

AUDITORS' REPORT

TO THE MEMBERS OF RELIANCE ENERGY LIMITED (FORMERLY KNOWN AS BSES LIMITED)

1. We have audited the attached Balance Sheet of Reliance Energy Limited (Formerly known as BSES Limited) ("the Company") as at March 31, 2004, the related Profit and Loss Account for the year ended on that date annexed thereto and the cash flow statement for the year ended on that date, which we have signed under reference to this report. 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.
2. 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.
3. As the company is for the year governed by the Repealed Electricity (Supply) Act, 1948, [Repealed ESA, 1948] the provisions of that Act, have prevailed, wherever the provisions of the Companies Act, 1956 of India (the 'Act') are inconsistent with the said Electricity (Supply) Act, 1948.
4. As required by the Companies (Auditors' Report) Order, 2003, issued by the Central Government of India in terms of Section 227(4A) of the Act and on the basis of such checks as we considered appropriate, and according to the information and explanations given to us, we give in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order to the extent applicable to the Company.
5. Further to our comments in the Annexure referred to in paragraph 4 above, we report that:
 - (a) We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit;
 - (b) 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;
 - (c) The Balance Sheet and Profit and Loss Account dealt with by this report are in agreement with the books of account;
 - (d) In our opinion, the Balance Sheet and Profit and Loss Account dealt with by this report comply with the accounting standards referred to in Section 211 (3C) of the Act;
 - (e) On the basis of written representations received from the directors, as on March 31, 2004, and taken on record by the Board of Directors, we report that none of the

director of the Company is disqualified as on March 31, 2004 from being appointed as a director in terms of Section 274(1)(g) of the Act;

- (f) *(i) As mentioned in the Note No. 11 in Schedule 17 forming part of Annual Accounts, the net worth of each of the three companies in Orissa is eroded. However for the reasons explained in the Note 11, the management has considered that the resulting diminution in the value of investment of Rs. 70.21 crores in the shares of these Companies is not of permanent nature. Hence no provision has been made in the accounts for such diminution in value of investment. The impact of resultant adjustments, if any, and non-provision on the profit for the year and net assets position as at year end is presently not ascertainable as the ultimate outcome of implementation of recommendation made by the committee of Independent Experts (appointed by the Government of Orissa), is not known at this stage.*
(ii) As mentioned in the Note No. 12 in Schedule 17 forming part of Annual Accounts, the Company has disputed the additional demands of standby charges, which under court direction is with Maharashtra Electricity Regulatory Commission for de-novo consideration. No provision has been made in the accounts for such liabilities. The Company has deposited Rs. 589.40 Crores upto March 31, 2004. The impact of non-provision on the profit for the year and net assets position as at year-end is presently not ascertainable pending final adjudication.
- (g) In our opinion and to the best of our information and according to the explanations given to us, the said financial statements together with the notes thereon and attached thereto, read in particular with Note No. 13 on Schedule 17 regarding accounting for depreciation, give the information required by the Act, and also give, subject to paragraphs 5(f)(i) and 5(f)(ii) above, a true and fair view in conformity with the accounting principles generally accepted in India;
 - i) in the case of the Balance Sheet, of the state of affairs of the Company as at 31st March, 2004;
 - ii) in the case of the Profit and Loss Account, of the profit for the year ended on that date; and
 - iii) in the case of cash flow statement, of the cash flows for the year ended on that date.

For Haribhakti & Co.
Chartered Accountants
Chetan Desai
Partner
Membership
No. 17000
Date: April 16, 2004
Place: Mumbai

For Price Waterhouse
Chartered Accountants
Partha Ghosh
Partner
Membership
No. 055913

For Chaturvedi & Shah
Chartered Accountants
Rajesh Chaturvedi
Partner
Membership
No. 45882

ANNEXURE REFERRED TO IN PARAGRAPH 4 OF AUDITORS' REPORT OF EVEN DATE TO THE MEMBERS OF RELIANCE ENERGY LIMITED (FORMERLY KNOWN AS BSES LIMITED) ON THE ACCOUNTS FOR THE YEAR ENDED MARCH 31, 2004

