

McNally Bharat Engineering Company Limited

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June 1, 2017

Bombay Stock Exchange Limited
Floor 25, Phiroze Jeejeebhoy Towers
Dalal Street
Mumbai – 400001

National Stock Exchange of India Ltd.
Exchange Plaza,
Plot no. C/1, G Block, Bandra - Kurla
Complex, Bandra (E), Mumbai - 400 051

Dear Sirs,

Further to our letter dated May 30, 2017, we would like to inform you that the Board of Directors at their adjourned meeting convened and held on June 1, 2017, has approved the Audited Accounts (Consolidated) for the year ended March 31, 2017 (extract attached along with the Audit Report).

We are also attaching herewith a statement showing impact of audit qualifications in the prescribed format in terms of Clause 4.2 of the Circular Number CIRICFD/CMD/5612016 issued by the Securities Exchange Board of India on May 27, 2016.

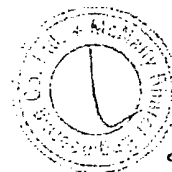
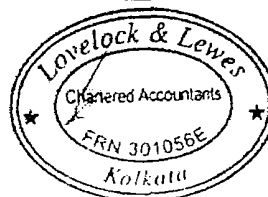
Thanking You,
Yours Faithfully,
For **McNally Bharat Engineering Company Limited**

Indranil Mitra
Company Secretary


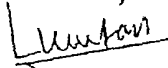
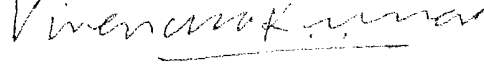
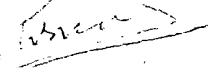
Encl: As above

Statement on Impact of Audit Qualifications for the Financial Year ended March 31, 2017 [See Regulation 33 / 52 of the SEBI (LODR) (Amendment) Regulations, 2016]			
Sl. No.	Particulars	Audited Figures (as reported before adjusting for qualifications) Rs. In lacs.	Adjusted Figures (audited figures after adjusting for qualifications)
1	Turnover / Total income	1,92,439	1,92,439
2	Total Expenditure	2,39,810	Not ascertainable [Refer II(a) below]
3	Net Profit/(Loss)	(5,828)	Not ascertainable [Refer II(a) below]
4	Earnings Per Share	(12.30)	Not ascertainable [Refer II(a) below]
5	Total Assets	5,12,455	Not ascertainable [Refer II(a) below]
6	Total Liabilities	5,02,218	Not ascertainable [Refer II(a) below]
7	Net Worth	10,237	Not ascertainable [Refer II(a) below]
8	Any other financial item(s) (as felt appropriate by the management)		
II Audit Qualification (each audit qualification separately):			
a. Details of Audit Qualification		<p>i. Note 33 to the financial statements regarding non - provisioning towards overdue receivables amounting to Rs 7180 Lacs (net) that are due for more than one year from MBE Mineral Technologies Pte Limited, the wholly owned subsidiary of the Company in Singapore, which is not in accordance with requirements of Ind AS 109 - Financial Instruments and not in compliance with the provisions of Notification NO FEMA/120/RB-2004 dated July 7, 2004 as amended from time to time of the Foreign Exchange Management Act, 2000. As set out in the aforesaid note, the Management is making necessary efforts to ensure collection of dues from the subsidiary. However, there are uncertainties regarding the amounts that would be collected ultimately and the impact of the same on the Current Financial Assets. Loss Before Tax is presently unascertainable.</p> <p>ii. Note 33 to the financial statements regarding non - provisioning towards impairment in the carrying value of long term investments in MBE Mineral Technologies Pte Limited aggregating Rs. 2550.74 Lacs, which is not in accordance with the requirement of Ind AS 36 Impairment of Assets. Consequently, in the absence of the sufficient appropriate audit evidence to support management assessment regarding the carrying value of investments, we are unable to comment on its impact on the loss, if any, for the year.</p> <p>iii. Note 34 to the financial statements regarding remuneration aggregating Rs 76.8 Lacs paid/payable to two whole-time directors of the Company for which the company has not obtained the requisite approvals as mandated under Section 197 (3) read with Schedule V of the Act. The impact of the said non-compliance is currently unascertainable.</p>	
b. Type of Audit Qualification - Qualified Opinion / Disclaimer of Opinion / Adverse Opinion		Qualified Opinion	
c. Frequency of qualification: Whether appeared first time / repetitive / since how long continuing		<p>Repetitive -</p> <p>i and ii: Receivables & Investments - One year (including Limited Reviews during 2016-17)</p> <p>iii: Managerial Remuneration - Statutory audit report 2014-15</p>	
d. For Audit Qualification(s) where the impact is quantified by the auditor, Management's Views		Not applicable	
e. For Audit Qualification(s) where the impact is not quantified by the auditor:			
(i) Management's estimation on the impact of audit qualification:		Nil	

L. Kumar
Virendra Kumar



[Handwritten signature]

