

Partners

V. ANANT RAO, FCA, DISA, CISA, CISSP, CISM

B.V. MALLIKARJUNA, FCA



ANANT RAO & MALLIK

CHARTERED ACCOUNTANTS

#B-409/410, Kushal Towers, Khairatabad, Hyderabad - 500 004. Phone : 23320286, Fax : 040-66360666, E-mail : armcas@gmail.com

AUDITORS' REPORT

The Members,
KSK UPPER SUBANSIRI HYDRO ENERGY PRIVATE LIMITED,
Hyderabad.

We have audited the attached Balance Sheet of KSK UPPER SUBANSIRI HYDRO ENERGY PRIVATE LIMITED, Hyderabad, as at March 31, 2011. 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.


1. 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 misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in 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 statements presentation. We believe that our audit provides a reasonable basis for our opinion.
2. 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 hereto a statement on the matters specified in paragraphs 4 and 5 of the said Order.
3. Further to our comments in the Annexure referred to in paragraph 2 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 dealt with by this report are in agreement with the books of account;
 - d) In our opinion, the Balance Sheet dealt with by this report comply with the mandatory Accounting Standards referred in sub-section(3C) of section 211 of the Companies Act, 1956 ;



- e) In our opinion, and based on information and explanations given to us, none of the directors are disqualified as on March 31, 2011, from being appointed as directors 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 said accounts read together with and subject to the Significant Accounting Policies and Notes to Accounts thereon give the information required by the Companies Act, 1956, in the manner so required, and present a true and fair view, in conformity with the accounting principles generally accepted in India;

In so far as it relates to Balance Sheet, of the state of affairs of the Company as at March 31, 2011.

for ANANT RAO & MALLIK
Chartered Accountants


B.V.MALLIKARJUNA

Partner

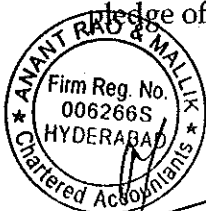
M.No.23350

Date : 18.04.2011



Annexure to Auditors' Report
(Referred to in Paragraph 2 of our report of even date)

1. In respect of its fixed assets:
 - a. The Company has maintained proper records showing full particulars including quantitative details and situation of fixed assets.
 - b. The Company has carried out physical verification of Fixed Assets during the year and no material discrepancies were noticed as compared to book record.
 - c. The Company has not disposed off any fixed assets during the year and the going concern status of the Company is not affected.
2. As the company does not carry any inventories, the clauses in respect of inventories are not applicable.
3. The company has taken an unsecured loan amounting to Rs.11,794.66 lakhs, including interest of ₹.323.26 lakhs, from its holding company. The amount is outstanding as on March 31, 2011. In our opinion, and considering the nature of transactions and other terms and conditions of such loans, are not prima facie not prejudicial to the interests of the company.
4. The company has laid down adequate internal control procedures commensurate with its size and nature of business for purchase of fixed assets and all its functions. Presently, the company has not acquired any inventories and also has not yet derived any income.
5. In our opinion and according to the information and explanations given to us, there are no transactions that need to be entered into a register in pursuance of section 301 of the Act.
6. The Company has not accepted any deposits from the public.
7. As the paid-up capital of the company was below Rs.50 lakhs as at the commencement of the financial year and the company has not made any sales, there is no requirement for the Company to have an Internal Audit System.
8. The Central Government has not prescribed maintenance of Cost Records under Section 209(1)(d) of the Companies Act, 1956(Act I of 1956) for the Company.
9. According to the information and explanations given to us, the schemes of PF & ESI are not applicable to the company.
10. According to the information and explanations given to us, there are no disputed dues of sales tax / income tax / customs / wealth tax / excise duty / cess due as on the last day of the financial year concerned for a period of more than six months from the date they became payable.
11. The Company does not have any accumulated losses. The company has no profits as it has not started its operations.
12. The Company has not taken any loans from financial institutions or banks or debenture holders and as such matters relating to defaults do not arise.
13. In our opinion and according to the information and explanations given to us, no loans and advances have been granted by the Company on the basis of security by way of pledge of shares, debentures and other securities.



