

Notice of the 12th Annual General Meeting

NOTICE is hereby given that the 12th Annual General Meeting of the Shareholders of GVK Power & Infrastructure Limited will be held on **Monday the 4th September, 2006 at 10.30 a.m.** at **Air Force Auditorium, Subroto Park, New Delhi - 110 010** to transact the following business;

Ordinary Business :

1. To receive, consider and adopt the Audited Balance Sheet as at 31st March, 2006 and the Profit & Loss Account for the year ended on that date along with Reports of the Directors and the Auditors thereon.
2. To appoint a Director in place of **Mrs. G Indira Krishna Reddy**, who retires by rotation and being eligible, offers herself for re-appointment.
3. To appoint a Director in place of **Mr. Somanadri Bhupal**, who retires by rotation and being eligible, offers himself for re-appointment.
4. To appoint **M/s. S R Batliboi & Associates**, Chartered Accountants, Hyderabad, the retiring auditors, as Statutory Auditors of the Company to hold office from the conclusion of this meeting till the conclusion of next Annual General Meeting and to authorise the Board to approve their remuneration.

Special Business :

5. To consider and if thought fit, to pass the following, with or without modification, as an Ordinary Resolution

"RESOLVED THAT pursuant to the provisions of Section 257 and other applicable provisions, if any, of the Companies Act, 1956 **Mr. Ajay Lal**, be and is hereby appointed as an Independent Director of the Company, whose period of office shall be liable to retire by rotation."

By Order of the Board

Place : Hyderabad
Date : 22.05.2006

P V Rama Seshu
Company Secretary

NOTES :

1. Every Member entitled to attend and vote at the meeting is entitled to appoint a Proxy to attend and vote instead of himself and such Proxy need not be a member.

2. The proxy form duly completed must reach the Company before 48 hours of time fixed for holding the meeting.
3. The Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956 is annexed hereto and forms part of the notice.
4. Pursuant to Clause 49 of the Listing Agreement, the particulars of Directors seeking appointment/ re-appointment at this meeting are annexed.
5. The Register of Members and Share Transfer Books of the Company will remain closed from Friday, 1st September, 2006 to Monday, 4th September, 2006 (both days inclusive).
6. Members are requested to:
 - i) Note that copies of Annual Report will not be distributed at the Annual General Meeting.
 - ii) Deliver duly completed and signed Attendance Slip at the entrance of the meeting venue as entry to the Auditorium will be strictly on the basis of the entry slip available at the counters at the venue to be exchanged with the attendance slip.
 - iii) Quote their Folio / Client ID & DP ID Nos. in all correspondence.
 - iv) Note that due to strict security reasons brief cases, eatables and other belongings are not allowed inside the auditorium.
 - v) Note that no gifts/coupons will be distributed at the Annual General Meeting.
7. A corporate member shall be deemed to be personally present only if it is represented in accordance with Section 187 of the Companies Act, 1956 i.e. only if the corporate member sends certified true copy of the Board resolution / power of attorney authorizing the representative to attend and vote at the Annual General Meeting.
8. Members are requested to notify immediately any change of address to their Depository Participants (DP) in respect of shares held in dematerialized form.
9. Members desirous of getting any information on any items of business of this Meeting are requested to address their queries to Mr. P V Rama Seshu, Company Secretary at the Corporate Office of the Company at least ten days prior to the date of the meeting, so that the information required can be made available at the meeting.

10. All documents referred to in the notice and annexures thereto are open for inspection at the registered office of the Company on all working days (barring Saturdays and Sundays) between 11.00 a.m. to 1.00 p.m. prior to the Annual General Meeting.

By Order of the Board

Place : Hyderabad
Date : 22.05.2006

P V Rama Seshu
Company Secretary

EXPLANATORY STATEMENT

(Pursuant to Section 173(2) of the Companies Act, 1956)

The following Explanatory Statement of the Company sets out the material facts relating to the business item no: 5 mentioned in the accompanying Notice dated 22nd May, 2006.

Item No : 5

The Board of Directors of the Company had at its meeting held on 22nd May, 2006 appointed Mr. Ajay Lal as an Additional Director of the Company. In terms of the provisions of Section 260 of the Companies Act, 1956 read with 109 Article of the Articles of Association of the Company, Mr. Ajay Lal holds his office only up to the date of this Annual General Meeting. A brief profile of Mr. Ajay Lal is given below for your information.

Mr. Ajay Lal is an Engineer and also holds a Masters Degree in Business Administration (MBA). Mr. Ajay Lal has 20 years of experience in private equity, project

finance and corporate banking and is presently working as a Managing Director of AIF Funds Management Limited and is currently based at New Delhi. He is also an Independent Director on the Board of Bharti Televentures Limited. He manages the Investments of AIFML in Asia West (fixed line Telecom Company). Prior to joining AIF, he was the India Country representative for AIG Investment Corporation and before that he was Vice President with Bank of America as Head- Financial Institution Group and Multinational Accounts. His area of specialization includes Mergers and Acquisitions, Equity & Debt Funding, Financial Restructuring and Private Placements and Buy-out opportunities.

Your Company has received a notice, in writing, from a shareholder, under section 257 of the Companies Act, 1956 along with a requisite deposit, signifying his intention to appoint Mr. Ajay Lal as an Independent Director of the Company. The Board considers it desirable that the Company should continue to avail the services of Mr. Ajay Lal and accordingly commends the resolution for your approval.

None of the Directors except Mr. Ajay Lal is interested or concerned in the above resolution.

By Order of the Board

Place : Hyderabad
Date : 22.05.2006

P V Rama Seshu
Company Secretary

Directors' Report

Dear Shareholders,

Your Directors take pleasure in presenting the 12th Annual Report and the Audited Accounts of your Company for the year ended March 31, 2006, together with the Auditor's Report thereon.

Financial Results:

Your Company's financial results for the year under review are as under: (Rupees in thousands)

	2005 – 2006	2004 – 2005
Gross Revenues	236,013	74,530
Operating Expenses	132,457	42,637
Profit before tax	103,556	31,893
Provision for tax	22,594	14,255
Profit after tax	80,962	17,638
Add: Balance brought forward	32,168	14,530
Profit available for apportionment	113,130	32,168
Appropriations		
General Reserve	31,954	-
Surplus carried to Balance Sheet	81,176	32,168

Review

During the year under review your Company had made an Initial Public Offer (IPO) by issuing 8,275,556 equity shares of Rs.10 each at a premium of Rs.300 per share. Your Company's IPO was well received by the investors and was oversubscribed by around 25.82 times. The entire issue proceeds have been utilized exclusively for the purposes specified in the Prospectus. This overwhelming response has strengthened the current proposals of the Company which are being implemented in a phased manner.

Subsidiaries

Your Company at present has one Subsidiary i.e. GVK Industries Limited, Hyderabad which is engaged in the business of developing, generation, distribution of gas based power projects. Your Company currently holds around 53.96% equity in GVK Industries Limited. Pursuant to the Listing Agreement and the Companies Act, 1956 the consolidated annual accounts and stand alone accounts of GVK Industries Limited are provided herewith and forms part of this Annual Report. Further, your Company currently holds around 38.87% equity in Gautami Power Limited, Hyderabad which is also engaged in the business of generation of power. Your Company proposes to increase its stake in Gautami Power Limited to 51% thereby it will also become a Subsidiary of your Company.

Listing

The Equity Shares of your Company are listed on The National Stock Exchange of India Limited (NSE) and the Mumbai Stock Exchange Limited (BSE). Your Company promptly pays the required Listing Fee to these Stock

Exchanges and as of date there are no outstanding payments.

Directors:

In accordance with the Companies Act, 1956 read with the Articles of Association of the Company, Mrs. G Indira K Reddy and Mr. Somanadri Bhupal, Directors, will retire by rotation at this meeting and are eligible for reappointment.

Mr. Ajay Lal was co-opted as an additional director on 22nd May, 2006 and shall hold office upto this AGM. Your Company is in receipt of a notice Under Section 257 of the Companies Act, 1956 for his appointment as an Independent Director of the Company.

Your Board recommends the above re-appointments/appointment in the best interest of the Company.

Auditors

M/s. S R Batliboi & Associates, the Statutory Auditors of the Company will retire at this 12th Annual General Meeting and have confirmed their eligibility and willingness to accept office, if reappointed. Your Directors propose the reappointment of M/s. S R Batliboi & Associates as the Statutory Auditors of the Company from the conclusion of this meeting until the conclusion of next Annual General Meeting.

Public Deposits

During the year under review, your company has neither invited nor accepted any deposits from the public.

Particulars of Employees

Particulars of employees Under Section 217 (2A) of the Companies Act, 1956 read with the Companies (Particulars of employees) Rules, 1975 is annexed hereto and forms part of this annual report.

Directors' Responsibility Statement

Pursuant to provisions of Section 217 (2AA) of the Companies Act, 1956 with respect to "Directors' Responsibility Statement", it is hereby confirmed;

- (i) that in the preparation of the annual accounts for the financial year ended 31st March, 2006, the applicable Accounting Standards have been followed along with proper explanations relating to material departures;
- (ii) that the directors had selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit or loss of the Company for the year under review;
- (iii) that the directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting

fraud and other irregularities;

- (iv) that the directors had prepared the annual accounts for the financial year ended 31st March, 2006 on a going concern basis.

Corporate Governance

Your Company is committed to maintain the highest standards of Corporate Governance. As required under Clause 49 of the Listing Agreement with the Stock Exchanges, a report on Management Discussion and Analysis, Corporate Governance as well as the Auditors' Certificate on the compliance of Corporate Governance are annexed hereto and forms part of the Annual Report.

Foreign Exchange Earnings and Outgo

In accordance with the provisions of Section 217(1)(e) of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988, the information relating to foreign exchange earnings and outgo is provided under note no: 10.3 of the Notes to the Balance Sheet and Profit and Loss Account.

Other Information

The Audit Committee of the Company reviewed the financial statements for the year under review at its meeting held on 22nd May, 2006 and recommended the same for the approval of the Board of Directors.

Your Company's effort towards conservation of energy,

which results in savings in consumption of electricity, is an ongoing process. The Company continues to absorb and upgrade modern technologies and advanced management techniques for implementing various infrastructure facilities.

Acknowledgments:

Your Directors would like to express their sincere appreciation to various Investors like FII, FI, QIB, Bodies Corporate, Banks and Retail Shareholders for their overwhelming support to the success of IPO and the confidence reposed on the Company. Your Directors extend their sincere thanks to all the Regulatory Authorities like SEBI, Stock Exchanges and Central & State Government Authorities / Agencies, Merchant Bankers, Registrars and the other agencies involved in the success of the IPO.

Your Directors also wish to place on record their appreciation for the dedicated and sincere services rendered by the employees of the Company at various levels and look forward to receive the unstinted support and cooperation in future as well.

By order of the Board

Place : Hyderabad
Date : 22.05.2006

G V Krishna Reddy
Chairman &
Managing Director

Annexure to Directors' Report

Information as per Section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1988 and forming part of the Directors' Report for the year ended 31st March, 2006

Sl. No.	Name of the employee	Age	Qualification	Designation	Experience (Years)	Date of commencement of Employment	Remuneration received (Rupees)	Previous Employment
1	Mr. G V Krishna Reddy	69	BA	Chairman & Managing Director	42	10.09.2005	25,00,000*	Executive Chairman GVK Industries Limited

* Remuneration paid to Mr G V Krishna Reddy is for part of the year (i.e from 10.09.05 to 31.03.2006).

- a) Remuneration received includes salary and other allowances, perquisites etc.
b) Mrs. G. Indira Krishna Reddy, Mr. G V Sanjay Reddy and Mr. Som Bhupal are relatives to Mr. G V Krishna Reddy

By order of the Board

Place : Hyderabad
Date : 22.05.2006

G V Krishna Reddy
Chairman & Managing Director

Management's Discussions and Analysis

Economic Growth

In a robust demonstration of its nascent strengths, the Indian economy, after growing at 8.5 per cent and 7.5 per cent in the two previous years, has recorded a growth of about 8.1 per cent during the year under review (2005-06). Growth of Gross Domestic Product (GDP) during the year 2005-06 was at 2.3% originating in agricultural and allied activities. Services sector growth continued to be broad-based. Among the three sub-sectors of services, 'trade, hotels, transport and communication services' continued to lead by growing at double-digit rates for the third successive year.

Infrastructural inadequacies continued to constrain the full potential for industrial resurgence, pick up in investment and buoyant exports. The growth of power generation in April-December 2005 at 4.7 per cent, for example, was lower than not only the annual target but also the 6.5 per cent achieved in the same period of the previous year.

Business overview

India's economic growth is intertwined with its infrastructure development and there is a strong positive association between the two. The infrastructure deficit continues to haunt India. Provision of quality infrastructure is vital for India to nudge its sustainable growth upwards. There has been considerable progress in the last ten years in attracting private investment into the infrastructure sectors. There is a potential for public private partnerships (PPPs) to contribute more and help bridge the infrastructure gap in India.

The power scenario in the country continues to be a matter of concern. Lack of reliable power supply dampens the growth impulses in different sectors of the economy. With the ongoing reforms and better management of the coal and gas supplies to the thermal plants, the situation could improve.

Electricity generation by power utilities during 2005-06 was targeted at 621.5 billion kwh up 5.8% from the previous year. The growth of power generation in April-December 2005 was at 4.7%. While nuclear generation showed a sharp turnaround for the better, thermal generation dipped during the period.

The Plant Load Factor (PLF) is an important measure of the operational efficiency of Power plants. The PLF of private plants was higher than that of the public sector. The PLF of SEBs declined during April-December, 2005 to 65%.

The Demand for gas is outstripping supply in India and the power stations are not getting the required allocation of gas. The actual supply has fallen substantially short of allocation, resulting in a huge loss of power generation. The gas based stations sometimes may be forced to resort to liquid fuel like Naphtha, resulting in very high cost of generation. It has not been possible to harness the advantages of gas/LNG as a fuel for power generation effectively, primarily because of its limited availability and lack of price competitiveness.

Risks and Concerns

Availability of Natural Gas

The most critical input required by our power generation plants to generate electricity is fuel (Natural Gas). The Jegurupadu Phase I facility has a natural gas supply agreement with Gas Authority of India Limited ("GAIL") and a naphtha supply agreement with Bharath Petroleum Corporation Limited ("BPCL"). Our Jegurupadu Phase II and the GPL power project facilities, which are not yet operational, are designed to use natural gas and High Speed Diesel ("HSD") and have natural gas supply agreements with GAIL and a Memorandum of Understanding ("MOU") for the supply of high speed diesel with BPCL for the GPL power project facility. There is no MOU or fuel supply agreement in place yet for the supply of HSD for the Jegurupadu Phase II.

The natural gas available in the State of Andhra Pradesh is less than the actual demand. Our new projects and the other ensuing projects in the State of Andhra Pradesh are likely to be affected by the shortage of natural gas from their respective Commercial Operation Dates ("CODs") until at least mid 2008. Government of Andhra Pradesh ("GoAP") had earlier entered into an understanding with four short gestation projects (including Jegurupadu Phase II and GPL power project) in the State of Andhra Pradesh to defer the payment of fixed charges on Deemed Generation until December, 2006. However, due to the prevailing uncertainty over the actual period by which the gas is likely to be made available to these projects, the GoAP had once again requested the managements of these power projects to further defer the payment of fixed charges on Deemed Generation until at least mid 2008. Due to the severe shortage in supply of natural gas in the region, your Company too did not have any other option, except to agree on the request made by the GoAP. To this extent, all the IPPs have initiated action to amend their respective Power Purchase Agreements.

However, with effect from June, 2008 these projects will be entitled to Deemed Generation in the event of non-availability of gas provided they are in a position to prove that they are available to generate electricity using alternative fuel.

Even though GAIL had earlier announced that it will be allocating the existing quantity of natural gas on a pro rata basis to all the projects that are in operation in the State of Andhra Pradesh including the new projects to be commissioned, due to acute shortage of natural gas, it could not meet the requirements of the existing projects even. This has rather forced the new projects to either shut down their power plants which are otherwise ready for declaring commercial operations or to defer the commissioning period.

Financial Results

Revenue

The Company's total income, which is comprised of income in the form of operating fees, incentives, fees for

technical services, billable expenses and other income, increased by 216.67 % to Rs. 236,013 thousands for the year ended 31st March, 2006 from Rs.74,530 thousands when compared to the previous year ended 31st March, 2005.

Expenditure

The Company's total expenditure, comprising of staff costs, other administrative expenses, interest and depreciation increased by 211% to Rs.132,457 thousands for the year ended 31st March, 2006 from Rs.42,637 thousands when compared to the previous year ended 31st March, 2005.

Interest

The Interest expenses stood at Rs.85,919 thousands (previous year Rs.8,833 thousands)

Profit before Tax (Gross Profit)

The PBT increased by 225% to Rs.103,556 thousands for the current year from Rs.31,893 thousands of the previous year.

Profit after Tax

The Company's net profit after tax increased by 359% to Rs.80,962 thousands for the year ended 31st March, 2006 from Rs.17,638 thousands when compared to the previous year.

Internal Control System

The Internal Control System is an essential element of the Corporate Governance and plays a key role in identifying, minimizing and managing risks that are significant for the Company, contributing to the safeguarding of stockholders' investments and the Company's assets.

The Internal control system includes policies, processes and performance of the company that ensures economical and effective use of resources to attain aims and objectives of the company. It also facilitates the effectiveness and efficiency of its operations by enabling it to respond appropriately to operational, financial, compliance and other risks that hinder the achievement of the company's objectives. The Internal control systems help in ensuring quality of Internal and external reporting and compliance with applicable laws and regulations and internal procedures and safeguards the company's assets from inappropriate use or from loss and fraud.

The Company is responsible for ensuring that internal control and risk managements is adequate. Internal guidance and control systems provide management with the information necessary for decision making and evaluation of activities, internal control covers both economic and other forms of control. Actual accomplishment of control is undertaken not just by the management but by the entire staff.

Your company has established and is maintaining adequate controls within the system to ensure the

completeness, accuracy, and authority of all financial information and of all other information or is used for management control and accountability. The adequacy and effectiveness of internal controls are monitored regularly by the Internal Auditors and remedial measures are adopted, wherever necessary.

The system also prevents its assets against loss from wastage and records the unauthorized usage. The decision making and operational evaluation processes are composed of the monitoring system, evaluation of the achievement of objectives and the financial management associated with budget and cost accounting procedures.