(ii) If management is unable to estimate the impact, reasons for the same:	<p>i. On May 25, 2017, an amount of USD 6.0 Mio (Rs. 38.78 Lacs) was received by the Company from MBE Mineral Technologies Pte Ltd towards repayment of its interest, charges towards corporate guarantee, other expenses and loans and advances due to the Company. The Company expects to collect the balance portion of Rs. 3304 lacs also from MBE Mineral Technologies Pte Ltd.</p> <p>ii. The investment of Rs. 2550.74 Lacs in MBE Mineral Technologies Pte Ltd, Singapore by McNally Bharat Engineering Company Limited is considered good and recoverable in the views of the management.</p> <p>iii. The Company will take necessary approval from the Central Government / National Company Law Tribunal soon.</p>
(iii) Auditors' Comments on (i) or (ii) above:	Included in Audit Opinion dated May 30, 2017
Signatures:	
III • CEO/Managing Director	
• CFO	
• Audit Committee Chairman	
• Statutory Auditor	
Place:	Kolkata
Date:	



McNALLY BHARAT ENGINEERING COMPANY LIMITED
 Regd. Office: 4 MANGO LANE, Kolkata 700 001
 Web: www.mcnallybharat.com, Email id: mbeCAL@mbecl.co.in, Phone no: (033) 6628-1111
 CIN: L45202WB1961PLC025181
 Statement of Audited Consolidated Results for the year ended 31st March, 2017

PART I

(All figures in Rs. Lacs, unless otherwise stated)

No.	Particulars (Refer Notes Below)	Year to date figures for current year ended 31-03-2017	Year to date figures for previous year ended 31-03-2016
		Audited	Audited
1	Income from operations		
a	Net Sales/ Income from operations	2,17,315	2,71,841
b	Other operating Income	2,861	613
	Total Income from operations	2,20,176	2,72,454
2	Expenses		
a	Cost of materials consumed	1,54,868	95,072
b	Purchase of stock-in-trade	3,512	57,142
c	Changes in inventories	234	(1,004)
d	Outsourcing expenses to outsiders for job work	53,502	61,908
e	Excise Duty	2,997	3,087
f	Employee benefit expenses	13,639	15,031
g	Depreciation and amortisation expenses	4,534	3,845
h	Other expenses	32,349	44,762
	Total expenses	2,65,635	2,79,843
3	Profit/(Loss) from Operations before other income, finance cost and exceptional items (1-2)	(45,459)	(7,389)
4	Other Income	31,717	4,729
5	Profit/(Loss) before finance costs and exceptional items (3+4)	(13,742)	(2,660)
6	Finance costs	43,231	34,803
7	Profit/(Loss) exceptional items (5-6)	(56,973)	(37,463)
8	Exceptional Items	-	-
9	Profit/(Loss) before tax (7+8)	(56,973)	(37,463)
10	Tax expense		
a	Current Tax	(10,810)	44
b	Deferred Tax	(41,348)	125
11	Net Profit/(Loss) for the period (9-10)	(4,815)	(37,632)
12	Extraordinary items		
13	Net Profit/(Loss) for the period (11-12)	(4,815)	(37,632)
14	Share of Profit/(Loss) of Associate	(275)	(64)
15	Share of net profit/(loss) of Minority Interest	(158)	499
16	Net Profit/(Loss) after taxes, minority interest and share of profit/(loss) of associates (13+14+15)	(5,248)	(37,197)
17	Other comprehensive income, net of income tax		
a	Items that will not be reclassified to profit or loss	(90)	28
b	Items that will be reclassified to profit or loss		
	Total other comprehensive income, net of income tax	(90)	28
18	Total Comprehensive Income for the period (16+17)	(5,338)	(37,169)
19	Paid up Equity share Capital (Face value of the share Rs. 10)	5,359	5,109
20	Reserves excluding Revaluation Reserve as per Balance Sheet of previous accounting year	(8,377)	(46,720)
21	Earning per share (EPS) for the period (Face value Rs. 10/- per share):		
	- Basic (Rs.)	(11.42)	(74.95)
	- Diluted (Rs.)	(11.42)	(74.95)
	See accompanying note to the financial results		



Statement of Audited Consolidated Results for the year ended 31st March, 2017

Notes:-

1 Consolidated Statement of Assets and Liabilities

(All figures in Rs. Lakhs, unless otherwise stated)

