



INDEPENDENT AUDITOR'S REPORT

To the Members of GAIL (India) Limited

Report on the Financial Statements

We have audited the accompanying financial statements of GAIL (India) Limited, which comprise the Balance Sheet as at March 31, 2014, and the Statement of Profit and Loss and 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 the Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956 ("the Act") read with General Circular 15/2013 dated 13th September 2013 of the Ministry of Corporate Affairs in respect of section 133 of the Companies Act 2013. 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 Company'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.

Opinion

In our opinion and to the best of our information and according to the explanations given to us, the financial statements give the information required by the Companies Act 1956 to the extent applicable and the Companies Act 2013 (to the extent notified) 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

Without qualifying our opinion, we draw attention to Note no.41 regarding sharing of under recoveries on sensitive petroleum products by way of subsidy given to oil marketing companies as decided by Ministry of Petroleum & Natural Gas (MOPNG).

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 purposes 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) In our opinion, the Balance Sheet, the Statement of Profit and Loss 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 read with General Circular 15/2013 dated 13th September 2013 of the Ministry of Corporate Affairs in respect of section 133 of the Companies Act 2013.
 - e) Being a government Company, pursuant to the Notification No. GSR 829(E) dated 21st October 2003 issued by Department of Company Affairs, provisions of clause (g) of sub-section (1) of Section 274 of the Companies Act, 1956, are not applicable to the company.
 - f) Since the Central Government has not issued any notification as to the rate at which the cess is to be paid under section 441A of the Companies Act, 1956 nor has it issued any Rules under the said section, prescribing the manner in which such cess is to be paid, no cess is due and payable by the Company.

For **M/s M.L. Puri & Co.**
Chartered Accountants
Firm No.: 002312N

(Navin Bansal)
(Partner)
Membership No.: 91922

For **M/s G.S Mathur & Co.**
Chartered Accountants
Firm No.: 08744N

(Rajiv Kumar Wadhawan)
(Partner)
Membership No.: 091007

Place: New Delhi
Dated: May 26, 2014

ANNEXURE TO THE AUDITOR'S REPORT

The Annexure referred to in the auditor's report to the shareholders of GAIL (India) Limited for the year ended March 31, 2014. We report that:

- (i) (a) The company has generally maintained proper records showing full particulars including quantitative details and situation of fixed assets.
- (b) According to the information and explanation given to us, there is a regular programme of verification of fixed assets by the management, which in our opinion is reasonable having regard to the size of the company and the nature of its assets. Fixed assets have been physically verified by the management during the year and as per the report, no material discrepancies were noticed on such verification.
- (c) The fixed assets disposed off during the year, in our opinion, do not constitute a substantial part of the fixed assets of the company and such disposal has, in our opinion, not affected the going concern status of the company.

- (ii) The inventories have been physically verified at reasonable intervals by the Management, except the stores & spares lying with Engineers India Ltd. and other contractors. We have been explained that the stock of gas at the end of the year has been taken with reference to reading of Turbine Flow Meter/Gas Chromatograph installed at Terminals, Stock of LPG/Pentane/SBP Solvent are determined with reference to Tank Level Gauge measurement which are converted into tonnage by measurement of density and applying correction factor for temperature. LPG vapors volume is converted to tonnage by standard formulae.

In our opinion and according to the information and explanations given to us, the procedures of physical verification of inventory followed by the Management are reasonable and adequate in relation to the size of the Company and nature of its business.

According to the information and explanations given to us, no material discrepancies have been noticed on physical verification of inventories as compared to the books and records.

- (iii) (a) The Company has granted loans to its one subsidiary company (None of the Directors individually or collectively hold more than two per cent of the paid-up share capital). The Company has maintained the register under section 301 of the Companies Act, 1956, inter-alia, in which the name of said one subsidiary is also entered. The maximum amount involved during the year for ₹ 64.17 crores and year-end balance of loan was ₹ 56.38 crores.
- (b) In our opinion, the rate of interest and other terms and conditions of such loans are not, prima facie, prejudicial to the interest of the company.
- (c) The party has repaid the principal amounts as stipulated and has also been regular in the payment of interest to the company.
- (d) There is no overdue amount in excess of ₹ 1 lakh in respect of loans granted to companies, firms or other parties listed in the register maintained under section 301 of the Companies Act, 1956.

