AUDITORS' REPORT

To the Members of
NATIONAL THERMAL POWER CORPORATION LIMITED

We have audited the attached Balance Sheet of NATIONAL THERMAL POWER CORPORATION LIMITED as at 31st March 2003 and the Profit and Loss Account of the Company for the year ended on that date, annexed hereto. 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 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 from material misstatement. An audit includes examining, on 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 a reasonable basis for our opinion.

We report as follows:

1. As the Company is governed by the Electricity (Supply) Act, 1948, the provisions of the said Act read with the rules thereunder have prevailed wherever the same have been inconsistent with the provisions of the Companies Act, 1956.

2. As required by the Manufacturing and Other Companies (Auditors' Report) Order, 1988 issued by the Company Law Board in terms of Section 227 (4A) of the Companies Act, 1956, and on the basis of such checks as we considered appropriate, we annex 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:

   i. *Balances shown under advances, debtors, creditors, materials lying with contractors and issued on loan are subject to confirmation/reconciliation and consequential adjustments, if any (Refer Note no. 2 (a) of Schedule 28)*

   ii. *Pending final determination/revision of tariff by CERC as stated in Note No. 3(a) of Schedule 28, sales have been accounted for on provisional basis. This has resulted in decrease in sales and profit by Rs.13,061.20 Millions for the year and decrease in debtors by Rs.31,216.10 million as at 31st March 2003.*

   iii. *The Government of India Scheme of April, 2002 for one time settlement of State Electricity Boards dues to the Company as on 30th September, 2001 (Refer Note no. 6 of Schedule 28) when implemented, may result in securitisation of outstanding dues and the agreed late payment surcharge retrospectively on issue of bonds. The late payment surcharge, incentive payable to customers (on fulfillment of certain conditions) and interest on bonds have not been accounted for, pending issue of bonds.*

4. Further to above:

   a) We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit.

   b) In our opinion proper books of account, as required by law, have been kept by the Company so far as appears from our examination of those books.

   c) The Balance Sheet and the Profit and Loss Account dealt with by this report are in agreement with the books of account.

   d) In our opinion, the Profit and Loss Account and the Balance Sheet comply with the Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956.

   e) On the basis of the written representations received from the directors, as on 31st March 2003, and taken on record by the Board of Directors, we report that none of the directors is disqualified as on 31st March 2003 from being appointed as a director under clause (g) of sub-section (1) of section 274 of the Companies Act, 1956.

Subject to our observations referred in paragraph 3(i) and (iii) the consequential effect of which is not determined, and in paragraph 3 (ii), decrease in sales and profit by Rs.13,061.20 million for the year and decrease in debtors by Rs.31,216.10 million as at 31st March 2003, in our opinion, and according to the best of our information and according to the explanations given to us, the said accounts read with Accounting Policies and notes thereon in Schedule 28, in so far as these are not inconsistent with Electricity (Supply) Act, 1948, give the information required by the Companies Act, 1956 in the manner so required to give a true and fair view:

a) In the case of Balance Sheet, of the state of affairs of the Company as at 31st March 2003

and

b) In the case of Profit and Loss Account, of the profit for the year ended on that date.

For K. K. SONI & CO. Chartered Accountants **(K. K. SONI)** Partner	For S.K. MITTAL & CO. Chartered Accountants **(S.K. MITTAL)** Partner	For LAKSHMINIWAS & JAIN Chartered Accountants **(LAXMINIWAS SHARMA)** Partner
For VARDHAMAN & CO. Chartered Accountants **(V. BASKARAN)** Partner	For B. C. JAIN & CO Chartered Accountants **(B.C. JAIN)** Partner	

