

7th Annual Report

2006 - 07



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

Board of Directors

Sri P.Gopal Reddy	-	Chairman & Managing Director
Sri M.Malakondaiah.I.P.S.	-	Non Whole Time Director
Sri M. Gopal Rao	-	Non Whole Time Director
Sri T.H.N.S.Damodara Rao	-	Director (Operation)
Sri Y.Padmanabha Reddy	-	Director (Projects & Commercial)
Sri A.Venkata Reddy	-	Director (Finance)
Sri V.Krishna Murthy	-	Director (RAC)
Sri Shaik Anwar	-	Director (H.R.D)

COMPANY SECRETARY

B.V.S.Prakash

AUDIT COMMITTEE

Sri M.Malakondaiah,I.P.S.
Sri M.Gopal Rao
Sri Y.Padmanabha Reddy

Auditors

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

REGISTERED OFFICE

D.No
Behind Srinivasa Kalyana Mandapam,
Kesavayanigunta,
Tirupati-517 501
Chittoor (Dist).
Andhra Pradesh.

Telephone : (0877) 2284109, 2284112
Fax : (0877) 2284111
URL : www.apspdcl.in

BANKERS

State Bank of Hyderabad
State Bank of India

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APSPDCL PERFORMANCE HIGHLIGHTS

Year ended 31 st March	2007	2006	2005	2004	2003	2002
Units Sold (Million Units)	10360.95	9118.49	9055.55	8086.94	7530.89	6902.48
No. of 33/11 KV Sub stations	767	700	644	597	532	487
Length of 33 KV line in KM	9960.10	9601.31	9132.33	8951.61	8590.24	8276.94
Length of 11 KV line in KM	70173.41	64626.11	59309.92	50988.40	44831.91	43515.86
Length of LT line in KM	130361.92	129381.08	117767.06	112699.83	110537.15	108565.30
Number of Distribution Transformers	158160	139020	115313	94036	60068	54396
Number of Power Transformers	1071	1002	953	906	841	797
No of Consumers	5234494	4849471	4536777	4336286	4227497	4066524
Distribution Losses (%)	15.97	16.98	18.12	19.34	21.22	21.31
Distribution Transformer failures (%)	5.70	9.19	8.45	9.27	14.16	17.21
Average Realisation per unit (Rs.)	2.09	2.11	2.06	2.18	2.37	2.10
Financial Data (Rs. in Crores)						
Total income	3304.32	2963.60	2500.28	2416.40	2389.26	2076.39
Total Expenditure	3251.14	2926.52	2494.30	2413.79	2391.29	2101.83
Surplus / (Deficit)	53.18	37.08	5.98	2.61	(2.03)	(25.44)
Paid up Equity Capital (Rs. In Crores)	358.71	358.71	358.71	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”



Sri P.Gopal Reddy
Chairman & Managing Director



Sri M. Malakondaiah.I.P.S.
Non Whole Time Director



Sri M. Gopal Rao
Non Whole Time Director



Sri A.Venkata Reddy IRAS
Director Finance



Sri T.H.N.S.Damodara Rao
Director Operation



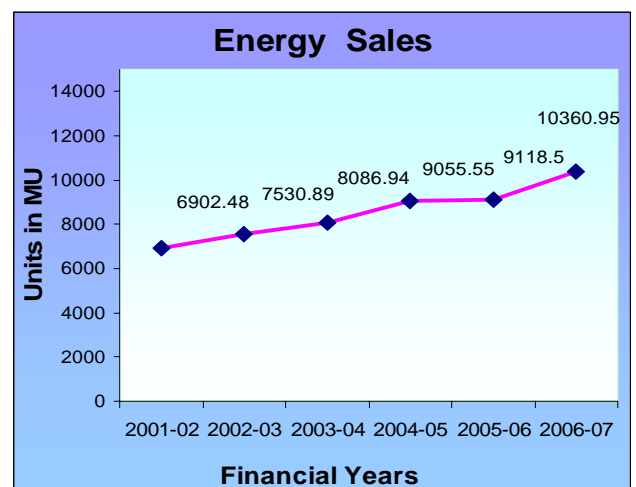
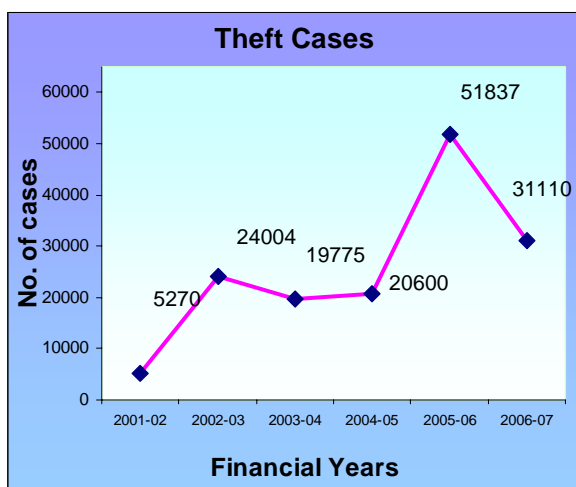
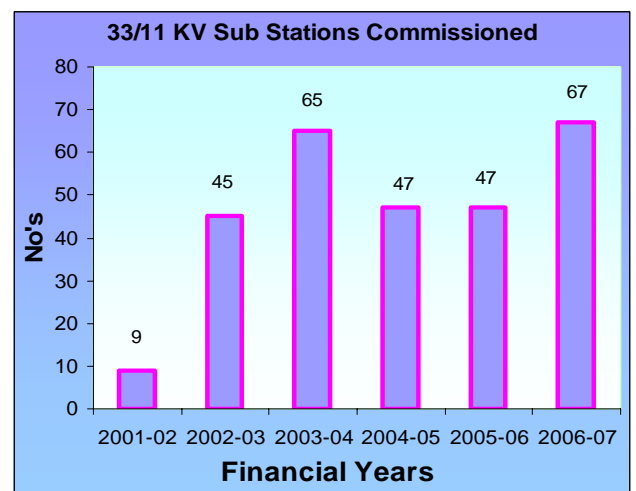
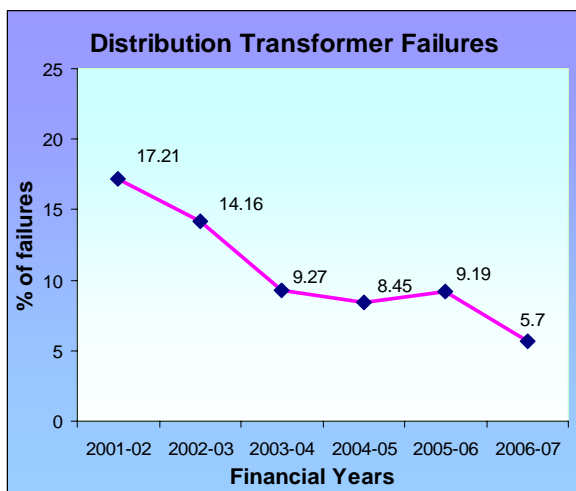
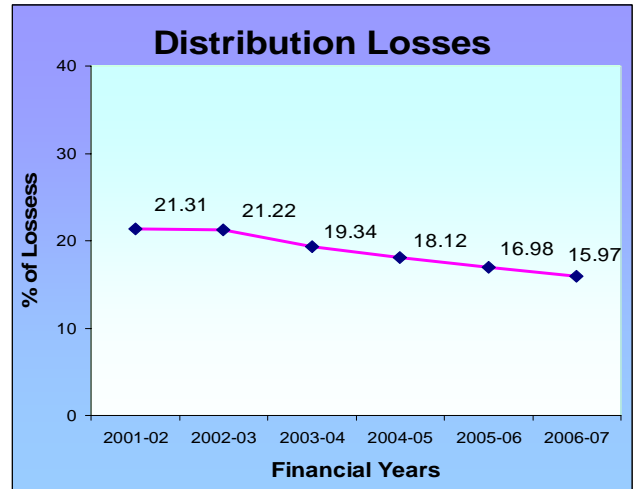
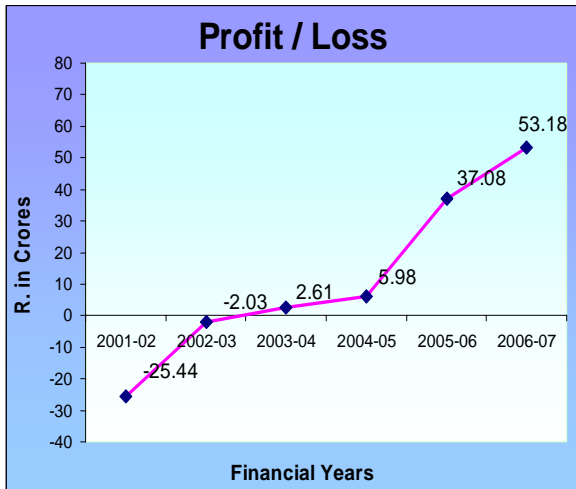
Sri Y. Padmanabha Reddy
Director Projects & Commercial



Sri V. Krishna Murthy
Director RAC



Sri Shaik Anwar
Director HRD



Chairman & Managing Director's Statement

It gives me great pleasure in presenting Seventh Annual Report of your company for the year 2006-07. 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

You will be happy to learn that our company has achieved rapid transformation in its Performance, the following are highlights of the strong operational & financial performance of the Company during the year 2006-07.

