Financials for the year ending

March 31, 2010

Power from knowledge

KSK Mahanadi Power Company Limited

Regd. Office :
8-2-293/82/A/431/A
Road No.22, Jubilee Hills,
Hyderabad - 500 033

Guru & Ram
Chartered Accountants

Report of the Auditors to the Members of

M/s. KSK Mahanadi Power Company Limited

We have audited the attached Balance Sheet of M/s. KSK Mahanadi Power Company Limited, as at 31st March 2010 and also 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 report.

We conducted our audit in accordance with 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.

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, to the extent applicable.

Further to our comments in the Annexure referred to 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 purpose 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 Cash Flow Statement dealt with by this report are in agreement with the books of account;

d) In our opinion, the Balance Sheet and the Cash Flow Statement dealt with by this report comply with the applicable Accounting Standards referred to in sub-section (3C) of Section 211 of the Companies Act, 1956.

GURU & RAM Chartered Accountants Chennai 600 004

"Shreyas", # 26, Dr. Radhakrishnan Salai 9th Street, Mylapore, Chennai - 600 004, India.
Ph : +91-44-2847 4701 / 02 Fax : +91-44-2847 4703 E-mail : gururam@gurumurthy.net

e) On the basis of written representation received from the directors as on 31st March 2010 and taken on record by the Board of Directors, we report that none of the directors are disqualified as on 31st March 2010 from being appointed as a director, in terms of clause (g) of sub-section (1) of Section 274 of the Companies Act, 1956;

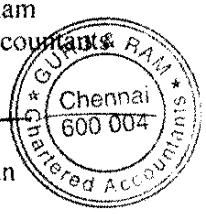
f) In our opinion and to the best of our information and according to the explanations given to us, the information required by the Companies Act, 1956, in the manner so required and give a true and fair view

(i) In the case of the Balance Sheet, of the state of the Company's Affairs as at 31st March 2010 and

(ii) In the case of Cash Flow Statement, of the cash flows for the year ended on that date.

Place: Chennai
Date: 22/05/2010

for Guru & Ram
Chartered Accountants



A Rajasekaran
Partner
Membership No.: 025549
Regn. No.: 09723S

M/s. KSK Mahanadi Power Company Limited

Annexure to the Report of the Auditors

(i) (a) The Company has maintained proper records showing full particulars including quantitative details and situation of fixed assets.

(b) In our opinion, the frequency of verification is reasonable having regard to the size of the company and the nature of its assets. No significant discrepancies were noticed on such verification.

(c) Based on our scrutiny of the records of the company and the information and explanations received by us, we report that there was no sale of fixed assets during the year. Hence, the question of reporting whether the sale of any substantial part of fixed assets has affected going concern of the company does not arise.

(ii) The Company does not have any inventory and therefore the provisions of clause 4(ii) of the Companies (Auditor's Report) Order, 2003 are not applicable to the company.

(iii) (a) The Company has given loan to a party covered in the register maintained under section 301 of the Companies Act, 1956 and the maximum amount involved during the year was Rs. 45.00 Crores and the year end balance of loans taken from such party is Rs. 45.00 Crores.

(b) In our opinion and according to the information and explanation available to us, the rate of interest and other terms and conditions are not, prima facie, prejudicial to the interest of the Company.

(c) The receipt of the principal amount and interest are also regular.

(d) In our opinion, whenever the overdue amount is more than rupees one lakh, the company has taken reasonable steps for the recovery of both the principal and interest.

(e) The Company has taken loans from a party covered in the register maintained under section 301 of the Companies Act, 1956 and the maximum amount involved during the year is Rs. 1,409.67 Crores and the year end balance of such loan is Rs. 1,381.46 Crores.

(f) In our opinion and according to the information and explanation available to us, the rate of interest and other terms and conditions are not, prima facie, prejudicial to the interest of the company.

(g) The company is regular in repaying the principal amounts as stipulated and has been regular in the payment of interest.

(iv) In our opinion and according to the information and explanations provided to us, there are adequate internal control procedures commensurate with the size of the Company and the nature of its business, for the purchase of fixed assets. During the

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course of our audit, we have not observed any continuing failure to correct major weaknesses in internal controls.

(v) (a) Based on the audit procedures applied by us and according to the information and explanations provided by the management, we are of the opinion that the transactions made in pursuance of contracts or arrangements, which needed to be entered in the register maintained under section 301 of the Companies Act, 1956 have been so entered.

(b) In our opinion and according to the information and explanations given to us, the transactions made in pursuance of contracts or arrangements entered in the register maintained under section 301 of the Companies Act, 1956 and exceeding the value of Rs. 5,00,000/- in respect of any party during the year have been made at prices which are reasonable having regard to prevailing market prices at the relevant time.

(vi) Based on our scrutiny of the company's records and according to information and explanations provided by the management, in our opinion, the company has not accepted any public deposits so far upto 31st March 2010.

(vii) In our opinion, the Company has an internal audit system commensurate with its size and nature of its business.

