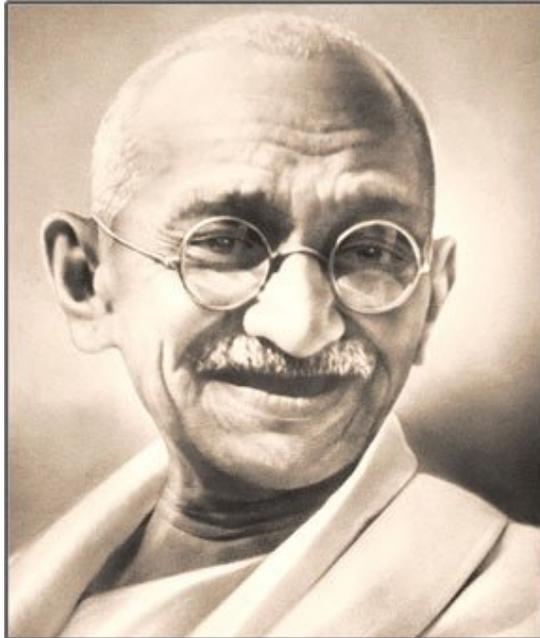


8th Annual Report 2007 - 08



Southern Power Distribution Company of Andhra Pradesh Limited

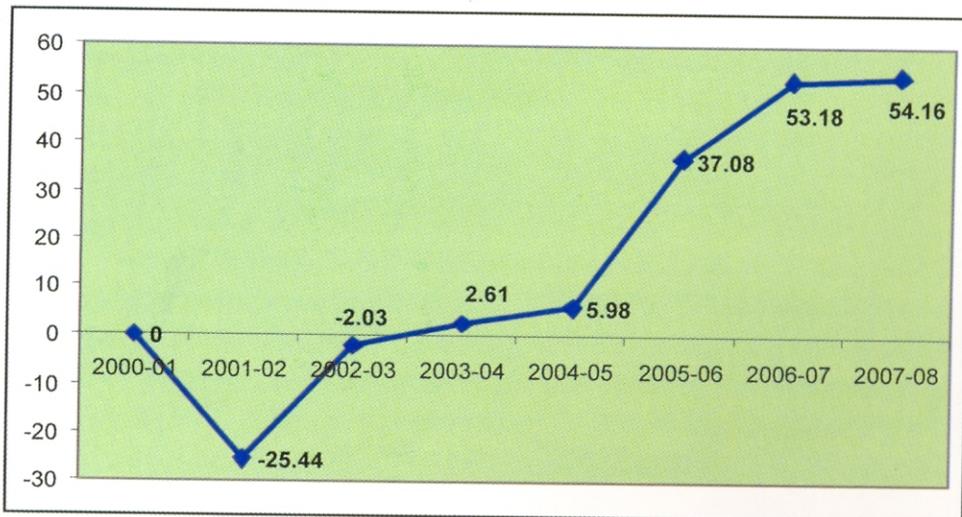




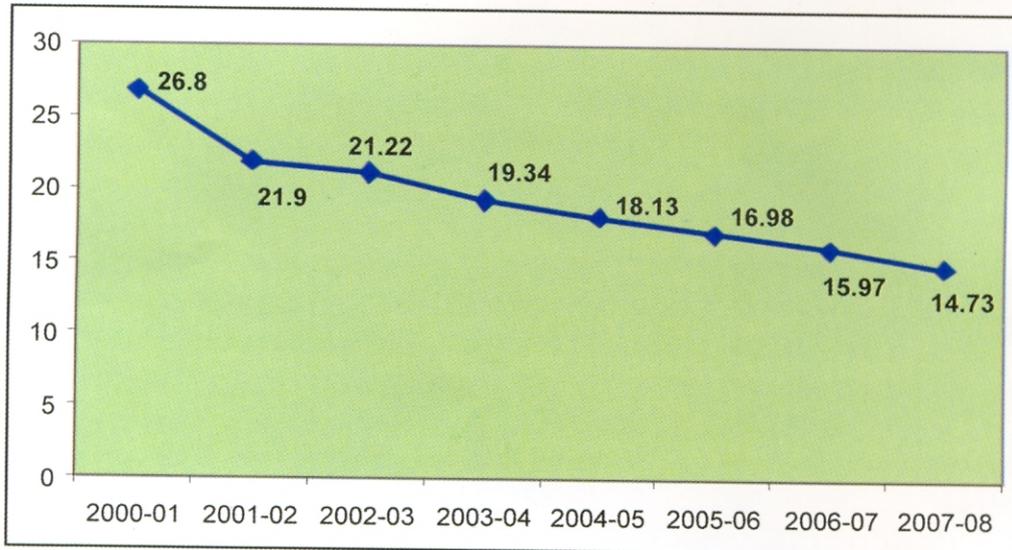
'A customer is the most important visitor on our premises. He is not dependent on us; we are dependent on him. He is not an interruption on our work; he is the purpose of it. He is not an outsider to our business; he is a part of it. We are not doing him a favour by serving him; he is doing a favour by giving us an opportunity to do so.'

- MAHATMA GANDHI

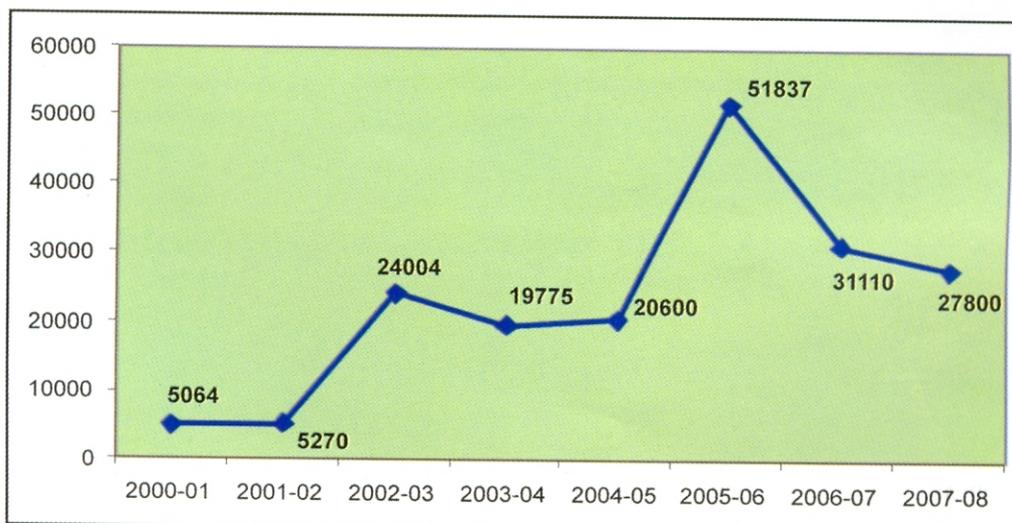
Profit / Loss



Distribution Losses



Theft Cases





SOUTHERN POWER DISTRIBUTION COMPANY OF A.P. LIMITED

OUR VISION

To create an organization that is profitable, viable, responsive, serving the needs of the customer, suppliers and employees.

OUR MISSION

Commercial Objectives:

- ❖ Eliminating pilferage of energy
- ❖ Reducing arrears

Operational Objectives:

- ❖ Minimizing Technical/Transmission Losses
- ❖ Reducing transformer failures
- ❖ Maintaining rolling stock of additional DTRs at every sub-station level to avoid delays in replacing the failed units

Social Objectives:

- ❖ Electrification of Dalith Wadas.
- ❖ Electrification of Weaker Section Colonies
- ❖ Providing uninterrupted power supply to the consumers.
- ❖ Providing better service to the consumers.

Regulatory Objectives:

- ❖ To function as per the guidelines issued by APERC.
- ❖ To continuously monitor the progress of various directives issued by APERC.

CORE VALUES

Excellence in all aspects of the company.
Honesty, integrity and ethical business.
People, as the source of strength.
Respect for the individual and personal growth.
Tackling challenges and solving problems
Continued self improvement, never being satisfied.

Energy saved is

Energy produced

Southern Power Distribution Company of A.P. Limited

Board of Directors

Sri P.Gopal Reddy	-	Chairman & Managing Director
Sri Umesh Sharraf,I.P.S.	-	Non Whole Time Director
Sri M. Gopal Rao	-	Non Whole Time Director
Sri T.H.N.S.Damodara Rao	-	Director (Purchases)
Sri Y.Padmanabha Reddy	-	Director (Projects)
Sri A.Venkata Reddy	-	Director (Finance)
Sri V.Krishna Murthy	-	Director (Energy Audit)
Sri Shaik Anwar	-	Director (Operation)
Sri P. Anjaiah	-	Director(HRD)
Sri K. Rami Reddy	-	Director(RAC)

AUDIT COMMITTEE

Sri Umesh Sharraf IPS	-	Non Whole Time Director
Sri M.Gopal Rao	-	Non Whole Time Director
Sri Y.Padmanabha Reddy	-	Director (Projects)

AUDITORS

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

COMPANY SECRETARY

B.V.S.Prakash

BANKERS

State Bank of Hyderabad
State Bank of India

REGISTERED OFFICE

D.No. 19-13-65/A, Behind Srinivasa Kalyana Mandapam, Kesavayanigunta,
Tiruchanoor Road, Tirupati-517 501 Chittoor (Dist) Andhra Pradesh
Telephone : (0877) 2284109, 2284112 Fax : (0877) 2284111 URL www.apspdcl.in

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Chairman & Managing Director's Statement

Gentlemen,

It gives me great pleasure in presenting the 8th (Eighth) Annual Report of your company for the year 2007-08. The Discom is on the path of implementing Power sector reforms towards achieving new scale of heights in terms of Operational and Financial performance.

The year 2007-08 was a significant year for the Company during which the total input recorded around **12663 MU** compared to 12329 MU in the previous year.

Performance Review

The following are highlights of the strong operational & financial performance of the Company during the year 2007-08.

- Total income is **Rs.3891.63 Crores in 2007-08** – up from Rs.3304.32 Crores in 2006-07.
- Profit of the Company stood at Rs.54.16 Crore as against a profit of Rs.53.18 Crore in 2006-07.
- Earnings per share (EPS) for the year stood at Rs.1.51 in 2007-08 – up from Rs.1.48 in 2006-07.
- The Company's total sales increased to 10798 **MU** in 2007-08 up from 10361 **MU** in 2006-07. Showing a net increase of **437 MU**.
- Distribution losses were reduced from 15.97% in 2006-07 to **14.73% in 2007-08**.
- A total of 4,21,841 new services have been added during the year which includes 216 new HT services.
- 76 Nos. of 33/11 KV substations have been added during the year to improve quality of power supply.
- During the year under review 317 Nos. Dalitha wadas, 874 Nos. weaker section colonies and 20 Nos. Tribal colonies/hamlets were electrified.
- 2,94,648 new connections have been added under Rajiv Gandhi Gramin Vidyutikaran Yojana (RGGVY).

Compliance of Directives of APERC

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

Policy Initiatives by Central Govt

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

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 following the best practices of Corporate Governance. 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. Besides maintaining our conservative financial profile, ensuring high degree of financial flexibility to capture future Growth Opportunities.

Customer Services:

- ❖ Customer Service Center(s) to service new service requests, complaints etc at most of the Sub-Divisions.
- ❖ Spot billing to issue error-free bills at customer site.
- ❖ Easy bill payment facilities through Computerized Collection Centers, e-Seva Centers, EROs etc.,
- ❖ Monthly Vidyut Adalats for resolving issues at rural areas, Mandal Head Quarters and Municipalities.

HR Initiatives

- Industrial harmony was maintained through out the year and continuous interaction with respective unions/associations were maintained.
- Motivational steps were initiated such as issue of Non-Monetary Rewards, appreciation certificates apart from motivation and training to individual officers and staff. 790 Nos. officers/staff of APSPDCL were trained in their respective areas in 2007-08.

To conclude, I thank every Member, employee and every one, who have contributed to the good performance of the Company.