14. In our opinion, the Company is not a chit fund or a nidhi/mutual benefit fund/society. Therefore, clause-4(xiii) of the Companies (Auditors' Report) Order, 2003, is not applicable to the Company.
15. The Company has not dealt in or traded in shares, securities, debentures and other investments.
16. The Company has not given guarantees for loans taken by others from banks or financial institutions.
17. The Company has not raised any term loans during the year. There are no existing term loans.
18. The Company has not obtained any short term loans for its working capital requirements.
19. During the year, the Company has not made any preferential allotment of shares to parties and companies covered in the Register maintained under Section 301 of the Companies Act, 1956.
20. The Company has not issued any debentures during the year.
21. The Company has not raised any money by way of public issue.
22. In our opinion and according to the information and explanations given to us, no fraud on or by the Company has been noticed or reported during the year.

for ANANT RAO & MALLIK
Chartered Accountants


B.V.MALLIKARJUNA
Partner
M.No.23350
Dt. 18.04.2011

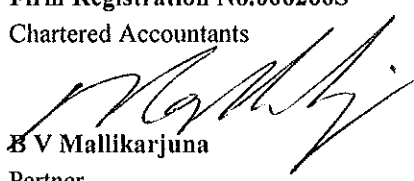


KSK Upper Subansiri Hydro Energy Private Limited
Balance Sheet as at March 31, 2011
(All amounts in Indian rupees, except share data and where otherwise stated)

	Schedule Reference	As at March 31, 2011
SOURCES OF FUNDS		
Shareholders' funds		
Share capital	1	400,000
Loan funds		
Unsecured loans	2	1,179,465,969
		1,179,865,969
APPLICATION OF FUNDS		
Fixed assets		
Gross block	3	2,654,180
Less : Depreciation		140,487
Net block		2,513,693
Capital work-in progress (including capital advances)	4	1,190,307,591
		1,192,821,284
Current assets, loans and advances		
Cash and bank balances	5	241,132
Other current assets	6	161
Loans and advances	7	933,853
		1,175,146
Less : Current liabilities and provisions	8	
Current liabilities		13,910,871
Provisions		219,590
		14,130,461
Net current assets		(12,955,315)
		1,179,865,969
Significant accounting policies and notes to 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 Anant Rao & Mallik
Firm Registration No.006266S
Chartered Accountants


B V Mallikarjuna
Partner
Membership No.23350



for and on behalf of the board


S. Kishore
Director


K A Sastry
Director

Place : Hyderabad
Date : 18 April 2011

KSK Upper Subansiri Hydro Energy Private Limited
Cash flow statement for the year ended March 31, 2011
 (All amounts in Indian rupees, except share data and where otherwise stated)

As at
 March 31,
 2011

A. Cash flow from operating activities

Operating profit before working capital changes	
Adjustments for:	
Loans and advances	(933,853)
Current liabilities	13,357,520
Cash generated from operations	12,423,667
Net cash from operating activities	12,423,667

B. Cash flow from investing activities

Purchase of fixed assets (including capital work in progress and expenditure during construction period pending allocation)	(1,057,708,966)
Net cash from/(used in) investing activities	(1,057,708,966)

C. Cash flow from financing activities

Interest and finance charges	(102,013,569)
Proceeds from issue of share capital	400,000
Proceeds from borrowings (Net)	1,147,140,000
Net cash from/(used in) financing activities	1,045,526,431

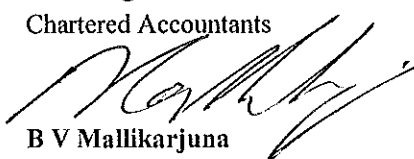
Net increase/(decrease) in cash and cash equivalents	241,132
Cash and cash equivalent - opening balance	-
Cash and cash equivalent - closing balance	241,132

Components of cash and cash equivalents comprise

Cash in hand	26,202
Balances with scheduled banks	
-in current accounts	184,930
-in deposit accounts	30,000
	241,132