The Audit Committee of the company meets periodically to review and recommend quarterly, half yearly and annual financial statements of the company. The Audit Committee reviews the important finding of the Internal Auditors during their audits, periodically. The committee also holds discussions with the internal auditors, statutory auditors and the management on the matters relating to internal controls, auditing and financial reporting. The Committee also reviews with the statutory auditors, the scope and results of the audit.

Human Resources

The work and jobs at all levels in your company are designed, organized and managed through collaboration with employees and management.

Future Outlook

While there is no doubt about abundant gas reserves in the Krishna Godavari Basin, the question of availability of natural gas at the required time is a matter of concern for commencing commercial operations of the new projects. Even though, there have been recent announcements on the discovery of gas by the Reliance, Gujarat Gas Corporation Limited and the ONGC in the Krishna Godavari Basin, the question remains mute as to when the same would be made available to the generating companies. Your Company hopes that this new found gas would be made available to meet the demands of all the projects earlier than envisaged.

Cautionary Statement

Statements in the Management Discussion and Analysis describing the company's objectives, projections estimates and expectations may be 'forward looking statements' within the meaning applicable securities laws and regulations. As 'forward looking statements' are based on certain assumptions and expectations of future events over which the company exercises no control, the company cannot guarantee their accuracy nor can it warrant that the same will be realized by the company. Actual results could differ materially from those expressed or implied. Significant factors that could make a difference to the company's operations include domestic and international economic conditions affecting demand, supply and price conditions in the electricity industry changes in government regulations, tax regimes and other statutes.

Corporate Governance

Corporate governance is a synonym for sound management, transparency and disclosure. Corporate governance encompasses not only the way in which the Company is managed and deals with its shareholders but also addresses all aspects of its relationship with society. Hence, it has always been an integral part of your Company's philosophy. The Company firmly believes that good corporate governance stems from the management's mindset and cannot be regulated by legislation alone.

The Company's philosophy on Corporate Governance is to make it a way of life by inter alia adopting standard Corporate Governance practices through continual improvement of internal systems and satisfaction of all stakeholders. The Corporate Governance philosophy has been further strengthened with the adoption by the Company of the Code of Conduct for the Board of Directors & the Senior Management Team and the Code of Conduct for Prevention of Insider Trading as also the Code of Corporate Disclosure Practices.

In accordance with the requirement of the Stock Exchange Regulations and the provisions of the Listing

Agreement, the compliance report on the Corporate Governance is reproduced here under:

1. Board of Directors

The Board presently consists of Nine (9) Directors (one Executive Chairman & Managing Director, Three (3) Non-executive Directors, and Five (5) Non-executive Independent Directors). More than 50% of the Board comprise of Non-executive Independent Directors, with the Chairman being an Executive Director.

The details of Directors seeking appointment / re-appointment have been annexed. During the year 2005-06, the Board met 13 times - on 21.04.05, 19.05.05, 01.06.05, 17.06.05, 20.06.05, 04.08.05, 27.08.05, 10.09.05, 14.10.05, 21.11.05, 17.12.05, 07.01.06 and 21.02.06. The maximum time gap between any two meetings was not more than four calendar months.

The names and categories of directors, their attendance at the board meetings, number of Directorships and Committee memberships held by them in other companies are given hereunder:

Name	Category	Board Meeting Attendance	Sitting Fees # paid (Rs.)	AGM Attendance	No. of other Directorships +	No. of other Committee positions held *	
						Member	Chairman
G V Krishna Reddy	Promoter; Executive Chairman & MD	13	Nil	Yes	9	Nil	Nil
G Indira K Reddy	Promoter; Non executive	12	20000	Yes	8	3	Nil
Somanadri Bhupal	Promoter; Non executive	12	15000	Yes	9	2	1
G V Sanjay Reddy	Promoter; Non executive	10	5000	Yes	9	2	Nil
Abid Hussain	Independent Non executive	5	15000	-	9	Nil	Nil
A Ramakrishna	Independent Non executive	6	20000	-	8	3	1
K N Shenoy	Independent Non executive	6	20000	-	2	5	1
P Abraham	Independent Non executive	4	10000	-	5	3	Nil
Ajay Lal **	Independent Non executive	-	Nil	-	2	2	Nil

Sitting Fees to the Directors is being paid from 14.10.2005 onwards.

+ Directorships in other Public Limited Companies

* Committee memberships considered are of other companies only and those as required under the Code of Corporate Governance.

** Co-opted as additional director w.e.f. 22.05.2006

None of the directors is a member in more than ten committees and acts as a chairman in more than five committees across all companies in which he is a director.

2. Details of Directors seeking appointment / re-appointment as required under Clause 49 of the Listing Agreement

Pursuant to the requirements of the Listing Agreement of Stock Exchanges on Corporate Governance, the information about the Directors proposed to be appointed / re-appointed is given as an Annexure.

3. Audit Committee

The Audit Committee was constituted on 10.9.2005 and the terms of reference, role and scope are in line with those prescribed by Clause 49 of the Listing Agreement with the Stock Exchanges. The Composition of the Audit Committee is in compliance with the Clause 49 of the Listing Agreement and also Section 292A of the Companies Act, 1956.

The Audit Committee comprises of 3 (three) Non-executive Independent Directors including the Chairman. The Audit Committee met three times during the year under review on: 14.10.2005, 17.12.2005 and 07.01.2006.

During these meetings, the Committee, inter alia, reviewed the financial statements including changes in accounting policies and practices before submission to the Board, recommended the appointment of statutory and internal auditors including fixation of audit fee, discussed the internal auditors' findings and reviewed the company's financial and risk management policies. Compositions of the Audit Committee is as under and all of them have attended the said meetings.

Mr. K N Shenoy, Chairman	Independent, Non-executive
Dr A Ramakrishna	Independent, Non-executive
Mr. P Abraham	Independent, Non-executive

4. Remuneration Committee

During the year, the Remuneration Committee met once on 10.9.2005 and approved the terms of appointment of Mr. G V Krishna Reddy as the Chairman & Managing Director, with effect from 10.9.2005. The Composition of Remuneration Committee is as under and all of them have attended the said meeting.

Dr A Ramakrishna Chairman	Independent, Non-executive
Mr. K N Shenoy	Independent, Non-executive
Mr. P Abraham	Independent, Non-executive

5. Shareholders' / Investors' Grievance Committee

The Committee comprises of Dr. A Ramakrishna, Chairman (Independent Non-executive), Mr. Somanadri Bhupal and Mr. G V Sanjay Reddy. The responsibilities of the Committee include a) to approve share transfers and transmissions and b) to approve splitting of share certificates, consolidation of share certificates and related matters including issue of fresh share certificates in lieu of the split / consolidated certificates and redressal of all shareholders queries and grievances. The Committee has been meeting at regular intervals, generally not exceeding a fortnight. The Company has received 536 complaints during February 2006 to March 2006, and all these were replied / resolved to the satisfaction of the investors.

Mr. P V Rama Seshu, Company Secretary is the Compliance Officer of the Company and is the Secretary to all above Committees.

6. Annual General Body Meetings

Year	Date	Time	Venue
2002-03	30.09.2003	10.30 a.m.	At the registered office
2003-04	30.09.2004	11.00 a.m.	At the registered office
2004-05	09.09.2005	10.30 a.m.	At the registered office

7. Disclosures

The Board of Directors receive from time to time disclosures relating to financial and commercial transactions from key management personnel of the Company as and when they and / or their relatives have personal interest in any of the pecuniary transactions with the Company. There are no materially significant related party transactions, which have potential conflict with the interest of the Company at large.

There has been no instance of non-compliance by the Company on any matter related to capital markets. Hence the question of penalties or strictures being imposed by SEBI or Stock Exchanges does not arise.

8. Means of Communication

The quarterly financial results of the Company are generally published in Financial Express or Economic Times and Janasatta Daily (Vernacular).

Further, the Securities and Exchange Board of India (SEBI) has made it mandatory for companies to file information through the internet on their website <http://www.sebiedifar.nic.in/> vide the Electronic Data Information and Retrieval System (EDIFAR) which is an automated system for filing, retrieval and dissemination of time - sensitive corporate information. The Company has been regularly filing information such as quarterly financial statements, shareholding pattern, etc., on the site.

9. Non-Mandatory Requirements

The Company has currently not adopted the non-mandatory requirement with regard to:

Shareholder's Rights - The Company regularly posts its quarterly / half yearly performance on SEBI website, <http://www.sebiedifar.nic.in/>, hence the half yearly declaration of financial performance is not being sent to the shareholders.

General Shareholder Information

1. **Annual General Meeting:**
Date and Time : 4th September, 2006, 10.30 a.m.
Venue : Air Force Auditorium, Subroto Park,
New Delhi - 110 010
2. **Book Closure Dates** : 1st September, 2006 to 4th September, 2006
(both days inclusive)
3. **Dividend Payment Date** : NA
4. **Financial Calendar 2006/07:**

Financial Reporting

For the quarter ended June, 06
For the quarter ended Sep, 06
For the quarter ended Dec, 06
For the quarter ended Mar, 07
AGM for 2006-07

July, 2006
October 2006
January 2007
April / May 2007
September, 2007

} Tentative

5. **Listing of Equity shares on :**
Stock exchanges at : National Stock Exchange of India Ltd.
Exchange Plaza, 5th Floor, Plot No.C/1,
G Block, Bandra Kurla Complex,
Bandra East, Mumbai - 400 051.

Mumbai Stock Exchange Ltd.
1st Floor, New Trading Ring Rotunda Bldg,
P J Towers, Dalal Street, Fort
Mumbai 400 013.
6. **Stock Code**
 - i) Trading Symbol at
The Stock Exchange, Mumbai : Scrip Code: 532708
Scrip ID: GVKPIL

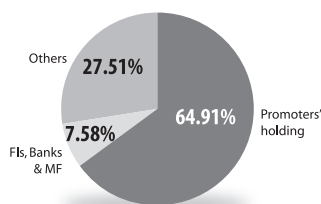
National Stock Exchange, Mumbai : GVKPIL
(Demat segment) T+1
 - ii) Demat ISIN Numbers : INE251H01016
Equity Shares
(Listing fees for and upto the year
2005-06 have been paid to the above
Stock Exchanges where shares
are listed)

7. Stock Market Data

	National Stock Exchange (NSE)		Bombay Stock Exchange (BSE)	
	Month's High Price	Month's Low Price	Month's High Price	Month's Low Price
February 2006	388.00	305.25	400.00	304.55
March 2006	323.00	240.00	323.80	240.00

- 8. Share Transfer System** : Share transfer requests, which are received in physical form are processed and the share certificates returned within a period of 15 days in most cases, and in any case within 30 days, from the date of receipt, subject to the documents being in order and complete in all respects.
- 9. Secretarial Audit** : Secretarial Audit is being carried out every quarter by a practicing Company Secretary and his audit report is placed before the Board for its perusal and filed regularly with the Stock Exchanges within the stipulated time.

10. Distribution of Shareholding as on 31st March 2006



Shareholding Pattern as on 31st March, 2006

Category	No. of Shares	Percentage Of Shareholding
Promoters' holding	15347934	64.91
FIs, Banks & MF	1792222	7.58
Others	6504289	27.51
TOTAL	23644445	100.00

Distribution of Shareholding

No. of shares held	No. of Shares	% of share capital	No. of shareholders	% of total no. of shareholders
Upto 500	3948525	16.70	115082	99.08
501 to 1000	379949	1.61	491	0.42
1001 to 2000	400012	1.69	375	0.24
2001 to 3000	225641	0.95	90	0.08
3001 to 4000	141333	0.60	40	0.03
4001 to 5000	188651	0.80	41	0.03
5001 to 10000	383544	1.62	50	0.04
10001 and above	17976790	76.03	78	0.07
Total	23644445	100	116147	100

- 11. Dematerialisation of Shares & Facility of simultaneous transfer** : As on 31st March, 2006, 35.00% of the shares issued by the Company are held in dematerialised form. The Initial Listing of your company's equity shares has been commenced on 27th February 2006 and Trading in equity shares of your Company on Stock Exchanges is permitted only in the dematerialised mode.
- Shareholders interested in dematerializing / rematerializing their shares is requested to write to the Registrar & Transfer Agent through their Depository Participants.

- 12. Location** : **Corporate Office:**
156-159, Paigah House, SP Road,
Secunderabad - 500 003.
Phone: 27902663; Fax:27902665
E-mail: gvkpil@gvk.com
- Registered office:**
R-540, New Rajender Nagar,
New Delhi - 110060
Tel: 011 - 28743563
Fax: 011 - 28744391
- 13. Address of Registrar & Transfer Agents for Investor Correspondence** : **Karvy Computershare Pvt. Ltd.**
Registrars & Transfer Agents
Unit: GVK Power & Infrastructure Limited
Karvy House, 46 Avenue 4, St.No.1
Banjara Hills, Hyderabad - 500 034.
Tel: 040 23312454
Fax: 040 23311968
E-mail: gvkpil@karvy.com
- Note: Shareholders holding shares in electronic mode should address all correspondence to their respective depository participants only.
- 14. Any query on Annual Report Shall addressed to** : **P V Rama Seshu**
Company Secretary
GVK Power & Infrastructure Ltd.
156-159, Paigah House,
Sardar Patel Road
Secunderabad - 500 003.
Tel: 040 27902663, 27902664
Fax: 040 27902665
E-mail: pvrs@gvk.com

Certificate from a Company Secretary in Whole-time Practice on compliance of conditions of Corporate Governance as per Clause 49 of the Listing Agreement with Stock Exchanges;

To the Members of
GVK POWER & INFRASTRUCTURE LIMITED

We have reviewed the compliance of conditions of Corporate Governance by GVK Power & Infrastructure Limited, for the year ended on March 31, 2006, as stipulated in Clause 49 of the Listing Agreement of the said Company with Stock Exchanges.

The compliance of conditions of Corporate Governance is the responsibility of the management. Our examination has been limited to a review of the procedures and implementations thereof adopted by the Company for ensuring compliance with the conditions of the certificate of Corporate Governance as stipulated in the said Clause. It is neither an audit nor an expression of opinion on the financial statements of the Company.

No investor grievances are pending for a period exceeding one month against the Company as per the records maintained by the Company.

In our opinion and to the best of our information and according to the explanations given to us and the representations made by the Directors and the management, we certify that the Company has complied with the conditions of Corporate Governance as stipulated in Clause 49 of the above mentioned Listing Agreement.

We further state that such compliance is neither an assurance as to the future viability of the Company nor of the efficiency or effectiveness with which the management has conducted the affairs of the Company.

Place : Hyderabad
Date : 22.05.2006

G Narender
Company Secretary in Practice
FCS- 4898 CoP: 5024

Annexure

Details of Directors seeking reappointment / appointment at the forthcoming Annual General Meeting of the Company (Pursuant to Clause 49 of the Listing Agreement with the Stock Exchange)

Name of the Director	Mrs G Indira Krishna Reddy	Mr Somanadri Bhupal	Mr Ajay Lal
Date of Birth	17th October, 1944	17th January 1956	08th August 1961
Date of Appointment	16th February, 2005	16th February, 2005	22nd May, 2006
Qualifications	B.Sc.	MBA (USA)	BE, MBA
Expertise in specific functional areas	General Administration & Finance	Project Management, Administration, Legal & Company Operations	Private equity funding, Project Finance, Corporate Banking & Asset Management
List of Companies in which outside Directorship held as on 31.03.2006	<ol style="list-style-type: none"> 1. GVK Industries Ltd. 2. GVK Capital & Finance Ltd. 3. Pinakini Share & Stock Brokers Ltd. 4. Sri Tripurasundari Hotels Ltd 5. Novopan Industries Ltd. 6. TAJGVK Hotels & Resorts Ltd. 7. Alaknanda Hydro Power Company Ltd. 	<ol style="list-style-type: none"> 1. GVK Industries Ltd. 2. GVK Capital & Finance Ltd. 3. GVK Cements Ltd. 4. Novopan Industries Ltd. 5. Gautami Power Ltd. 6. Pinakini Share & Stock Brokers Ltd. 7. Sri Tripurasundari Hotels Ltd. 8. Alaknanda Hydro Power Company Ltd. 9. TAJGVK Hotels & Resorts Ltd. 10. GVK Jaipur Kishangarh Expressway Ltd. 	<ol style="list-style-type: none"> 1. Bharathi Televentures Ltd. 2. Yes Bank Ltd.
Chairman / Member of the *Committees of other Companies on which he is a Director as on 31.03.2006	Audit Committee Member Novopan Industries Ltd. Remuneration Committee: Member Novopan Industries Ltd. Shareholders Investors Grievances Committee: Member Novopan Industries Ltd.	NIL	Audit Committee Member GVK Industries Ltd. Bharathi Televentures Ltd.

* The Committees include the Audit Committee, the Remuneration Committee and the Shareholders' / Investor Grievance Committee.

Auditors' Report

To
The Members of GVK Power & Infrastructure Limited:
(Formerly known as Jegurupadu Operating & Maintenance Company)

We have audited the attached Balance Sheet of GVK Power & Infrastructure Limited as at March 31, 2006 and also the Profit and Loss account and 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.

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 of material misstatement. 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 management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As required by the Companies (Auditor's Report) Order, 2003 (as amended) issued by the Central 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; and

Further to our comments in the Annexure referred to above, we report that:

- i. 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;
- ii. 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;
- iii. The Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report are in agreement with the books of account;
- iv. 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;
- v. On the basis of the written representations received from the directors, as on March 31, 2006, and taken on record by the Board of Directors, we report that none of the directors is disqualified as on March 31, 2006 from being appointed as a director in terms of clause (g) of sub-section (1) of Section 274 of the Companies Act, 1956;
- vi. In our opinion and to the best of our information and according to the explanations given to us, the said accounts 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 the balance sheet, of the state of affairs of the Company as at March 31, 2006;
- b) in the case of the 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 S. R. Batliboi & Associates
Chartered Accountants

Place : New Delhi
Date : 22-05-2006

Per
Raman Sobti
Partner
Membership No. 089218

Annexure referred to in paragraph 3 of our report of even date

Re: GVK Power & Infrastructure Limited (formerly known as Jegurupadu Operating and Maintenance Company)

- (i) (a) The Company has maintained proper records showing full particulars, including quantitative details and situation of fixed assets.
- (b) Fixed assets have been physically verified by the management during the year and no material discrepancies were identified on such verification.
- (c) There was no disposal of fixed assets during the year.
- (ii) Due to the nature of its business, the Company has no inventory. Accordingly, the provisions of clause (ii) of paragraph 4(A) of the Companies (Auditor's Report) Order, 2003 as amended ('the Order') in respect of inventories are not applicable to the Company.
- (iii) (a) According to the information and explanations given to us, the Company during the year has not granted any loans, secured or unsecured to/from companies, firms or other parties covered under Section 301 of the Companies Act, 1956; accordingly, clause (iii) (b), (c) and (d) of the Companies (Auditor's Report) Order, 2003 (as amended) are not applicable to the Company.
- (e) The Company had taken loans from a company covered in the register maintained under Section 301 of the Companies Act, 1956. The maximum amount involved during the year was Rs. 492,000 thousands and the year-end balance of loans taken from such party was Rs. NIL.
- (f) In our opinion and according to the information and explanations given to us, the rate of interest and other terms and conditions for such loans are not prima facie prejudicial to the interest of the Company.
- (g) In respect of loans taken, repayment of the principal amount is as stipulated and payment of interest has been regular.
- (iv) In our opinion and according to the information and explanations given to us, there is an adequate internal control system commensurate with the size of the Company and the nature of its business, for the purchase fixed assets and for the sale of services. During the course of our audit, no major weakness has been noticed in the internal control system in respect of these areas.