Chairman & Managing Director

APSPDCL PERFORMANCE HIGHLIGHTS

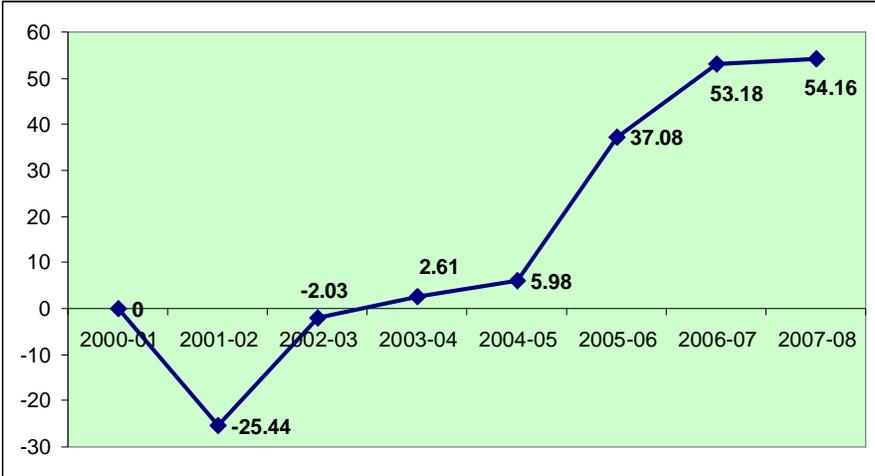
Year ended 31 st March	2001	2002	2003	2004	2005
Units Sold (Million Units)	5867.86	6902.45	7530.88	8086.94	9055.56
No. of 33/11 KV Sub stations	478	487	532	597	644
Length of 33 KV line in KM	8180.80	8276.94	8590.24	8951.61	9132.33
Length of 11 KV line in KM	43481	43515.86	44831.91	50988.40	59309.92
Length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

APSPDCL PERFORMANCE HIGHLIGHTS

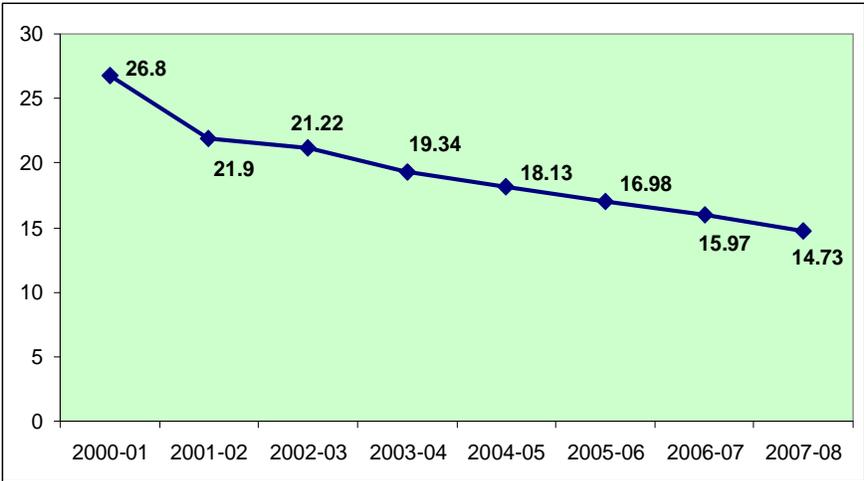
Year ended 31 st March	2006	2007	2008
Units Sold (Million Units)	9118.54	10360.95	10797.99
No. of 33/11 KV Sub stations	700	767	843
Length of 33 KV line in KM	9601.31	9960.10	10272.61
Length of 11 KV line in KM	64626.11	70173.41	75012.36
Length of LT line in KM	129381.08	130361.92	132688.92
Number of Distribution Transformers	139020	158160	184972
Number of Power Transformers	1003	1071	1147
No of Consumers	4849471	5234494	5656339
Distribution Losses (%)	16.98	15.97	14.73
Distribution Transformer failures (%)	9.19	5.70	5.48
Average Realisation per unit (Rs.)	2.11	2.09	2.29
Financial Data (Rs. in Crores)			
Total income	2963.60	3304.32	3891.63
Total Expenditure	2926.52	3251.14	3808.75
Surplus / (Deficit)	37.08	53.18	82.88
Paid up Equity Capital (Rs. In Crores)	358.71	358.71	358.71

Rs. in Crores

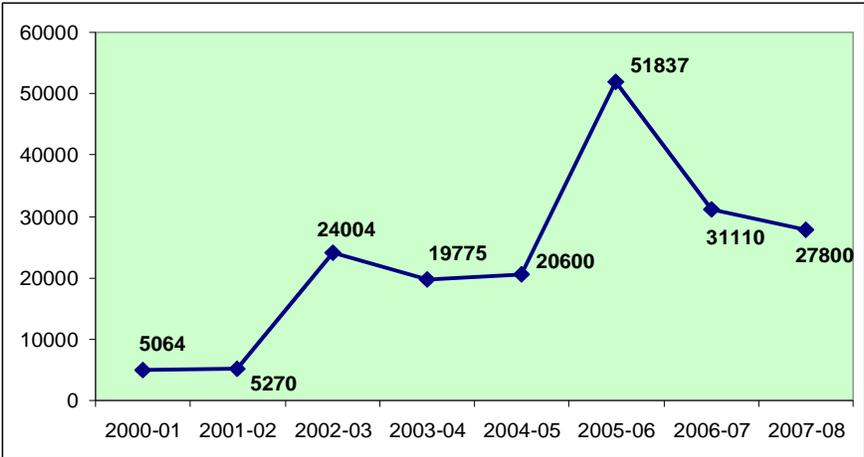
Profit / Loss

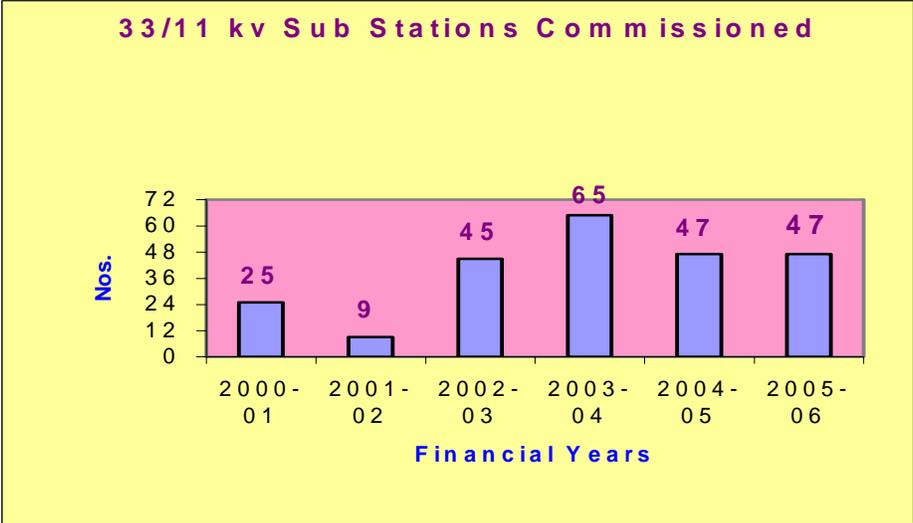
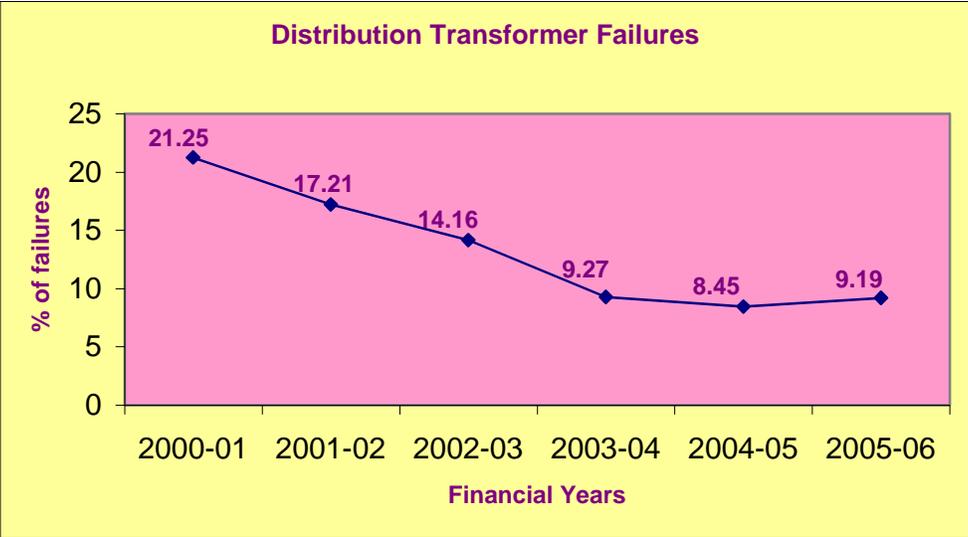


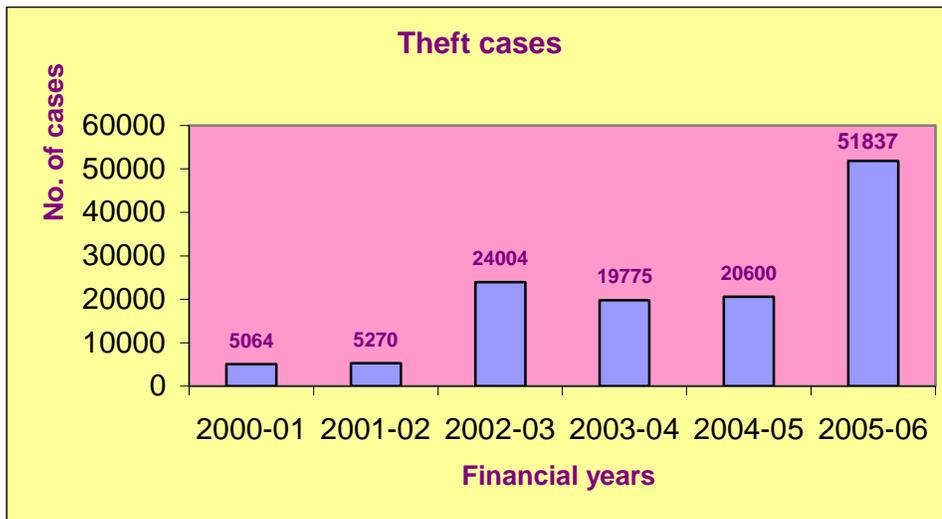
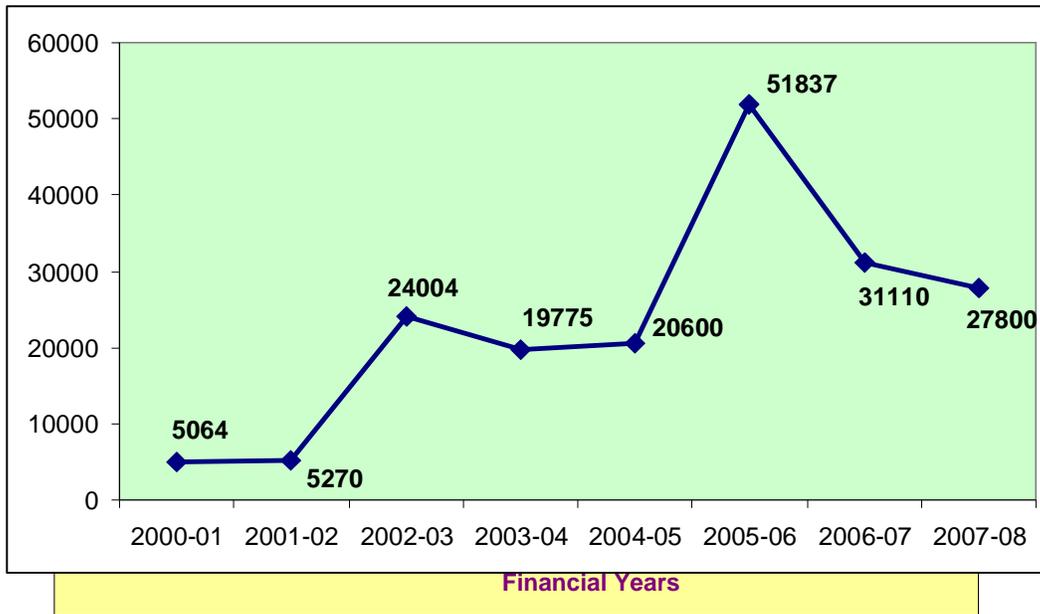
Distribution Losses

