

Independent Auditor's Report on the Standalone financial statements of GMR Infrastructure Limited

To the Members of GMR Infrastructure Limited

Report on the Standalone Financial Statements

We have audited the accompanying standalone financial statements of GMR Infrastructure Limited ('the Company'), which comprise the Balance Sheet as at March 31, 2015, 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 Standalone Financial Statements

The Company's Board of Directors is responsible for the matters stated in Section 134(5) of the Companies Act, 2013 ('the Act') with respect to the preparation of these standalone 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 specified under section 133 of the Act, read with Rule 7 of the Companies (Accounts) Rules, 2014. This responsibility also includes maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding of the assets of the Company and for preventing and detecting frauds and other irregularities; selection and application of appropriate accounting policies; making judgements and estimates that are reasonable and prudent; and the design, implementation and maintenance of adequate internal financial controls that were operating effectively for ensuring the accuracy and completeness of the accounting records, relevant to the preparation and presentation of the standalone 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 standalone financial statements based on our audit. We have taken into account the provisions of the Act, the accounting and auditing standards and matters which are required to be included in the audit report under the provisions of the Act and the Rules made thereunder.

We conducted our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India, as specified under Section 143(10) of the Act. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the standalone financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the standalone financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the standalone financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal financial controls relevant to the Company's preparation of the standalone financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on whether the Company has in place an adequate internal financial control system over financial reporting and the operating effectiveness of such controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the accounting estimates made by the Company's Directors, as well as evaluating the overall presentation of the standalone financial statements.

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

Basis for Qualified Opinion

1. As detailed in Note 13(7) to the accompanying standalone financial statements for the year ended March 31, 2015, the Company through its subsidiary, GMR Infrastructure (Mauritius) Limited ('GIML') has investments of ₹ 228.21 Crore (USD 3.62 Crore) (including equity share capital of ₹ 145.67 Crore and share application money pending allotment of ₹ 82.54 Crore) towards 77% equity shareholding in GMR Male International Airport Private Limited ('GMIAL'). Further GIML has placed fixed deposits of ₹ 908.06 Crore (USD 14.40 Crore) with lenders towards loan taken by GMIAL and the Company has given a corporate guarantee of ₹ 2,475.11 Crore (USD 39.25 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 was 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 on June 18, 2014, the tribunal delivered its award declaring that the Concession Agreement was not void ab initio and was valid and binding on the parties. However, the quantum of the damages is yet to be decided and accordingly, pending final outcome of the arbitration, such investment has been carried at cost in the standalone financial statements as at March 31, 2015 as the management is of the opinion that GMIAL will be able to recover at least the carrying value of the assets of ₹ 1,486.96 Crore (USD 23.58 Crore) including claim recoverable of ₹ 1,145.16 Crore (USD 18.16 Crore) as at March 31, 2015.

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 has received claims from GADLIL and other service providers towards termination payments. However, no such claims relating to the termination of contracts have been recognised in the standalone financial statements of GMIAL as at March 31, 2015. The takeover of MIA by MACL, initiation of arbitration proceedings and its consequential 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 standalone financial statements for the year ended March 31, 2015. In respect of the above matter, our audit report for the year ended March 31, 2014 was similarly qualified. In this regard also refer sub-paragraph (f) in the Emphasis of Matter paragraph.

2. As detailed in Note 13[13(b)] to the accompanying standalone financial statements for the year ended March 31, 2015, the Company along with its subsidiary has made an investment of ₹ 729.43 Crore in GMR Kishangarh Udaipur Ahmedabad Expressways Limited ('GKUAEL'), a subsidiary of the Company (including loans of ₹ 29.43 Crore and investment in equity shares and preference shares of ₹ 700.00 Crore), which is primarily utilised by GKUAEL towards payment of capital advance of ₹ 590.00 Crore to its EPC contractor and ₹ 130.99 Crore towards indirect expenditure attributable to the project and borrowing costs ('project expenses'). GKUAEL has also given a bank guarantee of ₹ 269.36 Crore to National Highways Authority of India ('NHAI'). GKUAEL issued a notice of intention to terminate the Concession Agreement during the earlier year and a notice of dispute to NHAI invoking arbitration provisions of the Concession Agreement during the current year. Both the parties have appointed their arbitrators and the arbitration process is pending commencement. Pursuant to the notice of dispute, GKUAEL terminated the EPC contract on May 15, 2015.

As a result, based on internal assessment, the management of the Company made a provision for diminution in the value of investments/ advances amounting to ₹ 130.99 Crore during the year ended March 31, 2015. However, the notice of dispute and initiation of arbitration proceedings indicate the existence of a material uncertainty that may cast a significant doubt about the going concern of the GKUAEL. Having regard to this uncertainty, we are unable to comment on the final outcome of the matter and its consequential impact on the carrying value of the Company's investment in GKUAEL in the standalone financial statements of the Company for the year ended March 31, 2015.

