

# 6th Annual Report

2005-06



**SOUTHERN POWER DISTRIBUTION COMPANY  
OF ANDHRA PRADESH LIMITED**

## Board of Directors

**Sri P.Gopal Reddy**

**Sri Harish Kumar, IAS**

**Sri P.M.K.Gandhi**

**Sri T.H.N.S.Damodara Rao**

**Sri Y.Padmanabha Reddy**

**Sri K.P.Anand, IA&AS**

**Sri V.Krishna Murthy**

- Chairman & Managing Director
- Non Whole Time Director
- Non Whole Time Director
- Director (Operation & HRD)
- Director (Projects & Commercial)
- Director (Finance)
- Director (RAC)

### COMPANY SECRETARY

K.Sateesh Gupta

### AUDIT COMMITTEE

Sri Harish Kuamr, IAS

Sri P.M.K.Gandhi

Sri Y.Padmanabha Reddy

### AUDITORS

M/s. Sankaran & Krishnan,  
Chartered Accountants  
Rosewood Offices, No.130-131,  
Nungambakkam, M.G.Road,  
Chennai – 600034

### REGISTERED OFFICE

19-3-13(M)  
Renigunta Road  
Tirupati – 517 501  
Chittoor (Dist)  
Andhra Pradesh  
Telephone : (0877) 2284109, 2284112  
Fax : (0877) 2284111  
URL : www.apspdcl.in

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### BANKERS

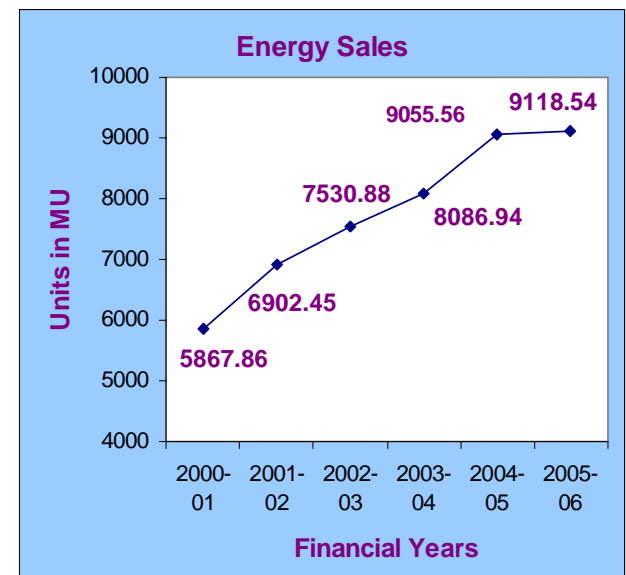
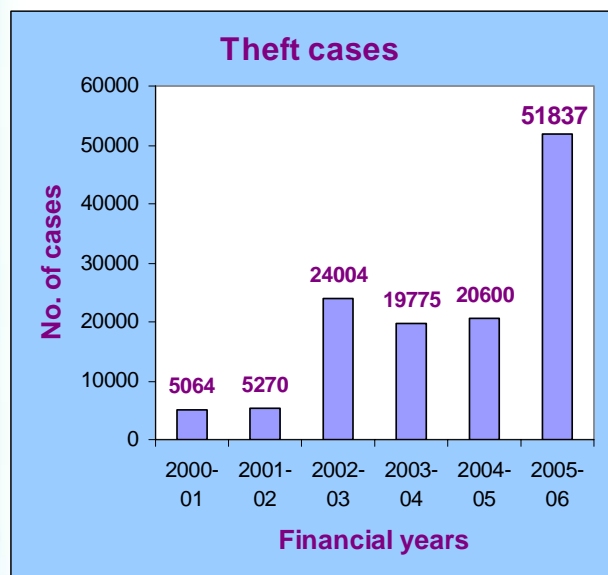
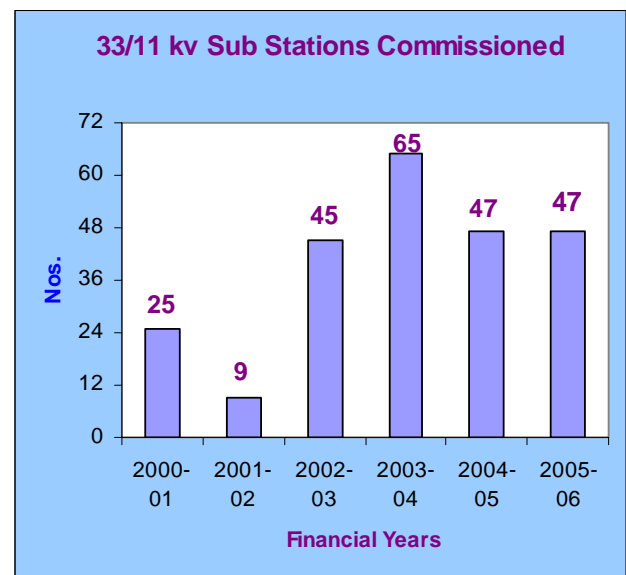
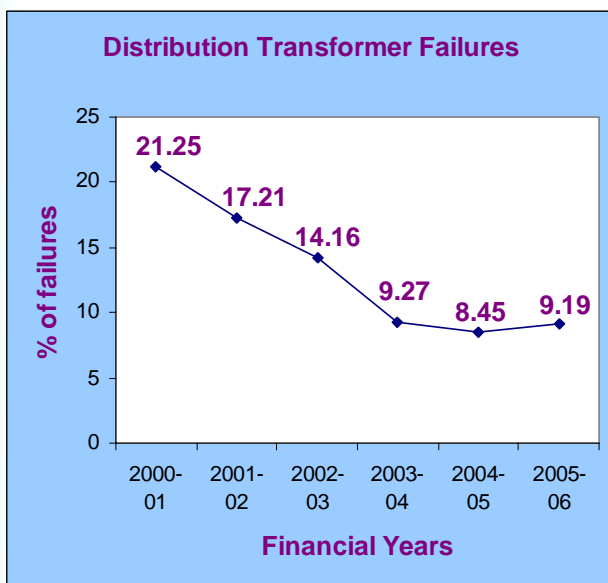
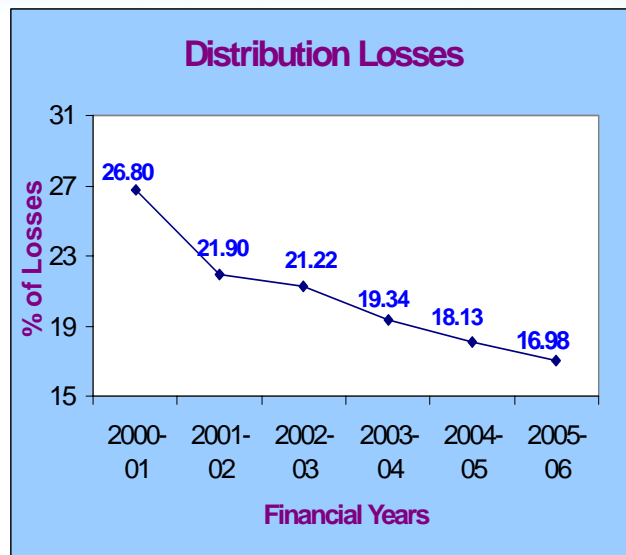
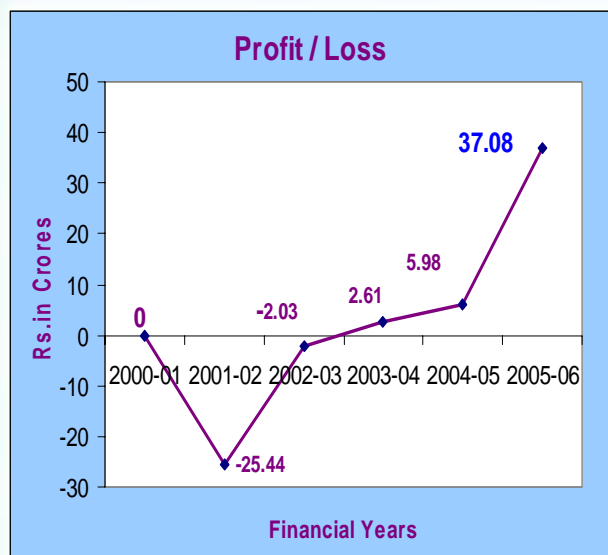
State Bank of Hyderabad  
State Bank of India

## APSPDCL PERFORMANCE HIGHLIGHTS

Year ended 31 <sup>st</sup> March	2006	2005	2004	2003	2002	2001
Units Sold (Million Units)	9118.54	9055.56	8086.94	7530.88	6902.45	5867.86
No. of 33/11 KV Sub stations	700	644	597	532	487	478
Length of 33 KV line in KM	9601.31	9132.33	8951.61	8590.24	8276.94	8180.80
Length of 11 KV line in KM	64626.11	59309.92	50988.40	44831.91	43515.86	43481
Length of LT line in KM	129381.08	117767.06	112699.83	110537.15	108565.30	106644.70
Number of Distribution Transformers	139020	115313	94036	60068	54396	50570
Number of Power Transformers	1003	960	877	809	764	737
No of Consumers	4849471	4536777	4336286	4227497	4066524	3915474
Distribution Losses (%)	16.98	18.13	19.34	21.22	21.90	26.80
Distribution Transformer failures (%)	9.19	8.45	9.27	14.16	17.21	21.75
Average Realisation per unit (Rs.)	2.11	2.06	2.18	2.37	2.10	2.25
Financial Data (Rs. in Crores)						
Total income	2963.60	2500.28	2416.40	2389.26	2076.39	1402.93
Total Expenditure	2926.52	2494.30	2413.79	2391.29	2101.83	1402.93
Surplus / (Deficit)	37.08	5.98	2.61	(2.03)	(25.44)	0
Paid up Equity Capital (Rs. In Crores)	358.71	358.71	310.60	310.60	310.60	310.60

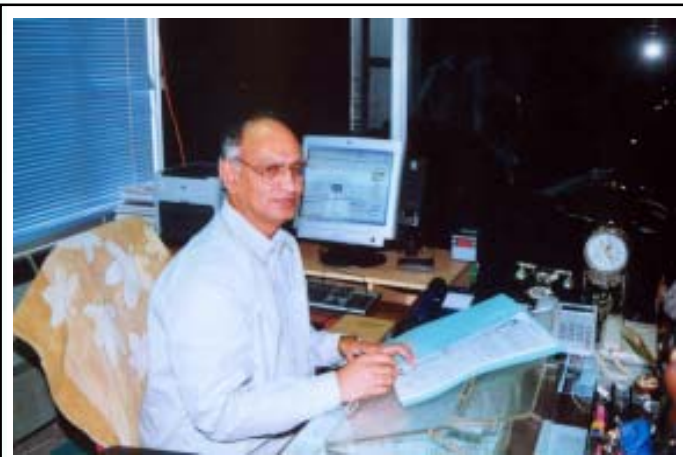
### Vision of APSPDCL

*“To create an organization that is profitable, viable, responsive, serving the needs of the customers, suppliers and employees”*





## ***Chairman & Managing Director's Statement***



It gives me great pleasure in presenting Sixth Annual Report of your company for the year 2005-06. The Discom is on the path of implementing Power sector reforms and efforts are on towards Operational and Financial efficiency and the Discom has embarked on consumer friendly initiatives.

It is my great pleasure to share with you that the company has achieved a financial turn around during the year.

### **Performance Review**

The following are highlights of the strong operational & financial performance of the Company during the year 2005-06.

- Total income of **Rs.2963.60 Crore in 2005-06** – up from Rs.2500.29 Crore in the corresponding previous year, resulting **an increase of 18.5%**.
- Profit before tax of the Company stood at Rs.96.75 Crore as against a loss of Rs.10.37 Crore in the previous year
- **The net profit of the Company increased to Rs.37.09 Crore** – up from Rs.5.98 Crore in the corresponding previous year, **an increase of 520%**
- Earnings per share (EPS) for the year stood at Rs.1.03 in 2005-06 – up from Rs.0.16 in 2004-05, **an increase of 544%**
- The Company's total sales increased to **9118.54 MU** in 2005-06 from **9055.56 MU** in 2004-05. The sales in LT category decreased by 0.61% and HT category increased by 5.13% during the year 2005-06.
- Distribution losses were reduced from 18.13% in 2004-05 to **16.98% in 2005-06**
- A total of 2,06,344 new services have been added during the year which includes 121 new HT services
- 8,43,936 High Quality meters have been fixed with a view to increase in metered sales
- 47 Nos of 33/11 KV substations have been added during the year to improve quality of power supply. Action plan has been initiated for construction of 75 Nos 33/11 kv sub stations during the year 2006-07.
- During the year under review 3 Nos Hamlets, 275 Nos Dalitha wadas, 180 Nos weaker section colonies and 10 Nos Tribal colonies/hamlets were electrified.
- To improve sales and revenues, a total of 76 Nos industrial mixed feeders have been identified and separated from mixed loads.

- During the year under review, 4,856 Nos 16 KVA, 25 KVA Distribution Transformers have been erected for reliable, uninterrupted and quality of power supply to the consumers.
- 39,754 new connections have been added under Rajiv Gandhi Gramin Vidyutikaran Yojana (RGGVY)

### ***Compliance of Directives of APERC***

The Discom has complied, by and large, with the directives issued by APERC from time to time.

### ***Policy Initiatives by Central Govt***

To tackle India's power woes and to augment sectoral capability, the Government of India, in association with other State Governments, has initiated a number of measures over the last few years, starting with the ground-breaking Electricity Act, 2003. Subsequently, the Central Government, the Central Electricity Regulatory Commission (CERC) and State Regulatory Commissions (SERC) have come out with various rules and regulations for an effective implementation of different provisions of the Act. These rules and regulations constitute a progressive legislative framework that will facilitate the growth of an efficient and competitive market in power.

The major reforms initiatives undertaken during the last financial year include:

- Constitution of Appellate Tribunal for Electricity
- Promulgation of National Electricity Policy
- Ultra Mega Power Projects
- Launch of nation wide Rural Electricity Infrastructure and Household Electrification Programme – Rajiv Gandhi Gramin Vidyutikaran Yojana (RGGVY).

### **Appellate Tribunal for Electricity**

The Central Government has established the “Appellate Tribunal for Electricity” in order to bring in higher accountability at all levels in the Sector. The Tribunal has been operational since 21<sup>st</sup> July 2005 and hears appeals against the orders of the appropriate Regulatory Commission under the Electricity Act, 2003.

### **National Tariff Policy**

The objectives of this tariff policy are to: (a) ensure availability of electricity to consumers at reasonable and competitive rates; (b) ensure financial viability of the sector and attract investments; (c) promote transparency, consistency and predictability in regulatory approaches across jurisdictions and minimize perceptions of regulatory risks and (d) promote competition, efficiency in operations and improvement in quality of supply. The Tariff policy was notified by the Central Government on 6<sup>th</sup> January, 2006.

### **Ultra Mega Power Projects**

Recognising that economies of scale lead to the generation of cheaper power, the Central Government has recently proposed the setting up of five “Ultra Mega Power Projects” across the country. While two more projects are under active consideration. These projects, with a capacity of approximately 4,000 MW each and an investment outlay of Rs.15,000 Crore each, will be awarded through tariff-based competitive bidding.

### **Rajiv Gandhi Gramin Vidyutikaran Yojana (RGGVY).**

Under the RGGVY, the Indian Government has pledged to ensure the availability of power to all 5,86,000 villages of the country by 2009. While the year 2005-06 saw the electrification of 11,000 new villages, the target for the current year is to connect another 41,000 villages to the national power grid. Almost 5,30,000 villages remain further to be electrified.