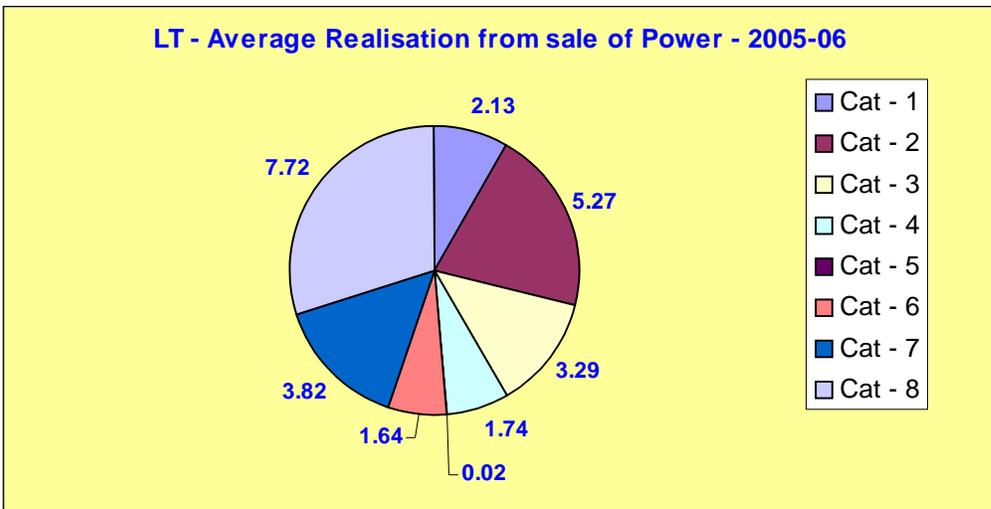
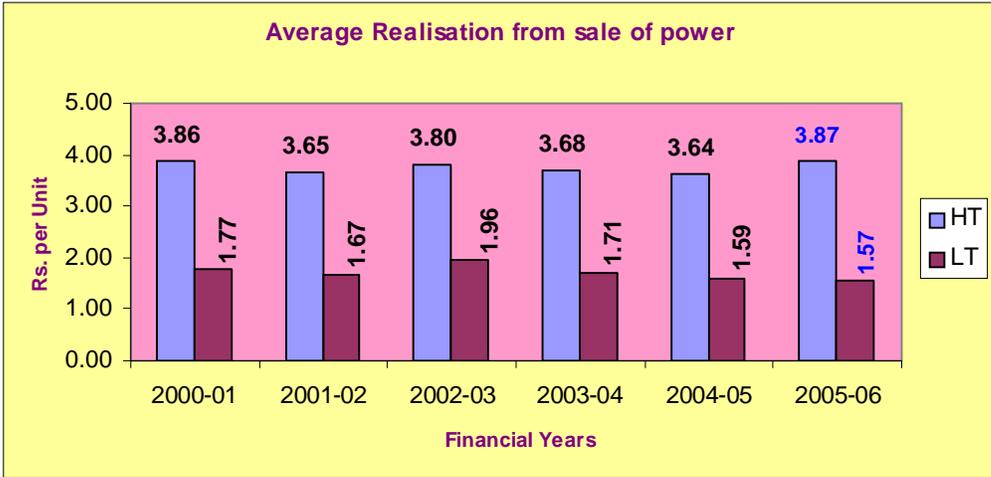


Theft Cases











SOUTHERN POWER DISTRIBUTION COMPANY OF A.P.LIMITED
CORPORATE OFFICE : D.No 19-13-65/A,
Tiruchanoor Road, Tirupati

NOTICE

To

The Members of the Company

NOTICE IS HEREBY GIVEN THAT THE 8th(Eight) ANNUAL GENERAL MEETING OF THE COMPANY WILL BE HELD(at **Shorter Notice under Section 171(2) of the Companies Act, 1956 pursuant to consent received from all the Members**) ON MON DAY THE 29-09-2008 AT 12.00 PM AT THE REGISTERED OFFICE OF THE COMPANY AT CORPORATE OFFICE, 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 period ended 31-3-2008 together with Directors Report, Statutory Auditors Report and Comments of Comptroller and Auditor General of India, thereon.

Draft Resolution:

“ RESOLVED THAT the Audited Balance sheet of the Company as on 31st March,2008 and Profit & Loss Account for the year ended on that date: together with the Director’s report, Statutory Auditors report and the Comments of the Comptroller and Auditor General of India ,thereon be and are hereby adopted.”

2. To take note of the appointment of Statutory Auditors for the Financial Year 2008-09 under the provisions of Sec. 619 of Companies Act, 1956 by Comptroller and Auditor General of India and fix the remuneration of Statutory Auditors for the Financial Year 2008-09.

The Office of the Comptroller and Auditor General of India vide their letter No CA.V/COY/ANDHRA PRADESH,SOU PO W (1)/96 ,Dt 06.08.2008 appointed M/S Raju & Prasad, Chartered Accountants, as Statutory Auditors of the Company for the Financial Year 2008-09.

Draft Resolution:

“ RESOLVED THAT the appointment of M/S Raju & Prasad, Chartered Accountants as Statutory Auditors of the Company for the Financial Year 2008-09 by the office of the Comptroller and Auditor General of India vide their letter No CA.V/COY/ANDHRA PRADESH, SOU PO W (1)/96 ,Dt 06.08.2008 be noted.”

“RESOLVED THAT pursuant to the provisions of Sec.224(8) (aa) and other applicable provisions, if any, of the Companies Act 1956, the Board of Directors of the Company be and are hereby authorized to fix the remuneration and to provide for reimbursement of their actual Out-of- Pocket expenses payable to Statutory Auditors M/s. Raju & Prasad, Chartered Accountants for the financial year 2008-09.”

BY ORDER OF THE BOARD OF DIRECTORS OF
SOUTHERN POWER DISTRIBUTION COMPANY OF A.P.LIMITED

Place: TIRUPATI
Date: 21-09-2008

B.V.S. PRAKASH
COMPANY SECRETARY

Note:

- 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).**
- 2. The Comments of the Comptroller and Auditor General of India(CAG) on the Annual accounts for the Financial Year 2007-08 shall be placed before the Shareholders at the Annual General Meeting.**

DIRECTORS' REPORT

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

Dear Members,

Your Directors have great pleasure in presenting the 8th (Eighth) Annual Report of the Company relating to Financial Year 2007-08 and trust that 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 2007-08	Previous Year 2006-07
a.	Total income	3891.63	3304.32
b.	Total expenditure	3808.75	3246.63
c.	Profit/(Loss) before tax	82.88	57.69
d.	Provision for tax	0.79	0.77
e.	Profit/(Loss) after tax	82.09	56.92
f.	Net prior period credits/(Charges)	27.93	(3.74)
g.	Profit/(Loss) before Contingency Reserve	54.16	53.18
h.	Contingency Reserve	(-)	(-)
i.	Profit after Contingency Reserve	54.16	53.18

Financial Highlights

It is a great pleasure to share with you the highlights of the strong operational and financial performance of our Company during the year 2007-08.

- Total income is **Rs.3891.63 Crore in 2007-08** – up from Rs.3304.32 Crores in 2006-07.
- Profit before tax of the Company stood at Rs.82.88 Crore as against a profit of Rs.57.69 Crores in 2006-07.
- The net profit of the Company increased to Rs.54.16 Crore – up from Rs.53.18 Crore in 2006-07.
- Earnings per share (EPS) for the year stood at Rs 1.51 in 2007-08 – up from Rs.1.48 in 2006-07.

Dividend

The Board of Directors have not declared any dividend during the year ended 31.03.2008

Energy Sales

The Company's total sales increased to **10798 MU** in 2007-08 from **10361 MU** in 2006-07. Showing a net increase of **437 MU**.

Operational Performance of The Company for the year 2007-08:

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

S.No.	Particulars	As on 31-3-2007	As on 31-3-2008
1	Number of 33/11 KV Sub stations	767	843
2	Length of 33 KV line in KM	9960.1	10272.61
3	Length of 11 KV line in KM	70173.41	75012.36
4	Length of LT line in KM	130361.92	132688.92
5	Number of Distribution Transformers	158160	184972
6	Power Transformers	1071	1147
7	Number of Consumers	5234494	5656339

Distribution Losses:

Distribution losses were reduced from 15.97% in 2006-07 to **14.73% in 2007-08** as against target of 14.76% as per APERC.

Achievements of the Company during 2007-08

- A total of 4,21,841 new services have been added during the year which includes 216 new HT services.
- 76 Nos. of 33/11 KV substations have been added during the year to improve quality of power supply.
- During the year under review 317 Nos. Dalitha wadas, 874 Nos. weaker section colonies and 20 Nos. Tribal colonies/hamlets, a total of 1,211 were electrified.
- During the year, under Energization of Agricultural Pumpsets 805 of SCs 377 STs, 498 BCs, 2 of APSIDC and 5328 others were done. 18,434 were taken up under Tatkal scheme..
- 2,94,648 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 2007-08 to curb the theft of energy.

A total of **27,800** theft cases were registered during the year 2007-08 assessing Rs.4,67,35,657. During the year 35084 cases were compounded and Rs. 2,79,74,700 collected.

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 Viduytikaran Yojana (RGGVY).

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 P. Anjaiah	01-05-2008	-
2. Sri K. Rami Reddy	30-06-2008	-
3. Sri M.Malakondaiah,IPS	7-10-2006	16.09.2008
4. Sri M. Gopala Rao	7-10-2006	-
5. Sri. Umesh Sharraf IPS	16.09.2008	-

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. Umesh Sharraf,IPS.	- Non- Whole time Director
Sri. M.Gopala Rao	- Non-Whole time Director
Sri Y.Padmanabha Reddy	- Director (Projects)
Sri T.H.N.S.Damodara Rao	- Director (Purchases)
Sri A. Venkata Reddy, IRAS	- Director (Finance)
Sri V.Krishna Murthy	- Director (Energy Audit)
Sri Shaik Anwar	- Director (Operation)
Sri P. Anjaiah	- Director (HRD)
Sri K. Rami Reddy	- Director (RAC)

BOARD MEETINGS HELD DURING THE YEAR:

During the Financial Year 2007-08, the Company has held **5 Meetings** of Board of Directors.

Directors	Meetings Attended	Remarks
Sri P. Gopal Reddy	5	
Sri T.H.N.S. Damodara Rao	5	
Sri Y. Padmanabha Reddy	5	
Sri A. Venkata Reddy	2	
Sri V. Krishna Murthy	3	
Sri Shaik Anwar	5	
Sri P. Anjaiah	-	Assumed charge on 01-05-2008
Sri K. Rami Reddy	-	Assumed charge on 30-06-2008
Sri. M.Malakondaiah,IPS	5	Non-Whole time Director
Sri. M.Gopala Rao	5	Non-Whole time Director

Composition of Audit Committee and changes therein:

In compliance with the provisions of Section 292 A of the Companies Act, 1956, during the year under review, the Audit Committee has met on 9th August, 2007 and 27th November 2007 & 28th February 2008.

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

- | | |
|---------------------------|-------------------------|
| 1. Sri Umesh Sharraf IPS | Non whole time Director |
| 2. Sri M. Gopala Rao | Non whole time Director |
| 3. Sri Y.Padmanabha Reddy | Director (Projects) |

The Audit Committee was reconstituted.

Sri Umesh Sharraf IPS ,JMD(V&S),APTRANSCO was appointed as Non-Whole time Director in place of Sri. M.Malakondaiah IPS in the month of September,2008.

Auditors of the Company

M/s. Sankaran & Krishnan, Chartered Accountants, Rosewood Offices, No.130-131, Nungambakkam, M.G.Road, Chennai – 600034 were appointed by Comptroller and Auditor General of India (C&AG) as the Statutory Auditors of the Company for the Financial Year 2005-06, 2006-07 & 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, 2008 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 not furnished as they are not applicable to the Company.

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. The Annual Accounts are prepared as per the Electricity (supply) Annual Accounts Rules, 1985, notified under Electricity (Supply) Act, 1948, and the applicable Accounting Standards are 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.