3. As detailed in Note 26(2) to the accompanying standalone financial statements for the year ended March 31, 2015, the management of the Company recognised the profit on sale of its investments in Istanbul Sabiha Gokcen Uluslararasi Havalimani Yatirim Yapim Ve Isletme Anonim Sirketi ('ISG') of ₹ 458.78 Crore (net of cost incurred towards sale of investments) in the standalone 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 during the year ended March 31, 2015, recognition of the profit on sale of such investments in the standalone financial statements of the Company for the year ended March 31, 2014 was not in accordance with the relevant Accounting Standards and accordingly, should have

been recognised in the standalone financial statements for the year ended March 31, 2015. Accordingly, profit before tax for the year ended March 31, 2014 and loss before tax for the year ended March 31, 2015 would have been lower by ₹ 458.78 Crore. In respect of the above matter, our audit report for the year ended March 31, 2014 was similarly 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 matters described in sub-paragraph (1) and (2) and the effect of the matter described in sub-paragraph (3) in the Basis for Qualified Opinion paragraph, the aforesaid standalone 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, of the state of affairs of the Company as at March 31, 2015, its loss and its cash flows for the year ended on that date.

Emphasis of Matter

We draw attention to the following matters in the notes to the accompanying standalone financial statements for the year ended March 31, 2015:

- a) Note 13(8) regarding an investment of ₹ 389.52 Crore (including loans of ₹ 149.33 Crore, and interest accrued thereon and investment in equity / preference shares of ₹ 239.59 Crore made by the Company and its subsidiaries) as at March 31, 2015 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 a legal opinion such investment has been carried at cost. Accordingly, no provision for diminution in the value of investments has been made in the accompanying standalone financial statements for the year ended March 31, 2015.
- b) Note 13[13(a)] regarding an investment of ₹ 663.15 Crore (including loans of ₹ 361.12 Crore and investment in equity / preference shares of ₹ 302.03 Crore) by the Company along with its subsidiary as at March 31, 2015 in GMR Hyderabad Vijayawada Expressways Private Limited ('GHVEPL'), a subsidiary of the Company. GHVEPL has been incurring losses since the commencement of commercial operations and based on a valuation assessment, the Company made a provision of ₹ 131.41 Crore for the diminution in the value of these investments as at March 31, 2015. In the opinion of the management of the Company, no further provision for diminution in the value of investments is considered necessary in the accompanying standalone financial statements as at March 31, 2015 for reasons explained in the said note.
- c) Note 13(16) regarding the extension of the validity of the approvals obtained by Kakinada SEZ Private Limited ('KSPL'), a subsidiary of the Company from the Government of India for part of the area to set up a Special Economic Zone ('SEZ'). The management of KSPL is confident of obtaining further extension of the approvals, as necessary and also getting the balance area notified for SEZ development as per the applicable regulations.
- d) Note 13(9) regarding (i) cessation of operations and the losses, including cash losses incurred by GMR Energy Limited ('GEL') and GMR Vemagiri Power Generation Limited ('GVVPL'), 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 their short term and long term obligations. The accompanying standalone financial statements of the Company for the year ended March 31, 2015 do not include any adjustments that might result from the outcome of this significant uncertainty.
- e) Note 13(10) regarding uncertainties in the key assumptions made in the valuation assessment of the investment in GMR Chhattisgarh Energy Limited ('GCHEPL'), a subsidiary of the Company. In the opinion of the management of the Company, no provision for diminution in the value of investments (including loans) is considered necessary in the accompanying standalone financial statements for the year ended March 31, 2015 for the reasons explained in the said note.
- f) Note 39 regarding receipt of a letter by the Company from National Stock Exchange of India Limited ('NSE') whereby Securities and Exchange Board of India ('SEBI') has directed NSE to advise the Company to rectify the qualification in the Auditors' Report for the year ended March 31, 2013, within the period specified in clause 5(d) (iii) of the SEBI Circular dated August 13, 2012. The Company is in the process of seeking clarifications from NSE in this regard. In this regard also refer sub-paragraph (1) in the Basis for Qualified Opinion paragraph.

Our opinion is not qualified in respect of these aforesaid matters.