APSPDCL is committed to improve the quality of life of people. Keeping in mind, APSPDCL has identified 6,121 villages under the programme by providing 10,54,131 connections to the rural areas. About 965 villages have already been electrified during the year 2005-06. Works are on in other villages and would be completed by 2008.

### ***HR Initiatives***

Continuous efforts are made to foster harmonious human relation practices and also to ensure the development of its human resources. Company has been giving importance to training activities and several training and development activities have been taken up during the year. While the Engineering, Accounts and P&G Services staff were exposed to several HR and behavioural programmes by deputing to programmes both within and outside the Organisation, the O&M Staff were given inputs on technical and attitudinal training in the SPTIs at Kadapa and Vijayawada.

To conclude, I congratulate all the employees for their unstinted efforts towards achieving the financial turn around and achieving a profit of Rs.37.09 Crore and to say that the Discom has improved sales performance, fairly met the Directives of Regulatory authority and other statutory authorities, initiated steps for institutional strengthening and is poised to meet the challenges thrown by the reforms in the days to come.

**Chairman & Managing Director**



## **NOTICE**

**NOTICE** is hereby given that the Sixth Annual General Meeting of the Members of Southern Power Distribution Company of Andhra Pradesh Limited (**APSPDCL**) will be held (at Shorter Notice under Section 171(2) of the Companies Act, 1956 pursuant to consent received from all the Members) on **Friday, the 29<sup>th</sup> September, 2006 at 12.00 Noon** at the Registered Office of the Company 19-3-13(M), Renigunta Road, Tirupati to transact the following business:

### **Ordinary Business**

1. “To receive, consider and adopt the Audited Annual Accounts of the Company for the Year ended 31<sup>st</sup> March 2006 together with the Directors’ Report, Statutory Auditors’ Report and comments of the Comptroller and Auditor General of India thereon”.
2. To fix the remuneration of Statutory Auditors appointed by the Comptroller and Auditor General of India for the financial Year 2006-07

**By order of the Board of Directors of  
Southern Power Distribution Company of  
Andhra Pradesh Limited**

**K.Sateesh Gupta  
Company Secretary**

Date : 29-09-2006

Place : Tirupati

### **Notes:**

1. **A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF/HERSELF AND A PROXY NEED NOT BE A MEMBER OF THE COMPANY. THE INSTRUMENT APPOINTING A PROXY IN ORDER TO VALID AND EFFECTIVE SHOULD, HOWEVER, BE DEPOSITED AT THE REGISTERED OFFICE OF THE COMPANY NOT LESS THAN 48 HOURS BEFORE THE COMMENCEMENT OF THE MEETING. (Proxy form enclosed).**



## **DIRECTORS' REPORT**

Members,  
M/s Southern Power Distribution Company of A.P. Limited  
Tirupati

Dear Members,

Your Directors have pleasure in presenting the Sixth Annual Report of the Company relating to Financial Year 2005-06 and I trust the Annual Audited Accounts for the said year as circulated have been perused by all of you.

### **Financial Results:**

Rs. in Crores			
S.No.	Particulars	Current Year	Previous Year
		2005-06	2004-05
a.	Total income	<b>2963.60</b>	2500.29
b.	Total expenditure	<b>2866.85</b>	2510.66
c.	Profit/(Loss) before tax	<b>96.75</b>	(10.37)
d.	Provision for tax	<b>3.59</b>	--
e.	Profit/(Loss) after tax	<b>93.16</b>	(10.37)
f.	Net prior period credits/(Charges)	<b>(52.21)</b>	19.38
g.	Profit/(Loss) before Contingency Reserve	<b>40.95</b>	9.01
h.	Contingency Reserve	<b>3.86</b>	3.03
i.	Profit after Contingency Reserve	<b>37.09</b>	5.98

### **Financial Highlights**

It is my great pleasure to share with you the highlights of the strong financial performance of our Company during the year 2005-06.

- Total income of **Rs.2963.60 Crore in 2005-06** – up from Rs.2500.29 Crore in the corresponding previous year, resulting **an increase of 18.5%**.
- Profit before tax of the Company stood at Rs.96.75 Crore as against a loss of Rs.10.37 Crore in the previous year
- The net profit of the Company increased to Rs.37.09 Crore – up from Rs.5.98 Crore in the corresponding previous year, **an increase of 520%**
- Earnings per share (EPS) for the year stood at Rs.1.03 in 2005-06 – up from Rs.0.16 in 2004-05, **an increase of 544%**

### **Dividend**

The Board of Directors have not declared any dividend during the year ended 31.03.2006

### **Energy Sales**

The Company's total sales increased to **9118.54 MU** in 2005-06 from **9055.56 MU** in 2004-05. The sales in LT category decreased by 0.61% and HT category increased by 5.13% during the year 2005-06.

### **Operational Performance of The Company for the year 2005-06:**

Further your Directors are pleased to present some key achievements in operational areas:

<b>S.No.</b>	<b>Particulars</b>	<b>As on 31-3-2006</b>	<b>As on 31-3-2005</b>
1	Number of 33/11 KV Sub stations	<b>700</b>	653
2	Length of 33 KV line in KM	<b>9517.75</b>	9132.33
3	Length of 11 KV line in KM	<b>62239.86</b>	59309.92
4	Length of LT line in KM	<b>126356.03</b>	117767.06
5	Number of Distribution Transformers	<b>131592</b>	115313
6	Power Transformers	<b>1003</b>	960
7	Number of Consumers	<b>4849471</b>	4643127

### **Distribution Transformer failures:**

Distribution Transformer failures marginally increased to **9.19% in 2005-06** from 8.45% in 2004-05 due to increase in Distribution Transformers, though Andhra Pradesh Electricity Regulatory Commission (APERC) has fixed the target of 12% in the Tariff Order 2005-06.

### **Distribution Losses:**

Distribution losses were reduced from 18.13% in 2004-05 to **16.98% in 2005-06** as against target of 17.02% in the Tariff Order 2005-06.

### **Achievements of the Company during 2005-06**

- A total of 2,06,344 new services have been added during the year which includes 121 new HT services
- 8,43,936 High Quality meters have been fixed with a view to increase in metered sales
- 47 Nos of 33/11 KV substations have been added during the year to improve quality of power supply. Action plan has been initiated for construction of 75 Nos 33/11 kv sub stations during the year 2006-07.
- During the year under review 3 Nos Hamlets, 275 Nos Dalitha wadas, 180 Nos weaker section colonies and 10 Nos Tribal colonies/hamlets were electrified.
- To improve sales and revenues, a total of 76 Nos industrial mixed feeders have been identified and separated from mixed loads.

- During the year under review, 4,856 Nos 16 KVA and 25 KVA Distribution Transformers have been erected for reliable, uninterrupted and quality of power supply to the consumers.
- 39,754 new connections have been added under Rajiv Gandhi Gramin Vidyutikaran Yojana (RGGVY)

### **Vigilance and DPE**

Continuous efforts are being made for prevention of theft of energy. Anti Power Theft Squad (APTS) Department & DPE Wing have carried out intensive inspection drives during the year 2005-06 to curb the theft of energy.

A total of **51,837** theft cases were registered during the year 2005-06 assessing Rs.889.58 lakhs as against 20,600 cases in 2004-05. During the year 30,319 cases were compounded and Rs. 259.18 lakhs collected towards assessed amount and 27 persons were prosecuted as against 61 persons in 2004-05.

### **Agriculture consumption**

The agricultural consumption during the year 2005-06 reduced to 2995.07 MU as compared to 3444.52 MU in 2004-05, **a decrease of 13%.**

### **Policy initiatives**

Central Government has initiated a number of policy initiatives viz., constitution of Appellate Tribunal for Electricity, promulgation of National Tariff Policy, Ultra Mega Projects initiative, Efforts towards developing an integrated Energy Policy and launch of nation wide Rural Electricity Infrastructure and Household Electrification Programme – Rajiv Gandhi Gramin Vidyutikaran Yojana (RGGVY).

Under the RGGVY, the Indian Government has pledged to ensure the availability of power to all 5,86,000 villages of the country by 2009. In view of this, the Company has identified 6,121 villages under the programme by providing 10,54,131 connections to the rural areas.

### **Directors:**

The Board of Directors of the Company are appointed / nominated by Government of Andhra Pradesh.

The Changes which have been occurred in the composition of Board of Directors of the Company from the date of the last report are as follows:

<b>Name of the Director</b>	<b>Date of appointment</b>	<b>Date of change</b>
1. Sri Dinesh Kumar, IAS	24-09-2004	13-06-2006
2. Sri Harish Kumar, IAS	13-06-2006	-

Consequent to the above changes, the composition of the Board of Directors on the date of this report is as follows:

**Sri P.Gopal Reddy** - Chairman & Managing Director

<b>Sri Harish Kumar, IAS</b>	- Non Whole Time Director
<b>Sri P.M.K.Gandhi</b>	- Non Whole Time Director
<b>Sri Y.Padmanabha Reddy</b>	- Director (Projects & Commercial)
<b>Sri T.H.N.S.Damodara Rao</b>	- Director (Operations & HRD)
<b>Sri K.P.Anand, IA&amp;AS</b>	- Director (Finance)
<b>Sri V.Krishna Murthy</b>	- Director (RAC)

### **Board Meetings 2005-06:**

The Board held its meetings on 14<sup>th</sup> June, 25<sup>th</sup> June, 25<sup>th</sup> August, 28<sup>th</sup> September, 4<sup>th</sup> October, 22<sup>nd</sup> December all in 2005 and 10<sup>th</sup> February, 17<sup>th</sup> March in 2006 during the financial year 2005-06 in accordance with the provisions of Section 285 of the Companies Act, 1956. The minutes of the meeting disclose the timing of the meeting.

Attendance at Board of Directors Meetings:

<b>Directors</b>	<b>Meetings held during the tenure of Directors</b>	<b>Meetings attended</b>
Sri K.Ranganatham	2	2
Sri P.Gopal Reddy	6	6
Sri Dinesh Kumar, IAS	8	3
Sri P.M.K.Gandhi	8	3
Sri K.P.Anand, IA&AS	8	7
Sri Y.Padmanabha Reddy	8	6
Sri T.H.N.S.Damodara Rao	8	7
Sri V.Krishna Murthy	3	2

### **Composition of Audit Committee and changes therein:**

In compliance with the provisions of Section 292 A of the Companies Act, 1956, during the year under review, the Audit Committee has met on 25<sup>th</sup> August, 2005 and 10<sup>th</sup> February, 2006. The composition of the Audit Committee on the date of this report is as follows:

1. Sri Harish Kumar, IAS
2. Sri P.M.K.Gandhi
3. Sri Y.Padmanabha Reddy

### **Auditors of the Company**

M/s.Sankaran & Krishnan, Chartered Accountants, Rosewood Offices, No.130-131, Nungambakkam, M.G.Road, Chennai – 600034 were appointed by Comptroller and Auditor General of India (C&AG) as the Statutory Auditors of the Company for the Financial Year 2005-06 and 2006-07.

### **Replies to the comments of the Statutory Auditors and CAG**

Replies of the Management to comments of the Statutory Auditors and Comptroller And Auditor General of India (CAG) for the year ended 31<sup>st</sup> march, 2006 are annexed here to and forms part of this report.

### **Conservation of Energy, Technology Absorption And Foreign Exchange Earning And Outgo:**

The information in accordance with the provisions of Section 217(1) (e) of the Companies Act, 1956 read with Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1998 in respect of conservation of energy, technology absorption and foreign exchange earning and outgo are given in annexure I forming part of this report.

### **Particulars of Employees under Sec 217 (2A) of the Companies Act, 1956**

There were no employees drawing remuneration in excess of the prescribed limits whose details are required to be disclosed under Section 217(2A) of the Companies Act, 1956 read with Companies (Particulars of Employees) Rules, 1975.

### **Deposits**

During the year under review, the Company has not accepted any public deposits U/s 58 A of the Companies Act, 1956 read with Companies (Acceptance of Deposits) Rules, 1975.

### **Revision of Pay Scales**

The pay scales and allowances of employees are due for revision w.e.f. 01-04-2006. A Committee was constituted by the APTRANSCO consisting of members from the APTRANSCO, APGENCO, APSPDCL, APCPDCL, APEPDCL and APNPDCL. The Committee held discussions with the various employee Unions / Associations and submitted recommendations to APTRANSCO.

After careful consideration of the recommendations, the APTRANSCO has issued orders vide T.O.O.(Joint Secy – Per) Ms.No.71, 72, 73 & 74 duly revising the pay scales of employees(workmen and other than workmen). The same have been adopted by the APSPDCL w.e.f. 01-04-2006. As a result of the revision of pay scales and allowances, the total additional outlay for the Company is around Rs.55 Crores which will be met by improving the internal efficiency.

### **Directors Responsibility Statement**

Pursuant to the requirement under Section 217(2AA) of the Companies Act, 1956 with respect to Directors' Responsibility Statement, it is hereby confirmed that:

1. In the preparation of annual accounts for the financial year ended 31<sup>st</sup> March, 2006 the applicable Accounting Standards have been followed along with proper explanation relating to material departures.
2. The Directors had selected such accounting policies and applied them consistently and made judgments and estimates that are 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 and loss of the company for that period.
3. The Directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities.
4. The Annual Accounts are prepared on a going concern basis.



**Industrial Relations:**

During the year under review, there were cordial industrial relations amongst the working force at all levels.

**Acknowledgements:**

Your Directors wish to place on record their appreciation and acknowledge with gratitude the support and Co-operation extended by the Government of Andhra Pradesh, particularly Energy Department & Finance Department, Andhra Pradesh Electricity Regulatory Commission, APTRANSCO, Comptroller & Auditor General of India, Bankers, Financial Institutions like Rural Electrification Corporation Limited and Power Finance Corporation, suppliers and consumers at large.

Your Directors express their deep sense of appreciation to the employees for their unstinted support and relentless efforts at all levels which enabled the overall growth of the Company in terms of financial and operational and to the Employee's Unions and the Officer's Associations for their constructive co-operation.

**On behalf of the Board of Directors**

Date: 29-09-2006

Place: Tirupati

**P.Gopal Reddy**  
**Chairman and Managing Director**

## **ANNEXURE – I TO THE DIRECTORS' REPORT**

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

**(A) Conservation of Energy** : :

The following measures were taken up for conservation of energy, which enabled the company to ensure efficient power supply and better consumer satisfaction.

1. Construction of 33/11 KV sub stations
2. Bifurcation existing lines to reduce power flow
3. Regular and periodical maintenance of equipment and lines
4. Renovation of distributions lines, wherever required, to reduce breakdowns

**(B) Technology absorption** :

1. Wide Area Network is under progress covering all offices
2. GIS is under process
3. Metering Information Management System is being used to track the metering installations
4. Regulatory Information Management System is being implemented

**(C) Foreign Exchange earnings and outgo** : NIL

**AUDITORS' REPORT TO THE SHARE HOLDERS OF SOUTHERN  
POWER DISTRIBUTION COMPANY OF ANDHRA PRADESH LTD.**

1. We have audited the attached Balance Sheet of Southern Power Distribution Company of Andhra Pradesh Ltd., Tirupati as at 31<sup>st</sup> March 2006 and the Profit and loss account for the year ended on that date and the Cash Flow Statement for the year ended on that date annexed thereto. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the Auditing Standards generally accepted in India. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

2. As the Company is governed by the *Electricity Act, 2003*, the provisions of the said Act have prevailed wherever it has been inconsistent with the provisions of the Companies Act, 1956.
3. As required by the Companies (Auditor's Report) Order, 2003, issued by the Central Government of India in terms of sub-section (4A) of Section 227 of the Companies Act, 1956, we enclose in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said order.
4. Further to our observations in the Annexure referred to the above, attention is invited to the following clauses of Statement of Accounting Policies (Schedule 17) and Notes on Accounts (Schedule 18) of the company.
  - i. The adoption of only Power purchase and Loan liabilities and the corresponding Receivables, identified for transfer, as against the transfer of entire Assets and Liabilities pertaining to the Bulk Supply Undertaking of APTRANSCO as stipulated in the *Gazette Notification* No.396 dated 09.06.2005 and non preparation of the opening Balance sheet as on the Effective Date, which are not in accordance with the directions contained in the *Gazette Notification*. {Refer Note No.1(ii)}.
  - ii. Non availability of the confirmation of bank balance of the company in the power purchase pool account. {Refer Note No.1 (v)}.
  - iii. Non-reconciliation/ confirmation of the Pool Imbalance account {Refer Note No.3}.
  - iv. Confirmation of balance has not been obtained from the Power generating companies. {Refer Note No.6}.