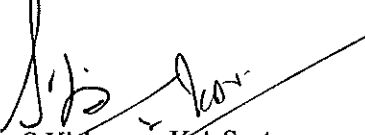
This is the Cash Flow Statement referred to in our Report of even date

for Anant Rao & Mallik
 Firm Registration No.006266S
 Chartered Accountants


 B V Mallikarjuna
 Partner
 Membership No.23350



for and on behalf of the board


 S Kishore K A Sastry
 Director Director

Place : Hyderabad
 Date : 18 April 2011

KSK Upper Subansiri Hydro Energy Private Limited
(All amounts in Indian rupees, except share data and where otherwise stated)

Schedules to the Balance Sheet

	As at March 31, 2011
1 Share Capital	
Authorised :	
5,000,000 Equity Shares of Rs. 10/- each	50,000,000
	50,000,000
 Issued & Subscribed :	
4,500,000 Equity Shares of Rs. 10 each fully paid-up	45,000,000
	45,000,000
 Paid-up :	
40,000 Equity Shares of Rs. 10 each fully paid-up	400,000
	400,000
 Note	
The above 40,000 Equity Shares of Rs.10 each, fully paid up are held by the holding company, KSK Energy Ventures Limited.	
 2 Unsecured loans	
Short-term loans and advances:	
From others	1,179,465,969
	1,179,465,969
 4 Capital work in progress	
A. Expenditure pending allocation	
Personnel cost	7,119,062
Rates & taxes	108,050
Consultancy and other professional charges	20,217,585
Communication expenses	117,518
Upfront fee	1,000,000,000
Preliminary expenses	434,140
Repairs and maintenance	249,924
Travelling & conveyance	4,270,359
Miscellaneous expenses	1,518,161
Depreciation	140,487
Interest charges	134,339,538
Finance charges	14,697
Audit fees	13,789
B. Advance against capital contracts	
	21,764,442
	1,190,307,752
Less	
Interest income	161
	1,190,307,591



KSK Upper Subansiri Hydro Energy Private Limited
 (All amounts in Indian Rupees, except share data and where otherwise stated)
Schedules to the Balance Sheet

Schedule 3
Fixed assets

Particulars	Gross Block				Depreciation/Amortisation				Net Block
	As at April 1, 2010	Additions during the year	Deletions during the year	As at March 31, 2011	As at April 1, 2010	For the year	Deletions/ Adjustments	As at March 31, 2011	
Plant and machinery	-	2,044,682	-	2,044,682	-	31,142	-	31,142	2,013,540
Furniture and fittings	-	152,400	-	152,400	-	69,140	-	69,140	83,260
Office equipment	-	457,098	-	457,098	-	40,205	-	40,205	416,893
Total	-	2,654,180	-	2,654,180	-	140,487	-	140,487	2,513,693

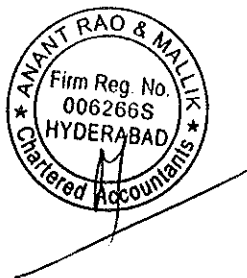


KSK Upper Subansiri Hydro Energy Private Limited
(All amounts in Indian rupees, except share data and where otherwise stated)

Schedules to the Balance Sheet

As at
March 31,
2011

5 Cash and bank balances	
Cash and cheques on hand	26,202
Balances with scheduled banks :	
on Current accounts	184,930
on Deposit accounts	30,000
	<u>241,132</u>
6 Other current assets	
Interest accrued on deposits	161
	<u>161</u>
7 Loans and advances	
<i>(Unsecured, considered good)</i>	
Advances recoverable in cash or in kind or for value to be received	931,153
Deposits	2,700
	<u>933,853</u>
8 Current liabilities and provisions	
Current liabilities	
Sundry creditors	
- Dues to micro and small enterprises	-
- Dues to other than micro and small enterprises	9,488,230
Other Liabilities	4,422,641
	<u>13,910,871</u>
Provisions	
Provision for gratuity	219,590
	<u>219,590</u>