- Total income of **Rs.3304.32 Crore in 2006-07** – up from Rs.2963.60 Crore in the corresponding previous year, resulting **an increase of 11.50%**.
- The net profit of the Company increased to Rs.53.18 Crore – up from Rs.37.09 Crore in the corresponding previous year, **an increase of 43.40%**.
- Earnings per share (EPS) for the year stood at Rs.1.48 in 2006-07 – up from Rs.1.03 in 2005-06, showing **an increase of 43.68%**.

Furhter,

- A total of 3,85,023 new services have been added during the year which includes 161 new HT services.
- 67 Nos of 33/11 KV substations have been added during the year to improve quality of power supply.
- During the year 570 Nos Dalitha wadas, 650 Nos weaker section colonies and 10 Nos Tribal colonies/hamlets were electrified.
- During the year, under Energization of Agricultural Pumpsets programme, 444 of SCs, 240 STs, 104 BCs, 12 of APSIDC and others 3548 were done..Under Tatkal Scheme 24,537 Nos. were takenup.
- 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 Electricity 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.

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 21st 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 6th January, 2006.

Corporate Governance: Our Company is continuously following the best practices in Corporate Governance and no less than any other company. We had our good Internal Audit system and Committee Meetings apart from Board Meetings as per schedule. We are attaching more importance on delivering Superior Value to our consumers. We will always maintain our conservative financial profile, ensuring high degree of financial flexibility to capture future Growth Opportunities.

Customer Satisfaction: Our company is making all efforts to satisfy consumers by its quality distribution of Electricity and proper billing of the charges for what they use.

We always attach high importance towards safety of our people.

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.

To conclude, our emphasis will be on consistent performance, Financial Conservatism, and Discipline, to further enhancement of our Quality services to our consumers and development of the state.

I congratulate all the employees for their sincere efforts towards achieving the financial turn around and achieving a profit of Rs.53.18 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 prepared to meet the challenges ahead.

Chairman & Managing Director



NOTICE

NOTICE is hereby given that the Seventh 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 **Tuesday, the 27th November, 2007 at 2.00 PM** at the Registered Office of the Company Behind Srinivasa Kalyanamandapam, Tiruchanoor 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 31st 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**

**B.V.S.Prakash
Company Secretary**

Date : 27-11-2007

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 2006-07 and I trust the Annual Audited Accounts for the said year as circulated have been perused by all of you.

Financial Results:

S.No .	Particulars	Rs. in Crores	
		Current Year 2006-07	Previous Year 2005-06
a.	Total income	3304.32	2963.60
b.	Total expenditure	3246.63	2866.85
c.	Profit/(Loss) before tax	57.69	96.75
d.	Provision for tax	0.77	3.59
e.	Profit/(Loss) after tax	56.92	93.16
f.	Net prior period credits/(Charges)	(3.74)	(52.21)
g.	Profit/(Loss) before Contingency Reserve	53.18	40.95
h.	Contingency Reserve	-	3.86
i.	Profit after Contingency Reserve	53.18	37.09

Financial Highlights

It is my great pleasure to share with you the highlights of the strong operational and financial performance of our Company during the year 2006-07.

- Total income of **Rs.3304.32 Crore in 2006-07** – up from Rs.2963.60 Crore in the corresponding previous year, resulting **an increase of 11.50%**.
- Profit before tax of the Company stood at Rs.57.69 Crore as against of Rs.96.75 Crore in the previous year.
- The net profit of the Company increased to Rs.53.18 Crore – up from Rs.37.09 Crore in the corresponding previous year, **an increase of 43.40%**.
- Earnings per share (EPS) for the year stood at Rs.1.48 in 2006-07 – up from Rs.1.03 in 2005-06, **an increase of 43.68%**.

Dividend

The Board of Directors have not declared any dividend during the year ended 31.03.2007

Energy Sales

The Company's total sales increased to **10360.95 MU** in 2006-07 from **9118.49 MU** in 2005-06 showing increase of 13.62%.

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

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

S.No	Particulars	As on 31-3-2007	As on 31-3-2006
1	Number of 33/11 KV Sub stations	767	700
2	Length of 33 KV line in KM	9960.10	9517.75
3	Length of 11 KV line in KM	70173.41	62239.86
4	Length of LT line in KM	130361.92	126356.03
5	Number of Distribution Transformers	158160	131592
6	Power Transformers	1071	1003
7	Number of Consumers	5234494	4849471

Distribution Transformer failures:

Distribution Transformer failures decreased to **5.70% in 2006-07** from 9.19% in 2005-06.

Distribution Losses:

Distribution losses were reduced from 16.98% in 2005-06 to **15.97% in 2006-07**.

Achievements of the Company during 2006-07

- A total of 3,85,023 new services have been added during the year which includes 161 new HT services.
- 67 Nos of 33/11 KV substations have been added during the year to improve quality of power supply.
- During the year 570 Nos Dalitha wadas, 650 Nos weaker section colonies and 10 Nos Tribal colonies/hamlets were electrified.
- During the year, under Energization of Agricultural Pumpsets 444 of SCs 240 STs, 104 BCs, 12 of APSIDC and others 3548 were done under Tatkal Scheme 24,537 Nos. were takenup.
- 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 Vidyutikan 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 2006-07 to curb the theft of energy.

A total of **31,110** theft cases were registered during the year 2006-07 assessing Rs.6,61,65,712/- as against 51,837 cases in 2005-06. During the year 28,710 cases were compounded and Rs. 2,31,23,425/- collected.

Agriculture consumption

The agricultural consumption during the year 2006-07 was 3716.10 MU as against 2979.08 MU during 2005-06 showing an increase of **24.73%**.

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:

Name of the Director	Date of appointment	Date of change
1. Sri K.P.Anand IAAS	25-02-2004	24-02-2007
2. Sri Harish Kumar, IAS	13-06-2006	07-10-2006
3. Sri. P.M.K.Gandhi	17.12.2002	07.10.2006
4.Sri. M.MalaKondaiah.,I.P.S.,	07.10.2006	-
5.Sri.M.Gopala Rao	07.10.2006	-
6 Sri. Shaik Anwar	29.03.2007.	-
7 Sri A.Venkata Reddy		-

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
Sri.M.Malakondaiah, IPS/JMD/Vigilance/APTRANSCO-Non Whole Time Director.
Sri.M.Gopala Rao,Director /APTRANSCO-Non Whole Time Director.
Sri.Y.Padmanabha Reddy, Director (Comml.& Projects)
Sri.A.Venkata Reddy, Director (Finance)
Sri.T.H.N.S.Damodara Rao, Director (Operation).
Sri.Shaik Anwar'Director (HRD)
Sri.V.Krishna Murthy, Director (RAC).

Board Meetings 2006-07:

The Board held its meetings on 26th June, 4th August, 29th September,24th November, 16th January-2007 and 15th February,24th February 2007 during the financial year 2006-07 in accordance with the provisions of Section 285 of the Companies Act, 1956. The minutes of the meeting disclose the timing of the meeting.

Composition of Audit Committee and changes therein:

The composition of the Audit Committee on the date of this report is as follows:

1. Sri M.Malakondaiah, IPS
2. Sri M.Gopala Rao
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 2006-07 and 2007-08.

Replies to the comments of the Statutory Auditors and CAG

Replies of the Management to comments of the Statutory Auditors, Comptroller And Auditor General of India (CAG) and financial review by CAG of India on the accounts of the Company for the year ended 31st march, 2007 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 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.

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 31st March 2007, 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 gratitude and appreciation to the employees for their sincere 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: 27-11-2007
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 completed
2. GIS is under process
3. Regulatory Information Management System is being implemented
4. SAP is under implementation

(C) Foreign Exchange earnings and outgo : NIL

**AUDITOR'S 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 31st March 2007 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 *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 (i)}.
 - ii. Non confirmation of the bank balance of the company in the power purchase pool account. {Refer Note No.1 (iv)}.
 - iii. Non-reconciliation/ confirmation of the Pool Imbalance account {Refer Note No.2}.
 - iv. Non confirmation of balance with Power generating companies. {Refer Note No.5}.

- v. The Company has accounted Rs.104.80 Crores being the Government Grants, Subsidies and Consumer Contribution pertaining to the period upto 31.03.06, as the Income of the year. This is not in accordance with Accounting Standard 5- 'Net Profit or Loss for the period, Prior Period Items and Changes in Accounting Policies.' {Refer Note No.7}.
- vi. 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).
- vii. Non-reconciliation of the amount of Sundry Debtors as per Financial Ledgers and Consumer Ledgers. {Refer Note No.19 (ii)}.
- viii. Non confirmation of Sundry Debtors, Sundry Creditors and Loans and Advances. {Refer Note No.24}.
- ix. Non-reconciliation of Inter Unit Accounts which shows a net difference (debit) of Rs.10.84 crores. {Refer Note No.26}.
- x. Non-reconciliation / confirmation of the Loan accounts with APTRANSCO, REC, PFC and Government of Andhra Pradesh. {Refer Note No.21}.
- xi. Accounting of interest of 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)}.
- xii. Reckoning of Government Grants, Subsidies received and Consumer contribution towards cost of Capital Assets, directly to Gross block of Assets, instead of identifying the same with individual Assets as required under AS 12 – Accounting for Government Grants issued by ICAI. {Refer Accounting Policy No.9}.
- xiii. 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 as required by AS 10 – Accounting for Fixed Assets, issued by ICAI.
- xiv. The Company has not followed the Accounting Policy No.4 (ii) 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.47.60 crores towards Capital expenditure, which has resulted in overstatement of profit to the same extent.***
- xv. Note No.16 (i) and Accounting Policy No.3 (iv) 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 as required by 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.