Acknowledgements:

Your Directors wish to place on record their appreciation and acknowledge the support extended by various agencies involved in the operations of the Company, including financial institutions. The Board of Directors wishes to place on record its sincere appreciation for the all round co-operation and contributions made by the officers and staff of the company.

For and On behalf of the Board of Directors of APSPDCL

Place:Tirupati
Date:29.09.2008.

P. Gopal Reddy
Chairman and Managing Director

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

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

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

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

- iv. Confirmation of balance has not been obtained from the Power generating companies. {Refer Note No.6}.
- v. Non-availability of the break up figures of the Assets and Liabilities taken over from APTRANSCO under the Second Transfer Scheme. (Refer Note No.8)
- vi. Non-reconciliation of the amount of Sundry Debtors as per Financial Ledgers and Consumer Ledgers. {Refer Note No.19 (ii)}
- vii. Confirmation has not been obtained in respect of Sundry Debtors, Sundry Creditors and Loans and Advances. {Refer Note No.24}
- viii. Non-reconciliation of Inter Unit Accounts which shows a net difference (debit) of Rs.8.65 crores. {Refer Note No.26}
- ix. Non-reconciliation / confirmation of the Loan accounts with APTRANSCO, REC, PFC and Government of Andhra Pradesh. {Refer Note No.21}
- x. Accounting of interest on Family Benefit fund, post retirement medical benefits, Guarantee commission and sale of scrap on cash basis which are not in conformity with AS 9 – Revenue Recognition. {Refer Accounting Policy No.1 (ii)}
- xi. Accounting of Government grants received and Consumer contribution towards cost of Capital Assets to Capital Reserve and non deduction of the same from cost of the Assets which are not in conformity with AS 12 – Accounting for Government Grants and AS10 – Accounting for Fixed Assets, issued by ICAI. {Refer Accounting Policy No.9 and Note No.15 (iii)}
- xii. Accounting Policy No.4 regarding Capitalisation of Work-in-progress of earlier year in the next following year without considering the actual date of putting into use is not in conformity with AS10 – Accounting for Fixed Assets, issued by ICAI.
- xiii. The company has not followed the policy towards allocation to capital expenditure. {Refer Accounting Policy No.4 (ii) } Instead of taking 20% of employee cost and allocating the same to Capital expenditure, the company has taken 20% of Capital expenditure and added the same to Capital expenditure as allocation. ***This has resulted in excess allocation of Rs.17.53 crores towards Capital expenditure. Correspondingly, by deduction of Rs.59.63 crores from employee cost, instead of Rs.42.10 crores has resulted in overstatement of profit by Rs.17.53 crores.***
- xiv. Note No.16 (i) regarding charging of depreciation on the opening Gross Block of Assets without considering the additions during the year and non withdrawal of accumulated depreciation on sale of Assets which are not in conformity with AS6 – Depreciation Accounting. This is also not in accordance with the provisions of the Electricity Supply Act as it results in depreciating the asset to 100% as against the applicable 90% of the Asset Value.

- xv. Note No.32 regarding incidental expenses incurred on the purchase of materials treated as period cost and charged to Revenue Account in the year in which it is incurred, instead of adding to the cost of inventory which is not in conformity with AS2 – Valuation of Inventories, issued by ICAI.
- xvi. Accounting policy No.8 and Note No.20 (i) and (ii) regarding provision for Pension and Gratuity, made on adhoc basis and leave encashment on actual basis, instead of actuarial valuation for the year which are not in conformity with AS15 – Accounting for Retirement Benefits, issued by ICAI.
- xvii. Note No.21 (ii) and Accounting Policy No.4 regarding capitalization of interest and finance charges during construction period, which is not in conformity with AS16 – Borrowing Costs, issued by ICAI.
- xviii. Non-recognition of Deferred tax liability which is not in conformity with AS 22 Taxes on income issued by ICAI. {Refer note no.30}
- xix. Note No.37 regarding non-disclosure of items for which the company is contingently liable including court cases and capital commitments remaining unexecuted which is not in conformity with AS 29 – Provisions, Contingent Liabilities and Contingent Assets.
- xx. The non-accounting of Fuel Surcharge Adjustment for the period September, 04 to March, 05 and July 05 to March 2006 (Refer Note No.11).
- xxi. Note No.23 regarding the Non-provision of the demand of Andhra Pradesh Entry Tax amounting to Rs.7.77 crores.
- xxii. Non-availability of the Original Share Certificates of Kuppam RESCO (Refer Note No.12)

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

- i. We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purpose of our Audit.
- ii. In our opinion, proper books of account as required by law have been kept by the company so far as appears from our examination of those books.
- iii. The Balance Sheet, Profit and loss Account and Cash Flow Statement dealt with by this report are in agreement with the books of accounts.
- iv. In our opinion, the Balance Sheet, Profit and loss Account and Cash Flow Statement dealt with by this report comply with the Accounting Standards referred to in sub-section (3C) of Section 211 of the Companies Act, 1956.

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

AS 2 : Valuation of Inventories

AS 6 : Depreciation Accounting
AS 9 : Revenue Recognition
AS 10 : Accounting for Fixed Assets
AS 12 : Accounting for Government Grants
AS 15 : Accounting for Retirement Benefits
AS 16 : Borrowing Costs
AS 22 : Taxes on Income
AS 29 : Provisions, Contingent Liabilities and Contingent Assets

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

Subject to:

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

AND

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

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

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

AND

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

Place: Tirupati
Date : 04.08.2006

For Sankaran & Krishnan
Chartered Accountants

Sd/-
(M.Balachandran)
Partner

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

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

- 1) (a) The company has not maintained proper records showing full particulars including quantitative details and situations of fixed assets.

(b) We were informed that the Fixed Assets have not been physically verified by the management during the year and hence we are unable to comment on the discrepancy, if any between the physical balance and book records.

(c) During the year no substantial part of fixed assets have been disposed off.
- 2) (a) Physical verification of inventory has been conducted during the year

(b) The procedure of physical verification of inventory followed by the management is reasonable and adequate in relation to the size of the company and nature of the business.

(c) The company is maintaining proper records of inventory. The discrepancies noticed on physical verification of inventories as compared to the book records are material and the same have been properly dealt with the books of accounts.
- 3) As informed to us, the company has neither taken nor granted any loans, secured or unsecured to/from companies firms or other parties covered in the register maintained under section 301 of the companies Act, 1956.
- 4) The internal control system for the purchase of inventory and fixed assets, sale of goods and services is not adequate.
- 5) In the opinion and according to the information and explanation given to us, there are no contracts or arrangements that need to be entered in the register in pursuance of section 301 of the companies Act, 1956.
- 6) The company has not accepted any deposits from the public within the meaning of section 58A and 58AA and any other relevant provisions of the Companies Act, 1956 and the rules framed there under.
- 7) The company does not have an Internal Audit System commensurate with the size and the nature of business. During the year the company had conducted Revenue Audit to verify the accuracy of income in 54 units out of 78 units.
- 8) The Company has maintained the Cost records prescribed by the Central Government under Clause (d) Sub-Section (1) of Section 209 of the Companies Act, 1956.

9) (a) There are no undisputed statutory dues including provident fund, income tax, wealth tax, custom duty, excise duty, cess and service tax outstanding more than six months from the date they became payable except in respect of the dues of sales tax and tax deducted at source for which details are not available.

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

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

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

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

- 18) The company has not made any preferential allotment of shares to parties and companies covered in the register maintained under section 301 of the companies Act, 1956.
- 19) The company has not issued any debentures during the year.
- 20) The company has not raised any money by public issue during the year.
- 21) In our opinion and according to the information and explanations given to us, the following frauds were committed on the Company and were reported during the year:

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

Place : Chennai
Date : 04.08.06

For Sankaran & Krishnan
Chartered Accountants

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

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

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

20	The non-accounting of Fuel Surcharge Adjustment for the period September, 04 to March, 05 and July 05 to March 2006 (Refer Note No.11).	The Fuel surcharge adjustment is not an income as well as expenditure to the company as the same has to be reimbursed to the APGENCO through APTRANSCO so it will not have any effect on the financials of the Company.
21	Note No.23 regarding the Non-provision of the demand of Andhra Pradesh Entry Tax amounting to Rs.7.77 crores.	The same is being reconciled in the ensuing year 2006-07.
22	Non-availability of the Original Share Certificates of Kuppam RESCO (Refer Note No.12)	Noted for Guidance.
23	Non disclosure of dues to Small Scale industrial undertakings under Creditors.	Noted for guidance
24	Non classification of Sundry Debtors into outstanding for a period exceeding six months and others	Noted for guidance
	<p>M/s SANKARAN & KRISHNAN Chartered Accountants</p> <p>Sd/- (M..Balachandran) Partner</p> <p>Place: Tirupati Date: 04-08-2006</p>	<p>For and on behalf of the Board</p> <p>Sd/- P.Gopal Reddy Chairman & Managing Director)</p> <p>Sd/- K.P.Anand Director (Finance)</p> <p>Place: Tirupati Date: 04-08-2006</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 particulars including quantitative details and situations of fixed assets.	Noted for future compliance.
1(b)	We were informed that the Fixed Assets have not been physically verified by the management during the year and hence we are unable to comment on the discrepancy, if any between the physical balance and book records.	Noted for future compliance.
4	The internal control system for the purchase of inventory and fixed assets, sale of goods and services is not adequate.	Noted for guidance.
7	The company does not have an Internal Audit System commensurate with the size and the nature of business. During the year the company had conducted Revenue Audit to verify the accuracy of income in 54 units out of 78 units.	Noted for guidance.
	<p>M/s SANKARAN & KRISHNAN Chartered Accountants</p> <p>Sd/- (M..Balachandran) Partner</p> <p>Place: Chennai Date: 04-08-2006</p>	<p>For and on behalf of the Board</p> <p>Sd/- P.Gopal Reddy Chairman & Managing Director)</p> <p>Sd/- K.P.Anand Director (Finance)</p> <p>Place: Tirupati Date: 04-08-2006</p>

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

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

Date: 29-09-2006

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

Sir,

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

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

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

Yours faithfully,

Sd/-

Deputy Accountant General (C)

Encl : As above

<p>COMMENTS OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA UNDER SECTION 619(4) OF THE COMPANIES ACT, 1956 ON THE ACCOUNTS OF THE SOUTHERN POWER DISTRIBUTION COMPANY OF ANDHRA PRADESH LIMITED, TIRUPATI FOR THE YEAR ENDED 31 MARCH 2006.</p>	<p>REPLIES OF THE COMPANY FORMING PART OF THE DIRECTOR'S REPORT TO THE MEMBERS UNDER SECTION 217(3) OF THE COMPANIES ACT, 1956.</p>
<p>Balance Sheet Application of Funds Fixed Assets (Sch.4)</p>	
<p>1. <u>Goodwill: 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>This has resulted in understatement of "Goodwill" (Gross Block) by Rs.0.63 crore; "Amortisation of Goodwill" by Rs.0.13 crore and overstatement of "Net profit before tax for the year" by Rs.0.13 crore.</p>	<p>The liabilities of the RESCOs exceed the value of the assets and as a result, the net worth of the RESCOs is wiped off. When the net worth is wiped off the share capital also extinguishes so the company has ignored the share capital of govt of A.P while taking over the assets and liabilities of the RESCO.</p> <p>The share capital will be paid only if there is any balance left after paying off all outside liabilities. In this case the outside liabilities are more and thus no share capital is to be paid or provided for.</p> <p>Moreover, the company intends to pursue with Government of Andhra Pradesh for recovery of the loss sustained by DISCOM for taking over the RESCOs</p> <p>Thus there is no overstatement of profit as suggested.</p> <p>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>Additions to opening Gross Block: Rs.44.82 crore</u></p> <p>The above amount of Rs.44.82 crore represent the fair market value of the Net Fixed Assets taken over from RESCOs (Rayachoty and Atmakur) with effect from 1 January 2005. These assets were in existence for quite a long period as the RESCOs were in existence from the year 1976/1984 and hence assets of</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</p>

