

Independent Auditors' Report on the Standalone Financial Statements of GMR Infrastructure Limited

To the Members of GMR Infrastructure Limited

Report on the financial statements

We have audited the accompanying financial statements of GMR Infrastructure Limited ('the Company'), which comprise the balance sheet as at March 31, 2014, the statement of profit and loss and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation of these financial statements that give a true and fair view of the financial position, financial performance and cash flows of the Company in accordance with accounting principles generally accepted in India, including the Accounting Standards notified under the Companies Act, 1956 ('the Act'), read with General Circular 8/2014 dated April 4, 2014 issued by the Ministry of Corporate Affairs. This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Qualified Opinion

(a) As detailed in Note 43 to the accompanying financial statements for the year ended March 31, 2014, the Company through its subsidiary GMR Infrastructure (Mauritius) Limited ('GIML') has made an investment of ₹ 190.97Crore (USD 3.16Crore) (including in equity share capital of ₹ 139.73Crore and share application money pending allotment of ₹ 51.24Crore) towards 77% equity shareholding in GMR Male International Airport Private Limited ('GMIAL') and has given a corporate guarantee of ₹ 2,540.58Crore (USD 42.00 Crore) to the lenders in connection with the borrowings made by GMIAL. The

Concession Agreement entered into between GMIAL, Maldives Airport Company Limited ('MACL') and Ministry of Finance and Treasury ('MoFT'), Republic of Maldives for the Rehabilitation, Expansion, Modernization, Operation and Maintenance of Male International Airport ('MIA') for a period of 25 years has been declared void ab initio by MACL and MoFT and MACL has taken possession of MIA with effect from December 8, 2012. GMIAL has initiated the arbitration process to seek remedies under the said agreement and pending resolution of the dispute, such investment has been carried at cost in the financial statements as at March 31, 2014 as the management is of the opinion that GMIAL will be able to recover at least the carrying value of the assets of ₹ 1,431.50Crore (USD 23.66Crore) including the claim recoverable of ₹ 1,062.90Crore (USD 17.57Crore) as at March 31, 2014. Further, GMIAL has executed work construction contracts with GADL International Limited ('GADLIL'), a subsidiary of the Company and other service providers for Rehabilitation, Expansion, and Modernization of MIA. Pursuant to the aforesaid takeover of the airport by MACL, GMIAL has terminated the contracts with GADLIL and these service providers and have received claims from GADLIL and other service providers towards termination payments. However, such claims relating to the termination of contracts have not been recognised as at March 31, 2014. The takeover of MIA by MACL, initiation of arbitration proceedings and its consequent impact on the operations indicate the existence of a material uncertainty that may cast a significant doubt about the going concern of GMIAL and GADLIL.

Having regard to the uncertainty in view of the dispute and the final outcome of the matter, we are unable to comment on its impact on the carrying value of the investment pertaining to the aforesaid entities and any other consequential impact that may arise in this regard on the financial statements for the year ended March 31, 2014. In respect of the above matter our audit report for the year ended March 31, 2013 was similarly modified.

(b) As detailed in Note 26(3) to the accompanying financial statements for the year ended March 31, 2014, the management of the Company has recognized the profit on sale of its investments in Istanbul Sabiha Gokcen Uluslararası Havalimani Yatırım Yapım Ve İşletme Anonim Şirketi ('ISG') of ₹458.78 Crore (net of cost incurred towards sale of shares) in the financial statements for the year ended March 31, 2014. In our opinion, since the sale consideration was received, the transfer of shares and certain regulatory approvals were obtained subsequent to March 31, 2014, recognition of the profit on sale of such investments in the financial statements of the Company for the year ended March 31, 2014 is not in accordance with the relevant Accounting Standards. Accordingly, profit after tax for the year ended March 31, 2014 would have been lower by ₹452.80Crore with a consequential effect on the reserves of the Company as at the year end.

