

# **SCHEDULE-20**

## **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 to the extent applicable.

#### **2. Revenue Recognition**

Revenue from power supply is accounted for on the basis of billing to consumers and is inclusive of electricity consumed for which billing is not due. Where meters have stopped or are faulty or not installed, 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.

#### **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 prior to 1<sup>st</sup> April, 2004 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 / CWIP based on the employee cost attributable to respective fixed assets / 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 connection with funds borrowed for the acquisition of fixed assets in compliance with Accounting Standard-16 issued by the Institute of Chartered Accountants of India. Where specific borrowings are identified to a fixed asset, the Company uses the interest rates applicable to that specific borrowing 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. Capitalization of borrowing cost ceases when all the activities necessary to prepare the fixed assets for their intended use are substantially complete.

## **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. In case of unserviceable / damaged stores and spares necessary provision is made and charged to revenue.

## **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 is accounted on cash basis in accordance with the guidelines provided under OERC (Conditions of Supply) Code, 2004.

## **11. Prior Period Items of Expenses & Gains**

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

## **B) OTHER NOTES**

- 1. In view of the specific guidelines prescribed by the Orissa Electricity Regulatory Commission for certification of accounts as of 31<sup>st</sup> March 2008, the following have been considered:
  - 1.1. Rebate allowed for timely payment has been adjusted against sales and shown separately for audited accounts under the Companies Act, 1956 as per accounting policy A (2), where as the same is shown as cost and charged to Profit & Loss Account.
  - 1.2. Capital contribution received from consumers have been treated as capital reserve in accordance with Electricity Supply (Annual Account) Rules, 1985, where as the same has been shown as capital contribution from consumers under the head "Other Funds".
  - 1.3. Capital Grants received towards cost of capital assets has been treated as capital reserve in accordance with Electricity Supply (Annual Account) Rules, 1985 instead of reducing the grants from the gross value of the assets concerned at its book value.

- 2.a.** 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 and also amortization of regulatory assets in the coming year.
- 2.b.** 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 2007-08, OERC directed the Company to file its comments for computation of Regulatory Assets. The Company submitted its stand on Regulatory Assets which is under consideration by OERC.

### **3. Contingent Liabilities**

- (i) Claims against the Company on account of court cases pending not acknowledged as debts - Rs. 8.98 crore (Previous year - Rs. 8.79 crore).
- (ii) 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).

### **4. Fixed Assets**

- (i) Land & 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 & 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-6 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.

### **5. 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.35.31 crore has been included in Sundry Debtors –'over six months' Rs.33.55 crore and 'Others' Rs. 1.76 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 & 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 & doubtful debts Rs.41.53 crores after deducting security deposit, based on the following past practice:

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 30.09.2007 has also been fully provided for.

(c) In respect of non-government LT class of consumers, the arrears appearing as on 30.09.2007 after adjusting the collection made during subsequent period have been fully provided for.

- (iv) Out of the provision for bad & doubtful debts, an amount of Rs.48.20 crore outstanding as on 30.09.2007 against permanently disconnected consumers, continuing under same status till 30.06.2008 has been written off during the six months period ended 31.03.2008 after adjustment of security deposit of concerned consumers in accordance with the past practice followed.

6. No investment has been made against Contingency Reserve in view of insufficient cash flow for the year ending on 31.03.2008.

## **7. Employee Benefits**

- 7.1. The company is getting actuarial valuation done through approved and recognized actuaries regularly. 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
- (iv) Leave Encashment

GRIDCO has paid Rs.39.95 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:**

| Particulars                                   | As at 31.03.2008 (Rs. In Lakhs) |                  |                             |
|---|---------------------------------|------------------|-----------------------------|
|   | Gratuity (Funded)               | Pension (Funded) | Leave Encashment (Unfunded) |
| Present value of Obligations at the beginning | 3664.17                         | 24915.46         | 2771.51                     |
| Current Service Cost                          | 175.99                          | 3248.80          | 153.24                      |
| Interest Cost                                 | 298.69                          | 2068.71          | 225.11                      |
| Actuarial (Gain) / Loss                       | (175.14)                        | (2448.01)        | (18.20)                     |
| Benefits Paid                                 | 300.29                          | 1155.48          | 246.36                      |
| Settlement Cost                               | -                               | -                | -                           |
| Defined Benefit Obligations at end            | 3663.43                         | 26629.47         | 2885.30                     |

**II. Changes in fair value of Plan Assets:**

| Particulars                                | As at 31.03.2008 (Rs. In Lakhs) |                  |
|--|---------------------------------|------------------|
|  | Gratuity (Funded)               | Pension (Funded) |
| Fair value of plan assets at the beginning | 1729.26                         | 8791.06          |
| Expected return on plan assets             | 138.34                          | 703.29           |
| Actuarial (Gain) / Loss                    | 0.87                            | (71.69)          |
| Employer Contribution                      | 80.00                           | 752.34           |
| Benefits Paid                              | 300.29                          | 1155.48          |
| Settlement Cost                            | -                               | -                |
| Fair value of plan assets at end           | 1646.44                         | 9162.89          |
| Actual return on plan assets               | 144.47                          | 730.77           |