	<p>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 its acquisition by the owner. However, the company adopted the existing rates of depreciation being charged on new assets, to the second hand assets taken-over, resulting in a lower provision for depreciation on the assets taken-over from the RESCOs, which could not be quantified.</p>	<p>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>
3	<p><u>Depreciation & Amortisation on Lines and Cable Network : 607.94 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 was included in "Lines and Cable Network") for the years upto 1999-2000, the amount of undercharge of depreciation on the same could not be quantified.</p>	<p>The Opening balance of Net Assets as on 1-04-2000 has been adopted in the books as per the second transfer scheme.</p>
	Current Assets, Loans & Advances (Sch.7)	
4	<p><u>Inventories</u> <u>Stores and Spares: Rs.118.23 crore</u></p> <p>This is overstated by Rs.16.98 crore due to double accountal of Rs. 8.49 crore being the value of Stores issued by District Stores, Tirupati to the various Divisions in the Circle.</p>	<p>The entries relating to this will reflect in the Inter-unit accounts, which are under reconciliation and the difference in Inter-unit balance is also qualified by the Statutory</p>

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

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

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

	<p>year” by Rs. 46.87 crore due to accountal of “Revenue from sale of power” in respect of power received from SLBPH and non-accountal of the cost of power.</p>	<p>made.</p> <p>On receipt of consent from Honorable Commission for the methodology as prescribed in Para 475 of Tariff order of 2004-05, the liability will be estimated and provided for in the books of accounts. The note from EC (Commercial) has been enclosed.</p> <p>Note No. 5 to Notes to accounts mentions the fact that the power purchase bills raised by the Generators are provisional and are subject to revision at a later date.</p>
9. (ii)	<p>This is also understated by Rs. 6.08 crore due to non-accountal of the claim made by M/s. Power Grid Corporation of India Limited towards transmission charges for the years 2004-05 and 2005-06 in accordance with the CERC orders passed during May 2006. This has resulted in overstatement of “Net Profit before tax for the year” by a similar amount.</p>	<p>It is to state that the claim was made by M/s.PGCIL during the Month of June -2005, towards Transmission charges, in accordance with the Central Electricity Regulatory Commission orders on various transmission assets for the block period 2004-2009. Provision for the period from 2004-2006 could not be considered in the books of accounts due to the following reasons:</p> <ol style="list-style-type: none"> 1. The appeal for the fixation of tariff time block mentioned above was heard by CERC from time to time and the various orders were passed during May 2006. 2. M/s.PGCIL made the claim on 12-06-2006. 3. The APDISCOMS had given cut off date for the finalization of accounts to all its units and the statutory audit was almost completed by 1st week of June 2006 in certain DISCOMS. <p>However, the claim on account of the above order is accounted correctly classifying under the prior period items in respect of the claim relating to 2004-05, 2005-06 and as current year expenditure in respect of FY 2006-07.</p> <p>Note No. 4 and Note No.5 to Notes to accounts mention the facts that the transmission charges and power purchase bills claimed by APTRANSCO/Generators are provisional and are subject to revision at a later date.</p>
9. (iii)	<p>This is overstated by Rs. 0.60 crore due to incorrect accountal of proportionate transmission and SLDC charges payable to AP TRANSCO for 22 days as against 21 days</p>	<p>The effective date of G.O.Ms.No.58 Energy (Power-III) Department dt. 07-06-2005 is 09-06-2005, providing of SLDC Charges for 22 days (09-06-2005 to 30-06-2005 both days</p>

	for the month of June, 2005. This has resulted in understatement of “Net profit before tax for the year” by Rs. 0.60 crore.	inclusive) and hence this is in order.
10	<p>Employee Costs (Sch.12) <u>Pension contribution & Terminal benefits : 20.41 crore</u></p> <p>A reference is invited to qualification under item No. 4 (xvi) of the Statutory Auditors’ Report regarding provision for terminal benefits on ad-hoc basis instead of on actuarial valuation. The Statutory Auditors have not quantified the impact of the comment. The amount as per actuarial valuation at the rate of 24.83 percent works out to Rs. 37.27 crore as against a liability of Rs. 17.72 crore actually provided for, thereby resulting in a short provision of terminal benefits by Rs. 19.55 crore. This has also resulted in overstatement of “Net profit before tax for the year” by Rs. 19.55 crore.</p>	<p>Though the actuary has not mentioned in his report as draft, the report is a draft one.</p> <p>APTransco in its letter has sought clarifications on the Actuarial valuation report dated 25.01.06 has stated that it is a draft report. All the Unit/Company trust and the Master trust have submitted their queries on the draft report, which are yet to be sorted by the actuary.</p> <p>As it is a draft report the actual quantification is not available and could not be adopted in accounts pending receipt of final report.</p> <p>The fact that the provision made is on adhoc basis and not on the basis of Actuarial valuation has been qualified in the Statutory Auditors’ Report. In the Notes to accounts of the company, it is clearly stated that awaiting revised actuarial valuation, an adhoc provision has been made.</p> <p>Thus in the company’s opinion</p> <ol style="list-style-type: none"> 1. As any excess provision required can be claimed in the ARR, there is no short provision of Rs 19.55 Crores for the year under review. 2. The company would take into account any additional liability only after the receipt of the final report of the actuary. Once it is received, the provision will be made accordingly.
11.	<p>Administration & General Expenses (Sch.13) <u>Other Professional Charges : Rs.13.20 Cr</u></p> <p>This is overstated by Rs. 0.61 crore due to incorrect accountal of the expenditure incurred on Wide Area Network (WAN) Project commissioned and put to use during the year in Tirupati Circle. This has resulted in understatement of “Fixed Assets – Gross Block – Additions during the year – Office Equipment” and “Net Profit before tax for the year” by Rs. 0.61 crore.</p>	<p>It is to inform that this will be rectified in the current financial year 2006-07 and as the amount is not material and the effect on financial is very negligible.</p>

12	<p>Interest and Finance Charges (Sch.15) <u>Interest on others: Rs.66.45 crore</u> This is understated by Rs. 0.61 crore due to non-accountal of the interest accrued on unsecured loan from AP EPDCL of Rs. 30 crore to the end of 31 March, 2006. This has resulted in understatement of “Current Liabilities and Provisions – Current Liabilities – Interest accrued but not due” and overstatement of “Net profit before tax for the year” by Rs. 0.61 crore.</p>	<p>At the end of the March 2006, the company had to receive Rs.25.02 crore from EPDCL. The company can recover interest at PLR rates on this amount as per the pool agreement. As the company has not accounted for this income, the company has also not accounted for the payment of interest on EPDCL loan at the end of the year.</p>
	<p>Net Prior Period Credits/ (Charges) (Sch.16)</p>	
13.	<p><u>Income relating to prior years : Rs.4.57 crore</u> As per the Third Transfer Scheme the rights, obligations, agreements and contracts relating to procurement and bulk supply of electricity or trading of electricity to which AP TRANSCO was originally a party shall stand transferred and vested with DISCOMs with effect from 10.06.2005. The assets, liabilities and proceedings constituting the Bulk Supply Business of AP TRANSCO to be segregated and transferred to DISCOMs as per the ratio envisaged in the Government Order.</p> <p>AP Power Co-ordination Committee (APPCC) which was empowered to maintain the Pool Accounts, had passed on the Debits pertaining to prior period expenses such as royalty and water charges payable to Generators etc. to the DISCOMs in the ratio as prescribed in the Government Order, where as Credits viz., Refund of Advance Tax for excess amount paid and variable charges aggregating to Rs. 81.51 crore were not passed on to the DISCOMs.</p> <p>Non-accountal of the proportionate share by the company has resulted in understatement of “Income relating to prior years” and “Profit before Contingency Reserve” by Rs. 18.67 crore (22.90 percent of Rs. 81.51 crore).</p>	<p>In the meeting held on 8th December 2005 by Director(Finance & Revenue)/APTRANSCO with the Director(Finance) of DISCOMs at Vidyut soudha, Hyderabad, regarding issues relating to 3rd (Provisional) Transfer Scheme, the issue was discussed and the APPCC decision to the following effect was explained to the Director(Finance) of DISCOMs (vide Point No. 4.0 of the Minutes):</p> <p>(a) The Credits/refunds, if any received from the generators etc., relating to the period prior to 10th June, 2005 (for which expenditure/payments had already been accounted for by APTRANSCO) should be taken into the books of APTRANSCO only and the cash pertaining to these credits are to be transferred to APTRANSCO. On finalization of 3rd Transfer Scheme, the APTRANSCO Board may take a view on passing of further credits, if any, to the Discoms, at a later date.</p> <p>(b) The debits/claims (even though the claims pertains to period prior to 9th June 2005 are to be accounted in Discoms books only as the same /expenditure can be factored and recovered through Discoms ARR/Tariff.</p> <p>Thus as per the decision taken the debits were accounted in APPCC and credits were not taken by APPCC and hence it is in order.</p>
14.	<p>Prior period expenses/losses <u>Depreciation : Rs.1.89 crore</u> This does not include Rs. 0.86 crore being the amount of depreciation to be provided on the assets transferred from two RESCOs viz.,</p>	<p>It is to inform that no 16(i) of notes to accounts and as well as the point no 4(xv) of Auditors report, clearly state that depreciation has been</p>

	<p>Atmakur and Rayachoty for the period from 01.01.2005 to 31.03.2005, as the operations of the RESCOs were taken over by the Company with effect from 01.01.2005. This has resulted in understatement of “Prior period expenses / losses – Depreciation” and overstatement of “Fixed Assets – Net Block” and “Profit before Contingency Reserve” by Rs. 0.86 crore.</p>	<p>provided on gross block of fixed assets without consideration of additions during the year.</p> <p>As a consistent policy, the company depreciates all additions whether assets under construction (CWIP) or acquired, in the next year. Thus as merged assets are also one form of directly acquired assets. The policy hitherto followed has been adopted and will be depreciated from next year. In view of the policy stated and normal practice of the company, the financials are not altered.</p>
15.	<p>The impact of above comments 1 to 14 on the working results of the company would result in a “Net loss before tax for the year” of Rs. 3.07 crores as against a “Net profit before tax for the year” of Rs. 96.75 crore and the “Profit before Contingency Reserve” of Rs. 40.94 crore would turn into a “Loss before contingency reserve” of Rs. 41.07 crore.</p>	<p>In view of the replies given above, the impact of the comments on the Financials of the company is not material.</p>
	<p>Sd/- (SUDARSHANA TALAPATRA) Accountant General (C&RA)</p> <p>Place: Hyderabad Date: 29.09.2006</p>	<p>For and on behalf of the Board</p> <p>Sd/- P.Gopal Reddy Chairman & Managing Director)</p> <p>Sd/- K.P.Anand Director (Finance)</p> <p>Place: Tirupati Date : 29.09-2006</p>

SOUTHERN POWER DISTRIBUTION COMPANY OF ANDHRA PRADESH LIMITED
TIRUPATI
BALANCE SHEET AS AT 31ST MARCH, 2008

Amount in Rs.

