GAMMON

13th March, 2015

BOMBAY STOCK EXCHANGE LIMITED
1st Floor, New Trading Ring,
Rotunda Building,
Phiroze Jeejeebhoy Towers,
Dalal Street,
Mumbai – 400 001.

THE NATIONAL STOCK EXCHANGE OF INDIA LIMITED
Exchange Plaza, 5th Floor,
Plot No. C/1, 'G' Block,
Bandra-Kurla Complex,
Bandra (East),
Mumbai – 400 051.

Dear Sir,

Sub: SUBMISSION OF FORM B FOR THE NINE (9) MONTHS PERIOD ENDED 30th SEPTEMBER, 2014

Please find enclosed herewith, Form B (Qualified/ Subject to/ Except for Audit Report) pursuant to Clause 31 of the Listing Agreement, in respect of the Audited Standalone and Consolidated Financial Statements of the Company for the Nine (9) Months ended 30th September, 2014.

Kindly note that six (6) copies of the Annual Report and Notice of the 93rd Annual General Meeting has been submitted by us vide our letter dated 9th March, 2015.

Kindly acknowledge the receipt of the same.

Thanking you,

Yours truly,
For GAMMON INDIA LIMITED

GITA BADE
COMPANY SECREATRY

Encl: As above

BSE LTD.
INWARD SECTION
13 MAR 2015
CONTENTS NOT VERIFIED
SIGN.........................

FORM B

1	Name of the Company	Gammon India Ltd
2	Annual financial statements (standalone) for the year ended	30th September 2014 – Standalone
3	Type of Audit observation / qualification	**Auditor's Comments** **(i) Matter of Emphasis** **(a)Recognition of Revenue for Arbitration award:** **Note: 35 Annual Report page: 102** We draw attention to Note no 35 of the explanatory notes relating to recoverability of an amount of Rs. 167.23 Crore as at September 14 under trade receivables in respect of contract revenue where the Company has received arbitration awards in its favour in respect of which the client has preferred an appeal for setting aside the said arbitration awards, recognition of claims while evaluating the jobs of Rs. 451.56 Crore towards work done on account of cost overruns arising due to client delays, changes of scope, deviation in design and other charges recoverable from the client which are pending approval or certification by the client and Rs. 123.80 Crore where the Company is confident of recovery based on advanced stage of negotiation and discussion. The recoverability is dependent upon the final outcome of the appeals & negotiations getting resolved in favour of the Company. **(b) Cash Losses from Operations:** **Note: 36 Annual Report Page : 102** The Company has cash losses from operations after reducing the interest payments and has unabsorbed losses to the tune of Rs. 775.32 Crore. These conditions, along with other matters as set forth in Note 36 of the Financial Statements, indicate the existence of an uncertainty as to timing and realisation of cash flow. **(c)Investments in Sofinter S.p.A.:** **Note: 33 (b) Annual Report page: 99** Note No 33(b) relating to the exposure of Rs. 197.16 Crore which includes non-fund based guarantees of Rs. 110.90 Crore towards acquisition of further stake of 35% in Sofinter. The transfer of shares to be done as detailed in the aforesaid note is essential to support the exposure of the Company towards the funded and non-funded exposure towards M/s Gammon Holding (Mauritius) Limited for the additional 35% equity stake in Sofinter. Further the management has made assertions about the investment and reasons why the same does not require any provision towards diminution in the value of investment and loans provided. Relying on the assertions and on the further acquisition of interest in M/s Sofinter as detailed in the aforesaid note no adjustments have been made in the financials towards possible impairment. **(d) Investments in Gactel and G&B Contacting LLC:** **Note: 12(iv) and 12(v) Annual Report page: 91** We also invite attention to Note 12(iv) & Note 12(v) in case of Gactel Turnkey Projects Limited & G&B Contracting LLC where the management has made assertions about the investment and reasons

the value of investment and loans provided. Relying on the assertions as detailed in Note 12(iv) and (v) no adjustments have been made in the financials towards possible impairment.

(ii) Qualifications:

(a) We invite attention to Note no 33 (c) (i) and (ii) relating to the accounts of one of the subsidiaries M/s Franco Tosi Meccanica S.p.A (FTM) which have not been audited since December 2011 and the details of the application for pre-insolvency composition agreement including the plans to sell the business of the Subsidiary. In view of the non-availability of the financial statements for reasons detailed in the aforesaid notes we are unable to comments on the adjustments to be made in the financials in respect thereof. The Company's exposure in the said Subsidiary (net of provisions and credit balance in Foreign exchange translation reserve) is Rs. 1162.87 Crore which includes the loans made and Investments made (net of provisions) of Rs. 268.06 Crore, the exposure of corporate guarantee towards the borrowing made by the overseas SPV through which the step down Subsidiary is held of Rs. 302.94 Crore and corporate guarantee exposures in respect of the said FTM by way of corporate guarantee issued by the Company towards the non-fund based limits granted to the said FTM based on which guarantees were given to the projects of the said Subsidiary of Rs. 591.87 Crore. In the absence of the financial statements and any indication of the outcome of the pre-insolvency composition agreement we are unable to comment on the adequacy of the provision towards diminution in the value of investments and loans resulting in the net carrying value as aforesaid.