- xvi. Note No.29 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 as required by AS2 – Valuation of Inventories, issued by ICAI.
- xvii. Accounting Policy No.8 and note No.20 (i) and (ii) regarding provision for Pension, Gratuity, and leave encashment on adhoc basis, instead of making provision based on actuarial valuation as required by AS15 – Accounting for Retirement Benefits, issued by ICAI.
- xviii. Note No.21 (ii) and Accounting Policy No.4 regarding capitalisation of interest and finance charges during construction period, which are not in conformity with AS16 – Borrowing Costs, issued by ICAI.
- xix. Non-recognition of Deferred tax liability which is not in conformity with AS 22 Taxes on income issued by ICAI. {Refer Note No.28}.
- xx. Note No.34 regarding non-disclosure of items for which the company is contingently liable including Power purchase/sales, court cases and capital commitments remaining unexecuted which is not in conformity with AS 29 – Provisions, Contingent Liabilities and Contingent Assets.
- xxi. The non-accounting of Fuel Surcharge Adjustment for the period September, 04 to March, 05 and Jan 06 to March 2006 and for the Year 2006-07. {Refer Note No.11}.
- xxii. Note No.23 regarding the Non-provision of the demand of Andhra Pradesh Entry Tax amounting to Rs.3.28 crores.
- xxiii. Non-availability of 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 5 : Net Profit or Loss for the period, Prior Period Items
and Changes in Accounting Policies.
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 provision 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

7.

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 31st March 2007.

- ii. In the case of Profit and Loss Account, of the PROFIT for the year ended 31st March 2007.

AND

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

Place: Tirupati
Date : 09.08.07

For Sankaran & Krishnan
Chartered Accountants

M.Balachandran
Partner
Membership No:16271

ANNEXURE TO AUDITOR'S REPORT
REFERRED TO IN PARAGRAPH 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 procedures 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 in the books of accounts.
- 3) As informed to us, the company has neither taken nor granted any loans, secured or unsecured from/to 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 the concerned 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 statue	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 2004-05 2005-06 Total	1,99,85,301 4,85,52,477 2,37,45,193 9,22,82,971	The Appellate Deputy Commissioner, Kurnool and various other courts/tribunals.

However, an amount of Rs.5,94,91,323/- 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.49.00 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. in Crores)
Theft of (a) Energy	6.37
(b) Materials	2.68

For Sankaran & Krishnan
Chartered Accountants

Place : 09.08.07
Date : Tirupati

(M. BALACHANDRAN)
Partner
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	The Company has taken over the bulk supply of power business from APTRANSCO. The bulk

	<p>Receivables, identified for transfer, as against the transfer of entire Assets and Liabilities pertaining to the Bulk Supply Undertaking of APTRANSCO as stipulated in <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 (i)}.</p>	<p>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 confirmation of the bank balance of the company in the power purchase pool account. {Refer Note No.1 (iv)}.	Noted for guidance
3	Non-reconciliation/ confirmation of the Pool Imbalance account {Refer Note No.2}.	This will be reconciled in the current Year 2007-08.
4	Non confirmation of balance with Power generating companies. {Refer Note No.5}.	This will be reconciled in the current Year 2007-08.
5	The Company has accounted Rs.104.80 Crores being the Government Grants, Subsidies and Consumer Contribution pertaining to the period upto 31.03.06, as the Income of the year. This is not in accordance with Accounting Standard 5- 'Net Profit or Loss for the period, Prior Period Items and Changes in Accounting Policies.' {Refer Note No.7}.	
6	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.
7	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.
8	Non confirmation of Sundry Debtors, Sundry Creditors and Loans and Advances. {Refer Note No.24}.	These balances are under reconciliation and the effect of the same will be given once the final report of Audit of Receivables is received.

9	Non-reconciliation of Inter Unit Accounts which shows a net difference (debit) of Rs.10.84 crores. {Refer Note No.26}.	This being a running account, the Company is taking necessary steps to reconcile the same periodically
10	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
11	Accounting of interest of 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.
12	Reckoning of Government Grants, Subsidies received and Consumer contribution towards cost of Capital Assets, directly to Gross block of Assets, instead of identifying the same with individual Assets as required under AS 12 – Accounting for Government Grants issued by ICAI. {Refer Accounting Policy No.9}.	The company has not adjusted consumer contribution received against acquisition of fixed assets, as per the terms of ESAAR, 1985.
13	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 as required by AS 10 – Accounting for Fixed Assets, issued by ICAI.	This is as per Electricity Supply (Annual Accounts) Rules, 1985
14	The Company has not followed the Accounting Policy No.4 (ii) 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. <i>This has resulted in excess allocation of Rs.47.60 crores towards Capital expenditure, which has resulted in overstatement of profit to the same extent.</i>	The policy has been consistently followed by the company.
15	Note No.16 (i) and Accounting Policy No.3 (iv) regarding charging of depreciation on the opening Gross Block	The Company has computed depreciation on the gross block (bifurcated into individual heads on prorating method) as given in the Second Transfer

	of Assets without considering the additions during the year and non withdrawal of accumulated depreciation on sale of Assets as required by 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.	Scheme notified by the Government of AP vide G.O.No.109 Energy(Power-III) September 29 th ,2001.
16	Note No.29 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 as required by 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.
17	Accounting Policy No.8 and note No.20 (i) and (ii) regarding provision for Pension, Gratuity, and leave encashment on adhoc basis, instead of making provision based on actuarial valuation as required by 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.
18	Note No.21 (ii) and Accounting Policy No.4 regarding capitalisation of interest and finance charges during construction period, which are not in conformity with AS16 – Borrowing Costs, issued by ICAI.	This policy is as per Electricity Supply (Annual Accounts) Rules, 1985
19	Non-recognition of Deferred tax liability which is not in conformity with AS 22 Taxes on income issued by ICAI. {Refer Note No.28}.	The Company is of the view that no deferred tax Asset or Liability exists in the company.
20	Note No.34 regarding non-disclosure of items for which the company is contingently liable including Power purchase/sales, 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.
21	The non-accounting of Fuel Surcharge Adjustment for the period September, 04 to March, 05 and Jan 06 to March 2006 and for the Year 2006-07. {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.
22	Note No.23 regarding the Non-provision of the demand of Andhra Pradesh Entry	The same is being reconciled in the ensuing year 2006-07.

	Tax amounting o Rs.3.28 crores.	
23	Non-availability of Original Share Certificates of Kuppam RESCO (Refer Note No.12)	Noted for Guidance.
24	<i>Non disclosure of dues to Small Scale industrial undertakings under Creditors.</i>	Noted for guidance
25	<i>Non classification of Sundry Debtors into outstanding for a period exceeding six months and others.</i>	Noted for guidance
	<p>M/s SANKARAN & KRISHNAN Chartered Accountants</p> <p>Sd/- (M..Balachandran) Partner</p> <p>Place: Tirupati Date: 09-08-2007</p>	<p>For and on behalf of the Board</p> <p>Director (Finance) (Chairman & Managing Director)</p> <p>Place: Tirupati Date: 09-08-2007</p>

ANNEXURE TO THE AUDITORS' REPORT		SOUTHERN POWER DISTRIBUTION COMPANY OF ANDHRA PRADESH LIMITED
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	Noted for future compliance.

	particulars including quantitative details and situations of fixed assets.	
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.
	<p>M/s SANKARAN & KRISHNAN Chartered Accountants</p> <p>Sd/- (M..Balachandran) Partner</p> <p>Place: Chennai Date: 09-08-2007</p>	<p>For and on behalf of the Board</p> <p>Director (Finance) (Chairman & Managing Director)</p> <p>Place: Tirupati Date: 09-08-2007</p>

**OFFICE OF THE
ACCOUNTANT GENERAL (C&RA),
ANDHRA PRADESH
HYDERABAD – 500 004.**

No.AG(C&RA)/EBRA-IV/V/2007-08/ 90 Dated.15.11.2007.

To

**The Chairman & Managing Director,
Southern Power Distribution Company of Andhra Pradesh Limited,
Tirupati.**

Sir,

Sub: Comments on the accounts of Southern Power Distribution Company of Andhra Pradesh Limited, Tirupati for the year ended 31 March 2007.

* * *

I am to forward herewith 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 March 2007 for necessary action.

2. The date of placing of Comments along with Annual Accounts and Auditors' Report 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 the 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 2006-07 may be furnished in due course.

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

Yours faithfully,

Encl: As above.

