of production, particularly of renewable energy, is consistent with that of the electricity transmission network. Complete decarbonisation of the Indian energy sector is economically and technically possible, including with electricity from renewable sources. But this assumes an urgent and significant increase in transmission capacity.

Ensuring Reliable Operation of All India Energy Grid would continue to be a major challenge in the coming days with ageing transmission assets in many parts of the grid, addition of new assets at 765 kV/400 kV level and availability of skilled manpower across all utilities. A culture of compliance monitoring and adherence to CEA Standards and CERC Regulations by all players would go a long way in ensuring reliability.

Various regulatory pool accounts are operational and being maintained by RLDCs and NLDC to facilitate financial settlement such as Unscheduled Interchange/DSM, Short Term Open Access-Collective and Bilateral, Congestion Revenue, etc. Given the present and expected enormity of and complexity in settlement of pool accounts, a separate specialist entity is envisaged in the sector. This entity will bring financial and management expertise to Clearing and Settlement in terms of Institutional Capacity and human capital, address risk management, fund management and streamline associated compliance related matters. This imperative had also been recognized in the Report of the Working Group on Power for XIIth Plan.

Financial Discussion and Analysis

System Operation and Market Operation charges comprising of RLDC Fees and Charges are recognized on the basis of fees and charges approved by Central Electricity Regulatory Commission(CERC) and further adjustment made for truing up. Human Resources and Operation & Maintenance expenses component of tariff are accounted based on the actual expenditure. Charges towards projected capital expenditure are restricted to charges based on actual capital expenditure. Any excess in collection of System Operation and Market Operation charges over the revenue recognized is transferred to the liability to be adjusted on truing up exercise by the CERC after the expiry of the control period.

NLDC has been designated 'Central Agency' by CERC for REC mechanism. As the Company is responsible for discharging the functions of NLDC, it is required to maintain books of accounts pertaining to REC Mechanism also. Accordingly, the Assets and Liabilities of REC Mechanism have been merged with the company's books of accounts with the concurrence of Central Electricity Regulatory Commission (CERC). The profit earned is transferred to separate REC Fund under Reserves and Surplus.

Comparison of Fiscal 2014 to Fiscal 2013

Revenue from Operations

The revenue earned from System Operation and Market Operation including STOA income and Registration Money for F.Y. 2013-14 was ₹ 197.05 Crore as against ₹220.04 Crore in the FY 2012-13. Gross Billed Revenue for the Current Year has increased to ₹212.65 Crore from ₹191.19 Crore as compared to revenue for F.Y. 2012-13 in accordance with the fees and charges approved by CERC . However, the truing up adjustment (De –recognized from income-As per the policy of revenue recognition) has increased to ₹ 54.46 Crore as compared to ₹4.67crore (Nett. after adjustment of earlier years i.e. ₹29.54 crore minus ₹ 24.87 crore for previous year 2012-13) .Hence, Revenue for the current year has decreased as compared to revenue for previous year due to higher de-recognition of income on account of truing up adjustment.

Depreciation

The depreciation has been provided on Straight Line Method at the rates and methodology specified in the norms notified by CERC for the purpose of recovery of RLDC Fees and Charges. With effect from 01/04/2009 (effective date of CERC Regulations, 2009), useful life has been worked out prospectively based on unamortized balance of such asset on the basis of the rate of Depreciation specified by CERC except for mobile phones which have been depreciated at 33.33%.

Depreciation charged in the FY 2013-14 is ₹ 8.40 crore(In F.Y 2012-13 it was ₹12.27 crore). Depreciation charge has reduced since majority of assets have already been depreciated to the extent of 90% of cost with residual value of 10% and 100% of cost with nil residual value as in the case of computer hardware and software.

Profit before Tax

Your company's profit before tax in F.Y. 2013-14 was ₹90.96 crore as against ₹130.35 crore in F.Y 2012-13 (including REC Gross Surplus of ₹6.49 Crore, previous year ₹6.18 crore).

Profit after Tax

Your company's Profit after Tax in F.Y. 2013- 2014 was ₹60.81 crore as against ₹85.65 crore in F.Y. 2012-13. (including REC Nett. Surplus of ₹4.29 Crore, previous year ₹4.17 crore).

LDC Development Fund

In line with CERC "RLDC Fee and Charges Regulation 2009", LDC Development Fund of ₹ 100.66 crore is accrued (gross) in LDC Development Fund out of Gross Income for the FY 2013-14. This includes Return on Equity (based on truing up adjustment), Interest on Loan and Depreciation amounting to ₹17.33 crore and Other Income amounting to ₹83.33 crore. The fund has been utilised towards Corporate Social Responsibility and Sustainable Development activities for ₹2.38 crore, income tax of ₹41.00 Crore, dividend of ₹ 30.47 Crore (including dividend tax) & CAPEX ₹ 4.33 Crore resulting in net accretion of ₹22.48 Crore to LDC Development Fund for FY 2013-14.

Selected Balance Sheet Items

Fixed Assets:

Your Company's Net fixed assets as on 31st March, 2014 were ₹31.41Crore as against ₹36.55 Crore as on 31st March 2013. The fixed assets consist mainly of SCADA Hardware and Software.

Loans and Advances

Your Company's total loans and advances (short term and long term) as at 31st March, 2014 were ₹ 154.55 Crore against ₹ 117.77 Crore in the FY 2012-13. The increase is mainly on account of normal transactions during the course of business.

Other Current Assets

Other current assets as on 31st March, 2014 were ₹ 21.82 Crore against ₹ 28.03 Crore as on 31st March 2013. It includes accrued interest on flexi deposits with banks and unbilled revenue related to March billing of RLDC Fees and Charges for respective financial year.

Sundry Debtors

Sundry Debtors as on 31st March 2014 were ₹5.35 Crore against ₹4.61 crore as on 31st March 2013.The realization of Billed RLDC Fees & Charges is about 97 % .

Unsecured loan

There is no amount of unsecured loans as on 31.03.2014.

Other Current liabilities

Your company's other current liabilities as at 31st March, 2014 were ₹ 331.81 Crore as against ₹ 833.68 Crore as on 31st March 2013. The decrease is mainly on account of faster settlement of Regulatory Pool accounts and STOA Account.

Other Long term liabilities

Other long term liabilities as on 31st March 2014 is ₹107.12 crore mainly comprising of de-recognition of income on account of truing up of ₹ 96.30 Crore.

Contingent liability

The contingent liability of ₹ 7.03 Crore is the demand of Rent for the office and staff quarters accommodation raised by the WREB, Mumbai for the period up to FY 2013-14 which is disputed by the Company and the Company has sought for the transfer of the ownership of office accommodation and residential quarters before the Ministry of Power, Govt. of India. However, no decision has come so far.

During the year, while scrutinizing the income tax return of POSOCO for A.Y. 2011-12, the Income Tax Department had considered the surplus in the regulatory pool accounts as income of POSOCO and accordingly served a notice for payment of the income tax amounting to ₹879 crore on these surplus amounts in the regulatory pool accounts for the six month period from 1.10.2010 to 31.3.2011. After concerted efforts at various levels, CIT (Appeals) has reversed the additions made by the Assessing Officer except for the interest expenditure of ₹31.79 lakh. Appeal has been filed with Income Tax Appellate Tribunal (ITAT) against disallowance of ₹31.79 lakh.

Cash Flows

(₹ in Crore)

	Year ended March 31	
	2014	2013
Net cash from operating activities	(398.37)	195.99
Net cash (used in) investment activities	27.25	26.39
Net Cash from Financing activities	(49.66)	(8.16)
Cash and cash equivalents at the end of the year	468.52	889.31

Net Cash from Operating Activities

The operating profit before working capital changes was ₹77.10 crore. However, the net cash outflow from Operating activities of ₹(398.37) crore is mainly due to decrease of ₹ 505.66 Crore in liabilities towards STOA advances operated and maintained in terms of CERC Regulations.

Net Cash from Investing Activities

Net Cash from Investing activities of ₹ 27.25 Crore includes expenditure of ₹ 20.33 Crore in CWIP towards purchase of SCADA equipment & associated civil works for installation of new SCADA equipment and receipt of Interest on Bank Flexi Deposits amounting to ₹ 51.80 crore.

Net Cash from Financing Activities

A sum of ₹ 30.47 Crore has been utilized for payment of dividend and dividend tax (Interim Dividend plus Proposed Final Dividend). The finance charges on account of interest on truing up has increased by ₹19.19 Crore.

Internal Control

Internal control mechanism is in place in POSOCO to verify the Accounting and Financial Management System, adequacy of controls, material checks, financial propriety aspects and compliance implementation mechanism. Internal Audit and Physical Verification for the Financial Year 2013-14 had been carried out by experienced firms of Chartered Accountants. One independent Director on the Board of POWERGRID has been nominated on the Audit Committee of the Company in terms of the Company's Articles of Association and also in compliance with the DPE Guidelines of Corporate Governance.

Risk Management Procedure

The Enterprise Risk Management Policy & Procedures of POWERGRID is being followed by POSOCO.

Cautionary Statement

Statements in the Management Discussion and Analysis and Directors' Report describing the Company's objectives, projections and estimates, are forward-looking statements and progressive within the meaning of applicable laws and regulations. Actual results may vary from those expressed or implied, depending upon economic conditions, Government Policies and other incidental factors. Readers are cautioned not to place undue reliance on the forward looking statements.

For and on behalf of
POWER SYSTEM OPERATION CORPORATION LIMITED


(R.N. Nayak)
Chairman
DIN:02658070

Date : 14th August, 2014
Place: Mumbai

**Particulars of Employees Pursuant to Section 217(2A) of the Companies Act,
1956 for the Year 2013-14**

Sl. No.	Name (Sh./ Smt.) of the employee	Designation of the employee and nature of duties	Qualification	Remuneration (₹)	Experience (years)	Date of Commencement of Employment in POWERGRID	Age (Years)	Last employment held
1	CS Bobade	Chief Manager, System Operation and Grid Management	B.E. , M.Tech	6,93,903.80	25 Years	1-Jan-96	50	CEA
2	T.K. Mandal	Chief Manager, Shift Operation in System Operation-1	BE (Electrical)/ MBA(HR)	1800908.00	34 Years	1-Jan-95	60	CEA
3	L. Dasaratha Rama	Master Tech Gr 1, Technical Services	SSLC	7,24,630.00	36 Years	1-Jan-94	60	CEA

Notes:

- 1) Remuneration includes Salary, Allowances, Leave Encashment, Leave Travel Concession, Payment for the subsidised Leased accommodations, reimbursement of medical expenses to employees and employer's contribution to provident Fund and other Funds. In addition, employees are entitled to Gratuity/ group Insurance in accordance with Company's Rules.
- 2) None of the Employees listed above is related to any of the Directors of the Company
- 3) Remuneration Mentioned above is inclusive of retirement/ separation benefits paid during the year and is not indicative of any regular remuneration structure of employees of the company.

For and on behalf of
POWER SYSTEM OPERATION CORPORATION LIMITED


(R.N. Nayak)
Chairman
DIN:02658070

Date : 14th August 2014
Place: Mumbai

Particulars required under the Companies (Disclosure of particulars in the Report of Board of Directors) Rules, 1988

Conservation of Energy:

POSOCO's facilities are spread over six control centres located at Mumbai, Delhi (NLDC and NRLDC) Kolkata, Bangalore and Shillong. Electricity consumption is one of the major items of expenditure on Operation and Maintenance (O & M) involving an approximate outgo of the order of INR 30 million per annum. This would go up with the rise in the electricity prices. Conservation of energy is therefore an imperative for POSOCO. Most of POSOCO's facilities are housed in old buildings owned by the Govt. of India and changes in the basic structure of the building with a view to minimize the electricity consumption are limited. All RLDCs have gone for an energy audit and are implementing measures for energy savings.

NLDC as the Central Agency for Renewable Energy Certificate(s)(RECs) is also looking towards encouraging voluntary buyers of RECs. During F.Y. 2013-14, POSOCO has purchased 650 nos. of RECs as a small step in this initiative. (1 REC= 1000 units of electricity). A 10 kWp Solar Photo Voltaic (SPV) system connected to the grid was commissioned at NRLDC on 26th Nov., 2013 which generated 3676 kWh in F.Y. 2013-14.

Research and Development:

Large Scale Integration of Renewable Generation, improving visualization and Situational Awareness (SA) at RLDCs / NLDC, designing self healing system to take care of high impact low probability incidents continue to be the areas of special interest to POSOCO. POSOCO's team at RLDCs/ NLDC have a continuous process of engagement with bodies like GO-15 (earlier known as Very Large Power Grid Operators (VLPGO)), TSO-Comparison Group, CIGRE, IEEE etc. and are a part of different Working Groups(WGs) covering the above areas.

POSOCO had signed a Memorandum of Understanding (MOU) with M/s Lawrence Berkeley National Laboratory (LBNL), US in Dec 2012 for mutual exchange of information and joint studies in the area of power system operation, energy markets and renewable energy integration. Following visits to India by the LBNL team, a team of eight executives from POSOCO visited LBNL's facilities in California, US. Studies by the LBNL team using Indian power system data and PLEXOS integrated energy modeling for generation and transmission expansion in the context of renewable generation was also discussed.