(b) In respect of the corporate guarantees issued towards the jobs of FTM as detailed in note 33(c)(iii) the Company has received fresh demand for Euro 21.84 Million(Rs. 170.80 Crore) against which the Company has made a provision of Euro 4.04 Million (Rs. 31.59 Crore) towards liabilities arising from demand against some of the corporate guarantees. In respect of the other demand of Euro 17.80 Million (Rs. 139.21 Crore) in respect of another project no provision is made as the Company is in active negotiation with the clients of the Subsidiary for the cancellation of the demand. In view of the uncertainties involved in the negotiation settling in favour of the Company and the future of the business of FTM we are unable to comment upon possible further liabilities arising from such corporate guarantees.

(c) The Auditors of M/s SAE Powerlines Srl, Italy (SAE) , a Subsidiary of the Company have expressed their inability to opine on the financial statements in view of the said SAE's ability to operate as a going concern being at risk and the directors of the said SAE have highlighted the liquidity crisis. The total exposure of the Company in SAE and ATSL Holdings B.V., Netherlands, the holding Company of SAE towards investments including guarantees towards the acquisition loan taken by SPV and guarantees towards the operating business of SAE is Rs. 328.06 Crore. The Company has made provision for impairment of investments and Loan of Rs. 110.45 Crore and provision for risk and contingencies towards corporate guarantees for acquisition loan of the SPV of Rs 88.29 Crore resulting in the net exposure of the Company at Rs.129.32 Crore. Attention is

		invited to note 33 (e) where the Company contends that the carrying value of Rs. 129.32 Crore does not need any provision despite the valuation of the business of SAE by independent valuers indicating an excess carrying value of Rs.55.02 Crore that has not been provided for. **(d)** The Company's Application for managerial remuneration aggregating to Rs. 14.32 Crore for the Chairman and Managing Director has been rejected for the accounting years 2011-12, 2012-13 and 9-month period ended December 2013. The Company has preferred appeals for review of the matters with the Central Government for all the years for which the same is rejected. The Chairman and Managing Director has pending disposal of the review during the year refunded an amount of Rs.1.85 Crore being the excess remuneration for the year ended 2011-12. The remuneration for the period ended September 2014 of the Chairman and Managing director is Rs. 4.71 Crore, of which an amount of Rs. 0.94 Crore is pending payment, for which application is being made. Pending the review and appeal of the Company for the accounting periods 2011-12, 2012-13, 9-month period ended December 2013 and 30 September 2014 no adjustments have been made for an amount of Rs.17.18 Crore. **(e)** The Company has during the year after 1 April 2014 granted unsecured loans to one of its Joint Ventures beyond the limits specified in Section 186 of the Companies Act 2013 without the prior approval of the members in general meeting
4	Frequency of observation / qualification	**(i) Matter of Emphasis:** Point (a) of Matter of Emphasis is repeated from March 2008, Point (c) is repeated from December 2013. Point (b) and Point (d) have come for the first time, **(ii) Qualifications:** Point (a), Point (c), Point (d) are repeated from December 2013, Point (b) and Point (e) have come for the first time.
	Management response to the qualification in the directors report	**(i) Matter of Emphasis:** The Directors would like to state that the said matters are only for the attention of members and have been explained in detail in the relevant notes to accounts as stated therein and require no further clarification **(ii) Qualifications:** **(a) Non-availability of Financials of Subsidiary, FTM.** **Note: 33 (c)(i) and (ii) Annual Report page: 99 and 100** With reference to clause (a) of the "Basis of Qualified Opinion" in the Audit Reports on Standalone Financial Statements wherein the auditors have opined that they are unable to comment on the adequacy of the provisions made by the Company for diminution of the value of its investments due to non-availability of financials of Franco Tossi Mecanica S.p.A ('FTM') the Company's Subsidiary in Italy, the Board, while drawing your attention to Note 33(c)(i) and (ii) of Standalone Financial Statements, would like to reiterate that FTM has filed an application for a pre-insolvency procedure which has been admitted by a court at Milan. In light of the ongoing procedure, till date, the financial statements of FTM have not been released by the empowered Commissioner. Further, it is envisaged that these will not be released until the process of insolvency is complete. However, the Company has made adequate provision towards its exposure for all

the known liabilities in FTM. The management is of the opinion that since it will recover an amount not less than the carrying amount of FTM, no further provision for diminution is required to be made.

(b) Corporate guarantees issued towards FTM Jobs:

Note: 33(c)(iii) Annual Report Page: 100

With reference to clause (b) of the "Basis of Qualified Opinion" in the Audit Reports on Standalone Financial Statements wherein the auditors have opined that "they are unable to comment on the adequacy of the provisions made towards the Company's exposure towards corporate guarantees issued towards the jobs of FTM, the Board would like to inform you that as mentioned in Note 33(c)(iii) of the Financial Statements, the Company (FTM) is in active negotiation with the clients of FTM for the cancellation of the demand of Euro 17.80 Million (Rs. 139.21 Crore) made by the Clients. Further, the Company has made provision for the balance amount of Euro 4.04 Million (Rs. 31.59 Crore).