- v. Non-availability of the break up figures of the Assets and Liabilities taken over from APTRANSCO under the Second Transfer Scheme. (Refer Note No.8)
- vi. Non-reconciliation of the amount of Sundry Debtors as per Financial Ledgers and Consumer Ledgers. {Refer Note No.19 (ii)}
- vii. Confirmation has not been obtained in respect of Sundry Debtors, Sundry Creditors and Loans and Advances. {Refer Note No.24}
- viii. Non-reconciliation of Inter Unit Accounts which shows a net difference (debit) of Rs.8.65 crores. {Refer Note No.26}
- ix. Non-reconciliation / confirmation of the Loan accounts with APTRANSCO, REC, PFC and Government of Andhra Pradesh. {Refer Note No.21}
- x. Accounting of interest on Family Benefit fund, post retirement medical benefits, Guarantee commission and sale of scrap on cash basis which are not in conformity with AS 9 – Revenue Recognition. {Refer Accounting Policy No.1 (ii)}
- xi. Accounting of Government grants received and Consumer contribution towards cost of Capital Assets to Capital Reserve and non deduction of the same from cost of the Assets which are not in conformity with AS 12 – Accounting for Government Grants and AS10 – Accounting for Fixed Assets, issued by ICAI. {Refer Accounting Policy No.9 and Note No.15 (iii)}
- xii. Accounting Policy No.4 regarding Capitalisation of Work-in-progress of earlier year in the next following year without considering the actual date of putting into use is not in conformity with AS10 – Accounting for Fixed Assets, issued by ICAI.
- xiii. The company has not followed the policy towards allocation to capital expenditure. {Refer Accounting Policy No.4 (ii) } Instead of taking 20% of employee cost and allocating the same to Capital expenditure, the company has taken 20% of Capital expenditure and added the same to Capital expenditure as allocation. ***This has resulted in excess allocation of Rs.17.53 crores towards Capital expenditure. Correspondingly, by deduction of Rs.59.63 crores from employee cost, instead of Rs.42.10 crores has resulted in overstatement of profit by Rs.17.53 crores.***
- xiv. Note No.16 (i) regarding charging of depreciation on the opening Gross Block of Assets without considering the additions during the year and non withdrawal of accumulated depreciation on sale of Assets which are not in conformity with AS6 – Depreciation Accounting. This is also not in accordance with the provisions of the Electricity Supply Act as it results in depreciating the asset to 100% as against the applicable 90% of the Asset Value.
- xv. Note No.32 regarding incidental expenses incurred on the purchase of materials treated as period cost and charged to Revenue Account in the year in which it is incurred, instead of adding to the cost of inventory which is not in conformity with AS2 – Valuation of Inventories, issued by ICAI.

- xvi. Accounting policy No.8 and Note No.20 (i) and (ii) regarding provision for Pension and Gratuity, made on adhoc basis and leave encashment on actual basis, instead of actuarial valuation for the year which are not in conformity with AS15 – Accounting for Retirement Benefits, issued by ICAI.
- xvii. Note No.21 (ii) and Accounting Policy No.4 regarding capitalization of interest and finance charges during construction period, which is not in conformity with AS16 – Borrowing Costs, issued by ICAI.
- xviii. Non-recognition of Deferred tax liability which is not in conformity with AS 22 Taxes on income issued by ICAI. {Refer note no.30}
- xix. Note No.37 regarding non-disclosure of items for which the company is contingently liable including court cases and capital commitments remaining unexecuted which is not in conformity with AS 29 – Provisions, Contingent Liabilities and Contingent Assets.
- xx. The non-accounting of Fuel Surcharge Adjustment for the period September, 04 to March, 05 and July 05 to March 2006 (Refer Note No.11).
- xxi. Note No.23 regarding the Non-provision of the demand of Andhra Pradesh Entry Tax amounting to Rs.7.77 crores.
- xxii. Non-availability of the Original Share Certificates of Kuppam RESCO (Refer Note No.12)

5. Further to our comments referred to above, we report that:

- i. 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.
- ii. 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.
- iii. The Balance Sheet, Profit and loss Account and Cash Flow Statement dealt with by this report are in agreement with the books of accounts.
- iv. In our opinion, the Balance Sheet, Profit and loss Account and Cash Flow Statement dealt with by this report comply with the Accounting Standards referred to in sub-section (3C) of Section 211 of the Companies Act, 1956.

***except to the extent of the deviations expressed in paragraph 4 above regarding the following Accounting Standards:***

AS 2 : Valuation of Inventories  
AS 6 : Depreciation Accounting  
AS 9 : Revenue Recognition  
AS 10 : Accounting for Fixed Assets  
AS 12 : Accounting for Government Grants  
AS 15 : Accounting for Retirement Benefits  
AS 16 : Borrowing Costs



AS 22 : Taxes on Income

AS 29 : Provisions, Contingent Liabilities and Contingent Assets

- v. Since the company is a Government company the provisions of Sec.274 (1) (g) of the Companies Act, 1956 are not applicable to the company.
6. In our opinion and to the best of our information and according to the explanations given to us, the said accounts read together with the Accounting Policies and other notes thereon, give the information required by the Companies Act, 1956 in the manner so required and

***Subject to:***

- a) Non disclosure of dues to Small Scale industrial undertakings under Creditors.***
- b) Non classification of Sundry Debtors into outstanding for a period exceeding six months and others***

**AND**

- c) The observations and comments given in para 4 and 5 above, the impact of which on the accounts are not quantifiable.***

give a true and fair view in conformity with the accounting principles generally accepted in India:

- i. In the case of Balance Sheet, of the state of affairs as at 31<sup>st</sup> March 2006.
- ii. In the case of Profit and loss Account, of the PROFIT for the year ended 31<sup>st</sup> March 2006.

**AND**

- iii. In the case of Cash Flow Statement, of the cash flows for the year ended on that date.

Place: Tirupati  
Date : 04.08.2006

For Sankaran & Krishnan  
Chartered Accountants

Sd/-  
(M.Balachandran)  
Partner

Membership No.16271

**ANNEXURE TO AUDITOR'S REPORT**  
**REFERRED TO IN PARAGRAH 3 OF OUR**

## **REPORT OF EVEN DATE**

### **On the Annual Accounts of Southern Power Distribution Company of Andhra Pradesh Limited:-**

- 1) (a) The company has not maintained proper records showing full particulars including quantitative details and situations of fixed assets.  
  
(b) We were informed that the Fixed Assets have not been physically verified by the management during the year and hence we are unable to comment on the discrepancy, if any between the physical balance and book records.  
  
(c) During the year no substantial part of fixed assets have been disposed off.
- 2) (a) Physical verification of inventory has been conducted during the year  
  
(b) The procedure of physical verification of inventory followed by the management is reasonable and adequate in relation to the size of the company and nature of the business.  
  
(c) The company is maintaining proper records of inventory. The discrepancies noticed on physical verification of inventories as compared to the book records are material and the same have been properly dealt with the books of accounts.
- 3) As informed to us, the company has neither taken nor granted 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) The internal control system for the purchase of inventory and fixed assets, sale of goods and services is not adequate.
- 5) In the opinion and according to the information and explanation given to us, there are no contracts or arrangements that need to be entered in the register in pursuance of section 301 of the companies Act, 1956.
- 6) The company has not accepted any deposits from the public within the meaning of section 58A and 58AA and any other relevant provisions of the Companies Act, 1956 and the rules framed there under.
- 7) The company does not have an Internal Audit System commensurate with the size and the nature of business. During the year the company had conducted Revenue Audit to verify the accuracy of income in 54 units out of 78 units.
- 8) The Company has maintained the Cost records prescribed by the Central Government under Clause (d) Sub-Section (1) of Section 209 of the Companies Act, 1956.
- 9) (a) There are no undisputed statutory dues including provident fund, income tax, wealth tax, custom duty, excise duty, cess and service tax outstanding more than six months from the date they became payable except in respect of the dues of sales tax and tax deducted at source for which details are not available.

(b) In the case of Andhra Pradesh Entry Tax the following amounts have not been deposited on account of dispute:

Nature of statute	Nature of dues	Year to which it relates	Disputed amount Rs.	Forum before which the dispute is pending
AP Entry Tax	Entry Tax on Purchases	2002-03 2003-04 2004-05 2005-06 <b>Total</b>	2,76,43,300 2,32,45,450 5,45,36,031 2,37,45,193 <b>12,91,69,974</b>	The appellate Deputy Commissioner, Kurnool and various other courts/tribunals.

However, an amount of Rs.5,15,30,976/- has been deposited, under protest, in respect of the above till date.

- 10) The company does not have accumulated loss at the end of the financial year and the company has not incurred cash loss during the year, and in the immediately preceding financial year.
- 11) As informed to us, the company has not defaulted in repayment of dues to financial institutions or bank or debenture holders.
- 12) According to the information and explanations given to us the company has not granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities.
- 13) The provisions relating to chit fund / mutual benefit fund / societies are not applicable to the company.
- 14) The company is not dealing or trading in shares, securities, debentures and other investments during the year.
- 15) As per the information and explanations provided to us, the company has not given any guarantee for loans taken by others from bank or financial institutions.
- 16) We were informed that pending utilization of the Term loans for stated purpose, the funds were temporarily invested in fixed deposits amounting to Rs.93.20 crores.
- 17) There were no cases, where short-term funds have been utilized for long-term investment.
- 18) The company has not made any 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 any debentures during the year.
- 20) The company has not raised any money by public issue during the year.

- 21) In our opinion and according to the information and explanations given to us, the following frauds were committed on the Company and were reported during the year:

Nature of fraud	Amount involved (Rs)
Theft of (a) Energy	8,89,58,496/-
(b) Materials	95,43,547/-
Theft of Cash	3,17,759/-

For Sankaran & Krishnan  
Chartered Accountants

Sd/-  
(M.BALACHANDRAN)  
Partner

Place : Tirupati  
Date : 04.08.06

Membership No.16271

SANKARAN & KRISHANAN, CHARTERED ACCOUNTANTS, CHENNAI		SOUTHERN POWER DISTRIBUTION COMPANY OF ANDHRA PRADESH LIMITED
AUDITORS' REPORT		Replies of the Company forming part of the Director's Report to the members under Section 217(3) of the Companies Act, 1956.
1	The adoption of only Power purchase and Loan liabilities and the corresponding Receivables, identified for transfer, as against the transfer of entire Assets and Liabilities pertaining to the Bulk Supply Undertaking of APTRANSCO as stipulated in the <i>Gazette Notification</i> No.396 dated 09.06.2005 and non preparation of the opening Balance sheet as on the Effective Date, which are not in accordance with the directions contained in the <i>Gazette Notification</i> . {Refer Note No.1 (ii)}.	<p>The Company has taken over the bulk supply of power business from APTRANSCO. The bulk supply business consists of payables to generators, receivables from DISCOMS and some loans taken on behalf of DISCOMS. There are no other assets and liabilities for bulk supply business.</p> <p>The opening balances have been duly authenticated by chartered accountants appointed by APTRANSCO.</p>
2	Non availability of the confirmation of bank balance of the company in the power purchase pool account. {Refer Note No.1 (v)}.	Noted for guidance
3	Non-reconciliation/ confirmation of the Pool Imbalance account {Refer Note No.3}.	This will be reconciled in the current Year 2006-07.
4	Confirmation of balance has not been obtained from the Power generating companies. {Refer Note No.6}.	This will be reconciled in the current Year 2006-07.
5	Non-availability of the break up figures of the Assets and Liabilities taken over from APTRANSCO under the Second Transfer Scheme. (Refer Note No.8)	All the assets of the company have been incorporated in the books of the company through second final transfer scheme notified by the Govt. of A.P. Vide G.O.Ms.No.19 dt.29/9/2001 and these assets were allocated to the Discom. Also the values of these assets were taken into our company's accounts on the basis of estimated pro-rata method adopted by the holding company APTRANSCO. Hence the management has relied on these statements and figures as certified by the holding company APTRANSCO.
6	Non-reconciliation of the amount of Sundry Debtors as per Financial Ledgers and Consumer Ledgers. {Refer Note No.19 (ii)}	These balances are under reconciliation and the effect of the same will be given once the final report of Audit of Receivables is received.
7	Confirmation has not been obtained in	These balances are under reconciliation and



	respect of Sundry Debtors, Sundry Creditors and Loans and Advances. {Refer Note No.24}	the effect of the same will be given once the final report of Audit of Receivables is received.
8	Non-reconciliation of Inter Unit Accounts which shows a net difference (debit) of Rs.8.65 crores. {Refer Note No.26}	This being a running account, the Company is taking necessary steps to reconcile the same periodically.
9	Non-reconciliation / confirmation of the Loan accounts with APTRANSCO, REC, PFC and Government of Andhra Pradesh. {Refer Note No.21}	Steps are being taken to comply the same
10	Accounting of interest on Family Benefit fund, post retirement medical benefits, Guarantee commission and sale of scrap on cash basis which are not in conformity with AS 9 – Revenue Recognition. {Refer Accounting Policy No.1 (ii)}	The Accounting Policy has been followed consistently.
11	Accounting of Government grants received and Consumer contribution towards cost of Capital Assets to Capital Reserve and non deduction of the same from cost of the Assets which are not in conformity with AS 12 – Accounting for Government Grants and AS10 – Accounting for Fixed Assets, issued by ICAI. {Refer Accounting Policy No.9 and Note No.15 (iii)}	The company has not adjusted consumer contribution received against acquisition of fixed assets, as per the terms of ESAAR, 1985.
12	Accounting Policy No.4 regarding Capitalisation of Work-in-progress of earlier year in the next following year without considering the actual date of putting into use is not in conformity with AS10 – Accounting for Fixed Assets, issued by ICAI.	This is as per Electricity Supply (Annual Accounts) Rules, 1985
13	The company has not followed the policy towards allocation to capital expenditure. {Refer Accounting Policy No.4 (ii) } Instead of taking 20% of employee cost and allocating the same to Capital expenditure, the company has taken 20% of Capital expenditure and added the same to Capital expenditure as allocation. This has resulted in excess allocation of Rs.17.53 crores towards Capital expenditure. Correspondingly, by deduction of Rs.59.63 crores from employee cost, instead of Rs.42.10 crores has resulted in overstatement of profit by Rs.17.53 crores.	The policy has been consistently followed by the company.

