

## INDEPENDENT AUDITOR'S REPORT

To,  
The Shareholders  
GMR Upper Karnali Hydropower Limited  
Chakapat, Lalitpur, Nepal

We have audited the accompanying balance sheet of the **GMR Upper Karnali Hydropower Limited** as of 31 March 2011 and profit & Loss Account and Cash Flow Statement for the period then ended. 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.

We conducted our audit in accordance with Nepal Standards on Auditing. 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 and we report that:

- i) 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.
- ii) In our opinion, the company has kept proper books of accounts as required by law so far as appears from our examination of those books.
- iii) The Balance Sheet, Profit & Loss Account and Cash Flow Statement dealt by this report are in agreement with the books of account.
- iv) In our opinion, and to the best of our information and according to the explanations given to us, the accounts give the information required by the Companies Act in the manner so required and give a true and fair view.
  - a) In the case of Balance Sheet, of the state of affairs as at 31 March 2011.
  - b) In the case of Profit and Loss Account, loss for the year ended 31 March 2011 and
  - c) In the case of Cash Flow Statement, cash inflow/outflow for the year ended 31 March 2011, and
- v) Neither we have come across any of the information about the misappropriation of fund by the directors or any of the representative or company's staffs during the course of our audit nor have we received any such information from the management.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 March 2011 and of financial performance for the period then ended.

For **Sujan Kafle & Associates**  
*Chartered Accountants*

Sujan Kumar Kafle, FCA  
Date: May 19, 2011  
Place: Kathmandu, Nepal

**GMR Upper Karnali Hydropower Limited**  
**Balance Sheet as at 31st March'11**

Amount in NPR

Particulars	Sch. No.	31st March'11		31st March'10	
<b>I. Sources of Funds:</b>					
<b>1. Shareholders' Funds</b>					
(a) Capital	1		15,000,000		15,000,000
<b>2. Share Application Money Pending Allotment</b>			453,436,467		212,069,028
<b>Total</b>			<b>468,436,467</b>		<b>227,069,028</b>
<b>II. Application of Funds:</b>					
<b>1. Fixed Assets</b>	3				
(a) Gross Block		16,292,533		15,173,809	
(b) Less : Depreciation		1,621,214		963,249	
(c) Net Block			14,671,319		14,210,560
(d) CWIP (including capital advances)	4		429,809,974		333,226,189
<b>2. Current Assets, Loans and Advances</b>					
(a) Cash and Bank Balances	5	38,851,850		1,390,152	
(b) Sundry Debtors					
(c) Interest accrued but not due	6	276,920		113,364	
(d) Loans and Advances	6	5,798,177		8,243,012	
		<b>44,926,947</b>		<b>9,746,528</b>	
<b>Less : Current Liabilities and Provisions</b>					
(a) Liabilities	7	25,724,919		131,148,471	
(b) Provisions	7	327,571		347,740	
		<b>26,052,490</b>		<b>131,496,211</b>	
<b>Net Current Assets</b>			18,874,457		(121,749,683)
<b>3. Profit and Loss Account</b>	2		5,080,717		1,381,961
<b>Total</b>			<b>468,436,467</b>		<b>227,069,028</b>
Statement on Significant Accounting policies and Notes to the Accounts	9				

The Schedules referred to above form an integral part of the Balance Sheet

This is the Balance Sheet referred to in our report of even date.