(c) **Opinion on SAE S.p.A:**

Note: 33 (e) Annual Report page: 100

With reference to clause (c) of the "Basis of Qualified Opinion" in the Audit Reports on Standalone Financial Statements wherein the auditors have opined that "they are unable to comment on the adequacy of the provisions made towards the Company's exposure in investments in and Guarantees given by the Company in respect of SAE Powerlines S.p.A ,the Company's Subsidiary in Italy" ,the Board would like to inform you that as mentioned in Note 33(e) of the Financial Statements, the management is of the opinion that considering the order book position and adequate references and strengths in international markets of its Subsidiary SAE Powerlines the provision made by it for impairment of its investment, loans and trade receivables is adequate.

(d) **Payment of Management Remuneration:**

Note: 24(a) Annual Report page: 96

With reference to clause(d) of the "Basis of Qualified Opinion" in the Audit Report on Standalone Financial Statements, wherein the auditors have opined on managerial remuneration , the Board would like to inform you that as mentioned in Note 24(a) of Financial Statements, the Company's application for payment of 'Minimum Remuneration' of Rs. 6 Crore to Mr. Abhijit Rajan – Chairman & Managing Director for the financial years 2012-13 & 2013-14 has been rejected by the Ministry of Corporate Affairs ('MCA'). The Company has made an application to the MCA for review of its decision and the MCA's reply in this matter is awaited. The Company had also made an application to the MCA for waiver of payment of payment of 'Minimum Remuneration' of Rs.2 Crore to Mr. Himanshu Parikh (Former Executive Director) for the financial year 2012-13. In response to the Company's said application, the MCA approved payment of 'Minimum Remuneration' of Rs. 1.66 Crore to Mr. Himanshu Parikh. The Company has made a representation to the Ministry to reconsider its decision and reply is awaited. In view of the pending status of the aforementioned applications, no effect for the same has been given in the financial statements.

		(e) Unsecured Loan to JV: With reference to clause (e) of the "Basis of Qualified Opinion" in the Audit Report on Standalone Financial Statements, wherein the auditors have opined that the Company has during the year after 1 April 2014 granted unsecured loans to one of its Joint Ventures beyond the limits specified in Section 186 of the Companies Act 2013 i.e. without the prior approval of the members in general meeting, the Board would like to inform you that, as explained in Note 12(vi) of the Standalone Financial Statements, the loan was given as a business exigency and in the ordinary course of business. The Company had entered into joint venture namely, Gammon Cidade Tensacciai Joint Venture (the "JV") with Construtora Cidade LTDA and Tensacciai S.p.A. for the purpose of execution of "Construction of bridge and its approaches over ıiver Yamuna downstream of existing bridge of Wazirabad [SH: Main Bridge (Cable Stayed)] at Delhi" (the "Project"). The JV was required to import materials for the said Project. On account of business exigency, the Company had granted unsecured loan to the JV for purchasing the material. The said transaction amounted to giving of loan by the Company to the JV and though in the ordinary course of business, exceeded the limits prescribed under Section 186 of the Companies Act, 2013. The Directors would also like to inform you that the Company shall, in due course, approach its shareholders for their approval for giving of loans/advances to its joint ventures/associates.
	Additional comments from the Board/audit committee chair	**(a) Qualification (a) above:** The Board at its meeting while adopting the accounts heard the Executive Director dealing with the foreign Subsidiaries and Joint ventures, who explained in detail that the steps taken by the step down Subsidiary FTM were inevitable in view of its business continuity while gaining time for drawing up a scheme for settlement. The Board accepted this explanation and requested the Executive Director to closely monitor and keep the Board abreast of developments. As regards adequacy of provision towards liabilities of FTM, the Board advised the Executive Director to closely watch the liability position and report to the Board from time to time about adequacy of provision of Rs. 135.64 Crore made in view of its total exposure and its investment in Gammon Holdings BV, the holding Company of FTM, from time to time. The board was also informed that three bids were received by the commissioner on December 22, 2014. Negotiations have started with the bidders and it is expected that the successfu! bidder for the operating business of FTM will be finalized before the end of March 2015. **(b) Qualification (b) above:** The Executive director dealing with the foreign Subsidiaries has informed to the Board that once the successful bidder takes over the operational business, the process of re-instating the encashed guarantees of Euro 17.80 Million will be initiated. Considering the update received from the Executive Director management is hopeful to successfully conclude the process in the second quarter of 2015.

