REPORT OF THE DIRECTORS & Management Discussion and Analysis

For the Financial Year Ended 31st March, 2006

Your Directors submit their Report for the financial year ended 31st March, 2006.

SOCIO-ECONOMIC ENVIRONMENT

For the third year in succession, year end estimates of GDP growth have exceeded initial expectations. Advance estimates of the Central Statistical Organisation indicate real GDP growth of 8.1% for 2005-06, with all three sectors of the economy contributing positively to such growth. Despite initial setbacks and erratic spatial distribution of monsoons, Agriculture is expected to post a growth of 2.4% - marking the third successive year of positive growth. Industrial growth is estimated at 9%, led by Manufacturing which grew at 9.4% and offset the degrowth in the Mining sector. Double digit growth in capital and consumer goods made for the smart upturn in Manufacturing. Services posted a robust growth of 9.8%, maintaining the momentum of the previous year.

Exports of goods crossed the USD 100 billion mark. However, the robust export performance could not contain the trade deficit, which grew by 50% over 2004-05 to USD 39.6 billion. The growing trade deficit highlights the impact of soaring oil prices, although buoyant service exports helped ameliorate the impact on the current account. The strong overall economic performance has been achieved in a climate of benign inflation, aided in good measure by the policy directive to hold back the pass through of high oil prices to consumers.

Strengthening macroeconomic fundamentals and near 8% growth in recent years have now prompted the Prime Minister to raise the bar by targeting double digit GDP growth during the 11th Plan period. The prevailing record level of business confidence and the substantial size of the resultant investment intent support such growth aspirations. High levels of economic growth are essential to realise the oft quoted demographic dividend through the creation of employment opportunities for the 9 to 10 million people expected to enter the job market annually, the majority of whom would be from rural India.

In this era of growth and globalisation, new challenges have emerged – threats to global security, unabated increase in oil prices, new viruses that endanger populations and the ever-intensifying strain on scarce natural resources. Within India, the challenges of inclusive growth, national competitiveness and environmental sustainability remain to be fully and seriously addressed. The declining rate of growth of agriculture has led to the present situation where nearly 60% of India's population shares barely 20% of its output. Over 75% of those below the poverty line reside in rural India. Poverty manifests itself not only as material impoverishment but also in the lack of real opportunities for the poor to emerge from such a condition. Such fundamental deprivations of freedom suffered by individuals who are casualties of high morbidity and illiteracy affects their economic performance as well as their ability to seize opportunities offered by expanding markets. Growth agendas can become sustainable only if they include in their wake strategies to enhance ecological and social capital, thereby translating to development.

An integrated approach to Agriculture and Manufacturing is required to enhance the competitiveness of the entire value chain. Industrial growth based on value addition to agriculture can create employment multipliers and enhance rural incomes - which in turn will provide a growing demand base for a variety of industrial goods and services. The competitiveness of Indian industry needs to be further enhanced through urgent, large-scale investment towards upgradation of physical and social infrastructure. The challenge of securing rapid and inclusive growth is rendered more onerous as such growth needs to be realised without further endangering the fragile balance of natural capital comprising air, water, soil and biodiversity resources.

Contextual policies for sustainable growth need to be crafted in a manner that: (a) leverages resource advantages efficiently (b) creates a climate for investment to become productive and (c) engenders world-class competitive capability, particularly in those areas of economic activity which can unleash large employment multipliers. Such a strategic approach can then provide the competitive platform to proactively seek complementarities with global markets, thus leveraging cross-border trade also as an additional powerful tool of sustainable development.

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A comprehensive growth strategy for rural India, including the agricultural sector, is necessary to address the serious issues relating to sustainability and to enlarge effective domestic demand. Empowerment of the rural population has therefore assumed centrality in policy focus. Amongst others, the 'Bharat Nirman' agenda can contribute crucially to economic capacity creation at the grassroots by providing effective last mile connectivity. The focus on physical outcomes, rather than just on financial outlays, will increase the effectiveness of delivery and create the right sentiment for enlarged participation of private entrepreneurship in the economic advancement of rural India. Thus, an enduring basis can be created for public-private partnership to spur investments for growth.

In line with this rationale, your Company is engaged in enlarging its contribution across all the three dimensions – economic, ecological and social – through investments in all its businesses and across the value chains, where feasible. Your Company believes that it has earned the right to make an enlarged contribution on the basis of its ability to create superior economic value. Highlights of your Company's progress in pursuit of the 'triple bottom line' objectives are discussed in the sections that follow.

COMPANY PERFORMANCE

Your Company posted yet another year of impressive results testifying to the robustness of the corporate strategy of creating multiple drivers of growth. The performance is even more satisfying when viewed in the light of the challenging business environment of the cigarette industry, incubation costs of new FMCG businesses and the rural marketing initiatives and gestation costs of investments in the paperboards business.

Gross Turnover for the year 2005-06 grew by 21.5% to Rs.16224 crores, driven by good topline growth across all businesses of your Company. Pre-tax profit (before exceptional items) increased by 22.3% to Rs.3269 crores, while post-tax profit (before exceptional items) at Rs.2280 crores registered a growth of 24.1%. The financials for the year include Rs.45 crores (post-tax) towards once-off assistance to contract manufacturers in view of the retrospective withdrawal of Central Excise exemption on cigarettes manufactured in the North Eastern States during the year 2000 (last year's exceptional items represent net income amounting to Rs.354 crores (post-tax), most of which relate to past litigation). Inclusive of this exceptional item, your Company's Profit After Tax stands at Rs.2235 crores. Earnings Per Share (before exceptional items) for the year stands at Rs.6.08. Cash flows from Operations were Rs.2997 crores during the year. The ITC scrip gained 118% during the year outperforming the benchmark BSE Sensex by 44 percentage points.

In order to strike a balance between the need to sustain strategic investments for a secure future and the annual expectation of shareholders for growing income, your Directors are pleased to recommend a dividend of Rs.2.65 per Ordinary Share of Re.1/- each {previous year (adjusted for stock split and bonus issue): Rs.2.07 per share} for the year ended 31st March, 2006. The cash outflow in this regard will be Rs.1134.68 crores (previous year Rs.881.70 crores) including Dividend Tax of Rs.139.56 crores (previous year Rs.108.45 crores). Your Board further recommends a transfer to General Reserve of Rs.1150 crores (previous year Rs.1100 crores). Consequently, your Board recommends leaving an unappropriated balance in the Profit and Loss Account of Rs.562.06 crores (previous year Rs.611.41 crores).

PROFITS, DIVIDENDS AND RETENTION

(Rs. in crores)

	2006	2005
a) Profit Before Tax and Exceptional Items	3269.19	2673.07
b) Income Tax	988.82	836.00
c) Profit After Taxation Before Exceptional Items	2280.37	1837.07
d) Exceptional Items (net of tax)	(45.02)	354.33
e) Profit After Taxation	2235.35	2191.40
f) Add : Profit brought forward from previous year	611.41	387.84
g) Transfer from Hotel Foreign Exchange Earnings Reserve	—	15.14
h) Surplus available for Appropriation	2846.76	2594.38

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	2006	2005
		(Rs. in crores)
i) Transfer to General Reserve	1150.00	1100.00
j) Proposed dividend for the financial year at the rate of Rs.2.65 per Ordinary Share of Re.1/- each {previous year (adjusted for stock split and bonus issue): Rs.2.07 per Share}	995.12	773.25
Income Tax on proposed dividend {2006 - including Rs.0.02 crore for earlier years (2005 - Rs.1.27 crores for earlier years)}	139.58	109.72
k) Retained profit carried forward to the following year	562.06	611.41
	2846.76	2594.38

FOREIGN EXCHANGE EARNINGS

Your Company continues to view foreign exchange earnings as a key priority. All businesses in the ITC portfolio are mandated to engage with overseas markets in a bid to test competitiveness and seek growth opportunities. The ITC Group's contribution to foreign exchange earnings over the last ten years amounted to nearly USD 2.5 billion, of which agri exports constituted 65%. Earnings from agri exports is an indicator of your Company's contribution to the rural economy through effectively linking small farmers with international markets.

During the financial year 2005-06, your Company, its subsidiaries and the ITC-Welcomgroup hotel chain together earned Rs.1941 crores in foreign exchange. Direct foreign exchange earned by your Company amounted to Rs.1794 crores. Your Company's expenditure in foreign currency amounted to Rs.679 crores, comprising purchase of raw materials, spares and other expenses at Rs.539 crores, and import of capital goods at Rs.140 crores.

Details of foreign exchange earnings and outgo are provided in Schedule 19 to the Accounts.

BUSINESS SEGMENTS

A. FAST MOVING CONSUMER GOODS (FMCG)

FMCG – Cigarettes

Your Company continues to maintain its leadership position in the industry by delivering superior value to consumers through world-class products. In line with this strategy, several initiatives were launched during the year. These include national roll out of the Wave pack format, modern format packaging in all segments and design enhancement of leading brands based on state-of-the-art technology. Key interventions on the manufacturing front include investment in new tobacco processing systems, induction of high speed-high quality makers and packers and introduction of automatic filter feed systems – a first in the sub-continent.

Your Company's value addition led strategy yielded an impressive performance during the year under review. Aided by volume growth, value share improved, both in overall terms as well as in the new and emerging segments. Exports grew by more than 20%.

Your Company's pursuit of international standards of environmental health and safety (EHS) has resulted in 100% solid waste recycling at the Kidderpore and Saharanpur cigarette factories. Bangalore and Munger factories, currently at 99%, are expected to attain 100% recycling next year. The excellence in EHS practices has been acknowledged through various awards conferred by independent bodies. It is a matter of deep satisfaction that during the year under review all four factories won The Greentech Safety Award, The Greentech Environment Excellence Award, Five Star Health & Safety Rating and the 'Sword of Honour' from the British Safety Council and the RoSPA Gold Award from the Royal Society for Prevention of Accidents. In addition, the Bangalore factory won the "Best Industry for Safe Work Practice (Large Scale)" award from the Government of Karnataka, while the Munger factory won the CII Energy Conservation Award, the First prize for Excellence in Pollution Control Management from Bihar State Pollution Control Board as well as the Behavioural Safety Best Practice Award from RoSPA and Ryder Marsh (Safety) UK Ltd.

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The full import of your Company's performance in the cigarette business is better appreciated when viewed in the context of the stringent regulatory and taxation framework to which cigarettes are subject and the challenges inherent in the uniqueness of the tobacco industry in India. While globally, tobacco is synonymous with cigarettes, tobacco consumption in India comprises cigarettes, chewing tobacco, bidis, gutkha, zarda, snuff, etc. As highlighted in the past, cigarettes constitute a mere 14% of the total tobacco consumption in India with chewing tobacco and bidis accounting for the bulk. The per capita consumption of cigarettes in India is amongst the lowest in the world and is significantly lower even in comparison with neighbouring countries like Pakistan and Nepal. Another unique feature of the Indian industry is the high incidence (appx. 61%) of 'dual usage' i.e. consumers using cigarettes as well as other tobacco products.

Despite comprising such a low share of tobacco consumption, cigarettes contribute 90% (appx. Rs.8000 crores) of the total Central and State tax revenues generated from the tobacco sector. This is on account of the fact that, on a per kg of tobacco basis, cigarettes are taxed 34 times higher than other tobacco products. This heavy burden of tax has led to a progressive shift from the cigarette form of tobacco consumption to other tobacco products resulting in a loss of opportunity to the Exchequer to maximise revenue from the tobacco sector. As cigarettes become more and more expensive due to increasing levels of taxation, tobacco consumption migrates to cheaper and revenue inefficient products. Since the incidence of tax on other tobacco products like bidis, gutkha and chewing tobacco is much lower than that on cigarettes and since these are manufactured pre-dominantly in the unorganised sector, revenue collection from these products remains comparatively insignificant due to leakages and inefficiencies. Fiscal legislation, over time, has thus led to the unintended consequence of sub-optimisation of economic value per unit of tobacco consumption.

Apart from a highly punitive and discriminatory taxation regime in comparison with manufacturers of other tobacco products, cigarette manufacturers, by virtue of their being in the organised sector, are also subjected to the full force of tobacco control legislation. On the other hand, manufacturers of other tobacco products invariably escape the impact of legislation since they primarily operate in the unorganised sector which remains largely unregulated. While your Company welcomes fair and pragmatic laws on tobacco control and ensures compliance with these in letter and spirit, it is engaged in drawing the attention of policymakers and legislators to the inequitable situation arising out of tobacco control legislation being enforced, in effect, only on the cigarette industry.

It is well established that sustainable tax buoyancy can be realised only by expanding the tax base. This principle stands reinforced by the experience of China where, despite their per capita incomes being twice as much as India's, rates of taxes on cigarettes are much lower than those in India, resulting in the tobacco sector generating as much as ten times the revenue collection from the Indian cigarette industry. Unfortunately, the focus of tobacco taxation in India has hitherto been on cigarettes only. The inevitable consequence of this has been sub-optimal revenue generation from tobacco. While this approach may be appropriate for countries where tobacco consumption is almost entirely in the form of cigarettes, policymakers need to cognise for the diverse tobacco consumption pattern in India. India needs tax policies that serve to widen the tax base through moderation in rates. Such a policy will arrest the flow of consumption to revenue inefficient tobacco products and maximise the revenue potential from the tobacco sector as a whole. Unfortunately, this has not yet happened. Bidis, chewing tobacco and the like continue to enjoy a 'special' status in so far as taxation is concerned. While bidis were excluded from the tax rate increase in 2005, cigarettes were again singled out for levy of an increase in excise duties in the Union Budget of 2006. The need of the hour is to reduce the difference in the effective tax rates across classes of tobacco products in a manner that maximises contribution to the Exchequer from the tobacco sector, even in a shrinking basket of overall tobacco consumption.

As reported in earlier years, high taxes on domestic cigarettes continue to fuel contraband trade. The phenomenon, which started with premium international brands, has spread to the mid and low price segments as well, leading to a loss of nearly Rs.2000 crores to the National

Exchequer in the form of evaded taxes and foreign exchange. The high domestic tax rates in India provide huge arbitrage opportunities for illegal trade whereby contraband enjoys a grossly unfair advantage in both the originating and the destination economies through evasion of taxes. This is compounded by the liberal import of international brands into India at prices which are significantly lower than those prevailing for the same brands in duty free trade. Apart from the consequential loss of customs revenues, imports of foreign cigarette brands by some players compounds the menace of contraband by providing a legal cover to unscrupulous traders to pass off much larger quantities of smuggled cigarettes as legitimate imports. Further, while domestic cigarette manufacturers are required to stop advertising their products in compliance with the Cigarettes and Other Tobacco Products (Prohibition of Advertisement and Regulation of Trade and Commerce, Production, Supply and Distribution) Act, 2003 (COTPA), international brands - which constitute the bulk of contraband trade in India - continue to derive the benefits of advertising through international publications and satellite television channels telecasting international events such as Formula 1 racing. Your Company believes that in addition to stricter enforcement, the other effective ways to combat contraband are to (i) prohibit duty free sales, (ii) disallow cigarettes in personal baggage, (iii) closely regulate import of cigarettes by shifting it from OGL to 'restricted' items and impose 'specific' rates of customs duty to stem under-valuation, and (iv) put in place legislation that addresses tobacco related issues holistically and equitably.

The high and discriminatory taxes on domestic cigarettes that drive tobacco consumption to cheaper revenue inefficient products and the growing contraband trade, which does not use Indian cigarette tobaccos, have served to depress the demand for domestic Flue Cured Virginia tobaccos. This assumes critical significance in the context of studies conducted by the Central Tobacco Research Institute clearly establishing that no other alternative crop has the potential to provide comparable incomes to farmers. Moderation in tax rates on cigarettes will lead to an increase in demand for high quality cigarette tobaccos. Such a demand stimulation has the potential to spur Agri R&D investments in this sector which in turn would boost the export potential of Indian tobaccos resulting in a favourable multiplier effect on more than 36 million farmers, farm labour, tribals and marginal traders who depend on tobacco for their livelihood.

Moderation in tax rates, widening of the tobacco tax base, creation of an equitable regulatory framework and a severe crackdown on contraband are imperative measures to secure full dividends from the tobacco value chain. Your Company continues to engage with policymakers in this regard, making recommendations to enable maximisation of value from this economically vital crop.

A key concern facing the cigarette industry in India is the growing incidence of ad-valorem taxes (at the State and local level) on cigarettes. It is well established that for highly taxed products like cigarettes, a single-point specific duty structure is preferable to multi-point, ad-valorem levies. Expert Committees on taxation have, for more than a decade, repeatedly and consistently recommended exclusion of cigarettes from ad-valorem levies. In fact, the introduction of specific levy of Central Excise on cigarettes in 1987 put to rest the plethora of valuation related litigation that had become a regular feature of this industry till then. The specific duty structure has ensured litigation-free, buoyant revenue growth from cigarettes, while simultaneously enabling superior value-added offerings to the Indian consumer.

The advantages of the uniform, single point, specific Central Excise levy have, however, been undermined to a large extent by the growing number of ad-valorem levies on cigarettes at the State and local levels like Entry Tax, Octroi, Toll Tax, etc. Such levies are against the spirit of the Centre-State Agreement on central taxation of tobacco products. Ideally, highly taxed products like cigarettes should bear uniform and specific rates of tax, collected centrally, across the country. However, this will be rendered impossible if States go ahead with the proposal of levying VAT on cigarettes. VAT by definition is not a specific tax and its imposition on cigarettes will go against all expert opinion and current best practice.

As mentioned in last year's Report, the Honourable Supreme Court declared the various State luxury tax levies on cigarettes and other goods as unconstitutional. The Court further directed that if any party, after obtaining a stay order from the

Court, had collected any amount towards luxury tax from its customers/consumers, such amounts should be paid to the respective State governments. Since your Company had not charged or collected any amounts towards luxury tax during the relevant period, there is no liability on the Company in this regard. However, the State of Andhra Pradesh has recently filed a contempt petition in the Supreme Court claiming a sum of about Rs.323.25 crores towards luxury tax, and a further sum of about Rs.261.97 crores towards interest, on the allegation that your Company had charged and collected luxury tax from its customers, but in view of a stay order passed by the Court on 1st April, 1999, did not pay the tax to the Government. The State's contention is baseless, contrary to facts and is also contrary to the assessment orders passed by the State luxury tax authorities consistently holding that the Company, right from 1st March, 1997, did not charge or collect any amount towards luxury tax from its customers. Accordingly, the State's petition is being contested.

Your Company continues to strengthen its FMCG Sales and Distribution network, especially its deeper penetration into rural areas. Significant strategic initiatives are in place to capitalise on the opportunities presented by the changing retail scenario in the country and the increasing sophistication of Indian consumers.