14	Note No.16 (i) regarding charging of depreciation on the opening Gross Block of Assets without considering the additions during the year and non withdrawal of accumulated depreciation on sale of Assets which are not in conformity with AS6 – Depreciation Accounting. This is also not in accordance with the provisions of the Electricity Supply Act as it results in depreciating the asset to 100% as against the applicable 90% of the Asset Value.	The Company has computed depreciation on the gross block (bifurcated into individual heads on prorating method) as given in the Second Transfer Scheme notified by the Government of AP vide G.O.No.109 Energy (Power-III) September 29 <sup>th</sup> , 2001.
15	Note No.32 regarding incidental expenses incurred on the purchase of materials treated as period cost and charged to Revenue Account in the year in which it is incurred, instead of adding to the cost of inventory which is not in conformity with AS2 – Valuation of Inventories, issued by ICAI.	All the expenses up to the stores are taken as cost of the material. Incidental Expenses for the movement of material within the stores is taken as period cost and charged to Revenue Account.
16	Accounting policy No.8 and Note No.20 (i) and (ii) regarding provision for Pension and Gratuity, made on adhoc basis and leave encashment on actual basis, instead of actuarial valuation for the year which are not in conformity with AS15 – Accounting for Retirement Benefits, issued by ICAI.	The same will be provided as and when actuarial valuation report to be received in 2006-07.
17	Note No.21 (ii) and Accounting Policy No.4 regarding capitalization of interest and finance charges during construction period, which is not in conformity with AS16 – Borrowing Costs, issued by ICAI.	This policy is as per Electricity Supply (Annual Accounts) Rules, 1985
18	Non-recognition of Deferred tax liability which is not in conformity with AS 22 Taxes on income issued by ICAI. {Refer note no.30}	The Company is of the view that no deferred tax Asset or Liability exists in the company.
19	Note No.37 regarding non-disclosure of items for which the company is contingently liable including court cases and capital commitments remaining unexecuted which is not in conformity with AS 29 – Provisions, Contingent Liabilities and Contingent Assets.	Management feels that pending court cases will not materially effect the financials of the company.

20	The non-accounting of Fuel Surcharge Adjustment for the period September, 04 to March, 05 and July 05 to March 2006 (Refer Note No.11).	The Fuel surcharge adjustment is not an income as well as expenditure to the company as the same has to be reimbursed to the APGENCO through APTRANSCO so it will not have any effect on the financials of the Company.
21	Note No.23 regarding the Non-provision of the demand of Andhra Pradesh Entry Tax amounting to Rs.7.77 crores.	The same is being reconciled in the ensuing year 2006-07.
22	Non-availability of the Original Share Certificates of Kuppam RESCO (Refer Note No.12)	Noted for Guidance.
23	Non disclosure of dues to Small Scale industrial undertakings under Creditors.	Noted for guidance
24	Non classification of Sundry Debtors into outstanding for a period exceeding six months and others	Noted for guidance
	<p>M/s SANKARAN &amp; KRISHNAN Chartered Accountants</p> <p>Sd/- (M..Balachandran) Partner</p> <p>Place: Tirupati Date: 04-08-2006</p>	<p>For and on behalf of the Board</p> <p>Sd/- P.Gopal Reddy Chairman &amp; Managing Director)</p> <p>Sd/- K.P.Anand Director (Finance)</p> <p>Place: Tirupati Date: 04-08-2006</p>

<b>ANNEXURE TO THE AUDITORS' REPORT</b>		<b>SOUTHERN POWER DISTRIBUTION COMPANY OF ANDHRA PRADESH LIMITED</b>
This is the annexure referred to in our report of even date (Reference clauses in Annexure to the Auditors' Report)		Replies of the Company forming part of the Director's Report to the members under Section 217(3) of the Companies Act, 1956.
1(a)	The company has not maintained proper records showing full particulars including quantitative details and situations of fixed assets.	Noted for future compliance.
1(b)	We were informed that the Fixed Assets have not been physically verified by the management during the year and hence we are unable to comment on the discrepancy, if any between the physical balance and book records.	Noted for future compliance.
4	The internal control system for the purchase of inventory and fixed assets, sale of goods and services is not adequate.	Noted for guidance.
7	The company does not have an Internal Audit System commensurate with the size and the nature of business. During the year the company had conducted Revenue Audit to verify the accuracy of income in 54 units out of 78 units.	Noted for guidance.
M/s SANKARAN & KRISHNAN Chartered Accountants  Sd/- (M..Balachandran) Partner  Place: Tirupati Date: 04-08-2006		For and on behalf of the Board  Sd/- P.Gopal Reddy Chairman & Managing Director)  Sd/- K.P.Anand Director (Finance)  Place: Tirupati Date: 04-08-2006

**OFFICE OF THE  
ACCOUNTANT GENERAL (AU) - II  
ANDHRA PRADESH  
HYDERABAD -500 004**

No.AG (C&RA)/EBRA-IV/V/2006-07/51

Date: 29-09-2006

To  
The Chairman and Managing Director  
Southern Power Distribution Company of A.P. Limited,  
TIRUPATI.

Sir,

Sub: Comments on the accounts of the Southern Power Distribution Company of  
Andhra Pradesh Limited, Tirupati for the year ended 31<sup>st</sup> March 2006.

1. I am to forward herewith the comments of the Comptroller and Auditor General of India under Section 619(4) of the Companies Act, 1956 on the accounts of your company for the year ended 31<sup>st</sup> March 2006 for necessary action.
2. The date of placing of comments along with Annual Accounts and Auditors' Reports before the Shareholders of the Company may be intimated and a copy of the proceedings of the meeting furnished.
3. The date of forwarding the Annual Report and Annual Accounts of the Company together with the Auditors Report and comments of the Comptroller and Auditor General of India to the State Government for being placed before the Legislature may also be communicated.
4. Ten copies of the annual report for the year 2005-06 may be furnished in due course.

The receipt of this letter along with enclosures may please be acknowledged.

Yours faithfully,

Sd/-

**Sr. Deputy Accountant General (C)**

Encl : As above

COMMENTS OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA UNDER SECTION 619(4) OF THE COMPANIES ACT, 1956 ON THE ACCOUNTS OF THE SOUTHERN POWER DISTRIBUTION COMPANY OF ANDHRA PRADESH LIMITED, TIRUPATI FOR THE YEAR ENDED 31 MARCH 2006.	REPLIES OF THE COMPANY FORMING PART OF THE DIRECTOR'S REPORT TO THE MEMBERS UNDER SECTION 217(3) OF THE COMPANIES ACT, 1956.
<p><b>Balance Sheet</b>  <b>Application of Funds</b>  <b>Fixed Assets (Sch.4)</b></p>	
<p>1. <b><u>Goodwill: Rs.10.10 crore</u></b></p> <p>While taking over the assets and liabilities of the Rural Electric Supply Co-operative Societies (RESCOs), Atmakur and Rayachoty, the company ignored to account for the liability towards share capital contribution from the Government of Andhra Pradesh in the RESCOs and liquidator expenses, against the guidelines given by the Registrar of Co-operative Societies (RCS) which indicated that the "Share Capital and Sundry Deposits contributed by the members were to be offset against the outstanding receivables".</p> <p>This has resulted in understatement of "Goodwill" (Gross Block) by Rs.0.63 crore; "Amortisation of Goodwill" by Rs.0.13 crore and overstatement of "Net profit before tax for the year" by Rs.0.13 crore.</p>	<p>The liabilities of the RESCOs exceed the value of the assets and as a result, the net worth of the RESCOs is wiped off. When the net worth is wiped off the share capital also extinguishes so the company has ignored the share capital of govt of A.P while taking over the assets and liabilities of the RESCO.</p> <p>The share capital will be paid only if there is any balance left after paying off all outside liabilities. In this case the outside liabilities are more and thus no share capital is to be paid or provided for.</p> <p>Moreover, the company intends to pursue with Government of Andhra Pradesh for recovery of the loss sustained by DISCOM for taking over the RESCOs</p> <p>Thus there is no overstatement of profit as suggested.</p> <p><b>The Valuer appointed by the company for valuation of Assets &amp; Liabilities of RESCOs has stated in his valuation report that the liquidator expenses are to be borne by the RESCOs itself. Hence the company has not taken over the liability of the liquidator expenses.</b></p>
<p>2. <b><u>Additions to opening Gross Block: Rs.44.82 crore</u></b></p> <p>The above amount of Rs.44.82 crore represent the fair market value of the Net Fixed Assets taken over from RESCOs (Rayachoty and Atmakur) with effect from 1 January 2005. These assets were in existence for quite a long period as the RESCOs were in existence from the year 1976/1984 and hence assets of second hand nature. As per the Gazette of</p>	<p>It is to state that the company has taken over assets and liabilities of RESCO –Rayachoti and Atmakur as on 31.12.2004. The assets were taken over based on valuation report given by the technical valuer M/s.Vigneswara technical &amp; Management consultancy pvt LTD. The chartered valuer has taken the valuation based on the fairmarket value as on the valuation date.</p>

	<p>India, Extra-ordinary Notification No.151 dated 29 March 1994, assets purchased second hand require a different rate of depreciation to be provided for in each case, having regard to the nature, age and condition of the assets at the time of its acquisition by the owner. However, the company adopted the existing rates of depreciation being charged on new assets, to the second hand assets taken-over, resulting in a lower provision for depreciation on the assets taken-over from the RESCOs, which could not be quantified.</p>	<p>The valuer has not specified the residual life of the assets, nor has he specified the worthiness of the assets. In the absence of both these values, the company cannot assess the depreciation based on the Gazette of India, Extra-ordinary Notification No.151 dated 29 March 1994 and hence the company has adopted the normal rates of depreciation for these assets.</p>
3	<p><b><u>Depreciation &amp; Amortisation on Lines and Cable Network : 607.94 crore</u></b></p> <p>Government of India, Ministry of Power, New Delhi vide Notification dated 29 March 1994 provided for depreciation of meters / metering equipment @ 12.77%. A separate account code (A/c. Code 10.631) is also provided for in the Electricity (Supply) Annual Accounts Rules, 1985. However, depreciation is provided at 7.84% for the Asset "Lines and Cable Network" (A/c code 10.600) and "Meters" are also included in the same A/c Code thereby resulting in an undercharge of depreciation by 4.93%.</p> <p>While correcting the position during the year 2005-06, the company could not obtain the details of the value of "Metering Equipment" included in "Lines and Cable Network" and transferred to the Company through Second Transfer Scheme from AP TRANSCO with effect from 01.04.2000.</p> <p>In the absence of Asset value of Meters booked separately in the Accounts (which was included in "Lines and Cable Network") for the years upto 1999-2000, the amount of undercharge of depreciation on the same could not be quantified.</p>	<p>The Opening balance of Net Assets as on 1-04-2000 has been adopted in the books as per the second transfer scheme.</p>
	<b>Current Assets, Loans &amp; Advances (Sch.7)</b>	
4	<p><b><u>Inventories</u></b></p> <p><b><u>Stores and Spares: Rs.118.23 crore</u></b></p> <p>This is overstated by Rs.16.98 crore due to double account of Rs. 8.49 crore being the value of Stores issued by District Stores, Tirupati to the various Divisions in the Circle. This has also resulted in overstatement of</p>	<p>The entries relating to this will reflect in the Inter-unit accounts, which are under reconciliation and the difference in Inter-unit balance is also qualified by the Statutory Auditors. However this audit observation has</p>

	<p>“Current Liabilities – Other Liabilities” by a similar amount.</p>	<p>been rectified in the month of August’2006 and the effect of this will reflect only on the current assets and the current liabilities of the Balance sheet and not on the Profit and loss account of the company.</p>
5.	<p><b><u>Sundry Debtors</u></b>  <b><u>Provision for doubtful debts: Rs.NIL</u></b>  The Company as on 01.04.2002 was having a “Provision for doubtful dues from consumers” of Rs. 86.79 crore. During the year 2002-03 the company reviewed the realisability or otherwise of the “Sundry Debtors for sale of power” and written off Rs. 79.18 crore by adjusting the same against the existing provision of Rs. 86.79 crore. The write off during the year 2002-03 included write off of “Sundry Debtors for sale of power – HT Category-I – Industrial” and “Sundry Debtors – LT Category-II – Non-domestic &amp; Commercial” amounting to Rs. 18.03 crore and Rs. 8.05 crore respectively. During the current year 2005-06, after a lapse of three years from the year of write off, the company restored these debts into the books of account without any realistic appraisal regarding the realisability or otherwise of these dues outstanding for more than 6 years as on 31 March, 2006. While doing so the company did not restore the “Provision for doubtful dues from the Consumers” against which the original write off was adjusted. This has resulted in understatement of “Provision for doubtful dues from consumers” and overstatement of “Net Profit before tax for the year” by Rs. 26.08 crore.</p>	<p>It is to inform that it is factually correct that Consumer Ledgers were not effected when the company had written off Rs.79.18 crores as Bad Debts in the Accounts for the financial year 2002-03 based on the Audit Reports on Audit of Receivables.</p> <p>The Company’s Board had taken a decision to regroup the write off of bad debts in 2004-05 itself but it was effected in the year 2005-06 accounts. The Company’s intention in regrouping the classification was that no higher end consumers like HT-I &amp; LT-II should get the benefit of write off’s without proper justification and identification of the consumer. Thus, HT-I and LT-II consumers were regrouped and the benefit was passed on to the RESCOs and LT-V respectively.</p> <p>The company has taken the necessary measures of identifying the consumers who are really bad and realisability of amount from them is negligible or Nil. The company has sought panchanama reports from the local thahsildars and based on this, the company is writing off the bad debts. The intention of the company is that the write off benefits should accrue to the consumers who actually cannot pay for it rather than people who seek ways for default.</p> <p>In 2005-06, the Company had to revise the provisions on account of merger of RESCO Rayachoty and RESCO Atmakur into itself. An amount of Rs.18.03 crores pertains to RESCOs out of the write off of Rs.79.12 crores. As the company had absorbed both these entities and effected the loss on absorption as Goodwill, the said provision in the accounts became null and void and thus had to be taken to Profit &amp; Loss Account. Thus Rs.9.66 crore was brought to other income from RESCOs in the year 2005-06</p> <p>On a review it was observed that the provision</p>



		<p>is no longer required and hence the same has been credited to other income of the current year</p> <p>Rs.8.05 crore pertaining to LT-V also became null and void because the company had absorbed all the bad debts due to the difference arising out of non – acceptance by Govt of A.P., of Agricultural dues amounting to Rs.72.94 crores in its accounts and thus bad debts relating to agriculture had already been written off in the books and Rs.8.05 crores had to be treated as prior period provision not required.</p> <p>As this amount pertains to provision created in the prior period it has to be treated as prior period income.</p> <p><b>In view of the above the management is convinced that there is no overstatement of Profit by Rs.17.71 crores during the current year.</b></p> <p>It is also pertinent to state that the company has still Rs 24.45 Crores to write off in the consumer ledger. This amount is more than Rs 6.61 Crores outstanding from consumers for more than three years. In view of the provision available to the tune of Rs 24.45 crores the company need not provide further provisions.</p>
6.	<p><b>Loans and Advances (Unsecured- Considered good)</b>  <b><u>Amount recoverable in cash or in kind or for value to be received:Rs.30.49 crore</u></b></p> <p>This includes Rs. 0.42 crore being the value of advances given to suppliers/contractors and pending un-adjusted for more than three years and without any details from whom the amount is to be realised or adjusted, making the advance doubtful of recovery. Non-creation of suitable provision for the same has resulted in understatement of “Provision for doubtful advances” and overstatement of “Amount recoverable in cash or in kind or for value to be received” and “Net profit before tax for the year” by Rs. 0.42 Crore.</p>	<p>It is to state that the Company was formed on 31.3.2000 under second transfer scheme and the un reconciled inter unit balance was not transferred and kept with APTRANSCO and thus the amounts pertains to Pre-Discom period which has been taken care in APTRANSCO accounts and is thus nullified at the company consolidation level and hence require no provision.</p>