	Schedule	As at 31.3.2008	As at 31.3.2007
SOURCES OF FUNDS			
(1) Shareholders' Funds			
(a) Share Capital	1	3587153090	3587153090
(b) Reserves and Surplus	2	2428923921	1064249347
(c) Deferred Capital Contributions	2A	4992427507	4386215707
(2) Loan Funds	3		
(a) Secured Loans		13993434216	11777582251
(b) Unsecured Loans		4216697461	4607568432
Total		29218636195	25422768827
APPLICATION OF FUNDS			
(1) Fixed Assets			
(a) Gross Block	4	35865052990	27182605407
(b) Less: Depreciation & Amortisation		13212826182	11682141891
(c) Net Block		22652226808	15500463516
(d) Capital Work-in-Progress	5	3468792698	6804947113
(2) Investments	6	987565956	635541235
(3) Current Assets, Loans & Advances	7		
(a) Inventories		1085994979	1046801036
(b) Sundry Debtors		2063279773	1995841817
(c) Receivables		4492830973	4452030052
(d) Cash & Bank Balances		1061335684	1177613114
(e) Loans & Advances		5928294561	5779934597
		14631735970	14452220616
Less: Current Liabilities and Provisions	8		
(a) Current Liabilities		11894366056	11343991783
(b) Provisions		631638601	632891000
		12526004657	11976882783
Net Current Assets		2105731313	2475337833
(4) Miscellaneous Expenditure (to the extent not written off)	9	4319420	6479130
Total		29218636195	25422768827

Significant Accounting Policies 17
Notes Forming Part of Accounts 18

For and on behalf of the Board

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

Sd/-
P.Gopal Reddy
Chairman & Managing
Director

Sd/-
A.Venkata Reddy
Director (Finance)

Sd/-
(M.BALACHANDRAN)
Partner.
Membership No.16271
Date:- 26-07-2008
Place: Tirupati

Sd/-
A.Venu Gopal
Chief General Manager
Expenditure

Sd/-
B.V.S. Prakash
Company Secretary
Date :- 26-07-2008
Place : Tirupati

SOUTHERN POWER DISTRIBUTION COMPANY OF ANDHRA PRADESH LIMITED
TIRUPATI

PROFIT & LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 2008

		Amount in Rs.	
	Schedule	For the year 2007-08	Previous year 2006- 07
INCOME:			
Revenue from Sale of Power	10	30409763980	24560577912
Revenue Subsidies and Grants		6794400000	6119280000
Other Income	11	1712206851	2363389507
Total Income		38916370831	33043247419
EXPENDITURE:			
Purchase of Power		30121637768	25640040847
Electricity Duty		411094629	360433841
Employee Costs	12	2678437465	1748192397
Administration and General Expenses	13	851127869	784487884
Other Expenses	14	459806247	608320636
Depreciation and Amortisation		1785284094	1834169067
Interest and Finance charges	15	1780180354	1490688360
Total Expenditure		38087568426	32466333032
Net Profit / (Loss) before Tax for the year		828802405	576914387
Less: Provision for Taxation			
Income Tax		1000000	-
Fringe Benefit Tax		6843734	7689821
Profit / (Loss) after Tax for the year		820958671	569224566
Net Prior Period Credits / (Charges)	16	(279302969)	(37397570)
Profit / (Loss) before contingency reserve		541655702	531826996
Less: Contingency Reserve			
Profit after Contingency Reserve		541655702	531826996
Balance of Profit/(Loss) brought over from previous year		713824517	181997521
Balance carried to Balance Sheet		1255480219	713824517
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

Sd/-
(M.BALACHANDRAN)
Partner.
Membership No.16271
Date:- 26-07-2008
Place: Tirupati

Sd/-
P.Gopal Reddy
Chairman & Managing Director

Sd/-
A.Venkata Reddy
Director(Finance)

Sd/-
A.Venu Gopal
Chief General Manager
Expenditure

Sd/-
B.V.S.Prakash
Company Secretary
Date :- 26-07-2008
Place : Tirupati

**SOUTHERN POWER DISTRIBUTION COMPANY OF ANDHRA PRADESH LIMITED TIRUPATI
CASH FLOW STATEMENT**

Amount in Rs.

Particulars	Year ending 31-03-2008		Year ending 31-03-2007	
A Cash flow from operating activities				
Net profit before taxation		549499436		539516817
Adjustments for items in Profit & Loss Account				
Income from Capital Contributions	(575357106)		(1428800000)	
Income from RGGVY Subsidy	(5971061)		-	
Depreciation & Amortisation	1530694291		1834169067	
Interest Income	(70549705)		(25576709)	
Deferred Cost Written Off	2159710		2159710	
Interest Expense	1315127714	2194793943	1011066709	1393015706
Operating Profit before working capital changes		2744293279		1932535523
Adjustments for changes in Current Assets other than Cash and Cash Equivalents				
Inventories	(39189943)		(611055)	
Sundry Debtors	(67437956)		1088858452	
Receivables	(40800921)		(50594171)	
Loans and Advances	(145359964)		(2011351001)	
Adjustments for changes in Current Liabilities & provisions				
Current Liabilities	550374273		(194698443)	
Provisions	(1252388)	253329090	(971848)	(1159267666)
Cash generated from Operations		2997622369		763267657
Less: Provision for Income Tax/Fringe Benefit Tax		7843734		7693521
Net cash flow from operating activities		2989778635		755577836
B Cash flows from investing activities				
Purchase of fixed assets /CWIP	(5346293160)		(5701930404)	
Interest on investments	70849705		25576780	
Interest on contingency reserve investments	12595373		11071292	
(Increase)/Decrease in investments	(352024721)		444034648	
Net cash flow from investing activities	(5613872611)	(5613872611)	(6221247604)	(5221247684)
C Cash Flows from Financing Activities				
Proceeds from borrowings	7161001046		6493035653	
Additions to Deferred Capital Contributions	1181668906		1033050356	
RGGVY Subsidy	816294550		209532000	
Repayment of borrowings	(5336020052)		(1633453177)	
Interest on Borrowings	(1315127714)		(1011066709)	
Net Cash flow from Financing Activities	2507816746	2507816746	5091088123	5091088123
D Net increase/(decrease) in cash and cash equivalents		(116277430)		(374581725)
E Cash and Cash Equivalents				
At the beginning of the period		1177613114		1552194839
At the end of the period		1061335684		1177613114
F Net increase/(decrease) in cash and cash equivalents		(116277430)		(374581725)

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

Sd/-
(M.BALACHANDRAN)
Partner.
Membership No.16271
Date: - 26-07-2008
Place: Tirupati

For and on behalf of the Board

Sd/-
P.Gopal Reddy
Chairman & Managing Director

Sd/-
A.Venkata Reddy
Director (Finance)

Sd/-
A.Venu Gopal
Chief General Manager

Sd/-
B.V.S.Prakash
Company Secretary
Date:- 26-07-2008
Place: Tirupati

SCHEDULE - 1 : SHARE CAPITAL

		Amount in Rs.	
		As at 31.3.2008	As at 31.3.2007
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 Out of the above, 310607800 Equity Shares are issued for consideration other than cash	3587153090	3587153090
		3587153090	3587153090

SCHEDULE - 2 : RESERVES AND SURPLUS

1	STATUTORY RESERVES Contingency Reserve As per Last Balance sheet Additions during the year	140892830 13595373 154488203	129821538 11071292 140892830
2	RGGVY SUBSIDY <u>Amount Received</u> As per Last Balance sheet Additions during the year <u>Amortisation</u> As per Last Balance sheet Add: Transferred to Profit & Loss Account Net Balance	209532000 816394560 1025926560 - 6971061 6971061 1018955499	- 209532000 209532000 - - - 209532000
3	PROFIT & LOSS ACCOUNT	1255480219	713824517
		2428923921	1064249347

SCHEDULE - 2A : DEFERRED CAPITAL CONTRIBUTIONS

		Amount in Rs.	
		As at 31.3.2008	As at 31.3.2007
	<u>Amount Received</u>		
	As per Last Balance sheet	5815015707	4781965351
	Additions during the year	1181568906	1033050356
		6996584613	5815015707
	<u>Amortisation</u>		
	As per Last Balance sheet	1428800000	-
	Add: Transferred to Profit & Loss Account	575357106	1428800000
		2004157106	1428800000
		4992427507	4386215707

SCHEDULE - 3 : LOAN FUNDS

1	Secured Loans		
	a) Loans from REC	13350892469	11265870714
	b) Loans from PFC	642541747	511711537
	(Above Loans are Secured by all Fixed Assets present and future)		
		13993434216	11777582251
2	Unsecured Loans		
	a) Loans from Government of Andhra Pradesh	534149467	536353467
	b) Loan from EPDCL	300000000	300000000
	c) Vidyut Bonds	313100000	313100000
	d) Loans from ICICI Bank	259196109	298567665
	e) Loans from Bank of Baroda	304593885	348107301
	f) District SC Seva Society Ltd., Nellore	5658000	-
	g) CC Limits from SBH	-	311439999
	h) ICICI Short Term Loan	-	2500000000
	i) Other Short Term Loans	2500000000	-
		4216697461	4607568432
		18210131677	16385150683

SCHEDULE - 4 : FIXED ASSETS

Amount in Rs.

SNO	Particulars	GROSS BLOCK				DEPRECIATION & AMORTISATION				NET BLOCK	
		As at 01-04-2007	Additions during the year	Adjustments (Deductions during the year	As at 31-03-2008	Up to 31-03-2007	For the year	Adjustments/ Deductions during the year	Up to 31-03-2008	As at 31-03-2007	As at 31-03-2008
1	Goodwill	100860000	6330000	55900000	11390000	40384000	2278000	35828000	6834000	60576000	4556000
2	Land and Land Rights	34384216	9373491	-	43757707	-	-	-	-	34384216	43757707
3	Buildings	253966495	53930334	-	307896829	108053585	8082120	-	116135705	145912910	191761124
4	Other Civil Works	6047294	1951648	-	7998942	-	-	-	-	6047294	7998942
5	Plant and Machinery	8918035908	2427428667	-	11345464575	4001201718	546498499	8188159	4539512058	4916834190	6805952517
6	Lines and Cable Net work	16692293279	5788008623	-	22480301802	7199637550	1088043414	212431958	8085249606	9492655729	14395052296
7	Metering Equipment	312887499	132136317	-	445023816	115918145	45134407	-	161052552	196969354	283971264
8	Vehicles	31526204	-	37000	31489204	28403914	321606	(2448333)	31173953	3122290	315351
9	Furniture and Fixtures	51150626	115379	182000	51084005	44326268	1641025	600619	45366674	6824358	5717331
10	Office equipment	197700344	7417640	4508	205113476	40642164	25719663	-	66361827	157068180	138751649
11	Spare units/Service units	583653542	150592730	46989164	687258108	103574547	49819737	-	153394284	480079995	539863824
12	Assets under RGVY	-	248274426	-	248274426	-	7745623	-	7745623	-	240528603
	Previous Year	27182605407	8825559255	143111672	35865052990	11662141891	1785284094	254599803	13212626182	15500463516	22652226808
		23227207769	4555488177	600070539	27182605407	9847972824	1834169067	-	11682141891	13379234945	15500463516

SCHEDULE - 5 : CAPITAL WORK-IN-PROGRESS

		Amount in Rs.	
		As at 31.3.2008	As at 31.3.2007
1	Capital Work - in - Progress	3468792698	6533026750
2	Advance for Suppliers / Contractors (Capital)	271920363	
	Less : Provision for Doubtful Advances	271920363	271920363
		3468792698	6804947113

SCHEDULE - 6 : INVESTMENTS

LONG TERM INVESTMENTS (AT COST)			
1	Contingency Reserve Investments		
	<u>a) Unquoted</u>		
	Fixed Deposits with Banks	153829293	82159061
2	Other Investments		
	<u>a) Quoted</u>		
	UTI Gilt Advantage Fund LTP (No . Of Units 734633.857 , NAV as on 31.3.08 Rs.15.9841 Per unit, totalling to Rs.1,17,42,461/-)	10005034	10005034
	<u>b) Unquoted</u>		
	Share Capital in Resco- Kuppam, Chittoor	2905000	2905000
		166739327	95069095
3	SHORT TERM INVESTMENTS (Unquoted)		
	Fixed Deposits with Banks	820826629	540472140
		987565956	635541235
	Aggregate Book Value of Quoted Investments	10005034	10005034
	Aggregate Book Value of Un Quoted Investments	977560922	625536201
		987565956	635541235
	Market Value of Quoted Investments	11742461	11201991

SCHEDULE - 7 : CURRENT ASSETS LOANS AND ADVANCES

CURRENT ASSETS

		As at 31.3.2008	Amount in Rs. As at 31.3.2007
a)	INVENTORIES		
	i) Stores and Spares	1279947324	1210874148
	Less: Materials stock excess/shortage pending investigation	156850181	137372218
	Less: Provision for non-moving and obsolete stock	37102164	26700894
	Total	1085994979	1046801036
b)	SUNDRY DEBTORS - UNSECURED		
	a) Considered Good	2063279773	1995841817
	b) Considered Doubtful	726500000	570300000
		2789779773	2566141817
	Less: Provision for doubtful debts	726500000	570300000
		2063279773	1995841817
c)	RECEIVABLES		
	i) from GOAP	4021677679	4073615511
	ii) from REC	2732987	2732987
	iii) from others	468420307	375681554
		4492830973	4452030052
d)	CASH AND BANK BALANCES		
	a) Cash on Hand	104382540	103708181
	Less: Provision for Cash theft	4000	4000
		104378540	103704181
	b) Balance with Schedule Banks in Current A/c	922614192	827369001
	c) Remittances in Transit	34342952	246539932
		1061335684	1177613114
e)	LOANS AND ADVANCES (Unsecured- Considered Good)		
	i) Loans/Advances to Government Companies		
	a) APTRANSCO	-	580337116
	ii) Amount Recoverable in Cash or in Kind or for Value to be received	612005891	253226553
	iii) Income accrued from Sale of Power	3128243025	2683076176
	iv) Tax Deducted at Source	481264	481264
	v) Advance Fringe Benefit Tax Paid	28248942	
	Less: Provision for Fringe Benefit Tax	26256497	1992445
			136179
	vi) Pool Imbalance Account	2088165033	2113660366
	vii) Deposits with Others	68455520	32766201
	viii) Others	28951383	116250742
		5928294561	5779934597