A study titled 'The extent to which Karnataka's future electricity demand can be met with renewable energy' was carried out by the National Institute of Advanced Study (NIAS), Bangalore in association with SRLDC. The study covered the 2017-18 and 2021-22 time frame. Further work would be carried out for other renewable rich states subsequently.

Disturbance Analysis is becoming important as the electricity grids expand and are getting meshed. A vast amount of data needs to be handled from the Disturbance Recorders (DRs), Event Loggers (ELs) and synchrophasors. The process calls for a high level of automation. A tool to analyze the same was developed by WRLDC in association with M/s PRDC involving synchrophasor and DR data to detect and classify events taking place in the system.

Foreign Exchange earnings and outgo:

(₹ in crore)

Foreign Exchange earning	NIL
Foreign Exchange outgo	
(i) Repair and Maintenance	4.29
(ii) Foreign Travel	0.36

For and on behalf of
Power System Operation Corporation Limited



(R.N. Nayak)
Chairman
DIN:02658070

Date : 14th August 2014
Place: Mumbai

The Comments of the Statutory Auditors and Management's Reply thereto are given below:-

Auditor's Comments	Management's Reply
<p>The Company is accounting for Human Resource and Operation & Maintenance Expenses components of tariff on the basis of actual expenditure (Refer Note. No 2.35(ii) of Other Notes). Same is subject to being admissible by Central Electricity Regulatory Commission (CERC) after prudence check at the time of truing up. The extent of uncertainty involved on account of additional revenue is dependent upon outcome of CERC order. Recognition of such additional revenue to the extent of uncertainty involved is departure from the Accounting Standards referred to in sub-section (3C) of Section 211 of the Companies Act, 1956 read with General Circular 15/2013 dated September 13, 2013 of the Ministry of Company Affairs in respect of Section 133 of the Companies Act, 2013. This has resulted in increase in Profit (decrease in truing up liability of the Company by ₹ 15.86 Crore) for the year by ₹ 15.86 Crore, Income Tax Provision by ₹ 5.39 Crore and Shareholders' Funds by ₹10.47 Crore.</p>	<p>The HR and O&M expenses were accounted for as 'actual expenditure or expenditure allowed by CERC RLDC wise whichever is less', up to FY 2011-12. However, such actual expenditure is allowable as per CERC regulations subject to truing up after the end of the control period i.e. 2009-14. Since the actual HR and O&M Expenses were in excess to the expenses allowed by CERC, POSOCO filed a petition with CERC to address the issue of meeting the shortfall in HR expenses from other income and deposit the balance amount in LDC Development Fund. On the petition filed by the Company, CERC vide order dated 28th September, 2012, has directed that 'Any additional legitimate HR expenses over and above that approved by the Commission in its various tariff orders as mentioned in para 3 of this order may be temporarily met by the petitioner out of the LDC Development Fund which will be recouped at the time of truing up'.</p> <p>Considering certainty of receipt as per AS-9, matching revenue concept and accrual system of accounting, the accounting policy had been changed as 'Revenue recognition based on actual HR and O&M expenditure incurred' in the F.Y. 2012-13 with retrospective effect taken from 01.10.2010 (i.e. the date since when separate accounts of POSOCO are being made).</p> <p>In view of CERC Regulations, CERC order dated 28th September, 2012 and past CERC orders on the above matters, Management is of the view that only the legitimate expenditure eligible under CERC Regulations has been considered for additional revenue and uncertainty involved on account of additional revenue is negligible.</p> <p>The matter regarding change in accounting policy in respect of revenue recognition has also been referred to the Institute of Chartered Accountants of India for their opinion. However, the opinion is still awaited.</p>

COMMENTS OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA UNDER SECTION 619(4) OF THE COMPANIES ACT, 1956 ON THE ACCOUNTS OF POWER SYSTEM OPERATION CORPORATION LIMITED FOR THE YEAR ENDED 31 MARCH 2014

The preparation of financial statements of Power System Operation Corporation Limited for the year ended 31 March 2014 in accordance with the financial reporting framework prescribed under the Companies Act, 1956 is the responsibility of the Management of the Company. The Statutory Auditors appointed by the Comptroller and Auditor General of India under Section 619(2) of the Companies Act, 1956 are responsible for expressing opinion on these financial statements under Section 227 of the Companies Act, 1956 based on independent audit in accordance with the standards on Auditing prescribed by their professional body, the Institute of Chartered Accountants of India. This is stated to have been done by them vide their Audit Report dated 30 June 2014.

I, on behalf of the Comptroller and Auditor General of India, have conducted a supplementary audit under Section 619(3) (b) of the Companies Act, 1956 of the financial statements of Power System Operation Corporation Limited for the year ended 31 March 2014. This supplementary audit has been carried out independently without access to the working papers of the Statutory Auditors and is limited primarily to inquiries of the Statutory Auditors and Company personnel and a selective examination of some of the accounting records. On the basis of my audit, nothing significant has come to my knowledge which would give rise to any comment upon or supplement to Statutory Auditor's Report under Section 619(4) of the Companies Act, 1956.

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

Sd/-
(Tanuja S. Mittal)
Principal Director of Commercial Audit &
Ex-officio Member, Audit Board - III,
New Delhi

Place: New Delhi
Dated: 14th August, 2014

REPORT ON CORPORATE GOVERNANCE

The Directors present the Company's Report on Corporate Governance.

1. THE COMPANY'S GOVERNANCE PHILOSOPHY

We believe that Corporate Governance is not merely a matter of ensuring checks and balances – it is an ongoing measure aimed at achieving the Company's objectives without compromising on corporate fairness, transparency and accountability in the best interest of various stakeholders in the Company. Power System Operation Corporation of India Ltd. (POSOCO) believes that good governance should entail trusteeship, empowerment and accountability of the management while remaining proactive to the Government policies. POSOCO's Governance process is focused towards its following mission:

"Ensure Integrated Operation of Regional and National Power Systems to facilitate transfer of electric power within and across the regions and trans-national exchange of power with Reliability, Security and Economy."

The Company has also set its Objectives in furtherance of its mission as per its role as defined in the Electricity Act, and set out by the Ministry of Power, CERC, other Regulatory / Statutory Bodies, etc. from time to time.

While the Company has constituted an Audit Committee to have better and more focused attention on financial matters, it has also constituted a CSR and Sustainable Development Committee in the wake of its commitment as a responsible corporate citizen.

The equity shares of the Company are not listed.

POSOCO has obtained "Excellent" rating from Department of Public Enterprises on the basis of Self-evaluation report on the compliance of Guidelines on Corporate Governance for CPSEs for the F.Y. 2012-13. The compliance of the Company with the conditions of the Corporate Governance and the disclosure requirements in that regard for the F.Y. 2013-14 are given below:

2. Board of Directors:

2.1 Size of the Board

POSOCO, being the wholly owned subsidiary Company of Power Grid Corporation of India Limited (POWERGRID) is a Government Company within the meaning of Section 617 of the Companies Act, 1956. As per Articles of Association, the composition of the Board of Directors shall be as determined by the Hon'ble President / Government of India from time to time.

In terms of Articles of Association of the Company, the strength of our Board shall not be less than three Directors but not more than fifteen Directors. These Directors may be either whole-time Directors or part-time Directors or otherwise.

2.2 Composition of the Board

Pursuant to the provisions of the Articles of Association of the Company, CMD POWERGRID is the part-time Chairman, there are two Nominee directors of the Government of India and one director has been nominated by POWERGRID from amongst its independent directors. In addition to this, two Directors from the Board of POWERGRID have been nominated on the Board of POSOCO on part – time basis. In order to comply with the requirements of the Companies Act, some of the nominee directors are directors liable to retire by rotation.

As on 31st March, 2014, Shri R.N. Nayak, Shri R.T. Agarwal, Shri I.S. Jha, Smt. Jyoti Arora, Shri P.K. Pahwa and Shri Santosh Saraf were on the Board of the Company.

2.3 Age Limit and Tenure of Directors

The age limit of the Chairman and other Directors (other than the director nominated by POWERGRID from amongst its independent Director(s)) is 60 years.

The date of appointment of the Directors who are in office as on 31st March, 2014 was as follows:

Name & Designation	Date of Joining on the Board
Shri R.N. Nayak, Non – executive Chairman	29.09.2009
Shri R.T. Agarwal, Part – time Director	16.05.2011
Shri I.S. Jha, Part – time Director	01.09.2011
Shri P.K. Pahwa,	13.02.2014
Smt. Jyoti Arora,	20.03.2014
Shri Santosh Saraf, Independent Director	26.03.2012

*The Directors on the Board of POWERGRID / Officials, who have been appointed as Directors in POSOCO shall cease to be on the Board of POSOCO on completion of their tenure / superannuation / withdrawal of nomination from POWERGRID / Ministry.

**None of the Directors of the Company are in any way related with each other.

2.4 Board Meetings and Attendance:

The meetings of the Board of Directors are held at the Registered office of the Company / Corporate Office of POWERGRID, the Holding Company. Meetings are generally scheduled well in advance and the Notice, detailed Board agenda, management reports and other explanatory Board notes are circulated to the Directors. The members of the Board have complete access to all information of the Company. CEO, POSOCO is a special invitee to all Board meetings. Other senior management is also invited to the Board meetings to provide additional inputs on the items being discussed by the Board.

During the financial year ended 31st March, 2014, eight Board meetings were held on 27th May, 21st June, 5th August, 26th August, 23rd December of the year 2013 and 13th February, 26th February and 20th March of the year 2014. The maximum interval between any two meetings during this period was 118 days. Details of number of Board meetings attended by Directors, attendance at last AGM, number of other directorship / committee membership (viz. Audit Committee and Shareholders' Grievance Committee as per DPE Guidelines) held by them during the year 2013-14 are tabulated below:

Name of the Director	Meeting held during respective tenure of Directors	No. of Board Meetings attended	Attendance at the last AGM (held on 06.09.2013)	No. of Other Directorship held on 31.03.13*	No. of Committee Membership held on 31.03.14**	
					Chairman	Member
Non executive Directors						
Shri R.N. Nayak, Chairman	8	8	Yes	9	NIL	NIL
Shri R.T. Agarwal ,Director	8	7	Yes	5	1	3
Shri I.S. Jha, Director	8	7	Yes	6	NIL	2
Shri Santosh Saraf, Director	8	7	Yes	2	4	NIL
Shri P.K. Pahwa, Director	3	2	N.A.	NIL	NIL	NIL
Smt. Jyoti Arora, Director	1	0	N.A.	2	NIL	NIL
Smt. Rita Acharya, Director	3	2	No	N.A.	N.A.	N.A.
Smt. Neerja Mathur, Director	2	1	No	N.A.	N.A.	N.A.

N.A. indicates that concerned person was not a Director on POSOCO's Board on relevant date.

*Excluding Directorships in Private Limited Companies, foreign companies and Companies registered under Section 25 of the Companies Act, 1956.

** Includes Chairmanship / membership of POSOCO. Further, only Chairmanship / membership of Audit Committee and the Shareholders'/Investors' Grievance Committee has been considered.

2.5 Information placed before the Board of Directors.

1. The Board has complete access to any information with the Company. The information regularly supplied to the Board includes:
2. Annual operating plans and budgets and any updates.
3. Annual Accounts, Directors' Report, etc.
4. Quarterly results of the Company.
5. Minutes of meetings of Audit Committee and other Committees of the Board
6. Disclosure of Interest by Directors about directorship and committee positions occupied by them in other Companies.
7. Compliance of regulatory or statutory provisions
8. Other materially important information.

2.6 Post Meeting Follow –up system

The decisions taken at Board/Board Committee meetings are communicated promptly to the concerned departments/divisions. Action taken on the deliberations of the Board and Committee meetings is put up for information of the Board and the Committee's of the Board.

3. Committee(s) of the Board of Directors

POSOCO Board has constituted the following Committees:

1. Audit Committee
2. CSR and Sustainable Development Committee

3.1 Audit Committee

The Audit Committee had the following members as on 31.03.2014:

- (i) Shri Santosh Saraf, Independent Director– Member & Chairman
- (ii) Shri R.T. Agarwal, Director – Member
- (iii) Shri I.S. Jha, Director – Member

The Company Secretary is the Secretary of the Committee.

The powers, role, functions, etc. of the Audit Committee are governed by the Companies Act and Government Guidelines issued from time to time.

Meetings of Audit Committee

The Audit Committee meets at least four times in a year and not more than four months elapse between two meetings in that year. The quorum for the Audit Committee meetings is either two members or one third of the members of the Audit Committee whichever is greater.

Review of information by Audit Committee

The Audit Committee generally reviews the following information:

1. Management discussion and analysis of financial condition and results of operations;
2. Statement of significant related party transactions submitted by management;
3. Management letters / letters of internal control weaknesses issued by the statutory auditors;
4. Internal audit reports relating to internal control weaknesses; and
5. The appointment, removal and terms of remuneration of the auditor.

Attendance

During the financial year ended 31st March, 2013, 05 meetings of the Audit Committee were held on 27th May, 21st June, 26th August and 6th November of the year 2013 and 13th February of the year 2014.