- (v) (a) According to the information and explanations provided by the management, we are of the opinion that the particulars of contracts or arrangements referred to in Section 301 of the Act that need to be entered into the register maintained under Section 301 have been so entered.
- (b) In our opinion and according to the information and explanations given to us, transactions made in pursuance of such contract or arrangement exceeding value of Rupees five lakhs have been entered into during the financial year at prices which are reasonable having regard to the prevailing market prices at the relevant time, except in respect of transactions entered into pursuant to service contracts, we are unable to comment whether the transactions were made at prevailing market prices at the relevant time, because of the unique and specialized nature of the items involved and absence of any comparable prices.
- (vi) The Company has not accepted any deposits from the public.
- (vii) In our opinion, the Company has an internal audit system commensurate with the size and nature of its business.
- (viii) To the best of our knowledge and as explained, the Central Government has not prescribed maintenance of cost records under clause (d) of sub-section (1) of section 209 of the Companies Act, 1956 for the products of the Company.
- (ix) (a) The Company is regular in depositing with appropriate authorities undisputed statutory dues including provident fund, investor education and protection fund, employees' state insurance, income-tax, sales-tax, wealth-tax, service tax, customs duty, excise duty, cess and other material statutory dues applicable to it.
- (b) According to the information and explanations given to us, no undisputed amounts payable in respect of provident fund, investor education and protection fund, employees' state insurance, income-tax, wealth-tax, service tax, sales-tax, customs duty, excise duty, cess and other undisputed statutory dues were outstanding, at the year end, for a period of more than six months from the date they became payable.
- (c) According to the records of the Company, there are no dues of income tax, sales-tax, wealth tax, service tax, custom duty, excise duty and cess which have not been deposited on account of any dispute, other than the following:-

Name of the statute	Nature of dues	Amount (Rs' 000)	Period to which the amount relates	Forum where dispute is pending
Central Excise Act, 1944	Service Tax	59,518	July 8, 1997 to March 31, 2006	Commissioner Central Excise (Appeals)

- (x) The Company has no accumulated losses at the end of the financial year and it has not incurred cash losses in the current and immediately preceding financial year.

- (xi) Based on our audit procedures and as per the information and explanations given by the management, we are of the opinion that the Company has not defaulted in repayment of dues to a financial institution or bank.
- (xii) According to the information and explanations given to us and based on the documents and records produced to us, the Company has not granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities.
- (xiii) In our opinion, the Company is not a chit fund or a nidhi / mutual benefit fund / society. Therefore, the provisions of clause 4(xiii) of the Companies (Auditor's Report) Order, 2003 (as amended) are not applicable to the Company.
- (xiv) In our opinion, 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 (as amended) are not applicable to the Company.
- (xv) According to the information and explanations given to us, the Company has not given any guarantee for loans taken by others from bank or financial institutions.
- (xvi) Based on information and explanations given to us by the management, term loans were applied for the purpose for which the loans were obtained.
- (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) The Company has made preferential allotment of shares to parties and companies covered in the register maintained under section 301 of the Act. In our opinion the price at which shares have been issued is not prejudicial to the interest of the Company.
- (xix) The Company did not have any outstanding debentures during the year.
- (xx) We have verified that the end use of money raised by public issues is as disclosed in note (9) to Schedule 18 to the financial statements.
- (xxi) Based upon the audit procedures performed for the purpose of reporting the true and fair view of the financial statements and as per the information and explanations given by the management, we report that no fraud on or by the Company has been noticed or reported during the course of our audit.

For **S. R. Batliboi & Associates**
Chartered Accountants

Per
Raman Sobti
Partner

Place : New Delhi
Date : 22-05-2006

Membership No. 089218

Balance Sheet as at 31st March, 2006

	Schedules	As at 31st March, 2006 Rupees '000	As at 31st March, 2005 Rupees '000
SOURCES OF FUNDS			
Shareholders' Funds			
Capital	1	236,444	350
Reserves and surplus	2	3,885,142	53,064
		<u>4,121,586</u>	<u>53,414</u>
Loan Funds			
Secured loans	3	-	700,000
Unsecured loans	4	-	142,000
		-	842,000
TOTAL		<u>4,121,586</u>	<u>895,414</u>
APPLICATION OF FUNDS			
Fixed Assets			
Gross block	5	441	441
Less : Accumulated depreciation		332	306
Net block		<u>109</u>	<u>135</u>
Investments	6	3,086,985	891,817
Deferred tax assets	7	904	735
Current Assets, Loans and Advances			
Sundry debtors	8	12,065	2,174
Unbilled revenues		12,031	2,004
Cash and bank balances	9	60,182	1,366
Other current assets	18 (2)(e)(iii)	70,692	-
Loans and advances	10	1,004,800	1,192
		<u>1,159,770</u>	<u>6,736</u>
Less: Current Liabilities and Provisions			
Liabilities	11	118,664	2,005
Provisions	12	7,518	2,004
		<u>126,182</u>	<u>4,009</u>
Net Current Assets		<u>1,033,588</u>	<u>2,727</u>
TOTAL		<u>4,121,586</u>	<u>895,414</u>
Notes to Accounts	18		

The schedules referred to above and notes to accounts form an integral part of the Balance Sheet.

As per our report of even date

For and on behalf of the Board of Directors of
GVK Power & Infrastructure Limited

For **S.R.Batliboi & Associates**
Chartered Accountants

G V KRISHNA REDDY
Chairman and Managing Director

G V SANJAY REDDY
Director

Per
RAMAN SOBTI
Partner
Membership No. 089218

A ISSAC GEORGE
Chief Financial Officer

P V RAMA SESHU
Company Secretary

Place : New Delhi
Date : 22.05.2006

Place: Hyderabad
Date: 22.05.2006

Profit and Loss Account for the year ended 31st March, 2006

	Schedules	For the Year ended 31st March, 2006 Rupees '000	For the Year ended 31st March, 2005 Rupees '000
INCOME			
Fees and billable expenses (Gross)		115,653	73,209
Less: Service tax		<u>2,040</u>	-
Fees and billable expenses (Net)	13	113,613	73,209
Other income	14	<u>122,400</u>	1,321
		<u>236,013</u>	<u>74,530</u>
EXPENDITURE			
Personnel expenses	15	25,581	19,283
Operating expenses	16	20,931	14,495
Depreciation	5	26	26
Financial expenses	17	85,919	8,833
		<u>132,457</u>	<u>42,637</u>
Profit before tax		103,556	31,893
Provision for taxation			
- Current		23,370	14,968
- Deferred	7	(169)	(78)
- Fringe benefit		648	-
Income tax refund of earlier year		<u>(1,255)</u>	<u>(635)</u>
		<u>22,594</u>	<u>14,255</u>
Profit after tax		80,962	17,638
Balance brought forward from previous year		<u>32,168</u>	<u>14,530</u>
Profit available for appropriation		113,130	32,168
Appropriations:			
Transfer to general reserve		<u>31,954</u>	-
Surplus carried to Balance Sheet		<u>81,176</u>	<u>32,168</u>
Earnings per share (in Rs.)			
- Basic		7.46	3.32
- Diluted		7.46	3.32
Nominal value per share (in Rs.)		10	10
Weighted average number of shares			
- Basic		10,857,000	5,320,000
- Diluted		10,857,000	5,320,000
Notes to Accounts	18		

The schedules referred to above and notes to accounts form an integral part of the Profit & Loss Account.

As per our report of even date

For and on behalf of the Board of Directors of
GVK Power & Infrastructure Limited

For **S.R.Batliboi & Associates**
Chartered Accountants

G V KRISHNA REDDY
Chairman and Managing Director

G V SANJAY REDDY
Director

Per
RAMAN SOBTI
Partner
Membership No. 089218

A ISSAC GEORGE
Chief Financial Officer

P V RAMA SESHU
Company Secretary

Place : New Delhi
Date : 22.05.2006

Place: Hyderabad
Date: 22.05.2006

Schedules to the Accounts

	As at 31st March, 2006 Rupees '000	As at 31st March, 2005 Rupees '000
SCHEDULE " 1 "		
SHARE CAPITAL		
AUTHORISED		
50,000,000 (Previous year: 2,000,000) equity shares of Rs.10/- each	<u>500,000</u>	<u>20,000</u>
Issued, subscribed and paid up 23,644,445 (Previous year: 35,000) equity shares of Rs. 10/- each	<u>236,444</u>	<u>350</u>
Notes:		
1. Of the above shares 5,285,000 shares are allotted as fully paid up by way of bonus shares by capitalization of General Reserve.		
SCHEDULE " 2 "		
RESERVES AND SURPLUS		
General Reserve		
Balance as per last account	20,896	20,896
Add: Transferred from Profit and Loss account	<u>31,954</u>	-
	52,850	20,896
Less: Amount utilised for issue of Bonus Shares	<u>52,850</u>	-
	-	<u>20,896</u>
Securities Premium Account		
Balance as per last account	-	-
Add: Received during the year	3,944,071	-
Less: Utilised for share issue expenses	<u>140,105</u>	-
	3,803,966	-
Profit and Loss Account	81,176	32,168
	<u>3,885,142</u>	<u>53,064</u>
SCHEDULE " 3 "		
SECURED LOANS		
(Refer note 3 on schedule 18)		
Other loans and advances	-	700,000
[Repayable within one year Rs. Nil (Previous year: Rs. 35,000)]	<u>-</u>	<u>700,000</u>
	-	-
SCHEDULE " 4 "		
UNSECURED LOANS		
(Refer note 3 on schedule 18)		
Loan from a subsidiary	-	22,000
Other loans and advances from banks	-	120,000
[Repayable within one year Rs. Nil (previous year Rs. Nil)]	<u>-</u>	<u>142,000</u>
	-	-

Schedules to the Accounts

SCHEDULE "5" - FIXED ASSETS

Rupees '000

	Gross Block			Depreciation			Net Block	
	At 1.4.2005	Additions	At 31.03.2006	Upto 1.4.2005	For the year	Upto 31.03.2006	31.03.2006	31.03.2005
Furniture and fittings	339	-	339	234	21	255	84	105
Office equipment	102	-	102	72	5	77	25	30
Total	441	-	441	306	26	332	109	135
Previous year	441	-	441	280	26	306	135	161

As at	As at
31st March, 2006	31st March, 2005
Rupees' 000	Rupees '000

SCHEDULE "6"

INVESTMENTS

Long Term Investments (At cost)

A. Trade (Unquoted) 126,555,100 equity shares of Rs. 10/- each fully paid-up in Gautami Power Limited (Previous year: Rs. Nil)	1,265,551	-
B. In Subsidiary Company (Unquoted) 141,383,800 equity shares of Rs. 10/- each fully paid-up in GVK Industries Limited (Previous year: Rs. 86,877,100) net off dividends declared out of pre-acquisition profits [Aggregate value of unquoted investments Rs. 3,036,860 (Previous year: Rs. 891,817)]	1,771,309	891,817

Current investments

(At lower of cost and market value)

Other than trade (quoted) Balance of unutilised monies raised by issue 4,337,115.298 (Previous year Nil) units in Principal Mutual Fund at Rs. 11.5572 per unit. [Market value Rs. 50,125 (Previous Year Rs. Nil)]	50,125	-
	<u>3,086,985</u>	<u>891,817</u>

SCHEDULE "7"

DEFERRED TAX ASSETS

Deferred tax assets represents the aggregate tax effect of the timing differences arising from:

Provision for gratuity	648	509
Provision for leave encashment	255	225
Depreciation	1	1
	<u>904</u>	<u>735</u>

Schedules to the Accounts

	As at 31st March, 2006 Rupees '000	As at 31st March, 2005 Rupees '000
SCHEDULE " 8 "		
SUNDRY DEBTORS – UNSECURED, CONSIDERED GOOD		
Outstanding for more than six months	-	-
Other debts*	12,065	2,174
	<u>12,065</u>	<u>2,174</u>
* represents amounts receivable from GVK Industries Limited, a company under the same management.		
SCHEDULE " 9 "		
CASH AND BANK BALANCES		
Cash on hand	-	-
Balances with scheduled banks on current accounts	19,429	1,366
Balance of unutilised monies raised by issue with scheduled banks on current accounts	40,753	-
	<u>60,182</u>	<u>1,366</u>
SCHEDULE " 10 "		
LOANS AND ADVANCES - UNSECURED, CONSIDERED GOOD		
Advances recoverable in cash or kind or for value to be received**	978,146	105
Advance tax, net of provisions	-	72
Deposits	26,654	1,015
	<u>1,004,800</u>	<u>1,192</u>
** Includes share application money amounting to Rs. 952,949		
SCHEDULE " 11 "		
LIABILITIES		
Sundry creditors***	109,770	461
Interest accrued but not due on loans	-	1,099
Retention money	291	211
Other liabilities	8,603	234
	<u>118,664</u>	<u>2,005</u>
*** Sundry Creditors includes creditors amounting to Rs. 108,363 for share issue expense in connection with the initial public offering of the Company's equity shares.		
There are no amounts due to small scale industrial undertakings as defined under section 3 of the Industries (Development and Regulation) Act, 1951.		
SCHEDULE " 12 "		
PROVISIONS		
Taxation, net of advance tax	4,537	-
Fringe benefit tax	300	-
Retirement benefits		
-Gratuity	1,924	1,390
-Leave encashment	757	614
	<u>7,518</u>	<u>2,004</u>

Schedules to the Accounts

	As at 31st March, 2006 Rupees '000	As at 31st March, 2005 Rupees '000
SCHEDULE " 13 "		
FEES AND BILLABLE EXPENSES		
Operating fees	40,523	38,691
Incentive fees	12,250	1,484
Fees for technical services	20,000	-
Billable expenses	40,840	33,034
	<u>113,613</u>	<u>73,209</u>
SCHEDULE " 14 "		
OTHER INCOME		
Interest income, gross of tax deducted at source Rs.178 (Previous year Rs.290)	808	1,319
Dividend income		
Investment in subsidiary, net of dividends declared out of pre-acquisition profits - long term	121,467	-
Non trade investments - short term	125	-
Miscellaneous income	-	2
	<u>122,400</u>	<u>1,321</u>
SCHEDULE " 15 "		
PERSONNEL EXPENSES		
Salaries, wages and bonus	23,351	17,541
Staff welfare expenses	1,291	1,126
Contribution to provident and other funds	939	616
	<u>25,581</u>	<u>19,283</u>
SCHEDULE " 16 "		
OPERATING EXPENSES		
Communication	335	344
Travel and conveyance	3,981	3,550
Legal and professional fees	552	740
Insurance	119	118
Rates and taxes	4,702	1,888
Operating and maintenance expenses	9,166	7,189
Miscellaneous expenses	1,126	666
Donations	800	-
Director sitting fees	150	-
	<u>20,931</u>	<u>14,495</u>
SCHEDULE " 17 "		
FINANCIAL EXPENSES		
Interest		
on term loans from others	56,510	7,595
on loans from bank	8,443	1,238
on loans from others	20,966	-
	<u>85,919</u>	<u>8,833</u>

SCHEDULE - " 18 "

NOTES TO ACCOUNTS:

(Amounts expressed in Indian Rupees Thousands unless otherwise stated)

1. Nature of Operations

GVK Power & Infrastructure Limited ("the Company") was originally incorporated as a private company with an unlimited liability. During the year the Company was converted into private and then into a public limited company and was renamed as GVK Power & Infrastructure Limited.

The Company provides operating and maintenance services to the power plants.

2. Statement of Significant Accounting Policies

a. Basis of preparation

The financial statements have been prepared to comply in all material respects with the mandatory Accounting Standards (AS) issued by the Institute of Chartered Accountants of India ("the ICAI") and the relevant provisions of the Companies Act, 1956. The financial statements have been prepared under the historical cost convention on an accrual basis. The accounting policies applied by the Company are consistent with those used in the previous year. The significant accounting policies are as follows:

b. Fixed assets and depreciation

Fixed assets are stated at cost (or revalued amounts, as the case may be), less accumulated depreciation and impairment losses if any. Cost comprises the purchase price and any attributable cost of bringing the asset to its working condition for its intended use. Borrowing costs relating to acquisition of fixed assets which takes substantial period of time to get ready for its intended use are also included to the extent they relate to the period till such assets are ready to be put to use.

Depreciation is provided on Straight Line method at the rates mentioned below which are greater than or equal to the corresponding rates prescribed in Schedule XIV of the Companies Act, 1956:

	Rates
Furniture and fittings	6.33
Office equipment	4.75

Fixed assets individually costing Rs. 5 or less are fully depreciated in the period of purchase.

c. Impairment

(i) The carrying amounts of assets are reviewed at each balance sheet date if there is any indication of impairment based on internal/external factors. An impairment loss is recognized wherever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the greater of the assets net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value at the weighted average cost of capital.

(ii) After impairment, depreciation is provided on the revised carrying amount of the assets over its remaining useful life.

d. Investments

Investments that are readily realizable and intended to be held for not more than a year are classified as current investments. All other investments are classified as long-term investments. Current investments are carried at lower of cost and fair value determined on an individual investment basis. Long-term investments are carried at cost. However, provision for diminution in value is made to recognize a decline other than temporary in the value of the investments.

e. Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured.

i) Rendering of services

Revenues represent amounts billed or accrued for services rendered and for expenses incurred in relation to such services, in accordance with the Operation and Maintenance agreement with its customers.

