

B S R & Co. LLP

Chartered Accountants

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Fax: + 91 33 4403 4199**INDEPENDENT AUDITOR'S REPORT****To the Members of Vesuvius India Limited****Report on the Financial Statements**

We have audited the accompanying financial statements of Vesuvius India Limited ("the Company"), which comprise the Balance Sheet as at 31 December 2013, and the Statement of Profit and Loss and Cash Flow Statement, and the Statement of Financial Position, in accordance with the 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"). 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 judgement, 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.

B S R & Co. LLP**Opinion**

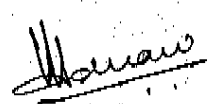
In our opinion and to the best of our information and according to the explanations given to us, the financial statements give the information required by the Act in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:

- (a) in the case of the Balance Sheet, of the state of affairs of the Company as at 31 December 2013;
- (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.

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 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 appears from our examination of those books;
 - (c) the Balance Sheet, Statement of Profit and Loss, and 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; and
 - (e) on the basis of written representations received from the directors as on 31 December 2013, and taken on record by the Board of Directors, none of the directors is disqualified as on 31 December 2013, from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Companies Act, 1956.

For B S R & Co. LLP
Chartered Accountants
Firm Registration No.101248W


Vikram Advani
Partner

Membership No. 091765

Place: Kolkata
Date: 25 February 2014

B S R & Co. LLP**Annexure to the Auditor's report**

(Referred to in our report of even date)

- (i) (a) The Company has maintained proper records showing full particulars, including quantitative details and situation of fixed assets.
- (b) The Company has a regular programme of physical verification of its fixed assets by which all fixed assets are verified in a phased manner over a period of three years. In our opinion, this periodicity of physical verification is reasonable having regard to the size of the Company and the nature of its assets. In accordance with this programme, certain fixed assets were physically verified. No material discrepancies were noticed on such verification carried out during the year.
- (c) Fixed assets disposed off during the year were not substantial, and therefore, do not affect the going concern assumption.
- (ii) (a) The inventory, except goods-in-transit, has been physically verified by the management during the year. In our opinion, the frequency of such verification is reasonable.
- (b) The procedures for the physical verification of inventories 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. No material discrepancies were noticed on verification between the physical stocks and the book 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. Thus paragraphs 4 (iii) (b) to (d), (f), (g) are not applicable to the Company.
- (iv) In our opinion and according to the information and explanations given to us, and having regard to the explanation that purchases of certain items of inventories and fixed assets are for the Company's specialised requirements and suitable alternative sources are not available to obtain comparable quantities at commensurate with the risk, weakness in the internal control system during the course of the audit.
- (v) (a) In our opinion and according to the information and explanations given to us, the particulars of the contract or arrangement referred to in section 301 of the Companies Act, 1956 have been entered in the register required to be maintained under that section.
- (b) In our opinion, and according to the information and explanations given to us, the transactions made in pursuance of contracts and arrangements referred to in (a) above and

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exceeding the value of Rs 5 lakh with any party during the year have been made at prices which are reasonable having regard to the prevailing market prices at the relevant time. For purchases of certain items of inventories and fixed assets that are for the Company's specialised requirements and similarly for sale of certain goods that are for specialised requirements of buyers for which suitable sources are not available to obtain comparable quotations. However, on the basis of information and explanations provided, the same appear reasonable.

- (vi) The Company has not accepted any deposits from the public during the year.
- (vii) In our opinion, the Company has an internal audit system commensurate with the size and nature of its business.
- (viii) We have broadly reviewed the books of account maintained by the Company pursuant to the rules prescribed by the Central Government for maintenance of cost records under section 209(1)(d) of the Companies Act, 1956 in respect of the products manufactured by the Company and 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 records.
- (ix) (a) According to the information and explanations given to us and on the basis of our examination of the records of the Company, amounts deducted/accrued in the books of account in respect of undisputed statutory dues including Provident Fund, Employees' State Insurance, Investor Education and Protection Fund, Income-tax, Sales-tax, Wealth tax, Service tax, Customs duty, Excise duty, Cess and other material statutory dues have generally been regularly deposited during the year by the Company with appropriate authorities.

According to the information and explanations given to us, no undisputed amounts payable in respect of Provident Fund, Investor Education and Protection Fund, Employees' State Insurance, Income-tax, Sales tax, Wealth tax, Service tax, Customs duty, Excise duty, Cess and other material statutory dues were in arrears as at 31 December 2013 for a period of more than six months from the date they became payable.

which have not been deposited with the appropriate authorities on account of disputes: Income tax, Excise duty, Customs Duty, Service tax, Sales tax and Entry tax have not been deposited with the appropriate authorities on account of disputes:

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Name of the statute	Nature of the dues	Amount (Rs in lakhs)	Period to which amount relates	Forum where dispute is pending
Income Tax Act, 1961	Disallowances arising in income tax proceedings (Net of deposit of Rs. 10,312 lakhs)	359	Assessment years 1997-98 to 2010-11	Hon'ble High Court of Calcutta, Income Tax Appellate Tribunal, Commissioner of Income Tax (Appeals)
Central Excise Act, 1944	Disallowance of Cenvat Credit	141	2006 to 2012	Additional Commissioner, Commissioner, Hon'ble High Court of Calcutta
Central Excise Act, 1944	For non payment of Excise Duty on Service Charges and Machine hire charges	142	2000	Central Excise and Service Tax Appellate Tribunal, Additional Commissioner
Central Excise Act, 1944	Penalty for delayed payment of differential excise duty for supply of goods under Advance Intermediate licence	20	June 1999 to April 2000	Central Excise and Service Tax Appellate Tribunal
Customs Act, 1962	Classification of High Alumina Cement	31	2005 to 2011	Central Excise and Service Tax Appellate Tribunal
Finance Act, 1994	For Non / short payment of payment of service tax	19	2006-2008, 2008-09, 2009-10	Central Excise and Service Tax Appellate Tribunal, Additional Commissioner of service tax
Central Sales Tax Act	Due to non-submission of declaration form (Net of deposit of Rs. 106 lakhs)	130	2002-03, 2003-04, 2005-06, 2008-09, 2009-10	Assistant Commissioner, Commissioner (Appeals), Sales Tax Appellate Tribunal, Hon'ble High Court of Calcutta
State Sales Tax Act	Disallowance of Input credit (Net of deposit of Rs. 99 lakhs)	376	2005-06, 2006-07, 2007-08, 2008-09, 2009-10	Commissioner (Appeals), Sales Tax Appellate Tribunal, Supreme Court
The West Bengal Tax on entry of Goods into Local Areas Act, 2012	Entry Tax	66	June 2013 to December 2013	Hon'ble High Court of Calcutta

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- (x) The Company does not have any accumulated losses at the end of the financial year and has not incurred cash losses in the financial year and in the immediately preceding financial year.
- (xi) According to the information and explanations given to us, the Company has neither taken any loan from financial institution or bank nor has it issued any debentures during the year.
- (xiii) In our opinion and according to the information and explanations given to us, the Company is not a chit fund or a nidhi/ mutual benefit fund/ society.
- (xiv) According to the information and explanations given to us, the Company is not dealing or trading in shares, securities, debentures and other investments.
- (xv) According to the information and explanations given to us, the Company has not given any guarantee for loans taken by others from banks or financial institutions.
- (xvi) The Company did not have any term loans outstanding during the year.
- (xvii) According to the information and explanations given to us and on an overall examination of the Balance Sheet of the Company, we are of the opinion that the Company has not incurred any losses during the year.