Sd/-
Sr. Dy Accountant General (Commercial)

COMMENTS OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA UNDER SECTION 619(4) OF THE COMPANIES ACT, 1956 ON THE ACCOUNTS OF SOUTHERN POWER DISTRIBUTION COMPANY OF ANDHRA PRADESH LIMITED, TIRUPATI FOR THE YEAR ENDED 31 MARCH 2007.	REPLIES OF THE COMPANY FORMING PART OF THE DIRECTOR'S REPORT TO THE MEMBERS UNDER SECTION 217(3) OF THE COMPANIES ACT, 1956.
<p style="text-align: center;">A. Comments on Profitability:</p> <p style="text-align: center;">Balance Sheet</p> <p>Application of Funds Fixed Assets (Sch.4)</p>	
<p>1. <u>Goodwill(Gross Block): Rs.10.10 crore</u></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>The valuer appointed for valuation of assets and liabilities of RESCOs also recognized "Share Capital contributed by Government of Andhra Pradesh" and "Liquidator expenses" as liabilities to be absorbed by the company.</p> <p>This has resulted in understatement of "Goodwill" (Gross Block) by Rs.63 lakh; "Amortisation of Goodwill" by Rs.13 lakh, "Prior Period Expenses/Losses – Amortisation of Goodwill" by Rs.13 lakh and overstatement of "Profit before Contingency Reserve" by Rs.26 lakh.</p> <p>The above was also commented upon by the Comptroller and Auditor General of India on accounts of the Company for the year ended 31 March 2006.</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>The Valuer appointed by the company for valuation of Assets & 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.</p>
<p>2. <u>Office equipment – Gross Block – Additions during the year: Rs.7.45 crore</u></p> <p>The above includes Rs.63.49 lakh being the lease line charges paid (May 2006) to BSNL in advance in respect of WAN Project commissioned on 30.09.2006. The incorrect accountal of the same has resulted in understatement "Administration and General Expenses – Telephone Charges" by Rs.31.83 lakh, "Loans and Advances – Amount recoverable in cash or in kind or value to be recovered" by Rs.31.66 lakh and overstatement of "Fixed Assets – Gross Block – Additions during the year – Office Equipment" by Rs.63.49 lakh and "Net Profit before tax for the year" by Rs.31.83</p>	<p>Rectification entry has been passed in the year 2007-08 by crediting "Office Equipment Account" for Rs.63.49 lakh and debit "Prior Period Expenditure-Operating Expenses" for Rs.31.83 lakh and "Administration and General Expenses – Telephone Charges" by Rs.31.66 lakh.</p>

	lakh.	
	Profit & Loss Account Income	
3.	Revenue from Sale of Power (Sch.10) <u>Other Receipts: Rs.84.13 crore</u> <p>The above includes Rs.1.24 crore being the advance payment of CC charges received from APSIDC in respect of 15 Lift Irrigation Scheme services to be released by the company in Operation Circle, Ongole. Pending adjustment of the amount towards CC charges of the services released/ to be released, the amount should have been treated as an advance from APSIDC. The incorrect account of the advance has resulted in understatement of "Current Liabilities – Other Liabilities" and overstatement of "Other Receipts" and "Net Profit before Tax for the year" by Rs.1.24 crore.</p>	<p>It is to inform that out of 15 Lift Irrigation Schemes, 6 No. of services were released and consumption was also made during the year 2006-07. The advance amount received against the released 6 No.services is Rs. 50.56 Lakh and after deducting the consumption charges Rs. 6.31 Lakh ,the amount to be transferred to "Sundry Debtors" is Rs.44.25 Lakh and revenue portion of the released services for the units consumed up to 31-03-2007 Rs.6.31 Lakh is to be shown under "Revenue from Sale of Power" . The amount received against the services not released as on 31-03-2007 Rs. 73.25 Lakh is to be shown under "Current Liabilities". However, action will be taken to transfer the CC Charges pertains to services released during the year 2006-07 to "Sundry Debtors" and balance amount will be transferred to "Current Liabilities" in the year 2007-08.</p>
	Other Income (Sch.11)	
4.	<u>Miscellaneous Receipts – Rs.21.48 crore</u> <p>The above is understated by Rs.4.20 crore due to non-accountal of the Foreign Exchange Regulation Variation Credit for the year 2006-07 passed on by NTPC (Simhadri TPS) through the power purchase bill for the month of May 2007, received on 06.06.2007. As the accounts of the Company for the year 2006-07 were open as on 06.06.2007 necessary adjustments should have been made in accounts. This has resulted in understatement of "Net Profit before Tax for the year" by Rs.4.20 crore.</p>	<p>It is to state that the amount of Rs.4.20 crore being the Foreign Exchange Regulation Variation credit adjusted by the NTPC (Simhadri TPS), Secunderabad in May 2007 Power Purchase bill which was raised on 06-06-2007. The total amount of Rs 18,33,79,000/- is shared at 22.9% by the company, which is a provisional one. As the exact figures are not available in this respect, provision has not been made.</p> <p>The company has also disclosed in the Notes to Accounts vide note No.4 , under Schedule 18 that the Power Purchase bills and debit/credit notes raised by the Suppliers are provisional and are subject to revision at a later date.</p>
5.	<u>Miscellaneous Receipts – Rs.21.48 crore</u> <p>The above is understated by Rs.78.38 lakh due to non-accountal of credit on account of Short Term Open Access for March 2007 (Rs.27.60 lakh) and Unscheduled Inter-change Credits for the year 2006-07 (19.02.2007 to 31.03.2007) (Rs.50.78 lakh) passed on by PGCIL in May 2007. This has resulted in understatement of "Net Profit before Tax for the year" by Rs.78.38 lakh.</p>	<p>The rectification entry has been passed during the year 2007-08.</p>
	Expenditure	
6.	<u>Purchase of Power: Rs.2564.00 crore</u> <p>The above is overstated by Rs.73.18 lakh due to incorrect accountal of the amount payable to GRIDCO, Bhubaneswar for the second time in March 2007 (Suppl.), which was already accounted for in the month of November 2006. This has resulted in overstatement of "Current Liabilities and Provisions – Current Liabilities for power purchase" and understatement of "Net Profit before Tax for the year" by Rs.73.18 lakh.</p>	<p>It is to state that necessary entries have been already passed in the year 2007-08 by debiting prior period liability and crediting the excess provision in prior period.</p>
7.	<u>Purchase of Power: Rs.2564.00 crore</u>	Order was issued by CERC for the O&M expenditure

	<p>The above is understated by Rs.36.65 lakh due to non-accountal of O&M expenditure on regional assets of Power Grid Corporation of India Limited on account of revision of O&M expenditure for the years 2001-02 to 2003-04 as per CERC order dated 28.08.2006. The advice has been received by the Company on 02.05.2007. This has resulted in overstatement of “Net Profit before Tax for the year” by Rs.36.65 lakh.</p>	<p>on regional assets of Power Grid Corporation of India Ltd pertaining to the period 2001-02 and 2003-04 of Rs. 36,64,785/- .The debit advice has been received by the APPCC on 02-05-2007. Due to oversight, this was not taken into consideration for 2006-07. However, the same has already been incorporated in 2007-08 Accounts as Prior Period Expenditure.</p>
8.	<p>Interest & Finance Charges (Sch.15) <u>Interest and Finance Charge capitalized: Rs.34.08 crore</u></p> <p>The above is overstated by Rs.1.88 crore due to an error in calculation of the “Interest and finance charges to be capitalised”. This has resulted in understatement of “Interest and Finance charges” and overstatement of “Net Profit before Tax for the year” by Rs.1.88 crore.</p>	<p>The same will be rectified during the year 2007-08.</p>
	<p>B. Comments on Financial position: Balance Sheet</p>	
9.	<p>Sources of Funds Loan Funds (Sch.3)</p> <p style="text-align: center;"><i>Secured Loans</i> <i><u>Loans from REC/PFC: Rs.1094.61 Crore</u></i></p> <p>The above is understated by Rs.1.36 crore due to non-accountal of the loan received from REC by APTRANSCO on 30.03.2007 on behalf of the Company and passed on to the Company by APTRANSCO vide cheque dated 31.03.2007. Though the amount was credited to the Company on 03.04.2007, the liability towards loan is effective from 30.03.2007. This has also resulted in understatement of “Cash and Bank balances – Remittances-in-Transit” by Rs.1.36 crore.</p>	<p>The amount has been received and accounted in the month of April 2007 and the effect of this will reflect only on the current assets and Loan Funds of the Balance Sheet and not on the Profit & Loss Account of the Company. However the company would take adequate care in future so as to not to repeat such type of occurrences.</p>
	<p>Application of Funds</p>	
10.	<p>Fixed Assets (Sch.4) <u>Office equipment – Gross Block – Additions during the year : Rs.7.45 crore</u></p> <p>The above includes Rs.83.20 lakh being the value of “Supply and commissioning of hardware” forming part of the project for “Supply and installation of GIS based Consumer Indexing Software (Speck Electric) and Hardware” costing Rs.169.20 lakh. Pending “supply and customization of software” valued Rs.80.05 lakh, capitalising the hardware is not in order. The incorrect accountal has resulted in overstatement of “Gross Block – Additions during the year – Office Equipment” and understatement of “Capital Work in Progress” by Rs.83.20 lakh.</p>	<p>It is to state that the installation of GIS Hardware and Software was completed and as such the payment was also made as per the terms of the payment. The operational issues are under trail-run, therefore booking the expenditure under capital is correct.</p>
	<p>Current Assets, Loans & Advances (Sch.7)</p>	