		(c) Qualification (c) above: Similarly, in respect of SAE, a step down Subsidiary, the total provision for loans and guarantees given by the Company Rs. 198.74 Crore where, in the opinion of the management all the known liabilities have been provided. The auditors of SAE have expressed their inability to opine on the going concern assumption in respect of SAE and the Directors of SAE have highlighted the liquidity crisis facing the Company. The Company is taking steps to draw up a business plan for revival of the Company. In view of this development, the concerned Director was advised to watch the Company's Exposure very closely and report to the Board, if and when provision required for any change in impairment. **(d) Qualification (d) above:** The Ministry has rejected the appeal on the grounds that the payment of remuneration has to be approved by the CDR Lenders. The Company has approached its CDR lenders for their permission and the same is awaited. The Board advised the Company Secretary to closely follow up the pending applications and representations to the ministry of Company affairs and report to the Board any developments taking place in this regard. **(e) Qualification (e) above:** The Board advised the Company Secretary to approach the shareholders' approval for giving of loans/advances to its joint ventures/associates in due course.

For **Gammon India Limited**

For **Natvarlal Vepari & Co.**
Chartered Accountants
ICAI Firm Registration no. 106971W

Abhijit Rajan
Managing Director

Vardhan Dharkar
Chief Financial Officer

C.C. Dayal
Audit Committee Chairman

N. Jayendran
Partner
M. No. 40441
12/3/15

FORM B

1	Name of the Company	Gammon India Ltd
2	Annual financial statements (Consolidated) for the year ended	30th September 2014 – Consolidated
3	Type of Audit observation / qualification	**Auditor's Comments** **(i) Matter of Emphasis:** **(a)** * **Recognition of Revenue for Arbitration award:** **Note: 16 (i), 16(ii) and 16(iii) Annual Report page: 168** We draw attention to Note no 16(i), (ii) and (iii) of the explanatory notes relating to recoverability of an amount of Rs. 167.23 Crore as at September 2014 under trade receivables in respect of contract revenue where the Company has received arbitration awards in its favour in respect of which the client has preferred an appeal for setting aside the said arbitration awards, recognition of claims while evaluating the jobs of Rs. 451.56 Crore towards work done on account of cost overruns arising due to client delays, changes of scope, deviation in design and other charges recoverable from the client which are pending approval or certification by the client and 123.80 Crore where the Company is confident of recovery based on advanced stage of negotiation and discussion. The recoverability is dependent upon the final outcome of the appeals & negotiations getting resolved in favour of the Company. ** **Note: 32 Annual Report page: 172** The Company has cash losses from operations after reducing the interest payments and has unabsorbed losses as per consolidated financial statements to the tune of Rs.2,591.25 Crore. These conditions, along with other matters as set forth in Note 32 of the Consolidated Financial Statements, indicate the existence of an uncertainty as to timing and realisation of cash flow. The auditors of six of the Subsidiaries and one of the Joint Ventures of the Group have also made an emphasis of matter on similar lines. *** **Note: 1(c)(i)(b) Annual Report page: 146** We draw attention to Note No 1(c)(i)(b) relating to the exposure of Rs. 197.16 Crore towards acquisition of further stake of 35% in Sofinter. The transfer of shares to be done as detailed in the aforesaid note is essential to support the exposure of the Company towards the funded and non-funded exposure for the additional 35% equity stake in Sofinter.

**** **Note: 1(c)(i) Annual Report page: 146**

We also invite attention to Note 1(c)(i) in case of Sofinter S.p.A. where the management has made assertions about the investment and reasons why the same does not require any provision towards diminution in the value of investment and loans provided. Relying on the assertions and on the further acquisition of interest in M/s Sofinter as detailed in the aforesaid note no adjustments have been made in the financials towards possible impairment.

(b) Non-continuance of a project in GIPL:

Note: 14(d) , 11B(ii) and 24(iv) Annual Report page: 167, 163 and 171

The auditors of one of the Subsidiary Gammon Infrastructure Projects Limited (GIPL) have made an Emphasis of Matter regarding i) unilateral termination and closure of Concession in a project, which is subject to pending litigations/arbitrations at various forums which may impact the carrying value of assets of the project assets. The GIPL Group's exposure towards the said project is of Rs. 17.87 Crore and a corporate guarantee of Rs. 7.97 Crore,

ii) In relation to intention to exit one of the hydro power projects in Himachal Pradesh and seeking a claim of an amount against the amount spent on the project. The GIPL Group's project has cited reasons for non-continuance on account of reasons beyond its control. The GIPL Group is negotiating with its client for an amicable settlement on beneficial terms. The GIPL Group's exposure towards the said project is of Rs. 67.31 Crore and

iii) regarding the excess remuneration to the extent of Rs. 2.09 Crore, paid to the managerial persons beyond the limits specified in schedule XIII to the Companies Act 1956 / Schedule V to the Companies Act 2013. The said amount has been charged to statement of profit and loss for the period. The excess amount is subject to approval from the Central Government.

Pending conclusion of the matters, no adjustments have been made in the Consolidated Financial Statements.

(c) Receivables from Associate:

Note 1(c)(i)(d): Annual Report page: 147

The auditors of one of the Associates which form a material component had qualified their report for the 12 month period ended 31 December 2013 relating to certain receivables from one of the affiliates of the said Associate. Subsequently the said Associate has received a binding offer as detailed in note no 1(c)(i)(d) for the sale of the affiliate, which is subject to certain clearances. Pending the sale materialising the Associate has retained the aforesaid receivable to the extent of the offer made and has charged off the balance receivables to its income statement.