Per the operations and maintenance agreement, the Company's income comprises of (a) Operating fees (b) Incentive fees and (c) Reimbursement of actual expenses. Operating fees are receivable based on certain defined levels of Actual Annual Availability ("AAA") of plant. The Company is also eligible to receive incentive fees, if the AAA and/or if the actual generation of power are higher than the defined levels.

The AAA of the power plant for the purpose of determining the operating fees and incentive fees are measured annually according to a tariff year, currently ending on June 19. Expenses incurred for the

purposes of operating and maintaining the power plant are reimbursed by GVK Industries Limited.

The Company recognizes base fees as they become billable, and accrues for incentive fees, based on the qualifying operating levels achieved as at the year end, or, if unavailable, management's estimation thereof.

(ii) Interest

Revenue is recognised on a time proportion basis taking into account the amount outstanding and the rate applicable.

(iii) Dividends

Revenue is recognised when the shareholders' right to receive payment is established by the balance sheet date.

f. Foreign currency transactions

(i) Initial Recognition

Foreign currency transactions are recorded in the reporting currency, by applying to the foreign currency amount the exchange rate between the reporting currency and the foreign currency at the date of the transaction.

(ii) Conversion

Foreign currency monetary items are reported using the closing rate. Non-monetary items which are carried in terms of historical cost denominated in a foreign currency are reported using the exchange rate at the date of the transaction; and non-monetary items which are carried at fair value or other similar valuation denominated in a foreign currency are reported using the exchange rates that existed when the values were determined.

(iii) Exchange Differences

Exchange differences arising on the settlement of monetary items or on reporting company's monetary items at rates different from those at which they were initially recorded during the year, or reported in previous financial statements, are recognised as income or as expenses in the year in which they arise.

g. Retirement benefits

(i) Retirement benefits in the form of Provident Fund are charged to the Profit and Loss Account of the year when the contribution to the fund is due. There are no other obligations other than the contribution payable to the respective trusts.

(ii) Gratuity liability under the Payment of Gratuity Act and provision for leave encashment is accrued and provided for on the basis of an actuarial valuation made at the end of each financial year.

h. Income tax

Tax expense comprises of current, deferred and fringe benefit tax. Current income tax and fringe benefit tax is measured at the amount expected to be paid to the tax authorities in accordance with the Indian Income Tax Act. Deferred income taxes reflects the impact of current year timing differences between taxable income and accounting income for the year and reversal of timing differences of earlier years.

Deferred tax is measured based on the tax rates and the tax laws enacted or substantively enacted at the balance sheet date. Deferred tax assets are recognised only to the extent that there is reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised.

i. Earnings per share

Basic earnings per share are calculated by dividing the net profit or loss for the period attributable to equity shareholders by the weighted average number of equity shares outstanding during the period. The weighted average number of equity shares outstanding during the period is adjusted for events of bonus issue; bonus element in a rights issue to existing shareholders; share split; and reverse share split (consolidation of shares).

For the purpose of calculating diluted earnings per share, the net profit or loss for the period attributable to equity shareholders and the weighted average number of shares outstanding during the period are adjusted for the effects of all dilutive potential equity shares.

j. Provisions

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

GVK Power & Infrastructure Limited

(Formerly Jegurupadu Operating & Maintenance Company)

k. Cash and Cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short-term investments with an original maturity of three months or less.

3. Secured and unsecured loans

In February 2005, the Company had borrowed a term loan amounting to Rs. 700,000 from Infrastructure Leasing and Financial Services Limited. The said term loan was fully secured by way of (i) pledge and exclusive first charge on dividends to be received on 62,225,000 equity shares of GVK Industries Limited and (ii) exclusive first charge on revenues of the Company excluding reimbursement of expenses under the existing operations and maintenance agreement.

During the year ended March 31, 2006 the Company has used portion of proceeds from its Initial Public Offering of equity shares to repay all of its secured and unsecured long-term and short terms loans prior to their original maturity.

4. Related party transaction

4.1. Revenues: Fees and billable expenses amounting to Rs. 113,613 (Previous Year Rs. 73,209) of the Company as reported in the schedule 13 to the accompanying Profit and Loss Account for the year ended March 31, 2006 was earned from the operating and maintenance and fee from technical services rendered to GVK Industries Limited.

4.1.1. Sundry debtors amounting to Rs. 12,065 (Previous Year Rs. 2,174) as at March 31, 2006 represents amount receivable from GVK Industries Limited for the operating and maintenance services provided during the year.

4.1.2. During the year the Company has received interim dividends amounting to Rs. 138,171 (Previous Year Rs. Nil) from its subsidiary GVK Industries Limited. As at March 31, 2006 Rs. 70,692 (Previous Year Rs. Nil) is receivable.

4.2. Borrowings and Interest expense:

4.2.1. The Company had taken interest free loan amounting to Rs. Nil (Previous Year Rs. 22,000) from GVK Industries Limited and had repaid the entire amount during the year ended March 31, 2006. Loan outstanding at March 31, 2006 is Rs. Nil (Previous Year Rs. 22,000).

4.2.2. During the year ended March 31, 2006 the Company had borrowed an interest bearing short term loans amounting Rs. 470,000 (Previous Year Rs. Nil) from GVK Industries Limited and had repaid the same within the same year.

4.2.3. During the year ended March 31, 2006 the Company had incurred and paid Rs. 1,847 (Previous Year Rs. Nil) to GVK Industries Limited being interest on the short term loans availed.

4.2.4. Amounts borrowed from IL&FS were secured by way of (a) mortgage of "Paigah House" property owned by Paigah House Hotel Private Limited; and (b) pledge of 35,000 equity shares held by the shareholders of the Company.

4.3. The Company has pledged 56,274,500 and 62,225,000 (Previous year: 17,030,000) equity shares of Rs. 10/- each held in GVK Industries Limited, with IDBI Limited and IL & FS Limited respectively as a security against amounts borrowed by GVK Industries Limited. The carrying value of these shares as at March 31, 2006 is Rs. 1,484,604 (Previous Year Rs. 174,818).

4.4. The Company has also pledged 113,149,500 (Previous Year Nil) equity shares of Rs. 10/- each held in Gautami Power Limited, with Power Finance Corporation Limited as a security against amounts borrowed by Gautami Power Limited. The carrying value of these shares as at March 31, 2006 is Rs. 1,131,495 (Previous Year Rs. Nil).

4.5. During the year ended March 31, 2006 the Company has acquired 48,081,300 equity shares of GVK Industries Limited for a consideration of Rs.828,922 from Guardian Holdings Limited, Mauritius.

4.6. During the year ended March 31, 2006 the Company has acquired 34,800,000 equity shares of Gautami Power Limited for a consideration of Rs.348,000 from Transoceanic Projects Limited (Mauritius).

4.7. During the year ended March 31, 2006 the Company has acquired 31,755,100 equity shares of Gautami Power Limited for a consideration of Rs.317,550 from GVK Energy Holdings Private Limited.

4.8. During the year ended March 31, 2006 the Company had advanced Rs. 2,500 to GVK Power (Goindwal Sahib) Limited for allotment of equity shares of the said company. (Receivable at the end of the current year Rs. Nil).

4.9. During the year ended March 31, 2006 the Company has received Rs. 2,500 and Rs.1,177,070 from GVK Energy Holdings Private Limited (Payable at the end of the current year Nil) and Transoceanic Projects Limited, Mauritius (Payable at the end of the current year Nil) respectively for allotment of equity shares in the Company (Previous year: Nil).

4.10. During the year ended March 31, 2006 the Company has paid remuneration amounting to Rs. 2,500 (Previous Year: Nil) to Mr. G V K Reddy.

- 4.11. During the year ended March 31, 2006 the Company has incurred and paid public issue management fees amounting to Rs. 1,102 (Previous Year Rs. Nil) to Novapan Industries Limited.
- 4.12. During the year ended March 31, 2006 the Company has incurred and paid an amount of Rs. 318 to TAJGVK Hotels & Resorts Limited towards hospitality services.
- 4.13. During the year ended March 31, 2006 the Company has incurred and paid an amount of Rs. 3524 to Orbit Travels & Tours Pvt. Ltd., towards travel expenditure.
- 4.14. The nature of relationship between the Company and the related parties is given below:

Subsidiary

GVK Industries Limited (Effective from September 21, 2005)

Companies over which the key management personnel exercise Significant influence:

Paigah House Hotel Private Limited
 GVK Energy Holdings Private Limited
 Transoceanic Projects Limited, Mauritius
 Guardian Holdings Limited, Mauritius
 GVK Power (Goindwal Sahib) Limited
 Novapan Industries Limited
 TAJGVK Hotels & Resorts Limited
 Orbit Travels & Tours Private Limited

Key Management Personnel

G V K Reddy

Associate

GVK Industries Limited (upto September 20, 2005)
 Gautami Power Limited

5. The profit and loss account for the year ended March 31, 2006 and share issue expenses incurred in connection with public issue of shares include certain transactions with Orbit Travels and Tours Private Limited in respect of which the Company is in the process of filing necessary applications seeking approval from the Central Government as required under the provisions of Section 297 of the Companies Act 1956.

6. Contingent liability

(a) Claims against the Company not acknowledged as debt

The Company has received an order from the Assistant Commissioner of Central Excise demanding service tax estimated at Rs. 5,161 including estimated penalty, on the revenues of the Company for the period up to March 31, 1999. An amount of Rs. 1,000 has been deposited with the authorities in this regard and the same is included under loans and advances. The consequential liability in respect of service tax and penalty for the period from April 1999 to March 31, 2006 and interest for the period from July 8, 1997 up to March 31, 2006 is estimated at Rs. 54,357 (Previous Year Rs. 43,084).

The Company has been legally advised that its services are not covered by the provisions of the service tax. Accordingly, the Company has filed an appeal before the Commissioner of Central Excise against the order. The Company believes that, there would be no impact of the outcome of appeal, either on the profit or on the shareholder funds as the entire amount would be recovered from GVK Industries Limited pursuant to the terms and conditions of the O&M agreement.

(b) Security against loans taken by others

During the year ended March 31, 2006 the Company has provided security amounting to Rs.2,616,009 (Previous Year Rs. 174,818) by way pledge of its investments in respect of amounts borrowed by its subsidiary GVK Industries Limited and Gautami Power Limited. As of March 31, 2006 no provision was recognized against such securities as the risk of security being called by the bankers is remote.

7. Earnings per share

Pursuant to the resolution passed by the members in the Extra-Ordinary General Meeting of the Company held on August 22, 2005, the Company has issued 5,285,000 fully paid-up bonus shares in the ratio of 151:1 equity shares. In accordance with the measurement principles laid down under AS 20 "Earnings Per Share" issued by the ICAI, Basic and Diluted earnings per share for the period ended March 31, 2006 and 2005 has been measured based on the number of shares after giving affect of such bonus issue.

8. Segment Information

Based on the analysis of the Company's internal organization and management structure the management of the Company has classified its business activities as "Operation and Maintenance Services" segment.

No separate financial information is provided since the Company has only one reportable segment.

9. Details of utilisation of proceeds raised through public issue during the year

Particulars	Amount
Proceeds from public issue of shares	2,565,422
Share issue expenses	49,734
Investment in Gautami Power Limited in the form of share application money for allotment of equity shares	952,949
Deposit with National Stock Exchange	25,654
Repayment of secured loans	665,000
Repayment of other loans	781,332
Investments in mutual funds	50,000
Balance with scheduled banks	40,753
	<u>2,565,422</u>

10. Supplementary Statutory Information

10.1 Directors' Remuneration

Particulars	2005-06	2004-05
Salaries	2,232	-
Contribution to provident fund	268	-
	<u>2,500</u>	<u>-</u>

Note:-As the future liability for gratuity and leave encashment is provided on an actuarial basis for the Company as a whole, gratuity expenses pertaining to the directors is not ascertainable and, therefore, not included in the above disclosure.

10.2 Payments to auditors (including service tax)

(a) Included in legal and professional fees in Schedule 16 to the financial statements

	Year ended March 31,	
	2006	2005
Statutory audit fees	224	138
Other services	168	37
Reimbursement of out-of-pocket expenses	-	2
	<u>392</u>	<u>177</u>

(b) Rs. 2,792 paid towards professional services adjusted against the securities premium account.

10.3 Expenditure in foreign currency (Accrual basis)

	Year ended March 31,	
	2006	2005
Travel	208	-
Legal and professional fees	11,412	-
	<u>11,620</u>	<u>-</u>

11. Additional information pursuant to the provisions of Paragraph 3, 4C and 4D of Part II of Schedule VI to the Companies Act, 1956 are not provided as the Company is in the business providing services only.

12. Previous Year Comparative

Previous year's figures have been regrouped where necessary to conform to this year's classification.

SIGNATURES TO SCHEDULES 1 TO 18

As per our report of even date

For **S.R.Batliboi & Associates**
Chartered Accountants
Per
RAMAN SOBTI
Partner
Membership No. 089218

Place : New Delhi
Date : 22.05.2006

For and on behalf of the Board of Directors of
GVK Power & Infrastructure Limited

G V KRISHNA REDDY
Chairman and Managing Director

A ISSAC GEORGE
Chief Financial Officer

Place: Hyderabad
Date: 22.05.2006

G V SANJAY REDDY
Director

P V RAMA SESHU
Company Secretary

Cash-flow statements for the year ended 31st March 2006

	31st March 2006 Rs. '000	31st March 2005 Rs. '000
Profit before tax	103,556	31,893
Adjustments for:		
Depreciation	26	26
Dividend income	(121,467)	-
Interest income	(808)	(1,319)
Interest expense	85,919	8,833
Provision for retirement benefits	677	178
Operating profit before working capital changes	67,903	39,611
Movements in working capital :		
(Increase) /decrease in sundry debtors	(9,891)	13,670
Increase in loans and advances	(50,731)	(7)
(Increase) /decrease in unbilled revenues	(10,027)	5,304
Increase in other current assets	(70,692)	-
Increase /(decrease) in current liabilities	27,387	(2,855)
Cash generated from operations	(46,051)	55,723
Direct taxes paid (including fringe benefit tax), net of tax refund of Rs. 1,255 (Previous year Rs. Nil)	(17,854)	(15,047)
Net cash (used in) / from operating activities (A)	(63,905)	40,676
Cash flows from investing activities		
Purchase of investments		
In subsidiary	(896,196)	(891,817)
In others	(1,315,676)	-
Advance for investments	(952,949)	-
Dividends received	138,171	-
Interest received	808	1,319
Net cash used in investing activities (B)	(3,025,842)	(890,498)
Cash flows from financing activities		
Proceeds from issuance of share capital, net of expenses	4,077,581	-
Proceeds from long term borrowings	-	842,000
Repayment of long term borrowings	(700,000)	-
Proceeds from short term borrowings	1,823,100	22,000
Repayment of short term borrowings	(1,965,100)	(22,000)
Interest paid	(87,018)	(7,734)
Advance from promoters repaid	-	(260)
Net cash from financing activities (C)	3,148,563	834,006
Net increase (decrease) in cash and cash equivalents D=(A+B+C)	58,816	(15,816)
Cash and cash equivalents at the beginning of the year	1,366	17,182
Cash and cash equivalents at the end of the period	60,182	1,366
(Refer Schedule 9)		

As per our report of even date

For **S.R.Batliboi & Associates**
Chartered Accountants

Per
RAMAN SOBTI
Partner
Membership No. 089218

Place : New Delhi
Date : 22.05.2006

For and on behalf of the Board of Directors of
GVK Power & Infrastructure Limited

G V KRISHNA REDDY
Chairman and Managing Director

A ISSAC GEORGE
Chief Financial Officer

Place: Hyderabad
Date: 22.05.2006

G V SANJAY REDDY
Director

P V RAMA SESHU
Company Secretary

Balance Sheet Abstract & Company's General Business Profile

I. Registration Details

Registration No.

