

SCHEDULE-12

NOTES FORMING PART OF THE ACCOUNTS

A) ACCOUNTING POLICIES

1. Basis of preparation of financial statements

The Financial Statements are prepared under the historical cost convention, on the accrual basis of accounting and in accordance with the provisions of the prevailing Electricity Act and Regulations as well as those of the Companies Act, 1956 to the extent not inconsistent with prevailing Electricity Act and Regulations and comply with the Accounting Standards issued by the Institute of Chartered Accountants of India, under the Companies Act, 1956 and rules thereunder, to the extent applicable.

2. Revenue Recognition

2.1. The Company's Revenues and Expenditures are controlled and monitored by the State Electricity Regulatory Commission (OERC) through the Tariff Setting Process.

2.2. Revenue from power supply is accounted for on the basis of billing to consumers and is inclusive of electricity consumed on accrual basis, for which billing is not due. Where meters have stopped or are faulty or damaged, the bills are raised on consumers for such periods on the basis of average consumption. Discount allowed for timely payment has been adjusted against sales and shown separately. Delayed Payment Surcharge (DPS) is accounted for on cash basis

2.3. Revenue includes the amount of cost/ expenditure accrued during the year and treated as Regulatory Assets which is recovered through future tariff in accordance with Tariff Regulations set by OERC.

3. Foreign Currency Transactions

Monetary assets and liabilities related to foreign currency transactions remaining unsettled are translated at year-end rates.

The difference in translation of monetary assets and liabilities and realized gains and losses on foreign exchange transactions other than those relating to fixed assets acquired from outside India are recognized in the profit and loss account. In respect of transactions covered by forward exchange contracts, the difference between the contract rate and spot rate on the date of the transaction is recognized in the profit and loss account over the period of the contract.

Exchange differences (including arising out of forward exchange contracts) in respect of liabilities incurred to acquire fixed assets from outside India are adjusted in the carrying amount of such assets.

4. Fixed Assets

- (i) The gross block of Fixed Assets is stated at cost of acquisition or construction including any cost attributable to bringing the assets to their working condition for their intended use.
- (ii) Fixed assets whose actual costs cannot be accurately ascertained are initially capitalized on the basis of estimated costs and final adjustments for costs and depreciation, if any, are made retrospectively on ascertainment of actual costs.
- (iii) Employee cost is allocated to fixed assets / Capital Works in Progress (CWIP) based on the employee cost attributable to respective Fixed Assets / Capital Works in Progress (CWIP).
- (iv) Fixed Assets created out of capital contributions, grants and subsidies are shown at their gross value.

5. Borrowing Costs

The Company capitalizes interest and other costs incurred by it, in case of specific borrowings identified to a fixed asset, at the interest rates applicable to such borrowings as the capitalization rate. Where borrowings cannot be specifically identified to fixed assets, the capitalization rate applied is the weighted average of the interest rates applicable to all borrowings of the Company.

6. Depreciation

As per the provisions of the Companies Act 1956, depreciation is provided on 'Straight Line Method' based on the useful life of assets limited to 95% of the cost of the assets. The Company has determined the life of the plant and machinery relating to the distribution system/network and accordingly charged depreciation in the accounts of the Company. For other block of assets, depreciation is charged at the rates specified in Schedule–XIV of the Companies Act 1956. The depreciation for the year has been shown after reducing the proportion of the amount of depreciation provided on assets created out of the service line contributions, grants and subsidies.

7. Lease Transactions

Assets taken on lease being classified as either finance lease or operating lease, as the case may be in accordance with Accounting Standard-19 issued by the Institute of Chartered Accountants of India and accounting treatment and disclosure given / made as prescribed therein.

8. Inventories

Stores and Spares are valued at lower of weighted average cost and net realizable value.

9. Employee Benefits

- (i) Short-term employee benefits are recognized as an expense in the profit and loss account of the year in which the related service is rendered.

- (ii) Post employment and other long term employee benefits are recognized as an expense in the profit and loss account for the year in which the employee has rendered services. The expense is recognized at the present value of the amount payable determined using the actuarial valuation techniques. Actuarial gains and losses in respect of post employment and other long term benefits are charged to profit and loss account.

10. Interest on Security Deposit

Interest on the Security Deposit of consumers as provided under OERC (Conditions of Supply) Code, 2004, is accounted on cash basis.

11. Prior Period Items of Expenses and Gains

Individual item of expenses and gains relating to the earlier period having a value of Rs.5 lakhs or more in each case are considered as prior period item in the profit and loss account.