(ii) Qualified:

(a) The accounts of one of the Subsidiaries M/s Franco Tosi Meccanica S.p.A, Italy ('FTM') have not been audited since December 2011 for reasons mentioned in note 1(a)(ii) of the financial statements which inter-alia covers the application for pre-insolvency composition agreement with creditors in Italian court and continuous postponement of dates and delays in conclusion of the process of restructuring. In the light of the on-going procedure the Commissioner in charge of the restructuring procedure has not released any financials. The said Subsidiary has not been consolidated in accordance with para 11.b of ('AS – 21') - Consolidated Financial Statements as the management contends that considering the status as detailed in the above referred note the Subsidiary operates under severe restrictions, which significantly impairs its ability to transfer funds to its parent. The said Subsidiary has therefore been accounted as per ('AS – 13') – Accounting for Investments. The management has made significant provisions towards diminution in value of investments and the net carrying value of the Investments and the advances towards the said Subsidiary is at Rs. 54.71 Crore. In the absence of financial statements and any indications of the value arising out of the disposal or otherwise on completion of the composition agreement in the Italian courts we are unable to comment upon the adequacy of the provision for diminution in the value of Investment resulting in a net carrying value as aforesaid.

(b) In respect of the corporate guarantees issued towards the jobs of FTM as detailed in note 1(a)(ii)(b) the Company has received fresh demand for Euro 21.84 Million (Rs. 170.80 Crore) against which the Company has made a provision of Euro 4.04 Million (Rs. 31.59 Crore) towards liabilities arising from demand against some of the corporate guarantees. In respect of the other demand of Euro 17.80 Million (Rs. 139.21 Crore) in respect of another project no provision is made as the Company is in active negotiation with the clients of the Subsidiary for the cancellation of the demand. In view of the uncertainties involved in the negotiation settling in favour of the Company and the future of the business of FTM we are unable to comment upon possible further liabilities arising from such corporate guarantees.

(c) The Auditors of M/s SAE Powerlines Srl, Italy (SAE) , a Subsidiary of the Company have expressed their inability to opine on the financial statements in view of the said SAE's ability to operate as a going concern being at risk and the Directors of the said SAE have highlighted the liquidity crisis. The total exposure of the Company in SAE and Atsl Holdings B.V., Netherlands, the holding Company of SAE towards investments including guarantees towards the acquisition loan taken by SPV and guarantees towards the operating business of SAE is Rs.328.06 Crore. The Company has made provision for impairment of investments and Loan of Rs. 110.45 Crore and provision for risk and contingencies towards corporate guarantees for acquisition loan of the SPV of Rs 88.29 Crore resulting in the net exposure of the Company at Rs.129.32 Crore. Attention is invited to note 1(a)(v) where the Company contends that the carrying value of Rs. 129.32 Crore does not need any provision despite the valuation of the business of SAE by independent valuers indicating an excess carrying value of Rs.55.02 Crore

(d) *The financial statements of the following Associate, Subsidiaries and Joint Ventures are based on un-audited management prepared financial statements as follows :-

(i) M/s Sofinter S.p.A, Italy, a material Associate whose consolidated financial statements reflect the group's share of loss being Rs.49.41 Crore,

(ii) M/s Campo Puma Oriente S.A, Panama, a Subsidiary of the Company whose financial statements reflect Total Assets of Rs. 360.20 Crore, Revenue of Rs. 34.63 Crore and Net Cash Flows of Rs. (1.58) Crore. These financials are signed by one of the Director representing GIL on account of differences between the Group Company and the other Shareholder.

(iii) M/s Ansaldocaldaie Boilers (India) Private Limited, a Subsidiary of the Company whose financial statements reflect Total Assets of Rs. 103.07 Crore, Revenue of Rs. 6.95 Crore and Net Cash Flows of Rs. (0.34) Crore.

(iv) M/s Gammon Holdings (Mauritius) Limited a Subsidiary of the Company whose financial statements reflect Total Assets of Rs. 197.27 Crore, Revenue of Rs. Nil and Net Cash Flows of Rs. (0.13) Crore.

(v) M/s Ansaldocaldie GB Engineering Private Limited, a Joint Venture of the group whose financial statements reflect Total Assets of Rs. 65.29 Crore, Revenue of Rs. 3.93 Crore and Net Cash Flows of Rs. (0.38) Crore, the groups share in the Total Assets being 32.64 Crore, Revenue being 1.97 Crore and Net Cash Flow being (0.19) Crore.

(vi) M/s Gammon OJSC Mosmetrostroy, a Joint Venture of the group whose financial statements reflect Total Assets of Rs. 194.15 Crore, Revenue of Rs. 378.16 Crore and Net Cash Flows of Rs. (2.47) Crore, the groups share in the Total Assets being 99.02 Crore, Revenue being 192.86 Crore and Net Cash Flow being 1.26 Crore.

