ACCOUNTING POLICIES

1. **GRANTS-IN-AID**

1.1 Grants-in-aid received from the Central Government or other authorities towards capital expenditure as well as consumers' contribution to capital works are treated initially as capital reserve and subsequently adjusted as income in the same proportion as the depreciation written off on the assets acquired out of the grants.

1.2 Where the ownership of the assets acquired out of the grants vests with the government, the grants are adjusted in the carrying cost of such assets.

1.3 Grants from Government and other agencies towards revenue expenditure are recognized over the period in which the related costs are incurred and are deducted from the related expenses.

2. **FIXED ASSETS**

2.1 Fixed Assets are shown at historical cost.

2.2 Intangible assets are recorded at their cost of acquisition.

2.3 Capital expenditure on assets not owned by the Company is reflected as a distinct item in Capital Work-in-Progress till the period of completion and thereafter in the Fixed Assets.

2.4 Deposits, payments/liabilities made provisionally towards compensation, rehabilitation and other expenses relatable to land in possession are treated as cost of land.

2.5 In the case of commissioned assets, where final settlement of bills with contractors is yet to be effected, capitalisation is done on provisional basis subject to necessary adjustment in the year of final settlement.

2.6 Assets and systems common to more than one generating unit are capitalised on the basis of engineering estimates/assessments.

3. **CAPITAL WORK-IN-PROGRESS**

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

3.2 Incidental Expenditure during Construction (net) including corporate office expenses (allocated to the projects pro-rata to the annual capital expenditure) for the year, is apportioned to Capital Work-in-Progress on the basis of accretions thereto.

3.3 Deposit work/cost plus contracts are accounted for on the basis of statements of account received from the contractors.

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

4. **OIL AND GAS EXPLORATION COSTS**

4.1 The Company follows 'Successful Efforts Method' for accounting of oil & gas exploration activities.

4.2 Cost of surveys and prospecting activities conducted in the search of oil and gas are expensed in the year in which these are incurred.

4.3 All acquisition costs are initially capitalized as "Exploratory Wells-in-Progress" under Capital Work-in-Progress.

5. **DEVELOPMENT OF COAL MINES**

Expenditure on exploration of new coal deposits is capitalized as "Development of coal mines" under Capital Work-in-Progress till the mines project is brought to revenue account.

6. FOREIGN CURRENCY TRANSACTIONS

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

6.2 At the balance sheet date, foreign currency monetary items are reported using the closing rate. Non-monetary items denominated in foreign currency are reported at the exchange rate ruling at the date of transaction.

6.3 Exchange differences in respect of loans/deposits/liabilities relating to fixed assets/capital work-in-progress acquired from a country outside India are adjusted in the carrying cost of related assets.

6.4 Exchange differences in respect of loans relating to fixed assets/capital work-in-progress acquired within India to the extent regarded as an adjustment to interest cost are treated as borrowing cost.

6.5 Exchange differences, in respect of loans (other than regarded as borrowing cost)/deposits/liabilities relating to fixed assets/capital work-in-progress acquired within India, arising out of transactions entered prior to 01.04.2004, are adjusted in the carrying cost of related assets. Such exchange differences in respect of transactions entered after 01.04.2004 are treated as Incidental Expenditure During Construction till the assets are ready for their intended use.

6.6 Other exchange differences are recognized as income or expense in the period in which they arise.

7. BORROWING COSTS

Borrowing costs attributable to the fixed assets during their construction/renovation and modernisation are capitalised. Such borrowing costs are apportioned on the average balance of capital work-in-progress for the year. Other borrowing costs are recognised as an expense in the period in which they are incurred.

8. INVESTMENTS

8.1 Current Investments are valued at lower of cost and fair value determined on an individual investment basis.

8.2 Long term investments are carried at cost. Provision is made for diminution, other than temporary, in the value of such investments.

8.3 Premium paid on long term investments is amortised over the period remaining to maturity.

9. INVENTORIES

9.1 Inventories are valued at the lower of cost, determined on weighted average basis, and net realizable value.

9.2 Dimunition in value of obsolete and unserviceable stores and spares is ascertained on review and provided for.

10. PROFIT AND LOSS ACCOUNT

10.1 INCOME RECOGNITION

10.1.1 Sale of energy is accounted for based on tariff rates approved by the Central Electricity Regulatory Commission. In case of power stations where the tariff rates are yet to be approved /agreed with beneficiaries, provisional rates are adopted.

10.1.2 The incentives/disincentives are accounted for based on the norms notified/approved by the Central Electricity Regulatory Commission or agreements with the beneficiaries. In cases of power stations where the same have not been notified/approved/agreed with beneficiaries, incentives/disincentives are accounted for on provisional basis.

10.1.3 Advance against depreciation, forming part of tariff to facilitate repayment of loans, is reduced from sales and considered as deferred revenue to be included in sales in subsequent years.