B) OTHER NOTES

1. Regulatory Assets

- a. In accordance with the Tariff Regulation and in compliance of AS 15 (Revised) issued by the Institute of Chartered Accountants of India, the terminal liabilities of Rs.171.53 crore on account of Pay Revision vide 6th Pay Commission has been charged to Profit and Loss Account. OERC has set the concept/ formula to allow recovery of the liability through tariff in respect of pension, gratuity and leave encashment in seven years commencing from the year 2008-09. Accordingly, the company has created Regulatory Assets shown under Other Current Assets amounting to Rs.147.03 crore being 6/7th of the terminal liabilities and treated as accrued income to be recovered through future tariff determination in the Profit and Loss Account.
- b. The Company's operations commencing from 01.04.1999 have resulted in heavy losses turning the net worth as well as net current assets figures into negative mainly due to inadequate tariffs fixed by OERC. The accounts for the period have been prepared on "Going Concern" basis. The Company has been seeking supports from OERC for financially viable tariff proposal and expecting cost based tariff in the coming year and also amortization of regulatory assets in view of the revenue gaps.
- c. In accordance to direction of Hon'ble Appellate Tribunal for Electricity (ATE) vide their Order dated 13.12.2006 with respect to recognition of Regulatory Assets after Truing-up of expenses and incomes of previous years, the company filed submissions before Hon'ble Commission (OERC) which is yet to be disposed-off by the OERC. Subsequently, in the Retail Supply Tariff Order for 2009-10, the OERC took a view to deliberate the issue with all stake holders in a separate hearing and shall pass appropriate order.

2. Contingent Liabilities

- (i) Claims against the Company on account of court cases pending not acknowledged as debts - Rs.9.68 crore (Previous year - Rs. 8.98 crore).
- (ii) The Company has received a demand notice from the Income Tax department amounting Rs.14.77 crore for non-deduction of tax at source. Company has not acknowledged the same as debt. The Company has preferred an appeal before CIT (Appeals) against the claims, which is pending.
- (iii) The Company has securitized BST dues amounting to Rs.158.46 cores (excluding DPS) as on 31.03.2005 as per OERC order dated 28.02.2005 at 0% interest per annum. As against this, OERC in its clarificatory order dated 01.12.2008 stated that the amount to be securitized for BST dues is at Rs.164.59 crores. In addition to this, the said order mentioned the DPS of Rs. 58.72 crores as against Rs.55.04 crores. The Company has not acknowledged the additional liability of Rs.9.81 crores and decided to file review petition.
- (iv) Claims against the Company on account of higher power purchase cost not acknowledged as debts Rs. 78.03 crore (Previous year - Rs. 78.03 crore).

3. Fixed Assets

- (i) Land and Land Rights

Although ownership of the land has been passed on to the Company by GRIDCO in respect of freehold as well as leasehold in terms of Transfer Scheme Notification dated 25.11.98, formalities for legal transfer are yet to be completed.

- (ii) The individual item wise details and physical location of the fixed assets not made available to the Company, as on the appointed date (i.e. 26.11.1998), these have been broadly classified under the heads given in Schedule-4 of the accounts of the Company. The values of such fixed assets could not be verified and has been taken as per value given by GRIDCO.
- (iii) The Fixed Assets Register of the Company has been up-dated and adjustment as to re-group and rearrangement of assets booked earlier has been made in the current year.

4. Sundry Debtors

- (i) The classification of sundry debtors between more than "Six Months" and "Others" has been made as per disclosure requirement under Schedule-VI of the Companies Act, 1956. Electricity Duty receivable from consumers and payable to Government amounting to Rs.40.43 crore has been included in Sundry Debtors –'over six months' Rs.32.43 crore and 'Others' Rs. 8.00 crore.
- (ii) The Company has debited an amount of Rs. 142.82 crore to GRIDCO towards provision for doubtful debts as of 31.03.1999 determined on the basis of reasonable assessment carried out by its respective divisions. GRIDCO found the same to be higher by Rs.46.93 crore in view of the method of provisioning specified under Transfer Scheme Notification dated 25.11.1998. Difference on account of this Rs.46.93 crore has not yet been accepted by GRIDCO.

However, based on the actual realization made till date, the provision of Rs.142.82 crore made by the Company as on 31.03.1999 (against the GRIDCO's assessment of Rs.95.89 crore), is fair and reasonable.