7	<p><b>Current Liabilities and Provisions (Sch.8)</b>  <b><u>Current Liabilities : Rs.1153.29 crore</u></b>  This includes the following minus balances :</p> <p>i) Family Benefit Fund : Rs. 0.37 crore  ii) Group Insurance Fund : Rs. 0.20 crore</p> <p>The above amount of Rs. 1153.29 crore is a derived figure after netting off of the amount of (-) Rs. 0.57 crore represented by assets with that of Rs. 1153.86 crore represented by liabilities. The netting off of assets and liabilities is not permissible and has resulted in understatement of Assets and Liabilities by Rs. 0.57 crore.</p>	<p>It is to inform that the Family Benefit Fund scheme was discontinued in the year 1982 and the recovered amount is very nominal at that time and which was transferred to APSPDCL by APTRANSCO under second transfer scheme as block of assets/amounts.</p> <p>Moreover, the payments are released to retired employees based on Service Register entries, hence under this Account Head the minus balances appeared and it is also not possible to write off the minus balances as suggested by the C&amp;AG, since it is not an expenditure and the repayment is against the recovered amount. The Company intends to address this issue to APTRANSCO for seeking clarification regarding the account under which the said amounts for FBF and GIS has been grouped in the opening balances under second transfer scheme for adjustment in 2006-07 accounts.</p>
	<p><b>Profit &amp; Loss Account</b></p>	
8	<p><b>Income</b>  <b>Revenue from Sale of Power (Sch.10)</b>  <b><u>HT Supply : Rs.842.33 crore</u></b>  This is overstated by Rs. 1.71 crore due to non-accountal of the effect of reduction in energy charges for Railway Traction from Rs. 4.40 per unit to Rs. 4.36 per unit as per the judgement of the Appellate Tribunal for Electricity dated 02.03.2006. This has resulted in overstatement of “Net Profit before tax for the year” and “Sundry Debtors – Unsecured – Considered good” by a similar amount.</p>	<p>It is to state that the Appellate Tribunal for Electricity has passed an order for reduction in tariff of Railway Traction for the year 2005-06 from Rs.4.40 per unit to Rs.4.36 per unit had been communicated to the Company in July end 2006 for which the Company sought a clarification from APERC and the reply from APERC was received only during August-06 by which time the accounts were finalised and the effect could not be given.</p> <p>This will be given effect during the financial year 2006-07.</p>
	<p><b>Expenditure</b></p>	
9. (i)	<p><b><u>Purchase of Power : Rs.2238.98 crore</u></b>  This is understated by Rs. 46.87 crore due to non-accountal of the cost of power generated and supplied by Srisailem Left Bank Power House (SLBPH) of Andhra Pradesh Power Generation Corporation Limited and claimed by them. This has resulted in understatement of “Current Liabilities – Power Purchase” and overstatement of “Net profit before tax for the year” by Rs. 46.87 crore due to accountal of</p>	<p>It is to state that as per the CE/Comml, APPCC, the consent for the methodology adopted in estimation of cost of SLPBH energy is awaited from the Honorable Commission.</p> <p>In view of the above, the estimation towards the cost of energy of SLBH could not be made; thereby provision towards liability was not made.</p>

	<p>“Revenue from sale of power” in respect of power received from SLBPH and non-accountal of the cost of power.</p>	<p>On receipt of consent from Honorable Commission for the methodology as prescribed in Para 475 of Tariff order of 2004-05, the liability will be estimated and provided for in the books of accounts. The note from EC (Commercial) has been enclosed.</p> <p><b>Note No. 5 to Notes to accounts mentions the fact that the power purchase bills raised by the Generators are provisional and are subject to revision at a later date.</b></p>
9. (ii)	<p>This is also understated by Rs. 6.08 crore due to non-accountal of the claim made by M/s. Power Grid Corporation of India Limited towards transmission charges for the years 2004-05 and 2005-06 in accordance with the CERC orders passed during May 2006. This has resulted in overstatement of “Net Profit before tax for the year” by a similar amount.</p>	<p>It is to state that the claim was made by M/s.PGCIL during the Month of June -2005, towards Transmission charges, in accordance with the Central Electricity Regulatory Commission orders on various transmission assets for the block period 2004-2009. Provision for the period from 2004-2006 could not be considered in the books of accounts due to the following reasons:</p> <ol style="list-style-type: none"> <li>1. The appeal for the fixation of tariff time block mentioned above was heard by CERC from time to time and the various orders were passed during May 2006.</li> <li>2. M/s.PGCIL made the claim on 12-06-2006.</li> <li>3. The APDISCOMS had given cut off date for the finalization of accounts to all its units and the statutory audit was almost completed by 1<sup>st</sup> week of June 2006 in certain DISCOMS.</li> </ol> <p>However, the claim on account of the above order is accounted correctly classifying under the prior period items in respect of the claim relating to 2004-05, 2005-06 and as current year expenditure in respect of FY 2006-07.</p> <p><b>Note No. 4 and Note No.5 to Notes to accounts mention the facts that the transmission charges and power purchase bills claimed by APTRANSCO/Generators are provisional and are subject to revision at a later date.</b></p>
9. (iii)	<p>This is overstated by Rs. 0.60 crore due to incorrect accountal of proportionate transmission and SLDC charges payable to AP TRANSCO for 22 days as against 21 days for the month of June, 2005. This has</p>	<p>The effective date of G.O.Ms.No.58 Energy (Power-III) Department dt. 07-06-2005 is 09-06-2005, providing of SLDC Charges for 22 days (09-06-2005 to 30-06-2005 both days inclusive) and hence this is in order.</p>

	resulted in understatement of “Net profit before tax for the year” by Rs. 0.60 crore.	
10	<p><b>Employee Costs (Sch.12)</b>  <b><u>Pension contribution &amp; Terminal benefits : 20.41 crore</u></b></p> <p>A reference is invited to qualification under item No. 4 (xvi) of the Statutory Auditors’ Report regarding provision for terminal benefits on ad-hoc basis instead of on actuarial valuation. The Statutory Auditors have not quantified the impact of the comment. The amount as per actuarial valuation at the rate of 24.83 percent works out to Rs. 37.27 crore as against a liability of Rs. 17.72 crore actually provided for, thereby resulting in a short provision of terminal benefits by Rs. 19.55 crore. This has also resulted in overstatement of “Net profit before tax for the year” by Rs. 19.55 crore.</p>	<p>Though the actuary has not mentioned in his report as draft, the report is a draft one.</p> <p>APTransco in its letter has sought clarifications on the Actuarial valuation report dated 25.01.06 has stated that it is a draft report. All the Unit/Company trust and the Master trust have submitted their queries on the draft report, which are yet to be sorted by the actuary.</p> <p>As it is a draft report the actual quantification is not available and could not be adopted in accounts pending receipt of final report.</p> <p><b>The fact that the provision made is on adhoc basis and not on the basis of Actuarial valuation has been qualified in the Statutory Auditors’ Report. In the Notes to accounts of the company, it is clearly stated that awaiting revised actuarial valuation, an adhoc provision has been made.</b></p> <p>Thus in the company’s opinion</p> <ol style="list-style-type: none"> <li>1. As any excess provision required can be claimed in the ARR, there is no short provision of Rs 19.55 Crores for the year under review.</li> <li>2. The company would take into account any additional liability only after the receipt of the final report of the actuary. Once it is received, the provision will be made accordingly.</li> </ol>
11.	<p><b>Administration &amp; General Expenses (Sch.13)</b>  <b><u>Other Professional Charges : Rs.13.20 Cr</u></b></p> <p>This is overstated by Rs. 0.61 crore due to incorrect accountal of the expenditure incurred on Wide Area Network (WAN) Project commissioned and put to use during the year in Tirupati Circle. This has resulted in understatement of “Fixed Assets – Gross Block – Additions during the year – Office Equipment” and “Net Profit before tax for the year” by Rs. 0.61 crore.</p>	<p>It is to inform that this will be rectified in the current financial year 2006-07 and as the amount is not material and the effect on financial is very negligible.</p>
12	<b>Interest and Finance Charges (Sch.15)</b>	

	<p><b><u>Interest on others: Rs.66.45 crore</u></b></p> <p>This is understated by Rs. 0.61 crore due to non-accountal of the interest accrued on unsecured loan from AP EPDCL of Rs. 30 crore to the end of 31 March, 2006. This has resulted in understatement of “Current Liabilities and Provisions – Current Liabilities – Interest accrued but not due” and overstatement of “Net profit before tax for the year” by Rs. 0.61 crore.</p>	<p>At the end of the March 2006, the company had to receive Rs.25.02 crore from EPDCL. The company can recover interest at PLR rates on this amount as per the pool agreement. As the company has not accounted for this income, the company has also not accounted for the payment of interest on EPDCL loan at the end of the year.</p>
	<p><b>Net Prior Period Credits/ (Charges) (Sch.16)</b></p>	
13.	<p><b><u>Income relating to prior years : Rs.4.57 crore</u></b></p> <p>As per the Third Transfer Scheme the rights, obligations, agreements and contracts relating to procurement and bulk supply of electricity or trading of electricity to which AP TRANSCO was originally a party shall stand transferred and vested with DISCOMs with effect from 10.06.2005. The assets, liabilities and proceedings constituting the Bulk Supply Business of AP TRANSCO to be segregated and transferred to DISCOMs as per the ratio envisaged in the Government Order.</p> <p>AP Power Co-ordination Committee (APPCC) which was empowered to maintain the Pool Accounts, had passed on the Debits pertaining to prior period expenses such as royalty and water charges payable to Generators etc. to the DISCOMs in the ratio as prescribed in the Government Order, where as Credits viz., Refund of Advance Tax for excess amount paid and variable charges aggregating to Rs. 81.51 crore were not passed on to the DISCOMs.</p> <p>Non-accountal of the proportionate share by the company has resulted in understatement of “Income relating to prior years” and “Profit before Contingency Reserve” by Rs. 18.67 crore (22.90 percent of Rs. 81.51 crore).</p>	<p>In the meeting held on 8<sup>th</sup> December 2005 by Director(Finance &amp; Revenue)/APTRANSCO with the Director(Finance) of DISCOMs at Vidyut soudha, Hyderabad, regarding issues relating to 3<sup>rd</sup> (Provisional) Transfer Scheme, the issue was discussed and the APPCC decision to the following effect was explained to the Director(Finance) of DISCOMs ( vide Point No. 4.0 of the Minutes):</p> <p>(a) The Credits/refunds, if any received from the generators etc., relating to the period prior to 10<sup>th</sup> June, 2005 (for which expenditure/payments had already been accounted for by APTRANSCO) should be taken into the books of APTRANSCO only and the cash pertaining to these credits are to be transferred to APTRANSCO. On finalization of 3<sup>rd</sup> Transfer Scheme, the APTRANSCO Board may take a view on passing of further credits, if any, to the Discoms, at a later date.</p> <p>(b) The debits/claims (even though the claims pertains to period prior to 9<sup>th</sup> June 2005 are to be accounted in Discoms books only as the same /expenditure can be factored and recovered through Discoms ARR/Tariff.</p> <p>Thus as per the decision taken the debits were accounted in APPCC and credits were not taken by APPCC and hence it is in order.</p>
14.	<p><b><u>Prior period expenses/losses Depreciation : Rs.1.89 crore</u></b></p> <p>This does not include Rs. 0.86 crore being the amount of depreciation to be provided on the assets transferred from two RESCOs viz., Atmakur and Rayachoty for the period from 01.01.2005 to 31.03.2005, as the operations of</p>	<p>It is to inform that no 16(i) of notes to accounts and as well as the point no 4(xv) of Auditors report, clearly state that depreciation has been provided on gross block of fixed assets without consideration of additions during the year.</p>

	<p>the RESCOs were taken over by the Company with effect from 01.01.2005. This has resulted in understatement of “Prior period expenses / losses – Depreciation” and overstatement of “Fixed Assets – Net Block” and “Profit before Contingency Reserve” by Rs. 0.86 crore.</p>	<p>As a consistent policy, the company depreciates all additions whether assets under construction (CWIP) or acquired, in the next year. Thus as merged assets are also one form of directly acquired assets. The policy hitherto followed has been adopted and will be depreciated from next year. In view of the policy stated and normal practice of the company, the financials are not altered.</p>
15.	<p>The impact of above comments 1 to 14 on the working results of the company would result in a “Net loss before tax for the year” of Rs. 3.07 crores as against a “Net profit before tax for the year” of Rs. 96.75 crore and the “Profit before Contingency Reserve” of Rs. 40.94 crore would turn into a “Loss before contingency reserve” of Rs. 41.07 crore.</p>	<p>In view of the replies given above, the impact of the comments on the Financials of the company is not material.</p>
	<p>Sd/- (SUDARSHANA TALAPATRA) Accountant General (C&amp;RA)</p> <p>Place: Hyderabad Date: 29.09.2006</p>	<p>For and on behalf of the Board</p> <p>Sd/- P.Gopal Reddy Chairman &amp; Managing Director)</p> <p>Sd/- K.P.Anand Director (Finance)</p> <p>Place: Tirupati Date : 29.09-2006</p>

# **BALANCE SHEET AS AT 31ST MARCH, 2006**

**Amount in Rs.**

<b>Particulars</b>	<b>Schedule</b>	<b>As at 31.3.2006</b>	<b>As at 31.3.2005</b>
<b>SOURCES OF FUNDS</b>			
(1) Shareholders' Funds			
(a) Share Capital	1	3587153090	3587153090
(b) Reserves and Surplus	2	5093784409	4120809540
(2) Loan Funds	3		
(a) Secured Loans		9045047466	8239874083
(b) Unsecured Loans		2480530741	1133015977
Total		<b>20206515706</b>	<b>17080852690</b>
<b>APPLICATION OF FUNDS</b>			
(1) Fixed Assets			
(a) Gross Block	4	23227207769	18798361015
(b) Less: Depreciation & Amortisation		9847972825	8301589923
(c) Net Block		<b>13379234944</b>	<b>10496771092</b>
(d) Capital Work-in-Progress	5	4058414347	4027488233
(2) Investments	6	1079575883	403985434
(3) Current Assets, Loans & Advances	7		
(a) Inventories		1046189981	789697962
(b) Sundry Debtors		4894169110	5019752190
(c) Receivables		4401435881	3960084243
(d) Cash & Bank Balances		1552194840	800959967
(e) Loans & Advances		1953460246	277604202
		<b>13847450058</b>	<b>10848098564</b>
Less: Current Liabilities and Provisions	8		
(a) Current Liabilities		11532935718	8695490633
(b) Provisions		633862648	-
		<b>12166798366</b>	<b>8695490633</b>
Net Current Assets		1680651692	2152607931
(4) Miscellaneous Expenditure (to the extent not written off )	9	8638840	-
Total		<b>20206515706</b>	<b>17080852690</b>

SIGNIFICANT ACCOUNTING POLICIES

17

NOTES FORMING PART OF ACCOUNTS

18

**As per our report of even date  
For M/s Sankaran & Krishnan  
Chartered Accountants.**

**For and on behalf of the Board**

**Sd/-**

**(M.BALACHANDRAN)**

**Partner.**

**Membership No.16271**

**Date:- 04-08-2006**

**Sd/-**

**P.Gopal Reddy  
Chairman & Managing  
Director**

**Sd/-**

**K.SATEESH GUPTA  
Company Secretary**

**Sd/-**

**Dr. K.P.ANAND  
Director ( Finance)**

**Date:- 04-08-2006**

Place: TIRUPATI

PLACE: TIRUPATI

**PROFIT & LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 2006**

Amount in Rs.

