

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF POWER FINANCE CORPORATION LIMITED

REPORT ON THE STANDALONE FINANCIAL STATEMENTS

We have audited the accompanying standalone financial statements of Power Finance Corporation Limited ('the Company'), which comprise the Balance Sheet as at 31 March, 2016, the Statement of Profit and Loss and the Cash Flow Statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

MANAGEMENT'S RESPONSIBILITY FOR THE STANDALONE FINANCIAL STATEMENTS

The Company's Board of Directors is responsible for the matters stated in Section 134(5) of the Companies Act, 2013 ("the Act") with respect to the preparation and presentation of these standalone financial statements that give a true and fair view of the financial position, financial performance and cash flows of the Company in accordance with the accounting principles generally accepted in India, including the Accounting Standards specified under Section 133 of the Act, read with Rule 7 of the Companies (Accounts) Rules, 2014. This responsibility also includes maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding the assets of the Company and for preventing and detecting frauds and other irregularities; selection and application of appropriate accounting policies; making judgments and estimates that are reasonable and prudent; and design, implementation and maintenance of adequate internal financial controls, that were operating effectively for ensuring the accuracy and completeness of the accounting records, relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these standalone financial statements based on our audit. We have taken into account the provisions of the Act, the accounting & auditing standards and matters which are required to be included in the audit report under the provisions of the Act and the Rules made thereunder.

We conducted our audit in accordance with the Standards on Auditing specified under Section 143(10) of the Act. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and the disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal financial control relevant to the Company's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of the accounting estimates made by the Company's Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the standalone financial statements.

OPINION

In our opinion and to the best of our information and according to the explanations given to us, the aforesaid standalone financial statements give the information required by the Act in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India, of the state of affairs of the Company as at 31 March, 2016 and its profit and its cash flows for the year ended on that date.

EMPHASIS OF MATTER

We draw attention to the following matters in the notes to the financial statements:

- (a) Note no. 13 (C) of Part-C 'Other Notes on Accounts' regarding realignment of provisions made on standard assets as per RBI norms for the period 31.03.2016.
- (b) Note No. 15 of Part-C 'Other Notes on Accounts', regarding prudential norms as stipulated by Reserve Bank of

India with respect to Restructuring / Reschedulement/ Renegotiation (R/R/R) and realignment of provisions made on restructured standard assets as per RBI norms for the period 31.03.2016.

Our opinion is not modified in respect of above matters.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

1. As required by Section 143(5) of the Act, we have considered the directions / sub-directions issued by the Comptroller and Auditor General of India, the action taken thereon and its impact to the financial statements of the Company given in the **Annexure A**.
2. As required by the Companies (Auditor's Report) Order, 2016 ("the Order") issued by the Central Government of India in terms of sub-section (11) of section 143 of the Act, we give in the **Annexure B** a statement on the matters specified in the paragraph 3 and 4 of the Order, to the extent applicable.
3. As required by Section 143 (3) of the Act, we report that:
 - (a) We have sought and 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 it appears from our examination of those books;
 - (c) The balance sheet, the statement of profit and loss and the cash flow statement dealt with by this Report are in agreement with the books of account;
 - (d) In our opinion, the aforesaid standalone financial statements comply with the Accounting Standards specified under Section 133 of the Act, read with Rule 7 of the Companies (Accounts) Rules, 2014;
 - (e) On the basis of the written representations received from the directors as on 31 March, 2016 taken on record by the Board of Directors, none of the directors is disqualified as on 31 March, 2016 from being appointed as a director in terms of Section 164 (2) of the Act; and
 - (f) With respect to the adequacy of the internal financial controls over financial reporting of the Company and the operating effectiveness of such controls, refer to our separate Report in **Annexure C**.
 - (g) With respect to the other matters to be included in the Auditor's Report in accordance with Rule 11 of the Companies (Audit and Auditors) Rules, 2014, in our opinion and to the best of our information and according to the explanations given to us:
 - i. The Company has disclosed the impact of pending litigations on its financial position in its financial statements - Refer note no. 2(B) & note no. 3 of Part-C 'Other Notes on Accounts' to the financial statements;
 - ii. There are no long-term contracts including derivative contracts existing as on the date of balance sheet for which provision is required to be made under the applicable law or accounting standards for any material foreseeable losses;
 - iii. There has been no delay in transferring amounts, required to be transferred, to the Investor Education and Protection Fund by the Company.

FOR M.K. AGGARWAL & CO.

Chartered Accountants
Firm's Registration No.: 01411N
by the hand of

Sd/-

CA ATUL AGGARWAL

Partner
Membership No.099374

FOR K. B. CHANDNA & CO.