- (iii) As per the directives of OERC audit firms were appointed to review the sundry debtors and ascertain the recoverability in order to determine the adequacy of provision for bad and doubtful debts. The receivable audit has been completed and the auditors have submitted their reports to OERC. Pending decision from OERC the Company has provided bad and doubtful debts of Rs.41.06 crores after deducting security deposit, as detailed below:
- a) In respect of HT / EHT class of consumers, analysis has been carried out on case-to-case basis and the amount doubtful of recovery has been fully provided for in the accounts after adjustment of security deposit.
 - (b) The balance receivable from the permanently disconnected consumers as on 30.09.2008 has also been fully provided for.
 - (c) In respect of non-government LT class of consumers, the arrears appearing as on 30.09.2008 after adjusting the collection made during October 2008 have been fully provided for.
- (iv) Out of the provision for bad and doubtful debts, an amount of Rs.7.80 crore outstanding as on 30.09.2008 against permanently disconnected consumers, continuing under same status till 31.07.2009 has been written off during the year ended 31.03.2009 after adjustment of security deposit of concerned consumers.

5. No investment has been made against Contingency Reserve in view of insufficient cash flow for the year ended on 31.03.2009.

6. Employee Benefits

6.1. The company is getting actuarial valuation done regularly through approved and recognized actuaries. During the year actuarial valuation has been done by the Actuaries in accordance with AS-15 (Revised) issued by the Institute of Chartered Accountants of India.

The disclosure of employees benefit as defined in the Accounting Standard-15 (Revised) is given below:

(A) Defined Benefit Plan

- (i) Provident Fund
- (ii) Pension Fund
- (iii) Gratuity Fund
- (iv) Leave Encashment (Unfunded)

GRIDCO has paid to the trust Rs.42.36 crores upto the Balance Sheet date towards provident fund dues as of 31.03.1999 pending the finalization and reconciliation of provident fund accounts.

I. Changes in present value of obligations: (Rs. Lakhs)

Particulars	As at 31.03.2009			As at 31.03.2008		
	Gratuity	Pension	Leave	Gratuity	Pension	Leave
Present value of Obligations at the beginning	3663.43	26629.47	2885.30	3664.17	24915.46	2771.51
Current Service Cost	287.27	3352.16	251.06	175.99	3248.80	153.24
Interest Cost	263.24	1945.87	203.72	298.69	2068.71	225.11
Actuarial (Gain) / Loss	548.22	9995.52	1465.98	(175.14)	(2448.01)	(18.20)
Benefits Paid	307.12	1369.15	338.06	300.29	1155.48	246.36
Settlement Cost	-	-	-	-	-	-
Defined Benefit Obligations at end	4455.03	4055.39	4468.01	3663.43	26629.47	2885.30

II. Changes in fair value of Plan Assets: (Rs. Lakhs)

Particulars	As at 31.03.2009		As at 31.03.2008	
	Gratuity	Pension	Gratuity	Pension
Fair value of plan assets at the beginning	1646.44	9162.89	1729.26	8791.06
Expected return on plan assets	131.71	733.03	138.34	703.29
Actuarial (Gain) / Loss	157.93	136.92	0.87	(71.69)
Employer Contribution	796.94	2018.66	80.00	752.34
Benefits Paid	307.13	1369.15	300.29	1155.48
Settlement Cost	-	-	-	-
Fair value of plan assets at end	2425.89	10682.36	1646.44	9162.89
Actual return on plan assets	162.78	850.48	144.47	730.77

III. Reconciliation of fair value of assets and obligations: (Rs. Lakhs)

Particulars	As at 31.03.2009			As at 31.03.2008		
	Gratuity	Pension	Leave	Gratuity	Pension	Leave
Fair value of plan assets	2425.89	10682.36	-	1646.44	9162.89	-
Present value of obligation	4455.03	40553.87	4468.01	3663.43	26629.47	2885.30
Amount recognized in Balance Sheet	2029.14	29871.51	4468.01	2016.99	17466.58	2885.30

IV. Expense recognized in the profit and loss account (Refer Schedule-8)**(Rs. Lakhs)**

Particulars	As at 31.03.2009			As at 31.03.2008		
	Gratuity	Pension	Leave	Gratuity	Pension	Leave
Current Service Cost	287.26	3352.16	251.06	175.99	3248.80	153.24
Interest Cost	263.24	1945.87	203.72	298.69	2068.71	225.11
Expected return on plan assets	131.71	733.03	-	138.34	703.29	-
Actuarial (Gain) / Loss	390.29	9858.60	1465.98	(174.26)	(2519.70)	(18.20)
Net Cost	809.08	14423.60	1920.76	162.08	2094.52	360.15

