

Auditors' Report to the Shareholders of GAIL (India) Limited

- 1. We have audited the attached Balance Sheet of GAIL (India) Limited as at 31st March, 2011, the Profit and Loss Account and Cash Flow Statement of the company 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.
- 2. We have conducted our audit in accordance with auditing standards generally accepted in India. These 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. As required by the statement on the Companies (Auditor's Report) order,2003 issued by the Central Government of India in terms of subsection (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.
- 4. Further to our comments in the Annexure referred to above, 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 appears from our examination

- of those books;
- c) The Balance Sheet and Profit & Loss Account 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, 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;
- e) Disclosure in terms of clause (g) of sub-section (1) of Section 274 of the Companies Act, 1956 is not required as per notification no. GSR 829(E) dated October 21, 2003 issued by the Department of Company Affairs.
- f) In our opinion and to the best of our information and according to the explanations given to us, the said financial statements read together with the significant accounting policies and notes thereon 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:
 - in the case of the Balance Sheet, of the state of affairs of the Company as at 31st March, 2011;
 - ii. in the case of the Profit & Loss Account, of the profit for the year ended on that date; and
 - iii. in the case of the Cash Flow Statement, of the cash flow of the company for the year ended on that date.

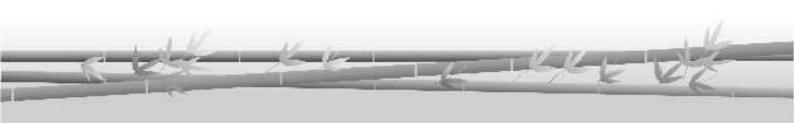
For M.L.Puri & Co. Chartered Accountants Firm No:002312 N

Navin Bansal Partner Membership No. 91922

Place: New Delhi Dated: May 23, 2011 For Rasool Singhal & Co. Chartered Accountants Firm No.: 500015 N

Anil Gupta Partner Membership No. 072767

> Place : New Delhi Dated : May 23, 2011

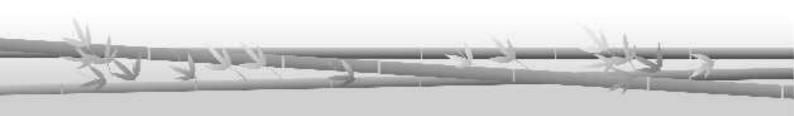


Annexure to the Auditor's Report

The Annexure referred to in the auditor's report to the shareholders of GAIL (India) Limited for the year ended March 31, 2011. 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 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 no material discrepancies were noticed on such verification.
 - In our opinion, there was no substantial disposal of fixed assets during the year.
- (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 vapour 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) The Company has neither granted nor taken any loans secured or unsecured, to or from companies, firms or other parties covered in the register maintained under Section 301 of the Companies Act, 1956.

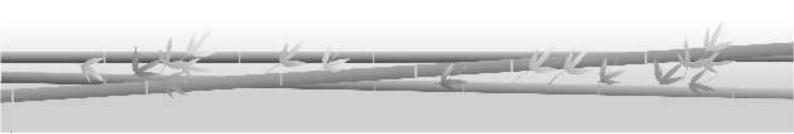
- (iv) In our opinion, and according to information and explanations given to us, there are adequate internal control procedures to commensurate with the size of the company and the nature of its business for the purchase of inventory and fixed assets and for the sale of goods and services.
- (v) On the basis of our examination of the books of accounts, and as per information and explanation given to us, the company has not made any transactions in respect of any party during the financial year that needs to be entered in the register pursuant to the section 301 of the Companies Act, 1956.
- (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 books of Accounts 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. We have not, however, made a detailed examination of these records.
- x) (a) According to the records of the company, the company is generally regular in depositing undisputed statutory dues including Provident fund, Investor Education and Protection Fund, Employees' State Insurance, Sales tax, Wealth tax, Service Tax, Custom duty, Excise duty, cess and any other statutory dues with the appropriate authorities. According to the information and explanation given to us, no undisputed amounts payable in respect of Sales tax, Service Tax, Custom duty, Excise duty and other statutory dues were outstanding at the year end for a period of more than six months from the date they become 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:





(₹ in Crores)

SI. No.	Statute		Subject Matter of Dispute	Amount	Period of Dispute	Status - Forum
1	Entry Tax	(a)	Entry Tax on Market Value of Natural Gas instead of its Purchase Price (Including Interest)	300.58	1999-2008	Allahabad High Court, Trade tax Tribunal & Additional / Joint Commissioner-Appeals
		(b)	Rajasthan Entry Tax Demand	0.65	2005-06	Dy. Commissioner, Appeals, Kota
2	Sa l es Tax	(a)	Non-acceptance of declaration form for concessional sales tax	0.16	1995-96 & 1996-97	Additional Commissioner Appeals, Commercial Tax, Gwalior
		(b)	Sales Tax demand as per assessment order of 2005-06 and 2006-07	3.00	2005-06 & 2006-07	Additional Commissioner- Appeal Noida
		(c)	CST demand on Transmission charges with penalty & interest thereon	0.48	2005-06 and 2006-07	Andhra Pradesh High Court
		(d)	Demand on account of LPG subsidy discount and treating domestic LPG as non-domestic	69.57	2006-2007	Joint Commissioner- Appeals, Vadodara
		(e)	Interest for delay for sales tax assessment	0.54	2003-2004	Dy. Commissioner, Sa l es Tax, Mumbai
		(f)	Demand for non submission of C Forms and rejection of HPL swap in transit sale	0.94	Apr. 2004 to June 2004	Appe ll ate & Revisional Bench, West Bengal
3	Excise	(a)	LPG valuation Dispute	15.04	Jan 2001 to Feb 2005	CESTAT Mumbai
		(b)	Dispute on Pentane Classification	83.57	Mar. 2000 to Feb 2002 & Aug.2005 to Jul 2009	CESTAT New Delhi & CESTAT Ahmedabad
		(c)	Dispute on MFO Classification	42.94	July 2004 to May 2009	CESTAT Ahemdabad
4	Service Tax	(a)	Demand of differential service tax based on returns for the period from Oct 06 to Mar 07	0.12	Oct.2006 to Mar.2007	CESTAT Ahemdabad
		(b)	Demand raised denying refund claim allowed to GAIL for service tax on compression charges	0.26	Sep.2007	CESTAT Ahemdabad
		(c)	Demand raised by denying Cenvat & service tax credit taken at Hazira	6.94	May 2005 to Mar.2010	CESTAT Ahemdabad
5	Other taxes		Notified Area tax & GIDC tax on revised value. (incl. interest)	3.28	1985-86 to 2008-09	Ahmedabad High Court



- (x) 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 procedure and on 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 and debenture holders.
- (xii) In our opinion, the company has not granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities other than to its employees. 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) 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) According to the information and explanation given to us, the company has not given any guarantee for loans taken by others from banks and financial institutions during the year.

- (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 raised any short term loan 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 issued debentures (bonds) during the year.
 According to information and explanations given to us, the
 Company has created necessary charges as per debenture (bond) trust deed in respect of debentures (bonds) issued 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, no fraud on or by the company has been noticed or reported during the year.

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

Navin Bansal Partner Membership No. 91922

Place : New Delhi Dated : May 23, 2011 For Rasool Singhal & Co. Chartered Accountants Firm No.: 500015 N

Anil Gupta Partner Membership No. 072767

> Place : New Delhi Dated : May 23, 2011