For Sujan Kafle & Associates  
Chartered Accountants

For and on behalf of the Board

CA Sujan Kumar Kafle  
Proprietor

Raaj Kumar  
Director

B V N Rao  
Director

Date : 9th May 2011  
Place: Lalitpur, Nepal

Date : 9th May 2011  
Place: India

**GMR Upper Karnali Hydropower Limited**  
**Profit and Loss Account for the period ended 31st March'11**

Amount in NPR

Particulars	Schedule	31st March'11	31st March'10
<b>I. Income</b>			
Sales			
Other Income		-	-
		-	-
<b>II. Expenditure</b>			
Administration expenses	8	3,596,484	1,257,059
Interest and Finance Charges			
Depreciation			
Loss on Sale/Disposal/Impairment of Asset		-	-
		3,596,484	1,257,059
<b>III. Profit/(Loss) Before Taxation</b>		(3,596,484)	(1,257,059)
Provision for Taxation			
- Current		(102,272)	(124,902)
- Deferred			
<b>IV. Profit/(Loss) After Taxation</b>		(3,698,756)	(1,381,961)
Surplus/(Defecit) brought forward		(1,381,961)	-
<b>V. Available for Appropriation</b>		(5,080,717)	(1,381,961)
<b>VI. Available surplus carried to Balance Sheet</b>		(5,080,717)	(1,381,961)
<b>Earning per Share -Basic &amp; Diluted</b>		(2.47)	(0.92)
Statement on Significant Accounting policies and Notes to the Accounts	9		

The Schedules referred to above form an integral part of the Profit and Loss Account  
This is the Profit and Loss Account referred to in our report of even date.

For Sujan Kafle & Associates  
Chartered Accountants

For and on behalf of the Board

CA Sujan Kumar Kafle  
Proprietor

Raaj Kumar  
Director

B V N Rao  
Director

Date : 9th May 2011  
Place: Lalitpur, Nepal

Date : 9th May 2011  
Place: India

**GMR Upper Karnali Hydropower Limited**

Amount in NPR

<b>Schedule 1: Share capital</b>	<b>31st March '11</b>	<b>31st March 10</b>
<b>a. Authorised Capital</b>		
50,00,000 Equity Shares of NRs.100 each	500,000,000	500,000,000
	<b>500,000,000</b>	<b>50,000,000</b>
<b>b. Issued, subscribed and paid up</b>		
15,00,000 Equity Shares of NRs. 100 each, NRs. 10 paid up	15,000,000	15,000,000
-10,95,000 shares are held by GMR Lion Energy Ltd and		
-4,05,000 shares are held by Nepal Electricity Authority		
<b>Total</b>	<b>15,000,000</b>	<b>15,000,000</b>

Amount in NPR

<b>Schedule 2: Profit and Loss Account (Dr Balance)</b>	<b>31st March '11</b>	<b>31st March 10</b>
<b>Profit and Loss Account</b>		
At the Commencement of the year	1,381,961	
Add: Profit (Loss) Transferred from Profit & Loss Account	3,698,756	1,381,961
<b>Total</b>	<b>5,080,717</b>	<b>1,381,961</b>

GMR Upper Karnali Hydropower Limited

Schedule 3  
Fixed Assets

(Amount in NPR)

Description	Gross Block			Depreciation				Net Block		
	As at 31st March 2010	Additions	Deletions/ Adjustments	As at 31st March 2011	As at 31st March 2010	Additions	On Deletions/Adj ustments	As at 31st March 2011	As at 31st March 2011	As at 31st March 2010
Land	-	822,120		822,120	-	-		-	822,120	-
Buildings	5,939,213	-		5,939,213	27,717	96,809		124,527	5,814,687	5,911,496
Plant & Machinery	3,797,885	145,000	-	3,942,885	498,400	205,395	-	703,795	3,239,090	3,299,485
Office Equipment	3,420,698	94,019	-	3,514,717	189,233	165,737	-	354,969.94	3,159,747	3,231,465
Computer Equipment	653,244	3,975	-	657,219	116,603	98,754	-	215,357.68	441,862	536,641
Furniture & Fixtures	1,230,268	45,990	-	1,276,258	112,910	78,321	-	191,231.54	1,085,027	1,117,358
Vehicles	132,500	7,620	-	140,120	18,385	12,949	-	31,333.41	108,786	114,115
<b>Total</b>	<b>15,173,809</b>	<b>1,118,724</b>	<b>-</b>	<b>16,292,533</b>	<b>963,249</b>	<b>657,965</b>	<b>-</b>	<b>1,621,214</b>	<b>14,671,319</b>	<b>14,210,560</b>