Particulars	Schedule	For the year 2005-2006	Previous year 2004-2005
<b><u>INCOME:</u></b>			
Revenue from Sale of Power	10	22531921348	20233262027
Revenue Subsidies and Grants		6017100000	3340500000
Other Income	11	1086985916	1429094892
<b>Total Income</b>		<b>29636007264</b>	<b>25002856919</b>
<b><u>EXPENDITURE:</u></b>			
Purchase of Power		22389816457	20509908842
Electricity Duty		311932196	319127880
Employee Costs	12	1509137306	1435629427
Administration and General Expenses	13	802231609	669638620
Other Expenses	14	820673240	41381817
Depreciation and Amortisation		1527495090	1160453874
Interest and Finance charges	15	1307244788	970485393
<b>Total Expenditure</b>		<b>28668530686</b>	<b>25106625853</b>
<b>Net Profit / (Loss) before Tax for the year</b>		<b>967476578</b>	<b>(103768934)</b>
Less: Provision for Taxation			
Income Tax		24200000	-
Fringe Benefit Tax		11722942	-
<b>Profit / (Loss) after Tax for the year</b>		<b>931553636</b>	<b>(103768934)</b>
Net Prior Period Credits / (Charges)	16	(522114860)	193823543
<b>Profit / (Loss) before contingency reserve</b>		<b>409438776</b>	<b>90054609</b>
Less: Contingency Reserve		38600000	30300000
<b>Profit after Contingency Reserve</b>		<b>370838776</b>	<b>59754609</b>
Balance of Profit/(Loss) brought over from previous year		(188841256)	(248595865)
Balance carried to Balance Sheet		181997520	(188841256)

SIGNIFICANT ACCOUNTING POLICIES

17

NOTES FORMING PART OF ACCOUNTS

18

As per our report of even date

For and on behalf of the Board

For M/s Sankaran &amp; Krishnan

Chartered Accountants.

Sd/-

(M.BALACHANDRAN)

Partner.

Membership No.16271

Sd/-

P.Gopal Reddy

Chairman &amp; Managing Director

Sd/-

Dr. K.P.ANAND

Director ( Finance)

Sd/-

K.SATEESH GUPTA



**Date:- 04-08-2006**  
**Place: TIRUPATI**

**Company Secretary**

**Date:- 04-08-2006**  
**PLACE: TIRUPATI**

# CASH FLOW STATEMENT

Amount in Rs.

	Particulars	Year ending 31-03-2006	Year ending 31-03-2005
<b>A</b>	<b>Cash flow from operating activities</b>		
	Net profit before taxation	406761718	59754609
	<b>Adjustments for items in Profit &amp; Loss Account</b>		
	Depreciation & Amortisation	1546382902	1160437635
	Interest Income	22706360	19916287
	Preliminary expenditure written off	-	1578500
	Deferred Cost Written Off	2159710	-
	Interest Expense	860878879	842276583
	contingency reserve	38600000	30300000
	<b>Operating Profit before working capital changes</b>	<b>2877489569</b>	<b>2114263614</b>
	<b>Adjustments for changes in Current Assets other than Cash and Cash Equivalents</b>		
	Inventories	(256492019)	(439073749)
	Sundry Debtors	125583080	(591775203)
	Receivables	(441351638)	(540846220)
	Loans and Advances	(1675856044)	506426889
	<b>Adjustments for changes in Current Liabilities &amp; provisions</b>		
	Current Liabilities	2837445085	1358673563
	Provisions	633862648	(4502000)
	<b>Cash generated from Operations</b>	<b>4100680681</b>	<b>2403166894</b>
	Less: Provision for Tax	35922942	-
	<b>Net cash flow from operating activities</b>	<b>4064757739</b>	<b>2403166894</b>
<b>B</b>	<b>Cash flows from investing activities</b>		
	Purchase of fixed assets /CWIP	(4459772868)	(3876158202)
	Interest on Investments	(22706360)	(19916287)
	Interest received on contingency reserve investments	1430788	1990750
	Increase in Investments	(675590449)	(172786574)
	Deferred cost	(10798550)	-
	<b>Net cash flow from investing activities</b>	<b>(5167437439)</b>	<b>(4066870313)</b>
<b>C</b>	<b>Cash Flows from Financing Activities</b>		
	Proceeds from issue of share capital to State Government of A.P	-	481075000
	Proceeds from borrowings	4013717490	3585238925
	Increase in Reserves & Reserve Funds other than contingency reserve	562105305	698053813
	Repayment of long term borrowings	(1861029343)	(1969149812)
	Interest Paid	(860878879)	(842276583)
	<b>Net Cash flow from Financing</b>	<b>1853914573</b>	<b>1952941343</b>

	<b>Activities</b>			
	<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>751234873</b>	<b>289237924</b>
<b>D</b>	<b>Cash and Cash Equivalents</b>			
<b>E</b>	At the beginning of the period		<b>800959967</b>	<b>511722043</b>
	At the end of the period		<b>1552194840</b>	<b>800959967</b>
<b>F</b>	<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>751234873</b>	<b>289237924</b>

As per our report of even date  
For M/s Sankaran & Krishnan  
Chartered Accountants.

For and on behalf of the Board

Sd/-  
(M.BALACHANDRAN)  
Partner.

Membership No.16271

Date:- 04-08-2006

Place: TIRUPATI

Sd/-  
P.Gopal Reddy  
Chairman & Managing Director

Sd/-  
Dr. K.P.ANAND  
Director ( Finance)

Sd/-  
K.SATEESH GUPTA  
Company Secretary

Date:- 04-08-2006  
PLACE: TIRUPATI

#### SCHEDULE - 1 : SHARE CAPITAL

		Amount in Rs.	
	Particulars	As at 31.3.2006	As at 31.3.2005
<b>1</b>	<b>AUTHORISED:</b>		
	360000000 Equity Shares of Rs.10/- each	3600000000	3600000000
<b>2</b>	<b>ISSUED, SUBSCRIBED AND PAID UP</b>		
	358715309 Equity Shares of Rs.10/- each fully paid up	3587153090	3587153090
	Out of the above, 310607800 Equity Shares are issued for consideration other than cash		
		<b>3587153090</b>	<b>3587153090</b>

## SCHEDULE - 2 : RESERVES AND SURPLUS

		Amount in Rs.	
	Particulars	As at 31.3.2006	As at 31.3.2005
<b>1</b>	<b>CAPITAL RESERVE</b>		
	Consumers Contribution		
	As per Last Balance sheet	3782411229	3111704588
	Add: Received during the year	731875023	670706641
		<b>4514286252</b>	3782411229
	Subsidies towards Cost of Capital Assets		
	As per Last Balance sheet	7310077	7132685
	Add: Received during the year	44800	177392
		<b>7354877</b>	7310077
<b>2</b>	<b>STATUTORY RESERVES</b>		
	Contingency Reserve		
	As per Last Balance sheet	89790750	57500000
	Additions during the year	40030788	32290750
		<b>129821538</b>	89790750
<b>3</b>	<b>GRANTS-IN-AID</b>		
	Grants towards Cost of Capital Assets		
	As per Last Balance sheet	260204000	260204000
	Additions during the year	120222	-
		<b>260324222</b>	260204000
	Grant from REC towards Kutir Jyothi Scheme	0	169934740
<b>4</b>	<b>PROFIT &amp; LOSS ACCOUNT</b>	181997520	(188841256)
		<b>5093784409</b>	4120809540

## SCHEDULE - 3 : LOAN FUNDS

		Amount in Rs.	
	Particulars	As at 31.3.2006	As at 31.3.2005
<b>1</b>	<b>Secured Loans</b>		
	a) Loans from REC/PFC	9045047466	8239874083
	(Secured by all Fixed Assets present and future)		
<b>2</b>	<b>Unsecured Loans</b>		
	a) Loans from Government of Andhra Pradesh	1140058157	320571067
	b) Loan from EPDCL	300000000	-
	c) Vidyut Bonds	313100000	-
	d) Loans from Banks	727372584	812444910
		2480530741	1133015977
		<b>11525578207</b>	<b>9372890060</b>

### SCHEDULE - 4 : FIXED ASSETS

SNO	Particulars	Rate of Depreciation	Account Code	GROSS BLOCK					DEPRECIATION & AMORTISATION				NET BLOCK	
				As at 01-04-2005	Additions to Opening Gross Block	Additions during the year	Adjustments/ Deductions during the year	As at 31-03-2006	Up to 31-03-2005	For the year	Adjustments/ Deductions during the year	Up to 31-03-2006	As at 31-03-2005	As at 31-03-2006
1	Goodwill	0	18.100	-	-	100960000	-	100960000	-	20192000	-	20192000	-	80768000
2	Land and Land Rights	0	10.100	21503770	8734000	3274983	-	33512753	-	-	-	-	21503770	33512753
3	Buildings	3.02	10.200	224199261	-	10992495	-	235191756	94179976	6770818	-	100950794	130019285	134240962
4	Other Civil Works	0	10.400	2213141	-	3174423	-	5387564	-	-	-	-	2213141	5387564
5	Plant and Machinery	7.84	10.500	6377517831	164766000	1028730080	-	7571013911	2894719174	512915053	-	3407634227	3482798657	4163379684
6	Lines and Cable Net work	7.84	10.600	11309440278	272915000	2706684803	-	14289040081	5171320154	908056654	-	6079376808	6138120124	8209663273
7	Metering Equipment	12.77	10.631	240913198	-	42791694	-	283704892	30036602	49652428	-	79689030	210876596	204015862
8	Vehicles	33.4	10.700	31526504	90000	-	90300	31526204	27124498	1279416	-	28403914	4402006	3122290
9	Furniture and Fixtures	12.77	10.800	47334175	602000	1480173	164940	49251408	42907106	76875	-	42983981	4427069	6267427
10	Office equipment	12.77	10.900	95859404	65000	47042232	15800397	127166239	12153488	12249547	-	24403035	83705916	102763204
11	Spare units/Service units	7.84	11.200	447853453	1000000	105382779	53783271	500452961	29148925	35190111	-	64339036	418704528	436113925
				<b>18798361015</b>	<b>448172000</b>	<b>4050513662</b>	<b>69838908</b>	<b>23227207769</b>	<b>8301589923</b>	<b>1546382902</b>	<b>-</b>	<b>9847972825</b>	<b>10496771092</b>	<b>13379234944</b>
	<b>Previous Year</b>			<b>14993973473</b>	<b>-</b>	<b>3857171159</b>	<b>52783617</b>	<b>18798361015</b>	<b>7141152288</b>	<b>1160437634</b>	<b>-</b>	<b>8301589923</b>	<b>7852821185</b>	<b>10496771092</b>

**Notes:**

- 1 Depreciation on Vehicles for the year has been restricted to 90% of Opening Gross Block
- 2 Depreciation has not been claimed on Furnitures & Fixtures as 90% of the block is already claimed as Depreciation
- 3 Depreciation on Metering Equipment for the year includes depreciation amounting to Rs.18887812 provided for earlier years upon reclassification
- 4 Additions to Opening Gross Block pertains to Assets taken over from RESCOs consequent to the amalgamation w.e.f. 31-12-2004
- 5 Depreciation for the year includes Depreciation on the Opening Balance of Assets taken over from RESCOs



### SCHEDULE - 5 : CAPITAL WORK-IN-PROGRESS

Amount in Rs.			
	Particulars	As at 31.3.2006	As at 31.3.2005
1	Capital Work - in - Progress	3568393984	3380724805
2	Revenue Expenditure Pending Allocation over Capital Works	218100000	374843065
3	Advance for Suppliers / Contractors (Capital)	271920363	271920363
		4058414347	4027488233

### SCHEDULE - 6 : INVESTMENTS

Amount in Rs.			
	Particulars	As at 31.3.2006	As at 31.3.2005
	<b>LONG TERM INVESTMENTS (AT COST)</b>		
1	Contingency Reserve Investments		
	<u>a) Quoted</u>		
	UTI Gilt Advantage Fund LTP (No . Of Units 2864087.376 , NAV as on 31.3.06 Rs.14.5183 Per unit, totalling to Rs.4,15,81,680/- )	40290000	9990000
	<u>b) Unquoted</u>		
	Fixed Deposits with Banks	50333281	47500000
2	Other Investment		
	<u>a) Quoted</u>		
	UTI Gilt Advantage Fund LTP (No . Of Units 734633.857 , NAV as on 31.3.06 Rs.14.5183 Per unit, totalling to Rs.1,06,65,635/- )	10005034	10005034
	<u>b) Unquoted</u>		
	Share Capital in Resco - Atmakur, Nellore	-	3814500
	Share Capital in Resco - Rayachoty, Cuddapah	-	2070900
	Share Capital in Resco- Kuppam, Chittoor	2905000	2905000
	Employees Welfare Fund Investments	10000000	-
		113533315	76285434
	<b>SHORT TERM INVESTMENTS ( Unquoted)</b>		
1	Fixed Deposits with Banks	966042568	327700000
	Total	<b>1079575883</b>	<b>403985434</b>
	Aggregate Book Value of Quoted Investments	50295034	19995034
	Aggregate Book Value of Un Quoted Investments	1029280849	383990400
		1079575883	403985434
	Market Value of Quoted Investments	52247315	20346791



**SCHEDULE - 7 : CURRENT ASSETS LOANS AND ADVANCES**

Amount in Rs.

	Particulars	As at 31.3.2006	As at 31.3.2005
<b>CURRENT ASSETS</b>			
1	<b>INVENTORIES</b>		
	a) Stores and Spares	1182327126	917553303
	Less: Materials stock excess/shortage pending investigation	109436251	101154447
	Less: Provision for non-movable and obsolete stock	26700894	26700894
	<b>Total</b>	<b>1046189981</b>	<b>789697962</b>
2	<b>SUNDRY DEBTORS</b>		
	a) Unsecured		
	i) Considered Good	4894169110	5019752190
	ii) Considered Doubtful	-	76082088
		4894169110	5095834278
	Less: Provision for doubtful debts	-	76082088
	<b>Total</b>	<b>4894169110</b>	<b>5019752190</b>
3	<b>RECEIVABLES</b>		
	a) from GOAP	4151744717	3670401766
	b) from REC	2732987	2732987
	c) from others	246958177	286949490
	<b>Total</b>	<b>4401435881</b>	<b>3960084243</b>
4	<b>CASH AND BANK BALANCES</b>		
	a) Cash on Hand	154348537	74518425
	Less: Provision for Cash theft	317759	-
		154030778	74518425
	b) Balance with Schedule Banks in Current A/c	991541873	568799924
	c) Remittances in Transit	406622189	157641618
	<b>Total</b>	<b>1552194840</b>	<b>800959967</b>
<b>LOANS AND ADVANCES (Unsecured-Considered Good)</b>			
1	Loans/Advances to Government Companies		
	a) APTRANSCO	648392235	-
2	Amount Recoverable in Cash or in Kind or for Value to be received	304944162	257253288
	a) Tax Deducted at Source	-	4460936
	b) Pool Imbalance Account	971141699	-
	c) Deposits with Others	28982150	15889978
	<b>Total</b>	<b>1953460246</b>	<b>277604202</b>

### SCHEDULE - 8 : CURRENT LIABILITIES AND PROVISIONS

		Amount in Rs.	
Particulars		As at 31.3.2006	As at 31.3.2005
<b>1 CURRENT LIABILITIES</b>	-		
a) For Power Purchase		5737173219	4372484405
b) For Others		827987260	563412160
c) Security and other Deposits		556628945	354355408
d) Security Deposits from Consumers (including interest thereon)		3768473057	3076935385
e) Interest accrued but not due		113338371	111118994
f) Family Benefit Fund		(3687721)	(2941345)
g) Group Insurance Savings Fund		15312389	11068397
h) Group Insurance Fund		(2031964)	(1546132)
i) Pension /Gratuity Fund		16474359	16474359
j) Employees Welfare Fund		9397410	880655
k) Other Liabilities		493870393	193248347
		<b>11532935718</b>	<b>8695490633</b>
<b>2 PROVISIONS</b>			
a) Provision for Leave Encashment		575000000	-
b) Provision for Gratuity		31891000	-
c) Provision for Income Tax		24200000	-
d) Provision for Fringe Benefit Tax	11722942		-
Less: Advance Fringe Benefit Tax			
Paid	8951294	2771648	-
		<b>633862648</b>	<b>-</b>
		<b>12166798366</b>	<b>8695490633</b>

### SCHEDULE - 9 : MISCELLANEOUS EXPENDITURE

(to the extent not written off)

		Amount in Rs.			
	Particulars	Expenditure incurred	Written off during the year	As at 31.3.2006	As at 31.3.2005
1	SAP Expenditure	4046609	809322	3237287	-
2	GIS Mapping	6751941	1350388	5401553	-
	<b>Total</b>	<b>10798550</b>	<b>2159710</b>	<b>8638840</b>	<b>-</b>

### SCHEDULE - 10 : REVENUE FROM SALE OF POWER

		Amount in Rs.	
	Particulars	For the year 2005-2006	Previous year 2004-2005
1	Revenue from Sale of Power		
	a) Between DISCOMS	1118947908	-
	b) L.T. Supply	11801079808	12066387975
	c) H.T. Supply	8423281969	7594519537
2	Income from Inter State Sale of Power	497916771	-
3	Other Receipts	690694892	572354515
		<b>22531921348</b>	<b>20233262027</b>

### SCHEDULE - 11 : OTHER INCOME

Amount in Rs.