Particulars	As at 31-03-2017 (Audited)	As at 31-03-2016 (Audited)
I. ASSETS		
Non-Current Assets		
Property, plant And equipment	22,812	27,091
Capital work-in-progress	387	487
Investment property	-	-
Other intangible assets	15,709	1,493
Investments accounted for using the equity method	-	2,966
Financial Assets		
i. investments	2,142	46
ii. Trade Receivables	12,841	2,275
iii. Loans	2,910	-
iv. Other financial assets	862	2,762
Deferred tax assets	42,180	950
Other non-current assets	197	259
A. Total non-current assets	1,00,040	38,329
Current assets		
Inventories	33,735	30,032
Financial assets		
i. Trade receivables	1,75,533	1,50,817
ii. Cash and cash equivalents	11,010	6,607
iii. Bank balances other than (ii) above	522	390
iv. Loans	1,611	-
v. Other financial assets	1,48,916	1,37,398
vi. Current tax assets	198	-
Other current assets	75,514	68,970
B. Total current assets	4,47,039	3,94,214
C. Total assets (A+B)	5,47,079	4,32,543
II. EQUITY AND LIABILITIES		
Equity		
Equity share capital	13,688	5,109
Other Equity		
Money received against share warrants	-	625
Reserves and surplus	(8,377)	(46,720)
Equity attributable to owners of McNally Bharat Engineering Company Limited	5,311	(40,986)
Non-controlling interests	3,574	2,977
A. Total Equity	8,885	(38,009)
LIABILITIES		
Non-current liabilities		
Financial liabilities		
i. Borrowings	16,785	32,465
ii. Trade payables	53	13
iii. Other financial liabilities	610	612
Provisions	96	135
Employee benefit obligations	900	816
Deferred tax liabilities	-	-
Other non-current liabilities	350	97
B. Total non-current liabilities	18,794	34,138
Current liabilities		
Financial liabilities		
i. Borrowings	2,62,860	1,89,241
ii. Trade payables	1,43,754	1,34,896
iii. Other financial liabilities	45,856	41,030
Provisions	321	641
Employee benefit obligations	873	610
Current tax liabilities	13	5,321
Other current liabilities	65,923	64,675
C. Total current liabilities	5,19,400	4,36,414
D. Total liabilities (A+B+C)	5,38,194	4,70,552
E. Total equity and liabilities (A-D)	5,47,079	4,32,543



Statement of Audited Consolidated Results for the year ended 31st March, 2017

- 2 This statement has been prepared in accordance with the companies (Indian Accounting Standards) Rules, 2015 (Ind AS) prescribed under Section 133 of the Companies Act, 2013 and other recognised accounting practices and policies to the extent applicable. Beginning April 1, 2016, the company has for the first time adopted Ind AS with a transition date of April 1, 2015.
- 3 The Company is primarily engaged in the business of construction and hence no separate disclosure has been made for Segment Reporting per Ind AS 108.
- 4 The above audited results have been reviewed by the Audit Committee and taken on record by the Board of Directors of the Company at its adjourned meeting held on 1st June, 2017.
- 5 Deferred tax assets have been recognised under Ind AS considering the large unabsorbed business loss and unabsorbed depreciation to be set off against the projected tax liability in future years.
- 6 The reconciliation of net loss reported in accordance with Indian GAAP to Total Comprehensive Income in accordance with Ind AS is given below:

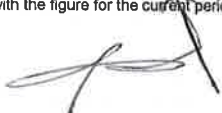
(All figures in Rs. Lacs, unless otherwise stated)

Description	Twelve months ended 31-03-2016
Profit for 2015-2016 under IGAAP	(34,007)
Impact of retention on actual billing made during the current year	(649)
Impact of interest income on opening unbilled revenue	652
Impact of Interest Income on Opening Retention	6,183
Impact of retention on unbilled revenue	(184)
Discounting of retention portion of delators	(65)
Fair valuation of Due from Customers	(202)
Fair valuation of financial assets	443
Unwinding on discounting on retention money	234
Actuarial gain/loss taken to OCI	28
Impact of decommissioning obligations on fixed assets	(11)
Fair valuation of derivative contract	(558)
Fair valuation of future foreseeable losses	(21)
Amortisation of transaction costs on borrowings	65
Impact of fair valuation of leases	(20)
Expected credit loss on trade receivables	(9,516)
Fair valuation of corporate guarantee	7
Unwinding of discounts on provisions	(13)
Profit for the year 2015-16 as per Ind AS	(37,632)