1	3	5	1	4	2
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 State Code

5	5
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 (Refer Code List)

Balance Sheet Date

3	1
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0	3
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2	0	0	6
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Date Month Year

II. Capital raised during the year (Amount in Rs. Thousands)

Public Issue	Rights Issue																
<table border="1" style="display: inline-table; border-collapse: collapse;"><tr><td> </td><td>8</td><td>2</td><td>7</td><td>5</td><td>6</td></tr></table>		8	2	7	5	6	<table border="1" style="display: inline-table; border-collapse: collapse;"><tr><td> </td><td>1</td><td>0</td><td>0</td><td>4</td><td>8</td><td>8</td></tr></table>		1	0	0	4	8	8			
	8	2	7	5	6												
	1	0	0	4	8	8											
Bonus Issue	Private Placement																
<table border="1" style="display: inline-table; border-collapse: collapse;"><tr><td> </td><td>5</td><td>2</td><td>8</td><td>5</td><td>0</td></tr></table>		5	2	8	5	0	<table border="1" style="display: inline-table; border-collapse: collapse;"><tr><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td></tr></table>										
	5	2	8	5	0												

III. Position of Mobilisation and Deployment of Funds (Amount in Rs. Thousands)

Total Liabilities	Total Assets																
<table border="1" style="display: inline-table; border-collapse: collapse;"><tr><td> </td><td>4</td><td>1</td><td>2</td><td>1</td><td>5</td><td>8</td><td>6</td></tr></table>		4	1	2	1	5	8	6	<table border="1" style="display: inline-table; border-collapse: collapse;"><tr><td> </td><td>4</td><td>1</td><td>2</td><td>1</td><td>5</td><td>8</td><td>6</td></tr></table>		4	1	2	1	5	8	6
	4	1	2	1	5	8	6										
	4	1	2	1	5	8	6										

Sources of Funds

Paid-up Capital	Reserves & Surplus																
<table border="1" style="display: inline-table; border-collapse: collapse;"><tr><td> </td><td>2</td><td>3</td><td>6</td><td>4</td><td>4</td><td>4</td></tr></table>		2	3	6	4	4	4	<table border="1" style="display: inline-table; border-collapse: collapse;"><tr><td> </td><td>3</td><td>8</td><td>8</td><td>5</td><td>1</td><td>4</td><td>2</td></tr></table>		3	8	8	5	1	4	2	
	2	3	6	4	4	4											
	3	8	8	5	1	4	2										
Secured Loans	Unsecured Loans																
<table border="1" style="display: inline-table; border-collapse: collapse;"><tr><td> </td><td>N</td><td>I</td><td>L</td><td> </td><td> </td><td> </td><td> </td></tr></table>		N	I	L					<table border="1" style="display: inline-table; border-collapse: collapse;"><tr><td> </td><td>N</td><td>I</td><td>L</td><td> </td><td> </td><td> </td><td> </td></tr></table>		N	I	L				
	N	I	L														
	N	I	L														
Deferred Tax liability																	
<table border="1" style="display: inline-table; border-collapse: collapse;"><tr><td> </td><td>N</td><td>I</td><td>L</td><td> </td><td> </td><td> </td><td> </td></tr></table>		N	I	L													
	N	I	L														

Application of Funds

Net Fixed Assets	Investments																
<table border="1" style="display: inline-table; border-collapse: collapse;"><tr><td> </td><td> </td><td> </td><td> </td><td> </td><td>1</td><td>0</td><td>9</td></tr></table>						1	0	9	<table border="1" style="display: inline-table; border-collapse: collapse;"><tr><td> </td><td>3</td><td>0</td><td>8</td><td>6</td><td>9</td><td>8</td><td>5</td></tr></table>		3	0	8	6	9	8	5
					1	0	9										
	3	0	8	6	9	8	5										
Net Current Assets	Misc. Expenditure																
<table border="1" style="display: inline-table; border-collapse: collapse;"><tr><td> </td><td>1</td><td>0</td><td>3</td><td>3</td><td>5</td><td>8</td><td>8</td></tr></table>		1	0	3	3	5	8	8	<table border="1" style="display: inline-table; border-collapse: collapse;"><tr><td> </td><td>N</td><td>I</td><td>L</td><td> </td><td> </td><td> </td><td> </td></tr></table>		N	I	L				
	1	0	3	3	5	8	8										
	N	I	L														
Deferred Tax Assets																	
<table border="1" style="display: inline-table; border-collapse: collapse;"><tr><td> </td><td> </td><td> </td><td> </td><td> </td><td>9</td><td>0</td><td>4</td></tr></table>						9	0	4									
					9	0	4										

IV. Performance of the company (Amount in Rs. Thousands)

Turnover	Total Expenditure																
<table border="1" style="display: inline-table; border-collapse: collapse;"><tr><td> </td><td>2</td><td>3</td><td>6</td><td>0</td><td>1</td><td>3</td></tr></table>		2	3	6	0	1	3	<table border="1" style="display: inline-table; border-collapse: collapse;"><tr><td> </td><td>1</td><td>3</td><td>2</td><td>4</td><td>5</td><td>7</td></tr></table>		1	3	2	4	5	7		
	2	3	6	0	1	3											
	1	3	2	4	5	7											
Profit before tax	Profit after tax																
<table border="1" style="display: inline-table; border-collapse: collapse;"><tr><td> </td><td>1</td><td>0</td><td>3</td><td>5</td><td>5</td><td>6</td></tr></table>		1	0	3	5	5	6	<table border="1" style="display: inline-table; border-collapse: collapse;"><tr><td> </td><td>8</td><td>0</td><td>9</td><td>6</td><td>2</td></tr></table>		8	0	9	6	2			
	1	0	3	5	5	6											
	8	0	9	6	2												
Earnings per Share Rs.	Dividend Rate %.																
<table border="1" style="display: inline-table; border-collapse: collapse;"><tr><td> </td><td> </td><td> </td><td> </td><td>7</td><td>.</td><td>4</td><td>6</td></tr></table>					7	.	4	6	<table border="1" style="display: inline-table; border-collapse: collapse;"><tr><td> </td><td>N</td><td>I</td><td>L</td><td> </td><td> </td><td> </td><td> </td></tr></table>		N	I	L				
				7	.	4	6										
	N	I	L														

V. Generic Names of three Principle Products/Services of Company (As per Monetary Terms)

Product

O	&	M		P	O	W	E	R		P	L	A	N	T	S			
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Description

									N	I	L							
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Item Code No.

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Statement Pursuant to Section 212 of the Companies Act, 1956

	GVK Industries Ltd.
	31st March 2006
1. The Financial Year of the Company ends on:	
2. Fully paid-up shares held by GVKPIL in the subsidiary company or by Subsidiary Company at the end of the Financial Year of the Subsidiary or Sub-subsidiary Company as the case may be	
a) Number (equity shares of Rs. 10/- each fully paid up)	141,383,800
b) Extent of holding	53.96%
3. Changes in the interest of the Company or the Subsidiary Company between the end of the Financial Year of the Subsidiary Company or Sub-subsidiary Company and 31st March 2006	N.A.
4. The net aggregate of Profit / (Loss) of the Subsidiary / Sub-subsidiary Company so far as they concern the Members of the Company	
a. Dealt with in the accounts of the Company for the year ended 31st March 2006	Nil
b. Not dealt with in the accounts of the Company for the year ended 31st March 2006	Nil
5. The net aggregate of Profit / (Loss) of the Subsidiary / Sub-subsidiary Company for previous financial years, so far as they concern the Members of the Company	
a. Dealt with in the accounts of the Company for the year ended 31st March 2006	N.A.
b. Not dealt with in the accounts of the Company for the year ended 31st March 2006	N.A.
6. Material changes between the end of the Financial Year of the Subsidiary or Sub-subsidiary Company as the case may be and 31 st March 2006	
a. Fixed Assets	Nil
b. Investments	
c. Moneys lent by the Subsidiary Company	
d. Moneys borrowed by the Subsidiary Company other than for meeting Current Liabilities	

GVK Industries Limited

Directors' Report

Dear Shareholders,

Your Directors have pleasure in presenting the 14th Annual Report and the Audited Accounts for the year ended March 31, 2006, together with the Auditor's Report thereon.

Review of Operations

During the year under review, your Company has achieved a Plant Load Factor (PLF) of 68.52% as compared to 75.30% of the previous year. The reduction in PLF is mainly attributable to the restricted gas supply from GAIL as well as AP Transco's order not to use naphtha as a supplementary fuel and dispatch instructions to limit the daily generation to synchronize with their day to day demand. The Plant Availability Factor (PAF) for the year is 95.70% when compared to 98.02% of the previous year.

Financial Results:

Your Company's financial results for the year under review are as under: (Rupees in Millions)

	2005 – 2006	2004 – 2005
Gross Revenues	2833.99	3050.72
Operating Profit	960.44	1135.60
Interest and Financing Charges	110.89	156.25
Profit before Depreciation and Tax	876.07	1056.68
Depreciation	511.88	506.59
Profit before Tax	364.19	550.09
Extraordinary Items	256.09	-
Income Tax (MAT), Wealth tax & FBT	5.89	1.22
Deferred Tax Liability	(1052.12)	41.18
Profit after Tax	1154.33	507.69

Environment & Safety :

In tune with its philosophy, your Company has been maintaining the highest environment standards with the best safety record at the Plant. Your Company has achieved yet another full year of accident free operations, which is a clear reflection of the safety practices being followed at the plant. Your Company is committed to achieving global standards of environment and safety.

Your Company's Health, Environment and Safety policy, has become a respected reference in power and related sectors. This policy is being scrutinized and evaluated every year.

Expansion Project:

Your Directors wish to inform you that your Company has completed the erection of 220MW Expansion of Jegurupadu Project (Stage-I of Phase II). Even though, there was a delay in back-charging of the 400KV switch yard by APTRANSCO, the same was successfully completed by charging the auxiliary equipment and power transformers during September-October, 2005. The testing

and commissioning of the plant was completed on 8th October, 2005. The Gas Turbine and the Steam Turbine were synchronized with the grid on 9th October, 2005 and 11th November, 2005 respectively.

Your Company had also completed the pre-commissioning and load tests on the Gas Turbine, Steam Turbine and HRSG apart from completing the performance guarantee tests on 22nd January, 2006 in presence of the Independent Engineer, Owners's Engineer and Lenders Engineer. Your company will be in a position to declare the Project for Commercial Operation, only after receiving the back charging facility from APTRANSCO in terms of PPA and the natural gas from GAIL.

Members are aware that the availability of natural gas is a major cause of concern to all the gas based power projects. Even though the Government of India (GOI) and Ministry of Petroleum and Natural Gas (MOPNG) have agreed to supply the Natural Gas to all the new projects on prorata basis, we understand that the Government of Andhra Pradesh had advised GOI and MOPNG not to supply the gas on prorata basis to all the new projects, since the current availability of gas is not even adequate for the existing power projects.

Given the above, your Company is not getting allocation of gas for the Phase-II and the plant is shutdown from 22.01.2006, after completing all the performance tests. The Company has taken over the plant from EPC contractor i.e., ALSTOM on 12.05.2006 and the same is being kept under preserved condition as per the OEM recommendations till GAIL starts supplying the Gas for operation of the plant.

Directors:

During the year Mr. G V Sanjay Reddy, Director was appointed as Executive Vice Chairman of the Company at the Board Meeting held on 21.09.2005. However, due to his other commitments, he resigned as Executive Vice Chairman of the Company on 16.05.2006 and will continue as Non- executive Vice Chairman of the Company.

The term of appointment of V Rama Rao, Director (Technical) of the Company expired on 31.03.2006 and he will continue as an ordinary Director (non-executive) of the Company from 01.04.2006.

Dr Abid Hussain, Mr. Ajit Singh and Mr K. Balarama Reddi Directors of the Company would retire by rotation at this Annual General Meeting and being eligible, offer themselves for re-appointment. The Board recommends their re-appointment.

Directors' Responsibility Statement

Pursuant to the provisions of section 217 (2AA) of the Companies Act, 1956 with respect to "Directors' Responsibility Statement", it is hereby confirmed;

- (i) that in the preparation of the annual accounts for the financial year ended 31st March, 2006, the

applicable Accounting Standards have been followed along with proper explanations relating to material departures;

- (ii) that the directors had selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit or loss of the Company for the year under review;
- (iii) that the directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- (iv) that the directors had prepared the annual accounts for the financial year ended 31st March, 2006 on a going concern basis.

Audit Committee :

During the year under review, the Audit Committee of the Company has met 5 times and reviewed the internal control measures, internal audit reports and the financial performance of the Company. Following is the constitution and attendance of the members of the Audit Committee.

Name of the Director	Membership	Attendance on 04-05-05	Attendance on 14-10-05	Attendance on 22-10-05	Attendance on 30-12-05	Attendance on 27-03-06
1 Mr. K Balarama Reddi	Chairman	Yes	Yes	Yes	Yes	Yes
2 Mr. Ajit Singh	Member	No	Yes	No	No	No
3 Mr. Ajay Lal	Member	Yes	No	No	No	Yes
4 Mr. A V Rammurthy	Member	Yes	-	-	-	-
Mr. Devi Dayal *	Member	-	No	Yes	Yes	Yes
5 Air Chief Marshal I H Latif	Member	Yes	No	Yes	Yes	No
6 Dr. Abid Hussain	Member	Yes	No	No	Yes	Yes

* Mr. Devi Dayal was nominated by IDBI in place of Mr. A V Rammurthy w.e.f. 19.05.2005

O & M Sub Committee :

During the year under review, the O & M Sub Committee of the Company has met on 27.03.2006 and reviewed the operational performance of the Plant at Jegurupadu. Following is the constitution and attendance of members of the O & M Sub Committee.

Name of the Director	Membership	Attendance on 27-03-06
1 Mr. G V Krishna Reddy	Chairman	Yes
2 Mr. G V Sanjay Reddy	Member	Yes
3 Mr. Som Bhupal	Member	Yes
4 Mr. Ajay Lal	Member	Yes
5 Mr. K Balarama Reddi	Member	Yes

Auditors :

The term of our present Auditors viz., M/s. Brahmayya & Co., would come to an end at the ensuing Annual General Meeting. It is proposed to reappoint M/s. Brahmayya & Co., as the Statutory Auditors of the Company. Accordingly, the Board recommends their re-appointment.

Particulars of Employees :

A statement giving information and particulars of the employees as required under section 217(2A) of the Companies Act, 1956, is enclosed as an Annexure to this Report.

Social Commitment :

In line with its corporate philosophy, your Company is making contributions to promote certain socio-economic development activities. These include establishing schools, contribution to hospitals, repairs of roads, drinking water supply, sports etc.

Conservation of Energy, Technology Absorption and Foreign Exchange Earnings and Outgo:

In accordance with the provisions of Section 217(1)(e) of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988, the required information is furnished as an Annexure to this report.

Fixed Deposits :

During the year under review, your Company has neither invited nor received any deposits from the public.

Acknowledgments:

Your Directors acknowledges with deep sense of appreciation the cooperation received from Government of India, Government of Andhra Pradesh, Transmission Corporation of Andhra Pradesh Limited, Indian Financial Institutions and Banks. Your Directors express their appreciation for the dedicated and sincere services rendered by the employees of the Company at all levels. Your Directors also wish to express their gratitude to the Shareholders for the confidence reposed by them in the Company and for their continued support and co-operation.

For and on behalf of the
Board of Directors

Place : Secunderabad
Date : 16.05.2006

G V Krishna Reddy
Chairman

Auditors' Report

Brahmayya & Co

Chartered Accountants
403 & 404, 4th Floor, Golden Green Apartments
Erramanzil Colony, Hyderabad – 500 082

To the Shareholders of
GVK Industries Limited, Secunderabad (A.P)

We have audited the attached balance sheet of GVK Industries Limited, Secunderabad (A.P.) as at 31st March, 2006, and the Profit and Loss account for the year ended on that date annexed thereto, and its Cash Flow Statement for the year ended on that date. 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.

We conducted our audit in accordance with the 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 of material misstatement. 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 management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As required by the Companies (Auditor's Report) Order, 2003 issued by the Central 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.

Further to our comments in the Annexure referred to above we report that :

- (i) 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;
- (ii) 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;
- (iii) The Balance Sheet, the Profit and Loss Account and the Cash-Flow Statement dealt with by this report are in agreement with the books of account;
- (iv) In our opinion, the Balance Sheet, the Profit and Loss Account and the 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;
- (v) On the basis of written representations received from the directors, as on 31st March, 2006, and taken on record by the Board of Directors, we report that none of the directors is disqualified as on 31st March, 2006 from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Companies Act, 1956;
- (vi) During the year under report, the company has changed the accounting treatment in respect of Deferred Revenue Expenditure. Hitherto the company is charging the expenditure incurred on major maintenance proportionately on the basis of actual Equivalent Operating Hours (EOH) the turbine

was run. During the year the entire expenditure incurred on major maintenance along with the Brought forward Deferred Revenue Expenditure is charged to the profit and loss account. Consequent on such change, the profit for the year is lower by Rs.16,41,08,260/- resulting in decrease of the Miscellaneous expenditure in Balance Sheet by the same amount.

- (vii) In our opinion and to the best of our information and according to the explanations given to us, the said accounts give the information required by the companies Act, 1956, in the manner so required, subject to (vi) above, 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 31st March, 2006;
 - (b) in the case of the Profit and Loss account, of the PROFIT of the company for the year ended on that date; and
 - (c) in the case of the Cash-Flow Statement, of the cash flows of the company for the year ended on that date.

For Brahmayya & Co.,
Chartered Accountants

Koteswara Rao SSR
Partner
Membership No. 18952

Place : Hyderabad
Date : 16.05.2006

Re: GVK Industries Limited
The Annexure referred to in paragraph 3 of our report of even date.

- 1.1 The Company has maintained proper records showing full particulars including quantitative details and situation of fixed assets.
- 1.2 According to the information and explanations furnished to us, the company has not physically verified all its fixed assets 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 during the year on such verification.
- 1.3 According to the information and explanations furnished to us, the company has not disposed of a substantial part of its fixed assets during the year.
- 2.1. According to the information and explanations furnished to us, the company has physically verified its inventories during the year. In our opinion, the frequency of verification is reasonable.
- 2.2. In our opinion, 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.
- 2.3. According to the information furnished to us, the company is maintaining proper records of inventory and the discrepancies noticed on verification between the physical stocks and the book records were not material and have been properly dealt with in the books of account.
- 3.1.1 The company has neither granted nor taken any loans secured or unsecured /from companies, firms or other parties covered in the register maintained under Section 301 of the Companies Act 1956.

- 3.1.2 As the company neither granted nor taken any loans secured or unsecured to/from companies, firms or other parties covered in the register maintained under section 301 of Companies Act, 1956, the provisions of the clause 4(iii) (b),(c),(d),(e),(f) and (g) are not applicable to the company.
- 4 In our opinion and according to the information and explanations given to us, there are adequate internal control systems commensurate with the size of the company and inventory and fixed assets and with regard to the sale of power. During the course of our audit, we have not observed any continuing failure to correct major weaknesses in internal control system.
- 5.1 Based on the information and explanations given to us, we are of the opinion that the transactions that need to be entered in the register maintained under section 301 of the Companies Act, 1956 have been so entered.
- 5.2 In our opinion and according to the information and explanations given to us, the transactions which have been entered into, pursuant to contracts that have been entered in the register maintained under Section 301 of the Companies Act, 1956 and having an aggregate value exceeding rupees five lakhs in respect of each party during the year under report, have been made at prices which are reasonable having regard to prevailing market prices at the relevant time.
6. The company has not accepted any deposits from public and consequently, the directives issued by the Reserve Bank of India and the provisions of sections 58A and 58AA or any other relevant provisions of the Act and the rules framed thereunder are not applicable.
7. In our opinion, the company has an internal audit system commensurate with the size and nature of its business.
- 8 We have broadly reviewed the books of account relating to materials, labour and other items of cost 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.
- 9.1 According to the information furnished to us, the company is regular in depositing with appropriate authorities, the undisputed statutory dues including Provident Fund, Investor Education Protection Fund, Employees' State Insurance, Income Tax, Sales Tax, Service tax, Customs Duty, Cess and other material statutory dues applicable to the Company.
- 9.2 According to the information and explanations furnished to us, no undisputed amounts payable in respect of Income Tax, Sales Tax, Service tax, Customs Duty and Cess were in arrears, as at the date of the Balance Sheet under report, for a period of more than six months from the date they became payable.
- 9.3 According to the records of the Company and the information and explanations given to us, the following is the disputed demand in respect of Income Tax, which has not been deposited.
10. The company has no accumulated losses as at the end of the financial year 31-03-2006 and it has not incurred cash losses during the financial year covered by our audit and in the immediately preceding financial year.
11. In our opinion and according to the information and explanations furnished to us by the company, the company has not defaulted in repayment of its dues to financial institutions and banks at the date of the Balance Sheet. Default in repayment of debentures does not arise, since the Company has not issued any debentures.
12. According to the information and explanation given to us, the company has not granted any loans or advances on the basis of security by way of pledge of shares, debentures and other securities.
13. The company is neither a chit fund nor a nidhi/ mutual benefit fund /society. Hence the requirements of clause 4(xiii) of the Companies (Auditor's Report) Order, 2003 are not applicable to the company during the year under report.
14. According to the information furnished to us, the company is not trading in shares, securities, debentures and other investments. Accordingly, the requirements of clause 4(xiv) of the Companies (Auditor's Report) Order, 2003 are not applicable to the company.
15. According to the information and explanation given to us, the company has not given any guarantees for loans taken by others from banks or financial institutions.
16. According to the information and explanation given to us, the term loans have been applied for the purpose for which they were raised.
17. 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 investments. No long term funds have been used to finance short term assets.
18. According to the information and explanations given to us, the company has not made any preferential allotment of shares during the year to parties and companies covered in the register maintained under section 301 of the Act, or to any others.
19. According to the information and explanations given to us, the company has not issued any debentures during the year under report.
20. The company has not raised any money through public issues during the year. Accordingly, the provisions of clause 4(xx) of the Companies (Auditor's Report) Order, 2003 are not applicable to the company during the year under report.
21. According to the information and explanations given to us, and based on the audit procedures generally adopted by us, we report that, during the year, no fraud on or by the company has been noticed or reported that is either significant or could have caused a material misstatement in the financial statements.