(viii) According to the information and explanations given to us, the Company's project for setting up a power plant is at start up stage of construction and the Company has not commenced the commercial production and hence maintenance of cost records is not applicable during the year under audit.

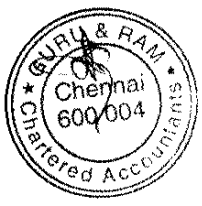
(ix) (a) According to the records of the Company, the Company is regular in depositing with appropriate authorities undisputed statutory dues including Provident Fund, Income Tax, and other statutory dues applicable to it. No undisputed amounts payable in respect of Provident Fund, Income Tax, Wealth Tax, Service Tax, Sales Tax, Customs Duty and other statutory dues were outstanding as at 31st March 2010 for a period exceeding six months from the date they became payable.

(b) According to the information and explanations given to us, there are no dues of Provident Fund, Income Tax, Wealth Tax, Service Tax, Sales Tax, Customs Duty and other statutory dues which have not been deposited on account of any dispute.

(x) The Company has been registered for a period less than five years and hence the provisions of Clause 4 (x) of the Companies (Auditor's Report) Order, 2003 are not applicable to the Company.

(xi) In our opinion and according to the information and explanations given to us, the Company has made no default in repayment of dues to the Banks.

(xi) According to the information and explanations available 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.



(xiii) In our opinion and according to the information and explanations given to us, the Company is not a Chit Fund or a Nidhi / Mutual Benefit Fund / Society. Therefore, the provisions of clause 4(xiii) of the Companies (Auditor's Report) Order, 2003 are not applicable to the Company.

(xiv) In our opinion and according to the information and explanations given to us, the Company has maintained proper records of the transactions and contracts in respect of investments and timely entries have been made therein. All the investments have been held by the Company in its own name.

(xv) According to the information and explanations given to us, the Company has pledged its fixed deposits in connection with the loans taken by others from banks. In our opinion, the terms and conditions of the guarantees given are not prejudicial to the interest of the company.

(xvi) According to the records of the company, the term loans obtained by the Company have been applied for the purpose for which they were raised.

(xvii) According to the information and explanations available to us and on an overall examination of the balance sheet of the Company, we report that the no funds raised on short-term basis have been used for long-term investment and vice versa.

(xviii) According to the information and explanations provided to us, during the year under report, the Company has not made any preferential allotment of shares to parties and companies covered in the Register maintained under section 301 of the Act.

(xix) According to the information and explanation available to us, no money has been raised by public issues. Therefore, the provisions of clause 4(xx) of the Companies (Auditor's Report) Order, 2003 are not applicable to the company.

(xxi) According to the information and explanation available to us, no fraud on or by the Company has been noticed or reported during the year.

Place: Chennai
Date: 22/05/2010

for Guru & Ram
Chartered Accountants

GURU & RAM Chennai 600 004 Chartered Accountants

A Rajasekaran
Partner
Membership No. 025549
Regn. No.: 09723S

KSK Mahanadi Power Company Limited

Balance Sheet as at March 31, 2010

(All amounts in Indian rupees, except share data and where otherwise stated)

	Schedule	As at March 31, 2010
SOURCES OF FUNDS		
Shareholders' Funds		
Share Capital	1	500,000
Share Application Money		6,047,100,000
Loan Funds		
Secured Loans	2	19,070,662,148
Unsecured Loans	3	13,906,863,849
Total		**39,025,125,997**
APPLICATION OF FUNDS		
Fixed Assets		
Gross Block	4	1,227,857,935
Less : Depreciation		8,303,422
Net Block		1,219,554,513
Capital Work-in progress (including Capital Advance:	5	28,935,563,270
		30,155,117,783
Goodwill		20
Investments	6	1,000,000
Current Assets, Loans and Advances		
Cash and Bank Balances	7	7,916,912,513
Other Current Assets	8	427,593,122
Loans and Advances	9	1,832,834,975
		10,177,340,610
Less : Current Liabilities and Provisions	10	
Current Liabilities		1,289,781,665
Provisions		18,550,751
		1,308,332,416
Net Current Assets		**8,869,008,214**
Total		**39,025,125,997**

Significant accounting policies and notes to accounts 11

The schedules referred to above form an integral part of the balance sheet.

As per our report of even date
for **Guru & Ram**
Chartered Accountants

A Rajasekaran
Partner
Membership No. 025549
Firm Registration No.:09723S

Place : Chennai
Date : 22.05.2010

for **and on behalf of the Board**

S Kishore
Director

K A Sastry
Director

Sisir Kumar Mishra
Company Secretary

Place: Hyderabad
Date: 22.05.2010

KSK Mahanadi Power Company Limited

Cash Flow Statement for the year ended

(All amounts in Indian rupees, except share data and where otherwise stated)