- 7 The Auditor has expressed disclaimer of opinion with regard to sale transaction of one investment for EURO 14 mio. In terms of the Agreement with the buyer Notarized in Germany, the contract has been extended from time to time. The Directors firmly believe since the extension is in line with the agreement, the transaction is valid and amount fully recoverable. On May 22, 2017, an amount of USD 6.5 mio was received by MBE Mineral Technologies Pte Ltd (MBEMTPL) out of the sale consideration (EURO 14 mio) of the Coal & Mineral Technologies GmbH group. The Directors are confident that balance amount of sale consideration would also be received in current year.
- 8 With regard to the other disclaimer by the auditor of MBE Mineral Technologies Pte Ltd (MBEMTPL) and qualified opinion on trade receivables of USD 6,78,376 and other receivables of USD 1,99,88,800, which is inclusive of the EURO 14 mio referred to in point 7 and which include receivables from its own subsidiary and associate companies, the directors feel that since part of the receivable has been collected during the year, the outstanding will be collected and these companies have been allowed to pay the balance in the current year.
- 9 In respect of the qualification/reservation made by the Statutory Auditors in their report in the audited accounts of the company as on March 31, 2017 pertaining to payment of managerial remuneration for the year 2016-17, we wish to inform you that the company is in process of taking necessary approval from the Central Government/National Company Law Tribunal, wherever required.
- 10 With regard to the other qualification on conversion of financial statements of MBE Mineral Technologies Pte. Ltd., from the accounting principles generally accepted in that country to the accounting principles generally accepted in India, the board is of the opinion that as full recoverability of receivables is expected, the conversions of financial statements to Ind AS can be relied upon and the consolidated financials give a fair view of the assets and liabilities of the company.
- 11 One of the subsidiaries of the Company viz. McNally Bharat Infrastructure Ltd (MBIL) was sold to Seajuli Developers & Finance Limited on February 17, 2017, as part of business restructuring.
- 12 The subsidiary company uses the services of a third party service organization for payroll processing. As per the requirements of SA 402 (Revised) "Audit Considerations Relating To An Entity Using A Service Organisation", we have not been able to obtain sufficient appropriate audit evidence to identify and assess the risk of material misstatement around the controls established by such third party service organization either through obtaining a Type II report from the auditors of the service organization or through performance of relevant audit procedures. Accordingly, we are unable to comment on the Employee Benefit Expense and the Employee Benefit Liability amounting to Rs. 931.73 Lacs and Rs. 108.67 Lacs respectively with a consequential impact on the Statement of Profit & Loss and Cash Flow Statement for the year and the Balance Sheet as on March 31, 2017.
- 13 In the books of McNally Bharat Engineering Co. Ltd. (MBE), an amount of Rs 7180 lacs stands receivable from MBE Mineral Technologies Pte Limited (MBE Singapore) on account of advances given as allowed under FEMA and Exchange control Guideline of Reserve Bank of India. Part of the receivables is also on account of interest being charged on such advance as stipulated in the Companies Act. The amount shall be paid by MBE Singapore as and when they receive payment from Schillingtons Ltd, UK against the sale proceeds of sale of 70% stake of MBE Singapore in CMT Group Germany to Schillingtons. The agreement to sale between MBE Singapore and Schillingtons is valid as per the German Law, which provides extension of payment time with bilateral consent. The said agreement have been extended by both the parties from time to time as permitted in the agreement. This receivable is backed by receivable from sale proceeds of valuable assets and MBE Singapore can at any point of time reclaim the transferred shares, by not extending payment time, which have been well defined in sale agreement notarized in the City of Cologne. Investment of Rs. 2550.74 Lacs in MBE Mineral Technologies Pte Ltd Singapore by McNally Bharat Engineering Co Ltd is considered good and recoverable in the views of the Management.
- 14 Figures for the 12 months ended March 31, 2016 have been reclassified, wherever necessary to make them Ind AS compliant and comparable with the figure for the current period.

Kolkata
June 01, 2017




SRINIVASH SINGH
MANAGING DIRECTOR

Lovelock & Lewes

Chartered Accountants

INDEPENDENT AUDITORS' REPORT

To the Members of McNally Bharat Engineering Company Limited

Report on the Consolidated Indian Accounting Standards (Ind AS) Financial Statements

1. We have audited the accompanying consolidated Ind AS financial statements of McNally Bharat Engineering Company Limited ("hereinafter referred to as the Holding Company") and its subsidiaries (the Holding Company and its subsidiaries together referred to as "the Group"), its joint venture and associate company; (refer Note 1 to the attached consolidated financial statements), comprising of the consolidated Balance Sheet as at March 31, 2017, the consolidated Statement of Profit and Loss (including Other Comprehensive Income), the consolidated Cash Flow Statement for the year then ended and the Statement of Changes in Equity for the year then ended, and a summary of significant accounting policies and other explanatory information prepared based on the relevant records (hereinafter referred to as "the Consolidated Ind AS Financial Statements").

Management's Responsibility for the Consolidated Ind AS Financial Statements

2. The Holding Company's Board of Directors is responsible for the preparation of these consolidated Ind AS financial statements in terms of the requirements of the Companies Act, 2013 (hereinafter referred to as "the Act") that give a true and fair view of the consolidated financial position, consolidated financial performance, consolidated cash flows and changes in equity of the Group including its associate and joint venture in accordance with accounting principles generally accepted in India including the Indian Accounting Standards specified in the Companies (Indian Accounting Standards) Rules, 2015 (as amended) under Section 133 of the Act. The Holding Company's Board of Directors is also responsible for ensuring accuracy of records including financial information considered necessary for the preparation of consolidated Ind AS financial statements. The respective Board of Directors of the companies included in the Group and of its associate and joint venture are responsible for maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding the assets of the Group and its associate and joint venture respectively and for preventing and detecting frauds and other irregularities; the selection and application of appropriate accounting policies; making judgements and estimates that are reasonable and prudent; and the design, implementation and maintenance of adequate internal financial controls, that were operating effectively for ensuring the accuracy and completeness of the accounting records, 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, which has been used for the purpose of preparation of the consolidated Ind AS financial statements by the Directors of the Holding Company, as aforesaid.

