

# Auditors' Report to the Members

1. We have audited the attached Balance Sheet of ITC Limited ("the Company") as at 31st March, 2010, and also the Profit and Loss Account and the Cash Flow Statement of the Company for the year ended on that date, both 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 misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and the 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. As required by the Companies (Auditor's Report) Order, 2003 (CARO) issued by the Central Government of India in terms of Section 227(4A) 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, we report as follows:
  - (a) 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;
  - (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, Profit and Loss Account and Cash Flow Statement dealt with by this report are in agreement with the books of account;
  - (d) in our opinion, the Balance Sheet, Profit and Loss Account and Cash Flow Statement dealt with by this report are in compliance with the Accounting Standards referred to in Section 211(3C) of the Companies Act, 1956;
  - (e) 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:
    - i) in the case of the Balance Sheet, of the state of affairs of the Company as at 31st March, 2010;
    - ii) in the case of the Profit and Loss Account, of the profit for the year ended on that date; and
    - iii) in the case of the Cash Flow Statement, of the cash flows for the year ended on that date.
5. On the basis of the written representations received from the Directors as on 31st March, 2010 and taken on record by the Board of Directors, we report that none of the directors is disqualified as on 31st March, 2010 from being appointed as a director in terms of Section 274(1)(g) of the Companies Act, 1956.

For Deloitte Haskins & Sells  
*Chartered Accountants*  
(Registration No. 302009E)

P. R. Ramesh  
*Partner*

Kolkata  
May 21, 2010

(Membership No. 70928)

## Annexure to the Auditors' Report to the Members of ITC Limited

[Referred to in paragraph (3) thereof]

In our opinion and according to the information and explanation given to us, the nature of the Company's business/activities during the year are such that clauses (iii), (v), (x), (xii), (xiii), (xv), (xviii), (xix) and (xx) of Companies (Auditors' Report) Order 2003, are not applicable to the Company. In respect of the other clauses, we report as under:

- (i) In respect of its fixed assets:
  - (a) The Company has maintained proper records showing full particulars, including quantitative details and situation of the fixed assets.
  - (b) The fixed assets were physically verified during the year by the Management in accordance with a regular programme of verification, which, in our opinion, provides for physical verification of all the fixed assets at reasonable intervals. According to the information and explanation given to us, no material discrepancies were noticed on such verification.
  - (c) During the year, in our opinion, a substantial part of fixed assets has not been disposed off by the Company.
- (ii) In respect of its inventory:
  - (a) As explained to us, the inventories excepting material lying with third parties (which have substantially been confirmed) were physically verified during the year by the Management at reasonable intervals.
  - (b) In our opinion and according to the information and explanations given to us, the procedures of physical verification of inventory followed by the Management were reasonable and adequate in relation to the size of the Company and the nature of its business.
  - (c) On the basis of our examination of records of inventory, in our opinion, the Company has maintained proper records of inventory and the discrepancies noticed on physical verification between the physical stocks and the book records were not material in relation to the operations of the Company.
- (iii) In our opinion and according to the information and explanations given to us, there are adequate internal control systems commensurate with the size of the Company and the nature of its business for the purchase of inventory, fixed assets and for the sale of goods and services. Further, on the basis of our examination and according to the information and explanations given to us, we have neither come across nor have we been informed of any instance of major weaknesses in the aforesaid internal control systems.
- (iv) In our opinion and according to the information and explanations given to us, the Company has complied with the provisions of Sections 58A and 58AA or any other relevant provisions of the Companies Act, 1956 and the Companies (Acceptance of Deposits) Rules, 1975 with regard to the deposits accepted from the public. According to the information and explanations given to us, no Order has been passed by the Company Law Board or the National Company Law Tribunal or the Reserve Bank of India or any Court or any other Tribunal on the Company.
- (v) In our opinion, the Company has an internal audit system commensurate with the size of the Company and the nature of its business.
- (vi) 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,

soaps & detergents and cosmetics & toiletries 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.

- (vii) (a) According to the information and explanations given to us and according to the books and records as produced and examined by us, in our opinion, the Company is regular in depositing undisputed statutory dues including 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 as applicable with the appropriate authorities.
- (b) As at 31st March, 2010, according to the records of the Company and the information and explanations given to us, the following are the particulars of dues on account of income tax, sales tax, wealth tax, service tax, customs duty, excise duty and cess matters that have not been deposited on account of any dispute:

Name of the statute	Nature of the dues	Amount (Rs. in Crores)	Period to which the amount relates	Forum where pending
			Various years covering the period	
Sales Tax and VAT Laws	Sales tax and VAT	6.64	1986-2009	Appellate Authority – upto Commissioners' / Revisional authorities level
		6.44	1994-2009	Appellate Authority – Tribunal level
		181.07	1997-2009	High Court
		6.51	2002-2003	Supreme Court
Customs Act, 1962	Customs duty	1.27	2005-2007	Appellate Authority – Tribunal level
Central Excise Act, 1944	Excise duty	49.18	1980-2009	Appellate Authority – upto Commissioners' / Revisional authorities level
		16.98	1973-2008	Appellate Authority – Tribunal level
		17.11	2001-2004	High Court
		0.47	1991-1996	Supreme Court
Finance Act, 1994	Service tax	171.53	1999-2010	Appellate Authority – upto Commissioners' / Revisional authorities level
		2.93	2005-2008	Appellate Authority – Tribunal level
Income Tax Act, 1961	Income Tax	0.25	2003-2005	Appellate Authority – Tribunal level

Out of the total disputed dues aggregating Rs. 460.38 Crores as above, Rs. 233.39 Crores has been stayed for recovery by the relevant authorities.

- (viii) According to the information and explanations given to us, the Company has not defaulted in repayment of dues to any financial institution, bank or to debenture holders during the year.
- (ix) In our opinion and according to the information and explanations given to us, the Company is not a dealer or trader in securities. The Company has maintained proper records of transactions and contracts in respect of shares, securities, debentures and other investments and timely entries have been made therein. All shares, securities, debentures and other investments have been held by the Company in its own name.
- (x) In our opinion and according to the information and explanations given to us, the term loans have been applied for the purposes for which they were obtained.
- (xi) In our opinion and according to the information and explanations given to us and on an overall examination of the Balance Sheet, we report that funds raised on short-term basis have not been used during the year for long-term investment.
- (xii) To the best of our knowledge and according to the information and explanations given to us, no fraud by the Company and no significant fraud on the Company has been noticed or reported during the year.

For Deloitte Haskins & Sells  
*Chartered Accountants*  
(Registration No. 302009E)

P. R. Ramesh  
*Partner*  
(Membership No. 70928)

Kolkata  
May 21, 2010