Attendance at the Audit Committee Meetings during the Financial Year 2013-14:

Name of the member	Audit Committee Meetings during the tenure	
	Held	Attended
Shri Santosh Saraf	05	05
Shri R.T. Agarwal	05	05
Shri I.S. Jha	05	05

3.2 CSR and Sustainable Development Committee

POSOCO Board had constituted the CSR and Sustainable Development Committee in its meeting held on 27th May, 2013 for implementation of Corporate Social Responsibility (CSR) and Sustainable Development (SD) activities in line with the requirement of Department of Public Enterprises (DPE) Guidelines on CSR and Sustainability for Central Public Sector Enterprises. The Committee comprised of the following members as on 31.03.2014:

Shri R.N. Nayak, Chairman – Chairman of the Committee

Shri Santosh Saraf, Independent Director– Member

Shri R.T. Agarwal, Director – Member

Shri I.S. Jha, Director – Member

During the Financial Year 2013-14, two meetings of the CSR and Sustainable Development Committee were held – on 21st June, 2013 and 13th February, 2014. Attendance at the above meetings was as follows:

Name of the member	CSR and Sustainable Development Committee Meetings during the tenure	
	Held	Attended
Shri R.N. Nayak	02	02
Shri Santosh Saraf	02	02
Shri R.T. Agarwal	02	02
Shri I.S. Jha	02	02

4. Remuneration of Directors

The Board had approved payment of Sitting fee of ₹20,000/- to the independent Director on the Board of POWERGRID who had been nominated on the Board of POSOCO. Apart from this, no remuneration is paid to any other Director.

Details of payment made towards sitting fee to the Independent Director on the Board of POWERGRID, who had been nominated on the Board of POSOCO is given below:

Name of the Director	Sitting Fees			Total
	Board Meeting	Audit Committee Meeting	Sustainable Development Committee Meeting	
Shri Santosh Saraf	1,40,000	1,00,000	40,000	2,80,000 [^]

[^]Gross amount.

As on 31.03.2014, the Directors' Shareholding was as under:

Name of Director(s)	No. of Equity Shares Held	
	As a Nominee of POWERGRID	Individual Capacity
Shri R.N. Nayak,	01	-
Shri R.T. Agarwal	01	-
Shri I.S. Jha	01	-

5. General Body Meetings:

Date, time and location of the last three Annual General Meetings is as under:

Year	Date	Time	Venue	Special Resolution
2010-2011	24 th August, 2011	10.00 a.m	1 st Floor, B-9, Qutab Institutional Area, Katwaria Sarai, New Delhi-16.	NIL
2011-2012	06 th September, 2012	3.00 p.m.	1 st Floor, B-9, Qutab Institutional Area, Katwaria Sarai, New Delhi-16.	NIL
2012-2013	26 th August, 2013	4.30 p.m.	1 st Floor, B-9, Qutab Institutional Area, Katwaria Sarai, New Delhi-16.	NIL

6. Disclosures

- I. Details of related party transactions are included in the Notes to the Accounts as per Accounting Standard – 18 issued by the Institute of Chartered Accountants of India and notified by the Central Government in consultation with National Advisory Committee on Accounting Standards.
- II. The CEO and CFO of the Company have certified the financial statements to the Board.
- III. POSOCO does not have any Subsidiary Company.
- IV. There are no material individual transactions with related parties which are not in the normal course of business.
- V. There are no material individual transactions with related parties or others, which are on an arm's length basis.
- VI. There were no penalties or strictures imposed on the Company by any statutory authorities for non-compliance on any matter related to capital markets, during the year.
- VII. The Balance Sheet, Profit and Loss Account and Cash Flow Statement for the f.y. 2013-14 have been prepared as per the Accounting Standards referred to in Sub-section (3C) of Section 211 of the Companies Act, 1956.

7. Means of Communication

The Company communicates with its shareholders through its Annual Report, General Meeting, Newspapers and disclosure through web site. Information and latest updates and announcements made by the Company can be accessed at Company's website: [http:// posoco.in](http://posoco.in).

8. Code of Conduct

The Board of Directors of POWERGRID, the Holding Company has laid down two separate Codes of Business Conduct and Ethics – one for Board Members and another for Senior Management Personnel. The Senior management of POSOCO is on secondment basis from the holding company, i.e. POWERGRID. Hence, Code of Conduct applicable to POWERGRID is being followed.

9. Shareholders' Information

(i) Annual General Meeting

Date	:	5 th September, 2014
Time	:	12.30 p.m.
Venue	:	B-9, Qutab Institutional Area, Katwaria Sarai, New Delhi – 110 016.

(ii) Financial Year

The Company's Financial Year is from 1st April to 31st March.

(iii) Payment of dividend

The Board of Directors of the Company have recommended payment of a final Dividend of 35% (₹ 3.5 per share) for the financial year ended 31st March, 2014. In addition, an Interim Dividend of 50% (₹ 5.0 per share) was paid on 30th December, 2013. Total dividend paid in the Previous Year was ₹ 4.0 per share.

(iv) Outstanding GDRs/ADRs/Warrants or any Convertible instruments, conversion date and likely impact on equity

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

(v) Dividend History

(₹ in Crore)

Year	Total Paid-up Capital	Total Amount of Dividend Paid for the Financial Year	Date of AGM in which dividend was declared	Date of Payment of Final Dividend
2010-11	30.64	3.06	24.08.2011	13.09.2011
2011-12	30.64	9.20	06.09.2012	06.09.2012
2012-13	30.64	12.26	26.08.2013	27.08.2013
2013-14	30.64	15.32*	23.12.2013@	30.12.2013#

* Amount of interim Dividend for F.Y. 2013-14

@ Date of the Board Meeting at which the interim dividend was declared.

Date of Payment of Interim Dividend for F.Y. 2013-14

(vi) Location of POSOCO Plants

POSOCO has no plants.

(vii) Shareholding Pattern

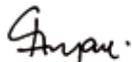
The entire shares of the Company are owned by Power Grid Corporation of India Limited.

(viii) Address for correspondence:

Power System Operation Corporation Limited,
1st Floor, B-9, Qutab Institutional Area,
Katwaria Sarai,
New Delhi – 110 016.

	Telephone No.	Fax No.
Registered Office	011-26536832, 26524522	011-26524525, 26536901
website	http://posoco.in	
Company Secretary, CS Priti Chaturvedi	011-26561309	011 -26524525
Email ID	priti@posoco.in	

For and on behalf of
POWER SYSTEM OPERATION CORPORATION LIMITED


(R.N. Nayak)
Chairman
DIN:02658070

Date : 14th August 2014
Place: Mumbai

Annexure-I**Non-Mandatory Requirements**

- 1 The Board:** The Company is headed by a non executive Chairman. No person has been appointed as independent director who has been a Director, in the aggregate, exceeding a period of nine years on the Board of POSOCO.
- 2 Remuneration Committee:** As POSOCO comprises the employees of POWERGRID who have been deputed on secondment basis, approvals by the Remuneration Committee of POWERGRID are applicable to POSOCO also.
- 3 Audit qualifications:** The financial statement for the F.Y. 2013-14 is qualified.
- 4 Training of Board Members:** Presentation on the following matters was given to the Directors:
 - Presentation on POSOCO as a whole was provided to the Directors so as to give them an insight into the functioning of the Company. The Presentation inter – alia included HR Capital, Revenue Stream, MoU & KPI Framework, Training and Certification of System Operators and Mentorship Programme in POSOCO.
 - Presentation on MoU Performance score
 - Presentation on activities assigned to POSOCO by MoP and CERC through new Regulations, inter alia including anticipated fee and charges of POSOCO.
- 5 Whistle Blower Policy:** Being a wholly owned subsidiary of POWERGRID, in terms of the MoU signed with POWERGRID, the Policies, Guidelines, etc. of POWERGRID are applicable to POSOCO as well.

Certificate on Corporate Governance

The Certificate on Corporate Governance is being published as an Annexure to the Directors' Report.

Certificate on Corporate Governance

To

The Members,

Power System Operation Corporation Limited.

I have examined the compliance of conditions of corporate governance by Power System Operation Corporation Limited, for the year ended on 31st March 2014 as stipulated in the DPE Guidelines.

The compliance of conditions of corporate governance is the responsibility of the management. My examination was limited to the procedures and implementation thereof, adopted by the Company for ensuring the compliance of the conditions of the Corporate Governance. It is neither an audit nor an expression of opinion on the financial statement of the Company.

In my opinion and to the best of my information and according to the explanation given to me, I certify that that the Corporation has complied with the conditions of Corporate Governance except that it has, an independent director who constitute one sixth of the total number of directors as against the requirement of one third the total number of directors, the Audit Committee has only one independent director as against the requirement of two and that it has not constituted a Remuneration Committee, in implementation of the Guidelines on Corporate Governance for CPSEs issued by the Department of Public Enterprises.

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


(T.V. NARAYNASWAMY)
COMPANY SECRETARY

CP-203

Janakpuri, New Delhi

Date: 24th June, 2014

Balance Sheet As At 31st March 2014

(₹ in Crore.)

Description	Note No.	As at 31-Mar-2014	As at 31-Mar-2013
I. EQUITY AND LIABILITIES			
Shareholders' funds			
(a) Share capital	2.1	30.64	30.64
(b) Reserves and surplus	2.2	187.36	157.48
		218.00	188.12
Non-current liabilities			
(a) Deferred Revenue	2.3	1.21	0.50
(b) Other Long term liabilities	2.4	107.12	7.46
(c) Long-term provisions	2.5	29.83	26.67
		138.16	34.63
Current liabilities			
(a) Trade payables	2.6	5.79	9.12
(b) Other current liabilities	2.7	331.81	833.68
(c) Short-term provisions	2.8	27.50	16.94
		365.10	859.74
Total		721.26	1,082.49
II. ASSETS			
Non-current assets			
(a) Fixed assets			
(i) Tangible assets	2.9	26.58	31.65
(ii) Intangible assets	2.10	4.83	4.90
(iii) Capital work in progress	2.11	23.95	3.62
		55.36	40.17
(b) Deferred tax Assets (Net)	2.12	15.66	2.60
(c) Long-term loans and advances	2.13	54.41	14.44
Current assets			
(a) Trade receivables	2.14	5.35	4.61
(b) Cash and Bank Balances	2.15	468.52	889.31
(c) Short-term loans and advances	2.16	100.14	103.33
(d) Other current assets	2.17	21.82	28.03
		595.83	1,025.28
Total		721.26	1,082.49
Accounting Policies	1		
Notes on Accounts	2		

Notes referred above are integral part of the Balance Sheet

For and on behalf of the Board of Directors

(Priti Chaturvedi)
Company Secretary
ACS 17639

(M.K.Gupta) Chief Financial Officer
(S. K. Soonee) Chief Executive Officer

(R. T. Agarwal)
Director
DIN 01937329

(R. N. Nayak)
Chairman
DIN 02658070

As per our report of even date

For Dinesh Mehta & Co.

Chartered Accountants
Firm Regn.
No. -000220N

(Vijay Batra)
Partner

Membership No.509259

For S.C. Ajmera & Co.

Chartered Accountants
Firm Regn
No.-002908C

(Arun Sarupria)
Partner

Membership No.078398

Place: New Delhi
Date: 30th June 2014

Statement of Profit and Loss for the year ended 31st March 2014

(₹ in Crore)

Description	Note No.	For the year ended 31-Mar-2014	For the year ended 31-Mar-2013
I. Revenue from operations	2.18	197.05	220.04
II. Other income	2.19	53.24	46.33
III.Total Revenue (I + II)		250.29	266.37
IV.Expenses:			
Employee benefits expense	2.20	86.02	83.23
Finance costs	2.21	6.77	(5.04)
Depreciation and amortization expense	2.22	8.40	12.27
Operation , Maintenance and Other Administration Expenses	2.23	47.51	48.35
Total expenses		148.70	138.81
V. Profit before Prior period Items and tax (III - IV)		101.59	127.56
VI.Prior period items	2.24	10.63	(2.79)
VII. Profit before tax (V - VI)		90.96	130.35
VIII.Tax expense:			
(1) Current tax		43.21	40.06
(2) Tax for earlier years		-	0.55
(3) Deferred tax		(13.06)	4.09
		30.15	44.70
IX.Profit after tax (VII - VIII)		60.81	85.65
X.Earnings per equity share: (In ₹ per share) (Face Value of ₹ 10/- each)	2.41		
(1) Basic		18.45	26.59
(2) Diluted		18.45	26.59
Accounting Policies	1		
Notes on Accounts	2		

Notes referred above are integral part of the Statement of Profit and Loss

For and on behalf of the Board of Directors

(Priti Chaturvedi)

Company Secretary
ACS 17639

(M.K.Gupta)

Chief Financial Officer

(S. K. Soonee)

Chief Executive Officer

(R. T. Agarwal)

Director
DIN 01937329

(R. N. Nayak)

Chairman
DIN 02658070

As per our report of even date

For Dinesh Mehta & Co.