KSK Upper Subansiri Hydro Energy Private Limited
Schedules to the Balance Sheet (continued)
(All amounts in Indian Rupees, except where otherwise stated)
Schedule 9: Significant accounting policies and notes to accounts

A. Significant accounting policies

1. Accounting convention:

The financial statements of KSK Upper Subansiri Hydro Power Private Limited (or "the Company") have been prepared and presented in accordance with Indian Generally Accepted Accounting Principles (GAAP) under the historical cost convention on the basis of a going concern, with revenues recognized and expenses accounted on their accrual including provisions/adjustments for committed obligations and amounts determined as payable or receivable during the accounting period. GAAP comprises accounting standards notified by the Central Government of India under Section 211 (3C) of the Companies Act, 1956, other pronouncements of Institute of Chartered Accountants of India, the provisions of Companies Act, 1956.

2. Use of estimates

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities on the date of financial statements and reported amounts of income and expenditure for the year. Actual results could differ from these estimates. Any revision to accounting estimates is recognized prospectively in the current and future periods.

3. Fixed assets

Fixed assets are stated at cost of acquisition *less* depreciation. Cost of acquisition is inclusive of freight, duties, levies and all incidentals directly or indirectly attributable to bringing the asset to its working condition for its intended use.

Borrowing costs directly attributable to the acquisition or construction of those fixed assets which necessarily take a substantial period of time to get ready for their intended use are capitalized

Assets under installation or under construction as at the Balance Sheet date are shown as Capital Work in Progress.

4. Depreciation

Depreciation has been provided on Straight Line Method at the rates and in the manner specified in Schedule XIV of the Companies Act, 1956 except for assets costing up to Rs. 5,000/-, which are fully depreciated in the year of acquisition. Depreciation is calculated on a pro-rata basis from the date of installation till the date the assets are sold or disposed. Leasehold land is being amortized over the lease period.

Capital expenditure on assets not owned by the Company under the head Fixed Assets is amortized over a period of life of the asset from the year in which the asset becomes available for use.

Intangible assets, viz., Computer software is recognized as per the criteria specified in the Accounting Standard (AS) 26 "Intangible Assets" notified by the Central Government of India under Section 211 (3C) of the Companies Act, 1956 and is amortized over a period of three years.

5. Cash flow statement:

Cash flows are reported using the indirect method, where by the net profit before tax is adjusted for the effects of transactions of a non cash nature, any deferrals or accruals of past or future operating cash receipts or payments and item of income or expenses associated with investing or financing cash flows. The cash flows from operating, investing and financing activities of the Company are segregated and presented separately.

6. Capital work in progress:

Capital work in progress is carried at cost and incidental and attributable expenses including interest and depreciation on fixed assets in use during construction are carried as part of "Expenditure During Construction Period, Pending Allocation" to be allocated on major assets on commissioning of the project.

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

Advances paid towards the acquisition of fixed assets outstanding at each balance sheet date and the cost of fixed assets not ready for their intended use before such date are disclosed under capital work-in-progress.



KSK Upper Subansiri Hydro Energy Private Limited
Schedules to the Balance Sheet (continued)
(All amounts in Indian Rupees, except where otherwise stated)
Schedule 9: Significant accounting policies and notes to accounts

7. Employee benefits:

Contributions payable to the recognised provident fund, which is a defined contribution scheme, is charged to the expenditure during the construction period pending allocation.

Gratuity, which is a defined benefit, is administered by trustees of Employees Gratuity fund and is funded through a scheme administered by the Life Insurance Corporation of India ('LIC'). Annual contributions to the fund are made on the basis of an actuarial valuation at the balance sheet date, carried out by an independent actuary.

Actuarial gains and losses arising during the year are recognised in the expenditure during the construction period pending allocation.

8. Foreign currency transaction:

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

At the Balance Sheet, foreign currency monetary items are translated using the closing/contracted rate. Non monetary items denominated in foreign currency are reported at the exchange rate ruling at the date of transaction. The differences in translation of monetary assets and liabilities and realized gains and losses on foreign currency transactions are recognized in the statement of profit and loss account.

