

## Board of Directors

Rama Prasad Goenka, *Chairman*  
Sanjiv Goenka, *Vice-Chairman*  
Priya Brata Ghosh  
Dipankar Mukherjee (*Nominee of Govt. of West Bengal*)  
Pradip Kumar Khaitan  
Brij Mohan Khaitan  
Bhagwati Prasad Bajoria  
Padinjaremadom Venkitachalam Subramanian  
(*Nominee of LIC*)  
Nirmalendu Biswas (*Nominee of UTI*)  
Pradip Roy (*Nominee of IDBI*)  
Sudhamoy Khasnobis (*Nominee of ICICI*)  
Sumantra Banerjee, *Managing Director*

### Secretary

Subhasis Mitra

### Auditors

Lovelock & Lewes

### Solicitors

Khaitan & Co.  
Orr, Dignam & Co.  
Sandersons & Morgans

### Registered Office

CESC House  
Chowringhee Square  
Kolkata 700 001  
Telephone : (033) 2225 6040  
Facsimile : (033) 2225 5155  
E-Mail : cesc@rpgnet.com  
Website : www.cescitd.com

### Bankers

Standard Chartered Grindlays Bank Ltd.  
State Bank of India  
American Express Bank Ltd.  
Union Bank of India  
ABN Amro N.V.  
UCO Bank  
Allahabad Bank  
Bank of Baroda  
Indian Bank  
Corporation Bank  
Bank of India  
Indian Overseas Bank  
The Hongkong & Shanghai Banking Corporation Ltd.  
ICICI Bank Limited  
HDFC Bank Ltd.  
Standard Chartered Bank

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## Notice to Members for Annual General Meeting

Notice is hereby given that the Twenty-fifth Annual General Meeting of the Members of CESC Limited will be held for the following purposes at Kala Mandir, 48 Shakespeare Sarani, Kolkata 700 017, on Friday, 19 September, 2003 at 10.30 A.M. or immediately after the conclusion of the adjourned Twenty-fourth Annual General Meeting of the members convened at 10.15 A.M. on the same date at the same venue, whichever is later :

1. To receive and consider the Profit & Loss Account for the year ended 31st March, 2003, the Balance Sheet as at that date and the Reports of the Directors and the Auditors.
2. To appoint a Director in place of Mr. B. M. Khaitan who retires by rotation and, being eligible, offers himself for reappointment.
3. To appoint a Director in place of Mr. T. K. Ray who retires by rotation and, being eligible, offers himself for reappointment.
4. To appoint Auditors and to fix their remuneration and for the purpose to consider and, if thought fit, to pass with or without modification, the following Special Resolution:

"RESOLVED THAT the retiring Auditors, Messrs. Lovelock & Lewes, be and they are hereby reappointed Auditors of the Company to hold office from the conclusion of this Annual General Meeting until the conclusion of the next Annual General Meeting of the Company at a remuneration of Rs.14,00,000/- payable in two equal instalments plus service tax and reimbursement of out-of-pocket expenses."

### SPECIAL BUSINESS

To consider and, if thought fit, to pass, with or without modifications, the following Resolutions:

#### 5. AS A SPECIAL RESOLUTION

"RESOLVED THAT in accordance with the provisions of Section 81(1A) and other applicable provisions, if any, of the Companies Act, 1956 and of the Articles of Association of the Company and subject also to the approval(s) of such authorities, bodies or financial institutions as may be necessary, consent of the Company be and is hereby accorded to the Board of Directors of the Company ('the Board' which expression shall be deemed to include any Committee which the Board may constitute to exercise its powers) to issue, offer for subscription and allot not exceeding 33,00,000 new equity shares of Rs. 10/- each of the Company for cash at such premium and on such terms and conditions as may be decided by the Board in accordance with the prevalent guidelines to such companies, persons of the management group, their friends, relatives, associates and associate companies as the Board may in its absolute discretion decide.

RESOLVED FURTHER THAT for the purpose of giving effect to the Resolution, the Board be and is hereby authorised to agree to, make and accept all such conditions, modifications and alterations as may be stipulated by the relevant authorities and to take such actions as may be necessary, desirable or expedient

to effect such modifications and alterations and to resolve and settle all questions and difficulties that may arise in the proposed issue and allotment of new equity shares and to do all acts, deeds, matters and things as it may at its discretion consider necessary or desirable."

#### 6. AS AN ORDINARY RESOLUTION

"RESOLVED THAT subject to the approval of the Central Government, if necessary, the Company hereby accords its approval to the reappointment of and remuneration payable to Mr. S. Banerjee ('Mr. Banerjee') as Managing Director of the Company for a period of five years with effect from 1 August 2003 till 31 July 2008 on the terms and conditions set out in an Agreement to be entered into between the Company and Mr. Banerjee in terms of the draft placed before the meeting and initialled by the Chairman for the purpose of identification and the Board of Directors of the Company be and is hereby authorised to enter into an Agreement on behalf of the Company with Mr. Banerjee in terms of the said draft."

The Register of Members of the Company at Kolkata will remain closed from 12 September, 2003 to 19 September, 2003 both days inclusive.

Registered Office :  
CESC House  
Chowringhee Square  
Kolkata 700 001  
19 August, 2003

By Order of the Board  
  
Subhasis Mitra  
Company Secretary

### NOTES:

1. A member entitled to attend and vote at the Meeting is entitled to appoint a Proxy to attend and vote in his stead. A Proxy need not be a Member of the Company. Proxies, in order to be effective, must be received by the Company not less than 48 hours before the time for holding the Meeting.
2. An Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956 in respect of the Special Business under Items 5 and 6 is annexed hereto.
3. Members are informed that in terms of the amended provisions of Section 205A of the Companies Act, 1956 and the rules framed thereunder, any dividend remaining unpaid or unclaimed for a period of seven years shall be transferred to the Investor Education and Protection Fund ('the Fund'). Accordingly, all unpaid / unclaimed dividends in respect of dividend declared for the financial year ended 31 March, 1995 have been transferred to the Fund and the said dividends for the years 1995-96 and 1996-97 shall be transferred to the Fund immediately after 15 November 2003 and 5 November 2004 respectively. As no claim shall lie against the Fund or the Company in respect of any dividend transferred to the Fund, members are requested to immediately write to the Company claiming the said dividend, if payment thereof has not been received by any member.

**PARTICULARS OF DIRECTORS WHO ARE PROPOSED TO BE REAPPOINTED AT THE MEETING ARE GIVEN BELOW :**

**MR. B. M. KHAITAN** is a renowned industrialist having interest in tea, batteries and engineering industries and has been on CESC's Board of Directors since 1994. He has made significant contribution to the tea industry with which he has been associated for over four decades. He has also been associated with various leading Chambers of Commerce and trade associations.

Mr. Khaitan is the Chairman of Williamson Magor & Company Limited and Eveready Industries India Limited which own thirty tea estates in Assam and Dooars. He is a director of Flender Limited, Jayshree Tea & Industries Limited (also the Chairman of the Remuneration Committee of the Board), Phillips Carbon Black Limited, The Moran Tea Company (India) Limited, Babcock Borsig Limited and Williamson Maknam Limited, U.K.

**MR. T. K. RAY** is a Chartered Accountant and holds a senior position in IFCI Limited (IFCI) as its General Manager. Before joining IFCI, Mr. Ray served in various capacities in West Bengal Industrial Development Corporation Ltd. and Allahabad Bank. At present, Mr. Ray is in charge of IFCI's Eastern Regional Office at Kolkata and is also on the Boards of South Asian Petrochem Limited, West Bengal Consultancy Organisation Limited, IDCOL Limited and Titagarh Industries Limited. Mr. Ray is on CESC's Board of Directors as IFCI's nominee since 2002.

**MR. S. BANERJEE** holds B.Tech, MS and MBA degrees and has been CESC's Managing Director since 1 August 1993. He has 30 years of experience in India and abroad in manufacturing, engineering, finance, marketing and general management functions. Mr. Banerjee, President and Chief Executive of RPG Power Group, is on the Boards of Spencer International Hotels Limited, G.F.Kellner & Company Limited, Saregama India Limited (also a member of Audit and Investors Grievance Committees), Alpha Carbon Limited, Noida Power Company Limited, Balagarh Power Company Limited, Ghaziabad Power Company Limited, Hilltop Holdings India Limited, Dakshin Bharat Petrochem Limited and Carniwal Investment Limited.