Chartered Accountants
Firm Regn.
No. -000220N

(Vijay Batra)

Partner

Membership No.509259

For S.C. Ajmera & Co.

Chartered Accountants
Firm Regn
No.-002908C

(Arun Sarupria)

Partner

Membership No.078398

Place: New Delhi
Date: 30th June 2014

CASH FLOW STATEMENT FOR THE YEAR ENDED 31st MARCH, 2014

(₹ in crore)

Particulars	For the year ended 31 st March, 2014	For the year ended 31 st March, 2013
A. CASH FLOW FROM OPERATING ACTIVITIES		
Net Profit Before Tax (Excluding REC Surplus)	84.47	124.17
Add: Gross Surplus of REC	6.49	6.18
Profit Before Tax	90.96	130.35
Adjustment for :		
Depreciation	8.40	12.27
Transfer from Grants in Aid	0.71	(0.77)
Net Loss on Disposal / Write off of Fixed Assets	0.96	0.06
Interest and Finance Charges	19.19	(5.04)
Interest on Bank Flexi Deposits	(43.14)	(34.87)
Provisions made	0.02	-
Operating profit before Working Capital Changes	77.10	102.00
Adjustment for :		
Increase/(Decrease) in Other Long Term Liabilities	99.66	(16.11)
Increase/(Decrease) in Long Term Provisions	3.16	(0.28)
Increase/(Decrease) in Other Long Term Borrowings	-	-
(Increase)/Decrease in Trade and other Receivables	(0.74)	1.59
Increase/(Decrease) in Trade Payables & current liabilities	(505.66)	218.24
Increase/(Decrease) in Short Term Provisions(Excluding REC TAX provision)	8.36	(10.90)
Increase/(Decrease) in Short Term Provisions(REC TAX provision)	2.20	2.01
(Increase)/Decrease in Other current assets	(2.45)	(0.38)
(Increase)/Decrease in Long Term Loans and Advances	(39.99)	(2.75)
(Increase)/Decrease in Trade Receivables	-	-
(Increase)/Decrease in Short Term Loans and Advances	31.76	(33.49)
(Increase)/Decrease in Loans and Advances	-	-
	(403.70)	157.93
Direct taxes paid	(71.77)	(63.94)
Net Cash from operating activities	(398.37)	195.99
B. CASH FLOW FROM INVESTING ACTIVITIES		
(Increase)/Decrease in Tangible and Intangible Assets	(4.22)	(7.44)
(Increase)/Decrease in Work in Progress	(20.33)	(2.99)
(Increase)/Decrease in Construction Stores	-	0.06
Interest on Bank Flexi Deposits	51.80	36.76
Net cash used in investing activities	27.25	26.39
C. CASH FLOW FROM FINANCING ACTIVITIES		
Dividend paid	(26.04)	(10.73)
Dividend tax paid	(4.43)	(2.48)
Interest and Finance Charges Paid	(19.19)	5.05
Net Cash from Financing Activities	(49.66)	(8.16)
D. Net change in Cash and Cash equivalents(A+B+C)	(420.79)	214.22
E. Cash and Cash equivalents(Opening balance)	889.31	675.09

CASH FLOW STATEMENT FOR THE YEAR ENDED 31st MARCH, 2014 (contd...)

F. Cash and Cash equivalents(Closing balance) (D+E)	<u>468.52</u>	<u>889.31</u>
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Note:

1. Cash and cash equivalents consists of Cash in hand and balances with banks. Cash and cash equivalents included in the cash flow statement comprise of following balance sheet amounts as per Note 2.18.

Cash and cash equivalents	377.70	705.90
Other Bank balances (*)	90.82	183.41
	<u>468.52</u>	<u>889.31</u>

(*) Amounts available for specific use only

In designated current accounts / flexi deposit accounts operated and maintained in terms of CERC regulations (refer note 2.15)	77.37	177.13
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In Flexi Deposit accounts -REC (refer note 2.15)	13.45	6.28
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	<u>90.82</u>	<u>183.41</u>
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2. Previous year figures have been re-grouped / re-arranged wherever necessary.

For and on behalf of the Board of Directors

(Priti Chaturvedi)

Company Secretary
ACS 17639

(M.K.Gupta)

Chief Financial Officer

(S. K. Soonee)

Chief Executive Officer

(R. T. Agarwal)

Director
DIN 01937329

(R. N. Nayak)

Chairman
DIN 02658070

As per our report of even date

For Dinesh Mehta & Co.

Chartered Accountants

Firm Regn.
No. -000220N

(Vijay Batra)

Partner
Membership
No.509259

For S.C. Ajmera & Co.

Chartered Accountants

Firm Regn
No.-002908C

(Arun Sarupria)

Partner
Membership No.078398

Place: New Delhi

Date: 30th June 2014

NOTE NO. 1 - ACCOUNTING POLICIES

1.1 BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The financial statements are prepared on accrual basis of accounting under historical cost convention and in accordance with generally accepted accounting principles in India and the relevant provisions of the Companies Act, 1956 including Accounting Standards notified there under.

1.2 USE OF ESTIMATES

The preparation of the financial statements requires estimates and assumptions that affect the reported amount of assets, liabilities, revenue and expenses during the reporting period. Although such estimates and assumptions are made on reasonable and prudent basis taking into account all available information, actual results could differ from these estimates and assumptions and such differences are recognized in the period in which the results are crystallized.

1.3 RESERVES AND SURPLUS

Load Despatch and Communication Development fund is created in terms of Central Electricity Regulatory Commission (fees and charges of the Regional Load Despatch Centre and other related matters) Regulations 2009. In terms of clause 9(2) of the regulations, the charges on account of return on equity, interest on loan, depreciation and other income of the Regional Load Despatch Centres and NLDC such as registration fee, application fee, short term open access charges etc. shall be deposited to the LDC development fund. The funds shall be utilised for loan repayment, servicing the capital raised in the form of interest and dividend payment, meeting stipulated equity portion in asset creation and margin money for raising loan from financial institutions and funding of expenditure towards Corporate Social Responsibility (CSR), Sustainable Development (SD) activities and Research & Development (R&D) Projects and Income Tax payable, if any. Any asset created out of the money deposited to the LDC development fund shall not be considered for computation of the return on equity and interest on loan.

1.4 GRANTS IN AID

1.4.1 Grants in aid received from Central Govt or other authorities towards capital expenditure for projects, betterment of system operation and specific depreciable assets are shown as "Grants-in-aid" till the utilisation of grant.

1.4.2 On capitalisation of related assets, grant received for specific depreciable assets are treated as deferred income and recognised in the profit and loss account over the useful period of life and in proportion to which depreciation on these assets is provided.

1.5 FIXED ASSETS

Fixed assets are shown at historical cost comprising of purchase price and any attributable cost of bringing the assets to its working condition for intended use

1.6 CAPITAL WORK IN PROGRESS

1.6.1 Cost of material consumed, erection charges thereon along with other related expenses incurred for the projects are shown as CWIP till capitalisation.

1.6.2 Interest during construction is apportioned to Capital Work In Progress (CWIP) on the closing balance of Specific asset or part of asset being capitalized. Balance, if any, left after such capitalization is kept as a separate item under the CWIP

1.7 INTANGIBLE ASSETS

The cost of software (which is not an integral part of the related hardware) acquired for internal use and resulting in significant future economic benefits, is recognized as intangible assets in the books of accounts when the same is ready for its use.

1.8 CONSTRUCTION STORES

Construction stores are valued at cost.

1.9 BORROWING COST

1.9.1 All the borrowed funds (except short term funds for working capital) are earmarked to specific projects. The borrowing costs (including interest, and guarantee fee etc.) are allocated to the projects in proportion to the funds so earmarked.

1.9.2 The borrowing costs so allocated are capitalised or charged to revenue, based on whether the project is under construction or in operation.

1.10 TRANSACTIONS IN FOREIGN CURRENCY

1.10.1 Transactions in foreign currencies are recorded at the exchange rate prevailing on the date of transaction. Foreign currency loans, deposits and liabilities are translated or converted with reference to the rates on the date of the balance sheet

1.10.2 Foreign Exchange Rate Variation (FERV) arising on settlement/translation of foreign currency loans are shown as recoverable from constituents.

1.11 REVENUE RECOGNITION

1.11.1 System operation and Market operation charges comprising RLDC fees and charges are recognised on the basis of tariff approved by Central Electricity Regulatory Commission(CERC). Human Resource and Operation and Maintenance expenses component of tariff are accounted on the basis of actual expenditure. Charges towards projected capital expenditure are restricted to charges based on actual capital expenditure.

Any excess in collection of System Operation and Market Operation charges over the revenue recognised is transferred to the liability to be adjusted on Truing up exercise by the CERC after the expiry of the control period.

1.11.2 Income from Short Term Open Access (STOA) is accounted for on the basis of regulations notified by CERC. Income on account of operating charges, scheduling and system operation charges from Short Term Open Access (STOA) in terms of the Central Electricity Regulatory Commission (Open Access in Inter State transmission), Regulations is accounted for as and when the bilateral / collective transactions take place.

1.11.3 Non-refundable application money from the Short Term Open Access (STOA) is accounted as income on receipt of application along with the fees.

1.11.4 Transmission charges collected for the disbursement to STUs/CTUs/SEBs from the Short Term Open Access (STOA) are passed on to the respective STUs/CTUs/SEBs. The unpaid amount as at balance sheet date is depicted as liability.

1.11.5 Supervision Charges

Overhead charges on account of supervision of SCADA Annual Maintenance Charges are accounted on accrual basis.

1.11.6 Registration fees

One time registration fees of new users and power exchanges is accounted for on receipt basis.

1.11.7 Liquidated damages/warranty claims and interest on advances to suppliers are accounted for on certainty.

1.11.8 Bank Interest earned on the fixed deposits lying in unscheduled Interchange Pool Account Fund, Congestion Charge Account, Reactive Energy Charges Account ,Deviation pool Account fund and Inter regional exchange account are credited directly to respective Fund accounts.

1.11.9 Surcharge is being accounted for when no significant uncertainty as to measurability and collectability exists.

1.11.10 Unclaimed Security Deposit, Unclaimed Retention monies & Dead cheques more than 3 Years old are accounted as miscellaneous receipts.

1.12 DEPRECIATION

1.12.1 The depreciation has been provided on Straight Line Method at the rates and methodology specified in the norms notified by CERC for the purpose of recovery of RLDC fees and charges. With effect from 01/04/2009 (effective date of CERC Regulations, 2009), useful life has been considered/worked out prospectively based on unamortized balance of such asset on the basis of the rate of depreciation specified by CERC except for mobile phones which have been depreciated at 33.33%.

1.12.2 Depreciation on addition to/deductions from fixed assets during the year is charged on pro-rata basis.

1.12.3 Assets costing ₹ 5,000/- or less or where the written down value is ₹ 5,000/- or less at the beginning of the year, are charged to revenue.

1.13 EXPENDITURE

1.13.1 Pre-paid /prior period expenses / income of items of ₹ 1,00,000/- and below are charged to natural heads of accounts.

1.13.2 Expenditure of research and development, other than Capital Expenditure, are charged to revenue in the year of incurrence.

1.13.3 Capital expenditure incurred on assets not owned by the company is charged off to revenue as and when incurred.

1.14 IMPAIRMENT OF ASSETS

Cash generating units as defined in AS-28 on "Impairment of Assets" are defined at the balance sheet date with respect to carrying amount vis-à-vis recoverable amount thereof and impairment loss, if any, is recognised in the profit and loss account. Impairment loss, if need to be reversed subsequently, is accounted for in the year of reversal.

1.15 EMPLOYEE BENEFITS

- 1.15.1 The liability for retirement benefits of employees in respect of gratuity, which is ascertained annually on actuarial valuation at the year end, is provided and funded separately.
- 1.15.2 The liability for compensated absence (both for earned & half pay leave), leave encashment, post retirement medical benefits & settling allowance to employees are ascertained annually on actuarial valuation at the year end and provided for.
- 1.15.3 Actuarial gains/losses are recognized immediately in the Statement of Profit & Loss.

1.16 PROVISIONS AND CONTINGENT LIABILITIES

A provision is recognised when the company has a present obligation as a result of past event and it is probable that an outflow of resources will be required to settle the obligation, in respect of which a reliable estimate can be made based on technical valuation and past experience. Provisions are not discounted to its present value and are determined based on management estimate required to settle the obligation at the balance sheet date. No provision is recognised for liabilities whose future outcome cannot be ascertained with reasonable estimate. Such contingent liabilities are not recognised but are disclosed in the schedule of contingent liability on the basis of judgement of the management/ independent expert. These are reviewed at each balance sheet date and adjusted to reflect the current management estimate.

1.17 INCOME TAX

Income tax comprises of current and deferred taxes. Current income taxes are measured at the amount expected to be paid to the income tax authorities in accordance with Income Tax Act, 1961. Deferred tax resulting from timing difference between accounting and taxable profit is accounted for using the tax rates and the tax laws enacted or substantively enacted at the balance sheet date. Deferred tax assets are recognised only to the extent that there is reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realized.