	March 31, 2010
A. Cash Flow from Operating Activities	
Adjustments for:	
Loans and Advances	(306,921,324)
Current Liabilities	(421,223,924)
Cash Generated from Operations	(728,145,248)
Tax Paid - Net	(10,494,454)
Net Cash from Operating Activities	**(738,639,702)**
B. Cash Flow from Investing Activities	
Purchase of Fixed Assets (including Capital work in Progress and expenditure during construction period pending allocation)	(15,020,290,506)
Inter Corporate Deposits	(528,500,000)
Interest Received	8,436,867
Purchased of Investments	(1,341,000,000)
Proceeds from Sale of Investments	1,340,000,000
Net Cash from/(used in) Investing Activities	**(15,541,353,639)**
C. Cash Flow from Financing Activities	
Interest Paid	(837,331,143)
Proceeds from issue of Share Capital	500,000
Receipt of Share Application Money	6,047,100,000
Proceeds from Borrowings	12,671,151,307
Net Cash from (used in) Financing Activities	**17,881,420,164**
Net Increase/(Decrease) in Cash and Cash Equivalents	1,601,426,823
Cash and Cash Equivalent - Opening Balance	-
Cash and Cash Equivalent - Closing Balance	1,601,426,823
Add: Cash received pursuant to demerger*	6,315,485,690
* Refer note no. 15 (notes to accounts)	
Cash and Cash Equivalent - Closing Balance	**7,916,912,513**
Note to the cash flow statement :	
Components of Cash and Cash equivalents as at	
Cash in Hand	619,295
Balances with Scheduled Banks	
- in Current Accounts	363,261,576
- in Deposits Accounts	7,553,031,642
	7,916,912,513

This is the Cash Flow Statement referred to in our Report on even date

for Guru & Ram
Chartered Accountants

GURU & RAM * Chennai 600 004 * Chartered Accountants

A Rajasekaran
Partner
Membership No. 025549
Firm Registration No.:09723S

Place: Chennai
Date: 22.05.2010

for **and on behalf of the Board**

S Kishore
Director

K.A.Sastry
Director

Sisir Kumar Mishra
Company Secretary

KSK MAHANADI POWER COMPANY LTD Hyderabad

Place: Hyderabad
Date: 22.05.2010

KSK Mahanadi Power Company Limited

(All amounts in Indian rupees, except share data and where otherwise stated)

Schedules to the Balance Sheet

		As at March 31, 2010
1 Share Capital		
Authorised :		
50,000 Equity Shares of Rs. 10/- each		500,000
		500,000
Issued, Subscribed and Paid-up :		
Equity Shares		
50,000 Equity Shares of Rs. 10/- each fully paid-up		500,000
(49,994 Equity Shares held by KSK Energy Ventures Limited, the Holding Company)		**500,000**
2 Secured Loans		
Term Loans		
(Refer Note No.B2 in Schedule 11)		
From Banks / Financial Institutions		
YES Bank Limited		1,650,232,474
Indian Bank		1,432,113,973
L & T Infrastructure Finance Company Limited		1,000,000,000
AXIS Bank	644,392,562.00	
Less: Unmatured finance charges	45,297,272	599,095,290
From Others		14,389,220,411
		19,070,662,148
3 Unsecured Loans		
Short-Term Loan :		
Inter-Corporate Deposit		13,906,863,849
(The unsecured loan is short term in nature and is repayable on demand.		
		13,906,863,849

GURU & RAM Chartered Accountants Chennai 600 004

KSK MAHANADI POWER COMPANY LTD Hyderabad

KSK Mahanadi Power Company Limited
(All amounts in Indian Rupees, except share data and where otherwise stated)

Schedules to the Balance Sheet

4 Fixed Assets

	Gross block				Depreciation				Net block
Particulars	**As at 1 April 2009**	**Additions**	**Deletions**	**As at 31 March, 2010**	**As at 1 April 2009**	**Charge for the Year**	**Deletions**	**As at 31 March, 2010**	**As at 31 March, 2010**
Land Free Hold	-	748,756,147	-	748,756,147	-	-	-	-	748,756,147
Land Lease Hold	-	419,273,856		419,273,856	-	2,125,946		2,125,946	417,147,910
Buildings	-	7,944,020	-	7,944,020	-	823,169	-	823,169	7,120,851
Electrical Works - Transformer	-	1,270,604	-	1,270,604	-	38,019	-	38,019	1,232,585
Furniture & Fixtures	-	5,442,517	-	5,442,517	-	1,519,363	-	1,519,363	3,923,154
Vehicles	-	15,007,259	-	15,007,259	-	1,288,662	-	1,288,662	13,718,597
Office Equipment	-	20,291,141	-	20,291,141	-	1,456,343	-	1,456,343	18,834,798
Computers	-	9,127,877	-	9,127,877	-	840,943	-	840,943	8,286,934
Computer Software	-	744,514	-	744,514	-	210,977	-	210,977	533,537
Total	-	**1,227,857,935**	-	**1,227,857,935**	-	**8,303,422**	-	**8,303,422**	**1,219,554,513**

Note: Assets amouting to Rs.333,755,351/- and depreciation of Rs.1,065,160/- have been acquired by the Company pursuant to demerger, for further details, please refer to Note no.13 of Notes to Accounts.

GURU & RAM Chartered Accountants Chennai 600 004

KSK MAHANADI POWER COMPANY LTD. Hyderabad.