V. Amount recognized in the Balance sheet: (Rs. Lakhs)

Particulars	As at 31.03.2009			As at 31.03.2008		
	Gratuity	Pension	Leave	Gratuity	Pension	Leave
Opening Net Liability	2016.99	17466.57	-	1934.91	16124.39	-
Expenses Recognized	809.08	14423.60	1920.76	162.08	2094.52	360.15
Contributions	796.94	2018.66	-	80.00	752.34	-
Closing Net Liability	2029.14	29871.51	1920.76	2016.99	17466.58	360.15
Closing Fund/Provision at the end of the Year	4455.03	40553.87	4468.01	3663.43	26629.47	2885.30

VI. Investment Details: (% Invested)

Particulars	As at 31.03.2009		As at 31.03.2008	
	Gratuity	Pension	Gratuity	Pension
Government of India Securities	26.46	22.89	27.03	20.99
Public Securities	71.28	48.98	45.26	39.28
Special Deposit Schemes	-	20.28	14.51	24.57
State Government Securities	-	7.27	12.57	14.65
Others (including bank balances)	2.26	0.59	0.63	0.50
Total:	100.00	100.00	100.00	100.00

VII. Actuarial Assumptions: (Rs. Lakhs)

Particulars	As at 31.03.2009			As at 31.03.2008		
	Gratuity	Pension	Leave	Gratuity	Pension	Leave
Mortality Table (LIC of India)	1994-96	1994-96	1994-96	1994-96	1994-96	1994-96
Discount rate (per annum)	7.5%	7.5%	7.5%	8.5%	8.5%	8.5%
Expected rate of return on plan assets (per annum)	8%	8%	-	8%	8%	-
Rate of escalation on salary (per annum)	5%	5%	5%	5%	5%	5%

The estimates of rate of escalation in salary considered in actuarial valuation, take in to account inflation, seniority, promotion and other relevant factors including supply and demand in the employment market.

(B) Defined Contribution Plan

The Company has no defined contribution Plan.

6.2. The Company had provided liability in respect to pension / gratuity / leave encashment amounting to Rs.173.65 crore as on 31.03.1999 based on actuarial valuation given by Life Insurance Corporation of India as per the provisions of Accounting Standard-15 issued by the Institute of Chartered Accountants of India and debited the same to GRIDCO account. The actuarial valuation carried out by GRIDCO through actuaries appointed by them, determined the liability at Rs.65.14 crore as on 31.03.1999. The additional liability amounting to Rs.108.51 crore is disputed by GRIDCO. Up to the Balance Sheet date GRIDCO has transferred Rs.92.00 crore including interest to the respective trusts.

In view of the fresh actuarial valuation done by the actuaries appointed by OERC as on 31.03.2006, the actuarial valuation earlier made by the Company through LIC of India, is fair and justified.

In view of the above, no adjustment has been made in the accounts against the said differential amount of Rs.108.51 crore as on 31.03.1999 and the interest on this amount from the date of 31st March 1999 till the date of settlement of the amount is also recoverable from GRIDCO by the trust.

In Retail Supply Tariff Order dated 20.03.2008, OERC has considered the terminal liability as ascertained by GRIDCO in the year 1998-99 for funding of terminal liability to employees trust for the year 2008-09. The Company preferred an Appeal before ATE challenging the said Order. As the matter is subjudice, the same has not been considered in the Accounts for 2008-09.

6.3. Rehabilitation Trust

In respect of Rehabilitation Trust under Employees Welfare Scheme, GRIDCO Employees Rehabilitation Trust has held a grant from DFID, UK amounting to Rs.16.16 crore out of which Rs.3.05 crore was earmarked and received by WESCO Employees Rehabilitation Trust.

6.4. Pay Revision of Employees

The Company has revised the salaries of employees' w.e.f. 01.04.2005 for Non-executives and w.e.f. 01.01.2006 for Executives in line with recommendation of 6th Pay commission. The impact of pay revision in the current year accounts is Rs. 34.41 crores after adjustment of the earlier provision of Rs.13.13 crores.

7. Redemption of Power Bond

7.1. GRIDCO has fully settled the Power Bond dues with NTPC as on 31st March 2007. Consequent to above and pursuant to the Bond Subscription Agreement dated 25th September 2001; the Company is required to reimburse the amount after adjustments if any as normal liabilities.

7.2. The Company has since fully discharged the bond amount as normal liabilities together with interest to GRIDCO.

7.3. The Company has received the notice dated 24th March 2008 for petition filed by GRIDCO before the Company Law Board, Eastern Region Bench, Kolkata objecting to the appropriations of payments/adjustments made in the account and the matter is subjudice.

8. Business Segment

The entire operation of the Company is only in one segment namely distribution and selling of electricity in Western Orissa, covering 48,000 sq. kms (approximately). As such no separate segment disclosure is required under Accounting Standard-17 on segment reporting, issued by the Institute of Chartered Accountants of India.