SCHEDULE - 8 : CURRENT LIABILITIES AND PROVISIONS

		Amount in Rs.	
		As at 31.3.2008	As at 31.3.2007
a)	CURRENT LIABILITIES		
	i) For Power Purchase	4172500699	5027070549
	ii) For Others	1096846534	1096680551
	iii) Security and other Deposits	767770983	668154322
	iv) Security Deposits from Consumers (including interest thereon)	4825865679	4307440611
	v) Interest accrued but not due	75890137	79025165
	vi) Group Insurance Savings Fund	22439720	20099611
	vii) SPDCL Pension & Gratuity Trust	885474718	102511543
	viii) SPDCL Employees Welfare Society	3483371	-
	ix) Other Liabilities	44094215	43009431
		11894366056	11343991783
b)	PROVISIONS		
	i) Provision for Leave Encashment	601000000	601000000
	ii) Provision for Gratuity	29638601	31891000
	iii) Provision for Income Tax	1000000	-
		631638601	632891000
		12526004657	11976882783

SCHEDULE - 9 : MISCELLANEOUS EXPENDITURE

(to the extent not written off)

		Amount in Rs.				
		Expenditure incurred	Written off during the year	Written off to the end of 31-03-2008	As at 31.3.2008	As at 31.3.2007
a)	SAP Expenditure	4046609	809322	2427966	1618643	2427965
b)	GIS Mapping	6751941	1350388	4051164	2700777	4051165
	Total	10798550	2159710	6479130	4319420	6479130

SCHEDULE - 10 : REVENUE FROM SALE OF POWER

		Amount in Rs.	
		For the year 2007-08	Previous year 2006-07
1	Revenue from Sale of Power		
	a) Between DISCOMS	2672999861	1173054374
	b) L.T. Supply	14583212324	12950299810
	c) H.T. Supply	11382732884	9498000585
2	Income from Inter State Sale of Power	938462629	97888084
3	Other Receipts	832356282	841335059
		30409763980	24560577912

SCHEDULE - 11 : OTHER INCOME

1	Interest on Staff Loans and Advances, FDR's		
	a) Staff Loans & Advances	467721	720493
	b) Fixed Deposits & Others	70849705	25576780
2	Delayed Payment Charges from Consumers	422116272	433321791
3	Rebate on Power Purchase Bills	345628939	236667846
4	U I (Unscheduled Inter Change) Income	197446056	20460424
5	Miscellaneous Receipts	290527097	214842173
6	Grant in Aid from Government of A.P.	-	3000000
7	Income from Capital Contributions	385171061	1428800000
		1712206851	2363389507

SCHEDULE - 12 : EMPLOYEE COSTS

1	Salaries, Wages and Bonus	2593870254	2412550393
2	Pension Contribution & Terminal Benefits	482410240	362027299
3	Employees Welfare expenses	7278901	5652705
		3083559395	2780230397
	Less: Employees Cost Capitalised	405121930	1032038000
		2678437465	1748192397

SCHEDULE - 13 : ADMINISTRATION AND GENERAL EXPENSES

				Amount in Rs.	
			For the Year 2007-08		Previous Year 2006-2007
1	Licence fees		8829615		8457926
2	Repairs and Maintenance to				
	a) Plant and Machinery	438103615		299444088	
	b) Buildings	3734742		3888121	
	c) Others	4785228	446623585	4618518	307950727
3	Rent (including Lease Rentals)		16102231		12522386
4	Rates & Taxes		6474030		8010047
5	Insurance		1117829		1243409
6	Telephone Charges		20497686		24825117
7	Postage & Telegrams		2357305		2884153
8	Legal Charges		2686413		2694856
9	Audit Expenses and Fees : of which				
	a) Statutory Audit Fees	393260		393260	
	b) Audit Expenses	145000		171233	
	c) Tax Audit Fees	56180	594440	56180	620673
10	Other Professional Charges		148873857		148931272
11	Printing & Stationery		17865766		14616571
12	Advertisement		1685101		6103023
13	Electricity Charges		38284880		36339774
14	Conveyance and Traveling Expenses		164757912		158729393
15	Other Expenses		45869324		50558557
			922619974		784487884
	Less: Administration & General Expenses Capitalised		71492105		-
			851127869		784487884

SCHEDULE - 14 : OTHER EXPENSES

		Amount in Rs.	
		For the year 2007-08	Previous year 2006-07
1	Waiver of Surcharge	4215	8399001
2	Provision for Doubtful Advances	271920363	-
3	Write off of Deferred Revenue Expenditure	2159710	2159710
4	Flood, Cyclone relief Works	1438300	3623337
5	Bad & Doubtful Debts Provided for	146379830	570300000
6	Miscellaneous losses and write-offs	37903829	23838588
		45906247	608320636

SCHEDULE - 15 : INTEREST AND FINANCE CHARGES

1	Interest on State Government Loans/REC/PFC	1174593018	950714878
2	Interest on loans from Financial Institutions and Banks	140534696	60351831
3	Interest on others	828652640	820421651
		2143780354	1831488360
Less: Interest and Finance Charges Capitalised		363600000	340800000
		1780180354	1490688360

SCHEDULE - 16 : NET PRIOR PERIOD CREDITS/CHARGES

1	Income relating to Prior Years		
	a) Excess Provision-Interest & Finance Charges -written back	972553	1757905
	b) Other Excess Provisions	213412575	700290
	c) Excess Depreciation/Amortisation in Prior Periods	254599803	-
		468984931	2458195
2	Prior Period Expenses / Losses		
	a) Operating Expenses	8733606	33432703
	b) Employee Costs	754850144	3373255
	c) Interest & Other Finance Charges	14927525	11115337
	d) Other charges	(30223375)	(8065530)
		748287900	39855765
Net prior period credits/(charges) (1 - 2)		(279302969)	(37397570)

SCHEDULE - 13 : ADMINISTRATION AND GENERAL EXPENSES

				Amount in Rs.	
			For the Year 2007-08		Previous Year 2006-2007
1	Licence fees		8829615		8457926
2	Repairs and Maintenance to				
	a) Plant and Machinery	438103615		299444088	
	b) Buildings	3734742		3888121	
	c) Others	4785228	446623585	4618518	307950727
3	Rent (including Lease Rentals)		16102231		12522386
4	Rates & Taxes		6474030		8010047
5	Insurance		1117829		1243409
6	Telephone Charges		20497686		24825117
7	Postage & Telegrams		2357305		2884153
8	Legal Charges		2686413		2694856
9	Audit Expenses and Fees : of which				
	a) Statutory Audit Fees	393260		393260	
	b) Audit Expenses	145000		171233	
	c) Tax Audit Fees	56180	594440	56180	620673
10	Other Professional Charges		148873857		148931272
11	Printing & Stationery		17865766		14616571
12	Advertisement		1685101		6103023
13	Electricity Charges		38284880		36339774
14	Conveyance and Traveling Expenses		164757912		158729393
15	Other Expenses		45869324		50558557
			922619974		784487884
	Less: Administration & General Expenses Capitalised		71492105		-
			851127869		784487884

SCHEDULE 17

STATEMENT OF ACCOUNTING POLICIES

1. Basis of Preparation of Accounts:

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

2. Fixed Assets:

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

3. Depreciation:

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

4. Capital work in progress:

- i) The expenditure towards capital works in progress is accumulated in various work orders and the same is capitalized during the succeeding year.

- ii) The Company has a policy of allocating 20% of the employee cost incurred during the year towards capital expenditure.
- iii) The interest during construction is capitalized on the basis of Balance Net Assets / Assets at Construction Stage method.

5. Investments

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

6. Inventories:

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

7. Liabilities:

All known liabilities are recorded and provided in the accounts.

8. Retirement Benefits :

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

9. Government Grants and Consumer Contribution

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

As per our report of even date

For and on behalf of the board

For Sankaran & Krishnan
Chartered Accountants

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

Sd/-
P.GOPAL REDDY
Chairman & Managing Director

Sd/-
K.P.
Director

Sd/-
K.SATEESH GUPTA
Company Secretary

Place : TIRUPATI

Place : TIRUPATI

SCHEDULE 18

Notes to Accounts

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

Southern Power Distribution Company of Andhra Pradesh Limited has become an independent company from 09.06.05, the accounts for the year ending 31.03.06 has been prepared as per Schedule VI of the Companies Act 1956.

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

12. The original share certificates in respect of Rural Electric Supply Co-operative Society of Kuppam are yet to be received.

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

- i) During the year, the Assets and Liabilities of the business of Rural Electric Supply Co-operative Societies of Atmakur and Royachotty have been incorporated in the books of the company and the resultant Goodwill amounting to Rs.10.09 Crores is amortised over a period of 5 years. Accordingly, an amount of Rs.2.02 Crores is written off during the year.
- ii) The liability taken over includes Rs.32.00 lakhs pertaining to loan taken from Andhra Pradesh State Electricity Board. The same is shown as a liability even though Andhra Pradesh State Electricity Board is non-existent consequent to the 2nd transfer scheme, due to the non-availability of the break-up details of the assets and liabilities transferred under the said scheme.
- iii) The Gratuity liability as on the date of take over in respect of the employees absorbed has been provided for based on the valuation report.

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

15. Fixed Assets:

- i) Fixed Assets transferred in the second transfer scheme amounting to Rs.799.57 crores has been classified as communicated by APTRANSCO at gross value and hence individual breakup is not available.
- ii) In accordance with the provision of Electricity Supply (Annual Accounts) Rules, 1985, Consumer contribution and the grant/subsidy received towards cost of capital assets during 2005-06 amounting to Rs.73.20 Crores has been taken to Capital Reserve.

16. Depreciation:

- i) Depreciation has been charged on fixed assets under Straight Line Method on the Opening Gross Block of assets as on 1.4.2000, in the absence of individual break-up details of assets transferred under second transfer scheme. Further, depreciation is provided on additions from the succeeding year of its addition.
- ii) The Company is charging Depreciation at the rates notified under the Electricity Act, 1948.

17. Investments

- i) Investment of Rs.9.06 crore has been made out of the Contingency Reserve, as per the guidelines issued by Andhra Pradesh Electricity Regulatory Commission.
- ii) Investments include Rs.1.00 crore pertaining to the employees welfare fund, and Rs.1.00 crore pertaining to Special Reserve Fund which is payable to Rural Electrification Corporation.

18. Inventories:

- i) There is a difference of Rs.1.09 crores between the physical inventory (as certified by the management) and the value as per the financial ledger as on 31.03.2006 for which provision is made in the books.
- ii) No additional provision has been made towards Non-moving and obsolete stock, during the year.
- iii) Inventory includes Rs.2.22 crores materials received but pending inspection and acceptance.

19. Debtors:

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

20. Employee benefits:

- ii) The company is in the process of obtaining the revised actuarial valuation for the terminal benefits of employees as on 31.03.2006, awaiting which an adhoc Provision towards pension and gratuity has been made based on earlier actuarial valuation amounting to Rs.17.72 crores. Against this liability, the Company has deposited Rs.20.88 Crores to the Pension and Gratuity Trust, during the year as per Tariff Order.
- iii) From this year onwards, the company has taken a decision to recognize the liability towards Leave Encashment of employees. Accordingly, as on 31.03.06, the liability on actual basis is Rs.57.50 crores. Out of this, an amount of Rs.2.01 crores representing the liability towards Leave Encashment for the financial year 2005-06 has been debited to Profit and Loss account and the balance amount of Rs.54.49 crores representing the liability of earlier years is grouped under 'Prior period expenses' and shown in Profit and Loss Appropriation.
- iv) 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, whichever is later. (For the employees who were not covered under GPF scheme.)