KSK Mahanadi Power Company Limited

(All amounts in Indian rupees, except share data and where otherwise stated)

Schedules to the Balance Sheet

	As at March 31, 2010
5 Capital Work- in-Pprogress	
A. Assets under Construction	1,984,767,481
B. Expenditure Pending Allocation	
Project Development Charges	2,689,255,830
Professional & Legal Charges	832,951,109
Employees' Cost	
- Salaries and Wages	176,151,450
- Contribution to Provident and Other Funds	1,980,678
- Gratuity	4,233,923
- Staff Welfare Expenses	4,428,561
Recruitment and Relocation Expenses	9,173,199
Advertisement Expenses	3,746,151
Travelling & Conveyance	36,424,481
Auditors Remuneration	
Audit fee	538,743
Others	104,785
Insurance Charges	1,363,635
Rates & Taxes	20,184,339
Rent	19,499,769
Communication Charges	4,404,093
Electricity & Water charges	3,469,366
Repair & Maintenance	10,431,895
Depreciation	8,303,423
Printing & Stationery	6,355,960
Donations	99,916,294
Security Watch & Ward	3,485,511
Corporate Social Responsibility	12,284,350
Training & Seminar Expenses	2,768,576
Miscellanous Expenses	6,606,884
Preliminary Expenses	19,914
Fringe Benefit Tax	483,881
Income Tax	40,887,585
Wealth Tax	146,167
Less:	
Other Income	(6,106,795)
Interest Income	(450,782,893)
Foreign Exchange Fluctuations	(804,084,042)
C. Advance against Capital Contracts	24,212,168,967
	28,935,563,270

GURU & RAM Chartered Accountants Chennai 600 004

KSK MAHANADI POWER COMPANY LTD. Hyderabad.

KSK Mahanadi Power Company Limited

(All amounts in Indian rupees, except share data and where otherwise stated)

Schedules to the Balance Sheet

		As at March 31, 2010
6 Investments		
Quoted		
84,837.07 Units of Rs.11.7873 each in SBI-SHF-Ultra Short Term Fund		1,000,000
(Market Value - Rs.1,004,912.06)		**1,000,000**
7 Cash and Bank Balances		
Cash in Hand		619,295
Balances with Scheduled Banks :		
Current Accounts		362,637,230
Deposit Accounts		7,553,031,642
(Includes Rs.708.30 crores under lien for credit facilities availed)		
Balance with Others:		
Current Accounts		624,346
		7,916,912,513
8 Other Current Assets		
Interest Receivable		427,593,122
		427,593,122
9 Loans and advances		
(Unsecured, considered good)		
Advances recoverable in cash or in kind or for value to be received		155,554,275
Inter Corporate Deposit		1,452,500,000
Deposits with Government Authorities and Others		224,780,700
		1,832,834,975
10 Current Liabilities and Provisions		
Current Liabilities		
Sundry Creditors		
Dues to Micro and Small Enterprises		-
Dues to other than Micro and Small Enterprises		793,757,167
Other Liabilities		135,792,944
Interest accrued but not due		257,765,654
Liability on Forency Currency Forward Contracts	4,200,205,000	
Less: Foreign Currency Receivable on Forward Contracts	4,097,739,100	102,465,900
		1,289,781,665
Provisions		
Provision for Income Tax (net of Advance Tax of Rs.25,147,832/-)		15,739,753
Provision for Wealth Tax (net of Advance Tax of Rs.59,487/-)		86,680
Provision for Gratuity		2,724,318
		18,550,751

GURU & RAM Chartered Accountants Chennai 600 004

KSK MAHANADI POWER COMPANY LTD. Hyderabad

KSK Mahanadi Power Company Limited
Schedules to the Balance Sheet
(All amounts in Indian Rupees, except share data and where otherwise stated)

Schedule 11: Significant Accounting Policies and Notes to Accounts

A. ACCOUNTING POLICIES

1. Accounting Convention

The Financial Statements have been prepared and presented under the historical cost convention on the accrual basis of accounting in accordance with the Generally Accepted Accounting Principles (IGAAP) and comply with the mandatory Accounting Standards as specified in the Companies (Accounting Standards) Rules 2006 (Rules), other pronouncements of the Institute of Chartered Accountants of India (ICAI) to the extent applicable.

2. Use of estimates

The preparation of financial statements in conformity with IGAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure relating to contingent assets and contingent liabilities as on the date of the financial statements and the reported amounts of income and expense during the period. Actual results could differ from those estimates. Any revision to accounting estimates is recognized prospectively in current and future periods.

3. Revenue recognition

Interest is recognized using the time proportionate method, based on the underlying interest rates.

Dividend income is recognized when the right to receive the same is established.

