SIGNIFICANT ACCOUNTING POLICIES

I. FIXED ASSETS

Fixed Assets are stated at historical cost less depreciation. Cost of acquisition is inclusive of taxes, duties, freight, installation and allocated incidental expenditure during construction/ acquisition.

II. DEPRECIATION

1. Depreciation is provided under straight line method as below:

Description of Assets Covered	Basis
i) (a) Assets of Thermal Power Station and Proces Steam Plant that are covered by specific items under clause - A, B and C of the Schedule notified under Electricity (Supply) Act, 1948. In the case of vehicles such application is restricted to ash tippers only.	At rates prescribed under Electricity (Supply)Act,1948.
(b) LEP Assets	At residuary rate as per Electricity (Supply) Act,1948.
ii) Residential Buildings - II & III Class	At rates prescribed by Bureau of Public Enterprises.
iii) Buildings: Non-residential Buildings Roads Plant & Machinery : a) Revamped assets of Fertilizer plant b) CME other than dozers and pipelayers, workshop machinery, pumps and Civil construction machinery. Furniture and Equipments used in welfare centres other than Typewriter and Duplicators.	At technically assessed rates
iv) Other Assets	At rates prescribed by the Companies Act, 1956.

Rates under (ii) and (iii) above are followed so long as they are higher than the rates covered under base (iv). Specified period of the assets are determined at the time of commissioning of assets based on their applicable rate.

2. Fixed assets relating to Research and Development are depreciated in a like manner as other Fixed Assets of the Company.

3. In the year of commissioning/retirement of assets, Depreciation is calculated on pro-rata basis, based on the number of months for which asset has been put to use.

4. Assets costing up to Rs.5000/- are fully depreciated in the year in which they are put to use.

5. Exchange rate difference in respect of borrowing to acquire fixed assets is charged off over the residual useful life of the respective assets.

6. Mine Development Account : Overburden removal costs are classified under Mine Development account till achievement of quantity para-meters as provided in the approved project report relevant to each Project. Such amounts are amortized on the basis of annual Lignite production to the total estimated mineable reserves in respective years reckoning from the year in which total quantity of Overburden as specified in the Project Report is achieved.

III. INSURANCE SPARES

Spares purchased along with Fixed Assets are capitalised and depreciated along with the asset. Spares purchased subsequent to the commissioning of the Fixed Assets costing Rs.50 lakhs and above which can be used only in connection with an item of Fixed Asset and whose usage is expected to be irregular are charged off over the residuary useful life of the Fixed Assets.

IV. INVENTORY VALUATION

Description	Basis of Valuation
i) Lignite, Semi-finished and Finished products	At absorption cost excluding share of common charges and social over head or net realisable value whichever is lower
ii) By-products : Tar & Neutral oil Others	 At substituted fuel price At net realisable value
iii) LSHS, Raw Materials and Stores & Spares procured	At weighted average acquisition cost.
iv) Fly Ash bricks	At absorption cost
v) Loose Tools in stock	At weighted average value
vi) Waste products, pipe line stock, used belts reconditioned, Stores & Spares discarded for disposal, Non production stores at site and charged off canteen stores.	Not considered for valuation
vii) Goods in Transit includes goods received but pending inspection/ acceptance.	At cost

V. PREPAID EXPENSES

Expenses are accounted under prepaid expenses only where the amounts relating to unexpired period exceed Rs.1,00,000/- in each case.

VI. LONG TERM INVESTMENTS

Long Term Investments are valued as required by Accounting Standard-13.

VII. PRELIMINARY PROJECT EXPENDITURE

Preliminary Project Expenditure includes expenditure on feasibility studies, documentation of data, other development expenditure, expenditure on exploratory works, technical know how etc., to be added to the capital cost of the project, as and when implemented. In case such projects are identified for transfer of business by the Govt. of India, the expenditure incurred will be recovered from the prospective buyer. If the Projects are abandoned with reference to Government orders or cannot be implemented, such expenditures are charged to Profit & Loss Account in the respective years.

VIII. ACCOUNTING FOR GRANTS

i) Government and other Grants received relating to depreciable fixed assets are taken to capital grants and treated as 'Deferred income' and recognised in the Profit and Loss Account by allocating to income over the period in which the depreciation is charged.

ii) Grants relating to non-depreciable assets are credited to income over a period in which the cost of meeting the obligations attached to the grants is charged to income.

iii) Revenue grants are accounted to Profit and Loss Account.

IX. RESERVES AND SURPLUS

INTEREST DIFFERENTIAL FUND

Interest Differential Fund created as provided in the Loan Agreement entered into with KfW has debt discharging effect, and is utilised in accordance with the terms of the Loan Agreement and such utilisation is shown as withdrawal from the fund.