	Particulars	For the year 2005-2006	Previous year 2004-2005
1	Interest on Staff Loans and Advances, FDR's		
	a) Staff Loans & Advances	17359047	22024517
	b) Fixed Deposits & Others	22706360	19916287
2	Delayed Payment Charges from Consumers	505165254	576355848
3	Rebate on Power Purchase Bills	145987719	-
4	Bad Debts Recovered	180300000	-
5	Provision no longer required	74782088	-
6	U I (Unscheduled Inter Change) Income	-	760000000
7	Miscellaneous Receipts	140685448	50798240
	<b>Total</b>	<b>1086985916</b>	<b>1429094892</b>

### SCHEDULE - 12 : EMPLOYEE COSTS

Amount in Rs.

	Particulars	For the year 2005-2006	Previous year 2004-2005
1	Salaries, Wages and Bonus	1896355688	1794791585
2	Pension Contribution & Terminal Benefits	204103929	199582490
3	Employees Welfare expenses	4991507	4128446
		2105451124	1998502521
	Less: Employees Cost Capitalised	596313818	562873094
	<b>Net</b>	<b>1509137306</b>	<b>1435629427</b>

### SCHEDULE - 13 : ADMINISTRATION AND GENERAL EXPENSES

Amount in Rs.

	Particulars		For the year 2005-2006		Previous year 2004- 2005
1	Licence fees		7000000		7000000
2	Repairs and Maintenance to				
	a) Plant and Machinery	271051154		265926624	
	b) Buildings	1574353		456462	
	c) Others	77621507	350247014	49708828	316091914
3	Rent (including Lease Rentals)		12715430		7796415
4	Rates & Taxes		3511024		3656149
5	Insurance		2035959		2290864
6	Telephone Charges		27569719		23665278
7	Postage & Telegrams		1527884		1528110
8	Legal Charges		1992016		1122267
9	Audit Expenses and Fees : of which				
	a) Statutory Audit Fees	314272		280000	
	b) Audit Expenses	227736		509435	
	c) Tax Audit Fees	56120	598128	50000	839435
10	Other Professional Charges		131972870		92452177
11	Printing & Stationery		13018528		13188071
12	Advertisement		3803021		4864430
13	Electricity Charges		40263374		32532503
14	Conveyance and Traveling Expenses		135638456		106169690
15	Other Expenses		70338186		56441317
	<b>Total</b>		<b>802231609</b>		<b>669638620</b>

### SCHEDULE - 14 : OTHER EXPENSES

		Amount in Rs.	
	Particulars	For the year 2005-2006	Previous year 2004-2005
1	Waival of Surcharge	16591525	4773
2	Write off of Agricultural Receivables from Government	729400000	-
3	Write off of Deferred Revenue Expenditure	2159710	-
4	Write off of Preliminary Expenses	-	1578500
5	Provision for Cash Theft	317759	-
6	Flood, Cyclone relief Works	14075313	1999122
7	Miscellaneous losses and write-offs	58128933	37799422
	<b>Total</b>	<b>820673240</b>	<b>41381817</b>

### SCHEDULE - 15 : INTEREST AND FINANCE CHARGES

		Amount in Rs.	
	Particulars	For the year 2005-2006	Previous year 2004-2005
1	Interest on State Government Loans/REC/PFC	807070297	825580126
2	Interest on loans from Financial Institutions and Banks	53808582	16696457
3	Interest on others	664465909	503051875
		1525344788	1345328458
	Less: Interest and Finance Charges Capitalised	218100000	374843065
	<b>Net</b>	<b>1307244788</b>	<b>970485393</b>

### SCHEDULE - 16 : NET PRIOR PERIOD CREDITS/CHARGES

		Amount in Rs.	
	Particulars	For the year 2005-2006	Previous year 2004-2005
1	<b>Income relating to Prior Years</b>		
	a) Receipts Prior Period	44010385	52165485
	b) Excess Provision-Interest & Finance Charges -written back	1618986	(534805)
	c) Other Excess Provisions	75753	139584078
		<b>45705124</b>	<b>191214758</b>
2	<b>Prior Period Expenses / Losses</b>		
	a) Operating Expenses	(18812995)	36898
	b) Employee Costs	535474750	2489744
	c) Depreciation	18887812	-
	d) Interest & Other Finance Charges	29283398	5991566
	e) Other charges	2987019	(11126993)
		<b>567819984</b>	<b>(2608785)</b>
	<b>Net prior period credits/(charges) ( 1 - 2 )</b>	<b>(522114860)</b>	<b>193823543</b>

## **SCHEDULE 17**

### **STATEMENT OF ACCOUNTING POLICIES**

#### **1. Basis of Preparation of Accounts:**

- i) The accounts have been prepared under historical cost convention and conform to the statutory provisions and prevailing practices.
- ii) The company adopts accrual system of accounting to recognize Income and Expenditure, except in the case of the following which are accounted on cash basis:
  - i) interest on Family Benefit Fund
  - ii) post retirement medical benefits
  - iii) guarantee commission
  - iv) sale of scrap

#### **2. Fixed Assets:**

- i. Fixed Assets are shown at historical cost except for the assets transferred under Second Transfer Scheme.
- ii. The company follows the policy of capitalizing the amount incurred towards capital work-in-progress in the following financial year irrespective of the fact whether the capital work has been completed or not.

#### **3. Depreciation:**

- i) Depreciation has been provided on Straight Line Method over the 'estimated useful life of the asset'.
- ii) The Company charges depreciation on the assets in use in the beginning of the year and limiting the depreciation to 90% of the cost of asset.
- iii) Depreciation charge on the asset shall cease from the year following the year in which:
  - Current year depreciation along with the depreciation charged in the previous year(s) becomes equal to or more than 90 percent of the cost of the asset or
  - The asset permanently ceases to be used by the Company whichever is earlier.
- iv) Depreciation charge on a newly commissioned asset starts in the next year immediately following the year of commissioning.

#### **4. Capital work in progress:**

- i) The expenditure towards capital works in progress is accumulated in various work orders and the same is capitalized during the succeeding year.
- ii) The Company has a policy of allocating 20% of the employee cost incurred during the year towards capital expenditure.

- iii) The interest during construction is capitalized on the basis of Balance Net Assets / Assets at Construction Stage method.

## **5. Investments**

- i) Long term investments are valued at cost.  
ii) Current investments are valued at cost or market value whichever is lower.

## **6. Inventories:**

Inventories representing Stores and Spares are valued at weighted average cost basis. The cost includes insurance, freight, taxes and all other expenses incurred to bring the inventories up to the store.

## **7. Liabilities:**

All known liabilities are recorded and provided in the accounts.

## **8. Retirement Benefits :**

- i) The liability towards retirement benefits of employees in respect of Pension, and Gratuity are ascertained once in two years based on actuarial valuation and the provision is made at the year-end.  
ii) The liabilities for post retirement medical benefits to employees are accounted for on cash basis.

## **9. Government Grants and Consumer Contribution**

Government grants and Contributions received from consumers towards capital assets are treated as capital receipts and credited to Capital Reserve Account.

As per our report of even date

For and on behalf of the board

For Sankaran & Krishnan  
Chartered Accountants

Sd/-  
(M.BALACHANDRAN)  
Partner  
Membership No: 16271

Sd/-	Sd/-	Sd/-
P.GOPAL REDDY		K.P. ANAND
Chairman & Managing Director		Director (Finance)

Sd/-  
K.SATEESH GUPTA  
Company Secretary

Place : TIRUPATI  
Date : 04-08-2006

Place : TIRUPATI  
Date : 04-08-2006

## **SCHEDULE 18**

### **Notes to Accounts**

1. ***Note No.1 : Consequent to the Andhra Pradesh Gazette Notification No., 396 dated 09.06.2005, for 'Transfer of Bulk Supply Undertaking and Power Purchase Agreements from APTRANSCO to Distribution companies:***
  - i. Andhra Pradesh Power Transmission Corporation (APTRANSCO) transferred, on 09.06.05, its entire investments in equity of the Company in favour of the Government of Andhra Pradesh upon which, the company ceased to be a subsidiary of APTRANSCO.
  - ii. As per the Gazette Notification, the Assets and Liabilities pertaining to the Bulk Supply Undertaking of APTRANSCO are to be transferred and the opening Balance Sheet of the Company, as on the Effective Date being 09.06.05 with due accounting adjustments has to be prepared. However the Power Purchase and Loan Liabilities and the corresponding Receivables in the books of APTRANSCO relevant to Southern Power Distribution Company of A.P Limited, alone have been identified for transfer and the same has been adopted in the books of the Company, which is subject to revision based on the valuation to be carried out by an independent Chartered Accountant appointed by APTRANSCO and also subject to approval and amendment to the Gazette Notification, by the Government of Andhra Pradesh.
  - iii. The liability taken over includes Vidyut Bonds 1/2002 series amounting to Rs.31.31 crores, issued by APTRANSCO, against which no modification to the charge already created by the Issuer has been made and as such are classified as Unsecured Loans.
  - iv. The Power purchases, sale of power and its accounting are being carried out by the Andhra Pradesh Power Co-ordination Committee, and are sent to the Distribution Companies, which are adopted in the company's books.
  - v. A Bank account in the name of A.P.POWER DISTRIBUTION COMPANIES POOL ACCOUNT has been opened by all the Distribution companies jointly which is being operated by the nominees of Andhra Pradesh Power Co-ordination Committee. Since this is a single account, Distribution company wise confirmation of balance is not available.
  - vi. The power purchases and their payments and the inter-state sale of power and their receipts are effected through the above said Bank account by the Andhra Pradesh Power Co-ordination Committee.
2. Until the year 31.03.05, since the company was a subsidiary of APTRANSCO, the accounts were prepared as per the provisions of the Electricity Act, 1948. Since Southern Power Distribution Company of Andhra Pradesh Limited has become an independent company from 09.06.05, the accounts for the year ending 31.03.06 has been prepared as per Schedule VI of the Companies Act 1956.
3. The excess/shortfall in the pool bank account balance, between the Distribution Companies, on account of power purchase and sale of power is accounted as Pool Imbalance Account, which is subject to reconciliation and confirmation.

4. The Transmission and SLDC Charges claimed by APTRANSCO consequent to the 3<sup>rd</sup> Transfer Scheme, are provisional and are subject to the decision of Andhra Pradesh Electricity Regulatory Commission, on the review petition filed by APTRANSCO.
5. The power purchase bills raised by the Generators are provisional and are subject to revision at a later date, which are accounted amongst the Distribution companies in the ratio specified in the Gazette Notification.
6. Confirmations of balance as on 31.03.06 from the Generating Companies/Suppliers of power are yet to be obtained.
7. The billing for domestic, commercial and general-purpose categories of consumers is carried out on monthly basis in mandal head quarters and Bi-monthly basis for other than mandal head quarters.
8. The Opening balance of Net Assets amounting to Rs.564.21 crores as on 1-04-2000 has been adopted in the books as per the second transfer scheme notified by the Government Order Notification dated 29<sup>th</sup> September 2001 for which break up details are not available. The classification of the Assets and liabilities are not confirmed by APTRANSCO.
9. The company has paid Rs 4.29 crores (Previous year received Rs76.00crores) as Unscheduled inter change charges/ benefit. This has been accounted as other expenses.
10. The Company has received Tariff Subsidy of Rs 601.71 crores from government of Andhra Pradesh for the year 2005-06 (previous year Rs. 334.05 crores) including an amount of Rs. 191.00 crores receivable towards additional subsidy, due to the re-allocation of the Government of Andhra Pradesh subsidy by Andhra Pradesh Electricity Regulatory Commission, consequent to the adoption of Uniform Bulk Supply Tariff, which is accounted to Pool Imbalance account.
11.
  - i) The Fuel Surcharge Adjustment as communicated for the period April-2005 to June-2005 has been billed to the consumers. The Fuel Surcharge Adjustment for the period from Sep- 2004 to March 2005 and July-2005 to March -2006 has not been communicated and hence not accounted to Power Purchase nor billed to the consumers, which is not quantifiable.
  - ii) In the absence of communication, the Fuel Surcharge Adjustment for the period 09.06.05 to 30.06.05 has not been accounted in the books, which is not quantifiable.
12. The original share certificates in respect of Rural Electric Supply Co-operative Society of Kuppam are yet to be received.

### **13. Taking over of the Business of Rural Electric Supply Co-operative Societies:**

- i) During the year, the Assets and Liabilities of the business of Rural Electric Supply Co-operative Societies of Atmakur and Royachotty have been incorporated in the books of the company and the resultant Goodwill amounting to Rs.10.09 Crores is



amortised over a period of 5 years. Accordingly, an amount of Rs.2.02 Crores is written off during the year.

ii) The liability taken over includes Rs.32.00 lakhs pertaining to loan taken from Andhra Pradesh State Electricity Board. The same is shown as a liability even though Andhra Pradesh State Electricity Board is non existent consequent to the 2<sup>nd</sup> transfer scheme, due to the non availability of the break up details of the assets and liabilities transferred under the said scheme.

iii) The Gratuity liability as on the date of take over in respect of the employees absorbed has been provided for based on the valuation report.

14. During the year the company has taken various initiatives relating to IT (Geographical Information System, SAP ERP system). This is expected to benefit the company in the coming years and hence it has been decided to amortise the expenses over a period of 5 years. Accordingly an amount of Rs.22.00 lakhs has been written off during the year.

**15. Fixed Assets:**

i) Fixed Assets transferred in the second transfer scheme amounting to Rs.799.57 crores has been classified as communicated by APTRANSCO at gross value and hence individual breakup is not available.

ii) In accordance with the provision of Electricity Supply (Annual Accounts) Rules, 1985, Consumer contribution and the grant/subsidy received towards cost of capital assets during 2005-06 amounting to Rs.73.20 Crores has been taken to Capital Reserve.