Your Company's cigarette business faces the future with confidence, riding on the robustness of its strategies. However, the menace of contraband trade and the inequitable taxation and regulatory environment for cigarettes are matters of deep concern. As mentioned earlier, efforts are being made to counter contraband through a range of superior offerings, while simultaneously engaging with policymakers to moderate the impact of the taxation and regulatory framework to achieve a level playing field for all legitimate tobacco products.

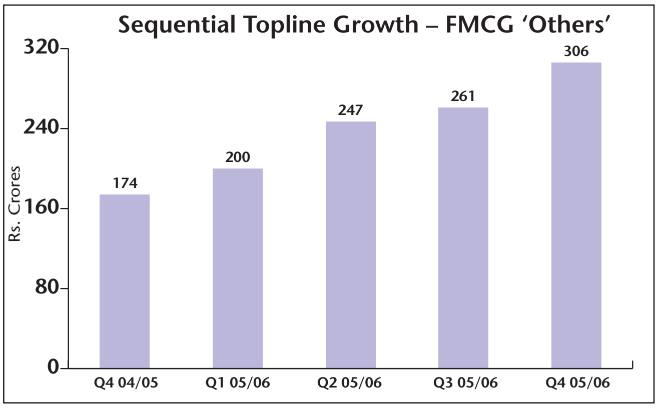
FMCG – Others

Your Company remains bullish on the prospects of the FMCG sector. As discussed in detail in last year's Report of the Directors, demand for FMCG products would be driven by rising disposable incomes in the wake of robust growth in the Indian economy; the favourable demographic profile of the country; the relatively low levels of per capita consumption and penetration of these products even as compared to other South Asian countries; improving literacy levels, growing urbanisation trends and the increasing population of working women. Your Company is uniquely positioned to tap the emerging opportunities of this sector by synergising and blending the diverse pool of competencies residing in its various businesses.

During the year under review, your Company continued to make rapid progress in scaling up the newer FMCG businesses comprising Branded Packaged Foods, Lifestyle Retailing, Greeting, Gifting & Stationery and Safety Matches & Incense Sticks (Agarbattis).

The depth and width of your Company's trade marketing and distribution network stood further enhanced during the year with the addition of a large number of products and SKUs, greater penetration into groceries and modern format stores and further strengthening of the stationery channel. The rural distribution initiative was also scaled up significantly during the year leveraging your Company's e-Choupal network.

The Segment Report set out in Schedule 20 to the Accounts reflects the rapid scaling up of operations. Segment Revenues grew by nearly 80% over 2004-05 to cross the Rs.1000 crore mark during the year. A snapshot of the sequential growth in the Segment Revenues is as illustrated below:



Segment Results reflect the gestation costs of these businesses largely comprising costs associated with brand building, product development and infrastructure creation. Highlights of progress in each category are set out below.

Branded Packaged Foods

Your Company's Branded Packaged Foods business continued to expand rapidly with sales recording an impressive growth of 87% over the previous year. Product portfolio was further augmented during the year with the launch of a number of differentiated and innovative products leveraging the in-house capability of the ITC R&D Centre at Bangalore. The range now comprises more than 100 distinct food products under 5 brands. Your Company's unwavering commitment to internationally benchmarked quality standards enabled it to further enhance the market standing of all its brands.

The Biscuits category was rapidly scaled up during the year with sales doubling over previous year's levels. The 'Sunfeast' range was further expanded with the launch of Cookies ('Sunfeast Golden Bakes') in 3 exciting variants and Sweet & Salt Crackers ('Sunfeast Snacky') in 2 unique variants. These products have met with excellent consumer response and continue to gain consumer franchise. 'Sunfeast Dark Fantasy', a dark chocolate and vanilla cream offering, was extended to select markets during the year. It has redefined the premium segment and further strengthened your Company's quality reputation. These product launches/extensions, along with the strong growth trend in the sales of other value added products in the Creams and Marie segment, enriched the portfolio and improved realisations. During the year, the outsourced and distributed manufacturing capacities were geared up to support the increase in scale of operations. The business is in the process of establishing its own production facilities across the country, including in tax-exempt zones, with a view to servicing proximal markets in an efficient and cost-effective manner.

The year also saw the roll out to target markets of 'Sunfeast Pasta Treat', a semolina based non-fried product. This healthy snacking option is available in 4 exciting flavours and has met with encouraging response from consumers. Your Company has signed up superstar Shah Rukh Khan as the brand ambassador for 'Sunfeast'. This association is expected to yield significant value addition by reinforcing the brand attributes and reiterating the 'spread the smile' positioning.

In the Staples category, 'Aashirvaad Atta' continued to gain increasing consumer franchise, further consolidating its position as the clear leader amongst national branded players with market share touching 45%. 'Aashirvaad Select', your Company's premium atta offering, was extended to target markets during the year. Plans are on the anvil to launch value added variants to augment product range. The year also marked the entry into the branded spices market under the 'Aashirvaad' brand, leveraging the brand's strong association with superior quality and consistency.

In the Confectionery category, your Company's brands - 'Candyman' and 'Mint-o' - posted strong growth with sales growing by nearly 70% over the previous year. Product portfolio was bolstered during the year with the launch of 'Mint-o *masti blue*' in a refreshingly new pack design and product formulation and 'Cofitino' in the hitherto unrepresented Toffees segment. These products have met with encouraging response from consumers.

In the Ready-to-Eat segment, product portfolio was expanded with the introduction of number of variants in the packaged desserts and conserves & chutneys segment under the 'Kitchens of India' (KOI) banner. Several new variants were also launched during the year to augment the 'popular' range of 'Aashirvaad ReadyMeals'.

The year also marked the business' foray into the Instant Mixes markets under the 'Aashirvaad' brand. The 'Aashirvaad Instant Mixes' range currently comprises 5 products, which are being extended to the target markets.

The 'Kitchens of India' brand has become synonymous with the finest packaged Indian food. Its gourmet offerings are critically acclaimed by consumers for their authentic recipes, excellent taste and high quality. The KOI range is also exported to the USA, Canada, UK, Switzerland and Australia, where the products have been well accepted by consumers. The business plans to scale up exports in the ensuing years.

Your Company plans to rapidly scale up the Branded Packaged Foods business drawing upon the agri-sourcing strength of the e-Choupals, cuisine expertise, product development capabilities and branding, trade marketing & distribution competencies to establish itself as the 'most trusted provider of food products in the Indian market'.

Lifestyle Retailing

Your Company's Lifestyle Retailing business made good progress during the year in both premium and popular segments of the branded apparel market. Impressive gains were made in store productivity, sell through rates, average realisations and supply chain efficiencies. The business also commenced exports of garments leveraging the market opportunity arising post dismantling of the quota regime.

During the year, your Company's portfolio of products in the premium segment comprising the 'Classic' range of formal wear, 'Wills Sport' relaxed wear and 'Wills Clublife' evening wear expanded its consumer franchise significantly. Product availability was further enhanced through the expansion of the 'Wills Lifestyle' chain of exclusive stores in high potential catchment malls. The brand is now available in over 150 locations through 'exclusive brand outlets' (EBOs) and 'shop-in-shops'. A strong customer privileges programme, combined with emphasis on superior visual merchandising and in-store services helped raise the quality of consumer experience, leading to a substantial increase in consumer loyalty.

Product portfolio was augmented during the year with the introduction of new offerings such as suits and jackets, leather and other accessories. The 'Wills Lifestyle' range was further supplemented during the year with the launch of 'Essenza Di Wills', an exclusive line of prestige fragrance products, at select 'Wills Lifestyle' stores. The 16-SKU range for men and women, designed to complement the 'Wills Lifestyle' offerings, currently comprises perfumes, deodorants, body lotions, bathing bars, nourishing creams, shampoos, etc. These products have met with encouraging response from discerning consumers.

The year also marked the launch of the 'Wills Lifestyle India Fashion Week' (WIFW), billed as the country's most premier fashion event. The first WIFW event which was held in New Delhi featuring nearly 80 designers was a resounding success, further strengthening the brand's association with high fashion and premium imagery. The business has also tied-up with leading designers to create high-end fashion products to be retailed from the 'Wills Lifestyle' stores.

In the popular 'Youth' segment, 'John Players' delivered a strong performance during the year. The brand's association with superstar and youth icon Hrithik Roshan, who has been signed up by your Company as the brand ambassador for 'John Players' reinforced its 'style with a playful side' positioning. This association has created a high buzz for the brand among its youthful target audience, mobilising large trials and garnering enhanced consumer mind share. Distribution was strengthened through stronger presence in key 'multi-brand outlets' (MBOs) and rapid expansion of the network of EBOs. The brand is now available in 80 EBOs and over 1500 MBOs. In the short span of time since its launch, the brand has earned high industry recognition, winning the 'Most Admired Shirt Brand of the Year' award at the Images Fashion Awards 2005.

In the area of apparel exports, your Company made a healthy beginning during the year, establishing relationships with key customers. The business is in the process of enhancing its manufacturing capacities to take full advantage of the emerging growth opportunities. It is also engaged in developing long term partnerships with high potential customers.

During the year the in-house product testing laboratory was granted ISO 17025 certification by the National Accreditation Board for Calibration and Laboratories. In line with its commitment to world-class quality, your Company launched 'Six Sigma' based improvement programmes for both products and processes. The business continued to leverage its state-of-the-art 'master facility' to develop superior products. It also scaled up manufacturing at the outsourced 'just-in-time' facility with a view to servicing consumer preferences more effectively and to improve inventory management. Your Company continues to enhance competencies by inducting international experts & domain specialists in the areas of product design, garment engineering and fabric development with a view to strengthening its competitive position.

Greeting, Gifting and Stationery Business

Your Company scaled up the stationery business significantly during the year. The sales volume of 'Classmate' notebooks trebled over that of last year, making it the most widely distributed notebook brand across the country. It has established itself as the quality leader in a short span of time. The 'Alfa Plus' paper used in these notebooks is custom manufactured at your Company's Bhadrachalam unit. Besides providing superior whiteness, brightness and smoothness, this paper is also Elemental Chlorine Free (ECF), imparting a unique value proposition to the brand. The brand franchise of 'Classmate' was significantly enhanced by extending the 'Classmate Young Authors Contest 2005'- a creative story writing competition - to 15 cities and introducing the 'Classmate Young Artist Competition' in six metros, with an overall reach of 120,000 students across 4,000 schools. In line with its 'Citizen First' philosophy, your Company contributes Re.1 to its social responsibility initiatives for every notebook sold.

With the emergence of organised players in the market, the Rs.5000 crores paper stationery industry is waking up to the presence of quality branded offerings. Your Company's 'Classmate' & 'Paperkraft' brands are well poised to achieve leadership position in the notebook market. The business is also planning to launch a mass-market range of notebooks leveraging your Company's distribution strengths in smaller towns and rural areas, especially in markets served by the e-Choupal and 'Choupal Saagar' networks.

The Greeting Cards segment continued to be impacted by the rapid growth of mobile telephony and messaging services. Despite challenging market conditions, the 'Expressions' brand of greeting cards established itself as the market leader in multi-brand outlets across the country. Product range in the gifting segment was augmented during the year with the launch of pop-up books, mini books and three more variants of 'Regalia' - a premium collection of greeting cards for the connoisseur.

The business has set up a creative design studio at Chennai and has installed a digital asset management system to safeguard its intellectual property. The business continues to partner with small-scale enterprises across the country for effective sourcing. It continues to remain committed to aiding small-scale units to enhance the quality of their products and processes. The business enjoys ISO 9001:2000 certification in recognition of its quality systems & processes.

Growing levels of literacy, favourable demographics, government led education initiatives and improving quality consciousness are expected to drive demand for branded notebooks. Accordingly, your Company plans to scale up the stationery business significantly on the back of a superior and differentiated product range and a strong distribution network.

Safety Matches and Incense Sticks

Your Company continued to scale up marketing of Safety Matches and Agarbattis sourced from small-scale and cottage sector units in line with its philosophy of creating shareholder value through serving society.

During the year, volumes in the Safety Matches business were successfully ramped up through continued focus on product quality, enhanced supply chain capabilities and distribution reach. Your Company's brands, including 'Aim' which is the largest selling brand of matches in the country, continued to enjoy strong consumer preference, resulting in enhanced market standing. Your Company continued to support the competitiveness of the small-scale sector through induction of appropriate technology, best practices and buying support. Product sourcing from the small-scale sector expanded to 49 units during the year.

A key development during the year in respect of your Company's Safety Matches business was the successful acquisition of Wimco Ltd. by Russell Credit Ltd., a wholly owned subsidiary of your Company. This acquisition is expected to further consolidate the market standing of your Company's Matches business through synergy benefits. The enhanced strength of the combined portfolio of offerings, improved servicing of proximal markets, freight optimisation, better access to critical inputs/raw materials and other supply chain efficiencies will all add up to lend significant strength to the Matches business. The synergy benefits will better position your Company to continue adding value to manufacturers in the small-scale sector through technical and management support to help them achieve superior product quality and processes.

Your Company's Agarbatti business made rapid gains during the year. The 'Mangaldeep' brand, in its first full year of operations, emerged as one of the leading national brands in an industry dominated by multiple local brands. Product range was augmented with the launch of 'Mangaldeep Dhoop' in select markets in the North. Region specific fragrances and price/pack combinations tailored to cater to varying consumer needs were also launched during the year. The distribution reach and awareness levels of the brand stood significantly enhanced during the year.

In pursuance of its abiding social commitment, your Company continues to partner with small and medium enterprises to help them raise their quality and process standards. Four agarbatti manufacturing units have received ISO 9001-2000 certification till date, aided by your Company's process and technical inputs. During the year, the business also expanded its collaboration with several NGOs in Bihar, Karnataka, Andhra Pradesh, etc. to train rural youth and economically disadvantaged women thereby providing them with vocational opportunities. In yet another manifestation of your Company's commitment to the 'triple bottom line', the business began sourcing agarbattis from Khadi & Village Industries Commission (KVIC) approved units. This collaborative venture is expected to augment employment generation, particularly in the semi-urban and rural areas. The business also entered into an agreement with the Exim Bank of India to leverage its marketing services and large overseas presence for the export of incense sticks sourced from units in the small-scale and cottage sector.

FMCG – Future Direction

Your Company seeks to aggressively scale up the FMCG initiatives over the next few years through a combination of synergistic collaboration among the various businesses in the portfolio, significant investments in brand building and further enhancement of supply chain and trade marketing and distribution capabilities. These interventions combined with your Company's state-of-the-art information technology transaction backbone and the e-Choupal rural distribution network, provide the basis for a low cost, broadband fulfilment capability for consumer products. Over the long term, these initiatives are expected to provide the basis for sustainable growth in shareholder value by establishing your Company as the leading FMCG player in the country.

B. HOTELS

The hotel industry continued on its growth path during the year on the back of the country's strong economic performance. Foreign tourist arrivals continued to be buoyant, registering a robust growth of 13.5% during the calendar year 2005 to touch 3.92 million. Consequently, foreign exchange earnings from the tourism sector touched USD 5.7 billion during 2005 representing a growth of 20% over the previous year. Besides generating valuable foreign exchange, the tourism industry has a large economic multiplier impact and provides significant employment opportunities. While the growth in foreign tourist arrivals has been relatively strong over the last two years, India's share remains a mere 0.5% of world tourism. The country is not able to service even this miniscule share to full guest satisfaction due to demand-supply mismatch and infrastructural inadequacies. It is estimated that India needs 130,000 rooms to service the 5 million tourists expected to arrive in 2007. Currently, the country has 103,800 rooms in the approved category of hotels, leaving a substantial shortfall against the expected demand.

The potential of the tourism industry to contribute to India's economic growth is increasingly being recognised in several policy initiatives. The healthy increase of budgetary allocation for the Ministry of Tourism in recent years, adoption of the 'open skies' policy to augment airline capacity, privatisation of the airports in New Delhi and Mumbai and the planned airport upgradation projects across the country stand testimony to the Government's commitment to this sector. However, heightened demand for land at suitable locations especially from real estate players for multi-use development and the consequent steep escalation in prices has emerged as a key challenge for hotel companies in setting up greenfield projects.

Your Company's hotels business posted yet another impressive financial performance during the year with Segment Revenues growing by 36% to touch Rs.783 crores driven by improved occupancies and realisations across properties. Gross Operating Profit (PBDIT) grew 64% over the previous year to touch Rs.317 crores during 2005-06, while Segment Results (PBIT) at Rs.258 crores grew 83% over the previous year.

ITC Grand Central, your Company's second property in Mumbai, which was commissioned in January 2005, posted an impressive performance to record a positive bottomline in its first full year of operations. The business also progressed a comprehensive renovation and product upgradation programme during the year in keeping with the strategy of maintaining the contemporariness of its properties. Key initiatives during the year included renovation of guest rooms and suites in ITC Hotel Windsor Sheraton & Towers, Bangalore, ITC Hotel Kakatiya Sheraton & Towers, Hyderabad and ITC Hotel Maurya Sheraton & Towers, New Delhi. The business implemented 'Six Sigma' Quality initiatives across select properties with a view to further enhancing the service edge.

Buoyed by the impressive performance and the emerging opportunities in this industry as discussed herein, your Company has embarked on an aggressive investment led growth plan. The year marked the commencement of construction of a new super-deluxe luxury hotel at Bangalore. The proposed hotel at Chennai is at an advanced stage of architectural planning. Land at suitable locations at Hyderabad, Delhi and other key centres is being identified.

The ITC-Welcomgroup chain, with its globally benchmarked levels of product and service excellence and superior hoteliering capabilities is well positioned to not only sustain its leadership position in the industry, but also to emerge as the largest hotel chain in the country over the next few years.

C. PAPERBOARDS, PAPER AND PACKAGING

The Paperboards, Specialty Paper and Packaging segment recorded strong growth during the year both in terms of sales and operating profits. As set out in the Segment Report annexed as Schedule 20 to the Accounts, Segment Revenue grew by 21% to touch Rs.1896 crores while Segment Results improved by 25.5% to Rs.351 crores. The segment generated strong operating cash flow of Rs.467 crores.

Paperboards & Specialty Papers

Production during the year touched 365819 MT as compared to 308962 MT in 2004-05 while overall sales (including interdivisional sales) at 363572 MT grew by 21% over last year on the back of enhanced capacity utilization at the Kovai unit and the addition of Paper Machine 5 at the Bhadrachalam facility. Sales of value added paperboards (VAP) grew by 33% over last year to touch 120972 MT in line with your Company's strategy of enriching the product mix. Growth in sales of Specialty Papers was driven by the fine printing segment. Exports during the year grew by an impressive 23% to touch Rs. 202 crores. Another noteworthy achievement for the business during the year was the substantial reduction in water and energy consumption. The business also made rapid progress towards achieving 'zero solid waste' status.