Nature of the dues	Amount Rs.	Financial year to which the amount relates	Forum where the dispute is pending
Income tax	12001951	2002-2003	Commissioner of Income-tax (Appeals)

For Brahmayya & Co.,
Chartered Accountants

Koteswara Rao SSR
Partner
Membership No. 18952

Place : Hyderabad
Date : 16.05.2006

Balance Sheet as at 31st March, 2006

	As at 31st March, 2006 Rupees	As at 31st March, 2005 Rupees
I SOURCES OF FUNDS		
(1) Share holders' Funds		
(a) Share Capital	2,620,000,000	2,620,000,000
(b) Reserves and Surplus	<u>2,930,895,546</u>	<u>2,075,312,238</u>
	5,550,895,546	4,695,312,238
(2) Loan Funds		
(a) Secured Loans	7,401,459,934	6,378,627,190
(b) Unsecured Loans	<u>564,675,573</u>	<u>1,100,000,000</u>
	7,966,135,507	7,478,627,190
(3) Deferred Tax Liability	230,027,806	1,282,151,514
Total	<u>13,747,058,859</u>	<u>13,456,090,942</u>
II APPLICATION OF FUNDS		
(1) Fixed Assets		
(a) Gross Block	10,111,643,911	9,973,865,902
(b) Less: Depreciation	<u>4,603,002,952</u>	<u>4,046,687,071</u>
(c) Net Block	5,508,640,959	5,927,178,831
(d) Capital Work-in-Progress, Stock of materials and advances on Capital Account	5,582,715,311	5,231,243,257
(e) Expenditure incurred on Project Expansion	<u>1,509,730,895</u>	<u>798,835,959</u>
	7,092,446,206	6,030,079,216
(2) Investments (long-Term, Non - Trade, unquoted)	6,013,885	-
(3) Current Assets, Loans and Advances		
(a) Inventories	230,513,692	331,541,242
(b) Sundry Debtors	769,363,975	861,057,626
(c) Cash and Bank Balances	519,458,487	950,483,323
(d) Loans and Advances	<u>281,709,754</u>	<u>270,751,372</u>
	1,801,045,908	2,413,833,563
(4) Less: Current Liabilities and provisions		
(a) Current Liabilities	635,052,888	1,049,767,187
(b) Provisions	<u>27,489,875</u>	<u>43,134,260</u>
Net Current Assets	1,138,503,145	1,320,932,116
(5) Miscellaneous Expenditure (to the extent not written off or adjusted)	1,454,664	177,900,779
Total	<u>13,747,058,859</u>	<u>13,456,090,942</u>

Per our report of even date

For BRAHMAYYA & CO
Chartered AccountantsKOTESWARA RAO SSR
Partner
Secunderabad, 16.05.2006

For and on behalf of the Board

G V KRISHNA REDDY
ChairmanA ISSAC GEORGE
Director-FinanceSOM BHUPAL
Managing DirectorD GIRIDHAR REDDY
Asst. Company Secretary

Profit and Loss Account for the year ended 31st March, 2006

	For the Year ended 31st March, 2006 Rupees	For the Year ended 31st March, 2005 Rupees
INCOME		
Gross Earnings from sale of Electrical energy	2,833,991,475	3,050,721,625
Less: Discount allowed for prompt payment of bills	74,040,317	81,097,913
	<u>2,759,951,158</u>	<u>2,969,623,712</u>
Other Income	26,520,999	77,336,869
	<u>2,786,472,157</u>	<u>3,046,960,581</u>
EXPENDITURE		
Cost of Fuel	1,358,342,163	1,383,038,530
Generation, Administration and other expenses	441,164,501	450,983,883
Interest and Finance Charges	110,892,903	156,251,591
Depreciation (Refer Note No. ** of Schedule - E)	511,879,760	506,592,360
	<u>2,422,279,327</u>	<u>2,496,866,364</u>
Profit for the year	364,192,830	550,094,217
Less: Extraordinary items (Refer Note No. 6 (b) of notes on accounts)	256,095,560	-
	<u>108,097,270</u>	<u>550,094,217</u>
Less: Provision for Income Tax (MAT) & Wealth Tax	4,758,773	13,549,961
Deferred Tax Liability (Refer to notes 4 on accounts)	(1,052,123,708)	41,187,480
Fringe Benefit Tax	1,133,397	-
Income Tax Refund for earlier years	-	(12,330,493)
Net Profit After Taxes	<u>1,154,328,808</u>	<u>507,687,269</u>
Balance brought forward from previous year	<u>2,073,687,738</u>	<u>1,862,240,594</u>
	<u>3,228,016,546</u>	<u>2,369,927,863</u>
APPROPRIATIONS		
Interim Dividend @ 10%	262,000,000	262,000,000
Corporate Dividend Tax thereon	36,745,500	34,240,125
Balance carried to Balance Sheet	<u>2,929,271,046</u>	<u>2,073,687,738</u>

Per our report of even date

For BRAHMAYYA & CO
Chartered AccountantsKOTESWARA RAO SSR
Partner
Secunderabad, 16.05.2006

For and on behalf of the Board

G V KRISHNA REDDY
ChairmanA ISSAC GEORGE
Director-FinanceSOMBHUPAL
Managing DirectorD GIRIDHAR REDDY
Asst. Company Secretary

Auditors' Report

To the Board of Directors of

GVK POWER & INFRASTRUCTURE LIMITED:

1. We have audited the attached consolidated balance sheet of GVK Power & Infrastructure Limited ("Group"), as at March 31, 2006, and also the consolidated profit and loss account and the consolidated cash flow statement for the year ended on that date annexed thereto. These financial statements are the responsibility of GVK Power & Infrastructure Limited'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 the 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 of material misstatement. 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 management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. We report that the consolidated financial statements have been prepared by GVK Power & Infrastructure Limited's management in accordance with the requirements of Accounting Standard 21 "Consolidated Financial Statements" and Accounting Standard 23 "Accounting for Investments in Consolidated Financial Statements" issued by the Institute of Chartered Accountants of India.
4. Without qualifying our opinion, we draw attention to:
 - (i) Note 12(a) of Schedule 18, regarding pending confirmation for and approval by the Central Electricity Authority (CEA) of the increase in capital cost and accruals of revenue being the fixed charge component of the tariff therein for the years 1997-1998 to 2000-2001 aggregating to Rs. 451,250 thousands by the Subsidiary Company;
 - (ii) Note 12(b) and 12(c) of Schedule 18, regarding outstanding minimum alternate tax amounts claimed for reimbursement and other amounts aggregating to Rs. 141,178 thousands and Rs. 7,551 thousands respectively in the Subsidiary Company's books. The matters involved are interpretational in nature and subjudice respectively;
 - (iii) Note 13 of Schedule 18, regarding prepayment charges, premium for reduction of interest rates and other charges aggregating to Rs.12,574 thousands considered as good and recoverable by the Subsidiary Company, though there is no specific provision in the Power Purchase Agreement for reimbursement of charges of the nature referred to above by Transmission Corporation of Andhra Pradesh Limited ("AP Transco");
 - (iv) Note 14(b) of Schedule 18, regarding managerial remuneration paid to the whole time directors in excess of limits prescribed under Section 198 of the Companies Act, 1956 for which requisite approvals are pending;
 - (v) Note 14(c) of Schedule 18, regarding managerial remuneration paid to a whole time director for which requisite approvals of members are pending; and
 - (vi) Note 21 of Schedule 18, regarding provision for income taxes net of amounts claimed for reimbursements from AP Transco and the Subsidiary Company's intention to offer such amounts to tax on acceptance by AP Transco.

The ultimate outcome of the above matters cannot presently be determined, pending approvals, acceptances and legal interpretations as referred to in the relevant notes to the consolidated accounts referred above and no provision for any liability that may result has been made in the consolidated financial statements.

5. On the basis of the information and explanations given to us we are of the opinion that the consolidated financial statements give a true and fair view in conformity with the accounting principles generally accepted in India:
- (a) in the case of the consolidated balance sheet, of the consolidated state of affairs of GVK Power & Infrastructure Limited and its consolidated entity as at March 31, 2006;
 - (b) in the case of the consolidated profit and loss account, of the consolidated results of operations of GVK Power & Infrastructure Limited and its consolidated entity for the year ended on that date; and
 - (c) in the case of the consolidated cash flow statement, of the consolidated cash flows of GVK Power & Infrastructure Limited and its consolidated entity for the year ended on that date.

For **S. R. Batliboi & Associates**
Chartered Accountants

Per
Raman Sobti
Partner
Membership No. 089218

Place : New Delhi
Date : May 22, 2006

Consolidated Balance Sheet as at 31st March, 2006

	Schedules	31st March, 2006 Rs. '000
SOURCES OF FUNDS		
Shareholders' funds:		
Capital	1	236,444
Reserves and surplus	2	5,102,188
		<u>5,338,632</u>
Minority interest		2,621,392
Loan funds		
Secured loans	3	7,401,460
Unsecured loans	4	564,676
		<u>7,966,136</u>
Deferred tax liability	18 (9) (a)	1,194,350
Total		<u>17,120,510</u>
APPLICATION OF FUNDS		
Fixed assets:	5	
Gross block		10,112,084
Less: Accumulated depreciation		<u>4,603,335</u>
Net block		5,508,749
Capital work-in-progress including capital advances		<u>7,092,446</u>
		<u>12,601,195</u>
Investments	6	1,321,690
Deferred tax asset	18 (9) (b)	904
Current assets, loans and advances:		
Inventories	7	230,514
Sundry debtors	8	769,364
Unbilled revenues	18 (10)	964,322
Cash and bank balances	9	579,640
Loans and advances	10	<u>1,277,393</u>
		<u>3,821,233</u>
Less: Current liabilities and provisions		
Liabilities	11	588,543
Provisions	12	<u>35,969</u>
		<u>624,512</u>
Net current assets		<u>3,196,721</u>
Total		<u>17,120,510</u>
Notes to Consolidated Accounts	18	

The schedules referred to above and notes to consolidated accounts form an integral part of the Consolidated Balance Sheet.

As per our report of even date

For **S.R.Batliboi & Associates**
Chartered Accountants
Per
RAMAN SOBTI
Partner
Membership No: 089218

Place : New Delhi
Date : 22.05.2006

For and on behalf of the Board of Directors of
GVK Power & Infrastructure Limited

G V KRISHNA REDDY
Chairman and Managing Director

A ISSAC GEORGE
Chief Financial Officer

Place: Hyderabad
Date: 22.05.2006

G V SANJAY REDDY
Director

P V RAMA SESHU
Company Secretary

Consolidated Profit and Loss Account for the year ended 31st March, 2006

Schedules	31st March, 2006 Rs. '000
INCOME	
Gross earnings from sale of electrical energy	1,504,609
Less: Prompt payment rebate	38,910
Net earnings from sale of electrical energy	1,465,699
Fees from technical and operating & maintenance services (Gross)	65,358
Less: Service tax	2,040
Fees from technical and O & M services (Net)	63,318
Other income	17,909
	<u>1,546,926</u>
EXPENDITURE	
Cost of fuel	716,579
Personnel expenses	40,573
Operating, general administration and other expenses	119,046
Financial expenses	142,794
Depreciation	269,312
	<u>1,288,304</u>
Profit before tax	258,622
Provision for taxation	
Current	46,502
Deferred	(36,520)
Fringe benefit	1,289
Income Tax refund of earlier years	(1,255)
Profit before minority interest	248,606
Minority interest	139,856
Profit for the year	108,750
Profit at the beginning of the year	32,168
Balance available for appropriations	140,918
Transfer to general reserve	31,954
Surplus carried to Balance Sheet	108,964
Earnings per share (in Rs.) (Refer Note 20 on Schedule 18)	
Basic	10.02
Diluted	10.02
Nominal value per equity share (in Rs.)	10
Weighted average number of shares	
Basic	10,857,000
Diluted	10,857,000
Notes to Consolidated Accounts	18

The schedules referred to above and notes to accounts form an integral part of the Consolidated P&L Account.

As per our report of even date

For and on behalf of the Board of Directors of
GVK Power & Infrastructure Limited

For **S.R.Batliboi & Associates**

G V KRISHNA REDDY

G V SANJAY REDDY

Chartered Accountants

Chairman and Managing Director

Director

Per

RAMAN SOBTI

A ISSAC GEORGE

P V RAMA SESHU

Partner

Chief Financial Officer

Company Secretary

Membership No. 089218

Place : New Delhi

Place: Hyderabad

Date : 22.05.2006

Date: 22.05.2006

Schedules to the Consolidated Accounts	31st March, 2006 Rs. '000
SCHEDULE " 1 "	
SHARE CAPITAL	
AUTHORISED	
50,000,000 equity shares of Rs.10/- each	500,000
Issued, subscribed and paid up	
23,644,445 equity shares of Rs.10/- each fully paid up	236,444
SCHEDULE " 2 "	
RESERVES AND SURPLUS	
(Refer Note 5 on Schedule 18)	
Capital reserve on acquisition	1,189,258
General reserve	
As per last balance sheet	20,896
Add: Transferred from Profit & Loss Account	31,954
	<u>52,850</u>
Less: Amount utilised for issue of bonus shares	52,850
	<u>-</u>
Securities Premium Account	
Balance as per last account	-
Add: Received during the year	3,944,071
Less: Utilised for share issue expenses	140,105
	<u>3,803,966</u>
Profit and Loss Account	
	<u>108,964</u>
	5,102,188
SCHEDULE " 3 "	
SECURED LOANS	
(Refer notes 7 and 8 on schedule 18)	
Loans and advances from banks	
Term loans	
Rupee loans	2,861,853
(Repayable within one year Rs. 213,154)	
Foreign currency loans	2,542,694
(Repayable within one year Rs. 195,033)	
Working capital loans	137,291
Other loans and advances	
Term loans	
Rupee loans	1,785,502
(Repayable within one year Rs. 278,000)	
Foreign currency loans	74,120
(Repayable within one year Rs. 74,120)	
	<u>7,401,460</u>
SCHEDULE " 4 "	
UNSECURED LOANS	
Short term loans and advances	
From banks	314,676
From others	250,000
	<u>564,676</u>

Schedules to the Consolidated Accounts
SCHEDULE "5" - FIXED ASSETS(Refer Note 11 on Schedule 18)

Rs. '000

	Gross Block					Depreciation				Net Block	
	As at 01.04.2005	Additions on acquisition of subsidiary	Additions/ Adjustments during the year	Deletions/ adjustments during the year	As at 31.03.2006	Upto 01.04.2005	Additions on acquisition of subsidiary	For the Year *	On deletions	Upto 31.03.2006	As at 31.03.2006
1) Land and site development	-	88,724	-	-	88,724	-	-	-	-	-	88,724
2) Buildings											
i) Factory building	-	387,047	-	-	387,047	-	109,154	6,800	-	115,954	271,093
ii) Non-factory building	-	197,587	37,644	-	235,231	-	29,897	1,896	-	31,793	203,438
3) Plant and machinery	-	9,331,580	2,146	-	9,333,726	-	4,163,165	258,787	-	4,421,952	4,911,774
4) Data processing equipment	-	20,859	903	50	21,712	-	15,359	778	19	16,118	5,594
5) Office equipment	102	7,950	493	19	8,526	72	2,476	254	3	2,799	5,727
6) Electrical equipment	-	4,265	170	868	3,567	-	1,290	98	-	1,388	2,179
7) Air conditioners	-	9,941	393	2,338	7,996	-	2,035	257	213	2,079	5,917
8) Vehicles	-	10,831	506	-	11,337	-	4,676	411	-	5,087	6,250
9) Furniture and fixtures	339	13,350	529	-	14,218	234	5,387	543	-	6,165	8,053
Total	441	10,072,134	42,784	3,275	10,112,084	306	4,333,439	269,824	235	4,603,335	5,508,749
Capital Work in Progress (Including capital advances)											7,092,446

Note:

* Depreciation amounting to Rs. 512 for the year ended March 31, 2006 transferred to capital work-in-progress.