**EXPLANATORY STATEMENT PURSUANT TO SECTION 173(2) OF THE COMPANIES ACT, 1956 IN RESPECT OF ITEMS OF SPECIAL BUSINESS SET OUT IN THE NOTICE CONVENING THE TWENTY-FIFTH ANNUAL GENERAL MEETING OF THE COMPANY TO BE HELD ON 19 SEPTEMBER, 2003**

**Item No. 5**

In conformity with the suggestion of the Company's term lenders and also for raising additional resources in order to facilitate the proposed restructuring of the Company's debt, it is proposed to allot to the management group and its associates new equity shares not exceeding 33 lac shares of the Company at such premium and on such other terms and conditions as may be decided by the Board of Directors of the Company ('the Board') in accordance with the prevalent guideline on the subject issued by the Securities & Exchange Board

of India and other applicable regulations, if any, on preferential issue of equity shares.

The proposed issue and allotment of shares requires approval of the members by a Special Resolution passed in a general meeting pursuant to the provisions of Section 81(1A) and other applicable provisions, if any, of the Companies Act, 1956 and the provisions of the listing agreements entered into by the Company with the stock exchanges.

The Special Resolution under Item 5 of the Notice has to be considered in the aforesaid background and the Board of Directors of the Company recommends that the Resolution be passed in the long term interest of the Company. The Directors of the Company may be deemed to be concerned or interested in this item of business to the extent of new equity shares that may be allotted to any company in which the Directors of the Company may also be Directors and/or Members and also to the extent of new equity shares that may be allotted to them in their individual capacities. Save as aforesaid, no Director is interested or concerned in the said Resolution.

**Item No. 6**

The Board of Directors of the Company ('the Board') has, subject to the approval of the Central Government, if necessary, reappointed Mr. S. Banerjee ('Mr. Banerjee') as Managing Director for a further period of five years from 1st August 2003.

Mr. Banerjee is with the Company since 15 April 1992 and has been its Managing Director for the last ten years. He is a Bachelor of Technology from Indian Institute of Technology, Kharagpur, an M.S. in Polymer Science and an MBA in Marketing and Finance from USA and has 30 years of experience in India and abroad.

The terms and conditions governing the reappointment of Mr. Banerjee are contained in an Agreement proposed to be entered into by the Company with Mr. Banerjee. The principal terms and conditions set out in the drafts of the aforesaid Agreement are as follows :

1. Period of reappointment : Five years from 1st August, 2003.
2. Salary : Mr. Banerjee will continue to be entitled to the same salary as is being drawn by him with the approval of the members since 1 April 1997 i.e. Rs. 1,03,400/- per month.
3. Perquisites : Mr. Banerjee will continue to be entitled to the same perquisites / benefits as referred to below and as approved earlier by the members since 1st April 1997, with no change in the ceiling on such perquisites / benefits, that is Rs 13 lacs per annum.

The perquisites / benefits referred to above are residential accommodation or house rent allowance in lieu thereof, gas, electricity, water and furnishings; medical expenses reimbursement; leave travel concession for self and family; club fees; personal accident insurance and provision of furniture and equipment at the residence in accordance with the rules of the Company.

For the purpose of computation of the aforesaid ceiling (a) the above perquisites shall be evaluated as per Income Tax Rules, wherever applicable, and in the absence of any such Rule, the

perquisites shall be evaluated at actual costs, (b) the following perquisites / benefits will not be included - (i) the provision of car for use on the Company's business and telephone at residence, (ii) Company's contribution to Provident Fund and Superannuation Fund and (iii) encashment of leave at the end of the tenure and payment of gratuity at a rate not exceeding half a month's salary for each completed year of service.

In the event of loss or inadequacy of profits of the Company in any financial year, the aforesaid remuneration and perquisites/benefits which are within the applicable ceiling limit specified under Section II of Part II of Schedule XIII to the Companies Act, 1956 ('the Act') will be paid to / enjoyed by Mr. Banerjee.

4. Leave : Mr. Banerjee will be entitled to leave on full pay and allowances as per Rules of the Company, but not exceeding one month's leave for every eleven months of service.

Mr. Banerjee will be reimbursed by the Company of all entertainment and other expenses actually incurred for the business of the Company subject to such limits as may be fixed by the Board from time to time.

The reappointment including the remuneration payable to Mr. Banerjee as approved by the Remuneration Committee of the Board requires the approval of the Company in a general meeting and may be subject to the approval of the Central Government under Section 269 of the Act. The Resolution set out in Item No. 6 has to be

considered accordingly and the Board recommends that the same be passed.

The draft of the Agreement referred to above may be inspected by any member at the Registered Office of the Company on any working day prior to the date of the Meeting between the hours of 10 a.m. and 12 noon and will also be available for inspection from 9.30 a.m. at the place and date of the Annual General Meeting.

Mr. Banerjee may be deemed to be interested in the Resolution under Item No. 6 and no other Director of the Company has any interest in the aforesaid Resolution.

The above may be considered also as an Abstract of the terms and Memorandum of Interest in terms of Section 302 of the Act relating to the aforesaid contract to be entered into by the Company with Mr. Banerjee.

*Registered Office :*  
CESC House  
Chowringhee Square  
Kolkata 700 001  
19 August, 2003

By Order of the Board  
  
Subhasis Mitra  
*Company Secretary*

## Directors' Report

The Directors present the Annual Report and Audited Accounts of CESC Limited for the year ended 31 March, 2003.

### Financial Results

	(Rs. Lacs)	
	<u>2002-2003</u>	<u>2001-2002*</u>
Profit before Depreciation (PBD)	<b>3,30,35.00</b>	2,27,48.57
Depreciation	<b>(3,22,72.65)</b>	(3,15,44.74)
Profit/(Loss) before Special Appropriation Adjustments, Taxation, Exceptional Item and Contingencies Reserve Appropriation	<b>7,62.35</b>	(87,96.17)
Special Appropriation Adjustments	-	(15,08.28)
Provision for taxation	<b>(60.05)</b>	-
Exceptional Item on settlement of principal amount of loan	<b>2,71.76</b>	-
Transfer to Capital Reserve	<b>(2,71.76)</b>	-
Appropriation to Contingencies Reserve	<b>(12,25.00)</b>	(12,00.00)
Loss after Special Appropriation Adjustments, Taxation, Exceptional Item and Contingencies Reserve Appropriation	<b>(5,22.70)</b>	(1,15,04.45)
Deficit brought forward from previous year	<b>(4,03,96.64)</b>	(2,88,92.19)
Appropriations to		
- General Reserve	-	-
- Debenture Redemption Reserve	-	-
- Capital Redemption Reserve	-	-
Deficit carried to Balance Sheet	<b>(4,09,19.34)</b>	(4,03,96.64)

\* As per regrouped figures

The Company earned a PBD of Rs. 330 crore against Rs. 227 crore recorded in the previous year. More significantly, for the first time since 1996-97, your Company has been able to earn a net profit. Against a net loss of Rs. 88 crore sustained in 2001-02, net profit for the year amounted to Rs. 8 crore and, after necessary appropriations/adjustments, there was finally a loss of Rs. 5 crore for the year 2002-03 against a loss of Rs. 115 crore incurred during the previous year.

The above improvement in financial results reflects the outcome of sustained efforts made by the Company over the last few years to improve its working in various areas. The members will be pleased to note that the improving trend has continued in June 2003 quarter also in which the Company has reported an estimated Net Profit of Rs. 15 crore. However, in view of the carried forward deficit, the Directors regret their inability to recommend any dividend for the year under review.

### Generation

The Company has five generating stations out of which two at Mulajore and New Cossipore are now quite old. The other three stations namely, Titagarh, Southern and Budge Budge, have performed well during the year under review. With a combined Plant Load Factor of

75.6% (against 73.4% clocked in the previous year), these three stations have supported the stable power position in the Company's licenced area. CESC met a peak demand of 1281 MW during the year on 10 October 2002.

In recent years, cost of generation at the sixty year old Mulajore Station was much higher compared to the average generation cost. The plant has already outlived its useful life and can no longer meet the standard of pollution control to which your Company attaches great importance. It has accordingly been decided to close down the station later this year. In order to save on costlier power purchase bill, the Company has discontinued import of power from Damodar Valley Corporation effective 1 August 2002 after installing an alternative network. These decisions will have no material impact on the power supply position.

The Board is pleased to report that, during the year, Budge Budge, Southern and Titagarh Generating Stations started using coal raised from Sarshatali Coal Mine of Integrated Coal Mining Limited, a company promoted by CESC. It is expected that Sarshatali coal will help your Company in achieving reliability of supply and offer associated benefits. The Company's plants are all thermal and the members will appreciate that developing a captive coal mine is a significant step in operating the plants with a greater degree of economy and efficiency.