Auditors' Responsibility

3. Our responsibility is to express an opinion on these consolidated Ind AS financial statements based on our audit. While conducting the audit, we have taken into account the provisions of the Act and the Rules made thereunder including the accounting standards and matters which are required to be included in the audit report.
4. We conducted our audit of the consolidated Ind AS financial statements in accordance with the Standards on Auditing specified under Section 143(10) of the Act and other applicable authoritative pronouncements issued by the Institute of Chartered Accountants of India. Those Standards and pronouncements require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated Ind AS financial statements are free from material misstatement.

Lovelock & Lewes, Plot No. Y 14, Block EP, Sector V, Salt Lake Electronic Complex, Bidhan Nagar,
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Lovelock & Lewes

Chartered Accountants

INDEPENDENT AUDITORS' REPORT

To the Members of McNally Bharat Engineering Company Limited

Report on the Consolidated Ind AS Financial Statements

Page 2 of 6

5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated Ind AS financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated Ind AS financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal financial control relevant to the Holding Company's preparation of the consolidated Ind AS financial statements that give a true and fair view, in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of the accounting estimates made by the Holding Company's Board of Directors, as well as evaluating the overall presentation of the consolidated Ind AS financial statements.
6. We believe that the audit evidence obtained by us and the audit evidence obtained by the other auditors in terms of their reports referred to in paragraph 9 under Other Matters below, other than the unaudited financial statements/ financial information as certified by the management and referred to in paragraph 10 under Other Matters below, is sufficient and appropriate to provide a basis for our qualified audit opinion on the consolidated Ind AS financial statements.

7. Basis for Qualified Opinion

We draw your attention to the following matters:

(i) Note 31 to the consolidated Ind AS financial statements regarding remuneration aggregating 76.8 Lacs paid/payable to a whole-time director of the Holding Company for which the company has not obtained the requisite approvals mandated under Section 197 (3) read with Schedule V of the Act.

(ii) Note 32 to the consolidated Ind AS financial statements regarding MBE Coal & Mineral Technology India Private Limited, a subsidiary of the Holding Company, which uses the services of a third party service organization for payroll processing. As per the requirements of SA 402 (Revised) "Audit Considerations Relating To An Entity Using A Service Organisation", we have not been able to obtain sufficient appropriate audit evidence to identify and assess the risk of material misstatement around the controls established by such third party service organization either through obtaining a Type II report from the auditors of the service organization or through performance of relevant audit procedures. Accordingly, we are unable to comment on the Employee Benefit Expense and the Employee Benefit Liability amounting to Rs. 931.73 Lacs and Rs. 108.67 Lacs respectively with a consequential impact on the Statement of Profit & Loss and Cash Flow Statement for the year and the Balance Sheet as on March 31, 2017.

(iii) The Company's management has converted the financial statements of MBE Mineral Technologies Pte. Ltd, a subsidiary incorporated outside India from the accounting principles generally accepted in that country to the accounting principles generally accepted in India. We have not audited these conversion adjustments made by the Company's management. Additionally, as mentioned in paragraph (v) below the audit opinion on MBE Minerals Technologies Pte Limited has been disclaimed by its auditors and thus reliance cannot be placed on its financial information which reflect total assets of Rs. 15004 Lacs and net assets of Rs. 7547 Lacs as at March 31, 2017, total revenue of Rs. 10 Lacs, net loss of Rs. 576 Lacs and net cash flows amounting to Rs. (7.05 Lacs).



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Chartered Accountants

INDEPENDENT AUDITORS' REPORT

To the Members of McNally Bharat Engineering Company Limited

Report on the Consolidated Ind AS Financial Statements

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(iv) Further, vide our report dated May 30, 2017 we have qualified our opinion on the standalone financial statements of the Holding Company with regard to the carrying value of investments aggregating to Rs. 2550.74 Lacs and recoverability of the receivable aggregating to Rs. 7180 Lacs from the aforesaid subsidiary, the balances of which are eliminated pursuant to consolidation adjustments.