The size of the Indian paper and paperboards industry is estimated at 7.65 Million Tons Per Annum (MTPA) comprising Writing & Printing paper (2.3 MTPA), Newsprint (1.5 MTPA), Specialty papers (0.25 MTPA), Industrial paper (3.6 MTPA) of which the paperboards segment constitutes appx. 1.1 MTPA.

The domestic paperboards market is characterised by fragmented capacities. While there are over a 100 mills servicing this market, only a few of these are capable of delivering high quality products. Your Company is the clear market leader in the domestic paperboards market commanding a share of about 25%. Further, it is the only player in the premium value added paperboard segment with the significant advantage of integrated pulping operations. In respect of Specialty papers, your Company is a major player in the Cigarette Tissue segment with a market share of 75% and is fast expanding its presence in the high growth Décor and Insulating grades segments.

Your Company plans to augment capacity by commissioning another paperboard machine by 2008-09 with a view to servicing the growing demand for high quality paperboards. Your Company also plans to widen its business horizon by setting up capacity for manufacturing uncoated paper including branded copier grades, to tap the emerging growth opportunities and further consolidate its market standing. This capacity is expected to come on stream by 2008-09. The possibility of setting up a greenfield project for foraying into the coated woodfree paper market is also being actively explored.

While the global paper & paperboard industry grew by around 2%, the industry in India, mirroring GDP growth, grew by about 7% during the year. The value added paperboards segment catering primarily to the packaging needs of the pharma, personal products, textiles and foods sectors, continued to grow at a substantially faster pace of 20% appx. Strong economic growth, increased consumer spending and improvements in conversion technology are expected to drive per capita consumption of paper and paperboard from around 6 kgs. per annum currently, to progressively approximate the world average of over 50 kgs. per annum.

The global paper and paperboards industry is increasingly viewing Asia as the growth engine. Most of the major players have taken up large manufacturing positions in South-East Asia and China. The Indian industry is expected to witness heightened competitive activity in the ensuing years. High growth prospects and a regime of reducing import duties could combine to make India an attractive destination for most international majors. This threat coupled with the rise in input costs would call for increased focus on cost competitiveness. Your Company, with its integrated operations comprising the state-of-the-art Elemental Chlorine Free (ECF) pulp mill and paperboards manufacturing facilities, is uniquely positioned to tap the full growth potential of this industry. With the addition of the new paperboard machine at Bhadrachalam, your Company now operates the top four board machines in the country in terms of technology.

Your Company continues to focus on the critical areas of pulp and energy, which are the two main components of product cost. Your Company's state-of-the-art ECF pulp mill, the only one of its kind in the country, is a source of sustainable competitive advantage to the business. The superior quality of the ECF pulp has enabled expansion of the market for value added paperboards. With increasing awareness of hygiene and safety among Indian consumers, industries like foods and pharmaceuticals are progressively switching to ECF pulp-based paperboards. During the year, your Company embarked on an expansion plan to more than double the pulp mill capacity by early 2008.

Your Company's energy management expertise is a source of distinct competitive advantage in the Indian market. About 95% of the energy requirements of the production units are being met out of captive co-generation. A key intervention during the year was the successful commissioning of an 8 MW power block at your Company's facility at Kovai, Tamil Nadu. Initiatives in energy management won industry recognition with the business winning the award for 'Excellence in National Energy Conservation (ENCON)' from CII for the fifth year in succession.

Your Company has over the years, leveraged its bio-technology capability to make available high-yielding clones and seedlings of the desired pulp wood species along with extension services to farmers engaged in plantation of pulp wood on their marginal wastelands. The quality of these clones and seedlings, developed in-house, has been tested for effectiveness over the last 12-13 years in nearly 41,000 hectares of plantations. During the year, the plantation programme was scaled up with the addition of close to 12,000 hectares under coverage, of which 70% were in the command area of the Bhadrachalam mill. In addition to Eucalyptus clones, the business has developed and distributed high yielding Subabul clones. Plans are afoot towards scaling up plantation activity to touch the 100,000 hectares mark by the end of the decade. These enhanced levels of plantation activity would be critical to support the envisaged scale of operations going forward including the planned expansion of pulping capacity as mentioned earlier. Your Company's continued focus on core area plantations in the economic vicinity of the Bhadrachalam mill is expected to be a source of sustainable competitive advantage in the years to come. Your Company is also actively collaborating with the Council for Scientific and Industrial Research (CSIR) to develop low-lignin high-yield pulpwood species.

As highlighted above, your Company is committed to a unique wood fibre strategy that seeks to address the competitiveness of the paperboards value chain while simultaneously contributing to the broader issues of wasteland development and rural employment. Sustained commitment to this unique strategy encompassing the farming community, extension service providers, research agencies and your Company will increase access to cost-effective fibre while contributing significantly to the restoration of ecological balance by bringing degraded lands into productive use. In this context, your Company continues to represent to policymakers to introduce appropriate amendments to the Forest Conservation Act, 1980 and related Rules with a view to permitting the industry to use degraded forest land for afforestation linked to the end-use of such wood. An enabling policy framework that would inter alia promote public-private partnerships towards development of degraded forest lands would go a long way in serving the twin objectives of enhancing the competitiveness of the paper and paperboards industry and creating sustainable economic activity in rural India.

Robust strategies backed by world-class operational excellence have left your Company well poised to exploit the growth opportunities in the paperboards and paper segments and emerge as a leading player in the Afro-Asian region.

Packaging and Printing

Your Company's Packaging & Printing business is the leading provider of value added paperboard packaging in the country. The business supports the competitiveness of your Company's cigarette and other FMCG businesses through discerningly superior and innovative packaging solutions.

Induction of state-of-the-art technology by the business enabled your Company's cigarette business to scale up volumes of premium international packaging formats like pillow packs, round corner and beveled edge packs. The induction of high-end technology for manufacturing premium cork tipping and pack inserts provided invaluable support to your Company's cigarette brands besides conserving foreign exchange through import substitution.

During the year, the business entered the high growth flexibles packaging business with the induction of world-class equipment. Such enhanced packaging capability will provide your Company's branded packaged foods and incense sticks businesses a distinct edge in the market place.

The business is also progressing investments in a new facility at Uttaranchal, which would add manufacturing capacity both in the paperboard cartons and flexibles segments. The facility would enable the business to service customers in proximal markets in a cost-effective and efficient manner. Investments towards capacity augmentation at the Chennai unit are also being progressed to meet the enhanced requirements of the cigarettes business.

The business also plans to scale up its external sales leveraging investments in the flexibles packaging lines and the new facility at Uttaranchal.

The factories at Munger and Chennai continue to register improvements in productivity and maintain high standards in Environment, Safety and Quality management. During the year, both units were awarded the 'Sword of Honour' by the British Safety Council. The Munger unit also received the RoSPA Gold Award and the Greentech Award for Environment management. As reported last year, the Chennai unit achieved a Level 7 rating in the International Quality Rating System (IQRS) as audited by Det Norske Veritas (DNV).

D. AGRI BUSINESS

Cigarette Leaf Tobacco

Global production of Flue Cured tobaccos increased during 2005 largely on account of the higher crop size in China, partially offset by the reduction in USA. With consumption levels remaining stagnant over the last two years, uncommitted Flue Cured stocks were up by 18% over previous year's levels, sustaining the over supply situation. While the global Burley production saw a decline mainly on account of lower production in Malawi and USA, the Oriental crop size remained stable at previous year's levels. Despite a global over supply position, demand for flavourful Flue Cured and classical Oriental tobaccos continued to be strong. Demand for quality filler Burley remained firm.

The trend of mergers, acquisitions and privatisation continued during the year leading to re-alignment of sourcing strategies and enhanced bargaining power of international manufacturers. The year also witnessed complete decoupling of subsidies on tobacco in Greece. With most other EU countries implementing the same in a phased manner upto 2010, the EU crop size is expected to reduce substantially in the ensuing years resulting in an opportunity for low-cost tobacco producing countries including India.

Continuing focus on pesticide residue levels and Non-Tobacco Related Matter (NTRM) necessitates compliance with globally benchmarked product integrity and traceability protocols. The trend of increasing use of blend adjuncts such as reconstituted tobacco and expanded tobacco continued to spur demand for low value by-products, exerting pressure on margins.

REPORT OF THE DIRECTORS

With severe competitive pressures, both in overseas and domestic markets, balancing the twin objectives of sustaining remunerative farmer returns and remaining competitive in the market place constitutes a key challenge for your Company. Though India's share in the global tobacco trade has increased from 5% to 7% in the last 3 years, its share continues to be miniscule despite being one of the largest producers of tobacco in the world. As highlighted in last year's Report of the Directors, a stable, fair and equitable cigarette taxation policy would be imperative to provide a strong domestic demand base to the Indian farmer, insulating him from the volatilities typically associated with international markets. Such a taxation policy would be the key catalyst in realising the full economic potential of the tobacco sector in India.

Despite the challenges, your Company's tobacco exports during the year grew by an impressive 26% in volume terms and 29% by value to touch an all-time high. This stellar performance was achieved through a robust combination of business development and customised product and service offerings to both existing and new customers. The business continued to provide strategic sourcing support to your Company's cigarette business.

During the year, your Company scaled up trials in Maharashtra and Northern Karnataka for growing flavourful Flue Cured tobaccos and in Orissa for superior filler style Burley. The results from these trials have been very encouraging. The success of these crop development programmes would enable the business to further enhance its product portfolio to drive business growth in the future. The business conducted further trials with new varieties of seeds and hybrids during the year in close collaboration with the Central Tobacco Research Institute (CTRI). The results indicate potential enhancement in farm productivity by 10-15%. In the area of crop extension, your Company continued its pioneering work towards enhancing quality and farm productivity with a view to improving the competitiveness of Indian tobaccos in the global market.

On the processing front, the business successfully completed the upgradation of one of the lines in the green leaf threshing plant at Chirala to enhance processing capacity and product quality. The business also implemented several measures to increase plant uptime at both its units leading to substantial improvement in asset utilisation. The Anaparti and Chirala plants achieved a Level 7 rating in the International Quality Rating System (IQRS) as audited by Det Norske Veritas (DNV). Both the plants received several awards in recognition of their world-class achievements in the areas of Safety, Quality and Environment Management. Your Company is planning to augment its processing capacity to support the envisaged growth in volumes by investing in a new plant at a suitable location near Mysore.

The business with its unmatched R&D capability, state-of-the-art processing facilities, crop development expertise and a deep understanding of customer and farmer needs is well poised to sustain its position as a world-class leaf tobacco organisation.

Agri Commodities

The agri commodities business registered a strong growth in revenue, reflecting your Company's deep commitment to the development of the agri value chain. Leveraging the e-Choupal network, the business posted a record increase in overall revenues by 68% to touch Rs.1753 crores. This topline performance is even more heartening when viewed in the context of the challenging market conditions and the heightened competitive intensity that characterised the year under review.

Exports of agri commodities grew by 51% to touch Rs.756 crores while domestic sales grew by 83% to reach Rs.997 crores. This impressive performance was achieved on the back of new customer acquisitions, increased presence in new markets and enhanced supply chain efficiencies. In line with its strategy of achieving a higher order of value capture, the business successfully scaled up exports of processed fruits and commenced exports of organic and fresh produce. Procurement through the e-Choupal network doubled over the previous year. Additional processing centres were inducted leading to enhanced levels of value capture.

As stated in last year's Report of the Directors, it is the strategic intent of your Company to leverage the unique e-Choupal model to create a significant two-way multi-dimensional channel which can efficiently carry products and services into and out of rural India, while recovering the associated costs through agri-sourcing led efficiencies. Towards this objective, the e-Choupal network was further scaled up during the year while simultaneously focusing on enhancing its reach and productivity. The network currently comprises 6,000 choupals reaching out to nearly 3.5 million farmers in 36,000 villages in the states of Madhya Pradesh, Uttar Pradesh, Haryana, Uttaranchal, Rajasthan, Maharashtra, Karnataka, Andhra Pradesh and Kerala.

On the sourcing side, the e-Choupal network made an invaluable contribution to strengthen your Company's branded packaged foods business through access to high quality, identity preserved wheat at competitive prices. Wheat procurement through the network doubled over the previous year, leading to scale and quality advantage for 'Aashirvaad' atta, 'Sunfeast' biscuits and 'Sunfeast' pasta.

The rural distribution initiative was successfully scaled up during the year. The channel transaction value touched nearly Rs.100 crores. This represents a near doubling of the channel throughput over the previous year, comprising distribution of products of 45 companies, from both public and private sectors, in categories ranging from FMCG products, consumer durables, vehicles, agri inputs, etc. Distribution of financial services also made substantial headway with sales of life insurance policies growing four fold during the year. Extensive pilots in health, motor and weather insurance were conducted to validate and further refine the business model.

The successful scale up of your Company's rural distribution initiatives was enabled by continued focus on enhancing the productivity of the e-Choupal network through a series of measures, including imparting specialised training to sanchalaks, increasing reach to all catchment villages and activity building exercises to promote interaction and communication. An end-to-end channel performance management system has been deployed to effectively deal with the complexities and the geographical spread that this initiative entails.

The year also saw the ramping up of your Company's rural retailing business with 10 'Choupal Saagars' now operational in the 3 states of Madhya Pradesh, Maharashtra and Uttar Pradesh. 9 more 'Choupal Saagars' are in an advanced stage of construction and will be launched shortly. This landmark infrastructure has set new benchmarks in shopping experience for rural consumers. It also incorporates farmer facilitation centres providing facilities like training, soil testing, health clinic, cafeteria, banking and investment services, fuel station, etc. Store footfalls and sales have been encouraging and in line with expectations. Your Company is engaged in scaling up the rural retailing initiative to establish another 40 'Choupal Saagars' in the next 12 to 18 months. Acquisition of suitable land remains a key challenge.

During the year, your Company ramped up the Spices business leveraging its crop development and research expertise. The business achieved significant breakthroughs in both domestic and international markets and made good progress towards developing niche products viz. high-curcumin turmeric, aflatoxin-free chillies, etc. The business also provided strategic sourcing support to your Company's branded foods business by supplying high quality spices at competitive prices. The year also marked your Company's foray into the organic agri inputs market leveraging its strong R&D and crop extension services expertise. During the year, the business developed a new neem-based organic manure under the brand name 'Wellgro'. Based on extensive trials at leading research institutions and agriculture universities in the country, the product was launched in Andhra Pradesh and Karnataka. Response from the farmers has been encouraging with most reporting improved crop quality and enhanced productivity.

In line with the strategy of de-risking the commodities business, your Company continues to explore opportunities to establish strategic sourcing tie-ups with institutional players including large retail chains, increase the proportion of value added products in the portfolio and provide commodity services like warehouse management, etc. Risk management strategies are continuously being refined. It is pertinent to note that despite the substantial increase in volume of business during the year under review, risks were effectively managed through a combination of judicious hedging of price risk on the commodity exchanges, a balanced and diversified commodity portfolio and increased tied-up trade. Formulation and implementation of standard operating procedures and fundamental internal control systems are intrinsic to the robust risk management framework operating in this business.

REPORT OF THE DIRECTORS

During the year, the business successfully implemented an integrated ERP system. In combination with an industry specific retail solution, the business now has a strong IT backbone providing a platform for basic transaction capture, information integration and enhanced efficiencies.

Your Company was the recipient of the 'Development Gateway Award', which recognises the e-Choupal initiative as one of the most exemplary contributions in the field of information and communication technologies (ICT) during the last 10 years. The e-Choupal initiative also won the prestigious 'Stockholm Challenge Award 2006' in the 'Economic Development' category. The ten-year-old Stockholm Challenge Award recognises initiatives that leverage Information Technology to improve living conditions and increase economic growth in various parts of the world.

Developmental activities under the umbrella of 'Sunehra Kal' in the e-Choupal catchment areas were scaled up during the year, further reinforcing your Company's relationship with the rural community. Several initiatives are operational in areas such as water harvesting and livestock quality enhancement in many districts of Madhya Pradesh and Uttar Pradesh. The success of these initiatives demonstrates the potential of the e-Choupal infrastructure as an effective delivery mechanism for upgrading social infrastructure.

Your Company continues to invest in strategic capability building towards execution of an innovative business model. Customised training programmes are being deployed across the business towards enhancing trade marketing, distribution and rural retailing skills.

NOTES ON SUBSIDIARIES

The following may be read in conjunction with the Consolidated Financial Statements enclosed with the Accounts, prepared in accordance with Accounting Standard 21. Your Company has been exempt from the provisions of Section 212(1) of the Companies Act, 1956 relating to the attachment of the accounts of its subsidiaries to its Accounts. Shareholders desirous of obtaining the annual accounts of your Company's subsidiaries may obtain the same upon request. The report and accounts of the subsidiary companies will be kept for inspection at your Company's registered office and that of the subsidiary companies. Further, the report and accounts of the subsidiary companies will also be available in the 'Shareholder Value' section of your Company's website, www.itcportal.com in a user friendly, downloadable format.

Surya Nepal Pvt. Limited

The Nepalese GDP growth rate declined sharply to 2% during the year ended 31st Ashad, 2062 against a growth of 3.6% in the previous year. Operating conditions continued to be increasingly challenging in view of the ongoing political turmoil leading to sharp escalation in supply chain disruptions on account of unprecedented blockades and bandhs.

On 3rd February, 2006, three key members of the company's management at the cigarette factory in Simra were abducted by persons allegedly affiliated to the Maoist-aligned 'All Nepal Federation of Trade Unions' and kept in custody for a period of 15 days. It is a testimony to the quality of the company's leadership and human resources that their successful release was secured without any untoward incident.

In spite of the difficult operating conditions, the company's proactive supply chain management, commitment to delivering superior value to consumers and continuous focus on productivity improvement resulted in enhanced market standing and strong financial performance during the year. For the twelve-month period ended on 13th March, 2006, Sales grew by 14.6% to touch Nepalese Rs.463 crores while Profit After Tax touched Nepalese Rs.52 crores representing a growth of 14%. The company continues to be the single largest contributor to the Government Exchequer constituting about 37% of total excise duty collection and nearly 3.5% of total tax revenues.

The Cigarette business continued to make satisfactory progress with investments directed to keep the company's trademarks contemporary and provide variety to consumers. During the year, the company launched 'Surya Classic' in the 97 mm segment in a unique shoulder-box packaging format. The cigarette factory was accredited with ISO 14001:2004 in recognition of improved environment and safety standards.