### Sales

During the year, the sales volume of 5557 MU recorded an overall growth of 4.2% against the previous year. The encouraging part in the growth of sales was increase in volume of sales to industrial consumers. LT industrial segment registered a 9% growth while HT industrial sales went up by 4.6%. The Company has taken a number of measures to promote sales by addressing segmentwise needs of its consumers with special emphasis on the HT category.

### Tariff

The Company filed its tariff revision petition for the years 2002-03 and 2003-04 in December 2002 before the Hon'ble West Bengal Electricity Regulatory Commission (WBERC). After completion of the process of public hearing of the aforesaid petition, an interim order was passed in April 2003 granting an uniform ad hoc increase of tariff for all categories of consumers for the year 2003-04. Similar interim increases have been granted to three other utilities in the State as well. The earnings from sale of electricity as considered in the audited accounts under review have been computed on the basis of consumer billing done for the year in accordance with the applicable orders.

As regards tariff for the two earlier years i.e. 2000-01 and 2001-02, WBERC has been directed by the Hon'ble Calcutta High Court in August 2003 to refix the segmentwise differential tariff structure. The said direction was issued by the Hon'ble Court while disposing of an appeal filed by the State Government against WBERC's uniform tariff order passed in December last year.

### Transmission & Distribution Loss

As reported earlier, T&D loss has been an area of major concern not only for your Company but for all power utilities operating in the country. CESC has been trying to contain this loss, especially the commercial part of it caused mostly by rampant power pilferage. The

Company further geared up its surveillance activities during the year by constant monitoring of high-end consumers and pilferage prone areas. Extensive multimedia publicity campaign against power pilferage continued. The task is indeed daunting but massive efforts being put in by the Company have started yielding encouraging results. Your Board is thankful to the State Government for bringing in a legislation in July 2002 with stringent anti-pilferage measures. During the year under review, 12418 meters were disconnected for theft of electricity, 7332 FIRs were lodged with the Police and 859 persons were arrested.

Your Board hopes that power utilities will have the support of appropriate administrative and legal steps in keeping with the ground realities to tackle the deep rooted social menace of power theft.

### **Consumer Service**

Your Company is fully aware that meeting consumer aspirations holds the key for an utility like CESC with 1.8 million consumers spread across its licensed area. Serving such a huge consumer base satisfactorily is by no means easy and the Company's efforts for ensuring further improvement in consumer service continue on a priority basis. Additions to the network during the year included 50MVA at 132/33kV level, 3.5MVA Distribution Stations, 49MVA LT Transformers and 176 Ckt.km of overhead and underground Mains.

During the year under review, a computerised system for fast track processing of new applications introduced in all ten CESC District offices operated efficiently. Electricity connections are being provided to new consumers faster. The motorized depot operation for prompt restoration of outages now covers all the Districts on a round the clock basis. A Call Centre has started functioning throughout the day in the city centre for the benefit of CESC consumers. This service will be extended gradually to other parts of the Company's licensed area.

Your Company has been actively pursuing other plans also with the ultimate objective of improving consumer service. The quality of cables, meters and other materials used for consumer service is being monitored strictly. As part of the Company's efforts in achieving further cost reduction, a number of steps have been taken and more will follow in the near future.

### **New Electricity Law**

A new legislation, called The Electricity Act, 2003, has come into force from 10 June 2003 by replacing three earlier enactments namely, Indian Electricity Act 1910, The Electricity (Supply) Act, 1948 and The Electricity Regulatory Commissions Act 1998 which have so far governed the power sector in India.

The purpose of bringing in the new legislation has been said to be encouraging private sector participation, distancing the regulator's responsibilities from the government to the regulatory commissions and harmonizing / rationalizing the provisions of the three erstwhile statutes by a new self contained comprehensive legislation. Among the important features of the new law are : delicensing of generation, doing away with the requirement of techno-economic clearances for thermal generation, freeing captive generation from controls, recognition of electricity trading as a distinct activity, provisions of opening access in transmission and distribution of electricity, provision for violation of grid discipline and theft of power, broadening regulatory commissions' ambit, setting up of an appellate tribunal and so on.

Your Board is of the opinion that the provisions of the new law will have far reaching impact on the power sector. The provisions may be well-intentioned but some of them do not seem to have recognized the ground realities like the need to create a level playing field amongst various segments of the operators in power sector, huge cumulative impact of populist tariff policies followed so far, environmental vulnerability, lukewarm response to fresh investment in the power projects and so on. More detailed comments on the new Act appear under the part titled "Management Discussion and Analysis" of this Report.

### **HRD/TQM**

All activities of the Company in this area are geared to meeting the ever-increasing need of the consumers. To ensure this, sustained efforts have been made throughout the year for employee development through training programmes covering technical, behavioural dynamics and internalization of organizational core values.

Quality management initiatives have been taken up throughout the organization with focus on awareness, development and improvement of quality in all facets of activities. The Company has been awarded the "CII (ER)-HRD Award of Appreciation (2002-03)" by the Confederation of Indian Industry, ER, in recognition of its initiatives.

As a step towards people's involvement, a number of contests were also organized during the year amongst the employees to promote housekeeping, safety, environmental consciousness and conservation of energy.

### **Shares**

Since the close of the year, holders of 1.02 crore partly paid equity shares were called upon to pay the balance dues to make these shares fully paid.

In order to meet a part of the fund requirements for proposed restructuring of the Company's debt and keeping in view the need to continue the involvement of the management group in the affairs of the Company on a long term basis, it is proposed to allot to the management group on a preferential basis upto 33 lakh new Equity Shares on such terms as may be decided by the Board in accordance with the applicable regulations and guidelines. Notice convening the forthcoming Annual General Meeting includes the requisite resolution for this purpose.

### **Corporate Governance**

In recognition of the need to have in place a sound corporate governance system, the Company has been proactive in complying with the requisite conditions. A separate statement on the status of compliance (Annexure - 'A') and the Auditors' Certificate thereon are attached. "Management Discussion and Analysis" attached herewith forms a part of this Report.

### **Directors**

Mr. B. K. Paul was nominated by the State Government as its new nominee with effect from 16 July, 2002 in place of Mr. Dipankar Mukherjee. Unit Trust of India nominated Mr. S. K. Newlay as its new nominee with effect from 27 June 2002 in place of Mr. N. Biswas.

The Board records its deep appreciation for the valuable services rendered by Mr. Mukherjee and Mr. Biswas during their association as Directors of the Company.

The Board, subject to requisite approvals, has reappointed Mr. S. Banerjee as Managing Director for a fresh term of five years with effect from 1 August 2003. Necessary resolution for Mr. Banerjee's reappointment has been included in the Notice for the forthcoming Annual General Meeting of the Company.

Mr. B. M. Khaitan and Mr. T. K. Ray retire by rotation and, being eligible, offer themselves for reappointment as Directors.

#### Directors' Responsibility Statement

In terms of the provisions of Section 217(2AA) of the Companies Act, 1956 ('the Act'), your directors confirm as under :

- (i) that in the preparation of the annual accounts, the applicable accounting standards had been followed along with proper explanation relating to material departures;
- (ii) that the directors had selected such accounting policies and applied them consistently and made judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit or loss of the Company for that period;
- (iii) that the directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities.
- (iv) that the directors had prepared the annual accounts on a going concern basis.

#### Auditors

Messrs. Lovelock & Lewes, Chartered Accountants, retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for reappointment.

As regards Auditors' remarks in paragraph 4 of their Report, reference may be made to Note 2, 3(c), (e), (h) & (m), 8, 9, 10, 12(b), 15 and 19 of Schedule 13 attached to the Accounts which are self explanatory. The Board will be in a position to take a view at a later date on the Advance given earlier to Balagarh Power Company Limited, a subsidiary company, to support its pre-operative expenditure in connection with its project for putting up a 2 x 250MW Thermal Power Station at Balagarh near Kolkata.

#### Subsidiary Companies

The Statement pursuant to Section 212 of the Act and copies of Annual Reports, Accounts and Auditors' Reports relating to the Financial Year 2002-03 of CESC Limited and Balagarh Power Company Limited, subsidiaries of the Company as on 31 March, 2003, are attached.

As required, Consolidated Financial Statements of the Company and its subsidiaries form part of the Annual Report and Accounts.