- v) As per the provisions of Section 16 (i) (A) of the Payment of Bonus Act 1965, the Company is exempt from Payment of Bonus to the employees for the first six years of the commencement of its services. This being the 6th year, the same is not applicable.

21. Loans and Interest on Loans:

- ii) All the Loans from Power Finance Corporation (PFC) / Rural Electrification Corporation (REC) are guaranteed by the Government of Andhra Pradesh, and are secured by all Fixed Assets, present and future, out of which assets worth Rs.191.20 Crores have been mortgaged to REC.
 - iii) 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.
 - iv) 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.
 - v) No interest has been paid/provided for, on the loans obtained during the year, from EPDCL amounting to Rs.30/-crores.
22. Cash-in-transit includes Cheques and DDs on hand amounting to Rs.2.29 crores as on 31.03.2006 in various units.
23. The Company has contested in various courts and appellate tribunals on the Entry Tax demand raised by the CTO, amounting to Rs.12.92 Crores, out of which the company has deposited under protest Rs.5.15 crores and for the balance of Rs.7.77 crores, no Provision has been made.
24. Balances in sundry debtors, sundry creditors, other claims and receivables, Deposits & retentions of suppliers and contractors, Deposits for electrification service connections, liability for capital supplies, O&M supplies and loans and advances as on 31.03.2006 are subject to reconciliation and confirmation.
25. The balance payable of Rs.573.71 Crores towards of power purchase is under reconciliation and confirmation is yet to be received.
26. Inter unit account shows a net difference (Credit) of Rs 8.65 Crores as on 31-03-2006 which is subject to reconciliation.
27. Sundry receivables (refer schedule 7) include Rs 415.17 Crores representing the amount receivable from the government of Andhra Pradesh towards single bulb subsidy, dues for the supply of power to Agriculture Category etc., Out of this, the

subsidy towards agricultural dues amount to Rs.323.88 crores against which an amount of Rs.250.81 crores has been indicated to be securitized by way issue of Bonds by Government of Andhra Pradesh, (As per G.O.Ms.no.30 Energy (PR.III) dept. dt.09.03.06, as against the total dues to all Distribution companies of Rs.1258 crores, an amount of Rs.975 crores is to be securitized.) Hence the balance amount of Rs.72.94 crores has been written off during the year.

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

(Figures in Rupees)

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

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

LT	Units in MU	% of total units sold	Avg.Real. in Rs. per unit
Domestic supply - Category –I	2406.11	35%	2.13
Non-Domestic supply - Category –II	529.66	8%	5.27
Industrial Supply- Category –III	679.48	10%	3.29
Cottage Industries - Category – IV	22.48	0%	1.74
Irrigation and Agriculture Category - V	2979.07	43%	0.02
Public Lighting - Category - VI	300.31	4%	1.64
General Purpose - Category - VII	34.44	0%	3.82
Temporary Supply - Category – VIII	1.12	0%	7.72
LT. Total	6952.67	100.00%	1.57
HT			
Industrial Segregated - Category - I	1321.76	61%	3.98
Industrial Non-Segregated - Category – II	163.38	8%	5.66
Irrigation and Agriculture - Category – IV	16.00	1%	1.49
Railway Traction - Category – V	427.46	20%	4.39
Electricity Co-Operative Societies	179.19	8%	0.47
Temporary Supply	0.54	0%	0.00
Colony Lighting	57.48	3%	3.54
HT. TOTAL	2165.81	100.00%	3.87
LT + HT Total	9118.48	100.00%	2.11

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

37. Contingent Liabilities:

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

38. Quantitative Details of Purchase and Sales of energy:

Energy Purchased and Sold	Purchases		Sales	
	In MU	Rs. In Crores	In MU	Rs. in Crores
FY: 01-02	8838	1729.15	6902	1514.04
FY: 02-03	9561	1965.19	7531	1892.34
FY: 03-04	10026	1987.96	8087	1881.59

FY:04-05	11060	2050.99	9056	1991.41
FY:05-06	10983.85	2238.98	9118.54	2221.99

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

As per our report of even date

For and on behalf of the board

For Sankaran & Krishnan
Chartered Accountants

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

Sd/-
P.GOPAL REDDY
Chairman & Managing Director

Sd/-
K.P.
Director

Sd/-
K.SATEESH GUPTA
Company Secretary

Place : TIRUPATI
Date : 04-08-2006

Place : TIRUPATI
Date : 04-08-2006

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

BALANCE SHEET ABSTRACT AND COMPANY'S GENERAL BUSINESS PROFILE

I. Registration Details:

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

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

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

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

Total Liabilities	:	32373314
Total Assets	:	32373314

Sources of Funds

Paid up capital	:	3587153
Reserves & Surplus	:	5093784
Secured Loans	:	9045047
Unsecured Loans	:	2480530

Application of Funds

Net Fixed Assets	:	13379434
CWIP	:	4058414
Investments	:	1079575
Net Current Assets	:	1680651
Miscellaneous Expenditure	:	-

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

Turnover	:	29636007
Total Expenditure	:	28668530
Profit / (Loss) before Tax for the year	:	967477
Profit / (Loss) After Tax for the year	:	931553
Net Prior Period Charges	:	522114
Profit after Contingency Reserve	:	370838
Earnings per Share	:	Rs. 1.03
Dividend Rate %	:	NIL

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

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

Proxy form

SOUTHERN POWER DISTRIBUTION COMPANY OF A.P. LIMITED

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 8th(Eighth)
Annual General Meeting of the Company to be held on **MONDAY,**
the 29th SEPTEMBER, 2008 at 12.00 PM/Noon or at any adjournment thereof at the
Registered Office of the Company.

Affix Revenue Stamp

Signed this..... Day of 2008.

Place:

Date :

FORM NO.22A
THE COMPANIES ACT, 1956

Consent by Shareholder for shorter notice

[Pursuant to Section 171 (2)]

To

The Board of Directors
of Southern Power Distribution Company of Andhra Pradesh Limited

I, Sri Umesh Sharraf, IPS., son of Sri
resident of Hyderabad holding equity shares 1 No (one) of Rs.10/- (Rupees Ten
only) in the company in my own name hereby give consent, pursuant to section 171 (2)
of the Companies Act, 1956 to hold the 8th (Eighth) Annual General Meeting on 29th
September 2008 at 12PM/Noon at a shorter notice.

Signature:

Name:
(In Block Capitals)



SOUTHERN POWER DISTRIBUTION COMPANY OF A.P.LIMITED
CORPORATE OFFICE :: D.No 19-13-65/A,
Tiruchanoor Road, Tirupati

To
The Members of the Company.

Lr.No.CMD/APSPDCL/CS/D.No.73/08 dt.21-09-2008

Sir,

Sub: Notice of the 8th (Eight) Annual General Meeting of the
Company.

* * *

Please find enclosed the Notice of the 8th (Eighth) Annual General Meeting of the SOUTHERN POWER DISTRIBUTION COMPANY OF A.P.LIMITED, Tirupati to be held on Monday, the 29th day of September, 2008 at 12.00 PM/Noon at Registered Office of the Company.

A copy of Form No.22A for shorter notice is enclosed herewith. You are requested to kindly sign and send the same by return fax.

You are requested to kindly make it convenient to attend the Meeting.

Yours faithfully,

B.V.S. PRAKASH
COMPANY SECRETARY

To

1. Sri.A.K.Goyal, IAS, Special Chief Secretary to Govt. Energy Dept. GOAP.
2. Sri.D.Murali Mohan,IIS.,Additional Secretary to Govt. Energy Dept. GOAP-
Representative on behalf of Governor of Andhra Pradesh.
3. Sri.Ajeya Kallam, IAS/CMD/ APTRANSCO.
4. Sri.V.Anil Kumar, IAS/CMD/APNPDCL/Warangal.
5. Sri.N. Gulzar, IAS/CMD/APEPDCL/Vizag.
6. Sri.P.Gopal Reddy, CMD/ APSPDCL/Tirupati.
7. Sri.G.Sai Prasad, IAS / CMD/APCPDCL.
8. Sri. Umesh Sharraf IPS/JMD (V&S) APTRANSCO,
9. Sri.M.Gopala Rao/Director /APTRANSCO.
10. Sri.K.Gopala Krishna / Director /APTRANSCO.
11. All Directors of the Company.
- 12.M/s.Sankaran & Krishnan, Statutory Auditors of the Company.

FORM NO.22A
THE COMPANIES ACT, 1956

Consent by Shareholder for shorter notice

[Pursuant to Section 171 (2)]

To

The Board of Directors
of Southern Power Distribution Company of Andhra Pradesh Limited

Governor of Andhra Pradesh, Government of Andhra Pradesh holding 35,87,15,300 (Thirty Five Crores Eighty Seven Lakhs Fifteen Thousand and Three Hundred) equity shares 1 No (one) of Rs.10/- (Rupees Ten only) in the company in my own name hereby give consent, pursuant to section 171 (2) of the Companies Act, 1956 to hold the 8th (Eighth) Annual General Meeting on 29th September 2008 at 12PM/Noon at a shorter notice.

Signature:

Name:
(In Block Capitals)

Representative of Governor of Andhra Pradesh

FORM NO.22A
THE COMPANIES ACT, 1956

Consent by Shareholder for shorter notice

[Pursuant to Section 171 (2)]

To

The Board of Directors
of Southern Power Distribution Company of Andhra Pradesh Limited

I, Sri M. Gopala Rao, Son of Sri M.N. Madhava Murthy resident of Hyderabad holding equity shares 1 No (one) of Rs.10/- (Rupees Ten only) in the company in my own name hereby give consent, pursuant to section 171 (2) of the Companies Act, 1956 to hold the 8th (Eighth) Annual General Meeting on 29th September 2008 at 12PM/Noon at a shorter notice.

Signature:

Name:
(In Block Capitals)

FORM NO.22A
THE COMPANIES ACT, 1956

Consent by Shareholder for shorter notice

[Pursuant to Section 171 (2)]

To

The Board of Directors
of Southern Power Distribution Company of Andhra Pradesh Limited

I, Sri V. Anil Kumar IAS., Son of Sri V. Ram Babu resident of
holding equity shares 1 No (one) of Rs.10/- (Rupees Ten only) in the company in my
own name hereby give consent, pursuant to section 171 (2) of the Companies Act, 1956
to hold the 8th (Eighth) Annual General Meeting on 29th September 2008 at 12PM/Noon
at a shorter notice.

Signature:

Name:
(In Block Capitals)

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 Ajeya Kallam, IAS., S/o Sri.....R/o Hyderabad 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 8th(Eighth) Annual General Meeting of the Company to be held on MONDAY **the 29th SEPTEMBER, 2008 at 12.00 PM/Noon** or at any adjournment thereof at the Registered Office of the Company.

Affix Revenue Stamp

Signed this..... Day of 2008.

Place:

Date :

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 M. Gopala Rao, S/o Sri M.N. Madhava Murthy R/o Hyderabad 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 8th(Eighth) Annual General Meeting of the Company to be held on MONDAY **the 29th SEPTEMBER, 2008 at 12.00 PM/Noon** or at any adjournment thereof at the Registered Office of the Company.

Affix Revenue Stamp

Signed this..... Day of 2008.

Place:

Date :

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 V. Anil Kumar, IAS., S/o Sri V. Ram Babu 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 8th(Eighth) Annual General Meeting of the Company to be held on MONDAY , **the 29th SEPTEMBER, 2008 at 12.00 PM/Noon** or at any adjournment thereof at the Registered Office of the Company.

Affix Revenue Stamp

Signed this..... Day of 2008.

Place:

Date :

APSPDCL
3rd Sports & Cultural Festival 2008
From 12th - 14th Sep 2008
Org. by Sports Council, Operation Circle, Guntur



SOUTHERN POWER DISTRIBUTION COMPANY OF ANDHRA PRADESH LIMITED

19-13-65/A, Kesavayana Gunta, TIRUPATI - 517 503. A.P.

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

www.apspdcl.in