In respect of the company's garments business, exports during the year increased substantially, aided by the strong showing of your Company's

'John Players' range in India. However, the recent imposition of a Special Additional Duty (SAD) of 4% on all imports into India as per the Finance Act, 2006 is a cause of concern, as it would adversely impact the competitiveness of exports from Nepal. The company continues to make representations to the appropriate authorities in this regard. The company's focus on material and manpower productivity backed with world-class systems and processes has resulted in timely fulfilment of orders and overall cost competitiveness. During the year the garment factory was accredited with ISO 9001:2000.

The company has been actively involved with various social development initiatives in areas such as community health services (Surya Nepal "Suswasthya"), community empowerment (Surya Nepal "Aasha"), environment preservation (Surya Nepal "Prakriti") and promotion of sports and tourism (Surya Nepal "Khelparyatan").

The company declared a Dividend of Nepalese Rs.35/- per equity share of Nepalese Rs.100/- each for the year ended 31st Ashad, 2062.

Srinivasa Resorts Limited

During the financial year ended 31st March, 2006, the company recorded Net Revenues of Rs.66.81 crores (previous year Rs.52.63 crores) and a Profit Before Tax of Rs.25.75 crores (previous year Rs.18.38 crores). Net Profit stood at Rs.17.66 crores (previous year Rs.12.21 crores) after providing for income tax of Rs.8.09 crores (previous year Rs.6.17 crores).

The Board of Directors of the company has recommended a dividend of Rs.2.00 per equity share of Rs.10/- each for the year ended 31st March, 2006.

The company's hotel, 'ITC Hotel Kakatiya Sheraton & Towers', continued to maintain its leadership position in Hyderabad.

The company received the 'Excellent Water Efficient Unit' award from the Confederation of Indian Industry for Excellence in Water Management.

Fortune Park Hotels Limited

During the financial year ended 31st March, 2006, the company recorded Net Revenues of Rs.457.92 lakhs (previous year Rs.327.56 lakhs) and earned a Net Profit of Rs.92.24 lakhs (previous year Rs.69.35 lakhs) after providing for income tax of Rs.56.33 lakhs (previous year Rs. 40.70 lakhs).

The Board of Directors of the company has recommended a dividend of Rs.2.00 per equity share of Rs.10/- each for the year ended 31st March, 2006.

The company, which caters to the mid market segment, manages fifteen operating hotels under the 'Fortune' brand and has subsisting agreements in respect of six hotel projects which are slated to open during the course of financial year 2006-07.

Bay Islands Hotels Limited

During the year 2005-06, the company earned an Income of Rs.33.93 lakhs (previous year Rs.44.21 lakhs) and a Net Profit of Rs.20.89 lakhs (previous year Rs.24.91 lakhs) after providing for income tax of Rs.7.22 lakhs (previous year Rs.14.10 lakhs).

The Board of Directors of the company has recommended a dividend of Rs.20.00 per equity share of Rs.100/- each for the year ended 31st March, 2006.

Russell Credit Limited

During the year, the company earned a Profit After Tax of Rs.27 crores.

In line with its objective of making long-term investments in areas of strategic interest for the ITC Group, the company acquired majority shareholding in Wimco Limited (Wimco) during the year. Upon such acquisition, Wimco and its subsidiaries Wimco Boards Limited, Pavan Poplar Limited, Prag Agro Farm Limited and Wimco Seedlings Limited have become subsidiaries of the company.

Pursuant to such acquisition of shareholding, an offer was made by the company to acquire the remaining public shareholding of equity shares of Wimco through the book-building process under the Securities and Exchange Board of India (Delisting of Securities) Guidelines, 2003 (the "Guidelines"). The said book-building process was successfully conducted and a price of Rs.53/-, established as the Exit Price, was paid to acquire the equity shares tendered by the shareholders of Wimco under the said book-building process. Following the aforesaid acquisition, the company applied for delisting of Wimco's equity shares from the National Stock Exchange (NSE) and the Bombay Stock Exchange (BSE). Both NSE and BSE have approved the delisting of the equity shares of Wimco with effect from 14th December, 2005. In accordance with the Guidelines, the company would be acquiring, at the Exit Price of Rs.53/-, all equity shares that may be tendered by the remaining shareholders of Wimco till 13th June, 2006. The shareholding of the company in Wimco stood at 93.66% as at 26th May, 2006.

As stated in earlier Reports, a petition was filed by an individual in the High Court at Calcutta, seeking an injunction against the company's Counter Offer to the shareholders of VST Industries Limited, made in accordance with the Securities and Exchange Board of India (Substantial Acquisition of Shares & Takeovers) Regulations, 1997, as a competitive bid, pursuant to a Public Offer made by an Acquirer, which closed on 13th June, 2001. The High Court at Calcutta, while refusing to grant such an injunction, instructed that the acquisition of shares pursuant to the Counter Offer by the company and the other Acquirer, would be subject to the final Order of the High Court, which is still awaited. Similar petitions filed by an individual and two shareholders, in the High Courts of Delhi at New Delhi and Andhra Pradesh at Hyderabad, had earlier been dismissed by the respective High Courts.

BFIL Finance Limited

The company continues to focus its efforts towards recoveries through negotiated settlements including property settlements and pursuing legal cases against various defaulters. During the year some negotiated settlements were concluded and the company effected collections aggregating Rs.119 lakhs. As at 31st March, 2006, the company had no external liabilities outside the ITC Group. The company plans to further intensify the efforts for collection of dues through negotiated settlements in the coming year. The company is closely monitoring the developments taking place in the NBFC sector and will examine options for further opportunities at the appropriate time.

Gold Flake Corporation Limited, Wills Corporation Limited, Greenacre Holdings Limited & MRR Trading and Investment Company Limited

There were no major events to report with respect to these companies.

Landbase India Limited

As reported in the Report of the Directors in previous years, golf based resorts present attractive long-term prospects in view of their growing popularity all over the world. Pre-project activities towards developing a resort hotel at the Classic Golf Resort were commenced during the year. The company's expertise in golf course management combined with the project management and service competencies of your Company's hotels business can be effectively leveraged to realise the growth potential in this segment.

ITC Infotech India Limited

The year 2005 marked a significant shift with strategic outsourcing increasingly being viewed in the US as a key driver of value creation. Outsourcing continued to grow in the UK also, with many companies offshoring application management & support and infrastructure services in addition to customer care services. The year also saw several European companies, particularly those in Scandinavia and Germany, exploring offshoring of work in a bigger way in pursuit of their business goals. Research indicates that India's standing as a preferred offshore destination has been further reinforced.

The IT-ITES sector witnessed steady growth in 2005 on the back of healthier spending across key markets viz. US, Western Europe and Japan. The portfolio of services sourced globally continued to expand into higher value, more complex activities, further reinforcing the growing maturity of the global delivery model. Consequently, there is a rush among IT-ITES companies to garner scale, build knowledge capital and establish global delivery capability. As a result, significant consolidation is taking place in all sectors of the IT industry.

While the overall economic environment has been conducive to growth, the specific business dynamics in respect of the company's IT services business was challenging with certain key customers undergoing organisational restructuring and redesign leading to changes in IT strategy and staff. Consequently, the growth in revenues and profit of the company and its UK subsidiary, ITC Infotech Limited, UK has been relatively muted.

However, the success of the company together with its wholly owned subsidiaries in the US and UK (ITC Infotech Group) in acquiring several new customers in US and Europe, many of whom are in the Fortune 500 / 1000 list, is encouraging. It reflects the benefit of the internal restructuring completed during the year. The new strategy of organisation has been crafted to bring sharper focus on select business verticals and greater thrust and accountability on new customer acquisition.

The ITC Infotech Group is now a 1250-strong team of software engineers. The Group expanded its overseas presence by opening a Representative Office in Kuala Lumpur, Malaysia and a Branch Office in Prague, Czech Republic.

'Global Services Research' has recognised ITC Infotech as one of the Top 5 Specialty Application Development Providers globally and placed it amongst the Top 100 Global Services Companies. Other analysts like 'AMR Research' have recognised ITC Infotech as one of the key Offshore Testing Services Providers amongst Emerging IT Companies in India. Further, 'Forrester Research' has profiled ITC Infotech amongst leading Offshore SAP Services Providers.

For the year under review:

(a) ITC Infotech India Limited registered a Total Income of Rs.162.34 crores (previous year Rs.130.28 crores) and a PAT of Rs.10.38 crores (previous year Rs.2.04 crores).

(b) ITC Infotech Limited, UK, a wholly owned subsidiary of the company, has registered a Turnover of GBP 14.31 million (previous year GBP 13.58 million) and a Net Profit of GBP 0.40 million (previous year GBP 1.09 million). The company declared a total dividend of 26% i.e. GBP 0.26 per Ordinary Share of GBP 1.00 each, aggregating GBP 178312 for the financial year ended 31st March, 2006.

(c) ITC Infotech (USA), Inc., a wholly owned subsidiary of the company, registered Total Revenues of USD 6.51 million (previous year USD 4.92 million) and a Net Profit of USD 0.16 million (previous year Net Loss USD 0.49 million).

In the ITES segment, CLI3L e-Services Limited (CLI3L), a joint venture company of ITC Infotech India Limited, posted a robust performance with Total Income growing by 29% to touch Rs.133.73 crores (previous year Rs.103.85 crores) while post-tax profits at Rs.32.86 crores grew by 51%. The results reflect the growing customer confidence in the company's service delivery processes and the quality of its talent base and infrastructure. The company now employs about 2,100 agents and has a capacity of about 1,700 seats. Post-tax profit margins of the company, at 25% compare favourably with the industry. The company declared a total dividend of 125% i.e. Rs.12.50 per share (previous year Nil) for the year ended 31st March, 2006.

Strong relationships, diversity of services, a global delivery footprint, effective management of scale and deep domain understanding would be the key differentiators in the highly competitive global IT-ITES industry. The company has already built a healthy pipeline of customers around testing, package implementation and IT infrastructure services and plans to build upon these new engines of growth in the ensuing years. Going forward, the company plans to focus on strategic capability building in identified technology practices and new customer acquisitions in its vertical business domains. Towards this objective, the company is also exploring possibilities of inorganic growth and strategic alliances.

ITC Global Holdings Pte. Ltd.

Since 8th November, 1996, the Judicial Managers have been conducting the affairs of ITC Global Holdings Pte. Ltd. ("ITC Global") under the authority of the High Court of Singapore.

The Judicial Managers had indicated to your Company that the outstanding dues of ITC Global to its creditors were likely to be around USD 50 million (apart from the debt of approximately USD 10 million owed by ITC Global to ITC and for which your Company has already filed its formal Proof of Debt to the Judicial Managers) and had sought your Company's financial support to ITC Global to enable it to settle with its creditors. Your Board did not accept any legal liability in this regard and had accordingly advised the Judicial Managers.

However, without prejudice, and with the intention of preserving the goodwill of the international banking and other investing communities and thereby subserve your Company's future business interests in a fast-globalising economy, your Company proposed a goodwill assistance of USD 26 million to ITC Global. It was made clear that this would be subject to your consent and all necessary approvals from all Government and other authorities, both at Singapore and in India, and also subject to concluding a comprehensive Agreement between your Company and the Judicial Managers in this regard. However, before your Board could consider the draft Agreement as forwarded by the Judicial Managers, the Company's Singapore lawyers received a letter from the lawyers of the Judicial Managers containing certain baseless and unwarranted allegations against the Company. Subsequently, your Board, while approving the draft Agreement stipulated a condition that the execution of the Agreement will be subject to the receipt of an unconditional apology and withdrawal of the allegations and offensive comments made against your Company by the Judicial Managers in their letter. Though, initially it appeared that the Judicial Managers would be complying with the stipulations of your Board, they instead filed a Writ against the Company before the Singapore High Court claiming approximately USD18.10 million from your Company. After obtaining suitable legal advice, your Company filed an appropriate application for setting aside the Writ.

On 2nd March, 2006 the Assistant Registrar of the Singapore Court set aside the service of writ of summons on the Company and some individuals.

The High Court of Singapore had ruled that "the Company (i.e. ITC Global) is not required to conduct any audit of the Company during the period of judicial management of the Company." As a consequence of the aforesaid Order, as in the previous years, your Company is not in a position to consolidate the accounts of ITC Global and its subsidiaries for the year ended 31st December, 2005. Your Company shall, as and when the accounts of ITC Global are received, circulate the same to the Members of the Company.

NOTES ON JOINT VENTURES

ITC Filtrona Limited

ITC Filtrona Limited maintained its market leadership in the Indian cigarette filter industry with nearly 60% value share. Gross Sales for the year ended 31st December, 2005 at Rs.77.81 crores represents a growth of 1.4% over the previous year. Pre-tax profit increased by 1.5% to Rs.7.39 crores. The Board of Directors of the company recommended a dividend of 80% for the year.

The company won repeat tender business and exported 286 million filter rods to the Ethiopian monopoly.

The company's continued focus on improving product quality and product development further strengthened its association with cigarette manufacturers in India, sustaining its preferred supplier status.

King Maker Marketing

King Maker Marketing Inc. (KMM), a company registered in the State of New York, USA, has been the force behind your Company's exports in the US. KMM also provides market research services relating to the US Tobacco and FMCG markets.

In respect of the tobacco business, KMM became a signatory to the Master Settlement Agreement (MSA) in 1999 and consequently contributes to the 'Fund' established under this Agreement. A sharp increase in the number of Non-Participating Manufacturers (NPM), including importers into the US, resulted in intense price competition during the year. KMM, as a matter of strategy, chose to protect and retain margins rather than share. The result of this strategy has seen a decline in volume share but an increase in trading margins. With the expectation that Federal and State authorities will plug the NPM issue over time, this strategy should secure long-term growth for KMM.

During the year, KMM successfully re-launched Roll Your Own Tobaccos (RYO), manufactured by your Company, with an impressive growth in sales.

KMM paid a dividend of USD 250000 to your Company during the year.

Maharaja Heritage Resorts Limited

Maharaja Heritage Resorts Limited, a joint venture with Marudhar Hotels Private Limited, currently has 35 properties operating under the 'WelcomHeritage' brand.

REAL ESTATE

As reported in last year's Report of the Directors, your Company has made significant progress over the last 2 years towards redeeming most of the investments in real estate in the form of upfront settlement and future inflows secured against bank guarantees. In view of the escalating trend in real estate prices in recent times, your Company is well poised to encash value from the few remaining investments as and when desired.

RISK MANAGEMENT

As a diversified enterprise, your Company has always had a system-based approach to business risk management. Backed by strong internal control systems, the current risk management framework of your Company consists of the following elements:

- The Corporate Governance Policy clearly lays down the roles and responsibilities of the various entities in relation to risk management. A range of responsibilities, from the strategic to the operational, is specified in the Governance Policy. These role definitions, inter alia, are aimed at ensuring formulation of appropriate risk management policies and procedures, their effective implementation and independent monitoring and reporting by Internal Audit.
- A combination of centrally issued policies and divisionally-evolved procedures brings robustness to the process of ensuring that business risks are effectively addressed.
- Appropriate structures have been put in place to effectively address the inherent risks in businesses with unique / relatively high risk profiles.
- A strong and independent Internal Audit function at the Corporate level carries out risk-focused audits across all businesses, enabling identification of areas where risk management processes need to be improved. The Audit Committee of the Board reviews Internal Audit findings, and provides strategic guidance on internal controls. The Audit Compliance and Review Committee closely monitors the internal control environment within the Company and ensures that Internal Audit recommendations are effectively implemented.
- At the Business level, Divisional Auditors continuously verify compliance with laid down policies and procedures, and help plug control gaps by assisting Operating Management in the formulation of control procedures for new areas of operations.
- A robust and comprehensive framework of business planning and performance management ensures realisation of business objectives based on effective strategy implementation. The annual business planning exercise requires all businesses to clearly identify their top risks and set out a mitigation plan with agreed timelines and accountability.

The combination of policies and processes as outlined above adequately addresses the various risks associated with your Company's businesses. The senior management of the Company periodically reviews the risk management framework to maintain its contemporariness so as to effectively address the emerging challenges in a dynamic business environment.

AUDIT AND SYSTEMS

Your Company believes that internal control is a necessary concomitant of the principle of governance that freedom of management should be exercised within a framework of appropriate checks and balances. Your Company remains committed to ensuring an effective internal control environment that provides assurance on the efficiency of operations and security of assets.

Your Company's well established and robust internal audit processes, both at business and corporate levels, continuously monitor the adequacy and effectiveness of the internal control environment across the Company and the status of compliance with operating systems, internal policies and regulatory requirements. In the networked IT environment of your Company, validation of IT security continues to receive focused attention of the internal audit team which includes IT specialists. The Internal Audit function, which consists of professionally qualified accountants, engineers and IT specialists, also reviews the quality of planning and execution of all ongoing projects involving significant expenditure to ensure that project management controls are adequate to yield 'value for money'.

The Audit Committee of your Board met nine times during the year. It reviewed, inter alia, the adequacy and effectiveness of the internal control environment and monitored implementation of internal audit recommendations including those relating to strengthening of the Company's risk management policies and systems. It also engaged in overseeing financial disclosures.

HUMAN RESOURCE DEVELOPMENT

In a buoyant talent market, your Company continues to attract and retain talent of the highest quality. It ensures that employees retain a cutting edge by nurturing and mobilising individual potential and providing a challenging and exciting work environment. The emphasis on offering people opportunities for cross-functional and cross-business exposure nurtures and challenges their ability and creativity. The enabling and empowering work environment propels them to deliver high performance.

Your Company's human resource management systems and processes aim to create a responsive, customer-centric and market-focused culture that enhances organisational capability and vitality, so that each business is internationally competitive and equipped to exploit emerging market opportunities. The strategy of organisation and its ongoing emphasis on building distributed leadership have ensured that each of your Company's businesses are managed by a team of competent and inspiring leaders, capable of building a culture of learning, innovation and excellence in execution.

Your Company believes in aligning employees with a shared vision and purpose. During the year under review, your Company's commitment to building harmonious employee relations was evident in the successful conclusion of long-term agreements at several manufacturing units and hotel properties. The collaborative spirit of partnership across all sections of employees has resulted in significant enhancement in quality and productivity.

Your Company's aspiration to sustain and enhance its position as one of India's most valuable corporations committed to make a significant contribution beyond the market is anchored in the quality and dynamism of its human resource. Their unflinching commitment is the driving force behind your Company's vision of creating enlarged societal value even as it multiplies shareholder wealth. Your Company salutes the spirit of its dedicated team of over twenty thousand employees.

SUSTAINABILITY – CONTRIBUTION TO THE 'TRIPLE BOTTOM LINE'

Your Company continued to make significant progress in line with its vision of enlarging its contribution to Indian society across economic, ecological and social dimensions. Your Company's second Sustainability Report 2005, unveiled in January 2006, details its achievements across the three dimensions of the 'triple bottom line'. ITC's Sustainability Report, independently assured by PricewaterhouseCoopers, continues to be the only 'In Accordance Report' by an Indian corporation, as per Global Reporting Initiative (GRI) guidelines.