#### Deposit Schemes

The balance of deposits as on 31 March 2003 was Rs. 87.38 crores. 2001 deposits aggregating to Rs.1.82 crores remained unclaimed as on 31 March 2003. Out of these, 287 deposits totalling Rs.0.29 crores have since been paid and, for the balance amount, necessary instructions are awaited from the depositors. It is hereby confirmed for the information of all deposit holders that the Company has duly repaid matured and claimed deposits and paid interest thereon on the respective due dates.

#### Energy Conservation, Technology Absorption and Foreign Exchange Earnings / Outgo

As required under Section 217(1)(e) of the Act read with the Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules, 1988 the relevant information pertaining to conservation of energy, technology absorption and foreign exchange earnings and outgo is given in Annexure 'B' forming a part of this Report.

#### Particulars of Employees

Mr. S. Banerjee, Managing Director, is the only employee in respect of whom the particulars required to be furnished under Section 217(2A) of the Act read with the Companies (Particulars of Employees) Rules, 1975, as amended, are required to be given for the year under review. Mr. Banerjee, aged 53 with an experience of 30 years, is a B.Tech (Hons.), M.S. (USA) and MBA (USA) and was a Director of Spencer & Company Limited prior to joining the Company on 15 April, 1992. Mr. Banerjee has a contractual employment and was in receipt of remuneration aggregating Rs.26,24,278 during the year under review. While Mr. Banerjee does not hold any share in the Company, the total holding of his relatives in the Company is 468 Equity Shares. None of the other Directors of the Company is related to Mr. Banerjee.

#### Acknowledgements

In the century old history of your Company, the last few years have been somewhat turbulent mainly due to the uncertainties surrounding tariff and consequential liquidity problems. CESC has been able to grapple with these problems and overcome many of them due to its organizational resilience. The Board acknowledges the excellent efforts put in by the Managing Director and his entire team, often under trying conditions. Their task is not yet fully accomplished but the Board is confident that with the collective endeavour of all CESC employees and valuable support of its business associates, your Company will be able to nurse itself back to a position of financial strength in not too distant a future.

On behalf of the Board of Directors



R.P. Goenka  
Chairman

Kolkata, 19 August, 2003.

## Management Discussion & Analysis

### ● Industry Structure and Developments

The power utility business across the country comprises vertically integrated entities operating within their respective licensed areas. The only departure from the above structure is found amongst Generating Companies. Most of the plants are in the folds of Generating Companies like National Thermal Power Corporation (NTPC), National Hydel Power Corporation (NHPC) and such other organisations which are essentially Central Government or State Government enterprises delivering power to the State Electricity Boards (SEB). There are, however, some Generating Companies promoted with private capital as well.

The total generating capacity in the country has touched 107,000 MW and still there is a shortfall of nearly 12% in peak power and about 7% in energy. The finances available with the Central and the State Governments are unable to bridge the gap between demand and supply. The Government, therefore, has been continually exploring ways and means to attract private capital in this area.

Such efforts over more than a decade has not been as fruitful as the Government would have desired, mainly due to the fact that the SEBs, which control most of this business across the country, have generally run deep into losses. The private generating capacity will have normally delivered power to the grids of these SEBs with little possibility of being paid for the power delivered.

Mainly to help the power sector getting rid of external interferences, the Central Government enacted the Electricity Regulatory Commissions Act, 1998, in addition to the existence of two earlier Acts viz., Indian Electricity Act 1910 and the Electricity (Supply) Act 1948.

As a result of this, 21 States have already constituted State Electricity Regulatory Commissions in addition to the Centre installing the Central Electricity Regulatory Commission to superintend, inter alia, the tariff of Union Territories or such other power plants delivering power to more than one State.

The regulatory process is passing through a formative period where many of the orders of the Commissions have been challenged in Courts. Through these processes, it is expected that the regulatory process will be better understood by all the stakeholders and will gradually get entrenched.

The Government has been, for a number of years, contemplating replacement of the above three statutory legislations with a single Act to deal with the business of electricity. Through the process of extended debates spanning the country and eliciting viewpoints from all cross sections of stakeholders, the Electricity Act 2003 became effective on 10th June 2003. It is meant to carry the

strengths of the aforesaid three erstwhile Acts and introduce progressive provisions for running the utilities in a competitive environment but, unfortunately, the Act does not recognize various ground realities which often impede the smooth functioning of the existing power utilities.

### ● Opportunities and Threats

The utility business is poised to undergo major changes in the coming years. Hitherto, the business was largely run by the Government and under the changed circumstances it will have diverse ownership. Prima facie, de-licensing of generation would throw open a big opportunity for private capital. However, since a good part of the incremental investment is expected to be privately owned, the projects have to rely on the market and revenue stream supported by it to service the capital. This is a significant departure from the past where most of the capital inflow into this business came from the budgetary allocation of the Government. Failure to earn adequate revenue to sustain such capital inflow resulted in the SEBs becoming progressively more reliant on such budgetary support, subventions and grants.

Therefore, reforms of the market place will become a paramount necessity to create an enabling environment for the investments to flow into this business.

The newly enacted Electricity Act 2003 will functionally subdivide the electricity business into four parts viz. generation, transmission service, distribution service and trading in electricity. Distortions in the market arising out of pilferage of electricity will directly affect trading in electricity which is, for the present, a part of distribution activity. Distribution will, therefore, remain directly vulnerable unless appropriate provisions are built into the Act to counter effectively the propensity to pilfer electricity. In addition to requisite legal provisions, there is a distinct need to follow up such provisions by necessary administrative steps also.

Since the other three functions as aforesaid will have to stand on the revenue generated from the market, they will all be indirectly vulnerable if pilferage is allowed to continue unabated.

### ● Segmentwise or product wise performance

CESC is engaged in the business of Generation and Transmission & Distribution of electricity in the city of Kolkata and its adjoining area with its licensed area covering about 567 sq.km. and does not operate under any other reportable segment.

### ● Outlook

To be in readiness to embrace the competitive environment, the Company will continue with its efforts to reduce costs in all areas.

There will be persistent effort to improve Plant Load Factor of the three newer Generating Stations as also to arrive at an appropriate mix of coal from various sources so that environmental considerations as also the need of the plant are met at an optimal cost.

A major hindrance in generation of power in the vicinity of a metropolitan city is the handling of a very large quantity of Ash. To mitigate the problem, CESC has undertaken installation of a High Concentration Slurry Disposal Plant at Budge Budge Generating Station (BBGS), the most efficient base load plant of CESC.

The year 2002-03 saw a major shift in our fuel sourcing pattern due to :

- (a) a directive on environmental consideration to restrict the ash to 34% in coal burnt in the Power Stations within a metropolitan area
- (b) progressively lower raising of coal by Eastern Coalfields Limited, the main source of better quality of indigenous coal with lower ash.

Hence, the Company is seeking to establish alternative sources of indigenous coal with lower ash content for meeting its requirements.

#### ● **Risks and Concerns**

The Electricity Act, 2003 proposes that cross-subsidy carried by the larger consumers to benefit the weaker section is to be phased out progressively. The continuance of cross-subsidy poses a threat to the level playing field necessary to have a competitive market place and efficient utilization of resources. While captive generation is encouraged by the Act to help bridge the gap between demand and supply in the short run, continuance of cross-subsidy will give captive generation a longer lease of life. The larger and more efficient generation of the licensees will then face unfavourable competition from the smaller captive units, which appears attractive only because of cross-subsidy element in tariff. These captive units have the potential to pose serious environmental hazards also. If the freedom permitted by captive generation under the Act continues in its present form, there are reasons to suspect that the growth in HT sales of CESC and other utilities may suffer significantly.

#### ● **Internal Control System**

The Company has an adequate system of internal control implemented by the management towards achieving efficiency in operations, optimum utilization of resources and effective monitoring thereof and compliance with applicable laws.

The system comprises a well-defined organization structure, pre-identified authority levels and documented policy guidelines and manuals for delegation of authority.

The internal audit department undertakes extensive programmes of both pre and post-audit checks and reviews and also carries out regular follow-up on observations made.

An independent Audit Committee of the Board of Directors reviews the internal audit reports and the adequacy of internal controls.

#### ● **Financial Performance**

During the year 2002-03, the Company's total income was Rs. 2243 crore against Rs. 2143 crore earned in the previous year. Total expenditure was Rs. 2236 crore (Rs. 2231 crore) leaving a Net Profit of Rs. 8 crore (Net Loss of Rs. 88 crore). After necessary appropriations / adjustments, there was a Loss of Rs. 5 crore (Rs. 115.04 crore) which considering the brought forward deficit of Rs. 403.97 crores (Rs. 288.92 crore) has resulted in a carried forward deficit of Rs. 409.19 crore (Rs. 403.97 crore).