Since the Subsidiaries, Joint Ventures and Associates mentioned above are material, the Assets, Revenue and Cash Flow represented in those financial statements are subject to audit.

**In the absence of audited financial results of the Associate M/s Sofinter detailed above, we reiterate the qualified opinions to the financial statements for the year ended 31 December 2013 of the auditors of the said Sofinter which is referred to in para 1(c)(i) for an amount of Euro 3.00 Million i.e. Rs. 23.46 Crore regarding recognition of possible claims resulting in trade receivables being overstated by the same amount and consequent effect on profits recognized of Euro 2.10 Million i.e. Rs.17.92 Crore as qualified by the said auditors.

***The auditors of one of the Subsidiaries M/s G&B Contracting LLC, Dubai have qualified their audit opinion regarding receivables of AED 2.70 Million (Rs. 4.54 Crore) (31 December 2013 AED 2.7 Million (Rs. 3.93 Crore), which is due to the Company as a sub-contractor. Since the said Company has back to back terms with the main contractor, the recoverability of the said amounts is dependent

		on successful outcome of the main contractor's dispute with the client, the auditors are of the opinion that substantial portion of the same should be considered as impaired. **(e)** * The Company's Application for managerial remuneration aggregating to Rs. 14.32 Crore for the Chairman and Managing Director has been rejected for the accounting years 2011-12, 2012-13 and 9 month period ended December 2013. The Company has preferred appeals for review of the matters with the central government for all the years for which the application is rejected. The Chairman and Managing Director has, pending disposal of the review, during the year refunded an amount of Rs.1.85 Crore, being the excess remuneration for the year ended 2011-12. The remuneration for the period ended September 2014 of the Chairman and Managing Director is Rs. 4.71 Crore, of which an amount of Rs. 0.94 Crore is pending payment, for which application is being made. Pending the review and appeal of the Company for the accounting periods 2011-12, 2012-13, 9 month period ended December 2013 and 30 September 2014 no adjustments have been made for an amount of Rs.17.18 Crore. ** The auditors of one of the Subsidiaries of the Company, Gammon Infrastructure Projects Limited have qualified their report with respect to two projects where the authorities have unilaterally terminated the Concession Agreement against which these Project SPVs are taking steps to claim compensation/relief as per the Concession Agreement. The Group's exposure to these projects is Rs. 81.27 Crore. As the outcome of these matters is uncertain, the Auditors are unable to determine the recoverability of said amounts and its consequential impact on the Consolidated Financial Statements. **(f)** Attention is invited to Note no 14(e) to the consolidated financial statements where the client of one of the Subsidiary has sought to terminate the contract and also encashed the Bank Guarantees for a total amount of Rs 65.85 Crore. The liability towards mobilisation advance and interest thereon is Rs. 41.80 Crore. The Company is taking legal advice on the matter including seeking compensation towards the amount spent and recovery of Bank Guarantee. No effects for the same are given in the Consolidated financial statements. The Auditors of the Subsidiary have qualified their report on this account.
4	Frequency of observation / qualification	**(i) Matter of Emphasis:** Except for Point (a) first paragraph all other emphasis of matter are for the first time. Point (a) * is repeated from March 2008 **(ii) Qualified:** Point (b), Point (e **) and Point(f) of Qualifications have come for the first time, Point (a) is repeated from March 2013 and Point (c), Point (d*) ,Point (d**), Point (d***),Point (e*), are repeated from December 2013.

Management response to the qualification in the directors report	**(i) Matter of Emphasis :**The Directors would like to state that the said matters are only for the attention of members and have been explained in detail in the relevant notes to accounts as stated therein and require no further clarification **(ii) Qualifications:** **(a) Unaudited Financials of a Subsidiary, FTM:** **Note: 1(a)(ii)(a) Annual Report page: 142** With reference to clause (a) of the "Basis of Qualified Opinion" in the Audit Reports on Consolidated Financial Statements wherein the auditors have opined that they are unable to comment on the adequacy of the provisions made by the Company for diminution of the value of its investments due to non-availability of financials of Franco Tossi Mecanica S.p.A ("FTM") the Company's Subsidiary in Italy, the Board, while drawing your attention to Note 1(a)(ii)(a) of the Financial Statements, would like to reiterate that FTM has filed an application for a pre-insolvency procedure which has been admitted by a court at Milan. In light of the ongoing procedure, till date, the financial statements of FTM have not been released by the empowered Commissioner. Further, it is envisaged that these will not be released until the process of insolvency is complete. However, the Company has made adequate provision towards its exposure for all the known liabilities in FTM. The management is of the opinion that since it will recover an amount not less than the carrying amount of FTM, no further provision for diminution is required to be made. **(b) Corporate guarantees issued towards FTM Jobs:** **Note: 1(a)(ii)(b) Annual Report page: 143** With reference to clause (b) of the "Basis of Qualified Opinion" in the Audit Reports on Consolidated Financial Statements wherein the auditors have opined that "they are unable to comment on the adequacy of the provisions made towards the Company's exposure towards corporate guarantees issued towards the jobs of FTM, the Board would like to inform you that as mentioned in Note 1(a)(ii)(b) of Consolidated Financial Statements, the Company is in active negotiation with the clients of FTM for the cancellation of the demand of Euro 17.80 Million (Rs.139.21 Crore) made by the Clients. Further, the Company has made provision for the balance amount of Euro 4.04 Million (Rs. 31.59 Crore). **(c) Opinion on SAE S.p.A:** **Note: 1(a)(v) Annual Report page: 143** With reference to clause (c) of the "Basis of Qualified Opinion" in the Audit Reports on both Standalone as well as Consolidated Financial Statements wherein the auditors have opined that " they are unable to comment on the adequacy of the provisions made towards the Company's exposure in investments in and guarantees given by the Company in respect of SAE Powerlines S.r.L ,the Company's Subsidiary in Italy " ,the Board would like to inform you that as mentioned in Note 1(a)(v) of Consolidated Financial Statements, the management is of the opinion that considering the order book position and adequate references and strengths in international