**III. Reconciliation of fair value of assets and obligations**

| Particulars                        | As at 31.03.2008 (Rs. In Lakhs) |                  |                             |
|------------------------------------|---------------------------------|------------------|-----------------------------|
|                                    | Gratuity (Funded)               | Pension (Funded) | Leave Encashment (Unfunded) |
| Fair value of plan assets          | 1646.44                         | 9162.89          | -                           |
| Present value of obligation        | 3663.43                         | 26629.47         | 2885.30                     |
| Amount recognized in Balance Sheet | 2016.99                         | 17466.58         | 2885.30                     |

**IV. Expense recognized in the profit and loss account (Refer Schedule-16 Employee Cost\_ Contribution to Provident and Other Funds)**

| Particulars                    | For the year ending on<br>31.03.2008 (Rs. In Lakhs) |                     |                                   |
|--------------------------------|---|---------------------|-----------------------------------|
|                                | Gratuity<br>(Funded)                                | Pension<br>(Funded) | Leave<br>Encashment<br>(Unfunded) |
| Current Service Cost           | 175.99  | 3248.80             | 153.24                            |
| Interest Cost                  | 298.69  | 2068.71             | 225.11                            |
| Expected return on plan assets | 138.34  | 703.29              | -                                 |
| Actuarial (Gain) / Loss        | (174.26)  | (2519.70)           | (18.20)                           |
| <b>Net Cost</b>                | <b>162.08</b>                                       | <b>2094.52</b>      | <b>360.15</b>                     |

**V. Amount recognized in the Balance sheet:**

| Particulars                                      | As at 31.03.2008 (Rs. In Lakhs) |                     |                                   |
|--|---------------------------------|---------------------|-----------------------------------|
|  | Gratuity<br>(Funded)            | Pension<br>(Funded) | Leave<br>Encashment<br>(Unfunded) |
| Opening Net Liability                            | 1934.91                         | 16124.39            | -                                 |
| Expenses Recognized                              | 162.08                          | 2094.52             | 360.15                            |
| Contributions                                    | 80.00                           | 752.34              | -                                 |
| Closing Net Liability                            | 2016.99                         | 17466.58            | 360.15                            |
| Closing Fund/Provision at the end of<br>the Year | 3663.43                         | 26629.47            | 2885.30                           |

**VI. Investment Details:**

| Particulars                      | As at 31.03.2008 (% Invested) |                  |
|----------------------------------|-------------------------------|------------------|
|                                  | Gratuity (Funded)             | Pension (Funded) |
| Government of India Securities   | 27.03                         | 20.99            |
| Public Securities                | 45.26                         | 39.28            |
| Special Deposit Schemes          | 14.51                         | 24.57            |
| State Government Securities      | 12.57                         | 14.65            |
| Others (including bank balances) | 0.63                          | 0.50             |
| <b>Total:</b>                    | <b>100.00</b>                 | <b>100.00</b>    |

**VII. Actuarial Assumptions**

| Particulars   | As at 31.03.2008 (Rs. In Lakhs) |                     |                                   |
|---|---------------------------------|---------------------|-----------------------------------|
|   | Gratuity<br>(Funded)            | Pension<br>(Funded) | Leave<br>Encashment<br>(Unfunded) |
| Mortality Table (LIC of India)                        | 1994-96                         | 1994-96             | 1994-96                           |
| Discount rate (per annum)                             | 8.5%                            | 8.5%                | 8.5%                              |
| Expected rate of return on plan assets<br>(per annum) | 8%                              | 8%                  | -                                 |
| Rate of escalation on salary (per<br>annum)           | 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.

- 7.2.** The Company had provided liability in respect to pension / gratuity / leave encashment amounting to Rs.173.65 crore as on 31.03.99 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 private 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.70.78 crore including interest to the respective trusts.

In view of the fresh actuarial valuation done by the actuaries appointed by OERC as on 31.03.06, the actuarial valuation earlier made by the Company through LIC of India, is fair and justified.

OERC based on the valuation of the actuary, appointed by them in their Tariff Order No.64-67 dated 20<sup>th</sup> March 2008 and stated that the unfunded terminal liability as on 31.03.2008 will be allowed in future 7 (seven) tariff orders. The Company had preferred review petition and the same has not been reviewed against which the company is preferring an appeal before the Appellate Tribunal for Electricity (ATE).

In view of the above, no adjustment has been made in the accounts against the differential amount of Rs.108.51 crore.

### **7.3. 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.

## 8. Provision for Contingency

In line with prudent Accounting Principles and as a matter of abundant caution, Administrative, General and Other Expenses includes, a provision of Nil (previous period - Rs. 24.72 crores) for certain contingencies.