#### ● **Operational Performance**

CESC has two old Generating Stations at Mulajore and New Cossipore and three modern stations at Titagarh, Southern and Budge Budge. These stations have a total capacity of 1065 MW out of which the three modern stations can contribute 875 MW of power.

During the year 2002-03, the three modern stations performed very well. Their combined Plant Load Factor was 75.6%. The two older stations generated 536.30 MU and extended support to the system.

#### ● **Industrial Relations**

Industrial relations during the year continued to be congenial. The process of elections, for recognition of Unions in the Company was completed smoothly. It was also possible to arrive at an amicable settlement of the pending Charter of Demands with the Employees' Unions, along with increased productivity norms to help improve the standard of consumer service. CESC employed 13,850 people as on 31 March, 2003.

On behalf of the Board of Directors



**R.P. Goenka**

Chairman

Kolkata, 19 August, 2003.

## Annexure 'A' to Directors' Report

### REPORT ON CORPORATE GOVERNANCE

#### Company's philosophy on code of governance

CESC believes that, for best results, the optimum corporate governance practice has to be embedded into the organisational culture. With this objective in view, it has been CESC's policy to put in place a transparent system and become a profitable consumer oriented power utility, meeting the expectations of consumers, employees and all its stakeholders by

- achieving efficiency of operations and further developing core competencies,
- readjusting the business consistent with changing technological and commercial environment,
- maintaining a stimulating organisational climate with people orientation,
- reaffirming faith in the organisation's ethics and values developed in course of long existence, and
- being responsive to social requirements.

#### Board of Directors

The Board of Directors of the Company comprises of thirteen members. Barring the Managing Director, all other Directors are Non-executive Directors. More than one third of the Board comprises of Independent Directors. Five of the Directors are nominees of lending Institutions and one of the Government of West Bengal. The composition is in conformity with the listing agreements.

During the year 2002-03, the Board met five times on 27 June, 27 September, 20 November, 20 December, 2002 and 25 March 2003. The meetings of the Board of Directors, generally held at the Company's Registered Office, are scheduled well in advance and the Directors are duly notified of the meeting schedules. Agenda papers circulated to the Directors include management reports and other explanatory notes. CESC's Senior Management is invited to attend the Board Meetings so as to provide additional inputs whenever asked for by the Board Members.

The requisite details of the Directors, their Directorships/Chairmanships/Memberships in Board Committees of other public companies as on 31 March, 2003 and their attendance at the Board and last Annual General Meeting were as under :

Directors	Directorship and Chairmanship/ Membership of Board Committees in other Companies			No. of Board Meetings attended	Attendance at Twenty-fourth AGM
	Director	Member	Chairman		
Mr R P Goenka, Chairman	4	–	–	2	Yes
Mr. S. Goenka, Vice Chairman	12	1	1	5	Yes
Mr Dipankar Mukherjee (Nominee of Govt. of West Bengal upto 27.6.2002)	NA	NA	NA	–	NA
Mr P K Khaitan	12	3	2	5	Yes
Mr B M Khaitan	7	–	1	3	Yes
Mr B P Bajoria	5	1	1	4	No
Mr P V Subramanian (Nominee of LIC)	1	1	–	5	Yes
Mr N Biswas (Nominee of UTI upto 27.6.2002)	NA	NA	NA	–	NA
Mr P Roy (Nominee of IDBI)	1	1	–	5	Yes
Mr S Khasnobis (Nominee of ICICI)	3	–	–	2	No
Mr T K Ray (Nominee of IFCI)	4	–	–	4	Yes
Mr P B Ghosh	3	–	–	5	Yes
Mr. S K Newlay (Nominee of UTI w.e.f. 16.7.2002)	1	–	–	4	Yes
Mr B K Paul (Nominee of Govt. of West Bengal w.e.f. 27.6.2002)	3	–	–	2	No
Mr S Banerjee, Managing Director	10	2	–	4	Yes

The letters NA denote 'Not Applicable'.

Other directorships do not include alternate directorships, directorships of private limited companies and companies incorporated outside India.

## Board Committees

To ensure more focussed attention, the Board has constituted Committees of the Board with specific responsibilities and their decisions are ratified/ noted at the subsequent Board meetings.

### ● Audit Committee

Audit Committee comprises of all Non-Executive Directors namely, Mr. S. Goenka , Mr. B.P. Bajoria, Mr. S. Khasnobis and Mr. P.V. Subramanian. The Committee is chaired by Mr. Bajoria, an Independent Director and the composition of the Committee is in accordance with the applicable requirements. Mr. Khasnobis has adequate knowledge and experience in financial and accounting matters. The quorum for meetings of the Committee is two members. The Company Secretary is Secretary to the Committee. The terms of reference of the Audit Committee are :

- To hold discussions with the auditors periodically about the internal control systems and scope of audit including the observations of the auditors, review the half-yearly and annual financial statements before submission to the Board and to also ensure compliance of internal control systems;
- Whenever considered necessary, to send to the Board its recommendations on any matter relating to financial management including the audit reports;
- To have the authority to investigate into any matter in relation to any of the above items or such other matter as may be referred to it by the Board and, for this purpose, to have full access to information contained in the records of the Company and external professional advice, if necessary.
- To have such additional functions as may be delegated by the Board.

The Committee reviews with the management the annual financial statements before submission to the Board and examines adequacy of internal control systems. Senior executives, including the Head of Finance and Internal Audit functions, are invited by the Committee at the meetings. The Statutory Auditors are also invited to participate in the meetings of the Audit Committee.

During the year, the Committee met on 27 September, 20 November, 2002 and 25 March, 2003. The Committee also met on 19 August, 2003 before the Board approved the draft accounts for the year ended 31 March, 2003.

### ● Finance and Forex Committee

This Committee comprises of four members of the Board namely Mr. S. Goenka, Mr. P.K. Khaitan, Mr. S. Khasnobis and Mr. S. Banerjee. Mr. Goenka is the Chairman of the Committee. The Committee deals with matters like approving the Company's unaudited quarterly results, various financial matters and foreign exchange exposures. The Committee met on 27 April, 31 July, 29 October, 2002 and 28 January, 2003 during the year 2002-03.

### ● Investors Grievance Committee

This Committee comprises of Mr. S. Goenka and Mr. S. Banerjee. Mr. Goenka is the Chairman of this Committee. The Committee has the responsibility of overseeing redressal of shareholders' and investors' complaints and matters related to investor service. During the year, the Committee met on 23 July, 2002 and 9 January, 2003. 19 investor complaints were received during the year, which have been resolved / redressed. Considering the huge number of CESC's share and debentureholders, the small number of investor complaints signifies the satisfactory standard of investor service rendered by CESC.

In order to expedite the process of transfer of Company's securities, the Board has delegated the power of share/debenture transfers to the Company Secretary, who is the Compliance Officer. Formalities relating to transfer of securities are given top priority.

### ● Remuneration Committee

Non-Executive Directors draw sitting fees of Rs. 5,000/- for attending each meeting of the Board or Committee thereof and do not draw any other remuneration from the Company.

During the year, the Remuneration Committee was constituted on 20 November 2002 comprising of Mr. B.P. Bajoria, Mr. P.K. Khaitan and Mr. S. Khasnobis. Mr. Bajoria is the Chairman of the Committee.

The Committee met on 19 August 2003 for approving the terms of remuneration of Mr. S. Banerjee, on his proposed reappointment as Managing Director of the Company for a period of five years from 1 August, 2003.

Mr. Banerjee received from the Company during the year 2002-03 remuneration in accordance with the applicable laws and in terms of approval of the members of the Company, as follows :

	<i>(Rs. Lakhs)</i>
Salary	12.41
Contribution to Pension and Provident Funds and Gratuity	3.95
Estimated value of other benefits	8.47
Total :	<u>24.83</u>

Service Contract : 5 years from 1 August 1998, proposed to be extended for a fresh term of 5 years from 1 August, 2003.  
 Notice period : 6 months  
 Stock option : Nil

### General Body Meetings

The last three Annual General Meetings of the Company were held as under :

No. of AGM	Year	Location	Date	Time	No. of Special Resolutions approved
Twentysecond	2000	'Science City' Main Auditorium JBS Haldane Avenue P.O. G K Road Kolkata - 700 046	25 September, 2000	10 A.M.	None
Twentythird	2001	- Do -	29 December, 2001	10 A.M.	One
Twentyfourth (adjourned)	2002	Kala Mandir 48 Shakespeare Sarani Kolkata - 700 017	20 December, 2002	10 A.M.	One

No Special Resolution requiring a postal ballot was placed before the last Annual General Meeting. No other General Meeting took place during the last three years.