4. Fixed Assets & Depreciation

i. Fixed Assets are shown at historical cost.
ii. Individual assets costing less than Rs.5,000/- have been fully depreciated in the year of purchases on pro-rata basis.
iii. Impairment of Assets – The Company evaluates the carrying amounts of the fixed assets at the end of the every accounting year to determine whether there is any indication of impairment loss. In the event of such impairment, the present value is estimated and the loss, if any, is suitably dealt with in the accounts.
iv. Intangible Assets, namely Computer software is recognized as per the criteria specified in Accounting Standard (AS) 26 "Intangible Assets" issued by the Institute of Chartered Accountants of India and is amortized over a period of three years.
v. Depreciation on fixed assets is charged on Straight Line method at the rates and in the manner specified in Schedule XIV of the Companies Act, 1956.
vi. Depreciation on additions / deletions from fixed Assets during the year is charged on pro-rata basis from / up to the date on which the asset becomes available for use.
vii. Leasehold improvements are amortized over the lease period.

GURU & RAM Chartered Accountants Chennai 600004

KSK MAHANADI POWER COMPANY LTD. Hyderabad

KSK Mahanadi Power Company Limited
Schedules to the Balance Sheet
(All amounts in Indian Rupees, except share data and where otherwise stated)

Schedule 11: Significant Accounting Policies and Notes to Accounts

5. Capital Work in progress:

i. In respect of supply-cum-erection contracts, the value of supplies received at site and accepted is treated as Capital work in progress.

ii. Assets under installation or under construction as at the balance sheet date are shown as Capital Work in progress.

iii. Claims for price variation/exchange rate variation in case of contracts are accounted for on acceptance.

6. Foreign Exchange:

i. Foreign currency transactions are initially recorded at the rates of exchange ruling at the date of transaction.

ii At the Balance Sheet date, foreign currency monetary items are reported using the closing / contracted rate. Non-monetary items denominated in foreign currency are reported at the exchange rate ruling at the date of transaction.

iii The foreign exchange differences arising on account of the restatement of long-term foreign currency monetary items, related to the acquisition of depreciable capital asset is being capitalized as per the amendment to Accounting Standard (AS)-11 " The effect of changes in foreign exchange rates"

iv Exchange differences, in respect of short term foreign currency monetary / long term foreign currency non monetary items relating to fixed assets / capital work in progress are treated as incidental expenditure during construction till the assets are ready for their intended use.

v Forward contracts are entered into to hedge the foreign currency risk of the underlying outstanding at the Balance Sheet date. The premium or discount on all such contracts is amortized as income or expense over the life of the contract. Any profit or loss arising on the cancellation or renewal of forward contracts is recognized as income or expense for the period.

vi In relation to the forward contracts entered into to hedge the foreign currency risk of the underlying outstanding at the balance sheet date, the exchange difference is calculated and recorded in accordance with AS-11 (revised). The exchange difference on such a forward exchange contract is calculated as the difference of the foreign currency amount of the contract translated at the exchange at the reporting date, or the settlement date where the transaction is settled during the reporting period and the corresponding foreign currency amount translated at the later of the date of inception of the forward exchange contract and the last reporting date. Such exchange differences are recognized in the profit and loss account in the reporting period in which the exchange rates change.

GURU & RAM Chartered Accountants Chennai 600/004

KSK MAHANADI POWER COMPANY LTD Hyderabad

KSK Mahanadi Power Company Limited
Schedules to the Balance Sheet
(All amounts in Indian Rupees, except share data and where otherwise stated)

Schedule 11: Significant Accounting Policies and Notes to Accounts

7. Investments:

Current investments are carried at lower of cost and quoted / fair value. Long term investments are stated at cost. Provision for diminution in the value of long-term investments is made only if such a decline is other than temporary in the opinion of the management.

8. Borrowing Cost:

Borrowing costs that are attributable to the acquisition or construction of qualifying asset are capitalized as part of the cost of such assets. A qualifying asset is one that necessarily takes substantial period of time to get ready for intended use.

9. Employee Benefits:

i. Contribution to the Provident Fund is accounted on accrual basis.

ii. Gratuity to employees is accounted in accordance with Accounting Standard 15 (revised) "Employee Benefits" based on the actuarial valuation carried out as at the Balance Sheet date.

10. Income Tax

Current Tax

The current charge for income taxes is calculated in accordance with the relevant tax regulations applicable to the company.

11. Provisions and contingent liabilities

The Company recognizes a provision when there is a present obligation as a result of past obligating event that probably requires an outflow of resources and a reliable estimate can be made of the amount of the obligation. A disclosure for a contingent liability is made when there is a possible obligation or a present obligation that may, but probably will not, require an outflow of resources. Where there is a possible obligation or a present obligation that the likelihood of outflow of outflow of resources is remote, no provision or disclosure is made.

12. Leases

Leases that do not transfer substantially all the risks and rewards of ownership are classified as operating leases and recorded as expense as and when the payments are made over the lease term.