Your Company, now a 'benchmarked' corporation for its strategies and achievements in the area of sustainable development, launched the 'CII – ITC Centre of Excellence for Sustainable Development' in January 2006 in association with the Confederation of Indian Industry (CII). This Centre aims to create awareness, promote thought leadership and build capacity amongst Indian enterprises in their quest for sustainable development. The Centre will also recognise businesses that make outstanding contributions to sustainable development. In the process, they will become exemplars for other Indian organisations in adopting cutting edge practices in the area of sustainable development.

Your Company's uncompromising dedication to internationally benchmarked 'beyond compliance' performance ensures that all its units maintain the highest levels of safety, occupational health and environmental standards. Environment management systems at all manufacturing units and large hotels of your Company have been certified ISO 14001 compliant while all manufacturing units have received OHSAS 18001 accreditation.

It is a matter of great pride that your Company, already a 'water-positive' corporation, became 'carbon-positive' during the year on the back of several energy conservation measures, usage of carbon neutral fuels and carbon sequestration through large-scale agro-forestry programmes. Your Company is also making rapid strides towards attaining 'zero solid waste' status. Once achieved, this would make your Company perhaps the only one of its kind in the world to have achieved these milestones encompassing all the three critical facets of environmental sustainability.

As stated in last year's Report, your Company's mill at Bhadrachalam is the only producer of Elemental Chlorine Free pulp and paperboards in the country and has been adjudged as the 'Greenest and environmentally most friendly paper mill in India' by the Centre for Science & Environment. 'ITC Green Centre' in Gurgaon is one of the largest Platinum rated buildings in the world by the US Green Building Council Certification for Leadership in Energy & Environmental Design (USGBC – LEED). Both bear testimony to your Company's dedicated and uncompromising pursuit of the 'triple bottom line'.

REPORT OF THE DIRECTORS

The strategic vision behind the policies and the dedication with which these are implemented by the employees have made your Company a benchmark enterprise in this field as evident from the number of prestigious awards and certifications received by it.

The expansion in the number of social development projects has been no less significant. Your Company continued with its strategy of concentrating on three main areas of interventions under 'Mission Sunehra Kal': (a) natural resource management, which includes wasteland, watershed and agriculture development; (b) sustainable livelihoods, comprising genetic improvement in livestock and women's economic empowerment; and (c) community development, with focus on primary education and health & sanitation. Starting with projects in Karnataka and Andhra Pradesh in 2000-01, your Company's social development projects today are spread over the states of Kerala, Andhra Pradesh, Karnataka, Tamil Nadu, Madhya Pradesh, Uttar Pradesh, Rajasthan and Bihar.

Wasteland development through the Social Forestry Programme has so far promoted plantations over 6,822 hectares in 298 villages, covering 8,000 poor households. The collaboration between your Company and the Government of Andhra Pradesh for wasteland development under the aegis of the 'Velugu' programme was successfully scaled up during the year with 980 hectares of plantations being promoted through this public-private partnership. The households covered under the Social Forestry Programme continue to reap the benefits derived from harvesting plantations. Apart from improving their earnings, sale of plantations has enabled most beneficiaries to deposit a portion of their earning with the 'sanghas' to create village development funds. Your Company has also assisted the households to invest their own incomes into productive assets to ensure a long-term virtuous cycle of development.

The soil and moisture conservation programme, designed to assist farmers in identified moisture-stressed districts, witnessed a sharp rise in its coverage during the year. To date, 1,011 water-harvesting structures provide critical irrigation to about 10,277 hectares. In continuation of its policy of providing an integrated solution for soil and moisture conservation, your Company lays equal emphasis to ensure efficient usage of water through interventions aimed at improving farm productivity, promoting group irrigation projects and demonstrating the use of sprinkler sets. Sustainable agricultural practices received a major boost during the year with the promotion of more than 4,000 organic fertiliser units based on vermi-composting and 'Nadep' technologies.

The sustainable livelihoods initiative of your Company strives to create alternative employment for surplus labour and decrease pressure on arable land by promoting non-farm incomes. Among many such activities, the programme for genetic improvement of cattle through artificial insemination to produce high-yielding cross-bred progenies has been given special emphasis because it reaches out to the most impoverished and has the potential to pull them out of poverty. Cattle development centres already cover more than 1,440 villages, providing integrated animal husbandry services to more than 35,000 milch animals during the year. The initiative for the economic empowerment of women also made significant progress during the year. Todate, 10,610 women have been organised under 630 self-help groups (SHG) with total savings of Rs.35 lakhs. More than 4,000 women have been gainfully employed either through micro-enterprises or self-employment backed by income generation loans.

The progress made towards achieving sustainable development goals has been possible, in large measure, to your Company's partnerships with some of the globally renowned NGOs like Baif Development Research Foundation, Sewa-Bharat, Dhan Foundation, Srijan, Pratham, Foundation for Ecological Security, Action for Social Advancement, Udyogini, etc. These partnerships which combine the best-in-class management practices of your Company and the development experience and mobilisation skills of the NGOs, will continue to bring innovative grass-roots solutions to some of India's critical development issues.

R&D, QUALITY AND PRODUCT DEVELOPMENT

In the emerging competitive context in India, focused innovation clearly aligned with business strategy would be the key growth driver. This assumes even more critical significance for your Company since its competitive landscape is marked with world-class companies with strong R&D focus. Your Company's objective therefore is to pursue a R&D strategy premised on best-in-class benchmark research processes to secure sustainable and long-term competitiveness for all its businesses. ITC's R&D will prioritise its focus on projects with high impact and high research content. It will also provide active support in technical services for all the businesses of your Company.

ITC R&D is in the process of building a critical mass of scientific skills in identified core competencies. Domain experts will lead the competency-based teams, driven by the vision of creating globally networked centres of excellence. Investments in state-of-the-art Pilot Plants and Testing Laboratories will continue to provide leading-edge support for accelerated product development. The ITC R&D Centre at Bangalore is being appropriately structured and resourced to attract and retain the best scientific talent.

'Six Sigma' quality processes, supported by trained teams of black/green belts, were implemented during the year in the Lifestyle Retailing and Hotels businesses. The Paperboards & Specialty Papers and the Packaging & Printing businesses have implemented 'Total Productive Maintenance' (TPM). All ITC manufacturing units have put in place updated total quality ISO systems. Almost all contract-manufacturing units in the Foods business have been accredited with the Hazard Analysis Critical Control Points (HACCP) certification. Additionally, all FMCG products of your Company are assessed regularly under rigid Product Quality Rating Systems.

Product Quality needs to be supported by process excellence. Accordingly an International Quality Rating System for Business Excellence, which rates key processes against international benchmarks, has already been introduced in some of the businesses. The Leaf Tobacco and Packaging & Printing businesses have already achieved world-class level business ratings during the year.

EXCISE

As mentioned in the last year's Report and Accounts, the dispute arising out of the Excise Department's Show Cause Notice dated 27th March, 1987 relating to the period 1st March, 1983 to 28th February, 1987 stands settled.

With regard to the period prior to March 1983, various Show Cause Notices were issued in respect of the Bangalore, Saharanpur and Munger factories of the Company between 1975 and 1985. These Show Cause Notices were assigned to the Director General of Inspection, Customs & Central Excise, New Delhi ('DG') who passed his Order on 10th April, 1986. Although the differential duty payable under the DG's Order was determined and paid by your Company on an admitted interpretation of Rule 5 of Central Excise (Valuation) Rules (which interpretation has since been upheld by the CEGAT and affirmed by the Supreme Court), the Excise Department raised doubts on such interpretation and issued revised demands under the DG's Order, in respect of Bangalore, Munger and Saharanpur factories. The Bangalore demand for Rs.27.58 crores was set aside by the Commissioner (Appeals), Bangalore, by his Order dated 22nd November, 1999 and confirmed by the CEGAT, Chennai vide its order dated 18th December, 2003, against which the department has filed an appeal before Supreme Court, which is pending. The Saharanpur demand of Rs.80.30 crores was confirmed by the Commissioner (Appeals) to the extent of Rs.76.03 crores, against which your Company filed an Appeal before the CEGAT, Delhi. By an Order dated 28th November, 2001, a three-member Bench of the CEGAT to whom the Appeal was referred, answered all questions arising in the Appeal in favour of your Company. Thereafter, the CEGAT by its Order dated 2nd August, 2002 allowed the appeal of your Company by setting aside the demand for Rs.76.03 crores and remanding the matter to the Asssistant Commissioner for re-quantification in accordance with the Order of its three-member Bench. The Department has filed an Appeal before the Supreme Court, which has been admitted for hearing. As regards the Munger factory the revised demand of Rs.8.29 crores under the DG's Order was dropped by the Commissioner of Central Excise, Patna vide his Order dated 20th September, 2001.

As mentioned in the Report of the Directors for 1987 and thereafter, the Excise Department, during 1987 and 1988, again reopened some of the issues already settled by the Order of the DG, by issuing fresh Show Cause Notices in respect of the period upto 28th February, 1983. The Notices proposed to recover differential duties of Rs.43.88 crores (for Munger factory), Rs.143.22 crores (for Bangalore factory), Rs.31.05 crores (for Kidderpore factory), Rs.41.51 crores (for Parel factory) and Rs.26.43 crores (for Saharanpur factory). All these Notices were assigned to the Commissioner of Central Excise, Delhi, for investigation and adjudication. Your Company, apart from denying any liability as claimed in the Notices, challenged the maintainability of all these Show Cause Notices.

As mentioned in the 1997 Report of the Directors and thereafter, the Commissioner of Central Excise, Delhi, passed orders directing the Departmental Authorities to finalise the assessments in respect of Bangalore, Parel and Munger factories for the pre-March 1983 period. On an Appeal filed by your Company against an Order of the Commissioner, rejecting the Company's contentions on the issue of maintainability, the CEGAT, Chennai, by its judgement dated 13th January, 2000 upheld the contention of your Company and set aside the Bangalore Show Cause Notice for Rs.143.22 crores with the direction, inter alia, that the allegations made therein should be considered while finalising the assessments in respect of the Bangalore factory, which has been your Company's contention all along. Though the Department filed an Appeal in Supreme Court against the Order of the CEGAT, Chennai and the same was pending, pursuant to the order of the CEGAT Chennai, the Assistant Commissioner, Central Excise, Bangalore, by his Order dated 26th July, 2001 demanded a differential duty of about Rs.583 crores. On an appeal filed by your Company, the Commissioner (Appeals), by an Order dated 30th August, 2002, set aside the said Order and Demand dated 26th July, 2001. On requantification in accordance with the said Appellate order, the Department has determined that your Company has made excess duty payment of Rs.3.76 crores. The Department’s Appeal against the Order dated 13th January, 2000, passed by the CEGAT, Chennai was dismissed by the Supreme Court by its Order dated 6th March, 2003 as infructuous. The Department filed another appeal after a delay of 677 days before CESTAT, Bangalore against the Commissioner (Appeals) order dated 30th August, 2002, thereby seeking to re-open the finalisation order. This appeal was dismissed by the CESTAT by its order dated 2nd February, 2005, on grounds of delay and an appeal filed by the Department against the order of CESTAT dated 2nd February, 2005 was also dismissed by the Supreme Court vide its order dated 15th July, 2005.

The CESTAT by an order dated 18th June, 2004 allowed your Company's Appeals against the orders passed by the Commissioner of Central Excise, New Delhi during September, 1996 relating to the Show Cause Notices issued in respect of Parel factory. The Department has filed an appeal before the Supreme Court against the order dated 18th June, 2004 of the CESTAT, which is pending. Similar appeals filed by your Company against the orders passed by the Commissioner of Central Excise, New Delhi relating to the Show Cause Notices issued in respect of Munger factory are pending before CESTAT, Kolkata. As regards the Show Cause Notice in respect of Saharanpur factory, your Company has filed a writ petition in the Delhi High Court, which is pending.

Despite your Company having, as early as in the year 1986, paid the differential duty on account of notional interest on Security Deposit for excise valuation on cigarette clearances during the period 1st July, 1980 to 30th June, 1983 from Parel factory consequent to DG’s order, the Excise Authorities were persisting with two more Notices, issued in 1983 and 1984 for a total sum of Rs.57.66 crores. These two Notices were also assigned to the Commissioner of Central Excise, Delhi, for investigation and adjudication. The Commissioner, Delhi, by his order dated 13th September, 1996 rejected your Company’s contentions on maintainability of the Notices. By an Order dated 30th September, 1999, the Commissioner of Central Excise, Delhi has confirmed the demand in respect of these two Notices for only Rs.75.27 lakhs (as against Rs.57.66 crores originally proposed) which amount has been directed to be adjusted with the equivalent amount already paid by your Company pursuant to the DG's Order. By the said Order, a penalty of Rs.5 lakhs has also been imposed on your Company. The Company filed an Appeal before the CEGAT, Mumbai (subsequently transferred to the CEGAT, Delhi) against the said Order dated 30th September, 1999.

Similarly, though the Company’s appeal in respect of the Show Cause Notice relating to Parel factory for Rs.41.51 crores was pending before the CEGAT, the Commissioner of Central Excise, Delhi by his order dated 29th December, 2000 raised a demand for Rs.5.96 crores or such higher amount as may be re-determined by the jurisdictional officer. By the same order the liabilities of the two contract manufacturers were roughly determined at Rs.83 lakhs and Rs.41 lakhs as against the differential duty of Rs.6.65 crores and Rs.2.89 crores respectively proposed in the said Show Cause Notice. Your Company and the contract manufacturers filed separate Appeals in the CEGAT, against the said Order of the Commissioner. The Department also filed an Appeal against the said Order dated 29th December, 2000 passed by the Commissioner, Delhi before the CEGAT, Delhi.

Prior to the order dated 29th December, 2000 passed by the Commissioner, Delhi, the Deputy Commissioner of Central Excise, Mumbai I, in compliance with the earlier orders of the Commissioner, Delhi, finalised the assessments relating to Parel factory by his Order dated 22nd September, 2000. In terms of the said order, a sum of Rs.87.83 lakhs as excise duty is shown to have been paid in excess by your Company. The Department's Appeal against the said order has been partially allowed as against which your Company filed an Appeal. All the Appeals filed by your Company against various proceedings connected with the finalisation of assessments for the period prior to March 1983 in respect of Parel factory, and the appeals filed by the two contract manufacturers, were allowed by the CESTAT vide its order dated 18th June, 2004 and the appeal filed by the Department was dismissed. As noted above, against this order of CESTAT, Department has filed an appeal before the Supreme Court, which is pending.

With respect to cigarettes and smoking mixtures cleared from the Munger factory, proceedings for finalisation pursuant to remand have resulted in the Deputy Commissioner's Orders dated 29th August, 2002 and 8th October, 2002 demanding Rs.13.09 crores and Rs.1.73 crores respectively which was confirmed by the Commissioner (Appeals), Patna vide his Orders dated 22nd December, 2004, against which the Company has preferred appeals before CESTAT, Kolkata, which is pending. Your Company, has made pre-deposits of Rs.2 crores and Rs.0.55 crore against the aforesaid demands at the stage when its appeals were pending before Commissioner (Appeals), Patna.

So far as the Kidderpore factory is concerned the Notices were set aside and all pre-March 1983 valuation disputes stand resolved pursuant to the finalisation of the provisional assessments.

In accordance with the law laid down by the CEGAT and upheld by the Supreme Court, the exorbitant duty demands under the aforesaid Show Cause Notices and orders on interpretation of Rule 5 of the Central Excise Valuation Rules, 1975 would stand virtually extinguished.

Although your Company in a spirit of settlement, paid the differential Excise Duty that arose out of the Order of the Director General as early as in March 1987, and although the Excise Department's aforesaid Demands had either been quashed or stayed, the Collectorates in Meerut, Patna and Bangalore, during the year 1995, filed criminal complaints in the Special Court for Economic Offences at Kanpur, Patna and Bangalore, charging your Company and some of its Directors and employees who were employed with your Company during the period 1975 to 1983 with offences under the Central Excises & Salt Act, 1944, purportedly on the basis of the Order of the Director General dated 10th April, 1986. Your Directors are advised that no prosecution would lie on the basis of the aforesaid Order of the Director General dated 10th April, 1986. In fact, the Special Court in Kanpur, which initially took cognisance of the complaints, subsequently, on applications filed by the individuals concerned, discharged them. Similar applications were filed by the individuals in the Special Court in Patna, which are pending. On applications moved by the individuals concerned, the Karnataka High Court, by its Order dated 31st August, 2001 quashed the complaint in so far as the said individuals are concerned. Following the Order passed by the Karnataka High Court, the Magistrate has quashed the Complaint by his Order dated 28th September, 2001. The Supreme Court has since dismissed an appeal filed by the Department against the order of the Karnataka High Court dated 31st August, 2001.

In all the above instances, your Directors are of the view that your Company has a strong case and the Show Cause, the Demand Notices and the Complaints are not sustainable.

Since your Company is contesting the above cases and contending that the Show Cause, the Demand Notices and the Complaints are not sustainable, it does not accept any liability in this behalf. Your attention is drawn to the Note 19(vii) in the Schedules to the Accounts and Note 19(v) in the Schedules to the Consolidated Financial Statements.

RECOVERY OF DUES FROM THE CHITALIAS AND ENQUIRY BY THE ENFORCEMENT DIRECTORATE

You are aware that your Company had secured from the District Court of New Jersey, USA, a decree for USD 12.19 million together with interest and costs against Suresh and Devang Chitalia of USA and their companies, and that the Chitalias had filed Bankruptcy Petitions before the Bankruptcy Court, Orlando, Florida, which are yet to be determined.

As explained in the previous reports of the Directors, though the Company has written off the exports dues in foreign exchange from the Chitalias with the approval of the Reserve Bank of India, your Company continues with its recovery efforts in the Indian suit against the Chitalia associates. The suit is in progress.

In the proceedings initiated by the Enforcement Directorate, pursuant to the Company's request for return of non-relied documents in possession of the Enforcement Directorate, the Directorate is presently in the process of returning non-seized non-relied documents. Meanwhile, in respect of some of the show cause memoranda issued by the Directorate, after hearing arguments on behalf of the Company, the appropriate authority has passed Orders in favour of the Company, and dropped those memoranda.

Meanwhile, the prosecutions launched by the Enforcement Directorate are pending.