markets of its Subsidiary SAE Powerlines the provision made by it for impairment of its investment, loans and trade receivables is adequate.

(d) * **Unaudited Financials:**

Note: 1(a)(i), 1(b)(iii) and 1(c) Annual Report page: 142 and 146

With reference to clause(d) of the "Basis of Qualified Opinion" in the Audit Report on Consolidated Financial Statements wherein the auditors have reported that the financial statements of Sofinter S.p.A.(Sofinter), Campo Puma Oriente S.A.(CPO), Ansaldo Caldaie Boilers (India) Limited(ACBI), Gammon Holdings (Mauritius) Limited(GHM), Ansaldo Caldaie GB Engineering Limited(ACGB) and Gammon OJSC Mosmetrostroy Joint Venture (OJSC) are unaudited , the Board would like to inform you that as mentioned in Note 1(a)(i), Note 1(b)(iii) and Note 1(c) of Consolidated Financial Statements, the financial statements of these Companies could not be audited due to insufficient time, unavailability of support staff and other severe administrative issues in these Companies. Hence, the financial statements are as per management prepared accounts except in case of CPO & OJSC which were not audited on account of differences between the joint venture partners.

** **Note: 1(c)(i)(c) Annual Report page: 147**

The auditors have also reported in the same clause (d) about the non-recognition of possible claims on trade receivables of Europower S.p.A., a Subsidiary of the Associate Sofinter S.p.A., the Board would like to inform you that as mentioned in Note 1(c)(i)(c) of Consolidated Financial Statements, Europower S.p.A. has initiated legal proceedings in the competent court in Italy, against their customer to recover the amount of Euro 3 Million i.e. Rs. 23.46 Crore (Company's share being Euro 0.98 Million (Rs. 7.62 Crore). Pending the outcome of the said litigation, the risk of non-recovery arising from the same has been provided by Europower S.p.A to the extent of 2.3 Million Euro i.e. Rs. 17.92 Crore. Considering the current status of the legal proceedings, the Directors of the said Europower S.p.A. believe that Sofinter S.p.A. will not incur additional losses over and above the said amount.

*** **Note: 16(iv) Annual Report page: 168**

The auditors have also reported in the same clause (d) about non provision of trade receivables of G&B Contracting LLC ('GBLLC'),Dubai a Subsidiary of the Company, the Board would like to inform you that, as mentioned in Note 16(iv) of Consolidated Financial Statements, the amount is due from a Debtor of GBLLC which includes retention money aggregating to AED 2.7 Million (Rs. 4.54 Crore) due to GBLLC acting as a sub-contractor. The management of the said Subsidiary is of the opinion that the amount is contractually recoverable and the Subsidiary Company is in negotiations with the principal client and in the Company's opinion no provision is required to be made towards the same.

(e) * Payment of Management Remuneration:

Note: 24 Annual Report page: 170

With reference to clause (e) first para of the "Basis of Qualified Opinion" in the Audit Report on Standalone Financial Statements and Clause (e) of the "Basis of Qualified Opinion" in the Audit Report on Consolidated Financial Statements, wherein the auditors have opined on managerial remuneration , the Board would like to inform you that as mentioned in Note 24 of Consolidated Financial Statements, the Company's application for payment of 'Minimum Remuneration' of Rs. 6 Crore to Mr. Abhijit Rajan – Chairman & Managing Director for the financial years 2012-13 & 2013-14 has been rejected by the Ministry of Corporate Affairs ("MCA"). The Company has made an application to the MCA for review of its decision and the MCA's reply in this matter is awaited. The Company had also made an application to the MCA for waiver of payment of payment of 'Minimum Remuneration' of Rs. 2 Crore to Mr. Himanshu Parikh (Former Executive Director) for the financial year 2012-13. In response to the Company's said application, the MCA approved payment of 'Minimum Remuneration' of Rs. 1.66 Crore to Mr. Himanshu Parikh. In view of the pending status of the aforementioned applications, no effect for the same has been given in the financial statements.

