AUDITORS' REPORT

To the Members of

NTPC LIMITED

1. We have audited the attached Balance Sheet of NTPC LIMITED as at 31st March 2008, 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 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 a reasonable basis for our opinion.

3. As required by the Companies (Auditors' Report) Order, 2003 issued by the Government of India in terms of sub-section (4A) of section 217 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. Further to our comments in annexure referred to in para 3 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 911 of the Companies Act, 1956;
   e) Being a Government company, pursuant to the Notification no. GSR 895(E) dated 21.11.1990 issued by Government of India, provisions of clause (g) of sub-section (1) of section 974 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 12, 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 2008,
      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 Varma and Varma
Chartered Accountants

(Cherian K. Baby)
Partner
M No. 16043

For B.C. Jain & Co.
Chartered Accountants

(B.C. Jain)
Partner
M No 5690

For Parakh & Co.
Chartered Accountants

(V.D. Mantri)
Partner
M No. 74678

For S.K. Mittal & Co.
Chartered Accountants

(S.K. Mittal)
Partner
M No 8506

For Dass Gupta & Associates
Chartered Accountants

(Naresh Kumar)
Partner
M No 82069

For S.K. Mehta & Co.
Chartered Accountants

(S.K. Mehta)
Partner
M No 10870

Place : New Delhi
Dated : 99th May 2008
ANNEXURE TO THE AUDITORS’ REPORT

Statement referred to in paragraph (3) of our report of even date to the members of NTPC LIMITED on the accounts for the year ended 31st March 2008

(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 parties covered in register maintained 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.
   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 58AAA 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.

(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) (d) 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 within a period of six months from the date they became payable.
   (b) According to the information and explanations given to us, no undisputed amounts payable in respect of income tax, sales-tax, wealth tax, service tax, custom duty, excise duty were in arrears as at 31st March 2008 for a period of more than six months from the date they became payable.
   (c) The disputed statutory dues aggregating to Rs. 523 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>66</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Commissioner of Sales Tax</td>
<td>214</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Dy. commissioner of Sales/ Commercial Taxes</td>
<td>134</td>
</tr>
<tr>
<td>Sl. No.</td>
<td>Name of Statute</td>
<td>Nature of dues</td>
<td>Forum where the dispute is pending</td>
<td>Rs./million</td>
</tr>
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<tr>
<td>2</td>
<td>Water (Prevention &amp; Control of Pollution) Cess Act 1977</td>
<td>Water Pollution Cess</td>
<td>Appellate Authority, Pollution Control Board</td>
<td>24</td>
</tr>
<tr>
<td>3</td>
<td>Dy Inspector General of Registration &amp; Stamp</td>
<td>Land tax</td>
<td>Appellate authority – Revenue Board</td>
<td>7</td>
</tr>
<tr>
<td>4</td>
<td>Central Excise duty</td>
<td>Central Excise duty</td>
<td>CESTAT</td>
<td>3</td>
</tr>
<tr>
<td>5</td>
<td>Income Tax Department</td>
<td>Income tax</td>
<td>Income tax tribunal</td>
<td>4</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td></td>
<td></td>
<td>523</td>
</tr>
</tbody>
</table>

(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.

(x) 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 nicher/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) According to the information and explanations given to us, the company has not raised any money by public issue during the year covered by the audit.

(xx) According to the information and explanations given to us, no fraud has been committed to or by the Company during the year, in respect of three suspected frauds of earlier years, suitable action has been taken in two cases and in one case claim for Rs.1 million has been lodged and suitable disciplinary action against the concerned employee is in process.

For Varma and Varma Chartered Accountants
(Cherian K. Baby)
Partner
M No. 16043

For B.C. Jain & Co. Chartered Accountants
(B.C. Jain)
Partner
M No 5690

For Parakh & Co. Chartered Accountants
(V.D. Mantri)
Partner
M No. 74678

For S.K. Mittal & Co. Chartered Accountants
(S.K. Mittal)
Partner
M No 8506

For Dass Gupta & Associates Chartered Accountants
(Naresh Kumar)
Partner
M No 82069

For S.K. Mehta & Co. Chartered Accountants
(S.K. Mehta)
Partner
M No 10870

Place : New Delhi
Dated : 29th May 2008
COMMENTS OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA UNDER SECTION 619 (4) OF THE COMPANIES ACT, 1956 ON THE ACCOUNTS OF NTPC LIMITED, NEW DELHI FOR THE YEAR ENDED 31 MARCH 2008 AND MANAGEMENT REPLIES THEREON