Qualified Opinion

In our opinion and to the best of our information and according to the explanations given to us, except for the possible effect of the matter described in paragraph (a) and the effect of the matter described in

paragraph (b) in the Basis for Qualified Opinion paragraph, the financial statements give the information required by the Act in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:

- (a) in the case of the balance sheet, of the state of affairs of the Company as at March 31, 2014;
- (b) in the case of the statement of profit and loss, of the profit for the year ended on that date; and
- (c) in the case of the cash flow statement, of the cash flows for the year ended on that date.

Emphasis of Matter

- (a) We draw attention to Note 30 to the accompanying financial statements for the year ended March 31, 2014 in connection with an investment of ₹ 357.35Crore (including loans of ₹ 117.76 Crore and investment in equity / preference shares of ₹ 239.59 Crore made by the Company and its subsidiaries) as at March 31, 2014 in GMR Ambala Chandigarh Expressways Private Limited (GACEPL), a subsidiary of the Company. Though GACEPL has been incurring losses since the commencement of commercial operations and the matter is currently under arbitration, based on management's internal assessment and legal opinion obtained by the management of GACEPL, such investment has been carried at cost. Accordingly, no provision for diminution in the value of investments has been made in the accompanying financial statements. Our opinion is not qualified in respect of this matter.
- (b) We draw attention to Note 44 to the accompanying financial statements for the year ended March 31, 2014 regarding (i) cessation of operations and the losses incurred by GMR Energy Limited (GEL), GMR Vemagiri Power Generation Limited ('GVPGL'), subsidiaries of the Company and the consequent erosion of net worth resulting from the unavailability of adequate supply of natural gas and (ii) rescheduling of the commercial operation date and the repayment of certain project loans by another subsidiary of the Company, GMR Rajahmundry Energy Limited ('GREL'), pending linkage of natural gas supply. Continued uncertainty exists as to the availability of adequate supply of natural gas which is necessary to conduct operations at varying levels of capacity in the future and the appropriateness of the going concern assumption is dependent on the ability of the aforesaid entities to establish consistent profitable operations as well as raising adequate finance to meet short term and long term obligations. The accompanying financial statements of the Company do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not qualified in respect of this matter.

Report on Other Legal and Regulatory Requirements

1. As required by the Companies (Auditor's Report) Order, 2003 ('the Order') issued by the Central Government of India in terms of sub-section (4A) of section 227 of the Act, we give in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the Order.

2. As required by section 227(3) of the Act, we report that:
 - (a) We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;
 - (b) In our opinion proper books of account as required by law have been kept by the Company so far as appears from our examination of those books;
 - (c) The balance sheet, statement of profit and loss, and cash flow statement dealt with by this Report are in agreement with the books of account;
 - (d) *except for the matters described in the Basis for Qualified Opinion paragraph*, in our opinion, the balance sheet, statement of profit and loss, and cash flow statement comply with the Accounting Standards notified under the Act read with General Circular 8/2014 dated April 4, 2014 issued by the Ministry of Corporate Affairs;
 - (e) On the basis of written representations received from the directors as on March 31, 2014, and taken on record by the Board of Directors, none of the directors is disqualified as on March 31, 2014, from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Act.

For S.R. BATLIBOI & ASSOCIATES LLP
ICAI firm registration number: 101049W
Chartered Accountants

per Sunil Bhumralkar
Partner
Membership Number: 35141

Place: Bengaluru
Date: May 29, 2014

Annexure referred to in clause 1 of paragraph on the report on other legal and regulatory requirements of our report of even date