11.	<p>Inventories <u>Stores and Spares: Rs.121.09 crore</u></p> <p>The above is understated by Rs.94.79 lakh due to non-accountal of the value of materials received in stores before 31 March 2007 and pending inspection in Chittoor Circle. This has resulted in understatement of “Current Liabilities – For Others” by Rs.94.79 lakh.</p>	<p>Out of the 27 items of stock, 12 items of stock valuing Rs. 2,00,81,059 has been taken in to stock during 4/07 and 5/07. The Suppliers in respect balance materials have promised to complete the rectification work, to meet the specification, before March,07 and for the same reason the materials were not taken into stock, anticipating the completion of above work. Due to the delay in completion in rectification work by supplier, 7 items of stock valuing Rs.49,09,710-40 has been accounted in 7/07 and remaining 5 items of stock amounting to Rs. 45,69,700 will be taken immediately after completion of works. Since the materials received form part of the Inventory of the Company only upon Check measurement, Inspection and Acceptance, these are taken into stock during the Current Year 2007-08.</p> <p>The effect of this will reflect only on the current assets and Current Liabilities of the Balance Sheet and not on the Profit & Loss Account of the Company. However efforts have already been taken to regularize the materials received.</p>
12.	<p>Receivables <u>iii) From Others: Rs.28.45 crore</u></p> <p>The above is overstated by Rs.89.81 lakh due to incorrect accountal of the outstanding liability discharged, pertaining to RESCO, Atmakur merged with the Company on 31 December 2004. This has resulted in overstatement of “Current Liabilities – For Others” by Rs.89.81 lakh.</p>	<p>The rectification entry has already been passed by crediting relevant Receivable Account Heads and crediting relevant Current Liabilities Account Heads for Rs.89.81 lakhs in the year 2007-08.</p>
	<p>C. Other Comments:</p> <p>Balance Sheet Application of Funds Fixed Assets (Sch.4)</p>	
13.	<p><u>Gross Block as at 01.04.2006: Rs.2322.72 crore</u></p> <p>The above amount includes Rs.44.82 crore which represents 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 of second hand nature. As per the Gazette of 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 acquisition by the owner. However, the company adopted the existing rates of depreciation for 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>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 & Management consultancy pvt LTD. The chartered valuer has taken the valuation based on the fairmarket value as on the valuation date. 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>

	<p>The above was also commented by the Comptroller and Auditor General of India on the accounts of the Company for the year ended 31 March 2006.</p>			
14.	<p><u>Depreciation & Amortisation on Lines and Cable Network : Rs.719.96 crore</u></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 were included in “Lines and Cable Network”) for the years up to 1999-2000, the amount of undercharge of depreciation on the same could not be quantified. In spite of the audit comment during 2005-06, the Company could not rectify the same.</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. However, the company would seek clarification from APTRANSCO and also the consultants for 2nd Transfer Scheme and would provide for the additional depreciation accordingly.</p> <p>In view of the above facts, the comment may please be dropped.</p> <p>The Statutory Auditors have also qualified in their report about the non availability of the break-up figures of the Assets and Liabilities taken over from APTRANSCO vide para No.4 (vi).</p>		
	<p>For and on the behalf of the Comptroller and Auditor General of India</p> <p style="text-align: center;">Sd/- (P.J.MATHEW) Accountant General (C&RA)</p> <p>Place: Hyderabad Date : 14.11.2007</p>	<p style="text-align: center;">For and on behalf of the Board</p> <table><tr><td>A.VENKATA REDDY Director(Finance)</td><td>P.GOPAL REDDY (Chairman & Managing Director)</td></tr></table> <p>Place: Tirupati Date : 14.11.2007</p>	A.VENKATA REDDY Director(Finance)	P.GOPAL REDDY (Chairman & Managing Director)
A.VENKATA REDDY Director(Finance)	P.GOPAL REDDY (Chairman & Managing Director)			

BALANCE SHEET AS AT 31ST MARCH, 2007

		Amount in Rs.		Amount in Rs.
	Schedule	As at 31.3.2007	As at 31.3.2006	As at 31.3.2005
SOURCES OF FUNDS				
(1) Shareholders' Funds				
(a) Share Capital	1	3587153090	3587153090	3587153090
(b) Reserves and Surplus	2	1064249346	311819058	70884234
(c) Deferred Capital Contributions	2A	4386215707	4781965351	4049925306
(2) Loan Funds	3			
(a) Secured Loans		10946090161	9045047466	8239874083
(b) Unsecured Loans		5439060522	2480530741	1133015977
Total		25422768826	20206515706	17080852690
APPLICATION OF FUNDS				
(1) Fixed Assets				
(a) Gross Block	4	27182605407	23227207769	18798361015
(b) Less: Depreciation & Amortisation		11682141892	9847972825	8301589923
(c) Net Block		15500463515	13379234944	10496771092
(d) Capital Work-in-Progress	5	6804947113	4058414347	4027488233
(2) Investments	6	635541235	1079575883	403985434
(3) Current Assets, Loans & Advances	7			
(a) Inventories		1046801036	1046189981	789697962
(b) Sundry Debtors		4678917993	4894169110	5019752190
(c) Receivables		4452030052	4401435881	3960084243
(d) Cash & Bank Balances		1177613115	1552194840	800959967
(e) Loans & Advances		2988957626	1959179931	282091679
		14344319822	13853169743	10852586041
Less: Current Liabilities and Provisions	8			
(a) Current Liabilities		11236090989	11538655403	8699978110
(b) Provisions		632891000	633862648	-
		11868981989	12172518051	8699978110
Net Current Assets		2475337833	1680651692	2152607931
(4) Miscellaneous Expenditure (to the extent not written off)	9	6479130	8638840	-
Total		25422768826	20206515706	17080852690
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

(M.BALACHANDRAN)
Partner.
Membership No.16271
Date:- 09-08-2007
Place: Tirupati

P.Gopal Reddy
Chairman & Managing
Director

T.H.N.S. Damodara Rao
Director (Finance)

Date :- 09-08-2007
Place : Tirupati

PROFIT & LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 2007

Amount in Rs.

	Schedule	For the year 2006-07	Previous year 2005-2006
INCOME:			
Revenue from Sale of Power	10	24560577912	22531921348
Revenue Subsidies and Grants		6119280000	6017100000
Other Income	11	2363389507	1086985916
Total Income		33043247419	29636007264
EXPENDITURE:			
Purchase of Power		25640040847	22389816457
Electricity Duty		360433841	311932196
Employee Costs	12	1748192397	1509137306
Administration and General Expenses	13	784487884	802231609
Other Expenses	14	608320636	820673240
Depreciation and Amortisation		1834169067	1527495090
Interest and Finance charges	15	1490688360	1307244788
Total Expenditure		32466333032	28668530686
Net Profit / (Loss) before Tax for the year		576914387	967476578
Less: Provision for Taxation			
Income Tax		-	24200000
Fringe Benefit Tax		7689821	11722942
Profit / (Loss) after Tax for the year		569224566	931553636
Net Prior Period Credits / (Charges)	16	(37397570)	(522114860)
Profit / (Loss) before contingency reserve		531826996	409438776
Less: Contingency Reserve		-	38600000
Profit after Contingency Reserve		531826996	370838776
Balance of Profit/(Loss) brought over from previous year		181997520	(188841256)
Balance carried to Balance Sheet		713824516	181997520

Significant Accounting Policies 17

Notes Forming Part of Accounts 18

As per our report of even date

For Sankaran & Krishnan

Chartered Accountants.

For and on behalf of the Board

(M.BALACHANDRAN)

Partner.

Membership No.16271

Date:- 09-08-2007

Place: Tirupati

P.Gopal Reddy
Chairman & Managing Director

T.H.N.S. Damodara Rao
Director(Finance)

Date :- 09-08-2007
Place : Tirupati

CASH FLOW STATEMENT

Amount in Rs.

Particulars		Year ending 31-03-2007		Year ending 31-03-2006	
A	Cash flow from operating activities				
	Net profit before taxation		539516817		406761718
	Adjustments for items in Profit & Loss Account				
	Income from Capital Contributions	(1428800000)		-	
	Depreciation & Amortisation	1834169067		1546382902	
	Interest Income	(25576780)		(35524683)	
	Deferred Cost Written Off	2159710		2159710	
	Interest Expense	1011066709		860878879	
	contingency reserve	-	1393018706	38600000	2412496808
	Operating Profit before working capital changes		1932535523		2819258526
	Adjustments for changes in Current Assets other than Cash and Cash Equivalents				
	Inventories	(611055)		(256492019)	
	Sundry Debtors	215251117		125583080	
	Receivables	(50594171)		(441351638)	
	Loans and Advances	(1029777695)		(1677088252)	
	Adjustments for changes in Current Liabilities & provisions				
	Current Liabilities	(302564414)		2838677293	
	Provisions	(971648)	(1169267866)	633862648	1223191112
	Cash generated from Operations		763267657		4042449638
	Less: Provision for Tax		7689821		35922942
	Net cash flow from operating activities		755577836		4006526696
B	Cash flows from investing activities				
	Purchase of fixed assets /CWIP	(6701930404)		(4459772868)	
	Interest on Investments	25576780		35524683	
	Interest received on contingency reserve investments	11071292		1430788	
	(Increase)/Decrease in Investments	444034648		(675590449)	
	Deferred cost	-		(10798550)	
	Net cash flow from investing activities	(6221247684)	(6221247684)	(5109206396)	(5109206396)
C	Cash Flows from Financing Activities				
	Proceeds from borrowings	6493035653		4013717490	
	Additions to Deferred Capital Contributions	1033050356		562105305	
	RGVY Subsidy	209532000		-	
	Repayment of borrowings	(1633463177)		(1861029343)	
	Interest Paid	(1011066709)		(860878879)	
	Net Cash flow from Financing Activities	5091088123	5091088123	1853914573	1853914573
D	Net increase/(decrease) in cash and cash equivalents		(374581725)		751234873
E	Cash and Cash Equivalents				
	At the beginning of the period		1552194840		800959967
	At the end of the period		1177613115		1552194840
F	Net increase/(decrease) in cash and cash equivalents		(374581725)		751234873

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

For and on behalf of the Board

(M.BALACHANDRAN)
Partner.