### Disclosures

- Details of transactions of a material nature of the related parties as specified in Accounting Standard 18 issued by the Institute of Chartered Accountants of India have been reported in Note 24 of Schedule 13 attached to the Accounts. There is no transaction of a material nature with any of the related parties, which was in conflict with the interests of the Company.
- The Stock Exchanges, SEBI or any other statutory authority in the last three years have not imposed any penalty or issued any stricture as there was no instance of any non-compliance by the Company related to capital markets.

### Means of Communication

CESC has around 50,000 shareholders and redressal of shareholders' grievance is given top priority. The Annual Report acts as a channel of communication with the shareholders. The Annual General Meeting is the forum for face to face interaction with the shareholders and these meetings are well attended. Members also offer valuable suggestions at these meetings for improvement in the Company's working. Such meetings are often of long durations in view of the interests shown by the shareholders in the affairs of the Company.

The Company's half-yearly and quarterly results and other information are put on the Company's website : "[www.cescltd.com](http://www.cescltd.com)". Such results are normally published in The Financial Express and any one vernacular newspaper. Official news releases, presentations etc. are displayed on the Company's website.

### Management Discussion and Analysis

Management Discussion and Analysis forms a part of the Annual Report.

### General Shareholder Information

**General Meeting, 24th Adjourned Annual General Meeting and 25th Annual General Meeting** : Friday, 19 September, 2003  
 at 'Kala Mandir', 48 Shakespeare Sarani, Kolkata-700 017

**Financial Calendar** : Board / Committee Meetings for approval of :

Annual Accounts 2002-03	– 19 August, 2003
April–June 2003 Quarterly Results	– 29 July, 2002
July–September 2003 Quarterly Results	– by 31 October, 2003
April–September 2003 Half-yearly Results	– by 30 November, 2003
October–December 2003 Quarterly Results	– by 31 January, 2004
January-March 2004 Quarterly Results	– by 30 April, 2004

**Book Closure** : 12 September, 2003 to 19 September, 2003  
 (Both days inclusive)

## Listing on Stock Exchanges

CESC Shares are listed on

- i) The Calcutta Stock Exchange Association Ltd. (Stock Code 34 – Physical and 1000034 – Demat)
- ii) The Stock Exchange, Mumbai (Stock Code 84 – Physical and 500084 – Demat)
- iii) National Stock Exchange of India Ltd. (Stock Code – CESC)
- iv) London Stock Exchange (Stock Code – 0162869 - GB Register and 6161097 - Indian Register)

Requisite listing fees have been paid to these Exchanges upto the year 2003-04.

## Market Price Data – 2002-03

(Rs.)

Month	Calcutta Stock Exchange (CSE)		The Stock Exchange, Mumbai (BSE)		National Stock Exchange (NSE)	
	H	L	H	L	H	L
April, 2002	15.10	10.50	14.85	10.40	16.50	10.80
May, 2002	19.70	11.75	20.05	11.70	19.90	11.80
June, 2002	24.60	18.10	25.40	18.20	26.40	18.10
July, 2002	26.60	18.10	27.00	17.95	27.30	17.20
August, 2002	21.50	18.50	21.45	18.00	25.00	18.00
September, 2002	18.90	15.55	19.70	15.00	19.50	13.45
October, 2002	19.00	13.40	19.20	14.10	19.45	14.00
November, 2002	17.10	14.90	17.65	14.75	18.05	14.10
December, 2002	22.00	16.80	22.75	16.00	22.80	15.95
January, 2003	22.00	17.90	23.00	17.65	22.60	17.45
February, 2003	21.40	17.50	21.50	15.00	21.70	16.70
March, 2003	20.80	16.50	19.05	13.10	19.00	14.15

## Share price performance compared with broad based indices :

		CSE	BSE	NSE
Company's Share price	- on 2nd April, 2002	11.60	11.60	11.80
	- on 27 March, 2003	18.90	16.05	16.85
	- Change	(+) 63%	(+) 38%	(+) 43%
Indices	- on 2nd April, 2002	1863.63	3505.79	1136.95
	- on 31 March, 2003	1694.46	3048.72	978.20
	- Change	(-) 9%	(-) 13%	(-) 14%

## Registrars

In terms of SEBI's guidelines, CESC has engaged Intime Spectrum Registry Limited, 1/17 Prince Gulam Mohammed Road, Kolkata-700 026, Telephone : 2464 5145 as its Indian Registrars for physical as well as electronic modes of shares.

For the convenience of UK based shareholders, Computershare Investor Services plc., P.O. Box 82, The Pavilions, Bridgwater Road, Bristol BS99 7NH, Telephone : 0870 702 0000, Fax : 0870 703 6101, Website : [www.computershare.com](http://www.computershare.com) have been acting as the UK Registrars.

## Shareholding Pattern as on 31 March 2003

Category	Shareholding	
	No.	%
Management Group/Families	2,16,59,311	34.46
FIs, Banks, Mutual Funds	1,36,51,297	21.72
FIs	17,139	0.02
NRI/OCB/Foreign Banks/Non-Resident Individuals	28,02,111	4.46
Private Body Corporate	93,36,403	14.85
Individuals/Others	1,53,92,041	24.49
<b>Total :</b>	<b>6,28,58,302</b>	<b>100.00</b>

### Plant Location

CESC has five generating stations viz. Budge Budge, Mulajore, New Cossipore, Southern and Titagarh, located in and around the city of Kolkata.

### Share Transfer System

Till 31 March 2003, CESC's share transfer related work used to be done in-house. The shares of the Company are in the compulsory demat category for all classes of investors as per directive of SEBI. The Company offers Transfer-Cum-Dematerialisation facility to its shareholders.

### Dematerialisation & Liquidity

CESC shares are compulsorily traded in dematerialised form. The shares are available for trading with either of the two Depositories in India - National Securities Depository Limited and Central Depository Services (India) Limited.

The ISIN numbers in respect of both the Depositories are : INE 486A01013 for Fully Paid Shares and IN9 486A01011 for Partly Paid Shares.

### Investor Communication

For any query related to share and debenture holdings,

- holders may write to the Company's Secretarial Department at CESC House, Chowringhee Square, Kolkata - 700 001 or to the Registrars
- if further assistance is needed, letters may be addressed to the Company Secretary.
- letters/queries may be faxed to (033) 2236 3868 or e-mailed to "cesc@rpgnet.com".

### Auditors' Certificate on Corporate Governance

As required under Clause 49 of the Listing Agreement, the Auditors' Certificate on compliance of the Governance norms is attached.

On behalf of the Board of Directors



**R.P. Goenka**  
Chairman

Kolkata, 19 August, 2003.

## Auditors' Certificate on Compliance with the Conditions of Corporate Governance under Clause 49 of the Listing Agreement(s)

### To the Members of CESC Limited

We have examined the compliance of conditions of Corporate Governance by CESC Limited (the Company) for the year ended on 31 March 2003, as stipulated in Clause 49 of the Listing Agreements of the said Company with the stock exchanges.

The compliance of conditions of Corporate Governance is the responsibility of the management. Our examination was limited to procedures and implementation thereof, adopted by the Company for ensuring the compliance of the conditions of the Corporate Governance. It is neither an audit nor an expression of opinion on the financial statements of the Company.

In our opinion and to the best of our information and according to the explanations given to us and the representation made by the management, we certify that the Company has complied with the conditions of Corporate Governance as stipulated in Clause 49 of the above-mentioned Listing Agreement.

As required by the Guidance Note on Certification of Corporate Governance issued by the Institute of Chartered Accountants of India, we state that no investor grievance is pending for a period exceeding one month against the Company as on 31 March 2003 as per the records maintained by the Investor Grievance Committee.

We further state that such compliance is neither an assurance as to the future viability of the Company nor the efficiency or effectiveness with which the management has conducted the affairs of the Company.

For LOVELOCK & LEWES  
Chartered Accountants

Partha Mitra  
Partner

Place : Kolkata

Date : 19th August, 2003

## Annexure 'B' to Directors' Report

Particulars as required under Section 217(1)(e) of the Companies Act, 1956 read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 for the year ended 31 March, 2003.