Amount in NPR

<b>Schedule 4: Capital Work in Progress</b>	<b>31st March'11</b>	<b>31st March 10</b>
A) Capital Advances	4,650,248	-
CWIP	37,610,703	10,296,130
<i>Interest Others</i>	4,865,262	6,182,723
Salaries, allowances and benefits to employees	20,282,426	12,405,405
<i>Contribution to provident fund and others</i>	331,126	149,869
Staff welfare expenses	2,948,386	1,337,534
Rent	9,459,432	4,869,845
Rates and Taxes	38,014,949	36,197,949
Bank/ other finance charges	246,042	9,510
Repairs & Maintenance - Others	8,936,024	481,203
Consultancy & Professional Charges	268,581,782	241,002,828
Electricity charges	554,336	398,781
Meetings & Seminars	141,092	103,586
Travelling and conveyance	17,012,481	11,976,218
Communication Expenses	1,590,026	1,018,410
Insurance	375,206	220,595
Depreciation	1,621,214	963,249
Donations	0	0
Guest House Maintainance	713,754	621,584
Printing & Stationery	452,884	272,413
Membership & Subscription	37,500	-
Miscellaneous Expenses	14,366,862	4,053,686
Business Promotion Expenses	(0)	(0)
Advertisement Expenses	699,339	785,665
Exchange Rate Gain	(3,560,105)	-
Miscellaneous Income	(120,994)	(120,993)
<b>Subtotal (B)</b>	<b>425,159,725</b>	<b>333,226,189</b>
<b>Grand Total (A) + (B)</b>	<b>429,809,974</b>	<b>333,226,189</b>

Amount in NPR

<b>Schedule 5: Cash and Bank Balances</b>	<b>31st March'11</b>	<b>31st March 10</b>
Cash on Hand	8,858	104,142
Balances with scheduled banks		
- Current accounts	38,842,992	1,286,010
- Fixed Deposit (Margin Money)	-	-
<b>Total</b>	<b>38,851,850</b>	<b>1,390,152</b>

Amount in NPR

<b>Schedule 6: Loans &amp; Advances</b>	<b>31st March'11</b>	<b>31st March 10</b>
(Unsecured and considered good, unless otherwise stated)		
Interest Accrued on Fixed Deposit	276,920	113,364
Advances recoverable in cash or in kind or for value to be received		
- Considered good	5,696,361	8,243,012
Advance Tax	101,816	-
<b>Total</b>	<b>6,075,097</b>	<b>8,356,376</b>

Amount in NPR

<b>Schedule 7: Current Liabilities and Provisions</b>	<b>31st March'11</b>	<b>31st March 10</b>
<b>a. Current Liabilities</b>		
<b>Sundry creditors:</b>		
I. Dues to Micro and small scale industrial undertakings	-	-
II. Dues to other than Micro and small scale industrial undertakings	-	-
Book Debt-Over Draft	-	-
Other liabilities	25,724,919	131,148,471
<b>Total</b>	<b>25,724,919</b>	<b>131,148,471</b>
<b>b. Provisions</b>		
PROVSNS O/S EXPS	327,571	347,740
<b>Total</b>	<b>327,571</b>	<b>347,740</b>

Amount in NPR

<b>Schedule 8: Administration Expenses</b>	<b>31st March'11</b>	<b>31st March 10</b>
Donation	1,087,058	795,064
Audit Fees	-	169,500
Rates & Taxes	183,000	-
Business promotion	534,403	292,496
Consultancy	987,434	-
Advertisement	729,997	-
Miscellaneous/Other Expenses	74,592	(1)
<b>Total</b>	<b>3,596,484</b>	<b>1,257,059</b>

**GMR Upper Karnali Hydropower Limited.  
Chakupat, Lalitpur, Nepal**

**SCHEDULE- 9**

**SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO ACCOUNTS**

For the period ended 1<sup>st</sup> April 2010 to 31<sup>st</sup> March 2011

**1. General Information**

GMR Upper Karnali Hydropower Limited, incorporated in Nepal on May 2, 2008 under Companies Act 2063, is promoted by GMR Lion Energy Limited (incorporated in Mauritius), the holding company, to develop and operate 900MW Hydro based power project in Karnali River, Aachham and Dailekh District. The registered address of the company is P O Box: 148, Chakupat-10, Lalitpur, Nepal. The company is in the process of setting up of the project.