P.Gopal Reddy
Chairman & Managing Director

T.H.N.S. Damodara Rao
Director (Finance)

Membership No.16271

Date:- 09-08-2007

Place: Tirupati

Date:- 09-08-2007

Place: Tirupati

SCHEDULE - 1 : SHARE CAPITAL

		Amount in Rs.	
		As at 31.3.2007	As at 31.3.2006
1	AUTHORISED:		
	360000000 Equity Shares of Rs.10/- each	3600000000	3600000000
2	ISSUED, SUBSCRIBED AND PAID UP		
	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		
		3587153090	3587153090

SCHEDULE - 2 : RESERVES AND SURPLUS

1	STATUTORY RESERVES		
	Contingency Reserve		
	As per Last Balance sheet	129821538	89790750
	Additions during the year	11071292	40030788
		140892830	129821538
2	RGGVY SUBSIDY		
	As per Last Balance sheet	-	-
	Additions during the year	209532000	-
		209532000	-
3	PROFIT & LOSS ACCOUNT		
		713824516	181997520
		1064249346	311819058

SCHEDULE - 2A : DEFERRED CAPITAL CONTRIBUTIONS

	As per Last Balance sheet	4781965351	4049925306
	Additions during the year	1033050356	732040045
		5815015707	4781965351
	Less: Transferred to Profit & Loss Account	1428800000	-
		4386215707	4781965351

SCHEDULE - 3 : LOAN FUNDS

1	Secured Loans		
	a) Loans from REC/PFC	10946090161	9045047466
	(Secured by all Fixed Assets present and future)		
2	Unsecured Loans		
	a) Loans from Government of Andhra Pradesh	1367845557	1140058157
	b) Loan from EPDCL	3000000000	3000000000
	c) Vidyut Bonds	3131000000	3131000000
	d) Loans from Banks	646674966	727372584
	e) CC Limits from SBH	311439999	-
	f) ICICI Short Term Loan	2500000000	-
		5439060522	2480530741
		16385150683	11525578207

SCHEDULE -4 : FIXED ASSETS

SNO	Particulars	GROSS BLOCK			DEPRECIATION & AMORTISATION			Amount in Rs.	
		As at 01-04-2006	Additions during the year	Adjustments/ Deductions during the year	As at 31-03-2007	Up to 31-03-2006	For the year	Up to 31-03-2007	As at 31-03-2007
1	Goodwill	100990000	-	-	100990000	20192000	20192000	40394000	80769000
2	Land and Land Rights	33512753	9511922	5740459	34394216	-	-	-	34394216
3	Buildings	235151756	15774739	-	250926495	100850794	7102791	108953585	145912910
4	Other Civil Works	5357554	659730	-	6047294	-	-	-	6047294
5	Plant and Machinery	7571013911	1562669371	215647374	891813908	3407634227	593567491	4001201718	4918534190
6	Lines and Cable Network	14299040081	2742526198	992273000	1699229279	6079378508	112060742	7199937550	9492655729
7	Metering Equipment	283704682	29162807	-	312867489	79689030	36229115	115916145	193666354
8	Vehicles	31526204	541400	541400	31526204	28405914	-	28405914	3122290
9	Furniture and Fixtures	49251408	2916008	1015785	5115636	42989981	1342257	44332238	6824359
10	Office equipment	127166239	74500055	3965560	197700344	244010035	16299129	40642154	157058150
11	Spare parts/Service units	500452961	114067142	30885561	583355542	64339036	39235512	105774548	480078994
		23227217769	4555468177	600070339	27182305407	9547972825	1894163057	11692741892	13379234944
	Previous Year	187933361015	4050513552	63839909	2327207769	8501889523	1545382902	9917972525	13379234944

Notes:

- 1 Depreciation has not been provided on Vehicles as 90% of the Block is already provided
- 2 Depreciation on Furnitures and Fixtures has been restricted to 90% of the Opening Gross Block

SCHEDULE - 5 : CAPITAL WORK-IN-PROGRESS

		Amount in Rs.		Amount in Rs.
		As at 31.3.2007	As at 31.3.2006	As at 31.3.2005
1	Capital Work - in - Progress	6192226750	3568393984	3380724805
2	Revenue Expenditure Pending Allocation over Capital Works	340800000	218100000	374843065
3	Advance for Suppliers / Contractors (Capital)	271920363	271920363	271920363
		6804947113	4058414347	4027488233

SCHEDULE - 6 : INVESTMENTS

LONG TERM INVESTMENTS (AT COST)				
1	Contingency Reserve Investments			
	<u>a) Quoted</u>			
	UTI Gilt Advantage Fund LTP	-	40290000	9990000
	<u>b) Unquoted</u>			
	Fixed Deposits with Banks	82159061	50333281	47500000
2	Other Investment			
	<u>a) Quoted</u>			
	UTI Gilt Advantage Fund LTP (No. Of Units 734633.857 , NAV as on 31.3.07 Rs. 15.2484 Per unit, totalling to Rs.1,12,01,991/-)	10005034	10005034	10005034
	<u>b) Unquoted</u>			
	Share Capital in Resco- Kuppam, Chittoor	2905000	2905000	2905000
	Employees Welfare Fund Investments	-	10000000	-
		95069095	113533315	76285434
SHORT TERM INVESTMENTS (Unquoted)				
3	Fixed Deposits with Banks	540472140	966042568	327700000
		635541235	1079575883	403985434
	Aggregate Book Value of Quoted Investments	10005034	50295034	19995034
	Aggregate Book Value of Un Quoted Investments	625536201	1029280849	383990400
		635541235	1079575883	403985434
	Market Value of Quoted Investments	11201991	52247315	20346791

SCHEDULE - 7 : CURRENT ASSETS LOANS AND ADVANCES

CURRENT ASSETS

Amount in Rs.

As at 31.3.2007 As at 31.3.2006

a) INVENTORIES

i) Stores and Spares		1210874148	1182327126
Less: Materials stock excess/shortage pending investigation		137372218	109436251
Less: Provision for non-movable and obsolete stock		26700894	26700894
Total		1046801036	1046189981

b) SUNDRY DEBTORS - UNSECURED

a) Considered Good		4678917993	4894169110
b) Considered Doubtful		570300000	-
		5249217993	4894169110
Less: Provision for doubtful debts		570300000	-
		4678917993	4894169110

c) RECEIVABLES

i) from GOAP		4164805923	4151744717
ii) from REC		2732987	2732987
iii) from others		284491142	246958177
		4452030052	4401435881

d) CASH AND BANK BALANCES

a) Cash on Hand		118964582	154348537
Less: Provision for Cash theft		4000	317759
		118960582	154030778
b) Balance with Schedule Banks in Current A/c		827369002	991541873
c) Remittances in Transit		231283531	406622189
		1177613115	1552194840

e) LOANS AND ADVANCES (Unsecured- Considered Good)

i) Loans/Advances to Government Companies			
a) APTRANSCO		580337116	648392235
ii) Amount Recoverable in Cash or in Kind or for Value to be received		253291730	304944162
iii) Tax Deducted at Source		481264	-
iv) Advance Fringe Benefit Tax Paid	7826000		
Less: Provision for Fringe Benefit Tax	7689821	136179	-
v) Pool Imbalance Account		2113660366	971141699
vi) Deposits with Others		32766200	28982150
vii) Others		8284771	5719685
		2988957626	1959179931

SCHEDULE - 8 : CURRENT LIABILITIES AND PROVISIONS

Amount in Rs.
As at 31.3.2007 As at 31.3.2006

a) CURRENT LIABILITIES		
i) For Power Purchase	5027070549	5737173219
ii) For Others	914037394	827987260
iii) Security and other Deposits	661477639	556628945
iv) Security Deposits from Consumers (including interest thereon)	4307440611	3768473057
v) Interest accrued but not due	79025165	113338371
vi) Group Insurance Savings Fund	20099611	15312389
vii) Pension /Gratuity Fund	16474359	16474359
viii) Employees Welfare Fund	-	9397410
ix) Other Liabilities	210465661	493870393
	11236090989	11538655403
b) PROVISIONS		
i) Provision for Leave Encashment	601000000	575000000
ii) Provision for Gratuity	31891000	31891000
iii) Provision for Income Tax	-	24200000
iv) Provision for Fringe Benefit Tax		
Less: Advance Fringe Benefit Tax Paid	-	2771648
	632891000	633862648
	11868981989	12172518051

SCHEDULE - 9 : MISCELLANEOUS EXPENDITURE (to the extent not written off)

Amount in Rs.