- (e) The company had not taken loan from companies covered in the register maintained under section 301 of the Companies Act, 1956.
- (iv) According to information and explanations given to us, there are adequate internal control procedures commensurate with the size of the company and nature of its business for the purchase of inventory, fixed assets and for the sale of goods and services.
- (v) In respect of contract or arrangement entered in the register maintained in pursuance of section 301 of the Act, to the best of our knowledge and belief and according to the information and explanation given to us:
- (a) The particulars of contracts or arrangement referred to in section 301, that needed to be entered in the Register maintained under the said section have been so entered.
- (b) In our opinion and as per the information & explanation given to us and on the basis of our examination of books of accounts, the transactions made in pursuance of contract or arrangement referred to in (a) above and exceeding the value of Rs. 5 Lacs have been made at prices which are reasonable having regard to the prevailing market prices at the relevant time.
- (vi) The company has not accepted any deposits from the public during the year covered under section 58A and 58AA or any other relevant provision of the Companies Act, 1956.
- (vii) In our opinion, the company's internal audit system is commensurate with its size and nature of its activities.
- (viii) We have broadly reviewed the costing records being maintained by the Company pursuant to the order 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 maintained.
- (ix) (a) According to the records of the company, the company has generally been regular in depositing undisputed statutory dues including Provident fund, Investor Education and Protection Fund, Employees' State Insurance, Income tax Sales tax, Wealth tax, Service Tax, Custom duty, Excise duty, cess and any other material statutory dues with the appropriate authorities. According to the information and explanation given to us, no undisputed amounts payable in respect of Provident fund, Investor Education and Protection Fund, Employees' State Insurance, Income tax Sales tax, Service Tax, Custom duty, Excise duty and other statutory dues were in arrear at the year-end for a period of more than six months from the date they became payable.
- (b) As certified by the Management on which we have relied upon, the dues of Excise Duty, Custom Duty, Entry Tax, Sales Tax and other Taxes which have not been deposited on account of disputes and the forum where the dispute is pending, are given below:



List of Cases of Unpaid Disputed Demand under various Statutes as on 31.03.2014

(₹ In Crores)

Sl. No.	Statute		Subject Matter of Dispute	Amount (2013-14)	Period of Dispute	Status - Forum
1	Entry Tax	(a)	Demand of Entry Tax on Natural Gas in U.P.	173.88	1999-00 to 2009-10	Allahabad High Court, Trade tax Tribunal & Additional Commissioner (Appeals)
		(b)	Demand of Entry Tax on Natural Gas in Rajasthan	0.86	2005-06	Dy. Commissioner (Appeals), Ajmer
		(c)	Demand of Entry Tax on Natural Gas in Madhya Pradesh	2.60	2008-09	Tribunal, Bhopal
2	Sales Tax & VAT	(a)	Non-acceptance of declaration form for concessional sales tax	0.37	1995-96 & 1996-97	Tribunal, Bhopal
		(b)	Sales Tax demand as per assessment order	3.90	2005-06 & 2006-07	Additional Commissioner (Appeals) Noida
		(c)	VAT demand as per assessment order	32.58	2010-11	Additional Commissioner (Appeals) Noida
		(d)	CST demand on Transmission charges	0.71	2005-06 to 2006-07	High Court, AP
		(e)	Demand of GVAT & CST on account of disallowance of LPG subsidy discount	29.78	2006-2007	Tribunal, Gujarat
		(f)	Penalty for delay in payment of sales tax	0.90	2003-2004	Mumbai Tribunal
		(g)	Demand of VAT on account of rate change	0.43	Oct 2011 to Dec 2011	Joint Commissioner, Trichy
		(h)	Demand of CST on account of disallowance of LPG subsidy discount	46.93	2005-06	High Court, Gwalior
		(i)	Demand for treating CST sale as local sale	0.15	2003-2004	Assam Revenue board
		(j)	Sales Tax demand	0.20	1998-1999	Mumbai Tribunal
		(k)	Revised Sales Tax demand as per assessment order	2.42	2003-04	Joint Commissioner (Appeals), Baroda
3	Custom, Excise & Service Tax	(a)	LPG valuation Dispute	17.81	Jan 2001 to Feb 2005	CESTAT Mumbai
		(b)	Dispute on Pentane Classification	99.50	Aug. 2005 to Jul 2009	CESTAT Ahmedabad
		(c)	Dispute on MFO Classification	70.89	July 2004 to March 2011	CESTAT Ahmedabad
		(d)	Demand of duty under Rule 6(3) of CCR, 2004 for credit taken on input services	12.89	2008-2009 & 2009-2010	CESTAT Kolkata
		(e)	Demand of Service Tax on Marketing Margin	147.32	Oct. 2006 to Mar. 2012	CESTAT Delhi
		(f)	Demand of Service Tax on deputation of employees to JVs & Govt. Deptt.	2.61	Oct. 2006 to Mar. 2011	CESTAT Delhi
		(g)	Demand of differential service tax based on service tax returns.	0.22	Oct. 2006 to Mar. 2007	CESTAT Ahmedabad
		(h)	Demand raised by denying Cenvat & service tax credit taken at Hazira	8.30	Aug. 2005 to Sep. 2009	CESTAT Ahmedabad