Other Exchange differences are recognized as Income or Expense in the period in which they arise.

9. Taxes on income:

Income tax expense comprises current tax.

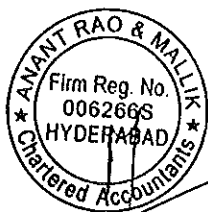
Current tax

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

10. Provisions and contingencies:

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 resources is remote, no provision or disclosure is made.

Provisions for onerous contracts i.e. contracts where the expected unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it, are recognized when it is probable that an outflow of resources embodying economic benefits will be required to settle a present obligation as a result of an obligating event, based on a reliable estimate of such obligation.



KSK Upper Subansiri Hydro Energy Private Limited
Schedules to the Balance Sheet (continued)
 (All amounts in Indian Rupees, except where otherwise stated)
Schedule 9: Significant accounting policies and notes to accounts

B. Notes forming part of accounts

1. Capital commitments and Contingent liabilities:

- (i) Contingent Liabilities – Rs.Nil
- (ii) Estimated amount of contracts remaining to be executed on capital account and not provided for in the Company – Rs.174,463,011/-

2. The Company was incorporated on 14 June 2010 for setting up a 2,000 MW Hydel based power plant in Subansiri river in Upper Subansiri district in the State of Arunachal Pradesh. Since the Company is in construction stage, no profit and loss account was prepared for the period. All the expenditure incurred during the construction period is grouped and disclosed under “Expenditure during construction period, pending allocation” (Refer schedule 3 to the balance sheet).

3. Deferred tax

Deferred tax as per AS 22 “Accounting for Taxes on Income” prescribed by the Companies (Accounting Standards), Rules, 2006, is not applicable to the company, since the Company has not commenced any commercial activity.

4. Segment reporting

Pursuant to the explanation in AS 17 on “Segment Reporting”, prescribed by the Company’s (Accounting Standards) Rules, 2006, no segment disclosure has been made in these financial statements, as the Company has only one geographical and business segment.

5. Related party transactions:

(a) Names of related Parties and description of the relationship:

Enterprises where control exists.	Holding Company KSK Energy Ventures Limited (KSKEVL)
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Key management personnel:

1. Mr S.Kishore	Director
2. Mr K A Sastry	Director

The information relating to disclosure of related parties has been determined to the extent such parties have been identified based on the information available with the Company.

Nature of the transaction	KSKEVL
Unsecured loan accepted Year ended March 31,2011	1,147,140,000
Interest on unsecured loan Year ended March 31,2011	134,339,538

Outstanding Balance as at

Unsecured loan March 31,2011	1,147,140,000
Interest accrued on unsecured loan March 31,2011	32,325,969



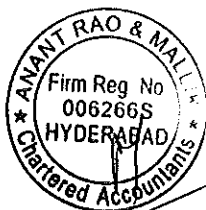
KSK Upper Subansiri Hydro Energy Private Limited
Schedules to the Balance Sheet (continued)
 (All amounts in Indian Rupees, except where otherwise stated)
Schedule 9: Significant accounting policies and notes to accounts

6. Gratuity

The Company has a defined benefit gratuity plan. Every employee who has completed five years or more of service gets a gratuity on departure at 15 days salary (last drawn salary) for each completed year of service. The scheme is funded with an insurance company in the form of a qualifying insurance policy.