### A. Conservation of Energy

1. Reduction of losses in Transmission & Distribution system is targeted by constant reorganisation / reinforcement of the network, installation of capacitors and gradual upgradation of primary distribution voltage from 6 kV to 11 kV.

Energy Audit is conducted at all the Generating Stations and the recommendations for energy conservation are implemented. Energy Audit at primary and secondary distribution levels continued on a selective basis.

2. **Additional investment / proposals**

Replacement program of the electro-mechanical meters of large LT Consumers & Distribution Station transformers by intelligent electronic meters and replacement of other LT meters in a phased manner with superior quality meters continued. Replacement of DC Electro-mechanical Meters with Static Electronic meters is envisaged.

Construction of a OH/JG Transmission Link between Titagarh Receiving Station and Mulajore Generating Station nearing completion. Generation at Mulajore will be phased out by 2003 end.

A 132 kV Substation alongwith a 50 MVA transformer commissioned at Howrah and DVC supply was discontinued. Augmentation of the station is under active consideration.

Upgradation of the Central SCADA system for System Control at CESC House and development of a PC based "Economic Load Despatch Scheduling" envisaged for optimising the cost of energy input to the system.

3. **Impact of the Measures**

Improvement in operating efficiency.

### B. Technology Absorption

1. Life extension of existing Fire Resistant fluid of both the turbines at Budge Budge Generating Station by adopting new technology of resin treatment.
2. Incorporation of portable dew point meter for monitoring of the dew point of the stator cooling air at Titagarh Generating Station including upgradation of the motor protection system

with incorporation of numerical relays and installation of chart-less recorder for better monitoring of various process parameters.

3. Import of foreign technology for wet ESP from BELTRAN, USA, to have the emission level at New Cossipore Generating Station reduced to the minimum possible level.
4. Installation & Commissioning of Siemens make SCADA RTU at Botanical Garden Substation.
5. Extension of Optical Fibre communication links for catering to voice and data services at Distribution Station & Site offices and also for Intranet & ERP applications.
6. Use of computerised / digital fault locating equipment.
7. Commissioning of differential protection for old power transformers at existing Distribution Stations.
8. Benefits Derived –  
Improved utilisation of material and man power, improved pollution control, reduction in down time and better consumer services.
9. Research & Development  
R&D activities are oriented towards improvement in various operational functions of the Company. An amount of Rs. 56 lakhs was spent for these activities during the year under review.

### C. Foreign Exchange Earnings & Outgo

There has been no Foreign Exchange earning during the year. The Foreign Exchange outgo during the year amounted to Rs. 4552.97 lakhs which included finance charges on Foreign Currency loans, import of equipment, fees to U.K. Registrars, London and Luxembourg Stock Exchange fees, technical service fees, travelling expenses etc.

On behalf of the Board of Directors



R.P. Goenka  
Chairman

Kolkata, 19 August, 2003.

# Auditors' Report

## TO THE SHAREHOLDERS OF CESC LIMITED

1. We report that we have audited the attached Balance Sheet of CESC Limited as at 31st March 2003 and the Profit and Loss Account for the year ended on that date annexed thereto and the Cash Flow Statement for the year ended on that date. The said Balance Sheet and the Profit and Loss Account are in agreement with the books of account. As the operations of the Company for the year under audit is governed by the Electricity (Supply) Act, 1948, the provisions of the Act have prevailed wherever they are inconsistent with the provisions of the Companies Act, 1956 of India ('The Act'). 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 misstatements. 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 the management, as well as evaluating the overall financial 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 Section 227 (4A) of 'The Act' and on the basis of such checks of the books and records of the company as we considered appropriate and according to the information and explanations given to us during the course of audit, we give in the attached Annexure, a statement on matters specified in paragraphs 4 and 5 of the said Order.
4. Further to the above, we report that :
  - a. *As indicated in Note-2 of Schedule-13, Earnings from sale of Electricity has been arrived at on the basis of tariff billed during the year, with reference to various tariff orders. The financial statements may undergo changes on finalisation of tariff for 2002-03, the impact of which, cannot be ascertained at this stage.*
  - b. *For the reasons stated in Notes 3(c), 3(h), 3(e) and 3(m) of Schedule-13, the requirement of Accounting Standards on Accounting for the Effects of Changes in Foreign Exchange Rates (AS-11), Leases (AS-19) and Accounting for Taxes on Income (AS-22) issued by the Institute of Chartered Accountants of India could not be complied with.*
  - c. *Approvals of the State Government as required under the Electricity (Supply) Act, 1948, are yet to be received for the*  
*shortfall in investments of Rs.6371.63 lakhs out of the Contingencies Reserve (Note-8 of Schedule-13).*
  - d. *As indicated in Notes-9 and 10 of Schedule-13, as the matters are in dispute and / or awaiting approval from appropriate authorities, no provision has been considered for amount payable to Damodar Valley Corporation and West Bengal State Electricity Board, towards their claims for supply of power to the Company, amounting to Rs.1480.16 lakhs and Rs.25631.07 lakhs respectively (including Rs. 66.21 lakhs and Rs. Nil respectively for the current year) the impact of which cannot be ascertained at this stage.*
  - e. *As indicated in Note-12(b) in Schedule-13, Earnings from Sale of Electricity in respect of 1996-97 and 1997-98 included unbilled fuel surcharge of Rs.8556.49 lakhs, being the difference between the rate at which such surcharge was accounted for and the rate determined by the State Government for which further communication from State Government is awaited. Such amount is included in Sundry Debtors for Electricity Supplied - Other Debts.*
  - f. *As indicated in Note-15 in Schedule-13, no provision has been considered for diminution in value of a long term investment amounting to Rs.863.17 lakhs as in the opinion of the management, such diminution is not permanent in nature. From the available information and records we are unable to comment whether such diminution is of permanent nature or not.*
  - g. *As indicated in Note-19 in Schedule-13, no provision has been made for shortfall in corpus of the gratuity fund amounting to Rs.3560.63 lakhs, a part of which may be capitalised and cannot be quantified at this stage.*
  - h. *From the available information and records, we are unable to comment on the extent of recoverability of advance given to Balagarh Power Company Limited, a subsidiary company amounting to Rs.7037.27 lakhs.*
  - i. *The opening balances of these accounts have been taken from the audited accounts for the year ended 31st March 2002, which, we have been informed, are proposed to be placed to the shareholders, in a general meeting, for their approval. Also such approval is pending for the revised audited accounts for the year ended 31st March 2001.*  
*The impact of our observations stated in the preceding paragraphs, on the loss for the year and net assets, cannot be ascertained at this stage.*
5. Subject to our remarks in paragraph 4(b) above, in our opinion, the Balance Sheet and Profit and Loss Account dealt with by this report comply with the requirements of the accounting standards referred to in sub-section (3C) of Section 211 of 'The Act'.

6. On the basis of written representations received from the directors, which have been taken on record by the Board of Directors, we report that none of the directors of the Company is disqualified from being appointed as a director in terms of clause (g) of sub-section (1) of Section 274 of 'The Act'. In this regard reference is invited to Note-13(b) of Schedule-13.
7. Subject to our remarks in Paragraphs '4' above :
- a. we have obtained all the information and explanations, which, to the best of our knowledge and belief, were necessary for the purposes of the 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. 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 Act' in the manner so

required and give a true and fair view in conformity with the accounting principles generally accepted in India:

- i. in case of the Balance Sheet, of the state of the affairs of the Company as at 31st March, 2003;
- ii. in case of the Profit & Loss Account, of the loss for the year ended on that date; and
- iii. in case of the Cash Flow Statement, of the cash flows for the year ended as on that date.