Schedules to the Consolidated Accounts	31st March, 2006 Rs. '000
SCHEDULE " 6 "	
INVESTMENTS	
(Refer Note 6 on Schedule 18)	
Current investments	
(At lower of cost and market value)	
Other than trade (quoted)	
4,337,115.298 units in Principal Mutual Fund at Rs. 11.5572 per unit. [Market value Rs. 50,125]	50,125
578,391.301 units in Chola Short Term Floating Rate - Cum at Rs. 10.3736 [Market value Rs. 6,000]	6,000
1,384.294 units in Chola Liquid Institutional Dividend Reinvestment Plan at Rs. 10.3728 per unit. [Market value Rs. 14]	14
(Aggregate value of quoted investments Rs. 56,139)	
Long term investments (At cost)	
Trade (unquoted)	
In associate	
126,555,100 equity shares of Rs 10 each fully paid-up in Gautami Power Limited (Includes Goodwill amounting Rs. 47,353)	1,265,551
	<u>1,321,690</u>
SCHEDULE " 7 "	
INVENTORIES	
(At lower of cost or net realisable value)	
Stores, spares and consumables	230,514
	<u>230,514</u>
SCHEDULE " 8 "	
SUNDRY DEBTORS	
(Refer Note 12 on Schedule 18)	
Secured, considered good	
Debts outstanding for a period exceeding six months	595,567
Other debts	173,797
	<u>769,364</u>

Schedules to the Consolidated Accounts	31st March, 2006 Rs. '000
SCHEDULE " 9"	
CASH AND BANK BALANCES	
Cash and cheques on hand	19,298
Balances with scheduled banks on :	
(i) Current accounts	144,622
(ii) Deposit accounts	273,976
(ii) Unpaid dividend accounts	131,000
(iv) Margin money deposit accounts	10,744
	<u>579,640</u>
SCHEDULE " 10"	
LOANS AND ADVANCES	
Unsecured, considered good (Refer Note 13 on Schedule 18)	
Advances recoverable in cash or in kind or for value to be received	1,152,132
Advance tax, net of provision	21,508
Deposits	98,001
Interest accrued on deposits	5,752
	<u>1,277,393</u>
SCHEDULE " 11"	
LIABILITIES	
Sundry creditors	195,310
Interest accrued but not due	25,016
Retention money	355,647
Other liabilities	12,570
	<u>588,543</u>
SCHEDULE " 12"	
PROVISIONS	
Taxation, net of advance tax	4,537
Fringe benefit tax	300
Dividend tax	18,373
Retirement benefits	
Gratuity	8,743
Leave encashment	4,016
	<u>35,969</u>

Schedules to the Consolidated Accounts

31st March, 2006
Rs. '000

SCHEDULE 13 :

**FEES AND BILLABLE EXPENSES FROM
OPERATION, MAINTENANCE AND OTHER SERVICES**

Operating fees	19,000
Incentive fees	5,806
Fees for technical services	20,000
Billable expenses	18,512
	63,318

SCHEDULE 14 :

OTHER INCOME

Interest income, (gross)	11,324
Dividend income from non trade investments - short term	125
Miscellaneous income	6,460
	17,909

SCHEDULE 15 :

PERSONNEL EXPENSES

Salaries, allowances and bonus	35,833
Staff welfare	2,893
Contribution to provident and other funds	1,847
	40,573

SCHEDULE 16 :

**OPERATING, GENERAL ADMINISTRATION
AND OTHER EXPENSES**

Rent	1,884
Insurance	42,622
Electricity and water	386
Travel and conveyance	11,560
Operating and maintenance expenses	9,166
Repairs and maintenance:	
Buildings	2,447
Plant & Machinery	24,921
Others	674
Legal and professional charges	2,057
Rates and taxes	5,307
Directors' sitting fee	581
Miscellaneous expenses	12,124
Donations	5,317
	119,046

Schedules to the Consolidated Accounts

31st March, 2006
Rs. '000**SCHEDULE 17 :****FINANCIAL EXPENSES**

Interest	
on fixed period loans	109,916
on other loans	29,272
Bank charges	988
Processing and other charges	2,618
	142,794

SCHEDULE - " 18 "**Schedules to the Consolidated Accounts as at and for the year ended 31st March, 2006**

(Amounts expressed in Indian Rupees thousands unless otherwise stated)

1. Nature of Operations

GVK Power & Infrastructure Limited ("GVKPIL" or the "Parent Company") is engaged in the provision of operation and maintenance services to the power plants. GVK Industries Limited ("GIL" or the "Subsidiary Company") is engaged in generation of power. GIL has two power plants - the 216 MW Jegurupadu Phase-I project ("Phase I") which commenced combined cycle operations in June 1997 and the 220 MW Jegurupadu Phase II project ("Phase II"), which is under construction. Gautami Power Limited ("GPL" or the "Associate Company") is engaged in generation of power and its 464MW power plant at Paddapuram project is presently under construction.

2. Summary of Significant Accounting Policies**a. Basis of preparation**

The Consolidated Financial Statements of GVKPIL together with its subsidiary (collectively termed as "the Company" or "the Group") are prepared under the historical cost convention on an accruals basis to comply in all material respects with the mandatory Accounting Standards (AS) issued by the Institute of Chartered Accountants of India ("the ICAI").

Investments in the subsidiary companies, except where investments are acquired exclusively with a view to its subsequent disposal in the immediate near future, are accounted in accordance with accounting principles as defined in the AS 21 "Consolidated Financial Statements".

All material inter-company balances and inter-company transactions and resulting unrealized profits or losses are eliminated in full on consolidation.

The Consolidated Financial Statements as at and for the year ended on March 31, 2006 include the financial statements of the following entity:

Name of the Consolidated Entity	Country of Incorporation	Nature of Interest	% of Interest
GVK Industries Limited	India	Subsidiary	53.96%

Investments in the associate companies, except where investments are acquired exclusively with a view to its subsequent disposal in the immediate near future, are accounted in accordance with accounting principles as defined in the AS 23 "Accounting for Investments in Associates in Consolidated Financial Statements".

Unrealized profits and losses resulting from transactions between the Group and the associate are eliminated to the extent of the Companies interest in the associate. Unrealised losses are eliminated if and to the extent the cost of the transferred assets cannot be recovered.

b. Fixed assets and depreciation

Fixed assets are stated at cost, less accumulated depreciation and impairment losses if any. Cost comprises the purchase price and any attributable cost of bringing the asset to its working condition for its intended use. Financing costs relating to acquisition of fixed assets are also included to the extent they relate to the period till such assets are ready to be put to use.

Depreciation is provided on straight line method at the rates mentioned below, which are greater than or equal to the corresponding rates prescribed in Schedule XIV to the Companies Act, 1956 ("the Act"):

Particulars	Rates (%)
Factory buildings	3.34
Non-factory buildings	1.63
Plant and machinery	5.28
Data processing equipment	16.21
Office equipment, Electrical equipment and Air conditioners	4.75
Vehicles	9.50
Furniture and fixtures	6.33

Fixed assets individually costing Rs. 5 or less are fully depreciated in the year of purchase.

c. Impairment

The carrying amounts of fixed assets are reviewed at each balance sheet date if there is any indication of impairment based on internal / external factors. An impairment loss is recognized wherever the carrying amounts of an asset exceed its recoverable amount. The recoverable amount is the greater of the assets net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value at the weighted average cost of capital.

After impairment, depreciation is provided on the revised carrying amount of the assets over its remaining useful life.

d. Expenditure on project expansion

Expenditure directly relating to construction activity is capitalised. Indirect expenditure incurred during construction period is capitalised as part of the indirect construction cost to the extent to which the expenditure is indirectly related to construction or is incidental thereto. Other indirect expenditure (including borrowing costs) incurred during the construction period which is not related to the construction activity nor is incidental thereto is charged to the Profit and Loss Account. Income earned during construction period is deducted from the total of the indirect expenditure.

e. Investments

Investments that are readily realizable and intended to be held for not more than a year are classified as current investments. All other investments are classified as long-term investments. Current investments are carried at lower of cost and fair value determined on an individual investment basis. Long-term investments are carried at cost. However, provision for diminution in value is made to recognize a decline other than temporary in the value of such investments.

f. Revenue recognition

Revenue is recognised to the extent that it is probable that economic benefits will flow to the company and the revenue can be reliably measured.

(i) Generation of power

Revenue from sale of energy is recognised on accrual basis in accordance with the provisions of the Power Purchase Agreement ("PPA") with Transmission Corporation of Andhra Pradesh Limited ("AP Transco").

(ii) Operation and maintenance services

Revenues from operation and maintenance services are billed or accrued for services rendered and for expenses incurred in relation to such services, in accordance with the terms and conditions of the Operation and Maintenance agreement. Per the operation and maintenance agreement, the Parent Company's income comprises of (a) Operating fees (b) Incentive fees and (c) Reimbursement of actual expenses. Operating fees are receivable based on certain defined levels of Actual Annual Availability ("AAA") of plant. The Parent Company is also eligible to receive incentive fees, if the AAA and/or if the actual generation of power are higher than the defined levels.

The AAA of the power plant for the purpose of determining the operating fees and incentive fees are measured annually according to a tariff year, currently ending on June 19.

The Parent Company recognizes base fees as it becomes billable, and accrues for incentive fees, based on the qualifying operating levels achieved as at the year-end.

(iii) Interest

Revenue is recognised on a time proportion basis taking into account the amount outstanding and the rate applicable.

(iv) Dividends

Revenue is recognised when the right to receive payment is established by the balance sheet date.

g. Foreign currency transactions

(i) Initial Recognition

Foreign currency transactions are recorded in the reporting currency, by applying to the foreign currency amount the exchange rate between the reporting currency and the foreign currency at the date of the transaction.

(ii) Conversion

Foreign currency monetary items are reported using the closing rate. Foreign Currency Loans for the Phase I project of the Subsidiary Company are stated only at the exchange rates at which the said loans were drawn (but not at the rates as on the date of the balance sheet) as the foreign exchange variation for repayment of principal and interest is fully reimbursable to the Subsidiary Company by AP Transco as per the PPA. Non-monetary items which are carried in terms of historical cost denominated in a foreign currency are reported using the exchange rate at the date of the transaction; and non-monetary items which are carried at fair value or other similar valuation denominated in a foreign currency are reported using the exchange rates that existed when the values were determined.

(iii) Exchange Differences

Exchange differences arising on the settlement of monetary items or on reporting company's monetary items at rates different from those at which they were initially recorded during the period, or reported in previous financial statements, are recognised as income or as expenses in the period in which they arise. Exchange differences arising in respect of Phase - II fixed assets acquired from outside India are capitalized as a part of fixed asset.

(iv) Forward Exchange Contracts not intended for trading or speculation purposes

The difference between the forward rate and the exchange rate at date of the transaction is recognised as income or expense over the life of the contract, except in respect of liabilities incurred for acquiring fixed assets covered under a forward exchange contract entered before April 1, 2004 in which case, such difference is adjusted in the carrying amount of the respective fixed assets. Any profit or loss arising on cancellation or renewal of a forward exchange contract is recognised as income or as expense for the period, except in case of a forward exchange contract entered before April 1, 2004 relating to liabilities incurred for acquiring fixed assets, in which case, such profit or loss is adjusted in the carrying amount of the respective fixed assets.

h. Leases

Finance leases, which effectively transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the lower of the fair value and present value of the minimum lease payments at the inception of the lease term and disclosed as leased assets. Lease payments are apportioned between the finance charges and reduction of the lease liability based on the implicit rate of return. Finance charges are charged directly against income. Lease management fees, legal charges and other initial direct costs are capitalised.

If there is no reasonable certainty that the Company will obtain the ownership by the end of the lease term, capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Leases where the lessor effectively retains substantially all the risks and benefits of ownership of the leased term are classified as operating leases. Operating lease payments are recognized as an expense in the Profit and Loss Account on a straight-line basis over the lease term.

i. Retirement benefits

(i) The Company's contribution to Provident Fund is recognised on an accruals basis.

(ii) Gratuity liability under the Payment of Gratuity Act, 1972 and provision for leave encashment are accrued and provided for on the basis of an actuarial valuation made at the end of each reportable period other than in respect of the whole time directors of the Subsidiary Company. In respect of whole time directors of the Subsidiary Company, retirement benefits in the nature of gratuity and leave encashment are provided in accordance with the contractual obligations.

j. Inventories

Spares, stores and consumables are valued at lower of cost and net realizable value. Cost is determined on a weighted average basis.

k. Taxes on income

Tax expense comprises of current, deferred and fringe benefit tax. Current income tax and fringe benefit tax is measured at the amount expected to be paid to the tax authorities in accordance with the

Income Tax Act, 1961. Deferred income taxes reflect the impact of current period timing differences between taxable income and accounting income for the period and reversal of timing differences of earlier periods. Deferred tax is measured based on the tax rates and the tax laws enacted or substantively enacted at the balance sheet date. Deferred tax assets are recognised only to the extent that there is reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised. Deferred tax assets are recognised on carry forward of unabsorbed depreciation and tax losses only if there is virtual certainty that such deferred tax assets can be realised against future taxable profits.

l. Earnings per share

Basic earnings per share are calculated by dividing the net profit or loss for the period attributable to equity shareholders by the weighted average number of equity shares outstanding during the period. For the purpose of calculating diluted earnings per share, the net profit or loss for the period attributable to equity shareholders and the weighted average number of shares outstanding during the period are adjusted for the effects of all dilutive potential equity shares.

m. Provisions

A provision is recognised when the Company has a present obligation as a result of past event; it is probable that an outflow of resources will be required to settle the obligation, in respect of which a reliable estimate can be made. Provisions are not discounted to their present values and are determined based on best estimate required to settle the obligation at the balance sheet date. These are reviewed at each balance sheet date and adjusted to reflect the current best estimates.

3. Contingent Liabilities

- a) The Parent Company has received an order from the Assistant Commissioner of Central Excise demanding service tax estimated at Rs. 5,161 including estimated penalty, on the revenues of the Company for the period up to March 31, 1999. An amount of Rs. 1,000 has been deposited with the authorities in this regard and the same is included under Loans and Advances. The consequential liability in respect of service tax and penalty for the period from April 1999 to March 31, 2006 and interest for the period from July 8, 1997 up to March 31, 2006 is estimated at Rs. 54,357.

The Parent Company has been legally advised that its services are not subject to service tax. Accordingly, the Company has filed an appeal before the Commissioner of Central Excise against the order.

- b) Contingent liabilities in respect of the Subsidiary and Associate Company as at March 31, 2006:

	Amount
1 On account of guarantees issued by banks on behalf of the Subsidiary and Associate Company	654,648
2 On account of Inland letters of credit	170,000
3 Claims against the Associate Company not acknowledged as debt	2,126

- c) The payments made by AP Transco to the Subsidiary Company for the supply of electrical energy commencing from the December 10, 2004 billing period are subject to the result of an appeal filed by AP Transco in the Honourable High Court of Andhra Pradesh against the Honourable City Civil Court order in the matter relating to calculation of interest on working capital. The matter is pending disposal and hence the impact on amounts, if any, in this regard on the consolidated accounts is not presently ascertainable.
- d) AP Transco has approved the fixed charges payable to the Subsidiary Company for the supply of electrical energy from the initial tariff year till the tariff year 2004-2005 on a provisional basis. While the fixed charges proposal submitted by the Subsidiary Company for the tariff year 2005-2006 is subject to the approval of AP Transco, the Company has accounted for revenues in the form of fixed charges as the amounts accepted by AP Transco. Further, the fixed charges as provisionally approved by AP Transco for the tariff years 2003-2004 and 2004-2005 are subject to the outcome of the petitions filed by AP Transco before Andhra Pradesh Electricity Regulatory Commission (APERC) in the matters relating to reduction of interest on working capital, limiting the working capital amount to actual borrowing or as per PPA whichever is lower, and revision of operating parameters like O & M expenses, insurance, etc. In the absence of revision in the fixed charges provisionally approved and pending the outcome of the petitions, the impact, if any, in this regard on the consolidated accounts is not presently ascertainable.
- e) As per the Gas Authority of India Limited ("GAIL"), the gas supplier to the Subsidiary Company, the prices of natural gas from April 1, 2000 are provisional and are subject to revision by the Government. Pending such revision, adjustments, if any, in this regard are not presently ascertainable. However, because fuel is a pass through cost, the management is of the view that revision, if any, of such costs will not have any material impact on the consolidated accounts.
- f) AP Transco during the year 2003-2004 made a claim of Rs. 204,834 against the Subsidiary Company stating that effective Return on Equity ("ROE") claimed by the company works out to 17.17% as pointed

out by Comptroller and Auditor General of India as against 16% to be claimed as per the PPA. Aggrieved by the said claim, the Subsidiary Company preferred a writ petition before the Honourable High Court of Andhra Pradesh and the Honourable High Court directed that the matter be referred to arbitration as envisaged in PPA. Pending arbitration, the Honourable High Court permitted the Subsidiary Company to collect ROE at 16% on a monthly basis which is accounted for as income. The Subsidiary Company is confident that its claim for ROE on a monthly basis is strictly in accordance with PPA. If the decision is in favour of AP Transco, the liability on this account up to March 31, 2006 would be Rs. 299,928.

- g) AP Transco has filed petitions before the APERC during February 2004 for adjudication of certain matters relating to tariff provisions under the PPA without specifying any amount. Based on these petitions, APERC has issued notices to the Subsidiary Company for hearing on these matters. The Subsidiary Company has filed a writ petition before the Honourable High Court of Andhra Pradesh questioning the jurisdiction of APERC for adjudication of matters under the PPA. The Honourable High Court of Andhra Pradesh in June 2004 has issued interim directions against APERC not to proceed with the subject notice until further orders. Pending disposal of the matter, no provision has been made in the consolidated accounts in this regard.
- h) The Subsidiary Company has received demand notice during March 2006 to pay income tax of Rs. 12,002 for the assessment year 2003-04 in respect of which the Subsidiary Company has gone on appeal and it believes that based on judicial pronouncements the claim is likely to be accepted by the appellate authorities.
- i) The subsidiary Company has entered into an agreement with the Gas Authority of India Limited (GAIL) for supply of natural gas for its Phase - II project. In accordance with the terms and conditions of such agreement the GAIL has raised invoices amounting to Rs. 52,705 in respect of fixed monthly transmission charges. The Company has disputed such claims and has approached to the ministry of Petroleum and Natural Gas for waiver of such charges on various grounds. Pending finalization of the matter, no provision has been made in the consolidated accounts in this regard.

4. Capital Commitments

Estimated amounts of contracts (net of advances) remaining to be executed on capital account and not provided for as at March 31, 2006 by the Subsidiary and Associate Company are Rs. 685 & Rs. 707,619 respectively.

5. Acquisition of a Subsidiary

Effective September 21, 2005 the Company had acquired 51.51% stake in the equity share capital of GVK Industries Limited ("acquired entity" or "GIL") and increased its stake to 53.96% in October 20, 2005.

The acquisition of the interest in the acquired entity has been accounted in accordance with the accounting principles laid down under AS 21. Accordingly, the excess of net assets acquired over the purchase price, has been recorded as Capital Reserve in the Consolidated Financial Statements. Transactions relating to Profit and Loss Account of the acquired entity have been included in the Consolidated Profit and Loss Account from the effective date of acquisition.