**2. Significant Accounting Policies**

**2.1 Basis of Preparation**

The balance sheet, income statement, cash flows statement, together with significant accounting policies and notes to accounts (Financial Statements) of the Company as at 31<sup>st</sup> March 2011 and for the period then ending, comply with generally accepted accounting principles and Nepal Accounting Standards.

Financial statements are prepared on a historical cost basis and presentation requirements of the Companies Act 2063.

**2.2 Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles ("GAAP") and Nepal Accounting Standard requires management to make estimates and assumptions that affect reported amounts of assets and liabilities at the date of balance sheet. Actual amount could differ from those estimates. Any differences from those estimates are recorded in the period in which they are identified.

**2.3 Going Concern**

The financial statements are prepared on the assumption that the Company is a going concern.

**2.4 Comparative Information**

Accounting policies have been consistently applied by the Company and are consistent with those used in the previous year. Previous year's figures have been regrouped and/or rearranged wherever necessary to facilitate comparison.

**2.5 Revenue Recognition**

- I. Revenue from sale of energy is recognized on accrual basis in accordance with the provisions of the Power Purchase Agreement (PPA) after Commercial Operation Date.

- II. Interest is recognized using the time proportion method based on rates implicit in the transaction. Dividend income is accounted for in the year in which the right to receive the same is established.

## **2.6 Fixed Assets and Capital Work-in-progress**

- I. Fixed Assets are stated at cost of acquisition less depreciation. Cost of acquisition is inclusive of freight, duties, levies and all incidentals attributable to bringing the asset to its working condition.
- II. All Project related expenditure viz, civil works, hydro-mechanical works, pre-operative expenditure incidental / attributable to construction of project, borrowing cost incurred prior to the date of commercial operation of project and trial run expenditure are shown under Capital Work-in-progress. These expenses are net of recoveries and income (net of tax) from surplus funds arising out of project specific borrowings.

## **2.7 Depreciation**

Depreciation is provided on straight line method at the rates specified under Schedule XIV to the Indian Companies Act, 1956.

## **2.8 Borrowing Cost**

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset are capitalized as part of the cost of that asset till the date of capitalization of qualifying asset. Other borrowing costs are recognized as expenses in the period in which they are incurred.

## **2.9 Cash & Cash Equivalents**

Cash and cash equivalents include cash in hand and deposits with banks.

## **2.10 Foreign currency transactions**

Foreign currency transactions are accounted for at the exchange rates prevailing on the date of the transactions taking place.

## **2.11 Retirement Benefits**

The Company has scheme of retirement benefits namely provident fund and employee gratuity.

Contribution to provident fund has been recorded as expense on accrual basis.

For employee gratuity the company makes provision as per its policy on the assumption that all employees retire on the balance sheet date.

## **2.12 Taxes on Income**

Provision for taxation has been made on the basis of the Income Tax Act 2058 and amendments thereto.

### 2.13 Share Capital

Share issued by the company are recorded as the proceeds received, net of direct issue costs.

### 2.14 Impairment of Assets

At each balance sheet date, the Company reviews the carrying amounts of its fixed assets to determine whether there is any indication that those assets suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of impairment loss. Recoverable amount is the higher of an asset's net selling price and value in use. In assessing value in use, the estimated future cash flows expected from the continuing use of the asset and from its disposal are discounted to their present value using a pre-discount rate that reflects the current market assessments of time value of money and the risks specific to the asset. Reversal of impairment loss is recognized immediately as income in the income statement.

### 2.15 Round off

Decimal figures are rounded off to nearest rupees.