Re: GMR Infrastructure Limited

- (i) (a) The Company has maintained proper records showing full particulars, including quantitative details and situation of fixed assets.
- (b) All fixed assets have not been physically verified by the management during the year but there is a regular programme of verification which, in our opinion, is reasonable having regard to the size of the Company and the nature of its assets. No material discrepancies were noticed on such verification.
- (c) There was no disposal of a substantial part of fixed assets during the year.
- (ii) (a) The management has conducted physical verification of inventory at reasonable intervals during the year.
- (b) The procedures of physical verification of inventory followed by the management are reasonable and adequate in relation to the size of the Company and the nature of its business.
- (c) The Company is maintaining proper records of inventory. Discrepancies noted on physical verification of inventories were not material, and have been properly dealt with in the books of account.
- (iii) (a) According to the information and explanations given to us, the Company has not granted any loans, secured or unsecured to companies, firms or other parties covered in the register maintained under section 301 of the Act. Accordingly, the provisions of clause 4(iii)(a) to (d) of the Order are not applicable to the Company and hence not commented upon.
- (e) According to the information and explanations given to us, the Company has not taken any loans, secured or unsecured, from companies, firms or other parties covered in the register maintained under section 301 of the Act. Accordingly, the provisions of clause 4 (iii)(e) to (g) of the Order are not applicable to the Company and hence not commented upon.
- (iv) In our opinion and according to the information and explanations given to us and having regard to the explanation that purchase of certain items of fixed assets and inventory are of proprietary nature for which alternative sources are not available to obtain comparable quotations, there is an adequate internal control system commensurate with the size of the Company and the nature of its business, for the purchase of inventory and fixed assets and for the sale of *services except that the internal control system with regard to the periodic review and update of cost estimates of the Engineering Procurement and Construction ('EPC') projects executed needs to be further strengthened.* The activities of the Company do not involve sale of goods. During the course of our audit, we have not observed any major weakness or continuing failure to correct any major weakness in the internal control system of the Company 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 respect of transactions made in pursuance of such contracts or arrangements and exceeding the value of Rupees five lakhs entered into during the financial year, because of the unique and specialized nature of the items involved and absence of any comparable prices, we are unable to comment whether the transactions were made at prevailing market prices at the relevant time.
- (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 of the Company and nature of its business.
- (viii) We have broadly reviewed the books of account 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 Act, related to the construction activities and are of the opinion that prima facie, the prescribed accounts and records have been made and maintained. We have not, however, made a detailed examination of records with a view to determine whether they are accurate or complete .
- (ix) (a) Undisputed statutory dues including sales-tax, provident fund, wealth-tax, service tax, customs duty, cess, employees' state insurance, income-tax, investor education and protection fund, excise duty and other material statutory dues as applicable to the Company, have generally been regularly deposited with the appropriate authorities *though there have been slight delays in few cases in remittance of tax deducted at source under the Income tax Act, 1961.*
- (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 material 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, the dues outstanding of income-tax, sales-tax, wealth-tax, service tax, customs duty and cess on account of any dispute, are as follows:

Name of the statute	Nature of dues	Amount (₹ in Crore)	Period for which amounts relates to	Forum where dispute is pending
Finance Act, 1994	Service tax	26.72	October 2007 to March 2012	Commissioner of Service Tax

- (x) *Without considering the consequential effects of the matters stated in paragraph a) and b) of the Basis for Qualified Opinion paragraph of our auditor's report,* the Company has no accumulated losses at the end of the financial year and it has not incurred any 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, bank or debenture holders.

- (xii) According to the information and explanations given to us and based on the documents and records produced before 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 Order 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 Order are not applicable to the Company.
- (xv) *The Company has given guarantees in respect of a loan taken by a group Company from a bank in respect of which it has not charged any commission nor was any adequate explanation provided to us of the benefit to the Company for giving such a guarantee.* In respect of other guarantees given by the Company for loans taken by others from banks or financial institutions, the terms and conditions, in our opinion, are not prima-facie prejudicial to the interest of the Company
- (xvi) Based on the 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 not made any preferential allotment of shares to parties or companies covered in the register maintained under section 301 of the Act.
- (xix) During the period covered by our audit report, the Company has 10,000 secured debentures of ₹ 0.10 Crore each in respect of which security has been created. The outstanding amount as at March 31, 2014 in respect of these secured debentures is ₹ 977.50 Crore. Further, the Company has unsecured debentures of ₹ 175.00 Crore outstanding as at March 31, 2014 on which no security or charge is required to be created.
- (xx) The Company has not raised any money through a public issue during the year.
- (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 year.

For S.R.BATLIBOI & ASSOCIATES LLP
ICAI firm registration number: 101049W
Chartered Accountants

per Sunil Bhumralkar
Partner
Membership Number: 35141

Place: Bengaluru
Date: May 29, 2014