



REC

Rural Electrification Corporation Limited

Chairman's Speech (Excerpts)

2006 – 2007

27 September 2007

Dear Members,

No matter how big we get - as an organization or as individuals - or how much territory we cover, I believe we must always share, as one team, a collective vision. One that holds us together, wherever we are, whatever we do. At REC, it is this vision that spurs us on. The vision to not just make a difference, but to be the difference.

Your Corporation has once again delivered a record performance, meeting and - in many cases - exceeding all the targets set under the MOU with the Ministry of Power. In recognition of our performance and our consistent achievement of targets negotiated under the MOU entered into with the GoI on an annual basis, we have consistently received the MOU award for excellence in performance from the Fiscal 1994 to 2006. Furthermore, we have also been ranked among the top ten public sector undertakings for the financial years 1999-2000, 2001-2002, 2004-2005 by the Ministry of Heavy Industries and Public Enterprises, GoI.

Your Directors are happy to recommend dividend payment of Rs. 177 crore for 2006-07.

Macroeconomic Setting

The next two decades are going to be years of intense activity for financial institutions engaged in power sector disbursements. The recent Integrated Energy Policy enunciated by the Planning Commission has defined the energy needs, outlined the scope of future strategies and estimated requirements of funds needed to sustain a growth rate of 8% for the next 20 years or more. Power generation has to increase to 8,00,000 MW, from its current level of 1,60,000 MW.

The 11th Plan has set the targets and broadly provided the direction and scope of business to be developed during the five year period. Total outlay for adding 70,000 MW of power and the investments needed in the transmission and distribution sectors - during the 11th Plan itself - are expected to be Rs. 10,00,000 crore. Consequently, REC is strategizing its growth plan to meet the funding requirements and reorient its role to capitalize on the increased investments in the Indian power sector.

The perception that rural electrification is solely about village electrification is untrue. REC is playing a much larger role. It has developed into a robust agency that provides technological and financial support to all the three sectors: generation, transmission and distribution. We understand that without our absolute involvement, rural electrification in all these sectors would not be achievable. Since inception, your Corporation has funded many transmission and distribution schemes across the country's districts and towns. Most of these schemes have been completed, closed or subsumed in larger schemes. Rural electrification has been a

profitable, satisfying experience throughout; the figures speak for themselves. Even our recovery continues to be superlative with NPA which is very low. .

Your Directors have firmly put REC on a strategic growth path. Diversification holds the key. As does creation of subsidiaries to undertake more profitable businesses. Deploying a comprehensive prudential approach to financing and adopting contemporary Corporate Governance practices also rank high on this strategic vision. The last two years have crystallized this strategy into a more diversified, balanced portfolio and the new REC subsidiaries are ready and raring to go.

Diversification

Generation

We have now demonstrated our competence in generation project finance. We are the lead financial institution responsible for syndicating loans in as many as seven projects. Projects that would generate 4,285 MW of hydro and thermal power. We are a relatively new entrant in actual generation financing. This further leads us to believe that we will continue to increase our share of this business, particularly in view of India's rising electricity generation.

Creation of Subsidiaries

REC Transmission Project Company

In fiscal 2007, the Government of India initiated a scheme that involved inviting private sector investment in major transmission projects. The scheme entailed private developers eventually becoming transmission service providers on a 'Build, Own and Operate' basis. Till date, 14 projects have been identified under this scheme.

We have been appointed nodal agency for two of the projects identified: the North Karanpura Transmission Project and the Talcher Augmentation System Transmission Project. As a result, REC Transmission Projects Company Limited has been established and has commenced its business operations.

REC Power Distribution Company

We have also established REC Power Distribution Company Limited. This is a subsidiary for the purpose of operating and providing consultancy services with respect to distribution systems. The aim is to capitalize on the private sector demand for our specialized knowledge. And through the commencement of this subsidiary, that capitalization is well and truly underway.

Village Electrification

Rajiv Gandhi Grameen Vidyutikaran Yojana (RGGVY)

RGGVY was launched by the Government of India in April 2005, to provide electricity to all villages and households. Your Corporation has done commendably well in reaching village electrification infrastructure to the targeted villages. Dr. Manmohan Singh, our Prime Minister has appreciated the achievements in village electrification publicly. REC is fully geared up to continue this work to achieve cent percent electrification of villages.

Comprehensive Prudential Approach to Financing

Your Directors have adopted a number of policy measures, such as REC Prudential Norms and Risk Management Policies that include the Investment Policy, Asset Liability Management Policy, Derivatives Policy and REC Appraisal Policy, to formalize the propriety and ensure a steady approach. All these measures are being incorporated in Enterprise Resource Planning (ERP) systems being implemented. These will help us evolve into one of the most forward-looking, system-oriented, contemporary organizations with inbuilt control systems.

Mobilization of Funds

Your Corporation mobilized funds from the market during the year 2006-07 which included syndicated loans from commercial banks, low cost Capital Gains Tax Exemption Bonds under Section 54EC of the Income Tax Act and non-priority sector bonds. REC, for the first time, raised External Commercial Borrowing from Standard Chartered Bank, London and DEPFA Investment Bank Limited, Cyprus. The average cost of our total borrowings for the year 2006 - 07 compares favourably with our competitors.

Your Corporation continues to enjoy the highest domestic credit ratings for its long-term borrowings from reputed credit rating agencies, viz. CRISIL, CARE, and FITCH. In addition, MOODY's and FITCH have put REC at par with the sovereign ratings of India for its long-term overseas borrowings.

International Cooperation

Your Corporation has consolidated on its international cooperation for the second year. Multilateral agencies like JBIC and KfW have come forward to extend loan packages for rural electrification activities in the transmission and distribution sectors.

Human Resources

Enormous emphasis on human resource development has been witnessed during the year. A three - pronged strategy was adopted: train maximum employees in leading institutions,

encourage the senior level through international exposure and create a robust in - house training infrastructure. REC is richer with 641 training man days imparted to 307 employees and 107 man days in international exposure to 19 employees in the last year. The Central Institute for Rural Electrification (CIRE), Hyderabad has been strengthened with fresh additional faculty.

I am happy to say that REC is resolutely carrying on its march towards further professionalizing its existing and emerging activities with the induction of senior officials. During the last two years, 107 professionals have been inducted to add to the firepower. And this, with almost negligible attrition. Besides, nearly half the number of total employees has been promoted to shoulder greater responsibilities.

The Way Forward

REC is a key player in the development of the Indian power sector. It is widely recognized now that with its balanced and diversified portfolio, REC must play a still wider role, both in rural and semi - urban electrification programs. We realize huge opportunities will keep knocking on our doors to repeatedly augment our resources. We propose to aggressively pursue these avenues to add to their relevance and achieve profitability.

Rural electrification in India is fast becoming a success story. The stellar role of your Corporation is fundamental and expansive. Indian experience will be our unique selling point in seeking business opportunities in other parts of the world. Yes, it is time that REC goes global. Incidentally, the World Headquarters of REC at Gurgaon is being designed through an international competition, in a bid to further develop these global aspirations.

Acknowledgements

The year 2006-07 has been daunting, enjoyable and full of achievements. I have enjoyed wonderful support from the Ministry of Power, the Board of Directors, my colleagues at REC, the State Power Utilities and the Banks. I am also overwhelmed with the confidence that the private entrepreneurs have reposed in us. I take this opportunity to express my gratitude to all of them and the investors, for their understanding and appreciation of the challenges met as well as their abiding confidence.

New Delhi
27.9.2007

Anil Kumar Lakhina
Chairman & Managing Director