Kolkata, 19th August, 2003

For LOVELOCK & LEWES  
*Chartered Accountants*  
Partha Mitra  
*Partner*

## Annexure to the Auditors' Report referred to in Paragraph 3 of our report of even date

- a) The Company has maintained proper records to show full particulars including quantitative details and situations of its fixed assets. The fixed assets of the Company, except those in the transmission and distribution system for which physical verification is not practicable, have been physically verified on a planned basis and no material discrepancies between book records and physical inventory were noticed.
- b) The fixed assets have not been revalued during the year.
- c) The stocks of stores, spare parts and fuel have been physically verified by the management at reasonable intervals during the year.
- d) In our opinion and according to the information and explanation given to us, the procedures of physical verification of stocks followed by the management, are reasonable and adequate in relation to the size of the Company and nature of its business.
- e) The discrepancies noticed on physical verification as compared to book records, which in our opinion were not material, have been properly dealt with in the books of accounts.
- f) In our opinion and on the basis of our examinations, the valuation of stocks is fair and proper and in accordance with the normally accepted accounting principles and is on the same basis as in the preceding year.
- g) The Company has not taken / granted any loan, secured or unsecured, from / to companies, firms or other parties listed in the register maintained under Section 301 of 'The Act'. In terms of Sub section (6) of Section 370 of 'The Act', provisions of the said Section are not applicable to a Company on or after 31st October, 1998.
- h) The parties including employees, to whom loans or advances in the nature of loans have been given by the Company, are repaying principal amounts as per stipulation or re-stipulation and are also regular in payment of interest where applicable *except advance given to its subsidiary, Balagarh Power Company Limited, amounting to Rs.7037.27 lakhs, in respect of which we have been informed that reasonable steps are being taken for recovery.*
- i) In our opinion and according to the information and explanations given to us, the Company has an adequate internal control procedure commensurate with the size and nature of its business for purchase of stores and spare parts, fuel, plant and machinery, equipment and other assets and for the sale of energy and services.
- j) There were no transactions during the year of purchase of goods and materials and sale of energy or services aggregating to Rs.50,000 or more made in pursuance of contracts or arrangements entered in the register maintained under Section 301 of 'The Act'.
- k) In our opinion and according to the information and explanations given to us, the Company has a regular procedure for the determination of unserviceable and damaged stores and necessary adjustments are made in the accounts for loss arising on the items so determined.
- l) The Company has complied with the provisions of Section 58A of 'The Act' and the rules framed thereunder with regard to the deposits accepted from the public. *Based on a legal opinion, Capital Contribution from Consumers amounting to Rs. 15499.54 lakhs has been included in Free Reserves for arriving at the Net Owned Funds of the Company for the purpose of ascertaining the limits of acceptance of deposits.*
- m) In our opinion, the Company has maintained reasonable records for the sale and disposal of realisable scraps. We have been informed that the Company's operations do not generate any by-product.
- n) In our opinion, the Company has an adequate internal audit system commensurate with the size of the Company and nature of its business.
- o) With effect from the current year, the Central Government of India has prescribed maintenance of cost records under Section 209(1)(d) of 'The Act' for which, in our opinion, prima facie, the prescribed records have been maintained. We are not required to and, accordingly have not made a detailed examination of such records.
- p) The Company has been regular in depositing provident fund dues and employees' state insurance dues, with the appropriate authorities. We have been informed that the Company has applied for an exemption from the operations of the Employees' State Insurance Act, 1957 in respect of certain categories of employees on the ground that medical benefits provided by the Company are more beneficial than that provided under the said Act and accordingly employees' state insurance dues in respect of such employees have not been deducted.
- q) 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 were due for more than six months from the date they became payable.
- r) According to the information and explanations given to us, no personal expenses of employees or directors have been charged to revenue account, other than those payable under contractual obligations or in accordance with generally accepted business practice.
- s) 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 of India.
- t) In respect of service activities, we report that,
- (i) the Company has a reasonable system of recording receipts, issues and consumption of materials and stores and allocating materials consumed to relative jobs, commensurate with the size and nature of its business.
- (ii) the Company has a reasonable system of allocating man-hours utilised to the relative jobs commensurate with the size and nature of its business.
- (iii) the Company has a reasonable system of authorisation at proper levels and an adequate system of internal control commensurate with the size of the Company and nature of its business, on issue and allocation of stores and labour to jobs.

For LOVELOCK & LEWES  
Chartered Accountants  
Partha Mitra  
Partner

Kolkata, 19th August, 2003

## Balance Sheet as at 31st March, 2003

	Schedule No.	Rs. in Lakhs	As at 31st March, 2003 Rs. in Lakhs	As at 31st March, 2002 Rs. in Lakhs
<b>I. SOURCES OF FUNDS</b>				
Shareholders' Funds				
Share Capital	1	61,72.50		61,72.50
Reserves and Surplus	2	2156,14.82		2141,59.71
			<b>2217,87.32</b>	2203,32.21
Loan Funds				
Secured Loans	3	2495,91.95		2388,56.06
Unsecured Loans	4	497,11.68		687,29.54
			<b>2993,03.63</b>	3075,85.60
Consumers' Security Deposits			<b>316,28.20</b>	249,76.30
			<b>5527,19.15</b>	5528,94.11
<b>II. APPLICATION OF FUNDS</b>				
Fixed Assets				
Gross Block	5	6311,44.07		6210,17.96
Less : Depreciation		1918,93.24		1572,13.72
Net Block		4392,50.83		4638,04.24
Capital Work-in-Progress		64,84.16		50,18.01
			<b>4457,34.99</b>	4688,22.25
Investments	6		<b>10,98.63</b>	10,92.72
Current Assets, Loans and Advances				
Inventories	7	104,90.72		86,69.52
Sundry Debtors		930,80.43		945,38.71
Cash and Bank Balances		66,59.54		65,55.91
Loans and Advances		249,90.03		257,99.84
Deferred Payments		28,75.77		28,75.77
		1380,96.49		1384,39.75
Less : Current Liabilities and Provisions	8			
Current Liabilities		691,71.19		926,95.73
Provisions		50,86.04		43,54.74
		742,57.23		970,50.47
Net Current Assets			<b>638,39.26</b>	413,89.28
Miscellaneous Expenditure to the extent not written off or adjusted	9		<b>11,26.93</b>	11,93.22
Profit & Loss Account – Debit Balance			<b>409,19.34</b>	403,96.64
			<b>5527,19.15</b>	5528,94.11
<b>NOTES ON ACCOUNTS</b>	13			
Schedules referred to above form an integral part of the Balance Sheet.				

This is the Balance Sheet referred to in our Report of even date.

For LOVELOCK & LEWES  
Chartered Accountants

Partha Mitra  
Partner

Kolkata, the 19th August, 2003

S. Mitra  
Secretary

For and on behalf of the Board of Directors

Vice-Chairman Sanjiv Goenka  
Director B. P. Bajoria  
Managing Director S. Banerjee

## Profit and Loss Account for the year ended 31st March, 2003

	Schedule No.	Rs. in Lakhs	For the Year Rs. in Lakhs	Rs. in Lakhs	Previous Year Rs. in Lakhs
<b>INCOME</b>					
Earnings from sale of Electricity			<b>2185,25.04</b>		2079,75.84
Other Income	10		<b>58,06.35</b>		63,26.75
			<b>2243,31.39</b>		2143,02.59
<b>EXPENDITURE</b>					
Cost of Electrical Energy purchased			<b>301,50.14</b>		327,89.91
Generation, Distribution, Administration and Other Expenses	11		<b>1215,94.11</b>		1169,86.80
Interest	12		<b>395,52.14</b>		417,77.31
Depreciation			<b>322,72.65</b>		315,44.74
			<b>2235,69.04</b>		2230,98.76
Profit / (Loss) before Special Appropriation, Adjustments, Taxation, Exceptional Item and Contingencies Reserve Appropriation			<b>7,62.35</b>		(87,96.17)
Special Appropriation Adjustments			—		(15,08.28)
Provision for Taxation			<b>(60.05)</b>		—
Exceptional Item on settlement of principal amount of loan		<b>2,71.76</b>			
Less : Transfer to Capital Reserves		<b>2,71.76</b>			
			—		—
Profit / (Loss) before Contingencies Reserve Appropriation			<b>7,02.30</b>		(103,04.45)
Appropriation to Contingencies Reserve			<b>12,25.00</b>		12,00.00
(Loss) after Contingencies Reserve Appropriation			<b>(5,22.70)</b>		(115,04.45)
Balance brought forward			<b>(403,96.64)</b>		(288,92.19)
Deficit carried to Balance Sheet			<b>(409,19.34)</b>		(403,96.64)
Earnings per equity share (Face value of Rs. 10 per share) Basic & Diluted			<b>(1.01)</b>		(20.01)

### NOTES ON ACCOUNTS 13

Schedules referred to above form an integral part of the Profit and Loss Account.

This is the Profit and Loss Account referred to in our Report of even date.

For LOVELOCK & LEWES  
Chartered Accountants

Partha Mitra  
Partner

Kolkata, the 19th August, 2003

S. Mitra  
Secretary

For and on behalf of the Board of Directors

Vice-Chairman Sanjiv Goenka  
Director B. P. Bajoria  
Managing Director S. Banerjee