

Auditor's Report

To
The Members of Oil And Natural Gas Corporation Limited

1. We have audited the attached Balance Sheet of OIL AND NATURAL GAS CORPORATION LIMITED (the "Company") as at 31st March, 2012, the Statement of Profit and Loss and the Cash Flow Statement for the year ended on that date, annexed thereto in which are incorporated the Company's share in the total value of assets, liabilities, expenditure and income of 139 blocks under New Exploration Licensing Policy (NELPs) / Joint Venture (JVs) accounts for exploration and production out of which 9 NELPs /JVs accounts have been certified by other firms of Chartered Accountants and 11 NELP/JVs have been certified by the management in respect of NELPs/ JVs operated by other operators (Refer note no. 41.3.1 and 41.3.2 of the financial statements). 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 conducted our audit in accordance with auditing standards generally accepted in India. Those 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 amount and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. We have placed reliance on technical / commercial evaluation by the management in respect of categorization of wells as exploratory, development and producing, allocation of cost incurred on them, depletion of producing properties / impairment on the basis of the proved developed hydrocarbon reserves, liability for abandonment costs, liability under NELP and nominated blocks for under-performance against agreed Minimum Work Programme and allocation of depreciation on process platforms to transportation and facilities.
4. As required by the Companies (Auditor's Report) Order, 2003 (as amended) issued by the Central Government of India in terms of Section 227(4A) of the Companies Act, 1956, we enclose in the Annexure (read with paragraph 1 above) a statement on the matters specified in paragraphs 4 and 5 of the said order.
5. Further to our comments referred to in paragraph 4 above we report as follows:
 - 5.1. 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.
 - 5.2. 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.
 - 5.3. 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.
 - 5.4. 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.
 - 5.5. Disclosure in terms of clause (g) of sub-section (1) of section 274 of the Companies Act, 1956 is not required as per notification number GSR 829(E) dated October 21, 2003 issued by the Department of Company Affairs, Government of India.
- 5.6. In our opinion and to the best of our information and according to the explanations given to us, the said accounts read with notes to account, 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:
 - a) In the case of the Balance Sheet, of the state of affairs of the Company as at 31st March, 2012;
 - b) In the case of the Statement of Profit and Loss, of the profit of the Company for the year ended on that date; and
 - c) In the case of the Cash Flow Statement, of the cash flows of the Company for the year ended on that date.

For Kalyaniwalla & Mistry
Chartered Accountants
Firm Reg. No. 104607W

(Ermin K. Irani) (K.M. Sukumaran)
Partner (Mem .No. 035646) Partner (Mem. No.015707)

For Ray & Ray
Chartered Accountants
Firm Reg. No. 301072E

(B.K.Ghosh)
Partner (Mem. No. 051028)

New Delhi
May 29th, 2012

For Varma & Varma
Chartered Accountants
Firm Reg. No. 004532S

(K.M. Sukumaran)
Partner (Mem. No. 015707)

For Mehra Goel & Co.
Chartered Accountants
Firm Reg. No. 000517N

(R.K.Mehra)
Partner (Mem. No. 006102)

For S. Bhandari & Co.
Chartered Accountants
Firm Reg. No. 000560C

(P.P. Pareek)
Partner (Mem. No. 071213)



Construction of an Offshore Platform

Annexure to The Auditors' Report
(Referred to in paragraph 4 of our report of even date)

- 1
 - a) The Company has generally maintained proper records showing full particulars including quantitative details and situation of fixed assets.
 - b) As per information and explanations given to us, the fixed assets having substantial value, other than those which are underground / submerged / under joint venture have been physically verified by the management in a phased manner, which in our opinion is reasonable, having regard to the size of the Company and nature of its business. The reconciliation of physically verified assets with the book records is in progress. Discrepancies noticed on physical verification and consequential adjustments are carried out on completion of reconciliation. According to the information and explanations given by the management and in our opinion, the same is not material.
 - c) The Company has not disposed off a substantial part of fixed assets during the year.
- 2
 - a) According to the information and explanations given by the management, the inventory has been physically verified in a phased manner (excluding inventory lying with third parties, at some of the site- locations, inventory with joint ventures and intra site material in transit) during the year by the management. In our opinion, the frequency of verification is reasonable.
 - b) In our opinion, the procedures of physical verification of inventory followed by the management were generally reasonable and adequate in relation to the size of the Company and nature of its business.
 - c) The Company has generally maintained proper records of inventory. According to the information and explanations given by the management and in our opinion, the discrepancies noticed on physical verification between the physical stock and book records were not material having regard to the size of the Company and nature of its business. In case where discrepancies noticed on physical verification have been identified with inventory records, necessary adjustments have been carried out in the books. In respect of cases where the reconciliation is not complete, the management has stated that the effect of the same on the accounts would be adjusted on completion of reconciliation.
- 3
 - a) The Company has granted secured loans to three parties covered in the register maintained under section 301 of the Companies Act, 1956. The amount outstanding at the year end is ₹ 0.35 million and the maximum amount outstanding at any time during the year was ₹ 0.92 million.
 - b) The rate of interest and other terms and conditions of the loans granted are not prima facie prejudicial to the interest of the Company.
 - c) The payment of principal amount and interest are regular.
 - d) There is no overdue amount in respect of loans granted to the parties listed in the register maintained under Section 301 of the Companies Act, 1956.
 - e) The Company has not taken any loans, secured or unsecured, from companies, firms or other parties covered in the register maintained under section 301 of the Companies Act, 1956. And consequently, the reporting requirements of clause (iii) (f) and (iii) (g) of paragraph 4 of the Companies (Auditor's Report) Order, 2003 are not applicable.
- 4

In our opinion, and according to the information and explanations given to us, the internal control procedures are generally adequate and commensurate with the size of the Company and the nature of its business with regard to purchases of inventory, fixed assets and sale of goods and services. During the course of our audit we have not observed any continuing failure to correct major weaknesses in internal controls.
- 5
 - a) In our opinion and according to the information and explanations given to us, there is no contract or arrangement that needs to be entered in the register required to be maintained in pursuance of section 301 of the Companies Act, 1956.
 - b) Accordingly, the reporting requirement of clause (v) (b) of paragraph 4 of the Companies (Auditor's Report) Order, 2003 is not applicable.
- 6

The Company has not accepted any deposits from the public.

