

## Auditor's Report

The Shareholders of Karnali Transmission Company Private Limited

### *Financial statements and management's responsibility*

We have audited the accompanying financial statements of Karnali Transmission Company Private Limited which comprise the balance sheet as of March 31, 2011 statement of changes in Equity and Cash Flow Statement for the year 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.

### *Auditor's responsibility*

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 and the auditing standards generally accepted in Nepal. 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 the management, as well as evaluating the overall financial statement presentation. We believe that our audit provides reasonable basis for our opinion.

### *Report on the requirements of Company Act 2063*

We have obtained all information and explanations asked for, which to the best of our knowledge and belief were necessary for the purpose of our audit; the financial statements including balance sheet, cash flow statements and the statement of changes in equity have been prepared in accordance with the provisions of the Company Act, 2063 and they are in agreement with the books of accounts of the company and the accounts and records of the company are properly maintained in accordance with the prevailing laws.

During the course of our examination of the books of accounts, we did not come across cases where the Board of Directors or any director or any office bearer of the company has acted contrary to the provisions of law or caused loss or damages to the company or committed any misappropriation.

### *Opinion*

In our opinion, the financial statements give a true and fair view of the financial position of the Company as of March 31, 2011, and its cash flows for the year then ended in accordance with Nepal Accounting Standards and Company Act 2063.

Date: May 10, 2011  
Place: Kathmandu, Nepal

L. D. Mahat,  
Partner  
CSC & Co.  
Chartered Accountants

**Karnali Transmission Company Private Limited**  
**Balance Sheet as at 31st March'11**

Amount in NPR

Particulars	Sch. No.	31st March'11	
<b>I. Sources of Funds:</b>			
1. Shareholders' Funds			
(a) Capital	1		3,302,400
2. Share Application Money Pending Allotment			3,449,491
<b>Total</b>			<b>6,751,891</b>
<b>II. Application of Funds:</b>			
1. Fixed Assets			
(a) Gross Block		-	
(b) Less : Depreciation		-	
(c) Net Block			
(d) CWIP (including capital advances)	3		4,943,132
2. Current Assets, Loans and Advances			
(a) Cash and Bank Balances	4	4,162,060	
(b) Loans and Advances	5	14,470	
		<b>4,176,530</b>	
Less : Current Liabilities and Provisions			
(a) Liabilities	6	2,699,238	
(b) Provisions	6	44,783	
		<b>2,744,021</b>	
<b>Net Current Assets</b>			<b>1,432,509</b>
3. Profit and Loss Account	2		376,250
<b>Total</b>			<b>6,751,891</b>
Statement on Significant Accounting policies and Notes to the Accounts	8		

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 CSC & Co  
Chartered Accountants

For and on behalf of the Board

L. D. Mahat  
Partner

G. Subba Rao                      Harvinder Manocha  
Shareholders' Representative

Date : 10th May 2011  
Place: Lalitpur, Nepal

Date : 10th May 2011  
Place: India

**Karnali Transmission Company Private Limited**  
**Profit and Loss Account for the period ended 31st March'11**

Amount in NPR

Particulars	Schedule	31st March'11
<b>I. Income</b>		
Sales		
Other Income		-
		-
<b>II. Expenditure</b>		
Administration expenses	7	376,250
Interest and Finance Charges		
Depreciation		
Loss on Sale/Disposal/Impairment of Asset		-
		376,250
<b>III. Profit/(Loss) Before Taxation</b>		(376,250)
Provision for Taxation		
<b>IV. Profit/(Loss) After Taxation</b>		(376,250)
Surplus/(Defecit) brought forward		-
<b>V. Available for Appropriation</b>		(376,250)
<b>VI. Available surplus carried to Balance Sheet</b>		(376,250)
<b>Earning per Share -Basic &amp; Diluted</b>		(11.39)
Statement on Significant Accounting policies and Notes to the Accounts	8	

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 CSC & Co  
Chartered Accountants

For and on behalf of the Board

L. D. Mahat  
Partner

G. Subba Rao      Harvinder Manocha  
Shareholders' Representative

Date : 10th May 2011  
Place: Lalitpur, Nepal

Date : 10th May 2011  
Place: India

**Karnali Transmission Company Private Limited**  
**Cash flow statement for the Period ended 31st March'11**

Amount in NPR

Particulars	For the Period ended 31st March'11
<b>A. CASH FLOW FROM/(USED IN) OPERATING ACTIVITIES</b>	
Net Profit Before Tax and Extraordinary Items	(376,250)
Operating Profit Before Working Capital Changes	-
Cash generated from Operations	(376,250)
Interest Expenses	
<b>Net Cash Flow from/ (used in) Operating Activities</b>	<b>(376,250)</b>
<b>B. CASH FLOW FROM/ (USED IN) INVESTING ACTIVITIES</b>	
Inflow/(outflow) from changes in trade and other receivables (S Drs & Loans & Advs)	(14,470)
Changes in Trade Payables	2,744,021
Fixed Assets, CWIP (including Capital Advances)	(4,943,132)
<b>Net Cash from/ (used in) Investing Activities</b>	<b>(2,213,581)</b>
<b>C. CASH FLOW FROM/(USED IN) FINANCING ACTIVITIES</b>	
Proceeds from Share Application Money received	3,449,491
Proceeds from issue of share capital	3,302,400
<b>Net Cash from Financing Activities</b>	<b>6,751,891</b>
<b>Net increase in Cash and Cash Equivalents</b>	<b>4,162,060</b>
Cash and Cash Equivalents at the beginning of the year	-
<b>Cash and Cash Equivalents at the end of the year</b>	<b>4,162,060</b>