Note 2.1/Share capital

Description	(₹ in Crore)	
	As at 31-Mar-2014	As at 31-Mar-2013
Equity Share Capital		
Authorised Capital		
20,00,00,000 (Previous Year 20,00,00,000) equity shares of ₹ 10/- each	200.00	200.00
Issued Subscribed and paid up		
3,06,40,000 (Previous Year 3,06,40,000) equity shares of ₹ 10/-each fully paid up	30.64	30.64
Total	30.64	30.64

Further Notes:

1) Reconciliation of Number and amount of share capital outstanding at the beginning and at the end of the reporting period.

Particulars	As at 31st March, 2014		As at 31st March, 2013	
	No. of Shares	(₹ in Crores)	No. of Shares	(₹ in Crores)
Shares outstanding at the beginning of the year	30,640,000	30.64	30,640,000	30.64
Shares Issued during the year	NIL	NIL	NIL	NIL
Share bought back during the year	NIL	NIL	NIL	NIL
Shares outstanding at the end of the year	30,640,000	30.64	30,640,000	30.64

2) The holders of equity shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

3) 3,06,40,000 (Previous Year 3,06,40,000) equity shares are held by Powergrid Corporation of India Limited - Holding Company and its nominees.

4) Out of above, 3,05,90,000 (Previous Year 3,05,90,000) equity shares of ₹ 10 /- each have been allocated as fully paid shares, in pursuant to agreement to sell assets without consideration being received in cash.

Note 2.2/Reserves and surplus

Description	(₹ in Crore)	
	As at 31-Mar-2014	As at 31-Mar-2013
Corporate Social Responsibility (CSR) Activity Reserve		
As per last balance sheet	0.46	-
Additions during the year	0.06	0.46
Deductions during the year	0.46	-
Closing Balance	0.06	0.46
General Reserve		
As per last balance sheet	13.80	5.20
Additions during the year	6.10	8.60
Deductions during the year	-	-
Closing Balance	19.90	13.80
REC Fund		
As per last balance sheet	4.17	-
Additions during the year	4.29	4.17
Deductions during the year	-	-
Closing Balance	8.46	4.17
Load Despatch & Communication Development (LDC) Fund		
As per Last Balance Sheet	102.28	70.24
Additions during the year	100.66	95.00
Deductions during the year	78.18	62.96
Closing Balance	124.76	102.28
Surplus (Balance in Statement of Profit and Loss)		
As per last balance sheet	36.77	10.68
Add: Profit After tax as per Statement of Profit and Loss	60.81	85.65
Less: Appropriations		
Corporate Social Responsibility (CSR) Activities Reserve	0.06	0.46
LDC Development Reserve	22.48	32.04

Note 2.2/Reserves and surplus

Description	(₹ in Crore)	
	As at 31-Mar-2014	As at 31-Mar-2013
General Reserve	6.10	8.60
REC Reserve	4.29	4.17
Interim dividend paid	15.32	6.13
Dividend tax on Interim Dividend	2.61	0.99
Proposed Final Dividend	10.72	6.13
Dividend tax on Proposed Dividend	1.82	1.04
Closing Balance	34.18	36.77
TOTAL	187.36	157.48

Note 2.3/Deferred Revenue

Description	(₹ in Crore)	
	As at 31-Mar-2014	As at 31-Mar-2013
Grants in aid		
As per Last Balance Sheet	0.50	1.27
Additions during the year	0.80	-
Deductions during the year	0.09	0.77
Closing Balance	1.21	0.50
TOTAL	1.21	0.50

Note 2.4/Other Long term liabilities

Description	(₹ in Crore)	
	As at 31-Mar-2014	As at 31-Mar-2013
i) Deposits/ Retention money from contractors and others.	0.09	0.71
ii) Liability on account of Truing up (refer Note No.2.35 of Other Notes on Accounts)	107.03	6.75
Total	107.12	7.46

Note 2.5/Long-term provisions

Description	(₹ in Crore)	
	As at 31-Mar-2014	As at 31-Mar-2013
Employee Benefits		
As per last balance sheet	26.67	26.95
Additions during the year	6.17	6.50
Amounts utilised/paid during the year	3.01	6.78
TOTAL	29.83	26.67

Note 2.6/Trade payables

Description	(₹ in Crore)	
	As at 31-Mar-2014	As at 31-Mar-2013
For goods and services	4.57	8.38
For Accrued Expenses	1.22	0.74
Total	5.79	9.12

Further Notes :

Based on information available with the company, there are no suppliers/service providers who are registered as micro, small or medium enterprises under " The Micro, Small and Medium Enterprises Development Act, 2006" as on 31st March 2014 and as on 31st March 2013.

Note 2.7/Other current liabilities

(₹ in Crore)

Description	As at 31-Mar-2014	As at 31-Mar-2013
i) Employee related liability	0.80	0.85
ii) Deposits/Retention money from contractors and others.	5.62	2.33
iii) Advances from Customers	121.61	495.52
iv) Others	2.61	4.71
v) Other Liabilities- Third Party (Net) (Liabilities in respect of Designated accounts operated and maintained in terms of CERC Regulations (Refer Note no.2.27 of Other Notes on Accounts))	84.63	203.75
vi) Liabilities in respect of Third Parties under Short Term Open Access Regulation		
a) CTU-POWERGRID	49.96	44.18
b) STU	26.44	17.65
vii) Statutory Dues	1.91	4.40
viii) Related parties -Holding Company	38.23	60.29
Total	331.81	833.68

Note 2.8/Short-term provisions

(₹ in Crore)

Description	As at 31-Mar-2014	As at 31-Mar-2013
A) Provision for Employee Benefits		
i) Transmission incentive / special incentive		
As per last balance sheet	7.65	10.48
Addition during the year	10.48	13.16
Amount paid/adjusted during the year	6.07	15.99
Closing Balance	12.06	7.65
ii) Provision for Wage revision		
As per last balance sheet	-	6.15
Additions during the year	-	-
Amounts utilised/paid during the year	-	6.15
Closing Balance	-	-
iii) Other Employee Benefits (Leave Encashment, Settlement Allowance, Post retirement medical benefits etc.)		
As per last balance sheet	2.12	2.03
Additions during the year	1.01	2.01
Amounts utilised/paid during the year	0.23	1.92
Closing Balance	2.90	2.12
Total (A)	14.96	9.77
B) Others		
i) Taxation		
As per last balance sheet	91.87	51.26
Additions during the year	43.21	40.61
Amount adjusted during the year	-	-
Nett of against Taxes paid (Refer Note no. 2.16)	135.08	91.87
Closing Balance	-	-
ii) Proposed Dividend		
As per last balance sheet	6.13	4.60
Additions during the year	26.04	12.26
Amounts paid during the year	21.45	10.73
Closing Balance	10.72	6.13
iii) Dividend Tax		
As per last balance sheet	1.04	1.49
Additions during the year	4.43	2.03
Amounts paid during the year	3.65	2.48
Closing Balance	1.82	1.04
Total (B)	12.54	7.17
Total (A+B)	27.50	16.94

Note 2.9/Tangible assets

(₹ in Crore)

Description	Gross Block					Depreciation/Amortisation					Net Block	
	As at 01-Apr-2013	Additons during the year	Sale / Disposal during the year	Adjustment during the year	As at 31-Mar-2014	Upto 31-Mar-2013	Additons during the year	Sale / Disposal during the year	Adjustment during the year	As at 31-Mar-2014	As at 31-Mar-2014	As at 31-Mar-2013
Civil Works-on Leased Buildings												
a) RLDCs	10.58	-	-	0.70	9.88	2.13	0.33	-	0.20	2.26	7.62	8.45
b) Township	0.05	-	-	0.05	-	0.01	-	-	0.01	-	-	0.04
Temporary Erection	0.11	-	-	0.05	0.06	0.11	-	-	0.05	0.06	-	-
Water Supply Drainage & Sewerage	0.07	-	-	-	0.07	0.01	-	-	-	0.01	0.06	0.06
Plant & Machinery												
a) RLDCs	2.86	-	-	-	2.86	0.95	0.15	-	-	1.10	1.76	1.91
b) SCADA Hardware	57.02	0.81	-	7.42	50.41	47.46	4.01	-	7.11	44.36	6.05	9.56
c) Communication	0.52	-	-	-	0.52	0.22	0.03	-	-	0.25	0.27	0.30
Furniture Fixtures ***	7.74	0.19	0.01	0.11	7.81	3.57	0.44	0.01	0.06	3.94	3.87	4.17
Office equipment	2.72	0.35	0.06	0.06	2.95	1.15	0.22	0.04	0.05	1.28	1.67	1.57
Electronic Data Processing & Word Processing Machines	9.98	0.77	0.40	0.18	10.17	5.26	1.08	0.38	0.19	5.77	4.40	4.72
Vehicles	0.01	-	-	-	0.01	-	-	-	-	-	0.01	0.01
Constrn.and Workshop equipment	0.01	-	-	-	0.01	0.01	-	-	-	0.01	-	-
Electrical Installation	0.89	0.06	-	-	0.95	0.05	0.05	-	-	0.10	0.85	0.84
Miscellaneous Assets/ Equipments	0.11	-	-	-	0.11	0.09	-	-	-	0.09	0.02	0.02
Grand Total	92.67	2.18	0.47	8.57	85.81	61.02	6.31	0.43	7.67	59.23	26.58	31.65
Previous Year ***	87.91	4.66	0.22	(0.32)	92.67	52.17	9.16	0.14	0.17	61.02	31.65	35.74

Note:

The Adjustments in Gross Block & Depreciation in above Data includes Amount Relating to REC -

1) Gross Block	0.01
2) Accumulated Depreciation	-
Net Block	0.01

Note 2.10/Intangible assets

(₹ in Crore)

Description	Gross Block					Depreciation/Amortisation					Net Block	
	As at 01-Apr-2013	Additons during the year	Sale / Disposal during the year	Adjustment during the year	As at 31-Mar-2014	Upto 31-Mar-2013	Additons during the year	Sale / Disposal during the year	Adjustment during the year	As at 31-Mar-2014	As at 31-Mar-2014	As at 31-Mar-2013
SCADA Software	192.85	0.54	-	-	193.39	191.61	0.44	-	-	192.05	1.34	1.24
Electronic Data Processing Software ***	5.58	1.57	-	-	7.15	1.92	1.65	-	(0.09)	3.66	3.49	3.66
Grand Total	198.43	2.11	-	-	200.54	193.53	2.09	-	(0.09)	195.71	4.83	4.90
Previous Year	193.59	4.10	-	(0.74)	198.43	190.08	3.11	-	(0.34)	193.53	4.90	3.51

***Note:

The Adjustments in Gross Block & Depreciation in above Data includes Amount Relating to REC -

1) Gross Block	0.32
2) Accumulated Depreciation	0.27
3) Net Block	0.05

Note 2.11/Capital work in progress**(₹ in Crore)**

Description	As at 01-Apr-2013	Additions during the year	Adjustments during the year	capitalised during the year	As at 31-Mar-2014
Civil Works					
Regional Load Despatch Centre & Office (Incl. civil work)	0.12	-	-	-	0.12
Township	0.30	0.94	-	-	1.24
Plant & Equipments (including associated civil works)					
SCADA	3.20	18.85	-	-	22.05
Other office equipments	-	0.54	-	-	0.54
TOTAL	3.62	20.33	-	-	23.95

Note 2.12/Deferred tax Assets (Net)**(₹ in Crore)**

Description	As at 31-Mar-2014	As at 31-Mar-2013
Deferred Tax Asset		
Employee Benefits-Leave encashment, Incentive u/s 43B Including Wage Revision Provision	15.26	8.36
Provisions	-	0.03
Interest on Truing up	6.11	-
Sub-total (A)	21.37	8.39
Deferred Tax Liability		
Less: Towards Fixed Assets (Net)	5.71	5.79
Sub-total (B)	5.71	5.79
Net Deferred Tax Assets	15.66	2.60

Note 2.13/Long-term loans and advances

(Unsecured Considered Good unless otherwise stated)

(₹ in Crore)

Description	As at 31-Mar-2014	As at 31-Mar-2013
Other loans and advances		
i) Employees (including Interest Accrued)		
a) Secured Considered good	7.57	6.52
b) Unsecured - Considered good	0.32	0.38
- Considered doubtful	0.07	0.05
	7.96	6.95
Less: Provision for Bad & Doubtful Advances	0.07	0.05
		6.90
ii) Advances recoverable in cash or in kind or for value to be received (Unsecured considered good)		
a) Contractors & Suppliers	44.64	0.39
b) Employees	0.42	0.30
c) Capital Advance -Holding Company	-	4.91
d) Others	1.40	1.83
e) Balance with Customs Port Trust and other authorities	0.10	0.15
	46.56	7.58
Less: Provision for Bad & Doubtful Advances	0.04	0.04
		7.54
TOTAL	54.41	14.44
Due from Directors	-	-
Officers	1.22	0.66

Note 2.14/Trade receivables (Unsecured considered good unless otherwise stated)

	(₹ in Crore)	
Description	As at 31-Mar-2014	As at 31-Mar-2013
i) Debts Outstanding for a period exceeding Six Months		
Considered Good	-	1.10
Considered Doubtful	-	-
ii) Other Debts	5.35	3.51
	5.35	4.61
Less: Provision for bad & doubtful debts	-	-
TOTAL	5.35	4.61