- 7 In our opinion, the Company has an internal audit system commensurate with the size and nature of its business.
- 8 We have broadly reviewed the cost records maintained by the Company pursuant to the Rule 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 made and maintained. However, we have not made a detailed examination of the cost records with the view to determine whether they are accurate or complete.
- 9 a) According to records of the Company, undisputed statutory dues including Provident Fund, Investor Education and Protection Fund, Employees' State Insurance, Income Tax, Sales Tax, Service Tax, Wealth Tax, Custom Duty, Excise Duty, Cess and other statutory dues have been generally regularly deposited with the appropriate authorities. According to the information and explanations given to us, no undisputed amounts payable in respect of the aforesaid dues were outstanding as at March 31, 2012 for a period more than six months from the date of becoming payable.
- b) According to the information and explanations given to us, the disputed statutory dues are as under:

Name of the Statute	Nature of the dues	Amount(₹ In Million)	Period to which the amount relates (financial year)	Forum where dispute is pending
Income tax Act, 1961	Income Tax / Penalty / Interest	7,321.80	1991-2012	Revisionary Authority
		3,689.80	2004-2012	Appellate Authority
		2,213.24	1995-2012	High Court
		4,481.99	1984-2012	Supreme Court
	Total	17,706.83		
Central Excise Act, 1944	Central Excise duty /Service Tax / Interest / Penalty	1,195.96	2002-2012	Commissioner of Central Excise, Customs & Service Tax
		1,338.41	2005-2012	Central Board of Excise & Customs
		1,892.98	2007-2012	Custom, Excise and Service Tax Appellate Tribunal
		696.57	2011-2012	Directorate General of Central Excise Intelligent
		1,283.30	1984-2012	Supreme Court
	Total	6,407.22		
The Customs Act, 1962	Customs Duty / Penalty / Interest	5,067.88	1995-2012	Commissioner of Central Excise, Customs & Service Tax
		5	2007-2012	Custom Excise and Service Tax Appellate Tribunal
	Total	5,072.88		
Oilfields (Regulation & Development Act, 1948) / AP Mines and Geology Act	Royalty / Surface rent / Interest / Penalty	66,123.54	1992-2012	Dept. of Geology and Mining. AP High Court
AP Mineral Bearing Lands (Infrastructure) Cell	Cess			
Oil Industries (Development) Act, 1974	Cess / Interest	1,694.82	2005-2012	Dept. of Geology and Mining. AP High Court
Central Sales Tax Act, 1956 and respective States'	Sales tax / Turnover Tax /	2,960.23	2002-2012	Demand Notice
Sales Tax Act	Penalty / Interest	1,900.53	2001-2012	Deputy Commissioner
		16,391.55	1999-2012	Joint Commissioner/ Commissioner CT - Appeals
		19,594.45	1994-2012	Appellate Tribunal Commissioner
		291.4	1977-2012	High Court
	Total	41,138.16		
Municipal Corporation Greater Mumbai Act (Octroi Rules, 1965)	Octroi Duty	66.89	1978-2012	Supreme Court
Assam Specified Land Taxation Act Service Tax	Tax on Crude oil and Natural Gas Service Tax / Cess	2,860.57	2004-2012	High Court Commissioner of Central Excise, Customs & Service Tax
		3,513.00	2004-2012	
		1,014.16	2004-2012	Commissioner of Central Excise & Customs
	Total	4,527.16		

- 10 The Company does not have accumulated losses at the end of the current financial year and has not incurred cash losses either during the year or during the immediately preceding financial year.
- 11 The Company has not issued any debentures and has not defaulted in repayment of dues to financial institutions or banks.
- 12 In our opinion and according to the information and explanations given to us, the Company has not granted loans and advances on the basis of security by way of pledge of shares, debentures and other securities.
- 13 The Company is not a chit fund or a nidhi, mutual benefit fund/ society. Accordingly, the reporting requirements of clause (xiii) of paragraph 4 of the Companies (Auditor's Report) Order, 2003 are not applicable to the Company.

- 14 In our opinion and according to the information and explanations given to us, the Company is not dealing or trading in shares, securities, debentures and other investments.
- 15 In our opinion and according to the information and explanations given to us, the terms and conditions on which the Company has given guarantees for loans taken by others from banks or financial institutions are not prima facie prejudicial to the interest of the Company.
- 16 In our opinion, the term loans have been applied for the purpose for which they were raised.
- 17 According to the information and explanations given to us and on an overall examination of the balance sheet of the Company, we report that no funds raised on short terms basis have been used for long term investment.
- 18 The Company has not made any preferential allotment of shares during the year.
- 19 The Company has not issued any debentures.
- 20 The Company has not raised any money by way of public issue during the year
- 21 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 Kalyaniwalla & Mistry
Chartered Accountants
Firm Reg. No. 104607W

For Varma & Varma
Chartered Accountants
Firm Reg. No. 004532S

For S. Bhandari & Co.
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(B.K.Ghosh)
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New Delhi
 May 29th, 2012