**Notes:**

1. The Above Cash Flow statements has been prepared under the 'Indirect Method' as set out in the Accounting Standard 3 on Cash Flow 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 CSC & Co  
Chartered Accountants

For and on behalf of the Board

L. D. Mahat  
Partner

G. Subba Rao      Harvinder Manocha  
Shareholders' Representative

Date : 10th May 2011  
Place: Lalitpur, Nepal

Date : 10th May 2011  
Place: India

**Karnali Transmission Company Private Limited**

Amount in NPR

<b>Schedule 1: Share capital</b>	<b>31st March'11</b>
<b>a. Authorised Capital</b> (1,05,00,000 Shres of NPR. 100/- each)	1,050,000,000
	1,050,000,000
<b>b. Issued, subscribed and paid up</b> (33,024 Shares of NPR. 100/- each issued to the Holding Company GMR Energy (Mauritius) Limited)	3,302,400
<b>Total</b>	<b>3,302,400</b>

Amount in NPR

<b>Schedule 2: Profit and Loss Account (Dr Balance)</b>	<b>31st March'11</b>
<b>Profit and Loss Account</b>	
At the Commencement of the year	-
Add: Profit (Loss) Transferred from Profit & Loss Account	376,250
<b>Total</b>	<b>376,250</b>

Amount in NPR

<b>Schedule 3: Capital Work in Progress</b>	<b>31st March'11</b>
A) Capital Advances	-
Salaries, allowances and benefits to employees	92,984
Contribution to provident fund and others	2,550
Staff welfare expenses	10,119
Rent	242,102
Rates and Taxes	2,000,000
Bank/ other finance charges	3,376
Repairs & Maintenance - Others	-
Consultancy & Professional Charges	2,496,896
Travelling and conveyance	14,840
Communication Expenses	4,293
Printing & Stationery	75,973
<b>Subtotal (B)</b>	<b>4,943,132</b>
<b>Grand Total (A) + (B)</b>	<b>4,943,132</b>

Amount in NPR

<b>Schedule 4: Cash and Bank Balances</b>	<b>31st March'11</b>
Cash on Hand	1,991
Balances with scheduled banks	
- Current accounts	4,160,069
- Fixed Deposit (Margin Money)	-
<b>Total</b>	<b>4,162,060</b>

Amount in NPR

<b>Schedule 5: Loans &amp; Advances</b>	<b>31st March'11</b>
(Unsecured and considered good, unless otherwise stated)	
Loans to Employees	-
Interest Accrued on Fixed Deposit	-
Advances recoverable in cash or in kind or for value to be received	
- Considered good	14,470
Advance Tax	-
<b>Total</b>	<b>14,470</b>

Amount in NPR

<b>Schedule 6: Current Liabilities and Provisions</b>	<b>31st March'11</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	2,699,238
<b>Total</b>	<b>2,699,238</b>
<b>b. Provisions</b>	
Provisions-WT	-
Provision for Employees Benefit	-
PROVSNS O/S EXPS	44,783
Provision for FBT	-
<b>Total</b>	<b>44,783</b>

Amount in NPR

<b>Schedule 7: Administration Expenses</b>	<b>31st March'11</b>
Donation	-
Audit Fees	28,250
Rates & Taxes	348,000
Business promotion	-
Consultancy	-
Advertisement	-
Miscellaneous/Other Expenses	-
<b>Total</b>	<b>376,250</b>

**Karnali Transmission Company Private Limited.  
Chakupat, Lalitpur, Nepal**

**SCHEDULE- 8**

**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**

Karnali Transmission Company Private Limited, incorporated in Nepal on April 27, 2010 under Companies Act 2063, is promoted by GMR Energy (Mauritius) Limited (incorporated in Mauritius), the holding company, to develop the transmission line for power evacuation of 900MW Upper Karnali Hydro Electric Project in Karnali River. 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. 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 as follows:-

<b>Asset Type</b>	<b>Depreciation Rate</b>
Freehold Land	0%
Office Equipment	4.75%
Lab Equipment	4.75%
Furniture & Fittings	6.33%
Vehicles - 2 Wheelers	9.50%
Plant and Machinery	11.31%
Computer Equipment	16.21%

## **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 Karnali Transmission Company Private Limited		
(i)	Enterprises that control the Company	GMR Energy (Mauritius) Limited (GEML)
		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 (HCPL)
		GMR Chhattisgarh Energy Limited (GCEL)
		GMR Kakinada Energy Private Limited

		Badrinath Hydro Power Generation Private Limited (BHPGPL) GMR Lion Energy Limited 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 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
i) Share Application Money Received	
a) Enterprises that control the company – GEML	3,449,491/-
i) Share Capital Issued	
a) Enterprises that control the company – GEML	3,302,400/-

b) Outstanding balance with above related party:

Amount in NPR

Particulars	As on 31 <sup>st</sup> March 2011
i) Share Application money pending allotment	
a) Enterprises that control the company-GEML	3,449,491/-

\* 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				
Feedback Ventures Nepal Pvt. Ltd	DPR Preparation	NPR	723,200	542,400	
Nepal Environmental & Scientific Service Pvt. Ltd	EIA studies	NPR	9,460,541	8,609,092	
Pioneer Surveyors	Survey works	USD	42,186	2,029,665	
<b>Total</b>				<b>11,181,158</b>	

Note: The Contract with Pioneer is USD 37333.10, exchange rate as on 31st March 2011 is Rs 71.90

3.3 As this is the first year of operation for the company, previous year figures have not been given.

For CSC & Co  
Chartered Accountants

For and on behalf of Board

L. D. Mahat  
Partner

G. Subba Rao Harvinder Manocha  
Shareholders' Representative

Place: Kathmandu, Nepal  
Date: 10<sup>th</sup> May 2011

Place: India  
Date: 10<sup>th</sup> May 2011