Significant Accounting Policies

I. Basis of Accounting

The financial statements are prepared on accrual basis of accounting under historical cost convention, in accordance with generally accepted accounting principles, accounting standards, the relevant provisions of the Companies Act, 2013 and Electricity Act, 2003 to the extent applicable.

II. Fixed Assets

1. Fixed Assets are stated at historical cost less depreciation. Cost of acquisition is inclusive of taxes, duties, freight, installation allocated incidental expenditure during construction / acquisition and necessary adjustments in the year of final settlement.

   Administrative overhead expenses attributable to construction of fixed assets incurred till they are ready for their intended use are identified and allocated on a systematic basis to the cost of related asset.

2. Land for mining in Tamilnadu is acquired in accordance with and subject to the provisions of Land Acquisition Act, 1894 and Tamilnadu Acquisition of Land for Industrial purpose Act, 1997 read with the Right to fair Compensation and transparency in land Acquisition, Rehabilitation and Resettlement Act, 2013. Capitalisation of land is done with reference to the date of taking over the physical possession of land.

III. Depreciation

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

	Description of Assets covered	Basis
i.	a) Assets of Thermal Power Stations, Wind Turbine Generators and Solar Power plant excluding vehicles other than Ash Tippers.	The Company follows the provisions of the Electricity Act 2003. The rates are prescribed by Central Electricity Regulatory Commission (CERC) pursuant to provisions of Electricity Act 2003.
	b) LEP assets	At residuary life of 15 years
ii.	Residential Buildings - III Class	At rates prescribed by Department of Public Enterprises.
iii.	Buildings : Non-residential Buildings Plant & Machinery : CME other than dozers and pipe layers, Workshop machinery, pumps GWC &SWC pipes and Civil construction machinery.	At technically assessed rates.
iv.	Specialised Mining Equipment : Commissioned on or after 31.08.2007	At technically assessed rates as approved by Ministry of Corporate Affairs in August 2007.
v.	Other Assets and Specialised Mining Equipments commissioned before 31.08.2007	At useful life prescribed in Schedule II of the Companies Act, 2013.

Rates under (ii) and (iii) above are followed so long as they are higher than the useful life covered under base (v).

2. A part of the asset having original cost more than 25% of the original cost of the whole of the asset is considered as significant part of the asset. Significant parts whose useful life is different from that of the whole of the asset, such significant part is determined separately and accordingly depreciated over its useful life.
3. Fixed assets relating to Research and Development are depreciated in a like manner as any other fixed asset of the Company.
4. 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.
5. Assets costing up to ₹ 5000/- are fully depreciated in the year in which they are put to use.
6. Amortisation of Mine Development Account:

   Over burden removal costs are classified under mine development account till achievement of quantity para-meters as approved for each Project. Such amounts are amortised as depreciation on the basis of annual Lignite production to the total estimated mineable reserves, reckoning from the year in which regular lignite production is commenced after achievement of mine development.
7. Machinery Spares:

   Initial spares purchased along with fixed assets are capitalised and depreciated along with the asset. Insurance spares purchased subsequent to the commissioning of the fixed assets costing ₹ 50 lakh and above which can be used only in connection with an item of Fixed Asset and whose usage are expected to be irregular are fully depreciated over the residual useful life of the Fixed Assets and if the spare is utilised, the carrying cost is fully charged as depreciation in the year of utilisation.

IV. Intangible Assets

a. Computer Software

Application Software acquired for an amount more than ₹ 10 lakh are capitalised as intangible assets and amortised over a period of 5 years.

b. Research & Development (Internally generated projects)

i. Expenditure incurred during the phase of research is charged to revenue.

ii. Expenditure incurred during the phase of development is capitalised with respect to each project and amortised over its useful life.

V. Inventory Valuation

Inventories are valued at lower of cost and net realisable value.

The basis of cost :-

i. Lignite: - At absorption cost, excluding share of common charges and social overhead.

ii. Stores and Spares procured: - At weighted average acquisition cost.

iii. Fly ash brick – at absorption cost.

iv. Waste product, used belts reconditioned, Stores and spares discarded for disposal, medicine and canteen stores are taken at NIL value.

v. Goods in Transit including goods received but pending inspection/acceptance are valued at cost.

VI. Mine Closure Expenditure

Concurrent mine closure expenses are accounted as and when incurred. The annual cost of final mine closure is calculated and accounted on the basis of guidelines for preparation of mine closure plan issued by Ministry of Coal.

VII. Prepaid Expenses

Expenses are accounted under prepaid expenses only where the amounts relating to unexpired period exceed ₹ 1 crore in each case.

VIII. Investments

Long Term Investments are carried at cost. Provision is made for diminution if any, other than temporary, in the value of such investments.

IX. 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.

X. 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 to the extent utilised are accounted in Profit and Loss Account.

XI. Reserves and Surplus

Interest Differential Reserve

Interest Differential Reserve 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 Reserve.