(v) Basis of disclaimer of opinion (as reported by the component auditor)

We draw your attention to the following disclaimer of opinion on the financial statements of MBE Minerals Technologies Pte Limited, a subsidiary of the Holding Company issued by an independent firm of Accountants (incorporated in Singapore) vide its report dated May 18, 2017 reproduced by us as under:

“(i) On 24th of March 2015, the Company sold its investment in subsidiary for Euro 14,000,000. As per terms of agreement with the buyer, the consideration is to be received on or before 30th September 2015. An agreement signed with buyer on 7th January 2016 which states that the Euro 1,000,000 will be paid by 30th June 2016 and balance of Euro 13,000,000 by 30th September 2016, which also failed to materialise. A new agreement been signed giving the buyer extension of time to pay by 30 June 2017. As this is after the date of our audit report we are not in a position to determine whether any provision is required for doubtful debts. As the sales consideration was not received by the Company till to-date, we are not in a position to determine that whether the sale of subsidiary is constituted valid transaction and accordingly we are not in a position to comments if any needed to the financial statements.

(ii) The Company's trade receivables of US\$678,076 and other receivables of US\$19,988,800 balances has been remained outstanding for over 2 years. The management considers the receivable will be fully received and hence no provision for doubtful debts has been made in the financial statements. However, we have not found any substantive evidence or alternative audit procedure to go along with the view of the management. We are not in a position to establish the amount to be provided in the financial statement towards bad and doubtful debts if any. The audit evidence available was limited we have been unable to obtain sufficient evidence concerning trade and other receivables.”

The consequential impact of matters described above in the consolidated Ind AS financial statements is presently not ascertainable.

8. Qualified Opinion

In our opinion and to the best of our information and according to the explanations given to us, except for the indeterminate effects of matters referred to in the Basis for Qualified Opinion paragraph above, the aforesaid consolidated Ind AS 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 of the consolidated state of affairs of the Group, its associate and joint venture as at March 31, 2017, and their consolidated loss (including other comprehensive income), their consolidated cash flows and consolidated changes in equity for the year ended on that date.



Lovelock & Lewes

Chartered Accountants

INDEPENDENT AUDITORS' REPORT

To the Members of McNally Bharat Engineering Company Limited

Report on the Consolidated Ind AS Financial Statements

Page 4 of 6

Other Matter Paragraph

9. We did not audit the financial statements/financial information of three subsidiaries (including companies incorporated outside India) whose financial statements/ financial information reflect total assets of Rs 33207.68 Lacs and net assets of Rs. 2218.79 Lacs as at March 31, 2017, total revenue of Rs. 9.70 Lacs, net loss of Rs. 354.09 Lacs and net cash flows amounting to Rs. 10.87 Lacs for the year ended on that date, as considered in the consolidated Ind AS financial statements. Three of these financial statements/ financial information have been audited by other auditors whose reports have been furnished to us by the Management, and our opinion on the consolidated Ind AS financial statements insofar as it relates to the amounts and disclosures included in respect of these subsidiaries and our report in terms of sub-section (3) of Section 143 of the Act insofar as it relates to the aforesaid subsidiaries, is based solely on the reports of the other auditors.
10. We did not audit the financial information of two subsidiaries (both companies incorporated outside India) whose financial information reflect total assets of Rs 261.41 Lacs and net assets of Rs. (1547.76 Lacs) as at March 31, 2017, total revenue of Rs. Nil, net loss of Rs. Nil and net cash flows amounting to Rs. (7.89 Lacs) for the year ended on that date, as considered in the consolidated Ind AS financial statements. The consolidated Ind AS financial statements also include the Group's share of net loss of Rs. 274.75 Lacs for the year ended March 31, 2017 as considered in the consolidated Ind AS financial statements, in respect of an associate company and a joint venture (both incorporated outside India) whose financial information have not been audited by us. These financial information are unaudited and have been furnished to us by the Management, and our opinion on the consolidated Ind AS financial statements insofar as it relates to the amounts and disclosures included in respect of these subsidiaries, joint venture and associate company and our report in terms of sub-section (3) of Section 143 of the Act insofar as it relates to the aforesaid subsidiaries, joint venture and associate, is based solely on such unaudited financial information. In our opinion and according to the information and explanations given to us by the Management, these financial information are not material to the Group.
11. The financial statements of a subsidiary located outside India, included in the consolidated financial statements, which constitute total assets of Rs.2505.12 Lacs and net assets of Rs. 3232.10 Lacs as at March 31, 2017, total revenue of Rs. 1469.77 Lacs, net profit of Rs. 19.06 Lacs and net cash flows amounting to Rs. 142.72 Lacs for the year then ended, have been prepared in accordance with accounting principles generally accepted in that country and have been audited by other auditors under generally accepted auditing standards applicable in that country. The Company's management has converted the financial statements of such subsidiary located outside India from the accounting principles generally accepted in that country to the accounting principles generally accepted in India. We have audited these conversion adjustments made by the Company's management. Our opinion in so far as it relates to the balances and affairs of such subsidiary located outside India is based on the report of other auditor and the conversion adjustments prepared by the management of the Company and audited by us.

Our opinion on the consolidated Ind AS financial statements and our report on Other Legal and Regulatory Requirements below, is not modified in respect of the above matters with respect to our reliance on the work done and the reports of the other auditors and the financial statements/ financial information certified by the Management.

Our opinion is not qualified in respect of the above matters.