Chartered Accountants
Firm's Registration No.: 00862N
by the hand of

Sd/-

CA SANJEEV CHANDNA

Partner
Membership No.087354

Date: 25.05.2016

Place: New Delhi

Annexure- A to Independent Auditors' Report on the Standalone Financial Statements

As required under the Section 143(5) of the Act, with respect to the directions and sub-directions issued by The Comptroller & Auditor General of India, we report that:

Sl. No.	Questionnaire	Replies
1	Whether the Company has clear title/lease deeds for freehold and leasehold land respectively? If not please state the area of freehold and leasehold land for which title/lease deeds are not available.	Yes, the Company has clear title / lease deeds for freehold and leasehold land respectively
2	Whether there are any cases of waiver / write off of debts / loans / interest etc., if yes, the reasons there for and the amount involved.	During FY 2015-16: a. In line with MOP's Office Memorandum dated 20 th November 2015, interest on interest amounting to ₹34.93 crore and penal interest amounting to ₹5.34 crore has been waived off in respect of states who have signed MoU under Ujwal DISCOM Assurance Yojna (UDAY). b. Commitment charges aggregating to ₹0.01 crore were waived off in respect of one borrower as per the request of the borrower and extant delegation of powers. c. Additional interest aggregating to ₹0.41 crore were waived off in respect of two borrowers as per the request of the borrowers and extant delegation of powers.
3	Whether proper records are maintained for inventories lying with third parties & assets received as gift/grant(s) from Govt. or other authorities?	N.A.
4	In respect of provisioning requirement of all restructured, rescheduled or renegotiated loan, whether a system of periodical assessment of realizable value of securities available against all such loans is in place and adequate provision has been created during the year? Any deficiencies in this regard may be suitably commented upon.	The matter is governed by clause 6C (iii) of prudential norms of the Company. This clause is not applicable on the stock of outstanding restructured loans to generating companies as on 31.03.2015. On such stock of loans, provisioning is made as per RBI directions vide letter dated 11.06.2014 i.e. to commence with a provision of 2.75% with effect from 31.03.2015 and reaching 5% by 31.03.2018. The resulting provisioning aligned to RBI's direction as on 31.03.2016 stands at ₹ 1129.20 crore as disclosed at note no. 16 of Note Part –C 'Other Notes on Accounts'. Clause 6C (iii) is applicable only on restructured project loans extended to Transmission & Distribution, Renovation & Modernization and Life Extension projects and also the hydro projects in Himalayan region or affected by natural disasters till 31.03.2017. Such loan assets amounting to ₹ 1,016.77 crore are classified as secured as on 31.03.2016. Accordingly, security valuation is not required on such secured loan assets. Further, subsequent to sub-direction, with respect to Clause 6C (iii) a system for periodical assessment of realizable value of securities available has also been devised.

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Annexure B to Independent Auditor's Report on the Standalone Financial Statements

(Referred to in paragraph 2 under "Report on Other Legal and Regulatory Requirements" section of our report of even date)

- i. (a) The Company has maintained proper records showing full particulars, including quantitative details and situation of fixed assets.
(b) As explained to us, the management carries out the physical verification of fixed assets at the year end in a phased manner. In our opinion, the frequency of physical verification is reasonable having regard to the size of the company and nature of its assets. As explained to us, no material discrepancies were noticed by the management on such physical verification necessitating any adjustment.
(c) The Company has clear title deeds of immovable properties held in its name.
- ii. The Company is a Non-Banking Finance Company. Accordingly, it does not hold any Inventory. Thus, clause 3(ii) of the Companies (Auditor's Report) Order, 2016 is not applicable.
- iii. As explained to us and verified from books and records, the Company has not granted any loans, secured or unsecured to Companies, firms or other parties covered in the register maintained under Section 189 of the Companies Act, 2013. Further, clauses 3(iii) (a), (b) and (c) of the Companies (Auditor's Report) Order, 2016 is not applicable to the Company.
- iv. The Company has not given any loans, investment, guarantees and securities which may be covered under section 185 and 186 of the Companies Act, 2013.
- v. According to the information and explanations given to us, the Company has not accepted any deposit from public during the year within the meaning of section 73 to 76 or any other relevant provision of the companies Act, 2013 and the Companies (Acceptance of Deposits) Rules 2014.
- vi. The Central Government has not prescribed the maintenance of cost records under section 148(1) of the Act, for any of the services rendered by the Company. Accordingly, clauses 3(vi) of the Companies (Auditor's Report) Order, 2016 is not applicable to the Company.
- vii. In respect of statutory dues, on the basis of information and explanations given to us and on the basis of our examination of the records of the company, we report that:
 - (a) The Company is regular in depositing with appropriate authorities, undisputed statutory dues including Provident Fund, Employee's State Insurance, Income Tax, Service Tax and Value Added Tax and other material statutory dues as applicable to it and there is no undisputed amounts payable in respect of aforesaid dues outstanding for a period of more than six months as on 31st March, 2016, as per the accounts of the Company.
 - (b) Wherever any dues / demand has been raised by any statutory authority and has been disputed by the Company, the same has been duly deposited under contest.
- viii. The Company has not defaulted in repayment of loans or borrowing to a financial institution, bank, Government or dues to debenture holders.
- ix. Money raised by way of debt instruments and term loans during the year was applied for the purposes for which it was raised.
- x. To the best of our knowledge and according to the information and explanations given to us, no fraud on or by the Company has been noticed or reported during the course of our audit.
- xi. Being a Government Company, Section 197 of Companies Act, 2013 does not apply to the Company.
- xii. The Company is not a Nidhi Company. Hence, the Nidhi Rules, 2014 are not applicable to the Company. Accordingly, clause 3(xii) of the Companies (Auditor's Report) Order, 2016 is not applicable to the Company.
- xiii. All transactions with the related parties are in compliance with Section 177 and 188 of the Companies Act, 2013 where applicable. The details have been disclosed in the Financial Statements as per the requirement of the accounting standard.