	<u>March</u>
	<u>2011</u>
Present value of obligation at the beginning of the year	
Interest cost	-
Current service cost	219,590
Past service cost (non-vested benefits)	-
Past service cost (vested benefits)	-
Actuarial loss/(gain) on obligation	-
Present value of obligation at the end of the year	<u>219,590</u>
Fair value of plan assets at the beginning of the year	
Actual return on plan assets	-
Contributions	-
Actuarial loss on plan assets	(219,590)
Fair value of plan assets at the end of the period	<u>(219,950)</u>
Amounts recognized in the balance sheet	
Present value of obligation as at the end of the year	219,590
Fair value of plan assets at the end of the year	-
Funded status	(219,590)
Unrecognised past service cost (non-vested benefits)	-
Net asset/(liability) recognized in the balance sheet	<u>(219,590)</u>
Amounts recognized in the profit and loss account	
Current service cost	219,590
Interest cost	-
Past service cost (non-vested benefits)	-
Past service cost (vested benefits)	-
Expected return on plan assets	-
Net actuarial (gain) / loss recognized for the period	-
Expenses recognized in the profit and loss account	<u>219,590</u>
Principal actuarial assumptions as at balance sheet date	
Discount rate	8.17%
Salary escalation	15.00%
Expected return on plan assets	-
Attrition rate	<u>15.00%</u>

The estimates of future salary increase, considered in actuarial valuation, take account of inflation, seniority, promotion and other relevant factors, such as supply and demand in the employment market.



KSK Upper Subansiri Hydro Energy Private Limited
Schedules to the Balance Sheet (continued)
 (All amounts in Indian Rupees, except where otherwise stated)
Schedule 9: Significant accounting policies and notes to accounts

7. As at March 31, 2011, 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.

8. Auditors' remuneration

Particulars	March 2011
Audit fees (excluding service tax)	10,000

9. Outflow in foreign currency

Particulars	March 2011
Advance paid for preparation of detailed project report	13,183,400
Towards travelling expenses	276,684

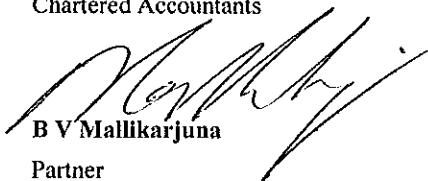
10. Additional information pursuant to para 3, 4, 4-A, 4-C and 4-D of part II of Schedule VI to the Companies Act, 1956 to the extent either "Nil" or "Not Applicable" has not been furnished.

11. This being the first accounting period since incorporation, presentation of previous year figures does not arise.

for Anant Rao & Mallik

Firm Registration No. 006266S

Chartered Accountants


 B V Mallikarjuna
 Partner

Membership No. 23350



for and on behalf of the board


 S Kishore
 Director


 K A Sastry
 Director

Place: Hyderabad

Date: 18 April 2011

KSK UPPER SUBANSIRI HYDRO ENERGY PRIVATE LIMITED
BALANCE SHEET ABSTRACT AND COMPANY'S GENERAL BUSINESS PROFILE
(As per Schedule VI, Part IV of the Companies Act,1956)

1 Registration Details

Registration No	U40108AP2010PTC068931	State Code	01
Balance Sheet Date	31.03.2011		

2 Capital raised during the year (Amount in Rs.thousands)

Public Issue	Nil	Rights issue	Nil
Bonus Issue	Nil	Private Placement (Subscription shares)	400

3 Position of Mobilisation and deployment of Funds (Amount in Rs.thousands)

Total Liabilities	1,179,866	Total assets	1,179,866
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<u>Sources of funds</u>		<u>(Amount in Rs.thousands)</u>	
Paid up share capital	400	Reserves & Surplus	Nil
Share application money	Nil	Unsecured Loans	1,179,466
Secured Loans	Nil	Deferred Tax Liability	Nil

<u>Application of funds</u>		<u>(Amount in Rs.thousands)</u>	
Net Fixed Assets	1,192,821	Investments	Nil
Net Current Assets	(12,955)	Miscellaneous Exp	Nil
Accumulated Losses	Nil		


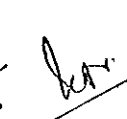
4 Performance of the Company

Turnover	Nil	Total Expenditure	Nil
Profit before tax	Nil	Profit after tax	Nil
Earning per share (Rs.)	Nil	Dividend Rate%	Nil

**5 Generic Names of Three Principal Products / Services of Company
(as per monetary tems)**

Item Code No.(ITC Code)	Not Applicable
Principal products/services of the Company	Generation of Power

for and on behalf of the Board

 S Kishore Director	 K A Sastry Director
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Place : Hyderabad
Date : 18 April 2011