9. Related Parties Disclosure

As per Accounting Standard-18 issued by the Institute of Chartered Accountants of India, the company's related parties and transactions are disclosed below:

(A) Related Party Relationship(i) Associates / Investing Parties:

- (a) GRIDCO Limited.
- (b) Reliance Infrastructure and Consultants Limited.
- (c) Sonata Investment Limited.

(ii) Key Management Personnel:

- (a) Sri V.K. Sood, Managing Director, w.e.f. 26.11.2007.
- (b) Sri Prasanta Kumar Pradhan, Acting Chief Executive Officer w.e.f. 28.07.2007.

(B) Transaction with Related Parties:

(Amount in Rs.)

Sl. No.	Nature of Transaction	Associates / Investing Parties	Key Management Personnel	Total
<u>Profit and Loss Account</u>				
(a) Incomes:				
	(i) Rent	69,300	-	69,300
(b) Expenditures:				
	(i) Power Purchase (Net of Rebate)	11,330,981,705	-	11,330,981,705
	(ii) Salaries and Benefits	3,508,504	1,315,874	4,824,378
	(iii) Others	5,383,568	-	5,383,568
<u>Balance Sheet (Closing Balances)</u>				
(i)	Receivables	1,596,477,682	-	1,596,477,682
(ii)	Sundry Creditors/Payables	2,213,346,232	-	2,213,346,232
(iii)	Loans (incl. Int. payable)	2,500,632,703	-	2,500,632,703
(iv)	Equity Contribution	437,847,000	-	437,847,000

10. Deferred Taxation

The company has no taxable profit during the year considering the unabsorbed depreciation and business losses carried forward from earlier years under tax laws and the company does not foresee that sufficient future taxable income will be available against which such deferred tax asset can be realised. So, the company has not recognized deferred tax asset / liability as per Accounting Standard-22 issued by the Institute of Chartered Accountants of India.

11. Impairment of Assets

As required by Accounting Standard (AS) 28 "Impairment of Assets" issued by the Institute of Chartered Accountants of India, the company has carried out the assessment of impairment of assets. There has been no impairment loss during the period based on the assessment made by the Company.

12. Dues of Micro and Small Enterprises

There are no reported Micro and Small Enterprises as defined in the “The Micro, Small and Medium Enterprises Development Act, 2006”, to whom the Company owes dues.

13. Balance Confirmation

The Company has written letters to parties for balance confirmation. The balance confirmations are awaited and for those received are under process of reconciliation.

14. Remuneration to Key Managerial Personnel

The amounts paid or provided for by way of remuneration to Key Managerial Personnel are as under:

	Year ended 31.03.2009	Six Months ended 31.03.2008
	<u>Rs. Lakh</u>	<u>Rs. Lakh</u>
Salary	9.44	2.14
Perquisites	<u>3.72</u>	<u>0.27</u>
	<u>13.16</u>	<u>2.41</u>

15. Remuneration to Statutory Auditors:

	Year ended 31.03.2009	Six Months ended 31.03.2008
	<u>Rs. Lakh</u>	<u>Rs. Lakh</u>
Audit Fees	4.00	4.00
Tax Audit Fees	0.90	0.90
Other Services	-	0.90
Reimbursements:		
- Out-of-pocket expenses	1.61	1.22
- Service Tax	<u>0.50</u>	<u>0.71</u>
	<u>7.01</u>	<u>7.73</u>
Cost Audit Fees	<u>0.77</u>	<u>0.79</u>

16. Quantitative Information:

	Year ended 31.03.2009	Six Months ended 31.03.2008
Purchase of Energy (KWH-million)	6378.436	2801.226
Sale of Energy (KWH-million)	4238.246	1756.963
Sale of Energy (Rs. In Lakhs)	137175.45	56,460.41
Collection against- -Sale of Energy (Rs. In Lakhs)	128754.55	53,453.04
AT and C– Loss (%)	37.63	40.62

17. The figures of current year financial statements are for 12 months period ended on 31st March 2009, hence not comparable with that of previous financial statements which is for 6 months period ended on 31st March 2008.
18. Figures for the previous accounting period have been regrouped / reclassified wherever necessary.

Sd/-
Company Secretary

Sd/-
Chief Executive Officer

Sd/-
Director

Sd/-
Managing Director

In terms of our report of even date.

For Haribhakti and Co.,
Chartered Accountants

For SRB and Associates,
Chartered Accountants

Sd/-
Hemant Bhatt
Partner

Sd/-
S.C. Bhadra
Partner

Place: Bhubaneswar.
Date: the 2nd day of September 2009.