Report on Other Legal and Regulatory Requirements

1. As required by the Companies (Auditor's report) Order, 2015 ('the Order') issued by the Central Government of India in terms of sub-section (11) of section 143 of the Act, we give in the Annexure I a statement on the matters specified in paragraphs 3 and 4 of the Order, to the extent applicable.
2. As required by section 143 (3) of the Act, we report that:
 - (a) We have sought and 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 it appears from our examination of those books;
 - (c) The Balance Sheet, the Statement of Profit and Loss, and the 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 aforesaid standalone financial statements comply with the Accounting Standards specified under section 133 of the Act, read with Rule 7 of the Companies (Accounts) Rules, 2014;
 - (e) The matters described in the Basis of Qualified Opinion paragraph, Emphasis of Matter paragraph and paragraph (viii) in Annexure I, in our opinion, may have an adverse effect on the functioning of the Company;
 - (f) On the basis of written representations received from the directors as on March 31, 2015, and taken on record by the Board of Directors, none of the directors is disqualified as on March 31, 2015, from being appointed as a director in terms of section 164 (2) of the Act;
 - (g) The qualifications relating to the maintenance of accounts and other matters connected therewith are as stated in the Basis for Qualified Opinion paragraph above.
 - (h) With respect to the other matters to be included in the Auditor's Report in accordance with Rule 11 of the Companies (Audit and Auditors) Rules, 2014, in our opinion and to the best of our information and according to the explanations given to us:
 - i. The Company has disclosed the impact of pending litigations on its financial position in its standalone financial statements - Refer Note 13(7), 13(8), 13[13(a)], 13[13(b)], 13(14), 13(17), 13(18) and 34 to the standalone financial statements;
 - ii. Except for the possible effect of the matters described in sub-paragraphs 1 and 2 in the Basis for Qualified Opinion paragraph, the Company did not have any long-term contracts including derivative contracts for which there were any material foreseeable losses.
 - iii. There have been no delays in transferring amounts, required to be transferred, to the Investor Education and Protection Fund by the Company.

For S.R. BATLIBOI & ASSOCIATES LLP
Chartered Accountants
ICAI Firm Registration Number: 101049W

per Sunil Bhumralkar
Partner
Membership Number: 35141

Place: Bengaluru
Date: May 30, 2015

Annexure I 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 were physically verified by the management in the previous years in accordance with a planned programme of verifying them once in three years 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.
- (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 189 of the Act. Accordingly, the provisions of clause 3(iii) (a) and (b) 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 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) The Company has not accepted any deposits from the public.
- (vi) 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 148(1) of the Act, related to the construction activities and are of the opinion that prima facie, the specified accounts and records have been made and maintained. We have not, however, made a detailed examination of the same.

- (vii) (a) Undisputed statutory dues including provident fund, employees' state insurance, income-tax, sales-tax, wealth-tax, service tax, customs duty, excise duty, value added tax, cess and other material statutory dues as applicable to the Company, have generally been regularly deposited with the appropriate authorities.

According to the information and explanations given to us, no undisputed amounts payable in respect of provident fund, employees' state insurance, income-tax, wealth-tax, service tax, sales-tax, customs duty, excise duty, value added tax, 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.

- (b) According to the records of the Company, the dues outstanding of income-tax, sales-tax, wealth-tax, service tax, customs duty, excise duty, value added tax 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 | 41.42 | October 2007 to March 2014 | Commissioner of Service Tax, Bangalore |
| Karnataka Value Added Tax Act, 2003 | Value added tax | 49.08 | FY 2011-12 to 2013-14 | Additional Commissioner of Commercial Taxes |
| Central Excise Act, 1944 | Central excise duty (including penal charges and excluding interest) | 1.03 | March 2011 to December 2012 | Office of the Commissioner of Customs, Central Excise and Service Tax, Hyderabad-III Commissionerate |
| Income Tax Act, 1961 | Income Taxes | 5.83 | FY 2007-08 | Commissioner of Income Tax (Appeals) |

- (c) There were no amounts which were required to be transferred to the investor education and protection fund by the Company in accordance with the relevant provisions of the Companies Act, 1956 (1 of 1956) and rules made thereunder during the year.
- (viii) Without considering the consequential effects of the matters stated in Basis for Qualified Opinion paragraph of our auditor's report, the Company has no accumulated losses at the end of the financial year but it has incurred cash losses in the current financial year. In the immediately preceding financial year, the Company had not incurred cash losses.
- (ix) Based on our audit procedures and as per the information and explanations given by the management, the Company has defaulted in

repayment of dues to financial institutions, banks and debenture holders, the details of which are provided as below:

| Particulars | Amount (₹ in Crore) | Due date | Date of payment |
|---|------------------------|-------------------|--------------------|
| Unsecured, redeemable and non-convertible debentures (including redemption premium) | 199.43 | March 2, 2015 | March 20, 2015 |
| Redemption premium payable on Secured, redeemable and non-convertible debentures | 35.16 | December 25, 2014 | December 31, 2014 |
| Interest payable to a Bank | 10.02 | January 31, 2015 | February 21, 2015 |
| Interest payable to a Bank | 9.05 | February 28, 2015 | March 20, 2015 |
| Interest payable to a financial institution | 43.71 | March 10, 2015 | March 13, 2015 |

- (x) The Company had 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 guarantees. However, the aforesaid guarantee was extinguished during the year on repayment of the loan by the group company. In respect of other guarantees given by

the Company for loans taken by others from banks and financial institutions, the terms and conditions whereof, in our opinion, are not prima facie prejudicial to the interest of the Company.

- (xi) 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.
- (xii) Based upon the audit procedures performed for the purpose of reporting the true and fair view of the standalone 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
Chartered Accountants
ICAI Firm Registration Number: 101049W

per Sunil Bhumralkar
Partner
Membership Number: 35141

Place: Bengaluru
Date: May 30, 2015