## 3. Notes to Accounts

### 3.1 Related Party Disclosure

List of Related Parties for GMR Upper Karnali Hydro Power Limited		
(i)	Enterprises that control the Company	GMR Lion Energy Limited (GLEL)
		GMR Energy (Mauritius) Limited
		GMR Energy Limited (GEL)
		GMR Renewable Energy Limited
		GMR Infrastructure Limited
		GMR Holdings Private Limited (GHPL)
(ii)	Fellow Companies      Subsidiary	GMR Power Corporation Limited (GPCL)
		GMR Vemagiri Power Generation Limited (GVPGL)
		EMCO Energy Limited
		GMR Coastal Energy Private Limited
		GMR Bajoli Holi Hydropower Private Limited (GBHHPL)
		Himtal Hydropower Company Private Limited (HHCPL)
		GMR Chhattisgarh Energy Limited (GCEL)
		GMR Kakinada Energy Private Limited
		Badrinath Hydro Power Generation Private Limited (BHPGPL)
		GMR Energy (Cyprus) Limited (GECL)
		GMR Energy (Netherlands) B. V. (GENBV)

		GMR Londa Hydropower Private Limited (LHPL)
		GMR (Badrinath) Hydro Power Generation Pvt. Ltd.(GBHPL)
		PT Barasentosa Lestari (PT BSL), Indonesia
		PT Dwikarya Sejati Utama (PT DSU), Indonesia
		PT Dutasarana Internusa (PT DSI),Indonesia
		PT Unsoco, Indonesia
		GMR Maharashtra Energy Limited
		GMR Rajahmundry Energy Limited
		SJK Powergen Limited
		GMR Consulting Services Private Limited
		GMR Bundelkhand Energy Pvt Limited
		GMR Uttarpradesh Energy PvtLimited
		Homeland energy Group Limited
		GMR Gujarat Solar Power Private Limited
		Karnali Transmission company Private Limited
		Marsyangdi Transmission Company Private Limited
		Lion Energy Tuas Pte Ltd, Singapore
		Maru Transmission Service Company Limited
		Aravali Transmission Service Company Limited
		GMR Indo Nepal Energy Links Limited
		GMR Indo-Nepal Power Corridors Limited
		GMR Kamalanga Energy Limited
(iii)	Enterprises where significant influence exists	NIL
(iv)	Enterprises where key management personnel and their relative exercise significant influence	NIL
(v)	Key Management Personnel	NIL

a) Summary of transactions with the above related parties is as follows:

(Amount in NPR)

Particulars	For the year ended 31 <sup>st</sup> March 2011	For the year ended 31 <sup>st</sup> March 2010
i) Management Services a) Fellow Subsidiary Companies- GCSPL(including VAT)	17,562,890/-	118,247,126/-

b) Outstanding balance with above related party:

Amount in NPR

Particulars	As on 31 <sup>st</sup> March 2011	As on 31 <sup>st</sup> March 2010
i) Share Application money pending allotment a) Enterprises that control the company-GLEL	453,436,467/-	212,069,028/-
ii) Amount Payable a) Fellow Subsidiary Companies- GCSPL	18,761,998/-	94,366,575/-

\* Transactions and outstanding balances in the nature of reimbursement of expenses incurred by one company on behalf of the other have not been considered above.

