AUDITORS' REPORT

To the Members of

NTPC LIMITED

1. We have audited the attached Balance Sheet of NTPC LIMITED (formerly NATIONAL THERMAL POWER CORPORATION LIMITED) as at 31st March, 2006, the Profit and Loss Account and also the Cash Flow Statement for the year ended on that date annexed thereto. 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.

2. 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 misstatements. 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.

3. As required by the Companies (Auditors' Report) Order, 2003 (as amended) issued by the Government of India in terms of sub-section (4A) of section 227 of the Companies Act, 1956, we enclose in the annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.

4. We draw attention to:

   (i) Note No. 3 of Schedule 27 to the financial statements in respect of accounting of sales on provisional basis pending final determination of tariff by Central Electricity Regulatory Commission.

   (ii) Note No. 5 of Schedule 27 to the financial statements in respect of share of net annual profit of Badarpur Thermal Power Station amounting to Rs.1,155 million relating to earlier years not recognized as revenue.

5. Further to our comments in annexure referred to in para 3, and also para 4 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 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, Profit and Loss Account and Cash Flow Statement dealt with by this report are in agreement with the books of account;

   d) In our opinion, the Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report comply with the Accounting Standards referred to in sub-section (3C) of Section 211 of the Companies Act, 1956;

   e) Being a Government company, pursuant to the Notification no. GSR 829(E) dated 17.7.2003 issued by Government of India, provisions of clause (g) of sub-section (1) of section 274 of the Companies Act, 1956, are not applicable to the company;

   f) In our opinion, and to the best of our information and according to the explanations given to us, the said accounts read with the Accounting Policies and Notes thereon in Schedule 27, give the information required by the Companies Act, 1956 in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:

      a. in the case of Balance Sheet, of the state of affairs of the company as at 31st March, 2006,

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

      c. in the case of Cash Flow Statement, of the cash flows for the year ended on that date.

For Kalani & Co.
Chartered Accountants
(Vikas Gupta)
Partner
M.No.77076

For Amit Ray & Co.
Chartered Accountants
(Pradeep Mukherjee)
Partner
M.No. 70693

For Umamaheswara Rao & Co.
Chartered Accountants
(V. Umamaheswara Rao)
Partner
M.No. 2275

For S.N.Nanda & Co.
Chartered Accountants
(Gaurav Nanda)
Partner
M.No.500417

For T.R.Chadha & Co.
Chartered Accountants
(Sanjay Gupta)
Partner
M.No. 87563

Place : New Delhi
Dated : 31st May, 2006
ANNEXURE TO THE AUDITORS’ REPORT

Statement referred to in paragraph (3) of our report of even date to the members of NTPC LIMITED (Formerly National Thermal Power Corporation Ltd.) on the accounts for the year ended 31st March, 2006

(i)  (a) The company has generally maintained proper records showing full particulars including quantitative details and situation of fixed assets.

(b) All the assets have not been physically verified by the management during the year but there is a regular programme of verification which, in our opinion, is reasonable having regard to the size of the company and the nature of its assets. No material discrepancies were noticed on such verification.

(c) Substantial part of the fixed assets has not been disposed off during the year.

(ii) (a) The inventory has been physically verified by the management at reasonable intervals.

(b) 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.

(c) The Company is maintaining proper records of inventory. The discrepancies noticed on physical verification of inventories, wherever material, have been properly dealt with in the books of account.

(iii) (a) The company has not granted any loans secured or unsecured to any company, firm or other party covered in the register maintained under section 301 of the Companies Act, 1956.

In view of clause (iii) (a) above, the clauses (iii) (b), (iii) (c) and (iii) (d) are not applicable.

(e) The company has not taken any loans secured or unsecured from any company, firm, or other party covered under section 301 of the Companies Act, 1956.

In view of (iii) (e) above, the clauses (iii) (f) and (iii) (g) are not applicable.

(iv) In our opinion and according to the information and explanations given to us, there is adequate internal control system commensurate with the size of the company and the nature of its business for purchase of inventory and fixed assets and for sale of goods and services. During the course of our audit, we have not observed any continuing failure to correct major weaknesses in internal control systems.

(v) (a) According to the information and explanations given to us, during the year under audit there have been no contracts or arrangements which need to be entered in the register maintained under section 301 of the Companies Act, 1956.

(b) In view of clause (v) (a) above, the clause (v) (b) is not applicable.