TREASURY OPERATIONS

During the year, your Company's treasury operations continued to remain focused on proactively managing its temporary surplus liquidity and the increasing foreign exchange exposures within a well-defined risk management framework. The foreign exchange markets witnessed heightened volatility during the year in the wake of rising crude oil prices and action by the US Federal Reserve and the European Central Bank to increase their respective interest rates. Average forex exposures, comprising USD125 million of imports and USD 175 million of exports were effectively managed through judicious hedging based on close monitoring of market movements.

The deployment of temporary surplus liquidity was primarily guided by the twin objectives of capital protection and return optimisation. Given the rising interest rate regime, most of the investments were made in liquid and floating rate schemes of Debt Mutual Funds. However, the year end tightness in the money market pushed up interest rates further, providing an opportunity to deploy part of the portfolio in high yielding bank fixed deposits and fixed term maturity plans of the Debt Mutual Funds. Commensurate with the large size of liquidity under management, treasury operations were backed by appropriate control mechanisms, including an independent check of 100% of the transactions by your Company's Internal Audit function.

TAXATION

As mentioned in the Report of the Directors of earlier years, the Company had obtained Stay Orders from the Honourable Calcutta High Court in respect of the Income Tax notices for re-opening the past assessments for the period 1st July, 1983 to 30th June, 1986. This status remains unchanged.

As also stated in the Report of the Directors of earlier years, in respect of similar Income Tax notices for re-opening the past assessments for the period 1st April, 1990 to 31st March, 1993, the Honourable Calcutta High Court had admitted the Writ Petitions and ordered that no final assessment orders be passed without the leave of the Court. This status also remains unchanged.

PUBLIC DEPOSITS

As at 31st March, 2006, your Company had unclaimed Fixed Deposits of Rs.22.33 lakhs. No fresh / renewed deposits were accepted during the financial year. There was no failure to make repayments of Fixed Deposits on maturity and the interest due thereon in terms of the conditions of your Company's Schemes. Reminders have been sent to 180 persons, who did not claim repayment of their deposits, which had become due, amounting to Rs.22.33 lakhs.

INVESTOR SERVICE CENTRE

The Investor Service Centre (ISC) of your Company, accredited with ISO 9001:2000 certification for its investor servicing, continues to provide efficient and high quality service through a trained and dedicated team of professionals supported by state-of-the-art infrastructure.

ISC conducted a Shareholder Satisfaction Survey during the year to formally assess its service level. The survey findings confirm a high degree of satisfaction with the services provided by ISC.

DIRECTORS

Mr. Yesh Pall Gupta, who represented the Life Insurance Corporation of India, resigned as Non-Executive Director of your Company with effect from 29th July, 2005. Mr. Ajeet Prasad, who represented the erstwhile Unit Trust of India / Specified Undertaking of the Unit Trust of India, also resigned as Non-Executive Director of your Company effective 28th October, 2005.

Mr. T. S. Vijayan, who was appointed by the Board of Directors as Additional Non-Executive Director of your Company with effect from 28th October, 2005, as representative of the Specified Undertaking of the Unit Trust of India, resigned effective 26th May, 2006.

Your Directors would like to record their appreciation of the services rendered by Mr. Gupta, Mr. Prasad and Mr. Vijayan.

Mr. Sunil Behari Mathur was appointed by the Board of Directors as Additional Non-Executive Director of your Company with effect from 29th July, 2005, as representative of the Life Insurance Corporation of India. Mr. Dinesh Kumar Mehrotra was also appointed by the Board of Directors as Additional Non-Executive Director of your Company with effect from 26th May, 2006, as representative of the Specified Undertaking of the Unit Trust of India.

By virtue of the provisions of Article 96 of the Articles of Association of the Company and Section 260 of the Companies Act, 1956, Mr. Mathur and Mr. Mehrotra, Additional Non-Executive Directors, will vacate office at the ensuing Annual General Meeting of your Company and have filed their consent to act as Directors of the Company, if appointed. The Board of Directors of your Company at its meeting held on 26th May, 2006 recommended for the approval of the Members the appointment of Mr. Mathur and Mr. Mehrotra as Non-Executive Directors of your Company, liable to retire by rotation, for a period of five years from the date of the ensuing Annual General Meeting of the Company.

The Board of Directors of your Company at its meeting held on 28th October, 2005 recommended for the approval of the Members the re-appointment of Mr. Anup Singh as a Director, liable to retire by rotation, and also as Wholetime Director of the Company, for a period of three years with effect from 22nd March, 2007.

The Board of Directors at its meeting held on 26th May, 2006 recommended for the approval of the Members the re-appointment of Mr. Yogesh Chander Deveshwar as a Director, not liable to retire by rotation, and also as Wholetime Director and Chairman of the Company, for a period of five years with effect from 5th February, 2007.

Notices have been received from Members of the Company under Section 257 of the Companies Act, 1956 for the appointment / re-appointment of Mr. Mathur, Mr. Mehrotra, Mr. Singh and Mr. Deveshwar as Directors. Appropriate resolutions seeking your approval to their appointment / re-appointment are appearing in the Notice convening the 95th Annual General Meeting of the Company.

The Board of Directors at its meeting held on 28th October, 2005, extended, subject to the approval of the Members, the term of Mr. Sahibzada Syed Habib-ur-Rehman as a Wholetime Director of the Company by a period of three years from 21st March, 2006. Appropriate resolution seeking your approval to such extension is appearing in the Notice convening the 95th Annual General Meeting of the Company.

In accordance with the provisions of Article 91 of the Articles of Association of the Company, Dr. Basudeb Sen, Mr. Balakrishnan Vijayaraghavan and Dr. Ram S. Tarneja will retire by rotation at the ensuing Annual General Meeting of your Company and, being eligible, offer themselves for re-election. Your Board of Directors has recommended their re-election.

AUDITORS

The Auditors, Messrs. A. F. Ferguson & Co., retire at the ensuing Annual General Meeting and, being eligible, offer themselves for re-appointment. Since not less than 25% of the subscribed Share Capital of your Company is held collectively by Public Financial Institutions, the re-appointment of Auditors is being proposed as a Special Resolution in accordance with Section 224A of the Companies Act, 1956.

CHANGES IN SHARE CAPITAL

During the year, the following changes were effected in the Share Capital of the Company:-

(i) Issue of Shares upon amalgamation

12,12,747 fully paid-up Ordinary Shares of Rs.10/- each (equivalent to 1,21,27,470 Ordinary Shares of Re.1/- each) were issued and allotted on 9th May, 2005 to the members of erstwhile ITC Hotels Limited (ITC Hotels) and Ansal Hotels Limited (Ansal Hotels) consequent upon amalgamation of ITC Hotels and Ansal Hotels with the Company.

(ii) Sub-division of Shares

Each Ordinary Share of the face value of Rs.10/- of the Company was sub-divided into 10 Ordinary Shares of the face value of Re.1/- each, with effect from 28th September, 2005.

(iii) Increase in Authorised Share Capital

The Authorised Share Capital of the Company was increased from Rs.300 crores to Rs.500 crores divided into 500,00,00,000 Ordinary Shares of Re.1/- each, with effect from 28th September, 2005.

(iv) Issue of Bonus Shares

125,17,12,290 Ordinary Shares of Re.1/- each, fully paid-up, were issued as Bonus Shares in the ratio of 1 Bonus Share for every 2 Ordinary Shares of Re.1/- each held on 28th September, 2005, being the Record Date fixed for the purpose. The allotment of such Bonus Shares was made on 5th October, 2005.

(v) Issue of Shares under the ITC Employee Stock Option Scheme

9,08,382 Ordinary Shares of Rs.10/- each (equivalent to 90,83,820 Ordinary Shares of Re.1/- each) and 41,990 Ordinary Shares of Re.1/- each, aggregating 91,25,810 Ordinary Shares of Re.1/- each, were issued and allotted upon exercise of 9,12,581 Options under the Employee Stock Option Scheme of the Company.

Consequently, the Issued and Subscribed Share Capital of your Company, as on 31st March, 2006, stands increased to Rs.375,51,78,860/- divided into 375,51,78,860 Ordinary Shares of Re.1/- each.

The new Ordinary Shares, issued during the year, rank pari passu with the existing Ordinary Shares of your Company.

EMPLOYEE STOCK OPTION SCHEME

It may be recalled that the Members, at the Extraordinary General Meeting held on 17th January, 2001, approved formulation of an ‘Employee Stock Option Scheme’ (‘the Scheme’) for the eligible employees of your Company and its Directors, and also for the eligible employees including Managing/ Wholetime Directors of subsidiary companies of your Company.

Details of the Options granted up to 31st March, 2006, and other disclosures as required under Clause 12 of the Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999, are set out in the Annexure to this Report.

The Company’s Auditors, Messrs. A. F. Ferguson & Co., have certified that the Scheme has been implemented in accordance with the Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 and the resolutions passed by the Members in this regard.

DIRECTORS’ RESPONSIBILITY STATEMENT

As required under Section 217 (2AA) of the Companies Act, 1956, your Directors confirm having:

a) followed in the preparation of the Annual Accounts, the applicable Accounting Standards with proper explanation relating to material departures if any;

b) 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 your Company at the end of the financial year and of the profit of your Company for that period;

c) taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the

Companies Act, 1956 for safeguarding the assets of your Company and for preventing and detecting fraud and other irregularities; and

d) prepared the Annual Accounts on a going concern basis.

CONSOLIDATED FINANCIAL STATEMENTS

In accordance with Accounting Standard 21- Consolidated Financial Statements, ITC Group Accounts form part of this Report & Accounts. These Group Accounts also incorporate the Accounting Standard 23 - Accounting for Investments in Associates in Consolidated Financial Statements and Accounting Standard 27 - Financial Reporting of Interests in Joint Ventures issued by the Institute of Chartered Accountants of India. These Group Accounts have been prepared on the basis of audited financial statements received from Subsidiary, Associate and Joint Venture Companies, as approved by their respective Boards.

OTHER INFORMATION

The certificate of the Auditors, Messrs. A. F. Ferguson & Co. confirming compliance of conditions of Corporate Governance as stipulated under Clause 49 of the Listing Agreement with the Stock Exchanges in India, is annexed. Particulars as required under Section 217(1)(e) of the Companies Act, 1956 relating to Conservation of Energy and Technology Absorption are also provided in the Annexure to this Report together with particulars of Employees as required under Section 217(2A) of the Companies Act, 1956.

FORWARD-LOOKING STATEMENTS

This Report contains forward-looking statements that involve risks and uncertainties. When used in this Report, the words "anticipate", "believe", "estimate", "expect", "intend", "will" and other similar expressions as they relate to your Company and/or its businesses are intended to identify such forward-looking statements. Your Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise. Actual results, performances or achievements could differ materially from those expressed or implied in such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements that speak only as of their dates. This Report should be read in conjunction with the financial statements included herein and the notes thereto.

CONCLUSION

Your Company's Board and employees are inspired by their vision of sustaining ITC's position as one of India's most valuable companies through world-class performance, creating enduring value for all stakeholders, including the shareholders and the Indian society. Each business within the portfolio is continuously engaged in upgrading strategic capability to effectively address the challenge of growth in an increasingly competitive market scenario. The vision of enlarging your Company's contribution to the Indian economy is manifest in the creation of unique business models that foster international competitiveness of not only its businesses but also the entire value chain of which it is a part.

Propelled by this vision and powered by internal vitality, your Directors look forward to the future with confidence.

26th May, 2006	On behalf of the Board
Virginia House	
37 J L Nehru Road	
Kolkata 700071	Y.C. DEVESHWAR *Chairman*
India	K. VAIDYANATH *Director*

ANNEXURE TO THE REPORT OF THE DIRECTORS

Statement as at 31st March, 2006, pursuant to Clause 12 (Disclosure in the Directors' Report) of the Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999.

			2001	2002	2003	2004	2005	Total
a)	(i) Number of Options granted	:	3,39,119	6,27,070	9,99,115	8,57,208	9,72,433	37,94,945
	(ii) Number of Bonus Options allocated*	:	—	—	1,83,501	2,85,987	4,75,638	9,45,126
	(iii) Total number of Options granted / allocated	:	3,39,119	6,27,070	11,82,616	11,43,195	14,48,071	47,40,071
b)	(i) Pricing Formula	:	• During the period 2001 to 2004, Options were granted at the closing market price of the Ordinary Shares of the Company on the National Stock Exchange (NSE) on the date of grant of Options. • In 2005, Options were granted at the closing market price of the Ordinary Shares of the Company on NSE on the day preceding the date of grant of Options.					
	(ii) Exercise Price (Rs.)	:	779.95	617.90	679.90	880.45	1,531.65	—
	(iii) Adjusted Exercise Price on account of allocation of Bonus Options in respect of unvested Options (Rs.)	:	NA	NA	453.27	586.97	1,021.10	—
c)	Total number of Options vested	:	17,05,004					
d)	Total number of Options exercised	:	16,22,024					
e)	Total number of Ordinary Shares arising as a result of exercise of Options	:	16,17,825 Ordinary Shares of Rs.10/- each (equivalent to 1,61,78,250 Ordinary Shares of Re.1/- each) and 41,990 Ordinary Shares of Re.1/- each, aggregating 1,62,20,240 Ordinary Shares of Re.1/- each.					
f)	Total number of Options lapsed	:	2,76,801					
g)	Variation of terms of Options	:	Nil					
h)	Money realised by exercise of Options	:	Rs. 114.47 crores					
i)	Total number of Options in force	:	28,41,246 Consequent upon Sub-division of the Company's Ordinary Share from Rs.10/- to Re.1/-, each Option represents 10 Ordinary Shares of Re.1/- each.					
j)	Details of Options granted to i. Senior managerial personnel	:	As provided below					

	Name	Designation	No. of Options granted during the financial year**
1.	Y. C. Deveshwar	Executive Chairman	40,888
2.	S. S. H. Rehman	Executive Director	19,421
3.	A. Singh	Executive Director	19,421
4.	K. Vaidyanath	Executive Director	15,333
5.	P. B. Ramanujam	Non-Executive Director	6,814
6.	B. Sen	Non-Executive Director	6,814
7.	Ram S. Tarneja	Non-Executive Director	6,814
8.	B. Vijayaraghavan	Non-Executive Director	6,814
9.	S. M. Ahmad	Executive Vice President – Marketing, ITD	4,419

		Name	Designation	No. of Options granted during the financial year**
	10.	N. Anand	Divisional Chief Executive, HD	3,975
	11.	P. Banerjea	Executive Vice President – Finance & MIS, ITD	3,953
	12.	S. Basu	Executive Vice President, Internal Audit	3,850
	13.	S. Chandrasekhar	Senior Executive Vice President – Projects, Growth and Development, HD	3,407
	14.	B. B. Chatterjee	Executive Vice President & Company Secretary	4,906
	15.	P. Chatterjee	Executive Vice President & Corporate Financial Controller	4,436
	16.	C. Dar	Divisional Chief Executive, LRBD	4,293
	17.	P. V. Dhobale	Divisional Chief Executive, PSPD	4,415
	18.	K. N. Grant	Divisional Chief Executive, ITD	8,177
	19.	R. G. Jacob	Group Head, Research & Development	8,177
	20.	B. N. Malhotra	Executive Vice President – Projects, Agri Business	4,272
	21.	R. S. Naware	Divisional Chief Executive, FD	4,681
	22.	A. Nayak	Executive Vice President, Corporate Human Resources	8,177
	23.	T. V. Ramaswamy	Executive Vice President – Technical & HR, ITD	4,559
	24.	S. Janardhana Reddy	Divisional Chief Executive, Agri Business (Leaf Tobacco)	4,210
	25.	S. C. Rustagi	Executive Vice President, Corporate EHS	3,666
	26.	S. K. Singh	Executive Vice President – Manufacturing, PSPD	3,598
	27.	S. Sivakumar	Divisional Chief Executive, Agri Business	4,203
	28.	R. Srinivasan	Head, Paper & Packaging Group	8,177
	29.	K. S. Suresh	Company Solicitor	4,088
	30.	P. K. Talwar	Executive Vice President – Finance, PSPD	3,598
	31.	R. Tandon	Executive Vice President, Corporate Finance	4,117
	32.	K. S. Vaidyanathan	Senior Vice President, Corporate Affairs	8,177
	33.	P. K. Verma	Executive Vice President – Operations, HD	2,839
	ii.	Any other employee who received a grant in any one year of Options amounting to 5% or more of the Options granted during that year. :	None	
	iii.	Identified employees who were granted Options during any one year, equal to or exceeding 1% of the issued capital (excluding outstanding warrants and conversions) of the Company at the time of grant. :	None	
k)		Diluted Earnings per Share (EPS) pursuant to issue of Ordinary Shares on exercise of Options calculated in accordance with Accounting Standard (AS) 20 'Earnings Per Share'. :	Rs. 5.93	

l)	(i) Method of calculation of employee compensation cost.	:	The employee compensation cost has been calculated using the intrinsic value method of accounting to account for Options issued under the ITC Employee Stock Option Scheme. The stock-based compensation cost as per the intrinsic value method for the financial year 2005-06 is Nil.
	(ii) Difference between the employee compensation cost so computed at (i) above and the employee compensation cost that shall have been recognised if it had used the fair value of the Options.	:	Rs.22.86 crores comprising Rs.18.60 crores on account of Options granted in 2005 and Rs.4.26 crores on account of Options granted in 2004.
	(iii) The impact of this difference on profits and on EPS of the Company.	:	The effect of adopting the fair value method on the net income and earnings per share is presented below: **Net Income** — **Rs. in Crores** As reported — 2235.35 *Add*: Intrinsic Value Compensation Cost — Nil *Less*: Fair Value Compensation Cost (Black Scholes model) — 22.86 **Adjusted Net Income** — 2212.49 **Earning Per Share** — **Basic (Rs.)** — **Diluted (Rs.)** - As reported — 5.96 — 5.93 - As adjusted — 5.90 — 5.87
m)	Weighted average exercise prices and weighted average fair values of Options granted for Options whose exercise price either equals or exceeds or is less than the market price of the stock.	:	Options in 2005 have been granted at a price which equals the market price of the Company's share preceding the date of grant. Weighted average exercise price : Rs.1,021.10 *(Adjusted for Bonus Issue 1:2)* Weighted average fair value : Rs.266.52
n)	A description of the method and significant assumptions used during the year to estimate the fair values of Options.	:	The fair value of each Option is estimated using the Black Scholes Option Pricing model after applying the following key assumptions: (i) Risk-free interest rate — 6.51% (ii) Expected life — 3.55 years (iii) Expected volatility — 27.85% (iv) Expected dividends — 2.46% (v) The price of the underlying share in market at the time of Option grant *(Adjusted for Bonus Issue 1:2)* — Rs.1,047.13