(₹ In Crores)

Sl. No.	Statute	Subject Matter of Dispute	Amount (2013-14)	Period of Dispute	Status - Forum
		(i) Demand raised by denying Cenvat credit taken on input services	0.09	Dec. 2010 to March 2011	CESTAT Delhi
		(j) Demand of CVD on purchase of SAP software taken on input services	0.07	March 2006	CESTAT Delhi
		SUB-TOTAL	655.41		
4	Income Tax	Unpaid demands including interest	39.01	AY- 2006-07, 2007-08, 2009-10, 2011-12	CIT (Appeals)
5	Other taxes	Notified Area tax & GIDC tax on revised value (incl. interest)	3.81	1998-99 to Aug 2005 & 1998-99 to Dec 2009	Ahmedabad High Court
		TOTAL	698.23		

- (x) The company does not have 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 procedure and according to the information and explanations given to us by the management, we are of the opinion that the company has not defaulted in repayment of dues to a financial institution, bank and debenture holders.
- (xii) In our opinion and according to information and explanation given to us, the company has granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities. In our opinion, the company has maintained adequate documents and records in respect of such loans.
- (xiii) The company is not a chit fund, nidhi, mutual benefit fund or a society. Accordingly, clause 4(xiii) of the order not applicable.
- (xiv) In our opinion and according to the information and explanation given to us, the company is not dealing or trading in shares, securities, debentures and other investments. Accordingly, clause 4 (xiv) of the order is not applicable.
- (xv) In our opinion and according to information and explanation given to us, company has given guarantees for loans taken by its subsidiaries from bank and financial institutions. The terms and other conditions, in our opinion, are not prima facie prejudicial to the interest of the company.
- (xvi) On the basis of review of utilization of funds pertaining to term loans on overall basis and related information as made to us, the term loans taken by the company have been utilized for the purposes for which they are obtained.

- (xvii) According to the information and explanation given to us, company has not utilized short-term loan for long-term investment during the year.
- (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 Companies Act, 1956.
- (xix) The Company has not issued any debentures during the year.
- (xx) During the year no money has been raised by public issues.
- (xxi) *According to the information and explanations given to us, a legal notice has been sent to an original equipment manufacturer (OEM) of the company regarding recovery of USD 4.34 million plus GBP 3,48,549 along with interest thereon on account of payments of commission to its agent over and above the declared amount in violation of instructions to bidders (ITB) & terms and condition of Integrity Pact (IP) (Refer Note No.56).*

For **M/s M.L. Puri & Co.**
Chartered Accountants
Firm No.: 002312N

(Navin Bansal)
(Partner)
Membership No.:91922

For **M/s G.S Mathur & Co.**
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(Rajiv Kumar Wadhawan)
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Place : New Delhi
Dated : May 26, 2014