**** Termination in Concessional Agreements in GIPL:**

Note: 11B(i) and 14(c) Annual Report page: 163 and 167

With reference to clause (e) second para of the "Basis of Qualified Opinion" in the Audit Report on Consolidated Financial Statements, wherein the auditors have reported their inability to determine recoverability of an amount of Rs. 81.27 Crore in connection with legal proceedings initiated by the Company's Subsidiaries viz. (i) Patna Buxar Projects Limited and (2) Mormugao Terminal Limited against unilateral termination of their respective concession agreements, the Board would like to inform you that since the management of the respective aforementioned Companies is confident of recovery of the aforesaid amounts, no provision has been made in the accounts.

(f) Encashment of BG in a Subsidiary:

Note: 14(e) Annual Report page: 167

With reference to clause (f) of the "Basis of Qualified Opinion" in the Audit Report on Consolidated Financial Statements, wherein the auditors have opined on encashment of bank guarantee of one of the Subsidiaries viz. Patna Water Supply Distribution Network Private Limited, by the client and subsequent termination of the contract by the Client, the Board would like to inform you that since the said Subsidiary believes that it has a good case against the Client, it has sought legal advice internally on the matter and hence the said encashment does not require any provision. Recently, Company has taken steps to resolve the issue by arbitration.

	Additional comments from the Board/audit committee chair	**(a) Qualification (a) above:** The Board heard the Executive Director dealing with the foreign Subsidiaries and Joint ventures, who explained in detail that the steps taken by the step down Subsidiary FTM were inevitable in view of its business continuity while gaining time for drawing up a scheme for settlement. This was also explained to the Audit Committee. The Board accepted this explanation and requested the Executive Director to closely monitor and keep the Board abreast of developments. As regards adequacy of provision towards liabilities of FTM, the Board advised the Executive Director to closely watch the liability position and report to the Board from time to time about adequacy of provision made in view of its total exposure and its investment in Gammon Holdings B.V., the holding Company of FTM, from time to time. The management has however made full provisions towards the Goodwill of Rs. 109.12 Crore on consolidation in the previous financial year ended 31 March 2013. Three bids were received by the commissioner on December 22, 2014. Negotiations have started with the bidders and it is expected that the successful bidder for the operating business of FTM will be finalized within end of March 2015. **(b) Qualification (b) above:** Executive director has informed to the Board that once the successful bidder takes over the operational business, the process of re-instating the encashed guarantees of Euro 17.80 Million will be initiated. Considering the update received from the Executive Director management is hopeful to successfully conclude the process in the second quarter of 2015. **(c) Qualification (c) above:** The Company in the previous financial year had made provisions towards the Goodwill on consolidation of Rs. 20.49 Crore. The auditors of SAE have expressed their inability to opine on the going concern assumption in respect of SAE and the Directors of SAE have highlighted the liquidity crisis facing the company. The Company is taking steps to draw up a business plan for revival of the Company. In view of this development, the Executive Director was advised to watch the Company's Exposure very closely and report to the Board, if and when further provisions required for any change in impairment. **(d) Qualification (d) above:** Regarding management prepared accounts efforts are continuing to resolve the differences. The Board noted that there is no change in the status as regards to recoverability of net trade receivables of Europower S.p.A., a Subsidiary of the Associate Sofinter S.p.A. The Executive Director explained in detail to the Board that the Company, Europower S.p.A., has initiated legal proceedings against the defaulting customer S.p.A., has initiated legal proceedings against the defaulting customer to recover its dues. In the circumstances recourse to the judicial process was the only alternative. Europower expects to recover its

S.p.A., has initiated legal proceedings against the defaulting customer to recover its dues. In the circumstances recourse to the judicial process was the only alternative. Europower expects to recover its dues. The Board accepted this explanation, and requested the Executive Director to closely follow up the matter.

The Board noted that there is no change in the status as regards to non-provision of trade receivables of G&B Contracting LLC ('GBLLC'),Dubai, a Subsidiary of the Company. The Executive Director explained to the Board that the Company's Subsidiary, Gammon Billimoria LLC has initiated negotiations with the client for recovery of its dues and is hopeful of reaching an acceptable settlement. The Board appreciated this explanation and directed the Executive Director to expedite the settlement.

(e) Qualification (e) above:

The Ministry has rejected the appeal on the grounds that the payment of remuneration has to be approved by the CDR Lenders. The Company has approached its CDR lenders for their permission and the same is awaited. The Board advised the Company Secretary to closely follow up the pending applications and representations to the ministry of Company affairs and report to the Board any developments taking place in this regard.

The Board has advised the concerned director to closely monitor and give updates to the Board.

(f) Qualification (f) above:

The Board has advised the legal department to monitor the case and give regular updates to the Board.

For **Gammon India Limited**

Abhijit Rajan
Managing Director

Vardhan Dharkar
Chief Financial Officer

C.C. Dayal
Audit Committee Chairman

For **Natvarlal Vepari & Co.**
Chartered Accountants
ICAI Firm Registration no. 106971W

N.Jayendran
Partner
M. No. 40441
12/3/15