Note 2.15/Cash and Bank Balances

	(₹ in Crore)	
Description	As at 31-Mar-2014	As at 31-Mar-2013
1) Cash and Cash Equivalents		
Balance with Banks		
-In Current Accounts / Flexi deposit Accounts	184.46	582.06
-In LDC Development Account	116.83	62.00
Cash on hand	0.01	-
Drafts/Cheques in Hand	-	0.01
	301.30	644.07
2) Other Bank Balances		
-In Designated Current Accounts / Flexi Deposit accounts operated & maintained in terms of CERC regulations (Refer Note no. 2.27 of Other Notes on Accounts)	77.37	177.13
-In Current Accounts/Flexi Deposit Accounts(held on account of Third Parties under Short Term Open Access Regulation)		
a) CTU-POWERGRID	49.96	44.18
b) STU	26.44	76.40
-In Flexi Deposit accounts -REC (Refer Note no.2.33 of Other Notes on Accounts)	13.45	17.65
	167.22	245.24
TOTAL	468.52	889.31

Note 2.16/Short-term loans and advances

	(₹ in Crore)	
Description	As at 31-Mar-2014	As at 31-Mar-2013
A) Loans		
a) Employees including interest accrued		
Secured considered good	1.24	1.21
Unsecured considered good	0.25	0.23
	1.49	1.44
Total(A)	1.49	1.44
B) Advances recoverable in cash or in kind or for value to be received		
a) Employees	0.86	0.97
Contractors & Suppliers	2.13	6.02
Capital Advance -Holding Company	8.18	15.26
In Designated A/c	0.54	21.03
Contractors & Suppliers- REC (Refer Note no.2.33 of Other Notes on Accounts)	0.09	0.11
Advance Tax & TDS	221.75	149.98
Less : Provision for Taxation (Refer Note no. 2.8)	135.08	91.87
Others	0.18	58.11
	0.39	0.39

Note 2.16/Short-term loans and advances (contd...)

(₹ in Crore)

Description	As at 31-Mar-2014	As at 31-Mar-2013
	97.79	100.92
Total (B)	98.65	101.89
Total(A+B)	100.14	103.33
Directors	-	-
Officers	0.45	0.41

Note 2.17/Other current assets

(₹ in Crore)

Description	As at 31-Mar-2014	As at 31-Mar-2013
a) Interest accrued but not due		
Interest accrued on Flexi Deposits with Bank	3.10	11.83
Interest accrued on Flexi Deposit with Deposits-In Designated A/c	0.13	0.25
Interest accrued on Flexi Deposits-REC (Refer Note no. 2.33 of Other Notes on Accounts)	0.21	0.02
b) Unbilled Revenue	18.38	15.93
TOTAL	21.82	28.03

Note : Unbilled revenue ₹ 18.38 cr (PY ₹15.93 cr) represents amount of RLDC fees and charges- ₹ 17.67 cr for the month of Mar 2014 and ₹ 0.71 cr for earlier period billed in Apr 2014.

Note 2.18/Revenue from operations

(₹ in Crore)

Description	For the Year ended 31-Mar-2014	For the Year ended 31-Mar-2013
A. Sales of services		
Revenue from System and Market Operation (Gross)	212.65	191.19
Less: Truing up Adjustment (Net)	54.46	4.67
Net Revenue	158.19	186.52
B. Short Term Open Access-Other Charges	36.86	32.42
C. Registration Money	2.00	1.10
Total	197.05	220.04

Note 2.19/Other income

(₹ in Crore)

Description	For the Year ended 31-Mar-2014	For the Year ended 31-Mar-2013
A) Interest from		
Indian Banks	43.14	34.87
Employees Loans and Others	0.44	0.37
Total (A)	43.58	35.24
B) Others		
Consultancy Project Management and Supervision Fees	1.33	1.45
REC Surplus	6.49	4.49
Deferred Income (Transferred from Grants-in-aid)	0.09	0.77
Surcharge	0.06	0.17
Interest From Others	0.08	0.79
Provision written back	1.23	-
Interest on Truing up	-	1.20
Miscellaneous income	0.38	2.22
Total (B)	9.66	11.09
TOTAL	53.24	46.33

Note 2.20/Employee benefits expense

(₹ in Crore)

Description	For the Year ended 31-Mar-2014	For the Year ended 31-Mar-2013
Salaries wages allowances & benefits	71.99	68.86
Contribution to Provident and other funds	8.84	7.67
Staff Welfare expenses	5.19	6.70
TOTAL	86.02	83.23

Note 2.21/Finance costs

(₹ in Crore)

Description	For the Year ended 31-Mar-2014	For the Year ended 31-Mar-2013
A) Interest on Loan from Others (Interest on truing up Liability)	6.76	(5.05)
	6.76	(5.05)
B) Other Borrowing Cost Other finance charges	0.01	0.01
	0.01	0.01
C) Foreign Exchange Rate Variation Less: Recoverable from Beneficiaries at the time of Truing Up (Refer Note No. 2.35 (iii) of Other Notes on Accounts).	3.96	11.47
	3.96	11.47
	-	-
TOTAL	6.77	(5.04)

Note 2.22/Depreciation and amortization expense

(₹ in Crore)

Description	For the Year ended 31-Mar-2014	For the Year ended 31-Mar-2013
Depreciation/Amortization-Tangible Assets	6.31	9.16
Amortization-Intangible Assets	2.09	3.11
Total	8.40	12.27

Note 2.23/Operation , Maintenance and Other Administrative Expenses

(₹ in Crore)

Description	For the Year ended 31-Mar-2014	For the Year ended 31-Mar-2013
Repair & Maintenance		
Buildings	0.80	0.86
Plant & Machinery		
RLDCs	19.87	21.19
Others	2.14	1.44
	22.01	22.63
Power charges	3.10	2.96
Training & Recruitment Expenses	1.58	1.12
Communication expenses	1.11	0.98
Travelling & Conv.exp.(excluding foreign travel)	3.42	3.16
Foreign travel	0.36	0.12
	3.78	3.28
Statutory Audit Fees	0.07	0.08
Tax Audit Fees	0.02	0.02
Capital Expenditure on assets not owned by the Company	-	4.99
Miscellaneous expenses	5.36	4.73
Security Expenses	3.09	2.59
Expenditure on Corporate Social Responsibility (CSR)	2.28	1.05
Expenditure on Sustainable Development	0.10	0.26
Rebate to Customers	3.25	2.74
	46.55	48.29
Loss on Disposal/Write off of Fixed Assets	0.96	0.06
Total	47.51	48.35

Note 2.24/Prior period items

(₹ in Crore)

Description	For the Year ended 31-Mar-2014	For the Year ended 31-Mar-2013
PRIOR PERIOD AND EXTRAORDINARY ITEMS		
Prior Period items		
Income		
REC Surplus	-	1.69
Others	1.89	1.31
(A)	1.89	3.00
Expenditure		
Interest cost	12.42	-
Others	0.10	0.21
(B)	12.52	0.21
Nett Prior period expenditure/(income) (B - A)	10.63	(2.79)
Total	10.63	(2.79)

OTHER NOTES :-**2.25 Nature Of Operations:-**

The company was incorporated on 20th March 2009 as a wholly owned subsidiary of the Power Grid Corporation of India Limited, a Government of the India Enterprise, to take over the business of the System Operations and Market Operations, which were earlier carried out by the Holding Company(POWERGRID). POSOCO is responsible for the following operations:-

- i) To supervise and control all aspect concerning operations and manpower requirement of RLDCs and NLDC.
- ii) To act as the apex organisation for human resources requirement of NLDC and RLDCs.
- iii) To ensure planning and implementation of infrastructure required for smooth operation and development of National and Regional LDCs.
- iv) To coordinate the functioning of NLDC and all RLDCs.
- v) To advise and assist state level Load Despatch Centres, including specialized trainings etc.
- vi) To perform any other function entrusted to it by the Ministry of Power.

2.26 As per the memorandum of understanding consequent upon sale of moveable assets to POSOCO, all operations and transactions (billing and banking) carried, on or after October 1, 2010 by the RLDCs and NLDC, in the name of Holding Company are deemed to have been carried on behalf of POSOCO.

2.27 Unscheduled Interchange Pool Account Fund(UI), Congestion Charge Account, Deviation Pool Account Fund, Reactive Energy Charges Account(RE) and Inter Regional Exchange Account(IRE)

The Central Electricity Regulation Commission vide following regulations has directed the Regional Load Dispatch Centres in each region to operate and maintain Unscheduled Interchange Pool Account Fund, Congestion Charge Account, Reactive Energy Charges Account ,Deviation Pool account fund & Inter Regional Exchange account(IRE)

NLDC/RLDC's has been assigned the function to maintain various regulatory fund accounts under the respective regulations issued by CERC. NLDC/RLDC's are to manage these funds as the custodian of these funds as nodal agents till some other entity is identified. The surpluses from these funds are to be transferred to Power System Development Fund (PSDF) created under Central Electricity Regulatory Commission (PSDF) Regulations, 2010.

All payments on account of Unscheduled Interchange charges including Additional Unscheduled Interchange charges levied and interest, if any, received for late payment are credited to the funds called the "Regional Unscheduled Interchange Pool Account Fund", maintained and operated by the Regional Load Despatch Centres in accordance with provisions of Central Electricity Regulatory Commission (Unscheduled Interchange charges and related matters) Regulations.

All payments on account of Congestion Charges and interest, if any, received for late payment are credited to the funds called the "Congestion Charge Account", maintained and operated by the Regional Load Despatch Centres in accordance with provisions of Central Electricity Regulatory Commission (Measures to relieve congestion in real time operation) Regulations.

The new CERC Regulations on Deviation Settlement Mechanism has come into force w.e.f. 17.2.2014. As per provisions of the Regulations, RLDC are required to operate and maintain "Regional Deviation Pool Account Fund", where all payments on account of Deviations are to be credited. Further disbursement to the entities entitled to receive payment under Deviation Settlement mechanism is also made from the Fund.

"On commencement of these Regulations, the "Regional Unscheduled Interchange Pool Account Funds" shall continue to operate till the UI accounts settlement for the period prior to commencement of these Regulations is completed and balance if any, in UI Pool account shall be transferred to the Power System Development Fund."

Thus the UI Accounts would also continue to be maintained by RLDCs till complete settlement for the period upto 16.2.2014

All payments on account of Reactive Energy Pool Account are credited to the funds called the "Reactive Energy Account", maintained and operated by the Regional Load Despatch Centres in accordance with provisions of Central Electricity Regulatory Commission.

These funds are equally matched with fund balance in the bank accounts in the current and fixed deposit accounts except for difference due to interest accrued and TDS on interest, which are funded on the receipt of the interest and TDS Certificates.

As on 31/03/2014, the total balance in these designated bank accounts were amounting to ₹ 77.37 Crores as against the liability in these funds amounting to ₹ 84.63 Crores. The net difference in the Liability and the designated bank accounts amounting to ₹ 7.26 Crores on account of the Interest accrued and TDS on interest is subject to reconciliation and consequential adjustments if any.

2.28 LDC Development Fund

Revenue during the year on account of Depreciation, Interest on Loan, Return on Equity (based on truing-up adjustment) amounting to ₹ 17.33 Crores and other income amounting to ₹ 83.33 Crores comprising mainly of STOA and interest income is required to be deposited in LDC Development Fund in terms of CERC Regulation. The fund has been utilized towards Corporate Social Responsibility Exp. & Sustainable Development Exp. of ₹ 2.38 Crores, income tax of ₹ 41.00 Crores, dividend of ₹ 30.47 Crores (including dividend tax) & Capex ₹ 4.33 Crores resulting in net accretion of ₹ 22.48 Crores to fund.

A sum of ₹ 116.83 Crores is lying in the designated bank account against LDC Development Fund of ₹ 124.76 Crores as on 31.03.2014. The amount required to be contributed during the FY 2014-15 is ₹ 7.93 Crores.

2.29 The CERC while giving approval under sub-section (4) of the section 28 of the Electricity Act 2003, read with the CERC(Fees and charges of Regional Load despatch Centre and other related matters) Regulations 2009 for the RLDCs charges has noted that at present the System Operation is not subject to the service tax.

2.30 In the Current year unspent expenditure of ₹ 0.06 Cr (previous year ₹ 0 .46 Crores) out of the budget for the year towards Corporate Social Responsibility (CSR) and Sustainable Development(SD) has been transferred to CSR reserve by appropriation of profit.

2.31 No Capital expenditure was incurred on assets not owned by the company during FY 2013-14

2.32 Other income includes ₹ 0.09 Crores (Previous Year ₹ 0.77 Crores) being the amount transferred from Grants-in-aid received (as per accounting policy note no. 1.4)

2.33 The company is responsible for discharging the functions of NLDC, is required to maintain books of accounts pertaining to REC Mechanism Account also. The assets and liabilities of REC Mechanism have been merged with company books of account with the concurrence of Central Electricity Regulatory Commission (CERC).

