

TO THE MEMBERS OF RELIANCE ENERGY LIMITED

1. We have audited the attached Balance Sheet of Reliance Energy Limited ("the Company") as at March 31, 2005, and 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 mentioned in Note 1(a) in Schedule 17 forming part of the Accounts, as the company is for the year governed by Sixth Schedule of the Repealed Electricity (Supply) Act, 1948, the provisions of said Act, have prevailed, wherever the provisions of the Companies Act, 1956 of India (the 'Act') are inconsistent with the said Sixth Schedule of Repealed Electricity (Supply) Act, 1948.
4. As required by the Companies (Auditors' Report) Order, 2003, as amended by the Companies (Auditor's Report) (Amendment) Order 2004 (together the 'order'), 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, Profit and Loss Account and Cash Flow Statement 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 and Cash Flow Statement 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, except from one director in respect of one company, as on March 31, 2005, 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, 2005 from being appointed as a director in terms of Section 274(1)(g) of the Act;
- (f) 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 10 in Schedule 17 regarding withdrawal from reserves to adjust standby charges and Note 12 in Schedule 17 regarding accounting for depreciation, give the information required by the Act, and also give, 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, 2005;
 - 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 14, 2005 Place: Mumbai	For Price Waterhouse Chartered Accountants Partha Ghosh Partner Membership No. 55913	For Chaturvedi & Shah Chartered Accountants C. D. Lala Partner Membership No. 35671
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ANNEXURE DATE TO STATEMENTS	REFERRED TO FOR	TO THE MEMBERS THE	IN OF YEAR	PARAGRAPH OF RELIANCE ENDED MARCH	4 OF ENERGY 31, 2005	AUDITORS' LIMITED	REPORT ON THE	OF THE FINANCIAL	EVEN
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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. Confirmations have been obtained with respect to inventories lying with third parties.
4. In our opinion, the procedures of physical verification of inventory 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 inventory and the book inventory noticed on physical verification as mentioned in paragraph 4 above are not material.
6. (a) The Company has granted unsecured loans to three 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 aggregate to Rs 2,441.08 crore and Rs 435.84 crore 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 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. (a) The Company has taken unsecured loans from 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 loan aggregate to Rs. 25 crore and Rs Nil 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 loan, the Company is regular in repaying the principal amounts as stipulated and is also regular in payment of interest, where applicable.
8. There are adequate internal control system commensurate with the size of the Company and the nature of its business with regard to the purchase of inventory and fixed assets and for the sale of energy/goods and services. Further, on the basis of our examination of the books and records of the Company, and according to the information and explanation given to us, we have neither come across nor have we been informed of any continuing failure to correct major weaknesses in the aforesaid internal control system.
9. In our opinion and according to the information and explanations given to us, there are no contracts or arrangements referred to in Section 301 of the Act that need to be entered in the register required to be maintained under that section.
10. The Company has not accepted any deposits from the public within the meaning of Section 58A and 58AA of the Act and the rules framed thereunder.
11. In our opinion, the Company's present internal audit system is commensurate with its size and nature of business.
12. 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.
13. 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, Service Tax, Custom Duty, Excise Duty and Cess and other material statutory dues have generally been regularly deposited, by the Company during the year with the appropriate authorities in India.
14. As at March 31, 2005, there have been no disputed dues which have not been deposited with the respective authorities in respect of Income Tax, Wealth tax, Excise Duty, Service Tax and Cess except disputed sales tax dues for Rs 0.60 crore (under UP Sales Tax Act), pending before Appellate Tribunal and Rs 0.46 crore (under Andhra Pradesh General Sales



- Tax Act), of which Rs 0.08 crore is pending before Appellate Tribunal and Rs 0.38 crore is pending before Additional Commissioner (CT), Rs 0.29 crore (under West Bengal Sales Tax Act, 1994) which is pending before Tribunal Bench (Lucknow), Rs 0.09 crore (under Tamil Nadu Sales Tax Act) with is pending before Sales Tax Appellate and Rs 0.47 crore (under Karnataka Sales Tax Act) which is pending before Joint Commissioner (Appeals).
15. The Company has neither accumulated losses as at 31st March, 2005, nor it has incurred any cash losses either during the financial year ended on that date or in the immediately preceding financial year.
 16. 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.
 17. The Company has not granted any loans or advances on the basis of security by way of pledge of shares, debentures and other securities.
 18. 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.
 19. The Company has not dealt or traded in shares, securities, debentures or other investments during the year.
 20. In our opinion and according to the information and explanations given to us, the terms and condition of the guarantee given by the Company, for loans taken by others from banks or financial institutions during the year, are not prejudicial to the interest of the Company.
 21. 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 crore and External Commercial Borrowings of Rs 1,110.62 crore which, as explained, pending utilisation are invested in Fixed Deposit with Bank.
 22. On the basis of an overall examination of the balance sheet of the Company, in our opinion and according to the information and explanations given to us, there are no funds raised on short term basis which have been used for long term investment.
 23. 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.
 24. The Company has created necessary securities in respect of debentures issued and outstanding at the year-end.
 25. The Company has not raised any money by public issue during the year.
 26. 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: 14th April, 2005 Place: Mumbai	For Price Waterhouse Chartered Accountants Partha Ghosh Partner Membership No. 55913	For Chaturvedi & Shah Chartered Accountants C. D. Lala Partner Membership No. 35671
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