XII. Employee Benefits

Employee benefits are accounted as follows as per Accounting Standard-15 (Revised) 2005:

i. Short term employee benefits such as wages, salaries, incentives, short term Leave Salary are fully provided for.

ii. Long term employee benefits such as Leave Salary are provided for as per Department of Public Enterprises Guideline and actuarial valuation and also funded to Trust.

iii. Post employment benefits such as Gratuity is treated as defined benefit plan and is accounted as per actuarial valuation. Contribution to gratuity is made to Gratuity Trust.

iv. Post Retirement Medical Benefit Scheme is treated as defined contribution scheme and accounted accordingly in respect of the employees retired prior to 01-01-2007 for which a separate reserve fund is created out of the accumulated reserve profit with corresponding investments

v. Contribution to Provident Fund and Superannuation Fund which includes Post Retirement Medical Assistance are recognised in the Profit & Loss Account on the basis of actual liability and funded to Trust.

XIII. Allocation of common charges/social overhead expenses

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

XIV. Prior period and Extra-ordinary Items

Prior Period and Extra-ordinary items are accounted in accordance with Accounting Standard-5. Transactions arising out of errors or omissions exceeding ₹ 1 crore in each case are considered as material and accounted under Prior Period Transactions. Extra-ordinary items of value exceeding ₹ 1 crore in each case are considered as material and accounted for under Extra-ordinary items. Prior Period/ Extra-ordinary items are not considered for stock valuation purposes.

XV. Significant events occurring after the Balance Sheet date

Treatment of contingencies and significant events are in accordance with Accounting Standard-4. For this purpose, event having an effect of ₹ 1 crore and above in value is considered as significant.

XVI. Revenue Recognition

a) Sale of power is accounted for by following Electricity Act 2003, where the tariff rates are approved by the Central Electricity Regulatory Commission constituted under the Electricity Act 2003. In case of power stations where the tariff rates are yet to be approved, provisional tariff rates, calculated on the basis of Ministry of Coal guidelines on lignite transfer price for energy charges and other relevant CERC's norms and parameters for capacity charges, are adopted.

b) Exchange differences on account of translation of foreign currency borrowings recoverable from or payable to the beneficiaries in subsequent periods as per CERC Tariff Regulations are accounted as 'Deferred foreign currency fluctuation asset/liability'. The increase or decrease in depreciation/interest for the year due to the accounting of such exchange differences as per accounting policy no.XVII below is adjusted in depreciation/interest.

c) Claims due from beneficiaries which do not fall within the tariff rate fixation norms (other than reimbursement on account of Exchange Rate Variation on repayment of loans) is recognised as income in the year of incurring of the expenditure and final adjustments, if any, will be accounted on receipt of order from CERC.

d) Revenue from sale of solar energy and wind energy is recognised in accordance with the price agreed under the provisions of the power purchase agreement entered into with Beneficiaries. Such revenue is recognised on the basis of actual units generated and transmitted.

e) Sale of Lignite, in respect of e-auction sales has been reckoned to the extent of amount received and for others on accrual basis.

f) Claim towards insurance, surcharge on belated settlement of power bills and interest including delayed payment of income tax recoverable are accounted in the year of settlement and/or in the year of acceptance of the claim/ certainty of realisation as the case may be.

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

XVII. Foreign Exchange transactions

Exchange rate variations in foreign exchange transactions are accounted as per Accounting Standard-11 of Companies (Accounting Standards) Rules, 2006, and an option has been exercised to capitalise the exchange difference as per para 46 of Accounting Standard-11.

XVIII. Accounting for taxes on income

Tax expense comprises of current and deferred tax. Current tax is the amount of tax payable in respect of taxable income for the period measured at the amount expected to be paid to the tax authorities in accordance with the Indian Income-tax Act. Deferred tax is recognised on timing difference between accounting income and taxable income that originate in one period and are capable of being reversed in one or more subsequent periods, subject to consideration of prudence. Deferred tax is measured using the tax rates and the tax laws that have been enacted or substantively enacted by the Balance Sheet date. Deferred Tax Assets are reviewed at each Balance Sheet date.

XIX. Borrowing Cost

Borrowing costs (net of interest earned on temporary investments) specifically attributable to the assets are capitalised along with the cost of such assets and in general weighted average interest cost is capitalised to the qualifying assets. Other borrowing costs are recognised as expenses in the period in which they are incurred.

XX. Construction Projects

1. Capitalisation and Depreciation Provision

A. Specialised Mining Equipment

Successful completion of eight effective working hours on load test excluding minor stoppage is the criteria followed in respect of the assets covering Specialised Mining Equipment System viz., Bucket Wheel Excavator, Conveyor, Tripper, Transfer Feeder and Spreader for capitalisation and commencement of depreciation charge and 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 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. **Wind Turbine Generators (WTG)**

Each WTG will be capitalised on the date on which it is connected to grid based on the commissioning certificate issued by TANGEDCO. Depreciation charges will start from the date of capitalisation.

D. **Solar Project**

Solar Power Plant will be capitalised on the date on which it is connected to grid.

2. Net pre-commissioning income/expenditure are adjusted directly in the cost of related assets.

XXI. Provisions and Contingent liability

A provision is recognised when the company has a present obligation as a result of a past event and it is probable that an outflow of resources will be required to settle the obligation and in respect of which a reliable estimate can be made. Provisions are not discounted to present value and are determined based on best estimate required to settle the obligation at the balance sheet date.

Contingent liability is not provided for in the accounts and are disclosed by way of notes.

XXII. Life Extension Programme of Thermal Stations

Expenditure on Life Extension Programme (LEP) of Fixed Assets resulting in increased life and/or efficiency of an existing asset is added to the carrying cost of related asset and depreciated over the estimated life of the unit from the date of synchronisation.

✶ ✶ ✶