Place : New Delhi
Dated : 16th July 2003

ANNEXURE TO THE AUDITORS' REPORT

1. The Company has generally maintained proper records showing full particulars including quantitative details and situation/location of fixed assets. The management has carried out physical verification of a portion of the fixed assets in accordance with their phased programme of physical verification, which is considered reasonable having regard to the size of the Company and nature of its business and no material discrepancies were noticed to the extent verification was made during the year.
2. None of the fixed assets has been revalued during the year.
3. Physical verification of inventories has been conducted by the management at reasonable intervals.
4. According to the information and explanations given to us, in our opinion, the procedures of physical verification of inventories followed by the management are reasonable and adequate in relation to the size of the Company and the nature of its business.
5. The discrepancies noticed on physical verification of inventories, wherever material, have been properly dealt with in the books of account.
6. In our opinion, the valuation of inventories and construction stores is fair and proper in accordance with the normally accepted accounting principles and is on the same basis as in the preceding year.
7. As informed to us, the Company has not taken loans from companies, firms or other parties, listed in register maintained under Section 301 of the Companies Act, 1956 and companies under the same management as defined under sub - section (1B) of Section 370 of the Companies Act, 1956.
8. As informed to us, the Company has not granted any loans, secured or unsecured to companies, firm or other parties listed in the register maintained under Section 301 of the Companies Act, 1956 and companies under the same management as defined under sub - section (1B) of Section 370 of the Companies Act, 1956.
9. Loans and Advances in the nature of loans have been given to staff, Employees Consumers' Cooperative Stores and other parties. Repayment of the principal amount and payment of interest wherever applicable have generally been received as stipulated.
10. In our opinion and according to the information and explanations given to us and having regard to the explanations that some of the items purchased are of proprietary nature for which suitable alternative sources do not exist for obtaining comparable quotations, there are adequate internal control procedures commensurate with the size of the Company and the nature of its business with regard to purchase of stores, plant and machinery, equipment and other assets and sale of energy.
11. The purchases of goods and materials and sale of services made in pursuance of contracts or arrangements with parties listed in the register maintained under Section 301 of the Companies Act, 1956, and aggregating during the year to Rs.50,000/- or more in respect of each party have been made at prices which are reasonable having regard to the prevailing market prices for such goods, materials or services.
12. According to the information and explanations given to us, the Company has a system of determining unserviceable and damaged stores and the same are provided for in the books as and when any stores and spares are found damaged and/ or unserviceable.
13. The Company has accepted deposits from public and the provisions of Section 58A of the Companies Act, 1956 and the rules made thereunder have been complied with.
14. In our opinion, reasonable records have been maintained by the Company for sale and disposal of scrap. The Company has no by-product.
15. The Company has an Internal Audit System, which in our opinion is commensurate with the size of the Company and nature of its business. However, it needs to be further strengthened.
16. Maintenance of cost records has been prescribed by the Central Government under Section 209(1) (d) of the Companies Act, 1956 from 1.4.2002 and the prescribed accounts and records have been generally made and maintained.

17. The Company has been regular in depositing Provident Fund dues with appropriate authorities. The provisions of the Employees State Insurance Act, 1948 are not applicable to the Company..

18. According to the information and explanations given to us, there were no undisputed amounts payable in respect of Income tax, Wealth tax, Sales tax, Custom duty and Excise duty outstanding as at the last day of the financial year for a period of more than six months from the date they become payable.

19. According to the information and explanations given to us, no personal expenses have been charged to revenue account, other than those payable under contractual obligations or in accordance with generally accepted business practices.

20. The Company is not a sick industrial company within the meaning of clause (o) of sub - section (1) of Section 3 of Sick Industrial Companies (Special Provisions) Act, 1985.

21. In regard to the Company's activities relating to consultancy, project management and supervision, we report that:

    a) The company has a reasonable system of allocation of man hours consumed on the respective activities;

    b) The company has a reasonable system of authorisation at proper level and adequate system of internal control on allocation of man hours commensurate with the size of the Company and the nature of its business; and

    c) There were no consumption of stores and materials in relation to such activities.

For K. K. SONI & CO.
Chartered Accountants

(K. K. SONI)
Partner

For S.K. MITTAL & CO.
Chartered Accountants

(S.K. MITTAL)
Partner

For LAKSHMINIWAS & JAIN
Chartered Accountants

(LAXMINIWAS SHARMA)
Partner

For VARDHAMAN & CO.
Chartered Accountants

(V. BASKARAN)
Partner

For B. C. JAIN & CO
Chartered Accountants

(B.C. JAIN)
Partner

Place : New Delhi
Dated : 16th July 2003