### 3.2 Committed Cost of Contract

Details of committed cost of running contracts are as follows:-

Running Contracts		Cur	Total Value as per Contract	O/s Value of the Contract (NPR)	Remarks
Contractor Name	Purpose				
SchEMES	EIA and EMP Studies	NPR	4,520,000	1,356,000	
SchEMES	Revised EIA and EMP Studies	NPR	705,057	352,529	
Aadhar Engineering and Consultancy	Construction Material Survey	NPR	2,842,122	-	Final Invoice received, Amount Payable NPR 273,543 (Net of TDS)
Kabita Nirman Sewa	Stram and Raingauge	NPR	2,250,960	293,800	
GMR Consulting Services Pvt. Ltd	Technical Service Agreement	USD	791,000	39,811,030	Invoice received for USD 210,000
Radha Structure	Construction of Suspension Bridge	NPR	12,291,890	1,229,189	
Himal Hydro and General Construction	Drift Tunneling	NPR	23,402,132	-	NPR 1,235,370 retention Money is payable, Contract completed.
Sogreah Consultant	Cost of Model Conception	Euro	131,871	8,000,086	Invoice received for Euro 46,680
Earst &Youngh	CDM	USD	29,145	1,676,451	Invoice received for USD 5158
<b>Total</b>				<b>43,042,548</b>	

Note 1: The Contract with GMR Consulting Services Pvt. Ltd is USD 700,000 excluding VAT , exchange rate as on 31st March 2011 is Rs 71.90 per USD.

Note 2: The Contract with Sogreah is Euro116700 excluding VAT, exchange rate as on 31st March 2011 is Rs 101.11 per Euro.

Note 3: The contract with Ernst and Young is USD25792 excluding VAT, Exchange rate as on 31st March 2011 is Rs 71.90 per USD.

**3.3** Previous year figures have been regrouped wherever required.

For Sujan Kafle & Associates  
Chartered Accountants

For and on behalf of Board

CA Sujan Kumar Kafle  
Proprietor

Raaj Kumar  
Director

B V N Rao  
Director

Place: Kathmandu, Nepal  
Date: 9<sup>th</sup> May 2011

Place: India  
Date: 9<sup>th</sup> May 2011

**GMR Upper Karnali Hydropower Limited**  
**Cash flow statement for the Period ended 31st March'11**

Amount in NPR

Particulars	For the Period ended 31st March'11	For the Year ended 31st March'10
<b>A. CASH FLOW FROM/(USED IN) OPERATING ACTIVITIES</b>		
Net Profit Before Tax and Extraordinary Items	(3,698,756)	(1,381,961)
Operating Profit Before Working Capital Changes	-	-
Cash generated from Operations	(3,698,756)	(1,381,961)
Interest Expenses		
<b>Net Cash Flow from/ (used in) Operating Activities</b>	<b>(3,698,756)</b>	<b>(1,381,961)</b>
<b>B. CASH FLOW FROM/ (USED IN) INVESTING ACTIVITIES</b>		
Inflow/(outflow) from changes in trade and other receivables (S Drs & Loans & Advs)	2,281,279	(7,307,313)
Changes in Trade Payables	(105,443,721)	125,392,224
Fixed Assets, CWIP (including Capital Advances)	(97,044,543)	(188,682,405)
<b>Net Cash from/ (used in) Investing Activities</b>	<b>(200,206,986)</b>	<b>(70,597,494)</b>
<b>C. CASH FLOW FROM/(USED IN) FINANCING ACTIVITIES</b>		
Proceeds(Repayment) of Loan	-	(86,067,578)
Proceeds from Share Application Money received	241,367,439	151,465,002
<b>Net Cash from Financing Activities</b>	<b>241,367,439</b>	<b>65,397,424</b>
<b>Net increase in Cash and Cash Equivalents</b>	<b>37,461,697</b>	<b>(6,582,031)</b>
<b>Cash and Cash Equivalents at the beginning of the year</b>	<b>1,390,152</b>	<b>7,972,184</b>
<b>Cash and Cash Equivalents at the end of the year</b>	<b>38,851,850</b>	<b>1,390,152</b>
<b>Notes:</b>		
Statements issued by the Institute of Chartered Accountants of Nepal.		
2. Previous year's figures have been regrouped and reclassified to conform to those of the current year		

This is the Cash Flow Statement referred to in our report of even date.

For Sujan Kafle & Associates  
Chartered Accountants

For and on behalf of the Board

CA Sujan Kumar Kafle  
Proprietor

Raaj Kumar  
Director

B V N Rao  
Director

Date : 9th May 2011  
Place: Lalitpur, Nepal

Date : 9th May 2011  
Place: India