10.1.4 The surcharge on late payment/overdue sundry debtors for sale of energy is recognized when no significant uncertainty as to measurability or collectability exists.

10.1.5 Interest/surcharge recoverable on advances to suppliers as well as warranty claims/liquidated damages are not treated as accrued due to uncertainty of realisation/acceptance and are therefore accounted for on receipt/acceptances.

10.1.6.1 Income from Consultancy service is accounted for on the basis of actual progress/technical assessment of work executed, in line with the terms of respective consultancy contracts.

10.1.6.2 Claims for reimbursement of expenditure are recognized as other income, as per the terms of Consultancy service contracts.

10.1.7 Scrap other than steel scrap is accounted for in the accounts as and when sold.

10.1.8 Insurance claims for loss of profit are accounted for in the year of acceptance. Other insurance claims are accounted for based on certainty of realisation.

10.2 EXPENDITURE

10.2.1 Depreciation is charged on straight line method at the rates specified in Schedule XIV of the Companies Act, 1956 except for the following assets in respect of which depreciation is charged at the rates mentioned below:

a)	Kutcha Roads	47.50 %
b)	Enabling works	
-	residential buildings including their internal electrification.	6.33 %
-	non-residential buildings including their internal electrification, water supply, sewerage & drainage works, railway sidings, aerodromes, helipads and airstrips.	19.00 %

10.2.2 Depreciation on additions to/deductions from fixed assets during the year is charged on pro-rata basis from/up to the month in which the asset is available for use/disposal.

10.2.3 Assets costing up to Rs.5000/- are fully depreciated in the year of capitalization.

10.2.4 Cost of Computer software recognized as intangible assets is amortised on straight line method over a period of legal right to use or 3 years, whichever is earlier.

10.2.5 Where the cost of depreciable assets has undergone a change during the year due to increase/decrease in long term liabilities on account of exchange fluctuation, price adjustment, change in duties or similar factors, the unamortised balance of such asset is depreciated prospectively over the residual life determined on the basis of the rate of depreciation.

10.2.6 Machinery spares which can be used only in connection with an item of fixed asset and whose use is expected to be irregular are capitalised and depreciated over the residual useful life of the related plant and machinery.

10.2.7 Capital expenditure on assets not owned by the Company is amortised over a period of 4 years from the year in which the first unit of project concerned comes into commercial operation and thereafter from the year in which the relevant asset becomes available for use. However, such expenditure for community development in case of stations fully under operation is charged off to revenue.

10.2.8 Leasehold buildings are amortised over the lease period or 30 years, whichever is lower. Leasehold land and buildings, whose lease period is yet to be finalised, are amortised over a period of 30 years.

10.2.9.1 Expenses on training, recruitment and ex-gratia payments under Voluntary Retirement Scheme are charged to revenue in the year of incurrence.

10.2.9.2 Research and development expenses, other than fixed assets, are charged to revenue in the year of incurrence.

10.2.9.3 Preliminary expenses on account of new projects incurred prior to approval of feasibility report are charged to revenue in the year of incurrence.

10.2.10 Expenditure on leave travel concession to employees is recognized in the year of availment due to uncertainties in accrual.

10.2.11 Expenses common to operation and construction activities are allocated to Profit and Loss Account and Incidental Expenditure during Construction in proportion of sales to annual capital outlay in the case of Corporate Office and sales to accretion to Capital Work-in-Progress in the case of projects.

10.2.12 Net pre-commissioning income/expenditure is adjusted directly in the cost of related assets and systems.

10.2.13 Prepaid expenses and prior period expenses/income of items of Rs.100,000/- and below are charged to natural heads of accounts.

10.2.14 Carpet coal is charged off to coal consumption. However, during pre-commissioning period, carpet coal is retained in inventories and charged off to consumption in the first year of commercial operation. Windage and handling losses of coal as per norms are included in cost of coal.

11. RETIREMENT BENEFITS

11.1 The liability for retirement benefits of employees in respect of Provident Fund and Gratuity, which is ascertained annually on actuarial valuation at the year end, are accrued and funded separately.

11.2 The liabilities for leave encashment and post retirement medical benefits to employees are accounted for on accrual basis based on actuarial valuation at the year end.

12. FINANCE LEASES

12.1 Assets taken on lease are capitalized at fair value or net present value of the minimum lease payments, whichever is lower.

12.2 Depreciation on the assets taken on lease is charged at the rate applicable to similar type of fixed assets as per Accounting Policy 10.2.1. If the leased assets are returnable to the lessor on the expiry of the lease period, depreciation is charged over its useful life or lease period, whichever is shorter.

12.3 Lease payments made are apportioned between the finance charges and reduction of the outstanding liability in respect of assets taken on lease.