		Expenditure incurred	Written off during the year	As at 31.3.2007	As at 31.3.2006	As at 31.3.2005
a)	SAP Expenditure	4046609	809322	2427965	3237287	-
b)	GIS Mapping	6751941	1350388	4051165	5401553	-
	Total	10798550	2159710	6479130	8638840	-

SCHEDULE - 10 : REVENUE FROM SALE OF POWER

		Amount in Rs.		Amount in Rs.
		For the year 2006-07	Previous year 2005-06	Previous year 2004-2005
1	Revenue from Sale of Power			
	a) Between DISCOMS	1173054374	1118947908	-
	b) L.T. Supply	12950299810	11801079808	12066387975
	c) H.T. Supply	9498000585	8423281969	7594519537
2	Income from Inter State Sale of Power	97888084	497916771	-
3	Other Receipts	841335059	690694892	572354515
		24560577912	22531921348	20233262027

SCHEDULE - 11 : OTHER INCOME

1	Interest on Staff Loans and Advances, FDR's			
	a) Staff Loans & Advances	720493	813342	22024517
	b) Fixed Deposits & Others	25576780	35524683	19916287
2	Delayed Payment Charges from Consumers	433321791	505165254	576355848
3	Rebate on Power Purchase Bills	236667846	145987719	-
4	Bad Debts Recovered	-	180300000	-
5	Provision no longer required	-	74782088	-
6	U I (Unscheduled Inter Change) Income	20460424	-	760000000
7	Miscellaneous Receipts	214842173	144412830	50798240
8	Grant in Aid from Government of A.P.	3000000	-	
9	Income from Capital Contributions	1428800000	-	
		2363389507	1086985916	1429094892

SCHEDULE - 12 : EMPLOYEE COSTS

1	Salaries, Wages and Bonus	2412550393	1896355688	1794791585
2	Pension Contribution & Terminal Benefits	362027299	204103929	199582490
3	Employees Welfare expenses	5652705	4991507	4128446
		2780230397	2105451124	1998502521
	Less: Employees Cost Capitalised	1032038000	596313818	562873094
		1748192397	1509137306	1435629427

SCHEDULE - 13 : ADMINISTRATION AND GENERAL EXPENSES

Amount in Rs.

			For the Year 2006-2007		Previous year 2005-2006
1	Licence fees		8457926		7000000
2	Repairs and Maintenance to				
	a) Plant and Machinery	210239267		271051154	
	b) Buildings	3888121		1574353	
	c) Others	93823339	307950727	77621507	350247014
3	Rent (including Lease Rentals)		12522386		12715430
4	Rates & Taxes		8010047		3511024
5	Insurance		1243409		2035959
6	Telephone Charges		24825117		27569719
7	Postage & Telegrams		2884153		1527884
8	Legal Charges		2694856		1992016
9	Audit Expenses and Fees : of which				
	a) Statutory Audit Fees	393260		314272	
	b) Audit Expenses	171233		227736	
	c) Tax Audit Fees	56180	620673	56120	598128
10	Other Professional Charges		148931272		131972870
11	Printing & Stationery		14616571		13018528
12	Advertisement		6103023		3803021
13	Electricity Charges		36339774		40263374
14	Conveyance and Traveling Expenses		158729393		135638456
15	Other Expenses		50558557		70338186
	Total		784487884		802231609

SCHEDULE - 14 : OTHER EXPENSES

		Amount in Rs.	
		For the year 2006-07	Previous year 2005-06
1	Waiver of Surcharge	8399001	16591525
2	Write off of Agricultural Receivables from Government	-	729400000
3	Write off of Deferred Revenue Expenditure	2159710	2159710
4	Provision for Cash Theft	-	317759
5	Flood, Cyclone relief Works	3623337	14075313
6	Bad & Doubtful Debts Provided for	570300000	-
7	Miscellaneous losses and write-offs	23838588	58128933
		608320636	820673240

SCHEDULE - 15 : INTEREST AND FINANCE CHARGES

1	Interest on State Government Loans/REC/PFC	950714878	807070297
2	Interest on loans from Financial Institutions and Banks	60351831	53808582
3	Interest on others	820421651	664465909
		1831488360	1525344788
	Less: Interest and Finance Charges Capitalised	340800000	218100000
		1490688360	1307244788

SCHEDULE - 16 : NET PRIOR PERIOD CREDITS/CHARGES

1	Income relating to Prior Years		
	a) Receipts Prior Period	-	44010385
	b) Excess Provision-Interest & Finance Charges -written back	1757905	1618986
	c) Other Excess Provisions	700290	75753
		2458195	45705124
2	Prior Period Expenses / Losses		
	a) Operating Expenses	33432703	(18812995)
	b) Employee Costs	3373255	535474750
	c) Depreciation	-	18887812
	d) Interest & Other Finance Charges	11115337	29283398
	e) Other charges	(8065530)	2987019
		39855765	567819984
	Net prior period credits/(charges) (1 - 2)	(37397570)	(522114860)

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:
 - a. interest on Family Benefit Fund
 - b. post retirement medical benefits
 - c. guarantee commission
 - d. sale of scrap
- iii) From this year onwards, the Company has decided to create a Reserve for Doubtful debts. For this purpose, Debtors outstanding for a period of more than 4 years is considered.

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, prescribed under the Electricity Supply Annual Accounts Rules, 1985.

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:

Hitherto the company was following the policy of accounting the Govt. Grants, Subsidies and Consumers Contribution towards Capital Assets as Capital Receipts and accordingly they were accounted to Capital Reserve. During the year the company has changed this policy and the Grants, subsidies and Consumer contributions received are treated as deferred income and are recognized in the Profit & loss Account over the useful life of the Gross Block of Assets to which they pertain.

As per our report of even date

For Sankaran & Krishnan

Chartered Accountants.

(M.BALACHANDRAN)
Partner.

Membership No: 16271

Place: TIRUPATI

Date : 09-08-2007

For and on behalf of the board

P.GOPAL REDDY
Chairman & Managing Director

T.H.N.S.DHAMODHARA
RAO
Director (Finance)

Place: TIRUPATI
Date: 09-08-2007

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. 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.
 - ii. The liabilities taken over include 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.
 - iii. 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.
 - iv. 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.
 - v. 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. 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.
3. The Transmission and SLDC Charges claimed by APTRANSCO consequent to the 3rd Transfer Scheme are provisional and are subject to the decision of Andhra Pradesh Electricity Regulatory Commission, on the review petition filed by APTRANSCO.
4. The Power purchase bills, debit/credit notes 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.

5. Confirmations of balance as on 31.03.07 from the Generating Companies/Suppliers of power are yet to be obtained.
6. The billing for domestic, commercial and general-purpose categories of consumers is carried out on monthly basis in Towns and Mandal head quarters and Bi-monthly basis for other than Mandal head quarters.
7. Consequent to the change in the Accounting Policy regarding accounting of Govt. grants, Subsidies and Consumers Contribution towards Capital Assets (Refer Acc. Pol. No.9), the company has recognized Rs.104.80 Crores pertaining to the period 01.04.2000 to 31.03.06 and an amount of Rs.38.08 Crores pertaining to the current year as Other income. The opening balance of the Fixed Assets as on 01.04.2000 is treated as additions during 1999-2000 for this purpose.
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 29th 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 68.57 Crores (Previous year Rs.4.29 crores) as Unscheduled inter change charges/ benefit. This has been accounted to Power Purchase Cost.
10. The Company has received Tariff Subsidy of Rs 611.93 crores from the Government of Andhra Pradesh for the year 2006-07 (Previous year 601.71 crores) including an amount of Rs. 116.40 crores receivable towards additional agriculture subsidy from the Government of Andhra Pradesh.
11. The Fuel Surcharge Adjustment for the period from Sep- 2004 to March 2005, Jan-2006 to March -2006 and for the Financial Year 2006-07 has not been communicated and hence not accounted to Power Purchase nor billed to the consumers, 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. The liability taken over from the erstwhile RESCOs, 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 2nd transfer scheme, due to the non availability of the break up details of the assets and liabilities transferred under the said scheme.

14. Capital Work-in Progress:

Capital Work in Progress includes Rs.19.76 crores pertaining to Rajiv Gandhi Grameen Vidyutikaran Yojana Scheme as per which, the completed projects are the properties of the GoAP.

15. Fixed Assets:

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.

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 G.O No.265 (SE) dated 27.03.2004 issued under Electricity Supply Act, 1948.

17. Investments

- i) Investment of Rs.8.21 crore has been made out of the Contingency Reserve, as per the guidelines issued by Andhra Pradesh Electricity Regulatory Commission.
- ii) Investment includes 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.13.74 crores between the physical inventory (as certified by the management) and the value as per the financial ledger as on 31.03.2007 for which provision is made in the books.
- ii) No additional provision has been made towards Non-Moving/obsolete stock, during the year.
- iii) Inventory includes Rs.4.70 crores materials received but pending inspection and acceptance.

19. Debtors:

- i) The credit balance in the Sundry debtors amounting to Rs.44.14 Crores is netted off from the Sundry debtors.
- ii) As per the Financial ledger the Sundry debtors account shows a balance of Rs.256.61crores where as, as per the Consumer ledger the balance shown is Rs.310.78 crores. The difference of Rs.54.17 crores includes Rs.15.81 crores write off effect given in Financial Ledger only and remaining Rs.38.36 is under reconciliation.
- iii) During the year, the company has decided to provide for Debtors outstanding for a period exceeding 4 years. A provision of Rs.57.03 Crores has been made accordingly and debited to Profit and Loss account under Other Expenses.