Lovelock & Lewes

Chartered Accountants

INDEPENDENT AUDITORS' REPORT

To the Members of McNally Bharat Engineering Company Limited

Report on the Consolidated Ind AS Financial Statements

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Report on Other Legal and Regulatory Requirements

12. As required by Section 143(3) of the Act, we report, to the extent applicable, that:

(a) We have sought and except for matter stated in paragraph 7(ii) above, obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit of the aforesaid consolidated Ind AS financial statements.

(b) In our opinion, except for the indeterminate effects of the matters referred to in paragraph 7 above, proper books of account as required by law has been maintained by the Holding Company, its subsidiaries included in the Group incorporated in India including relevant records relating to preparation of the aforesaid consolidated Ind AS financial statements have been kept so far as it appears from our examination of those books and records of the Holding Company and the reports of the other auditors.

(c) The Consolidated Balance Sheet, the Consolidated Statement of Profit and Loss (including other comprehensive income), Consolidated Cash Flow Statement and the Consolidated Statement of Changes in Equity dealt with by this Report are in agreement with the relevant books of account maintained by the Holding Company, its subsidiaries included in the Group, incorporated in India including relevant records relating to the preparation of the consolidated Ind AS financial statements.

(d) In our opinion, except for the indeterminate effects of the matters referred to in paragraphs 7 and 8 above, the aforesaid consolidated Ind AS financial statements comply with the Indian Accounting Standards specified under Section 133 of the Act.

(e) On the basis of the written representations received from the directors of the Holding Company as on March 31, 2017 taken on record by the Board of Directors of the Holding Company and the reports of the statutory auditors of its subsidiary companies incorporated in India, none of the directors of the Group companies, incorporated in India is disqualified as on March 31, 2017 from being appointed as a director in terms of Section 164 (2) of the Act.

(f) With respect to the adequacy of the internal financial controls over financial reporting of the Holding Company audits subsidiary companies, incorporated in India and the operating effectiveness of such controls, refer to our separate Report in Annexure A.

(g) With respect to the maintenance of accounts and other matters connected therewith, reference is made to our comments in the Basis for Qualified Opinion paragraph above.

(h) With respect to the other matters to be included in the Auditors' Report in accordance with Rule 11 of the Companies (Audit and Auditors) Rules, 2014, in our opinion and to the best of our information and according to the explanations given to us:

(i) The consolidated Ind AS financial statements disclose the impact, if any, of pending litigations as at March 31, 2017 on the consolidated financial position of the Group, its associate and joint venture— Refer Note 33 to the consolidated Ind AS financial statements.

(ii) Provision has been made in the consolidated Ind AS financial statements, as required under the applicable law or accounting standards, for material foreseeable losses, if any, on long-term contracts including derivative contracts as at March 31, 2017— Refer (a) Note 34 to the consolidated Ind AS financial statements in respect of such items as it relates to the Group, its associate and joint venture and (b) the Group's share of net loss in respect of its associates.



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INDEPENDENT AUDITORS' REPORT

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(iii) The instances of delay in transferring amounts, required to be transferred, to the Investor Education and Protection Fund by the Holding Company, and its subsidiary companies incorporated in India, during the year ended March 31, 2017 are as follows:

Year of Dividend	Unpaid (Rs. Lacs)	Due Date	Actual date of transfer	Delay (days)
2008-09	2.047	30.12.2016	11.05.2017	132

(iv) The Group has provided requisite disclosures in the financial statements as to holdings as well as dealings in Specified Bank Notes during the period from 8th November, 2016 to 30th December, 2016. Based on audit procedures and relying on the management representation we report that the disclosures are in accordance with books of account maintained by the Holding Company, and its subsidiary companies incorporated in India and as produced to us by the Management – Refer Note 35. There is no associate company and jointly controlled company in India.

For Lovelock & Lewes
Firm Registration Number: 301056E
Chartered Accountants


Prabal Kr. Sarkar
Partner
Membership Number 52340


Kolkata
June 1, 2017

Lovelock & Lewes

Chartered Accountants

Annexure A to Independent Auditors' Report

Referred to in paragraph 12 of the Independent Auditors' Report of even date to the members of McNally Bharat Engineering Company Limited on the consolidated financial statements for the year ended March 31, 2017.

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Report on the Internal Financial Controls under Clause (i) of Sub-section 3 of Section 143 of the Act

1. In conjunction with our audit of the consolidated financial statements of the Holding Company as of and for the year ended March 31, 2017, we have audited the internal financial controls over financial reporting of McNally Bharat Engineering Company Limited (hereinafter referred to as "the Holding Company") and its subsidiary companies, which are companies incorporated in India, as of that date.