- xiv. The Company has not made any preferential allotment or private placement of shares or fully or partly convertible debentures during the year.
- xv. The Company has not entered into any non-cash transactions with directors or persons connected with them which are covered under Section 192 of Companies Act, 2013.
- xvi. The Company is a Non- Banking Finance Company and has obtained registration u/s 45-IA of the Reserve Bank of India Act, 1934.

FOR M.K. AGGARWAL & CO.

Chartered Accountants

Firm's Registration No.: 01411N

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CA ATUL AGGARWAL

Partner

Membership No.099374

Date: 25.05.2016

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Annexure – C to the Independent Auditors’ Report on the Standalone Financial Statements

Report on the Internal Financial Controls under Clause (i) of Sub-section 3 of Section 143 of the Companies Act, 2013 (“the Act”)

We have audited the internal financial controls over financial reporting of **Power Finance Corporation Limited** (“the Company”) as of 31st March, 2016 in conjunction with our audit of the standalone financial statements of the Company for the year ended on that date.

MANAGEMENT’S RESPONSIBILITY FOR INTERNAL FINANCIAL CONTROLS

The Company’s management is responsible for establishing and maintaining internal financial controls based on the internal control over financial reporting criteria established by the Company considering the essential components of internal control stated in the Guidance Note on Audit of Internal Financial Controls over Financial Reporting issued by the Institute of Chartered Accountants of India (‘ICAI’). These responsibilities include the design, implementation and maintenance of adequate internal financial controls that were operating effectively for ensuring the orderly and efficient conduct of its business, including adherence to company’s policies, the safeguarding of its assets, the prevention and detection of frauds and errors, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information, as required under the Companies Act, 2013.

AUDITORS’ RESPONSIBILITY

Our responsibility is to express an opinion on the Company’s internal financial controls over financial reporting based on our audit. We conducted our audit in accordance with the Guidance Note on Audit of Internal Financial Controls over Financial Reporting (the “Guidance Note”) and the Standards on Auditing, issued by ICAI and deemed to be prescribed under section 143(10) of the Companies Act, 2013, to the extent applicable to an audit of internal financial controls, both applicable to an audit of Internal Financial Controls and, both issued by the Institute of Chartered Accountants of India. Those Standards and the Guidance Note require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether adequate internal financial controls over financial reporting were established and maintained and if such controls operated effectively in all material respects.

Our audit involves performing procedures to obtain audit evidence about the adequacy of the internal financial controls system over financial reporting and their operating effectiveness. Our audit of internal financial controls over financial reporting included obtaining an understanding of internal financial controls over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the Company’s internal financial controls system over financial reporting.

MEANING OF INTERNAL FINANCIAL CONTROLS OVER FINANCIAL REPORTING

A company’s internal financial control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal financial control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorisations of the Management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

INHERENT LIMITATIONS OF INTERNAL FINANCIAL CONTROLS OVER FINANCIAL REPORTING

Because of the inherent limitations of internal financial controls over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the internal financial controls over financial reporting to future periods are subject to the risk that the internal financial control over financial reporting may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

OPINION

In our opinion, the Company has, in all material respects, an adequate internal financial controls system over financial reporting and such internal financial controls over financial reporting were operating effectively as at 31 March 2016, based on the internal control over financial reporting criteria established by the Company considering the essential components of internal control stated in the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting issued by the Institute of Chartered Accountants of India.

FOR M.K. AGGARWAL & CO.

Chartered Accountants

Firm's Registration No.: 01411N

by the hand of

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CA ATUL AGGARWAL

Partner

Membership No.099374

Date: 25.05.2016

Place: New Delhi

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