

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of NHPC Limited

Report on the Financial Statements

We have audited the accompanying financial statements of **NHPC Limited** ("the Company"), which comprise the Balance Sheet as at September 30, 2013, the Statement of Profit and Loss and Cash Flow Statement for the six months period then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation of these financial statements that give a true and fair view of the financial position, financial performance and cash flows of the Company in accordance with the Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956 ("the Act"). This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We have not audited the corresponding information produced for the half year ended 30th September 2012. We conducted our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.



Basis for Qualified Opinion

Capital Work in Progress carried in the Balance Sheet amounting to Rs. 19,548.53 crores. Management has included Borrowing Cost of Rs. 572.05 crores and Administrative & Other Cost of Rs. 205.15 crores in Capital Work in Progress incurred on Subansiri Lower H.E. Project, wherein active development of project is interrupted. Accounting Standards require these expenditure incurred during interruption period be charged to Statement of Profit & Loss. This constitutes departure from the Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956.

Accordingly, 'Finance Cost' would have increased by Rs. 572.05 crores and 'Generation, Administration and Other Expenses' would have increased by Rs. 205.15 crores and 'Net Profit before Tax' would have reduced by Rs. 777.20 crores, 'Capital Work in Progress' would have reduced by Rs. 777.20 crores, Current Liabilities would have been reduced by Rs. 157.89 crores and Shareholders' fund (Net of Taxes) would have reduced by Rs. 619.31 crores.

Qualified Opinion

In our opinion and to the best of our information and according to the explanations given to us, except for the effects of the matter described in the basis for Qualified Opinion paragraph, the financial statements give the information required by the Act 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 the Balance Sheet, of the state of affairs of the Company as at September 30, 2013;
- b) in the case of the Statement of Profit and Loss, of the Profit for the half year ended on that date; and
- c) in the case of the Cash Flow Statement, of the cash flows for the half year ended on that date.

Emphasis of Matter

We draw attention to:

- (a) Note No. 12 para 3 to financial statement, which describes uncertainty about the outcome of the project under survey and investigation stage. Expenditure incurred for conducting Survey & Investigation on such projects are being carried forward as these projects are under investigation/ pending clearance with various authorities.
- (b) Note No. 30 para 1 (a) to (g) to the financial statement in respect of contingent liabilities, which describes uncertainty related to the outcome of the claims/ arbitration proceedings and lawsuit filed by/ against the Company on/ by contractors and others.
- (c) Note No. 30 para 6 in the financial statement, which describes treatment of expenditure incurred on creation of assets not within the control of the company (Enabling Assets) effects of which has not been made in the financial statements.
- (d) Note No. 30 para 10 in the financial statement, regarding non-provisioning of expenses for Dibang Project, Forest clearance for which has been rejected at the initial stage, however, a draft note for the same has been put up with the Cabinet Committee of Investment.



- (e) Note No. 30 para 12 in the financial statement, which describes damage in Dhauliganga Power Station due to floods, resulting in suspension of operations. Losses incurred including consequential losses and loss of profit is considered recoverable from the Insurers by the Management.

Our opinion is not qualified in respect of these matters.

Report on Other Legal and Regulatory Requirements

1. As required under provisions of section 227(3) of the Act, 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, Statement of Profit and Loss and Cash Flow Statement dealt with by this Report are in agreement with the books of account;
 - d) *except for the matter described in the Basis for Qualified Opinion paragraph, in our opinion the Balance Sheet, Statement of Profit and Loss and Cash Flow Statement comply with the accounting standards referred to in sub-section (3C) of section 211 of the Act;*
 - e) The Department of Company Affairs, Ministry of Finance vide Notification No. F. No. 8/5/2001-CL.V dated 21st October, 2003 have notified that the provisions of clause (g) of sub-section (1) of section 274 of the Companies Act, 1956, shall not apply to a Government Company.
 - f) Since the Central Government has not issued any notification as to the rate at which the cess is to be paid under section 441A of the Companies Act, 1956 nor has it issued any Rules under the said section, prescribing the manner in which such cess is to be paid, no cess is due and payable by the Company.

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