* *Pursuant to the Shareholders' approval at the last Annual General Meeting held on 29th July, 2005 for issue of Bonus Shares in the ratio of 1 Bonus Share for every 2 Ordinary Shares, Bonus Options were allocated during the year on unvested Options in the same ratio (for the previous year shown under respective columns), in accordance with the Employee Stock Option Scheme of the Company read with the SEBI (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999.*

** *Excludes Bonus Options allocated.*

Expansion of abbreviations used:

ITD	-	India Tobacco Division
HD	-	Hotels Division
PSPD	-	Paperboards & Specialty Papers Division
LRBD	-	Lifestyle Retailing Business Division
FD	-	Foods Division

On behalf of the Board

Y.C. DEVESHWAR *Chairman*

K. VAIDYANATH *Director*

Kolkata, 26th May, 2006

ANNEXURE TO THE REPORT OF THE DIRECTORS

FOR THE FINANCIAL YEAR ENDED 31ST MARCH, 2006

Particulars of Employees under Section 217(2A) of the Companies Act, 1956 and forming part of the Report of the Directors

Name	Age	Designation/ Nature of Duties	Gross Remuneration (Rs.)	Net Remuneration (Rs.)	Qualifications	Experi-ence (Years)	Date of Commence-ment of Employment	Previous Employment/ Position Held
1	2	3	4	5	6	7	8	9
Employed throughout the year and in receipt of remuneration aggregating Rs. 24,00,000/- or more per annum.								
Ahmad S M	52	Executive V.P., Marketing (ITD)	46,06,782	18,21,540	M.A.	29	06.03.1980	ANZ Grindlays Bank, Plc.
Ahmed Riaz	50	Div. Fin. Controller (HD)	25,00,144	11,77,426	B.Com., F.C.S., A.I.C.W.A., A.C.I.S. (UK)	26	23.01.1986	@
Anand Gautam	48	V.P., Operations, Support & Quality (HD)	25,01,918	10,27,910	B.A. (Hons.)	26	16.03.1994	@
Anand Nakul	49	Div. Chief Executive (HD)	57,47,289	22,24,710	B.A. (Hons.)	26	01.12.1979	@
Awasty Raveesh	50	General Manager, T & RA (ITD)	24,62,142	11,70,263	M.A., M.B.A.	24	01.02.2004	Zee Telefilms Ltd., CEO (Siticable & DTH)
Balaji L N	44	General Manager, Corporate Strategic Planning	31,94,098	12,92,330	B.Com., F.C.A.	21	17.06.1985	Nil
Banerjea P	53	Executive V.P., Finance & MIS (ITD)	33,27,443	15,68,223	B.Sc., M.Sc., F.C.A., F.I.C.W.A.	26	01.10.1982	Shaw Wallace & Co. Ltd., Financial Accountant
Banerjee Subhatosh	59	Dy. Company Solicitor	24,25,878	9,80,568	B.A. (Hons.), M.A., LL.B.	37	01.08.1985	Smith Stanistreet Pharm. Ltd., Law Officer
Basu S	54	Executive V.P., Internal Audit	34,97,791	14,64,837	A.C.A., F.C.A. (Eng. & Wales)	36	02.01.1978	Whinney Murray & Co., London, Audit Asst.
Batra Rakesh	42	Services on Loan to Subsidiary Co.	26,53,989	10,47,553	B.Com. (Hons.), F.C.A.	23	01.09.1986	Nil
Bhalla A	56	V.P., Quality, Learning & Six Sigma (HD)	24,30,753	10,15,722	Dip. in H.M.C.T.	33	16.08.1989	@
Bhandari R	44	General Manager, ITC Sonar Bangla Sheraton (HD)	28,62,669	13,05,388	B.Com. (Hons.), Dipl. in Hotel Mgmt.	20	01.04.2002	@
Bhatnagar M S	54	V.P., Finance (HD)	30,64,361	13,13,899	B.Sc., M.B.A.	32	01.01.1975	@
Biddappa K C	53	V.P., Marketing and R&D (AB, LT)	30,78,429	10,36,954	B.Sc. (Ag)	28	06.02.1978	Nil
Chand A	41	General Manager, Marketing & Retail Operations (LRBD)	35,12,253	14,15,154	B.A., M.B.A.	18	01.06.1988	Godfrey Philips (I) Ltd., Mktg. Exec.
Chandrasekhar S	53	Sr. Executive V.P. - Proj., Growth & Development (HD)	48,28,536	20,05,918	B.Sc., F.C.A.	28	01.01.1978	@
Chatterjee B B	53	Executive V.P. & Company Secretary	43,68,173	21,61,261	B.Com. (Hons.), F.C.A., F.C.S., LL.B.	28	16.05.1983	Wacsgen, Deputy Mgr.
Chatterjee P	56	Executive V.P. & Corporate Financial Controller	43,61,896	17,12,454	B.Com. (Hons.), F.C.A.	34	16.09.1974	Macneill & Barry Ltd., Accountant
Dar C	50	Div. Chief Executive (LRBD)	41,46,815	17,33,315	B.Tech. (Hons.), P.G.D.M.	27	01.05.1981	Tata Eng. & Loco. Co., Shift Supvr.
Dar Harsh	42	General Manager, Trade Marketing & Distribution (ITD)	32,82,236	13,28,791	B.Com. (Hons.), M.B.A.	19	01.07.1987	Nil
Das C S	50	SBU Chief Executive (GGSB)	31,72,978	12,73,500	B.Tech. (Hons.), M.B.A.	26	15.04.1980	Larsen & Toubro Ltd., Trainee
Deveshwar Y C	59	Executive Chairman	2,92,28,577	1,30,13,444	B.Tech. (Mech.)	37	11.02.1994	Air India Ltd., Chairman & M.D.
Dhalewadikar S V (Dr)	52	Chief Scientist (ITD)	32,30,841	13,37,099	B.Sc., M.Sc., Ph.D.	24	03.03.2003	Hindustan Lever Ltd., Development Mngr.
Dhobale P V	50	Div. Chief Executive (PSPD)	42,83,768	14,78,625	B.Tech. (Chem.)	29	01.07.1977	Nil
Dutta Saradindu	46	General Manager, Corporate Accounts	26,62,395	10,00,631	B.Com. (Hons.), M.Com., A.C.A.	24	01.12.1982	Organon (I) Ltd., Trainee Accounts
Dwivedi Praveen	45	Branch Manager (ITD)	27,97,875	11,53,553	B.Com. (Hons.), M.Com., I.C.W.A. (Inter)	21	01.06.1985	Nil
Fonseka Nalin	42	Executive Pastry Chef, ITC Maurya Sheraton (HD)	35,17,608	17,62,200	Dip. in Hotel Mgmnt., Dip. in Sugar Craft	24	15.06.2002	Pastry Chef. Sun Intl. Resorts, Mauritius
Gadhok M S	47	Category Manager - RTE (FD)	25,90,480	9,95,473	B.Tech., M.B.A.	26	01.06.1980	Nil
Ganesan M	43	V.P., Finance (AB, LT)	29,88,941	12,12,991	B.Com., A.C.A., A.C.S.	20	01.03.1986	Nil
Ganesh D	56	General Manager, Product Development (ITD)	34,49,731	13,56,846	B.E., D.M.S., Memb. Inst. of Standards Engrs.	33	19.11.1979	Metal Box (I) Ltd., Foreman
Ganeshkumar S	38	Category Manager, Staples (FD)	26,05,738	10,47,641	B.E.	14	14.12.1991	Nil
Gopal Rajeev	45	SBU Chief Executive (Matches)	31,07,004	12,50,257	B.E. (Hons.)	23	01.11.1982	Nil
Grant K N	48	Div. Chief Executive (ITD)	68,75,471	24,05,340	B.A. (Hons.), M.B.A.	27	02.06.1980	DCM Ltd., Mgmt. Trainee

Particulars of Employees under Section 217(2A) of the Companies Act, 1956 and forming part of the Report of the Directors

Name	Age	Designation/ Nature of Duties	Gross Remuneration (Rs.)	Net Remuneration (Rs.)	Qualifications	Experience (Years)	Date of Commencement of Employment	Previous Employment/ Position Held
1	2	3	4	5	6	7	8	9
Guha Sumitro	44	Branch Manager (ITD)	26,85,101	9,76,720	B.Tech.	23	03.08.1992	Tata Consulting Engineers, Sr. Asst. Engr.
Gupta P	49	General Manager, Corporate Taxation	31,67,013	16,61,489	B.Com. (Hons.), A.C.A., D.M.A. (I.C.A.)	26	15.02.1989	Hindustan Lever Ltd., Group Audit Mgr.
Haksar Dipak	48	General Manager, ITC Maurya Sheraton (HD)	26,60,126	13,07,902	B.Com. (Hons.)	28	01.09.1977	@
Jacob R G	60	Group Head, Research & Development	69,21,290	22,82,312	B.Tech.	39	15.09.1967	Nil
Janardhana Reddy S	57	Div. Chief Executive (AB, LT)	43,06,273	16,59,910	B.Sc. (Ag.)	33	27.12.1972	Nil
Jha H M	59	General Manager, Corporate Human Resources	33,95,107	13,78,191	B.A. (Hons.), P.G.D.P.M. & I.R.	28	12.01.1978	@
Katre V	56	V.P., Classic Golf Resort (HD)	25,49,658	10,86,084	M.A.	33	01.11.1979	@
Kaul Sandeep	39	General Manager, FMCG Projects (ITD)	29,43,591	12,15,889	B.E., P.G.D.M.	16	01.06.1990	Nil
Keshava S	47	General Manager - Marketing , TQM (ITD)	30,44,505	11,79,020	B.Com. (Hons.)	26	03.10.1989	SAS Chemicals Pvt. Ltd., Director
Kumar Suresh	48	V.P., ITC Hotels (HD)	25,78,850	11,22,134	B.Sc.	26	01.12.1979	@
Lakshminarayanan N	55	V.P., Corp. Projects	25,73,108	13,17,644	B.Com. (Hons.), F.C.A.	31	19.06.1978	Coromandel Leathers (P) Ltd., Chief Accounts Officer
Lall U	55	Services on Loan to Tobacco Institute of India	41,18,309	16,43,122	B.A. (Hons.)	34	03.01.1972	PARCO, Officer on Spl. Duty
Malhotra B N	60	Executive V.P., Projects (AB)	40,20,940	15,43,753	B.Tech., M.Tech., P.G. Dip. in Soil Mec.	34	17.03.1975	ITDC, Asst. Engr.
Malik Hemant	39	General Manager, Marketing (FD)	34,71,254	13,27,003	B.A., M.B.A.	17	01.06.1989	Nil
Marchetti Bill	52	Chef - Italian Cuisine, ITC Maurya Sheraton (HD)	44,30,526	21,37,790	Specialisation in Italian Cuisine	36	25.09.2001	Marchetti's Latin Restaurant
Mathur R P	58	Manager, Corporate HR	24,53,275	9,30,741	B.E., M.M.S.	35	03.05.1971	Nil
Mathur Rakesh	54	President, WelcomHeritage Hotels (HD)	26,68,873	10,92,457	B.A. (Eco.), Dip. in H.M.C.T.	31	16.06.2004	@
Mukerji Arup K	47	Services on Loan to Subsidiary Co.	35,39,866	15,36,294	B.Com. (Hons.), A.C.A.	24	01.11.1982	Gupta Chowdhury & Ghose, Jr. Officer
Mukherjee P	44	Audit Manager	24,19,958	10,90,057	B.Com. (Hons.), A.C.S., A.C.A.	19	01.09.1987	Khanna & Annadhana Ch. Accountants, Asst. Audit
Naware R S	56	Div. Chief Executive (FD)	51,67,183	15,76,024	B.Tech., M.M.S.	33	01.07.1974	Otis Elevator Co. (P) Ltd., Mgmt. Trainee
Nayak Anand	54	Executive V.P., Corporate Human Resources	64,44,506	26,12,893	B.Sc., P.G.D.I.R.	33	14.05.1973	Nil
Noronha A R	52	V.P., Tech., Proj. & EHS (HD)	29,34,762	12,66,537	B.E. (Elec.)	28	01.05.1978	@
Parasuram R	47	V.P., Finance (ITD)	32,23,983	13,41,024	B.Com. (Hons.), A.C.A.	24	15.09.1982	Nil
Pathak Arun	46	V.P., Finance, IT, Procurement & Logistics (FD)	37,52,479	14,39,563	B.Com. (Hons.), F.C.A.	23	20.06.1983	Nil
Philipose P S	55	Services on Loan to an Associate Co.	26,54,549	10,09,639	B.Sc. (Hons.), M.B.A.	34	01.01.1995	VST Industries Ltd., G.M. Mktg. & Sales
Prasad K T	50	V.P., Human Resources (AB)	29,00,664	12,66,393	M.A. (P.M., IRLW) Pg. Dip. Sp. P.L.M.	26	01.06.1999	ITC Agro Tech., G.M. (HR)
Prasad N V S S V	59	V.P., Processing & Tech. (AB, LT)	31,03,564	11,46,075	M.Tech., F.I.E.	34	19.01.1972	Nil
Puri R	53	Services on Loan to an Associate Co.	27,79,994	11,65,551	B.Com. (Hons.), A.C.A.	28	16.01.1979	B.M Chatrath, Audit Sr.
Quing Liang Xiao	44	Chinese Chef, ITC Grand Maratha (HD)	35,12,487	17,06,448	Cooking School of Beijing Tourism, Specialised in Chinese Cooking	23	16.04.1999	The Great Wall Sheraton, Beijing
Raghavaiah K V	59	General Manager, Corporate Human Resources	36,33,843	14,53,580	B.A., P.G.D.P.M., I.R. & L.L.	40	01.09.1985	Coromandel Fertilisers Ltd., Asst. Mgr. (Pers. & Ind. Relations)
Rai R K	43	Chief Commodity Trader (AB)	36,79,714	15,19,399	B.A. (Mktg.), P.G.D. in Export & Imports	23	16.08.1990	Britannia Industries Ltd., Commercial Officer

Particulars of Employees under Section 217(2A) of the Companies Act, 1956 and forming part of the Report of the Directors

Name	Age	Designation/ Nature of Duties	Gross Remuneration (Rs.)	Net Remuneration (Rs.)	Qualifications	Experi-ence (Years)	Date of Commence-ment of Employment	Previous Employment/ Position Held
1	2	3	4	5	6	7	8	9
Rajasekharan V M	47	SBU Chief Executive (Agarbattis)	24,52,124	9,52,484	B.E.	26	01.06.1986	MM Rubber Co. Ltd., Sales Manager
Rajesh V L	38	Category Manager- Confectionary (FD)	27,57,937	11,38,476	B.Sc., M.B.A.	16	01.06.1990	Nil
Rajiv Mohan D V R	40	General Manager, Exports (AB, LT)	24,82,375	10,01,272	B.Com., M.B.A.	18	22.08.1988	Nil
Rajput A K	50	V.P., Corporate Affairs	31,25,050	13,04,223	B.Com., M.B.A.	30	10.04.1976	Nil
Raju G M K	48	SBU Chief Executive (PPB)	32,44,888	12,90,058	B.Tech.	26	13.06.1980	Nil
Ramaswamy T V	54	Executive V.P., Technical & H.R. (ITD)	46,36,994	17,65,765	B.E., M.M.S.	32	01.07.1974	Nil
Rangrass S	45	General Manager, Operations (ITD)	37,41,877	14,72,618	B.Tech.	24	01.07.1982	Nil
Rao A K	55	General Manager, Technology Centre (ITD)	29,50,901	10,68,948	B.Tech. (Hons.)	34	15.05.1972	Nil
Rao M Balachandra	56	Manager, Audit & Training	24,09,915	9,18,088	B.Com. (Hons.), P.G.D.B.M.	32	08.05.1974	Nil
Rastogi Mukul	38	Div. Manager, HR (LRBD)	25,00,705	10,71,638	B.A., M.A.	17	01.06.1989	Nil
Rehman S S H	62	Executive Director	1,41,49,198	64,36,388	Graduate, Indian Army	42	21.11.1997	@
Rustagi S C	57	Executive V.P., Corporate EHS	37,39,939	17,53,343	B.Sc., P.G.D.(Engg.)	34	10.02.1983	Sriram Fertilisers & Chemicals, Mech. Engr.
Sarma C V	44	V.P., Finance (AB)	30,18,707	14,20,538	B.Com., A.I.C.W.A, A.C.A., A.C.S., P.G.D.M.	18	03.05.1993	Nil
Sengupta P	48	V.P., Finance & MIS (LRBD)	29,59,291	12,56,872	B.Sc. (Hons.), A.C.A.	24	01.07.1987	Indian Aluminium Co. Ltd., Finance Officer
Senguttuvan R	44	General Manager, Works (PPB)	24,60,913	10,12,863	B.E., P.G.D.M.	20	27.05.1991	Asian Paints Ltd., Purchase Exec.
Singh A	61	Executive Director	1,35,66,605	59,16,119	B.Tech. (Hons.)	38	01.03.1968	Nil
Singh Kavinder	41	Category Manager - Biscuits (FD)	36,22,077	13,42,229	B.Tech.	20	14.02.1992	Asian Paints Ltd., Plant Engg. Exec.
Singh S K	49	Executive V.P., Manufacturing (PSPD)	38,41,049	16,62,077	B.Tech. (Chem.)	29	21.06.1977	Nil
Sivakumar S	45	Div. Chief Executive (AB)	43,06,403	19,37,250	B.Sc., P.G. Dipl. in Rural Mgmt.	23	18.09.1989	Gujarat Co-op Oil Seeds Growers' Fed. Ltd., Mgr. Mktg.
Sridhar R	47	General Manager, Human Resources (ITD)	33,31,939	13,06,374	B.Sc., P.G. Dipl. in P.M. & I.R.	24	01.06.1982	Nil
Srinivasan R	54	Head, Paper & Packaging Group	69,02,141	24,66,153	B.Tech. (Hons.)	32	10.09.1974	Nil
Sule Sandeep	40	District Manager - West (ITD)	24,99,042	10,134,99	B.Com. (Hons.), M.I.B.	16	16.07.1990	Bayer India Ltd., Mgmnt. Trainee
Sumant B	42	Category Manager - Snacks (FD)	35,10,563	13,26,159	B.E.	20	20.01.1986	Nil
Suresh G K	35	District Manager - South (ITD)	24,24,201	8,51,636	B.E., P.G.D.B.M.	12	01.06.1995	Tata Elxsi Ltd., Customer Support Exec.
Suresh K S	46	Company Solicitor	48,05,411	19,80,967	B.A., B.L., P.G.D.P.M., I.R. & L.W.	23	01.09.1990	Chambers of Sri C.S. Venkata Subramaniam, Advocate
Suresh Karanam N	53	Senior Specialist (ITD)	30,79,394	12,20,674	B.Sc., M.Sc.	31	01.03.1977	Flavours & Essence Pvt. Ltd., Flavour Technologist
Talwar P K	58	Executive V.P., Finance (PSPD)	35,27,504	15,12,785	B.Sc., F.C.A.	34	26.06.1989	Nagarjuna Hire Purchase Ltd., President
Tandon A K	55	Solicitor	28,43,533	12,38,056	B.Sc., LL.B., A.C.S.	31	01.09.1982	Legal Practice
Tandon R	52	Executive V.P., Corporate Finance	43,14,250	16,64,994	B.Sc., A.C.A.	28	01.01.1987	Triveni Handlooms Ltd., Finance Mgr. & Secy.
Tyagi Shailender	47	V.P., Marketing (AB)	28,99,800	12,82,522	B.Sc., M.Sc., Dip. in Mktg. Mgmt.	24	01.02.1982	Nil
Vaidyanath K	56	Executive Director	1,08,56,673	47,72,046	B.Com. (Hons.), M.B.A.	33	16.01.1976	Shriram Refrigeration Industries Ltd., Mgmt. Trainee
Vaidyanathan K S	66	Senior V.P., Corporate Affairs	70,04,354	26,45,368	B.Com. (Hons.)	43	08.10.1982	T.V.S. Southern Roadways Ltd., Resident Mgr.
Verma P K	59	Executive V.P. - Operations (HD)	36,29,046	15,06,122	B.Sc. (Chem. Tech.), M.B.A. Dipl. in Hotel Mgmt.	34	31.01.1986	@
Verma S	47	Services on Loan to Subsidiary Co.	44,65,749	24,10,284	B.E.	24	01.11.1981	Nil
Wanchoo Siddarth	45	General Manager, Brands (ITD)	32,15,103	12,74,027	B.Com. (Hons.)	26	19.10.1981	Nil