20. Employee benefits:

- i) The company has obtained the Actuarial valuation for the terminal benefits of employees as on 21.11.2006, for which the final report is awaited. Based on the draft report, provision towards pension and gratuity has been made for Rs.32.78 crores. Against this liability, the Company has deposited Rs.20.28 Crores to the Pension and Gratuity Trust.
- ii) The Company has provided liability for Leave Encashment of employees for the year 2006-07 amounting to Rs.2.60 Crores calculated on adhoc basis.
- 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 are not covered under GPF scheme.)
- iv) None of the employees of the company are drawing a Salary of less than Rs.3,500/-p.m, entitling them towards Bonus. Hence provision has not been made in the accounts towards liability for bonus, under Payment of Bonus Act, 1965.

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.239.34 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 claim has been made till date, towards the interest reimbursement/adjustment on eligible GoAP loans, against the Projects completed in time, and accordingly no adjustments have been made to the Fixed Assets/Capital work in Progress to which the loans relate.

22. Cash-in-transit includes Cheques and DDs on hand amounting to Rs.7.93 crores as on 31.03.2007 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.9.23 Crores, out of which the company has deposited under protest Rs.5.95 crores and for the balance of Rs.3.28 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 31.03.2007 are subject to reconciliation and confirmation.

25. The balance payable of Rs.502.71 Crores towards power purchase is under reconciliation and confirmation is yet to be received.

26. Inter unit account shows a net difference (Debit) of Rs.10.84 Crores as on 31-03-2006 which is subject to reconciliation.

27. During the year, no amount has been transferred to Contingency Reserve

28. Deferred tax liability as per AS 22 has not been recognized in the books.

29. Incidental expenses incurred on the purchase of materials amounting to Rs.0.90 Crores are treated as period costs.

30. 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.

31. No provision has been made towards Income Tax, both under conventional method and u/s115JB, in view of the carry forward losses available for set-off.

32. Payments and Benefits to Directors:

(Figures in Rupees)

		FY : 2006-07		FY : 2005-06	
Serial No.	Particulars	Chairman and Managing Director	Other Directors	Chairman and Managing Director	Other Directors
1	Salary / Remuneration	775221	1347870	692570	1135100
2	Traveling Expenses	167486	322559	120065	153770
	Total	688998	1670429	812635	1288870

33. Loans and Advances to Directors – NIL.

34. 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	2415.70	31.13%	2.29
Non-Domestic supply - Category –II	541.90	6.98%	5.73
Industrial Supply- Category –III	681.94	8.79%	3.71
Cottage Industries - Category – IV	27.36	0.35%	1.52
Irrigation and Agriculture Category - V	3684.13	47.47%	0.02
Public Lighting - Category - VI	373.51	4.81%	1.72
General Purpose - Category - VII	35.84	0.46%	3.95
Temporary Supply - Category – VIII	0.58	0.01%	8.55
LT. Total	7760.96	100.00%	1.55
HT			
Industrial Segregated - Category - I	1690.84	65.03%	3.77
Industrial Non-Segregated - Category – II	190.45	7.33%	5.45
Irrigation and Agriculture - Category – IV	24.00	0.92%	2.62
Railway Traction - Category – V	447.49	17.21%	4.26
Electricity Co-Operative Societies	202.31	7.78%	0.16
Temporary Supply	0.18	0.01%	13.17
Colony Lighting	44.72	1.72%	3.55
HT. TOTAL	2599.99	100.00%	3.68
LT + HT Total	10360.95	100.00%	2.09

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.

35. Contingent Liabilities:

The Contingent Liability with respect to disputes regarding Power purchase/Sales, pending court cases, claims against the company not acknowledged as debts and Capital commitments have not been assessed as on 31.03.2007.

36. 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
FY : 06-07	12329.55	2564.00	10360.95	2420.01

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

As per our report of even date

For Sankaran & Krishnan

Chartered Accountants.

For and on behalf of the Board

M.BALACHANDRAN
Partner.
Membership No:16271

P.GOPAL REDDY
Chairman & Managing Director

T.H.N.S.DHAMODHARA
RAO
Director (Finance)

Place:TIRUPATI
Date : 09-08-2007

Place: TIRUPATI
Date: 09-08-2007

STATEMENT PURSUANT TO PART IV OF SCHEDULE VI OF 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	:	31-03-2007

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	:	37291751
Total Assets	:	37291751

Sources of Funds

Paid up Capital	:	3587153
Reserves & Surplus	:	1064249
Deferred Capital Contributions	:	4386216
Secured Loans	:	10946090
Unsecured Loans	:	5439061

Application of Funds

Net Fixed Assets	:	15500464
CWIP	:	6804947
Investments	:	635541
Net Current Assets	:	2475338
Miscellaneous Expenditure	:	6479

IV. Performance of the Company

	:	(Rupees in Thousands)
Turnover	:	33043247
Total Expenditure	:	32466333
Profit/(Loss) before Tax for the Year	:	576914
Profit/(Loss) after Tax for the Year	:	569225
Net Prior Period Credits/(Charges)	:	(37398)
Profit after Contingency Reserve	:	531827
Earnings per Share	:	Rs. 1.48
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

**Reg. Office: Behind Srinivasa Kalyanamandapam, Tiruchanoor Road,
Tirupati – 517 501 Phone : 0877-2284109 Fax: 0877-2284111**

PROXY FORM

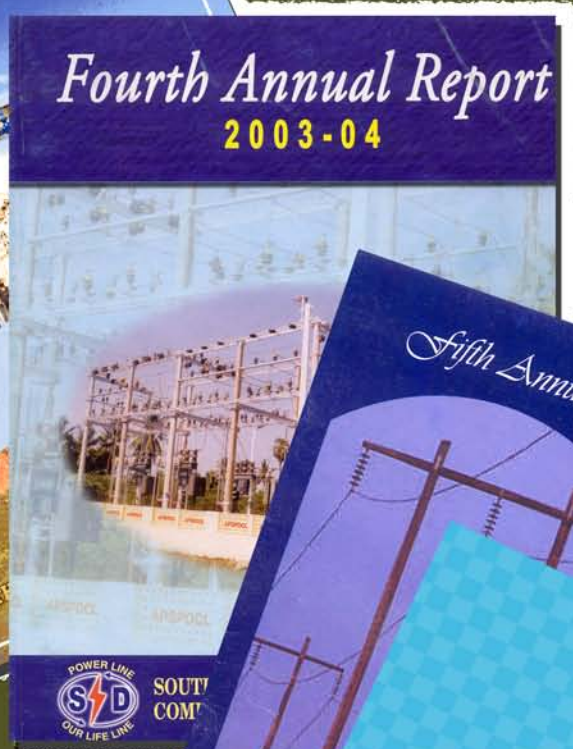
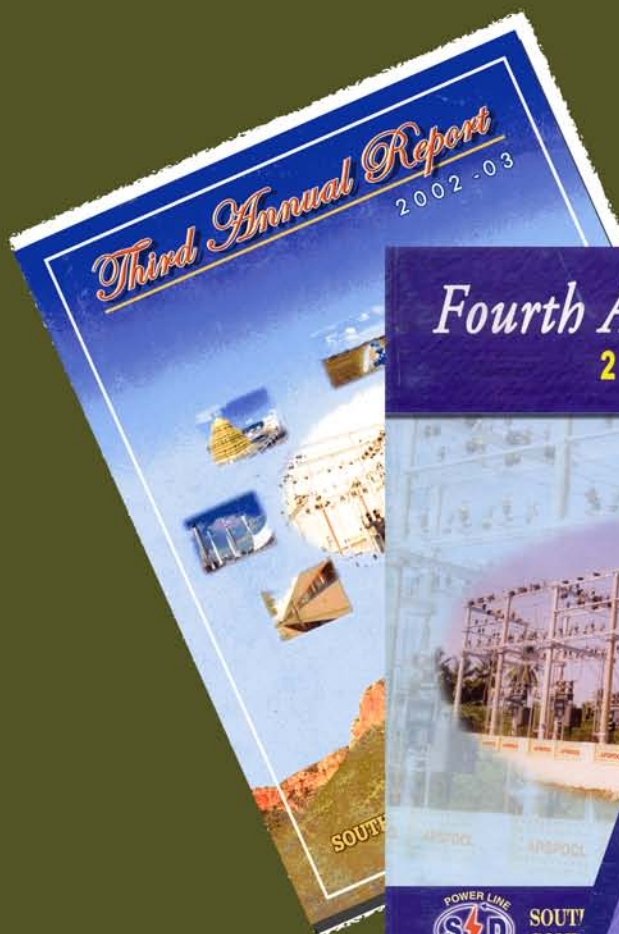
I, Sri.....S/o.....R/o.....
being a member of Southern Power Distribution Company of A.P. Limited hereby
appoint Sri.....S/o.....
R/o..... as my proxy to attend and vote for me, on my behalf at the
Seventh Annual General Meeting of the Company to be held on Tuesday, the 27th
November, 2007 at 2.00 PM or at any adjournment thereof at the Registered Office
of the Company.

Affix Revenue Stamp

Signed this..... Day of 2007.

Place:

Date :



SOUTHERN POWER DISTRIBUTION COMPANY OF ANDHRA PRADESH LIMITED

Backside of Srinivasa Kalayana Mandapam, Tiruchanoor Road, TIRUPATI - 517 501. A.P.

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

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