(vi) In our opinion and according to the information and explanations given to us, the company has complied with the provisions of Sections 58A and 58AA or any other relevant provisions of the Companies Act, 1956 and the Companies (Acceptance of Deposits) Rules, 1975 with regard to the deposits accepted from the public. No order has been passed by the Company Law Board or National Company Law Tribunal or Reserve Bank of India or any court or any other tribunal.

(vii) In our opinion, the company has an internal audit system commensurate with the size and the nature of its business. However, it needs to be further strengthened.

(viii) We have broadly reviewed the accounts and records maintained by the company pursuant to the Rules made by the Central Government for the maintenance of cost records under section 209(1)(c) of the Companies Act, 1956 and we are of the opinion that prima facie the prescribed accounts and records have been made and maintained. We have not, however, made detailed examination of the records with a view to determine whether they are accurate and complete.

(ix) (a) Undisputed statutory dues including provident fund, investor education and protection fund, income tax, sales-tax, wealth tax, service tax, custom duty, excise duty, cess and other statutory dues have generally been regularly deposited with the appropriate authorities except outstanding dues in respect of electricity duty amounting to Rs.0.49 million as at 31st March, 2006 due for a period of more than six months from the date they became payable. However, the same has since been deposited by the company.

(b) The disputed statutory dues aggregating to Rs.191 million that have not been deposited on account of matters pending before appropriate authorities are detailed below:

<table>
<thead>
<tr>
<th>Sl.No.</th>
<th>Name of Statute</th>
<th>Nature of dues</th>
<th>Forum where the dispute is pending</th>
<th>Rs. Million</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Central Sales Tax and Sales Tax Acts of Various States</td>
<td>Sales Tax</td>
<td>Additional Commissioner of Sales Taxes</td>
<td>81</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Commissioner of Sales Taxes</td>
<td>25</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Dy. Commissioner of Sales/ Commercial Taxes</td>
<td>12</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>High Court</td>
<td>28</td>
</tr>
</tbody>
</table>
Sl. No. | Name of Statute | Nature of dues | Forum where the dispute is pending | Rs. million
--- | --- | --- | --- | ---
1 | Sales Tax Tribunal | | | 5
2 | Joint Commissioner (Appeal) Trade tax | | | 9
3 | Revenue Board *(Rs.25645)* | | | *

2 | Water (Prevention & Control of Pollution) Cess Act 1977 | Water/Pollution Cess | Appellate Authority, Pollution Control Board | 31

Total | | | | 191

(x) The company has no accumulated losses and has not incurred cash losses during the financial year covered by our audit and the immediately preceding financial year.

(xi) In our opinion and according to the information and explanations given to us, the company has not defaulted in repayment of dues to financial institutions, banks or debenture holders.

(xii) According to the information and explanations given to us, company has not granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities.

(xiii) The company is not a chit fund or a nidi or mutual benefit fund / society. Therefore, the provisions of clause 4(xiii) of the Companies (Auditor’s Report) Order, 2003 are not applicable to the company.

(xiv) The company is not dealing in or trading in shares, securities, debentures and other investments. Accordingly, the provisions of clause 4(xiv) of the Companies (Auditor’s Report) Order, 2003 are not applicable to the company.

(xv) Company has not given any guarantees for loans taken by others from banks or financial institutions.

(xvi) In our opinion, the term loans have been applied for the purpose for which they were raised.

(xvii) According to the information and explanations given to us and on an overall examination of the balance sheet of the company, we report that no funds raised on short-term basis have been used for long-term investment.

(xviii) According to the information and explanations given to us, the company has not made preferential allotment of shares during the year.

(xix) According to the information and explanations given to us, during the year covered by our audit report, the company has created security in respect of the Bonds issued by the Company.

(xx) We have verified the end use of the money raised by public issue as disclosed in Schedule 27 ‘Notes on Accounts’ forming part of the financial statements.

(xxi) According to the information and explanations given to us, no fraud on or by the company has been noticed or reported during the course of our audit.

For Kalani & Co. Chartered Accountants
(Vikas Gupta) Partner M.No.77076

For Amit Ray & Co. Chartered Accountants
(Pradeep Mukherjee) Partner M.No. 70693

For Umamaheswara Rao & Co. Chartered Accountants
(V. Umamaheswara Rao) Partner M.No. 2275

For S.N.Nanda & Co. Chartered Accountants
(Gaurav Nanda) Partner M.No.500417

For T.R.Chadha & Co. Chartered Accountants
(Sanjay Gupta) Partner M.No. 87563

Place : New Delhi
Dated : 31st May, 2006