The interest of GVKPIL in the net assets of the acquired entity and resulting capital reserve as on the date of acquisitions is as given hereunder:

Amounts		
Share in the net assets of the acquired entity on acquisition	(a)	2,909,792
Cost of the Investment		1,771,309
Less: Dividends received out of pre-acquisition profits		50,775
	(b)	1,720,534
Capital Reserve	(c)=(a)-(b)	1,189,258

For the purpose of arriving at the net assets of the Subsidiary Company as at the date of acquisition, interim dividends declared subsequent to the date of acquisition, out of pre-acquisition profits and tax thereon, have been adjusted against the opening balance in Profit and Loss Account of the Subsidiary Company.

The Consolidated Profit and Loss Account for the year ended March 31, 2006 includes post acquisition income and expenses of the Subsidiary Company amounting to Rs. 1,482,675 and Rs. 1,145,116 respectively.

6. Investment in associates

During the year ended March 31, 2006 the Company has acquired 41% equity shares of Gautami Power Limited consequent to which Gautami Power Limited has become an associate of the Company as defined under AS 23 "Accounting for Investments in Associates in Consolidated Financial Statements". Investment in associate in the consolidated financial statements have been accounted in accordance with AS 23 and resulting goodwill as on the date of acquisition amounting to Rs. 47,353 is disclosed separately in the consolidated financial statements. The commercial operations of the Associate Company have not commenced as at March 31, 2006 and hence no profit and loss account has been prepared for the year ended March 31, 2006.

7. Secured Loans

- A. During the year ended March 31, 2006 the Parent Company has used part of proceeds from its Initial Public Offering of equity shares to repay all of its secured and unsecured long-term and short terms loans prior to their original maturity.
- B. Loans and advances from banks and others (Schedule 3) include those of the Subsidiary Company which are-
- a) Secured by way of :
 - i) exclusive first charge on all unused spares and inventory for the outstanding loan.
 - ii) pari passu first mortgage and charge on all the immovable and movable properties (both tangible and intangible), both present and future, of the expansion project and assets common for both Phase I and expansion project .
 - iii) pari passu second mortgage and second charge on all the immovable and movable properties (both tangible and intangible), both present and future, pertaining to Phase I (including all receivables).
 - iv) pari passu first charge/assignment/security interest on all the revenues/receivables of the company pertaining to expansion project.
 - v) pari passu first charge/assignment/security interest on company's rights under the expansion Project Agreements, all clearances, licences, permits, approvals and consents in respect of the expansion project, and letters of credit, guarantee or performance bond that may be provided in favour of the Subsidiary Company by any party under any project agreement or contract pertaining to the expansion project.
 - vi) secured by hypothecation of first charge on six weeks' book debts of the Subsidiary Company
 - b) To be secured by a pledge of shares held by promoters representing GVK Group to the extent of 26% of the paid up capital of the Subsidiary Company after the amounts outstanding to Phase I lenders representing lenders who have advanced term loans to Phase -I are fully repaid.

8. Foreign Currency Loans

Foreign currency loans of the Subsidiary Company in respect of Phase I have been stated at the exchange rates at which the said loans were drawn as any foreign exchange variation thereof on payment is reimbursable by AP Transco as per the terms of the PPA. Liability on this account and correspondingly fixed assets (without considering the impact of non-translation of such liabilities as at the respective financial year ends, following the periods in which the loans were obtained) as at March 31, 2006 would have been higher by Rs. 60,340 had the outstanding Foreign Currency Loans been translated at the rates prevailing as on March 31, 2006.

9. Deferred Taxes

- a) Deferred Tax Liability of the subsidiary Company, net of deferred tax assets as at March 31, 2006 arising on account of timing differences is given below:

Particulars	Amount
Deferred tax liability	
Depreciation	1,116,477
Tax on unbilled revenues	81,265
	1,197,742
Less: Deferred tax assets	
Provision for retirement benefits	3,392
Total	1,194,350

- b) Deferred Tax Assets of the Parent Company as at March 31, 2006 arising on account of timing differences is given below:

Particulars	Amount
Provision for retirement benefits	903
Depreciation	1
Total	904

10. Unbilled Revenues

In accordance with the terms and conditions of the PPA with AP Transco, the Subsidiary Company is entitled for reimbursement of tax on income from the project. Accordingly, the Subsidiary Company has estimated reimbursement of future taxes amounting to Rs. 964,322 arising on account of deferred tax liabilities and has accounted the same as unbilled revenues in the consolidated financial statements. Deferred tax liabilities as at March 31, 2006 include future tax liabilities to the extent not reimbursable by A.P. Transco on such unbilled revenues.

11. Capital Work In Progress (including Capital Advances)

Capital work in progress includes:

- foreign exchange fluctuations Rs. 14,445 added during the year;
- capital advances Rs. 4,532,296; and
- expenditure incurred on project expansion Rs. 1,509,731 including depreciation of Rs. 512 and borrowing costs of Rs. 262,951 added during the year.

12. Sundry Debtors

- a) Sundry Debtors include accruals towards reimbursement of fixed charges for the financial years 1997-1998 to 2000-2001, on increased capital cost worked out as per ratios set out in the PPA aggregating to Rs. 451,250 by the Subsidiary Company. The increased capital cost is subject to the approval of Central Electricity Authority (CEA). Pending approval of increased capital cost by CEA, the claim for reimbursement of fixed charges has not been made on AP Transco. The Subsidiary Company contends that it is entitled to reimbursement of fixed charges on increased capital cost under the terms of PPA and accordingly considers these amounts as good and recoverable. The Subsidiary Company has filed a writ petition before the Hon'ble High Court of New Delhi against CEA, seeking a direction to CEA to take a decision on approval of completed capital cost in a time bound manner. The matter is pending hearing. Pending such approvals, the impact of adjustments, if any, on such amounts is not presently ascertainable.
- b) Sundry Debtors also include amounts billed on AP Transco by the Subsidiary Company towards reimbursement of minimum alternate tax under the provisions of Income Tax Act, 1961, for the period commencing from the financial year 2000-2001 upto the period ended March 31, 2006, aggregating to Rs. 141,178. While the Subsidiary Company contends that it is entitled to claim payments on account of minimum alternate taxes also under the provisions of PPA, in AP Transco's contention only taxes on the net taxable income under the regular provisions of the Income Tax Act, 1961 are reimbursable and not taxes levied on book profits under the deemed provisions of Section 115 JB of the Income Tax Act, 1961. Although, AP Transco is refuting such claims from time to time, in the Subsidiary Company's contention these amounts are considered as good and recoverable. The matters involved being interpretational in nature, the impact of adjustments, if any, on such amounts is not presently ascertainable.
- c) Sundry Debtors further include an amount of Rs. 7,551, being the differential interest recovered by AP Transco considering the actual working Capital Limits as against the working Capital limits computed as per the terms of the PPA. The Subsidiary Company has filed a petition under Section 9 of Arbitration & Conciliation Act 1996, and the Hon'ble City Civil Court of Hyderabad has restrained AP Transco from considering the lower level of working capital limits by granting a stay in the matter. The appeal filed by AP Transco before the Hon'ble High Court of Andhra Pradesh against the aforesaid stay, is pending disposal. The matter being subjudice, the impact of adjustments, if any, on such amounts is not presently ascertainable.

13. Loans and Advances

- a) Loans and Advances include Rs. 12,574, being prepayment charges, premium for reduction in interest rates and other charges in connection with prepayment of loans incurred by the Subsidiary Company in earlier years to avail the benefit of reduced interest rates. In respect of the above, amounts aggregating to Rs. 6,863 are pending to be claimed from AP Transco. In the view of the Subsidiary Company, AP Transco, being the ultimate beneficiary, these amounts are considered as recoverable from them. Pending resolution on recoverability and estimation of quantum thereof not being possible, the impact on the consolidated accounts is not presently ascertainable.
- b) Included in loans and advances are amounts of Rs. 112,750 paid by the Subsidiary Company to the Government of Uttaranchal (the "Government") as project premium in connection with design, engineering, financing, procurement, construction, operation and maintenance of two hydro power projects on Build, Own, Operate and Transfer basis and Rs. 3,755 incurred in relation to such project. As per the Memorandum of Understanding entered into between the Subsidiary Company and Alaknanda Hydro Power Company Limited, a special purpose entity, the entire project and project cost has been transferred to the special purpose entity.

14. (a) Managerial Remuneration

Particulars	Amounts
Salaries	11,309
Contribution to provident fund	1,075
Perquisites	21
Total	12,405

GVK Power & Infrastructure Limited

(Formerly Jegurupadu Operating & Maintenance Company)

- (b) Aggregate of managerial remuneration paid to the whole time directors of the Subsidiary Company has exceeded the limits prescribed under Section 198 of the Companies Act. The remuneration to the whole time Directors was provided based on the profits forecasted for the year under review, however, recognition of certain prior period items resulted in inadequate profits for the year ended March 31, 2006. The Subsidiary Company is in the process of seeking requisite approvals in this behalf.
- (c) During the year ended March 31, 2006 the Company has paid managerial remuneration amounting to Rs. 2,981, pending approval of the members in the ensuing Annual General Meeting.
15. The Consolidated Accounts for the year ended March 31, 2006 include certain transactions with private companies in respect of which the Parent Company is in the process of filing necessary applications seeking approval from the Central Government as required under the provisions of Section 297 of the Companies Act 1956:

Names of the parties	Nature of Contract	Amount
Orbit Travels and Tours Private Limited	Travel Services	3,524

The Consolidated Accounts for the year ended March 31, 2006 include certain transactions with private companies in respect of which the Subsidiary Company is in the process of filing necessary applications seeking approval from the Central Government as required under the provisions of Section 297 of the Companies Act 1956:

Names of the parties	Nature of Contract	Amount
Orbit Travels and Tours Private Limited	Travel Services	9,770
GVK Technical and Consultancy Services Private Limited	Supply of manpower	7,974
GVK Power & Infrastructure Limited, converted into public Company on May 19, 2005	Operating and Maintenance Services	63,318

16. Related Party Transactions

- a) Transactions with related parties during the year ended and outstanding balances as at March 31, 2006 are :

Nature of relationship and names of related parties	Nature of transactions and outstanding balances	Amount
Enterprises over which the key management personnel exercise Significant influence		
Taj GVK Hotels & Resorts Ltd	Hospitality Services Payable	1,996 ---
Paigah House Hotel (P) Ltd	Rent Payable	1,425 ---
GVK Industries Limited	Revenue from Operating & Maintenance services	63,318
Gautami Power Limited	Reimbursement of expenses Receivable	19,268 ---
	Share application money paid Receivable	2,218,500 952,949
GVK Jaipur Kishangarh Expressway Limited	Reimbursement of expenses Payable	1,002 ---
Alaknanda Hydro Power Company Limited	Transfer of project related payments Receivable	116,505 116,505
Krishna Enterprises	Sale of Fixed Assets Receivable	2,385 ---

Nature of relationship and names of related parties	Nature of transactions and outstanding balances	Amount
GVK Technical & Consultancy Services Private Limited	Reimbursement of expenses	1,929
	Payable	---
	Supply of man power	6,045
Guardian Holdings Limited (Mauritius)	Payable	---
	Purchase of shares of GIL	828,922
Transoceanic Projects Limited (Mauritius)	Purchase of shares of Gautami Power Ltd	348,000
	Receipt of Share application money and allotment of Equity Shares	1,177,070
	Payable	---
Orbit Travels and Tours (P) Limited	Purchase of Tickets	13,294
	Payable	---
GVK Energy Holdings Private Limited	Share application money received	2,500
	Payable	---
	Purchase of shares of Gautami Power Ltd	317,551
Novopan Industries Ltd	Corporate Guarantee Commission	1,899
	Payable	----
	Purchase of furniture	152
	Payable	---
	Public Issue Management fees	1,102
GVK Power (Goindwal Sahib) Limited	Payable	---
	Advance for allotment of equity shares	2,500
GVK City Private Limited	Receivable	---
	Rental Deposit	35,000

Relative of Key Management Personnel

Master Krishna Rambhupal	Rent	697
	Payable	---

Key Management Personnel

G V Krishna Reddy	Remuneration	8,521
	Dividend Paid	480
G Indira Krishna Reddy	Dividend Paid	33
	Remuneration	1,017
G V Sanjay Reddy	Remuneration	3,553
	Remuneration	1,163
Som Bhupal	Remuneration	1,105
	Remuneration	---
V Rama Rao	Remuneration	---
	Remuneration	---
A Issac George	Remuneration	---
	Remuneration	---

- GVKPIL has pledged part of its equity investments in GIL, i.e. 56,274,500 and 62,225,000 equity shares of Rs. 10/- each, with IDBI Limited and IL & FS Limited respectively as a security against amounts borrowed by GIL.
- GVKPIL has pledged part of its equity investments in Gautami Power limited, i.e. 113,149,500 equity shares of Rs. 10/- each, with PFC Limited as a security against amounts borrowed by Gautami Power limited.
- In pursuance of the terms of the promoter support agreement in connection with the loan facilities availed for Phase II expansion project of GIL, Novopan Industries Ltd has provided a corporate guarantee for an amount equivalent to 5% of the project cost i.e. Rs. 360,200.

17. Segment Information

The business activities of the group encompass generation of power and rendering of operations and maintenance services to power companies. In the context of AS 17 "Segment Reporting" ("AS 17") issued by the ICAI, these are considered as a single business segment. Further the Company operates in a single geographical segment. Hence disclosing additional information as per the requirements of AS 17 does not arise.

18. Operating Leases

The Subsidiary Company has agreed to take an office premises on a non-cancellable lease term for a period 3 years, renewable for a further period of 6 years at the option of the Subsidiary Company. As per the memorandum of understanding entered into, the lease rentals shall be escalated by 15% over the last paid rent once in every 3 years. There are no restrictions imposed by the lease arrangement and there are no subleases. The total of future minimum lease payments payable under non-cancellable operating lease is:

Particulars	Amount
Not later than one year	-
Later than one year and not later than five years	75,600
Later than five years	-

19. Payments to auditors (including service tax)

(a) Included in legal and professional charges in Schedule 16 to the financial statements:

Year ended March 31, 2006	
Statutory audit fees	224
Other services	168
Reimbursement of out-of-pocket expenses	-
	392

(b) Rs. 2,792 paid towards professional services adjusted against the securities premium account

20. Earnings Per Share

Pursuant to the resolution passed by the members in the Extra-Ordinary General Meeting of the Parent Company held on August 22, 2005, the Company has issued 5,285,000 equity shares as fully paid-up bonus shares in the ratio of 151:1 to its shareholders. In accordance with the measurement principles laid down under AS 20 "Earnings Per Share" issued by the ICAI, Basic and Diluted earnings per share for the year ended March 31, 2006 has been measured based on the number of shares after giving affect to such bonus issue.

21. Income Tax

Provision for current taxes was made by the Subsidiary Company taking into account the amount claimed as reimbursable from AP Transco as per the terms of the PPA till the financial year ended March 31, 2006. As mentioned in Note 11 (b) above, AP Transco is refuting claims for reimbursement of MAT made by the Subsidiary Company. Since the claims are disputed, the Subsidiary Company intends to offer amounts in respect of these claims to income tax as and when such claims are accepted by AP Transco. Pending resolution on recoverability and estimation of quantum thereof not being possible, the impact on the consolidated accounts is not presently ascertainable.

22. Unhedged Foreign Currency Exposure

Particulars of Unhedged foreign Currency Exposure as at the Balance Sheet date

Particulars	Amount
Import Creditors	Rs. 175,713 (5,212,500 Swiss Francs (CHF) at Closing rate of 1 CHF = Rs. 33.71)

23. Previous Year Comparatives

The Consolidated Financial Statements have been prepared for the first time pursuant to acquisition of subsidiary during the year ended March 31, 2006. Accordingly, the question of disclosure of previous year comparative does not arise.

Signatures to Schedules 1 to 18

As per our report of even date

For **S.R.Batliboi & Associates**
Chartered Accountants
Per
RAMAN SOBTI
Partner
Membership No. 089218

Place : New Delhi
Date : 22.05.2006

For and on behalf of the Board of Directors of
GVK Power & Infrastructure Limited

G V KRISHNA REDDY
Chairman and Managing Director

A ISSAC GEORGE
Chief Financial Officer

Place: Hyderabad
Date: 22.05.2006

G V SANJAY REDDY
Director

P V RAMA SESHU
Company Secretary

Consolidated Cash Flow Statement for the year ended March 31, 2006

Particulars	31st March 2006 Rs. '000
I. Cash flow from operating activities	
Profit before tax	258,622
Adjustments for:	
Depreciation	269,312
Loss on sale of fixed assets	25
Interest income	(11,324)
Interest expense	139,188
Provision for retirement benefits	1,475
Operating profit before working capital changes	657,298
Movements in working capital :	
Decrease in inventories	2,618
Increase in sundry debtors	(104,930)
Increase in unbilled revenues	(3,641)
Increase in loans and advances	(965,658)
Increase in current liabilities	313,630
Cash generated from operations	(100,683)
Direct taxes paid (net of refunds)	(38,955)
Net cash used in operating activities - (A)	(139,638)
II. Cash flows from investing activities	
Payments for net assets acquired of subsidiary, net of cash	(486,762)
Purchase of fixed assets	(879,316)
Proceeds from sale of fixed assets	2,140
Purchase of investments	(1,431,551)
Sale / redemption of investments	174,861
Interest received	26,548
Net cash used in investing activities - (B)	(2,594,080)
III. Cash flows from financing activities	
Proceeds from issuance of share capital, net of expenses	4,077,581
Proceeds from long-term borrowings	2,311,746
Repayment of long-term borrowings	(1,310,744)
Proceeds from short-term borrowings	5,512,599
Repayment of short-term borrowings	(6,848,797)
Interest paid	(430,393)
Net cash from financing activities - (C)	3,311,992
Net increase in cash and cash equivalents (A+B+C)	578,274
Cash and cash equivalents at the beginning of the period	1,366
"Cash and cash equivalents at the end of the period"	579,640
(Refer schedule 9)	

As per our report of even date

For **S.R.Batliboi & Associates**
Chartered Accountants
Per
RAMAN SOBTI
Partner
Membership No. 089218

Place : New Delhi
Date : 22.05.2006

For and on behalf of the Board of Directors of
GVK Power & Infrastructure Limited

G V KRISHNA REDDY
Chairman and Managing Director

A ISSAC GEORGE
Chief Financial Officer

Place: Hyderabad
Date: 22.05.2006

G V SANJAY REDDY
Director

P V RAMA SESHU
Company Secretary

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