Gross Surplus of REC Mechanism to the tune of ₹ 6.49 Crores (Previous Year ₹ 6.18 Crores) has been accounted for in the books of accounts of the company during the year pending amendment in REC Mechanism Regulations. Income Tax provisions of ₹ 2.20 Crores (Previous Year ₹ 2.01 Crores) has been made against the above surplus. Net surplus after provisions of Income Tax amounting to ₹ 4.29 Crores (Previous Year ₹ 4.17 Crores) is transferred to REC fund, which shall be utilized only for the expenses allowed under REC Regulation ,2010

2.34 a) Balances in TDS certificates, receivables/recoverable, STOA Advance from customers, Sundry Creditors, Advances from Customers for designated accounts, third party accounts and Sundry Debtors are subject to reconciliation, confirmation and consequential adjustments, if any.

b) In the opinion of the management, the value of Current Assets, Loans and Advances, on realization in the ordinary course of business, will not be less than the value at which these are stated in the Balance Sheet.

2.35 i) In respect of System and Market Operation charges ₹ 54.46 Crores (Previous Year ₹ 29.54 Crores) without FERV, has been de-recognized from income during the year and the same is transferred to the liability, to be adjusted on truing up exercise by the CERC after the expiry of the control period (2009-14) as per accounting policy note no 1.11.1 regarding revenue recognition.

ii) Human Resource and Operation & Maintenance Expenses components of tariff are accounted on the basis of actual expenditure. These expenses incurred are allowed as per CERC Regulations subject to truing up after the end of control period i.e. 2009-14. On the petition filed by the company, CERC vide order dated 28th September 2012 has directed that "Any additional legitimate HR expenses over and above that approved by the Commission in it's various tariff orders may be temporarily met by the petitioner out of the LDC Development Fund which will be recouped at the time of truing up."

The Company has sought an opinion from The Institute of Chartered Accountants of India (ICAI) regarding recognizing revenue of Human Resource and Operation & Maintenance expenses components of tariff on actual basis. Pending clarification from ICAI, the Company has followed the same treatment as in last year.

Considering certainty of receipt as per AS-9, matching revenue concept and accrual system of accounting policy of revenue recognition based on actual HR and O&M expenditure has been adopted.

iii) Total FERV allocated by POWERGRID on IBRD II & III till 31.03.2014 is ₹ 51.90 Crores.(upto Previous year ₹ 33.89 Crore) .Total FERV which was adjusted against truing up liability was gross FERV (actual & provisional) till F.Y 2012-13 .During the current F.Y 2013-14 out of ₹ 51.90 Crore of total FERV the Company has considered FERV of ₹ 7.26 Crore based on actual payment of IBRD-II & III loan recoverable from constituents in line with regulations of CERC and the same shall be considered by CERC. However, no truing up adjustment has been carried out on provisional FERV of ₹ 44.64 Crores (which is based on outstanding principal balance of IBRD-II & III loan as on 31.03.2014). The same has resulted into increase in truing up liability to the tune of ₹ 44.64 Crore. Furthermore, the above treatment has also resulted in increase in interest on truing up liability to the tune of ₹ 12.77 Crores.

iv) As per Central Electricity Regulatory Commission (Open Access in Inter State Transmission),Regulation 2008, Transmission & Operating Charges are collected for providing Short term Open Access by the Company which are reimbursable to Long term Beneficiaries. Such Charges remain with the company for the period upto Approx three Months. Interest earned on Short Open Access (STOA) Bank Account is being treated as Income of Company & the same is being transferred to LDC Development fund as per CERC Regulation, 2009. The Company has sought clarification from CERC regarding treatment followed by the Company on Interest earned on STOA bank Account. Pending clarification from CERC, the Company has followed the same treatment as in earlier years.

2.36 Provisions for Performance Related Pay (PRP) has been created vide Circular No. K/HR/IE08/0301 Dated 16.03.2010 for Executives, Circular No... K/HR/IE08/0563 Dated 04.05.2013 for Supervisors & Workmen.

2.37 The company is following AS-15 (revised 2005) 'Employee Benefits'.

The information under this clause has been provided on estimated basis based on the actuarial valuation from Actuary Valuer for all employees.

a) All the employees of POSOCO are on secondment basis from its Holding Company Power Grid Corporation of India Ltd. Above employees shall continue to draw pay and allowances and other facilities as they have been drawing with the POWERGRID and shall be subject to rules and policies as applicable to them in POWERGRID before their transfer to POSOCO except incentives, which shall be protected through special allowance at the rate as would have been admissible as if they were continuing their service with POWERGRID.

b) Liability on account of Leave encashment, Post Retirements Medical Plan, Baggage Allowance, Gratuity and Superannuation liability is based on actuarial liability calculated as per the report of Actuary Valuer

Defined Employee Benefit Schemes are as under:-**A. Provident Fund**

Company pays fixed contribution to Provident Fund at predetermined rate to a separate trust managed by the Holding Company in the name of Power Grid Employees Provident Fund Trust, which invests the funds in permitted securities. Contribution to family pension scheme is paid to the appropriate authority. The contribution to the fund for the period is recognized as expense and is charged to profit and loss a/c. The obligation of the company is limited to such fixed contribution and to ensure a minimum rate of interest on contribution to the members as specified by GOI. The fair value of the assets of the provident fund including the return on the assets thereof, as on the balance sheet date is greater than the obligations under the defined contribution plan.

B. Gratuity

The company has a defined benefit gratuity plan with a separate trust maintained by the Holding Company in the name of the Power Grid Employees Gratuity fund Trust . Every employee who has rendered continuous service of five years or more is entitled to get gratuity at 15 days salary (15/26 X last drawn basic salary plus, dearness allowance) for each completed year of service on superannuation, resignation, termination, disablement or on death subject to a maximum of ₹ 10 Lacs. The scheme is funded by the company and is managed by a separate trust. The liability for the same is recognised on the basis of actuarial valuation on annual basis on Balance Sheet date.

C. Post-Retirement Medical Facility (PRMF)

The company has Post-Retirement Medical Facility (PRMF), under which retired employees and the spouse are provided medical facilities in the empanelled hospitals. They can also avail treatment as Out-Patient subject to a ceiling fixed by the company. The scheme is unfunded and is recognised in profit and loss a/c on the basis of actuarial valuation on annual basis on Balance Sheet date.

D. Pension

The company has scheme of Employees Defined Pension Contribution. Company contribution is paid to separate Trust. Amount of contribution paid/payable for the year is ₹ 3.38 Crores (Previous year ₹ 2.97 Crores) has been recognised as expense and is charged to Statement of Profit & Loss.

E. Other Defined Retirement Benefits (ODRB)

The Company has a scheme for settlement at the time of superannuation at home town for employees and dependents. The scheme is unfunded and is recognised in profit and loss a/c on the basis of actuarial valuation on annual basis on Balance Sheet date.

F. Other Employee Benefits

Provision for Leave Encashment for the year amounting to ₹ 2.99 Crores (Previous Year ₹ 5.72 Crores) for the year up to 31st March 2014 has been made on the basis of actuarial valuation for the POSOCO employees(After required adjustment)

The summarised position of various defined benefits recognized in the Profit and Loss Account, Balance Sheet and the funded status are as under :-

a) Expenses recognized in Profit and Loss Account

(₹ in Crores)

	GRATUITY	PRMF	ODRB	Leave Encashment
	Current Year	Current Year	Current Year	Current Year
Current Service Cost	1.15	0.36	0.04	0.96
Interest cost on benefit obligation	1.83	0.88	0.06	1.49
Expected return on plan assets	(1.98)	-	-	-
Net actuarial (gain)/loss recognized in the year	(0.51)	(0.33)	(0.06)	2.11
Expenses recognized in the Profit and Loss a/c.	0.49	0.91	0.04	4.56

b) Expenses recognized in Profit and Loss Account

(₹ in Crores)

	GRATUITY	PRMF	ODRB	Leave Encashment
	Current Year	Current Year	Current Year	Current Year
(i) Present value of obligation as at 31/03/2014	23.90	11.96	0.85	20.90
(ii) Fair value of plan assets as at 31/03/2014 (*)	25.39	-	-	-
Difference (i) – (ii)	(1.49)	(11.96)	(0.85)	(20.90)
Net Asset(Liability) recognized in Balance Sheet	(1.49)	(11.96)	(0.85)	(20.90)

(*) The fund is maintained with the POWERGRID Employees Gratuity Fund Trust. Difference, if any in the plan assets is shown in the books of the Holding Company as a whole for employees of POWERGRID Corporation of India Ltd. and employees of Power System Operation Corporation Ltd.

c) Changes in the Present Value of the Defined Benefit obligations :

(₹ in Cores)

	GRATUITY	PRMF	ODRB	Leave Encashment
	Current Year	Current Year	Current Year	Current Year
Present value of obligation as at 31/03/2013	22.90	11.05	0.81	18.68
Interest cost	1.83	0.88	0.06	1.49
Current Service Cost	1.14	0.36	0.04	0.96
Benefits paid	(1.55)	(0.00)	-	(2.34)
Net actuarial (gain)/loss on obligation	(0.43)	(0.33)	(0.06)	2.11
Present Value of obligation as at 31/03/2014	23.90	11.96	0.85	20.90

G. Details of the Plan Asset (Gratuity)

The details of the plan assets at cost as on 31st March, 2014 are not given in view of the fact, that the Fund is maintained with POWERGRID Employees Gratuity Fund Trust as a whole for employees of Power Grid Corporation of India Ltd and employees of Power System Operation Corporation Ltd. on secondment basis.

H. Actuarial Assumptions

Principal assumptions used for actuarial valuation are:

- i) Method used - Projected Unit Credit (PUC)
- ii) Discount rate – 8.5% (Previous period 8%)
- iii) Expected rate of return on assets (Gratuity only) – 8.5 % (Previous period 8.5%)
- iv) Future salary increase- 6.5 % (Previous period 6%)

The estimate of future salary increases, considered in actuarial valuation, takes into account (i) inflation, (ii) Seniority (iii) Promotion and (iv) Other relevant factors, such as supply and demand in the employment market.

2.38 Segment Reporting

The company's principle business is Power System and Market Operation. The Company operates within India and does not have operations in economic environments with different risks and returns. Hence, it is considered operating in single geographical segment.

2.39 Related Party Disclosures

A) Joint Ventures with Holding Company:-

- i) Powerlinks Transmission Limited
- ii) Torrent Power Grid Limited
- iii) Jaypee POWERGRID Limited
- iv) Parbati Koldam Transmission Company Ltd
- v) Teestavalley Power Transmission Limited
- vi) North East Transmission Company Limited
- vii) National High Power Test Laboratory Private Limited
- viii) Energy Efficiency Services Limited.
- ix) Bihar Grid Company Limited w.e.f. 04.01.2013
- x) Kalinga Bidyut Prasaran Nigam Private Ltd. w.e.f. 31.12.2012
- xi) Cross Border Power Transmission Company Ltd. w.e.f. 11.08.2012
- xii) Power Transmission Co. Nepal Ltd

B) Holding Company:-

Power Grid Corporation of India Limited

C) Power System Development Fund (PSDF)- During the F.Y 2013-14 ₹. 1693.69 Crores (Previous year ₹1053.53 Crores) surplus/residual have been transferred from Regulatory Pool accounts to PSDF.

D) Key Management Personnel

- i) Shri R. N. Nayak Chairman
- ii) Shri R. T. Agarwal Director

- iii) Shri I. S. Jha Director
- iv) Shri Santosh Saraf Director
- v) Smt. Rita Acharya Director (from 18.07.2013 to 28.02.2014)
- vi) Smt. Neerja Mathur Director (from 18.07.2013 to 23.12.2013)
- vii) Shri P.K. Pahwa Director (from 13.02.2014 to till date)
- viii) Smt. Jyoti Arora Director (from 20.03.2014 to till date)

E) Transactions with the POWERGRID - Holding Company are as follows:

(₹ in Crore)

Particulars	Current Year	Previous Year
RLDC Fee and charges billed to POWERGRID	17.55	16.29
Amount paid by POWERGRID for RLDC Fee & Charges	14.97	13.31
Transmission Charges paid/payable to POWERGRID STOA-POC	2143.27	1802.68
UI, RE, IRE Payments received paid to POWERGRID	3.49	8.35
Other payments/transactions with the Company	29.25	21.50

F) Director's sitting fee ₹ 3,14,608 (Previous Year ₹ 2,28,540) for independent director.

2.40 Disclosures regarding Leases

Operating Leases:-

The company's significant leasing arrangements are in respect of operating leases of premises for residential use of employees and office use, are usually renewable on mutually agreed terms but are not non-cancellable. Employees' remuneration and benefits include ₹ 4.39 Crores (Previous Year ₹ 4.18 Crores) towards lease payments net of recoveries in respect of premises for residential use of employees.