X. TREATMENT OF RETIREMENT BENEFITS

a) Contributions to Provident Fund is recognized in Profit & Loss Account on the basis of actual liability.

b) Liabilities for future payment of Gratuity, encashable earned leave, half pay leave and Post Retirement Medical Scheme are provided based on actuarial valuation. Contribution to Gratuity is made to L.I.C. Group Gratuity Fund.

c) Ex-gratia to employees retiring under voluntary retirement scheme is charged off in full in the year in which they are relieved from service.

XI. ALLOCATION OF COMMON CHARGES/SOCIAL OVERHEAD EXPENSES

These are allocated to Production units based on salaries and wages of these units.

XII. PRIOR PERIOD AND EXTRA-ORDINARY ITEMS

Prior Period and Extraordinary Transactions are accounted in accordance with Accounting Standard-5. Transactions arising out of errors or omissions exceeding Rupees five lakhs (except depreciation) in each case considered as material, are accounted under Prior Period Transactions. Extraordinary items of value exceeding Rs.50 lakhs in each case are considered as material and accounted for under Extraordinary items. Prior Period/Extra-ordinary items are not considered for stock valuation purposes.

XIII. SIGNIFICANT EVENTS OCCURING AFTER THE BALANCE SHEET DATE

Treatment of contingencies and significant events are in accordance with Accounting Standard-4. For this purpose, events of value of Rs.10 lakhs and above are considered as significant.

XIV. REVENUE RECOGNITION

1). a) Revenue recognition is in accordance with Accounting Standard-9.

b) In respect of agreements for sale of power which are pending execution/renewal income is recognised based on the intimation issued by CERC until issue of notification of revised tariff.

c) Claims related to increased return on equity and income tax thereon, claim towards insurance, surcharge on belated settlement of power bills and interest on delayed payment of income tax recoverable are accounted in the year of acceptance of the claim/ realisation as the case may be.

d) Differential Retention Price of Urea is accounted on the basis of notified retention price with adjustment for known de-escalation in variable cost. Supplemental escalation claim are accounted in the year of acceptance/realization as the case may be.

2) Cash discounts for prompt payments are accounted as and when the related dues are settled.

XV. EXPENSES ON RESEARCH AND DEVELOPMENT

Expenditure incurred on project related studies and developmental costs (excepting those referred to in para No.VIII above) in regard to modernisation/revamping of the existing line/new activity are deferred till the project is approved by authority concerned.

On approval, such expenditure is capitalised and depreciated.

The treatment of other expenditure on R&D is as under:

1) Assigned to revenue in the year in which incurred.

2) Identified for deferral and charge off based on the matching benefit concept on a case to case basis.

XVI. FOREIGN EXCHANGE TRANSACTIONS

Monetary assets and liabilities related to foreign currency transactions remaining unsettled at the end of the year are translated at year end rates.

The difference in translation of monetary assets and liabilities and realised gains and losses on foreign exchange transactions other than those relating to Fixed Assets are recognised in the Profit and Loss Account.

Exchange differences in respect of liabilities incurred to acquire fixed assets are adjusted to the carrying amount of such fixed assets.

XVII. CONSTRUCTION PROJECTS

1) Treatment of Borrowing Cost during construction :

Borrowing Costs (net of interest earned on temporary investments of such borrowings) if specifically attributable to qualifying assets, are capitalised to such assets and if general, weighted average interest cost is capitalised to the qualifying assets.

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

3) Capitalisation and commencement of Depreciation Provision.

A. Specialised Mining Equipments

Successful completion of eight effective working hours on load test excluding minor stoppage is the criteria for :

i) Capitalisation of the asset comprised in Specialised Mining Equipment System namely Bucket Wheel Excavator, Conveyor, Tripper, Transfer Feeder and Spreader.

ii) Commencement of depreciation charge &

iii) Commencement of revenue recognition.

The entire test shall be completed within twelve hours from the time of starting of the test including minor stoppages.

B. Power Generation Unit

Test and trial production for Thermal Power Generation unit commences from the date of synchronisation and goes up to the date of commercial commissioning. Provisional take over date of the Turbo-generator pursuant to Seventy two hours full load operation is deemed as the date of commercial commissioning of the units. Depreciation charge, at rates prescribed by the Electricity Supply Act, commences from the date of commercial commissioning.

Direct expenses and interest charges incurred during the test and trial run are capitalised and the power sale revenue earned during that period is abated to the capital cost of the project.

C. LEP / Revamping

The date of commercial commissioning is reckoned:

a) In respect of Thermal Assets to the date of synchronization to the grid

b) In respect of Fertilizer Assets to the date of commencement of operations.

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