<table>
<thead>
<tr>
<th>Comment</th>
<th>Management Reply</th>
</tr>
</thead>
<tbody>
<tr>
<td>The preparation of financial statements of NTPC Limited, New Delhi for the year ended 31 March 2008 in accordance with the financial reporting framework prescribed under the Companies Act, 1956, is the responsibility of the management of the company. The statutory auditors appointed by the Comptroller and Auditor General of India under Section 619 (2) of the Companies Act, 1956, are responsible for expressing opinion on these financial statements under section 997 of the Companies Act, 1956, based on independent audit in accordance with the auditing and assurance standards prescribed by their professional body, the Institute of Chartered Accountants of India. This is stated to have been done by them vide their Audit Report dated 9th May 2008.</td>
<td>I, on behalf of the Comptroller and Auditor General of India, have conducted a supplementary audit under section 619 (3) of the Companies Act, 1956 of the financial statements of NTPC Limited, New Delhi for the year ended 31 March 2008. This supplementary audit has been carried out independently without access to the working papers of the statutory auditors and is limited primarily to inquiries of the statutory auditors and company personnel and a selective examination of some of the accounting records. Based on my supplementary audit, I would like to highlight the following significant matters under section 619 (4) of the Companies Act, 1956, which have come to my attention and which, in my view, are necessary for enabling a better understanding of the financial statements and the related Audited Report.</td>
</tr>
<tr>
<td><strong>A. Comment on Profitability</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Profit &amp; Loss Account</strong></td>
<td></td>
</tr>
<tr>
<td>Sales (Schedule 18): Rs 37050.10 crore</td>
<td>The Company appealed before the Appellate Tribunal for Electricity (ATE) against the tariff orders issued by the Central Electricity Regulatory Commission (CERC) for determination of tariff for its power stations. The ATE upheld the appeals of the Company and directed the CERC to revise the tariffs as provided in its order. CERC has filed an appeal before the Hon'ble Supreme Court on some of the issues decided by the ATE, mainly on the grounds that ATE’s order is contrary to the provisions of Tariff Regulations, 2004 notified by the CERC.</td>
</tr>
<tr>
<td>A reference is invited to note no. 2 (b) of Notes on Accounts (Schedule 27). Pending disposal of the appeal filed by the Central Electricity Regulatory Commission (CERC) before the Supreme Court of India, the Company accounted sales for the year amounting to Rs 30701.30 crore based on the provisional tariff as per the methodology and directions given by the Appellate Tribunal for Electricity. These sales include a sum of Rs 938.30 crore (including Rs 621.80 crore pertaining to previous years 2004-05 to 2006-07) on account of certain parameters which have been disputed by CERC. As the case was sub-judice, the income recognition should have been postponed to the extent of Rs 938.30 crore as required by the Accounting Standard -9 prescribed under section 211 (3C) of the Companies Act, 1956.</td>
<td>In the opinion of the management, duly supported by independent legal advice, the ATE's order is entirely in conformity with the Tariff Regulations, 2004 and it is reasonable to expect ultimate collection. Pending disposal of the appeal, sales have been correctly accounted for based on ATE's order, in accordance with Accounting Standard (AS) 9 ‘Revenue Recognition’ prescribed under section 211 (3C) of the Companies Act, 1956 and accounting policies of the Company.</td>
</tr>
<tr>
<td>Comment</td>
<td>Management Reply</td>
</tr>
<tr>
<td>---------</td>
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</tr>
<tr>
<td><strong>B. Comment on financial position</strong>&lt;br&gt;Current Liabilities and Provisions: Rs. 7929.90 crore</td>
<td>The Company has complied with the conditions stipulated in the 'In-principle approval' granted by the Ministry of Environment and Forests for diversion of the subject forest land in the year 1997. The management is of the view that the directions issued by the Compensatory Afforestation Fund Management and Planning Authority referred by audit are applicable only in cases where approval for change of user agency is given after 29/30 October 2002 and are not applicable in the instant case. The Company has also contested the additional demand made by the Forest Officer as not being payable. Disclosure of the amount demanded by the Forest Officer as contingent liability is thus in accordance with Accounting Standard (AS) 29 'Provisions, Contingent Liabilities and Contingent Assets' prescribed under section 211 (3C) of the Companies Act, 1956 and the accounting policies of the Company.</td>
</tr>
</tbody>
</table>

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**For and on behalf of the**<br>Comptroller & Auditor General of India<br><br>(Ghazala Meenai)<br>Principal Director of Commercial Audit & Ex-officio Member, Audit Board – II, New Delhi<br><br>Place: New Delhi<br>Dated: 17 July 2008

**For and on behalf of the**<br>Board of Directors<br><br>(R.S. Sharma)<br>Chairman and Managing Director<br><br>Place: New Delhi<br>Dated: 29 July, 2008