**16. Depreciation:**

i) Depreciation has been charged on fixed assets under Straight Line Method on the Opening Gross Block of assets as on 1.4.2000, in the absence of individual break-up details of assets transferred under second transfer scheme. Further, depreciation is provided on additions from the succeeding year of its addition.

ii) The Company is charging Depreciation at the rates notified under the Electricity Act, 1948.

**17. Investments**

i) Investment of Rs.9.06 crore has been made out of the Contingency Reserve, as per the guidelines issued by Andhra Pradesh Electricity Regulatory Commission.

ii) Investments include Rs.1.00 crore pertaining to the employees welfare fund, and Rs.1.00 crore pertaining to Special Reserve Fund which is payable to Rural Electrification Corporation.

**18. Inventories:**

- i) There is a difference of Rs.10.94 crores between the physical inventory (as certified by the management) and the value as per the financial ledger as on 31.03.2006 for which provision is made in the books.
- ii) No additional provision has been made towards Non-moving and obsolete stock, during the year.
- iii) Inventory includes Rs.2.22 crores materials received but pending inspection and acceptance.

**19. Debtors:**

- i) The credit balance in the Sundry debtors amounting to Rs.19.61 Crores is netted off from the Sundry debtors.
- ii) As per the Financial ledger the Sundry debtors account shows a balance of Rs.308.47 crores where as, as per the Consumer ledger the balance shown is Rs.373.77 crores. The difference of Rs.65.30 crores includes Rs.24.45 crores write off effect given in LT Cat 1 in Financial Ledger only and remaining Rs.40.85 is under reconciliation.

**20. Employee benefits:**

- i) The company is in the process of obtaining the revised actuarial valuation for the terminal benefits of employees as on 31.03.2006, awaiting which an adhoc Provision towards pension and gratuity has been made based on earlier actuarial valuation amounting to Rs.17.72 crores. Against this liability, the Company has deposited Rs.20.88 Crores to the Pension and Gratuity Trust, during the year as per Tariff Order.
- ii) From this year onwards, the company has taken a decision to recognize the liability towards Leave Encashment of employees. Accordingly, as on 31.03.06, the liability on actual basis is Rs.57.50 crores. Out of this, an amount of Rs.2.01 crores representing the liability towards Leave Encashment for the financial year 2005-06 has been debited to Profit and Loss account and the balance amount of Rs.54.49 crores representing the liability of earlier years is grouped under 'Prior period expenses' and shown in Profit and Loss Appropriation.
- iii) The company has implemented Employees Provident Fund Scheme, 1952 for the eligible employees from the financial year 2002-03 for employees who have joined after 1.2.99 or from the date of employment, which ever is later. (For the employees who were not covered under GPF scheme.)
- iv) As per the provisions of Section 16 (i) (A) of the Payment of Bonus Act 1965, the Company is exempt from Payment of Bonus to the employees for the first six years of the commencement of its services. This being the 6<sup>th</sup> year, the same is not applicable.

**21. Loans and Interest on Loans:**

- i) All the Loans from Power Finance Corporation (PFC) / Rural Electrification Corporation (REC) are guaranteed by the Government of Andhra Pradesh, and are secured by all Fixed Assets, present and future, out of which assets worth Rs.191.20 Crores have been mortgaged to REC.
  - ii) The interest & finance charges on REC, PFC and Government Loans, have been allocated proportionately to the Capital Works in Progress as Interest during Construction and Revenue expenses based on the provisions of Electricity (Supply) Annual Accounts Rules, 1985.
  - iii) In the absence of confirmation of interest demand by REC, in respect of the loans arranged by APTRANSCO, the interest charges have been accounted as communicated by APTRANSCO.
  - iv) No interest has been paid/provided for, on the loans obtained during the year, from EPDCL amounting to Rs.30/-crores.
22. Cash-in-transit includes Cheques and DDs on hand amounting to Rs.2.29 crores as on 31.03.2006 in various units.
23. The Company has contested in various courts and appellate tribunals on the Entry Tax demand raised by the CTO, amounting to Rs.12.92 Crores, out of which the company has deposited under protest Rs.5.15 crores and for the balance of Rs.7.77 crores, no Provision has been made.
24. Balances in sundry debtors, sundry creditors, other claims and receivables, Deposits & retentions of suppliers and contractors, Deposits for electrification service connections, liability for capital supplies, O&M supplies and loans and advances as on 31.03.2006 are subject to reconciliation and confirmation.
25. The balance payable of Rs.573.71 Crores towards of power purchase is under reconciliation and confirmation is yet to be received.
26. Inter unit account shows a net difference (Credit) of Rs 8.65 Crores as on 31-03-2006 which is subject to reconciliation.
27. Sundry receivables (refer schedule 7) include Rs 415.17 Crores representing the amount receivable from the government of Andhra Pradesh towards single bulb subsidy, dues for the supply of power to Agriculture Category etc., Out of this, the subsidy towards agricultural dues amount to Rs.323.88 crores against which an amount of Rs.250.81 crores has been indicated to be securitized by way issue of Bonds by Government of Andhra Pradesh, (*As per G.O.Ms.no.30 Energy (PR.III) dept. dt.09.03.06, as against the total dues to all Distribution companies of Rs.1258 crores, an amount of Rs.975 crores is to be securitized.*) Hence the balance amount of Rs.72.94 crores has been written off during the year.
28. In the case of expired lease agreements and continued usage of leased assets after the lease period, provision for lease rental have not been made in the books of the company.

29. The Company has created a Contingency Reserve of Rs 3.86 Crores in terms of the Tariff Order 2005-06.
30. Deferred tax liability as per AS 22 has not been recognized in the books.
31. A provision of Rs.2.42 crores has been made towards Income Tax u/s 115 JB of the Income Tax Act.
32. Incidental expenses incurred on the purchase of materials amounting to Rs 1.78 Crores are treated as period costs.
33. The documentation for the loan from ICICI Bank and Bank of Baroda is yet to be completed for the loans arranged by APTRANSCO on behalf of the company.
34. Payments and Benefits to Directors:

(Figures in Rupees)

Serial No.	Particulars	FY : 2005-06		FY : 2004-05	
		Chairman and Managing Director	Other Directors	Chairman and Managing Director	Other Directors
1	Salary / Remuneration	692570	1135100	515104	1161785
2	Traveling Expenses	120065	153770	9461	11554
	Total	812635	1288870	524565	1173339

35. Loans and Advances to Directors – NIL.
36. i) Consumption figures given below, are based on the actual consumption in respect of categories I to VIII except in case of category 5 – Agriculture:

LT	Units in MU	% of total units sold	Avg.Real. in Rs. per unit
Domestic supply - Category –I	2406.11	35%	2.13
Non-Domestic supply - Category –II	529.66	8%	5.27
Industrial Supply- Category –III	679.48	10%	3.29

Cottage Industries - Category – IV	22.48	0%	1.74
Irrigation and Agriculture Category - V	2979.07	43%	0.02
Public Lighting - Category - VI	300.31	4%	1.64
General Purpose - Category - VII	34.44	0%	3.82
Temporary Supply - Category – VIII	1.12	0%	7.72
<b>LT. Total</b>	<b>6952.67</b>	<b>100.00%</b>	<b>1.57</b>
<b>HT</b>			
Industrial Segregated - Category - I	1321.76	61%	3.98
Industrial Non-Segregated - Category – II	163.38	8%	5.66
Irrigation and Agriculture - Category – IV	16.00	1%	1.49
Railway Traction - Category – V	427.46	20%	4.39
Electricity Co-Operative Societies	179.19	8%	0.47
Temporary Supply	0.54	0%	0.00
Colony Lighting	57.48	3%	3.54
<b>HT. TOTAL</b>	<b>2165.81</b>	<b>100.00%</b>	<b>3.87</b>
<b>LT + HT Total</b>	<b>9118.48</b>	<b>100.00%</b>	<b>2.11</b>

- ii) The Company has assessed the Agricultural consumption based on the readings of meters provided on the LV side of the distribution transformers feeding agricultural loads.

### 37. Contingent Liabilities:

The Contingent Liability with respect to pending court cases, claims against the company not acknowledged as debts and capital commitments have not been assessed as on 31.03.2006

### 38. Quantitative Details of Purchase and Sales of energy:

Energy Purchased and Sold	Purchases		Sales	
	In MU	Rs. In Crores	In MU	Rs. in Crores
FY: 01-02	8838	1729.15	6902	1514.04
FY: 02-03	9561	1965.19	7531	1892.34
FY: 03-04	10026	1987.96	8087	1881.59
FY:04-05	11060	2050.99	9056	1991.41
FY:05-06	10983.85	2238.98	9118.54	2221.99

39. The previous year figures have been regrouped/re-classified wherever necessary.

As per our report of even date

For and on behalf of the board

For Sankaran & Krishnan  
Chartered Accountants

Sd/-  
(M.BALACHANDRAN)  
Partner  
Membership No: 16271

Sd/-	Sd/-
P.GOPAL REDDY	K.P. ANAND
Chairman & Managing Director	Director (Finance)

Sd/-  
K.SATEESH GUPTA  
Company Secretary

Place : TIRUPATI  
Date : 04-08-2006

Place : TIRUPATI  
Date : 04-08-2006

*STATEMENT PURSUANT TO PART IV OF SCHEDULE VI TO THE COMPANIES ACT, 1956*

**BALANCE SHEET ABSTRACT AND COMPANY'S GENERAL BUSINESS PROFILE**

**I. Registration Details:**

Registration No.	:	34118
State Code	:	01
Balance Sheet Date	:	31-03-2006

**II. Capital raised during the Year** : (Rupees in Thousands)

Public Issue	:	-
Rights Issue	:	-
Bonus Issue	:	-
Private Placement	:	-

**III. Position of Mobilisation and Development** : (Rupees in Thousands)

Total Liabilities	:	32373314
Total Assets	:	32373314

**Sources of Funds**

Paid up capital	:	3587153
Reserves & Surplus	:	5093784
Secured Loans	:	9045047
Unsecured Loans	:	2480531

**Application of Funds**

Net Fixed Assets	:	13379235
CWIP	:	4058414
Investments	:	1079576
Net Current Assets	:	1680652
Miscellaneous Expenditure	:	-

**IV. Performance of the Company** : (Rupees in Thousands)

Turnover	:	29636007
Total Expenditure	:	28668530
Profit / (Loss) before Tax for the year	:	967477
Profit / (Loss) After Tax for the year	:	931554
Net Prior Period Charges	:	522115
Profit after Contingency Reserve	:	370839
Earnings per Share	:	Rs. 1.03
Dividend Rate %	:	NIL

**V. Generic Names of Principal products / Services of the Company**

Item Code No.	Product Description
N.A.	Distribution of Power

Proxy form

**SOUTHERN POWER DISTRIBUTION COMPANY OF A.P. LIMITED**

Registered Office: 19-3-13(M), Renigunta Road, Tirupati – 517 501

Phone : 0877-2284109 Fax: 0877-2284111

**PROXY FORM**

I, Sri..... S/o.....R/o..... being a member of Southern Power Distribution Company of A.P. Limited hereby appoint Sri.....S/o.....R/o..... as my proxy to attend and vote for me, on my behalf at the Sixth Annual General Meeting of the Company to be held on **Friday, the 29<sup>th</sup> September, 2006 at 12.00 Noon** or at any adjournment thereof at the Registered Office of the Company.

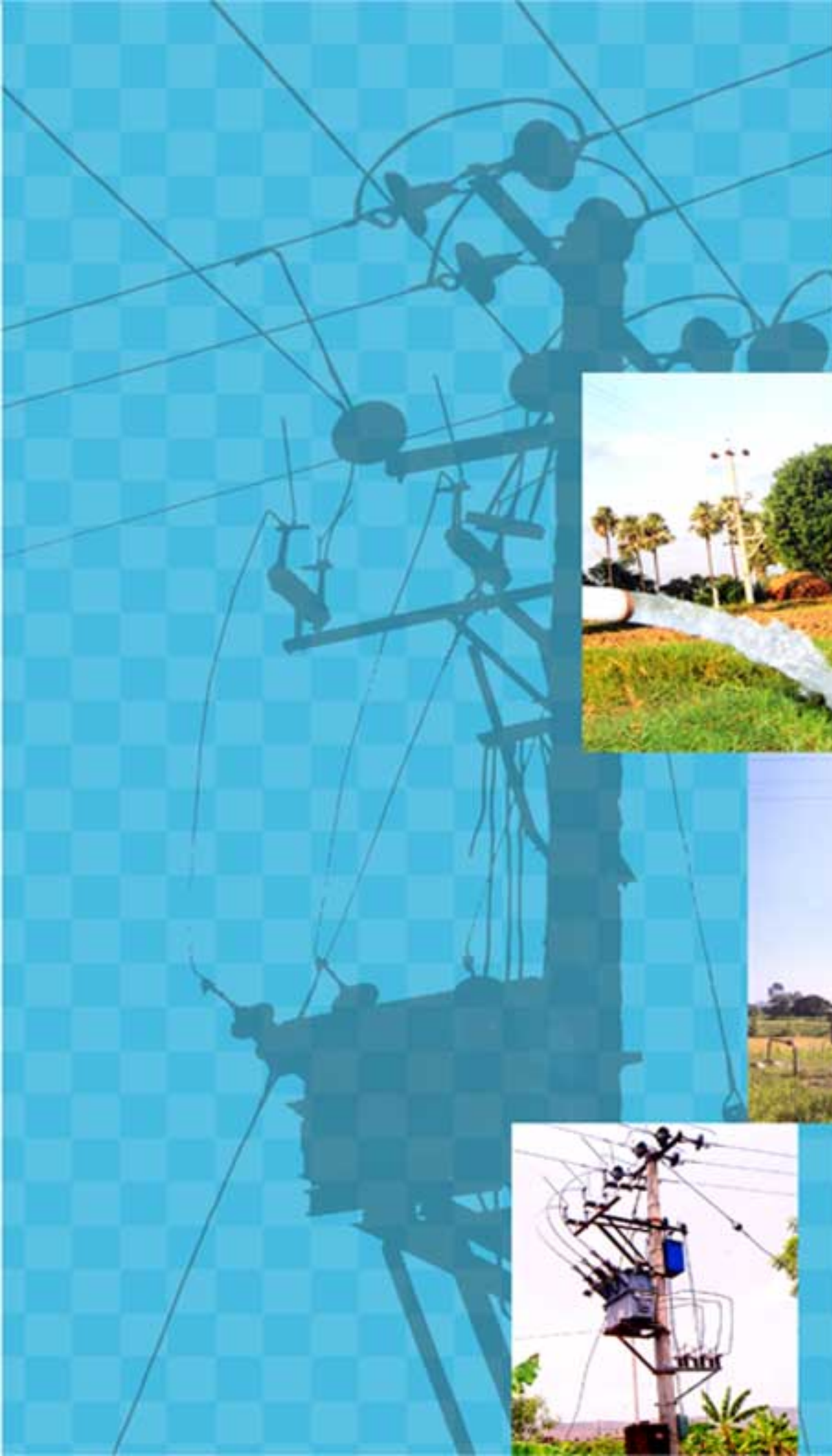
Affix Revenue Stamp
---------------------------

Signed this..... Day of ..... 2006.

Place:

Date :







## **SOUTHERN POWER DISTRIBUTION COMPANY OF A.P. LTD.,**

19-3-13(M), Renigunta Road, TIRUPATI - 517 501. A.P.

Ph: (0877) 2284109, 2284112, Fax:08772284111

[www.apspdcl.in](http://www.apspdcl.in)