Management's Responsibility for Internal Financial Controls

2. The respective Board of Directors of the Holding company, its subsidiary companies, its associate companies and jointly controlled companies, which are companies incorporated in India, are responsible for establishing and maintaining internal financial controls based on internal control over financial reporting criteria established by the Holding Company considering the essential components of internal control stated in the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting issued by the Institute of Chartered Accountants of India (ICAI). These responsibilities include the design, implementation and maintenance of adequate internal financial controls that were operating effectively for ensuring the orderly and efficient conduct of its business, including adherence to the respective company's policies, the safeguarding of its assets, the prevention and detection of frauds and errors, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information, as required under the Act.

Auditor's Responsibility

3. Our responsibility is to express an opinion on the Holding Company's internal financial controls over financial reporting based on our audit. We conducted our audit in accordance with the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting (the "Guidance Note") issued by the ICAI and the Standards on Auditing deemed to be prescribed under section 143(10) of the Companies Act, 2013, to the extent applicable to an audit of internal financial controls, both applicable to an audit of internal financial controls and both issued by the ICAI. Those Standards and the Guidance Note require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether adequate internal financial controls over financial reporting was established and maintained and if such controls operated effectively in all material respects.
4. Our audit involves performing procedures to obtain audit evidence about the adequacy of the internal financial controls system over financial reporting and their operating effectiveness. Our audit of internal financial controls over financial reporting included obtaining an understanding of internal financial controls over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. 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.



Lovelock & Lewes

Chartered Accountants

Annexure A to Independent Auditors' Report

Referred to in paragraph 12 of the Independent Auditors' Report of even date to the members of McNally Bharat Engineering Company Limited on the consolidated financial statements for the year ended March 31, 2017.

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5. We believe that the audit evidence we have obtained and the audit evidence obtained by the other auditors in terms of their reports referred to in the Other Matters paragraph below, is sufficient and appropriate to provide a basis for our qualified audit opinion on the Holding Company's internal financial controls system over financial reporting.

Meaning of Internal Financial Controls Over Financial Reporting

6. A company's internal financial control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal financial control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorisations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Inherent Limitations of Internal Financial Controls Over Financial Reporting

7. Because of the inherent limitations of internal financial controls over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the internal financial controls over financial reporting to future periods are subject to the risk that the internal financial control over financial reporting may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Basis for Qualified Opinion

8. According to the information and explanations given to us and based on our audit, the following material weaknesses have been identified in the operating effectiveness of internal financial controls over financial reporting as at March 31, 2017 with respect to the Holding Company and its subsidiary companies, which are companies incorporated in India.
 - (i) The Holding Company's internal financial controls relating to compliance with laws and regulations did not operate effectively which resulted in the non-compliance not having been detected timely and the managerial remuneration not been approved in accordance with requirements of Section 197 read with Schedule V of the Companies Act, 2013 [Refer paragraph 7 (i.) of the main audit report].
 - (ii) The Holding Company's internal financial controls relating to review of investments and receivables for appropriate provisioning did not operate effectively.



Lovelock & Lewes

Chartered Accountants

Annexure A to Independent Auditors' Report

Referred to in paragraph 12 of the Independent Auditors' Report of even date to the members of McNally Bharat Engineering Company Limited on the consolidated financial statements for the year ended March 31, 2017.

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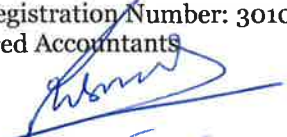
(iii) A subsidiary of the Holding Company uses the services of a third party service organization for payroll processing. As per the requirements of SA 402 (Revised) "Audit Considerations Relating To An Entity Using A Service Organisation", we have not been able to obtain sufficient appropriate audit evidence to identify and assess the risk of material misstatement around the controls established by such third party service organization either through obtaining a Type II report from the auditors of the service organization or through performance of relevant audit procedures and accordingly are unable to comment of the adequacy and operating effectiveness of the internal financial controls over the payroll processing system.


9. A 'material weakness' is a deficiency, or a combination of deficiencies, in internal financial control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Holding Company's annual or interim financial statements will not be prevented or detected on a timely basis.

Qualified Opinion

10. In our opinion, except for the effects of the material weakness described in the Basis for Qualified Opinion paragraph above, the Holding Company and its subsidiary companies, which are companies incorporated in India, has in all material respects, an adequate internal financial controls system over financial reporting and such internal financial controls over financial reporting were operating effectively as at March 31, 2017, based on the internal control over financial reporting criteria established by the Holding Company considering the essential components of internal control stated in the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting issued by the Institute of Chartered Accountants of India.
11. We have considered the material weakness identified and reported above in determining the nature, timing and extent of audit tests applied in our audit of the consolidated Ind AS financial statements of the Holding Company and its subsidiary companies, which are companies incorporated in India, for the year ended March 31, 2017, and the material weakness does affect our opinion on the consolidated Ind AS financial statements of the Holding Company.

For Lovelock & Lewes
Firm Registration Number: 301056E
Chartered Accountants


Prabal Kr. Sarkar
Partner
Membership Number: 52340


Kolkata
June 1, 2017