GURU & RAM Chartered Accountants Chennai 600 004

KSK MAHANADI POWER COMPANY LTD

KSK Mahanadi Power Company Limited
Schedules to the Balance Sheet
(All amounts in Indian Rupees, except share data and where otherwise stated)

Schedule 11: Significant Accounting Policies and Notes to Accounts

B. NOTES TO ACCOUNTS

1. Contingent Liabilities & Capital Commitment:

Particulars	As at March 31, 2010
Estimated value of contracts executed & not provided	110,978,356,172

2. Secured Loans:

(a) Rupee Term Loans:

YES Bank: **Rs.1,650,232,474**

i. Secured by Irrevocable Letter of Credit issued by AXIS Bank, Fort Branch, Mumbai.

Indian Bank: **Rs.1,432,113,973**

i. First charge by way of mortgage of all the Company's immovable properties, present and future;

ii. First charge by way of hypothecation of all the Company's movables, including movable plant and machinery, machinery spares, tools and accessories, furniture, fixtures, vehicles and all other movable assets, present and future, intangible, goodwill, uncalled capital, present and future relating to the project;

iii. First charge on all the letters of credit, Trust and Retention Accounts, DSRA's and other reserves and any other bank accounts of the company wherever maintained for the project.

AXIS Bank: **Rs. 599,095,290**

i. Secured by Irrevocable Letter of Credit issued by AXIS Bank, Fort Branch, Mumbai.

L&T Infrastructure Finance Company Limited: **Rs. 1000,000,000**

i. First charge by way of mortgage on 50 acres of land;

ii. Unconditional and irrevocable Corporate Guarantee of KSK Energy Venture Limited;

iii. First charge by way of assignment of the offshore supply contract dated 1st April 2009 with SEPCO for 3,600 MW power project;

iv. Demand Promissory Note.

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KSK MAHANADI POWER COMPANY LTD HYDERABAD

(b) Other Loans: **Rs.14,389,220,411**

Advances payable to M/s. SEPCO amounting to USD 294.77 Millions equivalent to Rs. 1,327.34 crores and 111.58 crores pursuant to the Engineering, Procurement and Construction and commissioning (EPC) contract entered into with them by the Company is secured by usance LC issued on the Company's behalf by Bank of India, Mumbai, Andhra Bank, Hyderabad, Oriental Bank of Commerce, Secunderabad, AXIS Bank, Mumbai, Indian Bank, Mumbai and UCO Bank, Hyderabad for the like amount.

The above LC's are secured as under:

Bank of India, Mumbai – Pledge of fixed deposits of Rs. 617.26 crores and Rs. 30.42 crores held by the Company and KSK Energy Ventures Limited respectively.

Other Banks – Equitable Mortgage of free hold land to the extent of 400.62 acres and lease hold land of 512.65 acres of the project and assignment of APG from SEPCO along with the first charge on current and fixed assets of the company. Also, secured by the Irrevocable Letter of Credits.

However, the interests on the fixed deposits continue to accrue to the deposit holders and the incidental costs are borne by the Company. Subsequently, SEPCO has discounted this LC with Bank of India, Hong Kong, Bank of India, London, Bank of India, and New Jersey to utilize the advances paid under the contract.

3. As at 31 March 2010 there are no amounts including interest payable to Micro, Small and Medium enterprises as defined under Micro, Small and Medium Enterprises Development Act, 2006 based on the information available with the Company.

4. The Company has not commenced commercial activity and hence Profit and Loss account was not prepared for the year ending 31st March 2010. All the expenditure incurred during the construction period is grouped and disclosed under capital work in progress, schedule 5 to the balance sheet.

5. **Foreign Exchange Inflow and Outflow**

(a) Foreign Exchange Inflow : **NIL**

(b) Foreign Exchange Outflow :

S.No.	Particulars	As at March 31, 2010
1	Capital Works	14,427,916,111
2	Travel Expenses	7,325,996

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KSK MAHANADI POWER COMPANY LTD. Hyderabad

KSK Mahanadi Power Company Limited
Schedules to the Balance Sheet
(All amounts in Indian Rupees, except share data and where otherwise stated)

Schedule 11: Significant Accounting Policies and Notes to Accounts

6. Employee Benefits plans:

The following table sets forth the status of the gratuity plan as required under AS 15 (Revised)

Reconciliation of opening and closing balances of the present value of the defined benefit obligation

Particulars	**For the year ended March 31, 2010**
Benefit obligation at the beginning of the period	-
Service cost	3,344,606
Interest cost	-
Transfer out	--
Actuarial (gain) / loss	910,848
Benefits paid	--
Benefit obligation at the end of the period	**4,255,454**

Change in the fair value of assets

Particulars	**For the year ended March 31, 2010**
Fair value of plan assets at the beginning of the period	-
Expected return on plan assets	64,541
Actuarial gains/(loss)	32,358
Employer contributions	1,434,237
Benefits paid	-
Fair value of plan assets at the end of the period	**1,531,136**

Amount recognized in the balance sheet

Particulars	**As at March 31, 2010**
Present value of funded obligations	4,255,454
Fair value on plan assets	1,531,136
Net liability / (asset)	(2,724,318)
Amounts in the balance sheet	(2,724,318)
Other current assets	-
Net liability / (asset)	**(2,724,318)**

