

REPORT OF THE AUDITORS TO THE SHAREHOLDERS

1. We have audited the attached balance sheet of ITC Limited as at 31st March, 2003 and also the profit and loss account and the cash flow statement for the year ended on that date, annexed thereto. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with the 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 amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. As required by the Manufacturing and Other Companies (Auditor's Report) Order, 1988 issued by the Central Government of India in terms of sub-section (4A) of Section 227 of the Companies Act, 1956, we give in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the said Order.
4. Further to our comments in the Annexure referred to in paragraph 3 above :
 - (i) 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;
 - (ii) 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;
 - (iii) the balance sheet, profit and loss account and cash flow statement dealt with by this report are in agreement with the books of account;
 - (iv) in our opinion, the balance sheet, profit and loss account and cash flow statement dealt with by this report comply with the requirements of the accounting standards referred to in sub-section (3C) of Section 211 of the Companies Act, 1956;
 - (v) on the basis of the written representations received from the directors as on 31st March, 2003, and taken on record by the Board of Directors, we report that none of the directors is disqualified as on 31st March, 2003 from being appointed as a director in terms of clause (g) of sub-section (1) of Section 274 of the Companies Act, 1956;
 - (vi) in our opinion and to the best of our information and according to the explanations given to us, the said accounts 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, 2003,
 - (b) in the case of the profit and loss account, 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.

For A. F. Ferguson & Co.
Chartered Accountants

A. K. Mahindra
Partner

Kolkata,
23rd May, 2003

Membership No. 10296

Annexure to the Auditors' Report

[Referred to in paragraph (3) thereof]

1. The company is maintaining proper records showing full particulars, including quantitative details and situation of fixed assets. In our opinion, the fixed assets have been physically verified by the management at reasonable intervals, having regard to the size of the company and the nature of its assets. No material discrepancies between book records and the physical inventory were noticed.
2. The fixed assets have not been revalued during the year.
3. The stocks of finished goods, stores, spare parts and raw materials have been physically verified by the management during the year except materials lying with third parties (which have substantially been confirmed). In our opinion, the frequency of verification is reasonable.
4. In our opinion and according to the information and explanations given to us, the procedures of physical verification of stocks followed by the management were found reasonable and adequate in relation to the size of the company and the nature of its business.
5. The discrepancies noticed on verification between the physical stocks and the book records were not material in relation to the operations of the company.
6. On the basis of our examination of the stock records, in our opinion, the valuation of stocks is fair and proper in accordance with the normally accepted accounting principles and is on the same basis as in the preceding year.
7. The company has not taken any loans, secured or unsecured, from companies, firms, or other parties listed in the Register maintained under Section 301 of the Companies Act, 1956. The provisions of Section 370 of the Companies Act, 1956 are not applicable to a company on and from October 31, 1998.
8. The company has not granted any loans, secured or unsecured, to companies, firms or other parties listed in the Register maintained under Section 301 of the Companies Act, 1956. The provisions of Section 370 of the Companies Act, 1956 are not applicable to a company on and from October 31, 1998.
9. In respect of loans and advances in the nature of loans given by the company, where stipulations have been made, the parties are repaying the principal amounts as stipulated or as rescheduled and have also been regular in the payment of interest where applicable, except in respect of certain loans / advances in the nature of loans which have been considered as doubtful and fully provided for.
10. In our opinion and according to the information and explanations given to us, there are adequate internal control procedures commensurate with the size of the company and the nature of its business with regard to purchases of stores, raw materials including components, plant and machinery, equipment and other assets, and for the sale of goods.
11. There were no transactions during the year of purchase of goods and materials, and sale of goods, materials and services, made in pursuance of contracts or arrangements entered in the Register maintained under Section 301 of the Companies Act, 1956.
12. As explained to us the company has a regular procedure for determination of unserviceable or damaged stores, raw materials and finished goods. Adequate provision has been made in the accounts for the loss arising on the items so determined.
13. In our opinion and according to the information and explanations given to us, the company has complied with the provisions of Section 58A of the Companies Act, 1956, and the Companies (Acceptance of Deposits) Rules, 1975 with regard to the deposits accepted from the public.
14. In our opinion, reasonable records have been maintained by the company for the sale of realisable scrap. We have been informed that the company's operations do not generate any by-products.
15. In our opinion, the company has an adequate internal audit system commensurate with the size of the company and the nature of its business.
16. To the best of our knowledge, the Central Government has not prescribed the

maintenance of cost records under Section 209(1)(d) of the Companies Act, 1956, for any of the products of the company excepting paper, for which, in our opinion, prima facie, the prescribed accounts and records have been maintained and are being made up. We are not required to and, accordingly, have not made a detailed examination of the records.

17. According to the records of the company, provident fund and Employees' State Insurance dues, where applicable, have been regularly deposited during the year with the appropriate authorities.
18. According to the information and explanations given to us, there were no undisputed amounts payable in respect of income tax, wealth tax, sales tax, customs duty, and excise duty which have remained outstanding as at 31st March, 2003 for a period of more than six months from the date they became payable.
19. According to the information and explanations given to us and the records of the company examined by us, no personal expenses have been charged to revenue account other than those payable under contractual obligations or in accordance with generally accepted business practice.
20. The company is not a sick industrial company within the meaning of clause (o) of sub-section (1) of Section 3 of the Sick Industrial Companies (Special Provisions) Act, 1985.

21. In respect of the service activities :

- (a) the company has a reasonable system of recording receipts, issues and consumption of materials and stores, where applicable, and such system provides for a reasonable allocation of materials consumed to the relative jobs
- (b) the company has a reasonable system of allocating man hours utilised, where applicable, to the relative jobs
- (c) there is a reasonable system of authorisation at proper levels on issues of stores and allocation of stores and labour to jobs

commensurate with the size of the company and the nature of its business.

22. As explained to us, in respect of the trading activity of the company damaged goods have been determined and adequate provision has been made in the accounts for the loss arising on the items so determined.

For A. F. Ferguson & Co.
Chartered Accountants

A. K. Mahindra
Partner

Kolkata,
23rd May, 2003

Membership No. 10296