1. The Company has maintained proper records to show full particulars, including quantitative details and situation, of its fixed assets. We have been informed that the fixed assets of the Company are physically verified by the Management according to a phased program designed to cover all the items over a period of three years, which in our opinion, is reasonable having regard to the size of the Company and the nature of its assets. Pursuant to the program, physical verification was carried out during the year and no material discrepancies were noticed. However, we are informed that distribution system being underground is not physically verifiable.
2. During the year, substantial part of fixed assets have not been disposed off by the Company.
3. The inventory of the Company, has been physically verified by the Management during the year.
4. In our opinion, the procedures of physical verification of stocks followed by the Management are reasonable and adequate in relation to the size of the Company and nature of its business.
5. The Company has maintained proper records of inventory and the discrepancies between the physical stocks and the book stocks noticed on physical verification as mentioned in paragraph 4 above are not material.
6. (a) The Company has granted unsecured loans to two companies covered in the register maintained under Section 301 of the Act. The maximum amount involved during the year and the year-end balance of such loans aggregates to Rs. 296.48 Crores and Rs. 291.11 Crores respectively. The Company has taken secured loan from a company covered in the register maintained under Section 301 of the Act. The maximum amount involved during the year and the year-end balance of such loans aggregates to Rs. 22 Crores and Rs. 10 Crores respectively.
- (b) In our opinion, the rate of interest and other terms and conditions of such loans are not prima facie prejudicial to the interest of the company.
- (c) In respect of the aforesaid loans, the company is regular in repaying the principal amounts as stipulated and is also regular in payment of interest, where applicable. The parties are repaying the principal amounts as stipulated and are also regular in payment of interest, where applicable.
- (d) In respect of the aforesaid loans, there is no overdue amount more than Rupees One Lakh.
7. There are adequate internal control procedures commensurate with the size of the Company and the nature of its business with regard to the purchases of inventories, fixed assets and sale of energy/ goods.
8. On the basis of our examination of the books of account, the Company has not entered into any transactions exceeding Rs. 5 lacs in respect of any party during the financial year that needs to be entered in the register pursuant to the Section 301 of the Act.
9. The Company has not accepted any deposits under the provisions of Section 58A and 58AA of the Act and the rules framed there under.
10. In our opinion, the Company's present internal audit system is commensurate with its size and nature of business.
11. On the basis of records produced to us, we are of the opinion that, prima facie, the cost records prescribed by the Central Government of India under Section 209 (1)(d) of the Act have been maintained. However, we are not required to and have not carried out any detailed examination of such accounts and records.
12. According to the books and records as produced and examined by us in accordance with generally accepted auditing practices in India and also based on Management representations, undisputed statutory dues in respect of Provident Fund, Employees' State Insurance dues, Investor Education and Protection Fund, Income Tax, Wealth Tax, and other material statutory dues have generally been regularly deposited, by the Company during the year with the appropriate authorities in India.
13. As at March 31, 2004, there have been no disputed dues which have not been deposited with the respective authorities in respect of Income Tax, Wealth tax, Excise Duty and Cess except disputed sales tax dues for Rs. 0.61 Crores (under UP Sales Tax Act), Rs. 0.21 Crores (under Bombay Sales Tax Act, 1959), Rs. 0.24 Crores (under Central Sales Tax Act, 1956) and Rs. 0.31 Crores (under West Bengal Sales Tax Act, 1994) which are pending before Tribunal Bench (Lucknow), Deputy Commissioner of Sales Tax (Appeal) Mumbai, Deputy Commissioner of Sales Tax (Appeal) Mumbai and CTO Kolkatta, respectively.
14. The Company has neither accumulated losses as at March 31, 2004, nor it has incurred any cash loss either during the financial year ended on that date or in the immediately preceding financial year.
15. According to the records of the Company, it has not defaulted in repayment of its dues to any financial institution or bank or to debenture holders during the year.
16. The Company has not granted any loans or advances on the basis of security by way of pledge of shares, debentures and other securities.
17. In our opinion, considering the nature of activities carried on by the Company during the year, the provisions of any special statute applicable to chit fund/ nidhi/ mutual benefit fund/ societies are not applicable to it.
18. The Company has not dealt or traded in shares, securities, debentures or other investments during the year.
19. The Company has given guarantees for loans taken by others from banks or financial institutions, aggregating Rs. 2.45 Crores where the terms and conditions, in our opinion, are not prima facie prejudicial to the interest of the Company.

20. On the basis of review of utilisation of funds pertaining to term loans on overall basis and related information as made available to us, the term loans taken by the Company have been applied for the purposes for which they are obtained except for Foreign Currency Convertible Bonds of Rs. 790 Crores raised on 23rd March, 2004 which, as explained, pending utilisation is invested in Fixed Deposits with bank.
21. On the basis of review of utilisation of funds which is based on overall examination of the balance sheet of the company, related information as made available to us and as represented to us by the Management, funds raised on short term basis have not been used for long term investment. However funds raised/ generated on long term basis to the extent of Rs. 3,610 Crores which, as explained, pending utilisation have been used for the purpose of short term investments/deposits.
22. The company has made preferential allotment of shares to a company covered in the register maintained under Section 301 of the Act during the year. In our opinion and according to the information and explanations given to us, the price at which such shares have been issued is not prejudicial to the interest of the company.

23. The Company has created necessary securities as per the debenture trust deed in respect of debentures issued and outstanding at the year-end.
24. The Company has not raised any money by public issue during the year.
25. As per the information and explanations given to us and on the basis of examination of records, no material fraud on or by the Company was noticed or reported during the year except in case of theft of electricity reported by the vigilance department of the Company, the amount for which is not ascertainable.

For Haribhakti & Co. Chartered Accountants Chetan Desai Partner Membership No. 17000 Date: April 16, 2004 Place: Mumbai	For Price Waterhouse Chartered Accountants Partha Ghosh Partner Membership No. 055913	For Chaturvedi & Shah Chartered Accountants Rajesh Chaturvedi Partner Membership No. 45882
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