2.41 Earning Per Share calculated in accordance with the provisions of AS-20

Numerator	As at (FY 2013-14)	As at (FY 2012-13)
Profit after tax as per Profit and Loss Account (Used as Numerator (₹ In Crore) excluding net surplus of REC.	56.52	81.48
Denominator		
-Number of Equity Shares (Face value of. ₹ 10/- each)	30640000	30640000
-Number of Shares allotted during the year	-	-
-Weighted Average number of equity shares for calculating Basic Earning Per Share	30640000	30640000
-Weighted Average number of equity shares for calculating Diluted Earning Per Share	30640000	30640000
-Basic Earning Per Share (₹ / per share) (Face value of ₹ 10/- each)	18.45	26.59
-Diluted Earning Per Share (₹ / per share) (Face value of ₹. 10/each)	18.45	26.59

2.42 During the year company has ₹ 15.66 Crores (Previous Year ₹ 2.60 Crores) as net deferred tax assets.

Major components of deferred tax assets are given as under:-

(₹ in Crore)

Particulars	Balance as at 31.03.2014	Balance as at 31.03.2013
Deferred Tax Liability		
Towards Depreciation(Diff. of WDV as per Income Tax and Books) (A)	5.71	5.79
Deferred Tax Asset		
Liabilities towards 43B incl. Wage Revision Provision	15.26	8.36
Other Provisions	-	0.03
Towards Interest on Truing-up of income	6.11	-
Sub Total (B)	21.37	8.39
Net Deferred Tax Assets (B-A)	15.66	2.60

2.43 In accordance with Accounting Standard(AS-28) " Impairment of Assets", impairment analysis of assets of transmission activity & telecom activity of the company by evaluation of its cash generating units, was carried out by an outside agency in the year 2004-05 & 2006-07 (In POWERGRID time).The company has assessed as on the balance sheet date whether they are any indications with regard to impairment of any of the assets. Based on such assessment it has been ascertained that no potential loss is present and therefore no formal estimate of recoverable amount has been made .Accordingly ,no impairment loss has been provided in the accounts.

2.44 DPE has directed to include Corporate Social Responsibility (CSR), Sustainable Development (SD) and R&D Expenditure out of the profit of the company as a percentage of profit after tax. These expenses have been allowed by CERC against the petition filed by the company.

2.45 Estimated amount of contracts remaining to be executed on capital account and not provided for is ₹ 33.77 Crores (Previous Year ₹ 16.16 Crores).

2.46 Disclosure in respect of contingent liabilities as required in AS 29 of 'Provisions, Contingent Liabilities and Contingent Assets:

Contingent Liabilities:

Demand of Rent for the office and staff quarters accommodation raised by the WREB, Mumbai till date is ₹ 7.03 Crores (Previous Year ₹ 5.00 Crores), which was disputed by the company and company has sought for the transfer of the ownership of office accommodation and residential quarters before the Ministry of power, Govt. of India. However, no decision has come so far.

2.47 a) VALUE OF IMPORTS CALCULATED ON CIF BASIS

(₹ in Crore)

	Current Year	Previous Year
i) Capital Goods	Nil	Nil
ii) Spare Parts	Nil	Nil

b) EXPENDITURE IN FOREIGN CURRENCY :

(₹ in Crore)

	Current Year	Previous Year
i) Repair & Maintenance	4.29	5.14
ii) Foreign Travel	0.36	0.04
iii) Others	Nil	0.33

c) VALUE OF COMPONENTS, STORES AND SPARE PARTS CONSUMED :

(₹ in Crore)

	%	Current Year	%	Previous Year
i) Imported	Nil	Nil	Nil	Nil
ii) Indigenous (including fuel)	100%	Nil	Nil	Nil

d) EARNINGS IN FOREIGN EXCHANGE :

(₹ in Crore)

	Current Year	Previous Year
Income	Nil	Nil

2.48 a) Figures have been rounded off to nearest Rupees in Crore up to two decimal.

b) Previous year figures have been re-grouped/re-arranged wherever necessary.

For and on behalf of the Board of Directors

(Priti Chaturvedi)

Company Secretary
ACS 17639

(M.K.Gupta)

Chief Financial Officer

(S. K. Soonee)

Chief Executive Officer

(R. T. Agarwal)

Director
DIN 01937329

(R. N. Nayak)

Chairman
DIN 02658070

For Dinesh Mehta & Co.

Chartered Accountants

Firm Regn.
No. -000220N

(Vijay Batra)

Partner
Membership
No.509259

For S.C. Ajmera & Co.

Chartered Accountants

Firm Regn
No.-002908C

(Arun Sarupria)

Partner
Membership No.078398

Place: New Delhi

Date: 30th June 2014

INDEPENDENT AUDITORS' REPORT

To the Members of POWER SYSTEM OPERATION CORPORATION LIMITED

We have audited the accompanying financial statements of **POWER SYSTEM OPERATION CORPORATION LIMITED** ("the Company"), which comprise the Balance Sheet as at 31st March 2014, the Statement of Profit & Loss, and Cash Flow Statement for the year ended 31st March 2014, and a summary of significant accounting policies and other explanatory information.

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 Principles generally accepted in India including Accounting Standards notified under the Companies Act, 1956 of India (the "Act"), read with General Circular 15/2013 dated September 13, 2013 of the Ministry of Company Affairs in respect of Section 133 of the Companies Act, 2013. This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatements, whether due to fraud or error.

Auditors' 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 misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of risks, 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 **qualified** audit opinion.

Basis for Qualified Opinion

- (i) *The Company is accounting for Human Resource and Operation & Maintenance Expenses components of tariff on the basis of actual expenditure (Refer Note No. 2.35(ii) of Other Notes). Same is subject to being admissible by Central Electricity Regulatory Commission (CERC) after prudence check at the time of truing up. The extent of uncertainty involved on account of additional revenue is dependent upon outcome of CERC order. Recognition of such additional revenue to the extent of uncertainty involved is departure from the Accounting Standards referred to in sub-section 3C of Section 211 of the Companies Act 1956, read with General Circular 15/2013 dated September 13, 2013 of the Ministry of Company Affairs in respect of Section 133 of the Companies Act, 2013. This has resulted in increase in Profit (decrease in truing up liability of the company by ₹ 15.86 crores) for the year by ₹ 15.86 crores, Income Tax Provision by ₹ 5.39 crores and shareholders' funds by ₹ 10.47 crores.*

Qualified Opinion

In our opinion and to the best of our information and according to the explanations given to us, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the aforesaid 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 principles generally accepted in India:

- a) In the case of the Balance Sheet, of the State of Affairs of the Company as at 31 March, 2014;
- b) In the case of the Statement of Profit & Loss, the Profit of the Company for the year ended on that date.
- c) In the case of the Cash Flow Statement, of Cash Flows of the Company for the year ended on that date.

Emphasis of Matter

We draw attention to

- (i) *Note No. 2.35 (iii) of Other Notes regarding actual payment of FERV on IBRD-II & III Loans considered for the purpose of truing up in current year as against the entire FERV amount considered in preceding years.*
- (ii) *Note No. 2.35 (iv) of Other Notes regarding treating interest earned on Short Term Open Access (STOA) as income of the company whereas clarification from CERC regarding the same is still pending.*
- (iii) *Note No. 2.34 of Other Notes regarding TDS certificates Receivables/Recoverable, STOA Advances from customers and Third Party Balances are subject to reconciliation, confirmations and consequential adjustments, if any.*

Our opinion is not qualified in respect of these matters.

Report on Other Legal and Regulatory Requirements

1. As required by 'The Companies (Auditor's Report) Order 2003' (hereinafter referred to as the "Order"), as amended by the 'The Companies (Auditor's Report) (Amendment) Order, 2004', issued by the Central Government of India in terms of sub section (4A) of

section 227 of the Act and on the basis of the information and explanations given to us and the books and records examined by us in the normal course of audit and to the best of our knowledge and belief, we enclose in the annexure, a statement on the matters specified in paragraph 4 & 5 of the said order.

2. 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 purpose 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 & Loss and Cash Flow Statement dealt with by this Report are in agreement with the books of account;
- d) Except for the matter described in the Basis for Qualified Opinion paragraph, in our opinion, the Balance Sheet, Statement of Profit & loss and Cash Flow Statement comply with the Accounting Standards notified under the Companies Act, 1956 read with general circular 15/2013 dated September 13, 2013 of the Ministry of Corporate Affairs in respect of Section 133 of the Companies Act 2013;
- e) In pursuance to notification No. GSR 829(E) dated 21.10.2003, issued by the Department of Company Affairs; clause (g) of Sub Section (1) of Section 274 of the Companies Act, 1956 pertaining to disqualification of Directors is not applicable to a Government Company.

For Dinesh Mehta & Co. Chartered Accountants
Firm No. : 000220N

(Vijay Batra – Partner)
M. No. 509259

Place: New Delhi
Date: 30.06.2014

For S.C. Ajmera & Co Chartered Accountants
Firm No. : 002908C

(Arun Sarupria – Partner)
M.No. 078398

ANNEXURE TO INDEPENDENT AUDITORS' REPORT

Referred to in Paragraph 1 under 'Report on Other Legal and Regulatory Requirements' of our report of even date

1. a) The Company has generally maintained records of Fixed Assets, showing full particulars including quantitative details and situations of Fixed Assets.
b) The Assets have been physically verified by external agencies during the year and discrepancies, though not material, noticed on such verification have been reconciled / adjusted in the books of accounts. In our opinion, frequency of verification is reasonable.
c) During the year the company has not disposed off substantial part of its Fixed Assets.
2. There was no inventory carried on by the Company. Therefore, Clause 4(ii)(a), (b) and (c) of the Order is not applicable for the year.
3. According to information and explanation given to us the Company has neither granted nor taken any loans, secured or unsecured, to/ from companies, firms, or other parties covered in the register maintained under section 301 of the Companies Act, 1956.
4. In our opinion, and according to the information and explanations given to us, there are adequate internal control systems commensurate with the size of the Company and the nature of its business, with regard to fixed assets and income from system operation and market operation. During the course of our audit we have neither come across nor have been informed of any continuing failure to correct major weaknesses in the underlying internal control systems.
5. According to the information and explanation given to us, there are no contracts or arrangements referred to in section 301 of the Companies Act, 1956, during the year, to be entered in the register maintained under that section. Accordingly Clause (v) of paragraph 4 of the Order is not applicable.
6. Since the Company has not accepted any deposit from the public, the question of compliance with the directives issued by the Reserve Bank of India and the provisions of section 58A, 58AA and other relevant provisions of the Companies Act, 1956 and the rules framed there under, does not arise.
7. In our opinion, the Company has an Internal Audit System commensurate with the size and nature of its business.
8. The Central Government has not prescribed maintenance of Cost Records Under Section 209(1)(d) of the Companies Act, 1956.
 - a) According to the information and explanation given to us, and verification of records of the Company, the Company is generally regular in depositing with appropriate authorities undisputed applicable statutory dues, including Provident Fund, Investor Education and Protection Fund, Employees State Insurance, Value Added Tax, Wealth Tax, Sales Tax, Service Tax, Excise Duty, Custom Duty, Cess and any other statutory dues applicable to it. According to the information and explanation given to us, there are no undisputed amount payable in respect of such statutory dues which have remained outstanding as on March 31, 2014, for a period of six months from the date from which they became payable .

As informed, the provisions of the Employees State Insurance Act are not applicable to the Company.
 - b) According to the records of the company and information and explanation given to us, there is no dues of Value Added tax, Income tax, Wealth Tax, Excise duty, cess, which have not been deposited on account of dispute with the appropriate authorities.
10. The Company does not have accumulated losses at the end of financial year and has not incurred any cash loss in the financial year under audit, and also in the immediately preceding financial year.
11. On the basis of audit procedures adopted by us and according to the records, the Company has not defaulted in repayment of dues to any financial institution or bank or bondholders.
12. The Company has not granted any loan or advances on the basis of security by way of Pledge of Shares, Debentures, and Other Securities.
13. The Company is not a Chit Fund/Nidhi/Mutual Benefit Fund/Society. Accordingly, Clause (xiii) of paragraph 4 of the Order is not applicable.
14. According to information and explanation given to us, the company is not dealing or trading in shares, securities, debentures, other Investments. Accordingly, Clause (xiv) of paragraph 4 of the Order is not applicable.
15. According to information and explanation given to us, the company has not given any guarantee for loans taken by others from bank or financial institutions.
16. According to information and explanation given to us, the Company has not taken any term loan during the year.
17. According to information and explanation given to us, the company has not used the funds raised on short-term basis for long term Investments.

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18. During the year the company has not made preferential allotment of shares to parties and companies covered in the register maintained under Section 301 of the Companies Act, 1956.
 19. The company has not issued debentures and hence requirement of reporting regarding creation of securities or charge in respect of debentures issued does not arise.
 20. During the year, the company has not raised any money by public issue(s).
 21. During the course of our examination of the books and records of the company, carried out in accordance with the generally acceptance auditing practices in India, and according to the information and explanations given to us by the management, we have neither come across any instances of fraud on or by the company, noticed or reported during the period nor have we been informed of any such case by the Management.

For **Dinesh Mehta & Co. Chartered Accountants**
Firm No. : 000220N

(Vijay Batra – Partner)

M. No. 509259

For **S.C. Ajmera & Co Chartered Accountants**
Firm No. : 002908C

(Arun Sarupria – Partner)

M.No. 078398

Place: New Delhi
Date: 30.06.2014