Expense recognized in the profit and loss account

Particulars	**For the year ended March 31, 2010**
Current service cost	3,344,606
Interest on defined benefit obligation	-
Expected return on plan assets	(64,541)
Net actuarial (Gain)/ loss recognized in the period	878,490

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KSK MAHANADI POWER COMPANY LTD Hyderabad

KSK Mahanadi Power Company Limited
Schedules to the Balance Sheet
(All amounts in Indian Rupees, except share data and where otherwise stated)

Schedule 11: Significant Accounting Policies and Notes to Accounts

Amount included in "personnel expense"	**4,158,555**

Asset information

Category of Assets	**For the year ended March 31, 2010**
Insurer managed funds	100%

Particulars	**As at March 31, 2010**
Discount Rate	8% P.A.
Expected Return on plan assets	9% P.A.
Expected rate of salary increases	15% P.A.

Summary of actuarial assumptions:

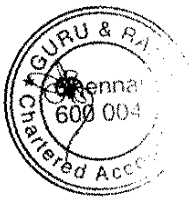
Discount rate: The discount rate is based on the prevailing market yields of Indian government securities as at the balance sheet date for the estimated term of the obligations.

Expected rate of return on plan assets: The expected rate of return on plan assets is based on the expectation of the average long term rate of return expected on investments of the fund during the estimated term of the obligations.

Salary escalation rate: The estimates of future salary increases considered takes into account the inflation, seniority, promotion and other relevant factors.

7. The Company's activities during the year revolve around setting up of the Project. Considering the nature of company's business and operations, there are no separate reportable segments (business and / or geographical) in accordance with the requirements of Accounting Standard 17 "Segment Reporting", as specified in the company's (Accounting Standards) Rule 2006.

8. No confirmation was obtained for various debit / credit balances included in the Balance Sheet. However, the opinion of the Board of Directors, the current assets have a value of realization, not less than the value at which they are stated in the Balance Sheet.



KSK Mahanadi Power Company Limited
Schedules to the Balance Sheet
(All amounts in Indian Rupees, except share data and where otherwise stated)

Schedule 11: Significant Accounting Policies and Notes to Accounts

9. Related party Disclosures as required by AS – 18

A. List of Related Parties:

S.No.	Name of the related party	Nature of relationship
1	KSK Energy Ventures Limited	Holding Company
2	Wardha Power Company Limited	Fellow Subsidiary Company
3	KSK Water Infrastructures Private Limited	Fellow Subsidiary Company
4	KSK Mineral Resources Private Limited	Fellow Subsidiary Company
5	KSK Energy Company Private Limited	Fellow Subsidiary Company
6	Bahur Power Company Private Limited	Fellow Subsidiary Company

B. Key Management Personnel

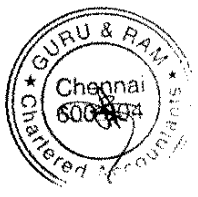
S.No.	Name of the related party	Nature of relationship
1	S. Kishore	Director
2	K. A . Sastry	Director
3	Anil Kumar Kutty	Director

C. Particulars of related party transactions during the period:

S.No.	Nature of transactions	Nature of relationship	March 31, 2010
1	Project Development Expense	Holding Company	1,730,882,750
2	Interest Charges	Holding Company	298,757,155
3	Interest Income	Fellow Subsidiaries	2,724,658
4	Loan Taken	Holding Company	14,391,715,000
5	Repayment of Loan	Holding Company	577,115,000
6	Deposit Given	Holding Company	3,500,000,000
7	Deposit Given	Fellow Subsidiaries	1,465,509,700

D. Related party transactions – Amount outstanding as at

S.No	Nature of transactions	Nature of relationship	March 31, 2010
1	Interest payable	Holding Company	92,263,849
2	Interest receivable	Fellow Subsidiaries	2,452,192
3	Unsecured Loan	Holding Company	13,814,600,000
4	Deposit receivable	Holding Company	3,500,000,000
5	Deposit receivable	Fellow Subsidiaries	1,465,509,700



10. Additional information pursuant to Clause 3, 4, 4A, 4C and 4D of Part II of Schedule VI of the Companies Act, 1956 is not applicable.

11. Pursuant to the notification issued by Ministry of Corporate Affairs dated 31st March 2009, the company has opted for the option of adjusting the exchange difference on long term foreign currency monetary items to the cost of fixed assets acquired out of these foreign currency monetary items. Accordingly during the year, the company has capitalized the foreign exchange differences amounting to Rs. 77,51,588/- on restatement of long term loans used for acquiring fixed assets and same is classified under capital work in progress.

12. **Operating Leases:**

The Company has taken on lease office space and facilities under cancelable operating lease agreements. The Company intends to renew such leases in the normal course of its business.