## 9. Redemption of Power Bond

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

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

9.3. The Company has received the notice dated 24<sup>th</sup> 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.

## 10. 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.

## 11. 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 Limited.
- (c) Reliance Infrastructure & Consultants Limited.
- (d) Sonata Investment Limited.

#### (ii) Key Management Personnel:

- (a) Maj.Gen.(Retd.) S.C. Dutta, CEO till 27.07.2007.
- (b) Sri Prasanta Kumar Pradhan, CEO w.e.f 28.07.2007.
- (c) Sri V.K. Sood, Managing Director, w.e.f. 26.11.2007.

**(B) Transaction with Related Parties**

| (Amount in Rs.)                         |                                    |                                |                          |               |
|---|------------------------------------|--------------------------------|--------------------------|---------------|
| Sl. No.                                 | Nature of Transaction              | Associates / Investing Parties | Key Management Personnel | Total         |
| <b>Profit and Loss Account</b>          |                                    |                                |                          |               |
| <b>(a) Incomes:</b>                     |                                    |                                |                          |               |
|   | (i) Rent                           | 69,300                         | -                        | 69,300        |
| <b>(b) Expenditures:</b>                |                                    |                                |                          |               |
|   | (i) Power Purchase (Net of Rebate) | 9,469,382,286                  | -                        | 9,469,382,286 |
|   | (ii) Salaries and Benefits         | 2,381,920                      | 758,034                  | 3,139,954     |
|   | (iii) Others                       | 5,393,280                      | -                        | 5,393,280     |
| <b>Balance Sheet (Closing Balances)</b> |                                    |                                |                          |               |
| (i)                                     | Receivables                        | 1,953,710,925                  | -                        | 1,953,710,925 |
| (ii)                                    | Sundry Creditors/Payables          | 2,095,283,892                  | -                        | 2,095,283,892 |
| (iii)                                   | Loans (incl. Int. payable)         | 2,857,865,947                  | -                        | 2,857,865,947 |
| (iv)                                    | Equity Contribution                | 437,846,940                    | -                        | 437,846,940   |

**12. 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 (AS) 22 issued by the Institute of Chartered Accountants of India.

**13. 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.

**14. 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.

## 15. 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.

## 16. Remuneration to Key Managerial Personnel

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

|             | <b>Year ended<br/>31.03.2008</b> | <b>Year ended<br/>31.03.2007</b> |
|-------------|----------------------------------|----------------------------------|
|             | <u>Rs. Lakh</u>                  | <u>Rs. Lakh</u>                  |
| Salary      | 6.75                             | 6.60                             |
| Perquisites | <u>0.83</u>                      | <u>0.97</u>                      |
|             | <b><u>7.58</u></b>               | <b><u>7.57</u></b>               |

## 17. Remuneration to Statutory Auditors:

|                          | <b>Year ended<br/>31.03.2008</b> | <b>Year ended<br/>31.03.2007</b> |
|--------------------------|----------------------------------|----------------------------------|
|                          | <u>Rs. Lakh</u>                  | <u>Rs. Lakh</u>                  |
| Audit Fees               | 6.00                             | 4.00                             |
| Tax Audit Fees           | 0.90                             | 1.10                             |
| Other Services           | 0.90                             | 0.90                             |
| Reimbursements:          |                                  |                                  |
| - Out-of-pocket expenses | 1.92                             | 1.14                             |
| - Service Tax            | <u>0.96</u>                      | <u>0.74</u>                      |
|                          | <b><u>10.68</u></b>              | <b><u>7.88</u></b>               |
| Cost Audit Fees          | <b><u>0.79</u></b>               | <b><u>-</u></b>                  |

**18. Quantitative Information:**

|   | <u>Year ended<br/>31.03.2008</u> | <u>Year ended<br/>31.03.2007</u> |
|---|----------------------------------|----------------------------------|
| Purchase of Energy (KWH-million)                      | 5377.094                         | 4670.618                         |
| Sale of Energy (KWH-million)                          | 3434.611                         | 2972.424                         |
| Sale of Energy (Rs. In Lakhs)                         | 1,08,351.13                      | 90,781.97                        |
| Collection against-<br>-Sale of Energy (Rs. In Lakhs) | 1,01,479.14                      | 86,186.20                        |
| AT & C– Loss (%)                                      | 40.18                            | 39.58                            |

**19.** Figures for the previous year have been regrouped / reclassified wherever necessary.

Company Secretary

Chief Executive Officer

Director

Managing Director

**In terms of our report of even date.**

**For Haribhakti & Co.,  
Chartered Accountants**

**For SRB & Associates,  
Chartered Accountants**

**Hemant Bhatt  
Partner**

**S.C. Bhadra  
Partner**

Place: Bhubaneswar.

Date: the      day of September 2008.