Particulars of Employees under Section 217(2A) of the Companies Act, 1956 and forming part of the Report of the Directors

Name	Age	Designation/ Nature of Duties	Gross Remuneration (Rs.)	Net Remuneration (Rs.)	Qualifications	Experi-ence (Years)	Date of Commence-ment of Employment	Previous Employment/ Position Held
1	2	3	4	5	6	7	8	9
Employed for a part of the year and in receipt of remuneration aggregating Rs. 2,00,000/- or more per month.								
Arora Promodit Kumar	60	Project Engineer (ITD)	11,71,661	7,80,494	D.M.E.	38	01.05.1973	BHEL, Hardwar, Charge Maint
Chandrasekharan L C	51	Chief Scientist , Research & Tech. Innovation	29,12,646	17,99,515	Ph.D.	24	01.10.2005	GE India, Director Mfg. Engg.
Dubey S R	58	V.P., Coporate EHS	6,70,162	4,52,187	B.Sc.	34	01.07.1993	ITC- BPL Ltd., Chief Engineer
Favre Gilles	34	Executive Pastry Chef, ITC Maurya Sheraton (HD)	2,08,564	91,452	HACCP Trng. Johnson & Wales Univ., Cert. in Pastry, Confectionary, Chocolate & Ice Cream	15	17.03.2006	Sheraton Grande Walkerhill Hotel & Casino, Seoul
George J	58	Asst. Manager, F&B Support (HD)	2,15,150	1,77,144	Dip. in H.M.C.T.	34	15.05.1980	@
Ghosh Subrata	60	Asst. Research Manager (ITD)	6,23,171	4,67,837	B.Sc. (Hons.)	40	02.08.1965	Ruttonjee & Co., Trainee Chemist
Mulla Ajit Narain	49	Div Manager - Organisational Dev. (ITD)	9,57,753	6,23,044	B.A. (Hons.), M.A.	23	01.07.1982	Nil
Nanukuttan Thyil N	60	Manager - Maintenance (ITD)	4,68,339	4,02,943	D.M.E.	41	15.05.1985	IAF, WO
Rao A Koteswara	60	Processing Manager (AB, LT)	7,21,647	5,26,089	L.M.E.	29	05.02.1982	S H K P Oil Mills, Foreman
Rao D Panduranga	60	Production Manager (AB, LT)	18,04,519	10,73,914	D.A.E.	38	30.01.1973	Singareni Collieries, Technical Asst.
Rao Prakash	60	Business Head - Spices (AB, LT)	12,76,688	6,99,740	B.Com. (Hons.)	41	18.01.1971	HAL, Accountant
Sarma E R K	60	Factory Manager (AB, LT)	23,21,394	12,04,871	B.E.	35	23.07.1974	IDPL, Chargeman
Sukumar Vijay	43	Product Development Specialist (FD)	12,21,739	6,00,204	B.Tech., M.S., Ph.D.	13	09.09.2003	General Mills India, G.M. (R & D)
Venkateswaran Krishnan	46	Chief Scientist, NBDC (ITD)	27,97,007	16,48,181	B.Sc., M.Sc., Ph.D.	21	05.05.2005	Hindustan Lever Ltd. Head - Skin Cleansing & Care
Venkatramani S H	49	Head, Corp. Communications	15,55,412	6,60,029	B.A., M.A.	23	01.08.1999	Ranbaxy Labs. Ltd., Director - Corp. Affairs

Abbreviations denote :

ITD	:	India Tobacco Division
PSPD	:	Paperboards & Specialty Papers Division
PPB	:	Packaging & Printing SBU
LRBD	:	Lifestyle Retailing Business Division
AB	:	Agri Business
AB, LT	:	Agri Business, Leaf Tobacco
FD	:	Foods Division
HD	:	Hotels Division
GGSB	:	Greeting, Gifting & Stationery Business

Notes :

1. Gross remuneration comprises salary, allowances, medical reimbursement, rent /costs on accommodation, leave travel assistance, Company's contribution to provident, pension and gratuity funds, monetary value of other perquisites computed on the basis of the Income Tax Act and Rules, leave encashment and performance bonus, where applicable. With respect to those employed for a part of the year, such remuneration also includes leave encashment upon separation.
2. Net remuneration comprises cash income less : a) income tax, surcharge and education cess deducted at source.
   b) manager's own contribution to Provident Fund.
3. All appointments are/were contractual in accordance with terms and conditions as per Company rules.
4. None of the above employees is a relative of any Director of the Company.
5. @ Previously employed with ITC Hotels Ltd. which was merged with the Company on March 23, 2005.

On behalf of the Board

Y.C. DEVESHWAR *Chairman*
K. VAIDYANATH *Director*

Kolkata, 26th May, 2006

ITC Limited

ANNEXURE TO THE REPORT OF THE DIRECTORS

CONSERVATION OF ENERGY

INFORMATION UNDER SECTION 217(1)(e) OF THE COMPANIES ACT, 1956 READ WITH COMPANIES (DISCLOSURE OF PARTICULARS IN THE REPORT OF BOARD OF DIRECTORS) RULES, 1988 AND FORMING PART OF THE DIRECTORS' REPORT

a) Energy conservation measures taken :

All units in the Company continued the endeavour to improve specific energy consumption, a measure of energy used per unit of consumption. Some of the measures taken are:

i) Replacement of motors / pumps / lighting with energy efficient models and installation of variable speed drives.

ii) Installation of Rotary UPS, resulting in lower HSD consumption.

iii) Use of solar water heating system for boiler feed water.

iv) Installation of heat pipes for Air Handling Units & Treated Fresh Air units.

v) Use of Bio-refining Enzymes in pulping process.

vi) Optimisation in fans / pumps designs to meet actual system demands.

vii) Replacement of fresh water with recycled effluent in paper machine vacuum pumps.

viii) Installation of natural ventilation system in paper machine buildings.

ix) Replacement of stand-alone compressors with centralised air compressor.

x) Water audits for optimising consumption & re-use.

xi) Installation of energy efficient air diffusers in sewage treatment plants.

xii) Modernisation of air conditioning systems.

xiii) Optimisation of steam generation and condensate recovery systems.

xiv) Process changes in pulping process to achieve energy efficiency.

xv) Optimisation of electrical distribution system and reactive compensation control.

xvi) Maximising heat recovery from processes.

b) Additional investments and proposals, if any, being implemented for reduction of consumption of energy:

Energy conservation in ITC is a continual process and some of the additional measures under implementation across different ITC units include:

i) Installation of energy efficient chiller using waste heat.

ii) Provision of Earth Air Tunnel for conditioning fresh air intake to reduce chiller load.

iii) Installation of LED lights for building neon signs.

iv) Solar lighting for building exteriors and solar panels for hot water generation.

v) Replacement of calender machines in hotel laundries by more efficient ones.

vi) Bio-mass gassifier for fuel oil replacement in lime-kiln.

vii) Water conservation by re-use / recycling.

viii) Installation of energy efficient pumps, motors & variable speed drives.

ix) Monitoring & control system for compressors & auxiliaries.

x) Low temperature heat recovery from paper machines through heat-pipe exchangers.

xi) Improvements to reduce heat gain / cooling losses from building envelopes.

c) Impact of measures of (a) and (b) above for reduction of energy consumption and consequent impact on the cost of production of goods:

Energy conservation measures initiated across the Company's businesses have resulted in significant savings and have helped partially offset the inflationary trend in fuel / electricity costs. Business wise specific energy consumption figures indicate very competitive performance. The energy savings have also helped the Company reduce total Carbon Dioxide emissions.

A) POWER AND FUEL CONSUMPTION

	For the Year ended 31st March, 2006	For the Year ended 31st March, 2005
Relating to Paperboards & Paper		
1. Electricity (Excluding Consumption in Colony)		
a) Purchased		
Units (KwH in Lakhs)	**380**	547
Total Amount (Rs. in Lakhs)	**1995**	2506
Rate / Unit (Rs.)	**5.25**	4.58
b) Own Generation		
i) Through Diesel Generation Unit (KwH in Lakhs)	**10**	29
Units per Litre of Diesel Oil	**3.03**	3.08
Cost / Unit (Rs.)	**9.73**	8.13
ii) Through Steam Turbine/Generator		
Units (KwH in Lakhs)	**3244**	3007
Units per Kg. of Coal	**1.82**	1.78
Cost / Unit (Rs.)	**1.59**	1.45

	For the year ended 31st March, 2006			For the year ended 31st March, 2005		
	Process	**Power**	**Total**	Process	Power	Total
2. **Coal** (Specify Quantity & Where Used) (Grades 'C' ROM & 'E' ROM)						
Quantity (M.T.)	**198793**	**178396**	**377189**	151944	169122	321066
Total Cost (Rs. in Lakhs)			**7072**			5447
Average Rate (Rs. per M.T.)			**1874.79**			1696.60
3. **Furnace Oil**						
Quantity (KL)			**8683**			8380
Total Amount (Rs. in Lakhs)			**1339**			1007
Average Rate (Rs. / KL)			**15417.87**			12012.82
4. **Others / Internal Generation** (De-oiled Bran & Saw Dust, etc.)						
Quantity (M.T.)			**64073**			51808
Total (Rs. in Lakhs)			**839**			715
Rate / Unit (Rs.)			**1309.76**			1379.61

ITC Limited

	For the year ended 31st March, 2006			For the year ended 31st March, 2005		
	Process	Power	Total	Process	Power	Total
5. **Others / Internal Generation** (LP Gas)						
Quantity (M.T.)			**874**			200
Total (Rs. in Lakhs)			**275**			52
Rate / Unit (Rs.)			**31454.01**			25967.41

B) CONSUMPTION PER UNIT OF PRODUCTION

	For the Year ended 31st March, 2006	For the Year ended 31st March, 2005
Products (Paper in M.T.)	**399337**	329278
Electricity (KwH)	**1016**	1092
Coal B/C/D/E/F Grades (M.T.)	**0.50**	0.46
Furnace Oil (Litre)	**22**	26
Others – De-oiled Bran & Saw Dust, etc. (M.T.)	**0.163**	0.157

TECHNOLOGY ABSORPTION

INFORMATION UNDER SECTION 217(1)(e) OF THE COMPANIES ACT, 1956 READ WITH COMPANIES (DISCLOSURE OF PARTICULARS IN THE REPORT OF BOARD OF DIRECTORS) RULES, 1988 AND FORMING PART OF THE DIRECTORS' REPORT

Research & Development

1. **Specific areas in which R & D was carried out by the Company:**
   - i) Development, testing and specification setting of packaging materials.
   - ii) Analysis of raw materials and finished products for various types of fatty acids.
   - iii) Development of hybrids using high yielding 'Bhadrachalam' clones with other Eucalyptus species having superior fibre properties.
   - iv) Collaborative research on Bamboo with Tamil Nadu Agricultural University (TNAU), Coimbatore.
   - v) Development of Flexible Laminate for different food packaging.
   - vi) Development of UV Inks & Varnishes for in-line manufacture by Packaging & Printing business.
   - vii) Experiments on the accumulation of neutral volatile compounds imparting flavour and their profiling in the newly identified Flue Cured tobacco region.
   - viii) Designing seed production protocols using CMS sources for the production of superior tobacco hybrids.
   - ix) Formulation and evaluation of Organic Agricultural inputs to enhance farm productivity, crop quality and for other such applications.
   - x) Development of agronomic practices for the optimum use of irrigation water and fertilizers.

2. **Benefits derived as a result of the above R & D:**
   - i) Cost reduction, import substitution and strategic resource management.
   - ii) Quality evaluation of finished products and raw materials, thereby setting standards for quality testing process for outsourced manufacturing units.
   - iii) Benchmarking studies for comparative evaluation of ITC products vis-a-vis competition.
   - iv) Ensuring product quality.
   - v) Entering new market segments.
   - vi) Meeting fibre needs indigenously and to reduce imports.
   - vii) Developing new fibre sources.
   - viii) Development of UV Products.
   - ix) The flavourful tobacco experiments in the identified micro zones have demonstrated that globally sought after flavourful styles can be produced in India. This could be a premium segment in the product portfolio of domestic and export markets, besides a new crop option to enhance farm returns.
   - x) The successful large-scale hybrid trials have offered the first series of commercially viable CMS Flue Cured hybrid tobacco in India, with superior quality and higher productivity.
   - xi) 'Wellgro' series of plant-based formulations have established significant improvement in the productivity and product quality of select agricultural crops tested across the country. Also, vermi-compost technologies developed for small and medium farmers enhance the organic matter content in the soil. Integrated Pest Management strategies and the development of plant-based formulations against stored product pests avoid the use of synthetic chemicals and thereby lead the way for organic products.
   - xii) Optimising yields and maximising resource efficiency.

3. **Future Plan of Action:**
   - i) Identify factors for the improvement of manufacturability and flavour amplitude in Indian tobaccos.
   - ii) Reducing packaging weight / volume and recycling of materials.
   - iii) Implementation of HACCP at all Foods business-manufacturing units.
   - iv) Roll out of new range of differentiated products of international quality.
   - v) Continue research on genetic improvement of Eucalyptus, Subabul, Bamboo and other pulpwood species.
   - vi) Development of paperboard varieties for specific end-use applications.
   - vii) Improvement of process and resource use efficiencies.
   - viii) Development of Flexible Pouches.
   - ix) Development of solution for in-line manufacturing for Coupon Inserts.
   - x) Development of Foil Stamping in PCT.
   - xi) Scaling up of the operations in new growth zone with tobacco crop development strategy to achieve a sizeable volume of flavourful styles, with high-end agronomy solutions.
   - xii) Establish new growing regions in southern Orissa and northern Andhra Pradesh with the introduction of appropriate new varieties to produce superior styles of Burley tobacco.

xiii) Enlarge the scope of Organic Agri-inputs options including the use of agriculturally important micro-organisms and offer a total solution package to the farmers addressing the crop protection and crop quality requirements.

4. Expenditure on R & D :	For the Year ended 31st March, 2006 (Rs. in Lakhs)
i) Capital	1954
ii) Recurring	3474
iii) Total	5428
iv) Total R & D Expenditure as a % of	
- Gross Turnover	0.33
- Net Turnover	0.55

Technology Absorption, Adoption and Innovation

i) Import substitution of expanded tobacco.

ii) Radio Frequency Identification Device system for maintaining product integrity in cigarette manufacturing.

iii) Controlling the relative humidity in conditioned spaces by heat-pipe technology.

iv) On-line monitoring of emissions and effluents in pulp & paper mill.

v) Installation of system to capture on-line process parameters to minimise variations in paperboard manufacturing.

vi) Installation of on-line retention controller on paper machines for reducing variability in retention.

vii) Installation of Turbo drain recovery, reducing loss of high cost TiO_2 in paperboard manufacturing.

viii) Adaptation of latest technology in de-inking of input fibre by adding a de-inking line to the pulp preparation section.

ix) Computer-To-Plate system installed/commissioned in Packaging & Printing unit.

x) New Cylinder Processing Plant installed/commissioned for Packaging & Printing unit.

xi) ALPINA folding and gluing machine installed/commissioned.

xii) SPANTHERA cutting & creasing machine installed & commissioned.

xiii) Indigenous development of conveyor system for handling Pillow Pack blanks by Packaging & Printing business.

Benefits Derived

i) International quality products to customers.

ii) Improved productivity and product quality.

iii) Better ambience control in air-conditioned areas.

iv) Closer monitoring of resource usage efficiencies.

v) Optimisation of process parameters for reducing product variability.

vi) Lesser variability in retention of fibre & filler due to on-line retention controller has resulted in better quality of Cigarette paper with higher consistency in product parameters.

vii) Variable cost reduction in many grades by reducing sizing cost, Optical Brightening Agent (OBA) cost and increasing TiO_2 retention.

viii) Savings in input costs by allowing usage of cheaper waste paper.

ix) Direct Computer-To-Plate for processing of plates from Barco pre-press eliminating multiple steps like stepping up, manual handling, etc. for Sheet Fed Module requirements.

x) Providing in-house capacity to process cylinders for cigarettes and flexible packaging requirements of the Cigarettes and Foods businesses and other requirements relating to external business.

On behalf of the Board

Y. C. DEVESHWAR *Chairman*

Kolkata, 26th May, 2006 K. VAIDYANATH *Director*

CERTIFICATE OF COMPLIANCE FROM AUDITORS AS STIPULATED UNDER CLAUSE 49 OF THE LISTING AGREEMENT OF THE STOCK EXCHANGES IN INDIA

CERTIFICATE

To the Shareholders
ITC Limited

We have examined the compliance of conditions of Corporate Governance by ITC Limited for the year ended on 31st March, 2006, as stipulated in clause 49 of the Listing Agreement of the said company with stock exchanges in India.

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 condition of 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, we certify that the company has complied with the conditions of Corporate Governance as stipulated in the above-mentioned Listing Agreement.

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 A. F. FERGUSON & Co.
Chartered Accountants

M. S. DHARMADHIKARI
Partner

Kolkata, May 26, 2006