Details of Lease	As at March 31, 2010
Office space and facilities (included in rent)	10,420,516

13. **Transfer as a consequence of the scheme of demerger of an undertaking of M/s. Wardha Power Company Limited to the Company under a Scheme of Arrangement, under section 391 TO 394 read with sections 100 To 103 of the Companies Act, 1956.**

A scheme of Arrangement was filed with the Hon'ble High Court of Andhra Pradesh at Hyderabad to de-merge a 3,600 MW power generating facility at Nariyara, Janjgir-Champa District, in the State of Chhattisgarh (Demerged Undertaking) for a consideration of Rs.62,50,00,020/-, to KSK Mahanadi Power Company Limited, the effective date being 31st March, 2010. The Hon'ble High Court of Andhra Pradesh at Hyderabad approved the scheme on 26th February 2010.

As the scheme has become effective from the appointed date for demerger, the Demerged Undertaking stands transferred to and vest in as a going-concern and accordingly, assets and liabilities of demerged undertaking have been transferred to the Company and in consideration of the transfer :

KSK Mahanadi Power Company Limited
Schedules to the Balance Sheet
(All amounts in Indian Rupees, except share data and where otherwise stated)

Schedule 11: Significant Accounting Policies and Notes to Accounts

Each of the shareholders holding Class-A equity shares in the Wardha Power Company Limited will be paid a nominal consideration of Re. 1/- in full and final settlement of their claims,

KSK Energy Ventures (Holding Company), will be allotted 6,25,00,000 Equity Shares of Rs. 10 each in lieu of 6,25,00,000 Equity Shares held in Wardha Power Company Limited and

KSK Electricity Financing India Private Limited will be allotted 1 Equity Share of Rs. 10 each of the Company.

As per the provisions of the Scheme, the results of the operations of business of the Demerged Undertaking for the period from the appointed date for demerger (1 August, 2009) till the effective date (31 March, 2010) of the scheme, have also vested in Company. Accordingly necessary effects in respect of above have been given in the books of accounts of the company during the year. The following are the details of the assets and liabilities transferred from Wardha Power Company Limited.

S.No	Assets/Liabilities	Amount (As at 31 July 2009)
1	Fixed assets	333,755,351
	Less: Accumulated depreciation	1,065,160
	Net block	332,690,191
2	Capital work-in progress (including Capital advances)	14,692,526,074
3	Current assets and loans and advances	585,795,674
4	Cash and bank balances	6,315,485,690
5	Current liabilities and provisions	127,559,366
6	Share application money	12,768,515,000
7	Loan funds	8,405,423,263

As per Report of even date

for **Guru & Ram**
Chartered Accountants

GURU & RAM * Chennai 600 004 * Chartered Accountants

A Rajasekaran
Partner
Membership No.: 025549
Firm Registration Number: 09723S

Place: Chennai
Date: 22.05.2010

for **and on behalf of the Board**

S Kishore
Director

K A Sastry
Director

Sisir Kumar Mishra
Company Secretary

KSK MAHANADI POWER COMPANY LTD. * Hyderabad *

Place: Hyderabad
Date: 22.05.2010

KSK MAHANADI POWER COMPANY LIMITED

BALANCE SHEET ABSTRACT AND COMPANY'S GENERAL BUSINESS PROFILE — **THE COMPANIES ACT, 1956**

I. Registration Details

Registration No. U 4 0 3 0 0 A P 2 0 0 9 P L C 0 6 4 0 6 2 — State Code No. 0 1 *(Refer Code List)*

Balance Sheet Date 3 1 (Date) 0 3 (Month) 2 0 1 0 (Year)

II. Capital Raised during the year (Amount in Rs. Thousands)

Public Issue	Right Issue
N I L	N I L
Bonus Issue	**Private Placement**
N I L	5 0 0

III. Position of Mobilisation and Deployment of Funds (Amount in Rs. Thousands)

Total Liabilites	Total Assets
3 9 0 2 5 1 2 6	3 9 0 2 5 1 2 6

Sources of Funds

Paid-up Capital	Reserves & Surplus
5 0 0	- - N I L - -
Secured Loans	**Unsecured Loans**
1 9 0 7 0 6 6 2	1 3 9 0 6 8 6 4
	Share application Money
	6 0 4 7 1 0 0

Application of Funds

Net Fixed Assets	Investments
3 0 1 5 5 1 1 8	1 0 0 0
Net Current Assets	**Misc. Expenditure**
8 8 6 9 0 0 8	- - N I L - -
Accumulated Losses	
- - N I L - -	

IV. Performance of Company (Amount in Rs. Thousands)

Turnover	Total Expenditure
- - N I L - -	- - N I L - -
Profit/Loss before tax (+ / -)	**Profit/Loss after tax** (+ / -)
- - N I L - - (+)	- - N I L - -

(please tick appropriate box + for profit, - for loss)

Earning per Share in Rs.	Dividend rate %
- - N I L - -	- - N I L - -

V. Generic Names of Three Principal Products/Services of Company (as per monetary terms)

Item Code. No. (ITC Code): - - - N A - - - -

Product Description: G E N E R A T I O N O F P O W E R

For and on behalf of the Board

S Kishore
Director

K A Sastry
Director

Sisir Kumar Mishra
Company Secretary

Place: Hyderabad
Date : 22.05.2010

KSK MAHANADI POWER COMPANY LTD. Hyderabad