Media Statement
October 27, 2017

Financial Results for the Quarter ended 30th September, 2017

Highlights

Gross Sales Value up 3.9%

Net Profit up 5.6%

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- **Legal Cigarette industry volumes under severe pressure due to the sharp increase in tax incidence under the GST regime.**
  - **Additional burden on the Business due to non-availability of Additional Duty Surcharge credit on transition stocks and adverse impact on pipeline stocks due to unanticipated revision in GST Compensation Cess w.e.f. 18th July 2017.**

- **Robust growth of 10% in FMCG-Others Segment Revenue on a comparable basis despite sluggish demand environment and disruption in trade channel due to GST transition. Improvement in profitability driven by enhanced scale, improved realisation & mix enrichment.**

- **Hotels performance impacted by highway liquor ban and renovation work at ITC Maurya & ITC Maratha. WelcomHotel Coimbatore commissioned on 1st October '17.**

- **Agri Business Revenue growth remained subdued on account of limited trading opportunities in Agri commodities and shortage of leaf tobacco crop due to drought in Andhra Pradesh in 2016. Profitability impacted by steep increase in leaf farm prices, adverse crop quality and relative strength of the Indian Rupee vis-à-vis currencies of competing origins.**

- **Paperboards, Paper and Packaging Segment Revenue continued to be impacted by subdued demand in FMCG & legal Cigarette industry, zero duty imports under Free Trade Agreement with ASEAN countries and cheap imports from China continued to impact Segment Revenue. Robust growth of 18% in Segment Results driven by richer mix, structural cost saving initiatives and benign input costs.**
  - **India's first Bleached Chemical Thermo Mechanical Pulp (BCTMP) mill, recently commissioned by ITC, will further reduce dependence on imported pulp and provide sustained competitive advantage to the Company.**

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The Company's performance during the quarter was relatively subdued due to severe pressure on the legal Cigarette industry and sluggish demand conditions prevailing in the FMCG industry. Operating conditions in the Agri Business and Hotels segment also remained challenging.

Consequent to the introduction of Goods and Services Tax (GST) with effect from 1st July 2017, Central Excise [other than National Calamity Contingent Duty (NCCD) on cigarettes], Value Added Tax (VAT) etc. have been replaced by GST. In accordance with Indian Accounting Standard - 18 on Revenue and Schedule III of the Companies Act, 2013, GST, GST Compensation Cess, VAT, etc. are not included in Gross Revenue from sale of products and services for applicable periods. In view of the aforesaid restructuring of indirect taxes, Gross

Revenue from sale of products and services and Excise duty for the quarter and six months ended 30th September, 2017 are not comparable with the previous periods.

On a comparable basis, Gross Sales Value* (net of rebates/discounts) stood at Rs. 16391.58 crores representing a growth of 3.9%. Profit Before Tax at Rs.3944.29 crores and Net Profit at Rs. 2639.84 crores registered a growth of 3.1% and 5.6% respectively during the quarter. Over 85% of the incremental value-added by the Company during the quarter accrued to the Exchequer. Earnings Per Share for the quarter stood at Rs. 2.17 (Q2 FY ’17: Rs. 2.07)

Total Comprehensive Income (TCI) for the quarter stood at Rs. 2610.80 crores representing a growth of 5.5%**.**

FMCG-Others

Segment Revenue registered robust growth of 10% on a comparable basis despite muted demand environment and disruption due to GST transition. This growth was driven by strong performance of the Branded Packaged Foods and Personal Care Businesses partly offset by the impact of ongoing restructuring of retail & trade footprint in the Lifestyle Retailing Business. While offtake in the retail channel has normalised progressively through the quarter, the wholesale channel is yet to fully recover. Market standing stood enhanced across major categories, particularly in atta, potato chips, premium cream biscuits and deodorants.

The **Branded Packaged Foods Businesses** posted healthy growth in revenue led by atta, snacks and noodles.

- In the **Staples, Snacks and Meals Business**, ‘Aashirvaad’ atta continued to perform well consolidating its leadership position across markets.

  The ‘Bingo!’ range of snack foods recorded robust growth driven by ‘Yumitos’ potato chips and ‘Tedhe Medhe’. Several innovative products such as Tedhe Medhe ‘Lime’ & ‘Tomato Masti’ and Mad Angles ‘Kasundi’, tailored to suit regional tastes and preferences were launched during the quarter. The Business also introduced Bingo! 'No Rulz' – a-first-of-its-kind offer comprising 4 different shapes of the product in a single pack. The product is available in 3 exciting flavours and has received encouraging response from consumers.

  In the Instant Noodles category, YiPPee! continued to perform well leveraging its superior value proposition anchored on best-in-class product quality, safety and taste. The recently launched YiPPee! Mood Masala variant continued to garner increasing consumer franchise across target markets.

- In the **Confections Business**, ‘Sunfeast’ biscuits performed well with ‘Dark Fantasy Choco Fills’, ‘Sunfeast Marie’ and ‘Mom’s Magic’ continuing to enhance market standing. During the quarter, the Business launched ‘Dark Fantasy Creations’ - a campaign themed around ‘making exquisite desserts with Dark Fantasy’ in collaboration with ITC Hotels. Product portfolio was augmented with the introduction of innovative products anchored on the health vector in select markets viz. ‘Farmlite Active Protein Power’ - a unique offering that combines the goodness of roasted Bengal Gram flour with great taste, ‘Farmlite Digestive High Fibre’ biscuits with the goodness of five grains and ‘Sunfeast A2 Naat Maad Paal’ biscuits enriched with native Indian cow milk. Portfolio premiumisation continued in the Confectionery category with the share of ‘Re.1 and above’ products further increasing during the quarter. The

Business launched ‘Candyman Cola Josh’ – an innovative offering with a ‘fizzy’ powder at the heart of the candy that provides a sensorial experience akin to a soft drink.

- In the **Dairy and Beverages Business**, B Natural juices continued to register strong growth leveraging a portfolio of differentiated products including a wide range of ‘Not from Concentrate’ variants that are made directly from fruit pulp thereby providing consumers a more nutritive and natural tasting experience. The recently launched, first-to-market ‘100% Not from Concentrate Pomegranate juice’ continued to garner impressive consumer franchise in the health and wellness segment. A range of gift packs launched during the quarter ahead of the festive season was well received in the target segments. In Dairy, ‘Aashirvaad Svasti’ ghee was extended to the Delhi & NCR markets during the quarter.

- During the quarter, the Business expanded the footprint of **‘Fabelle Chocolate Boutiques’,** hitherto available exclusively across ITC Hotels, to premium outlets in Bengaluru, Kolkata and Chennai. The Fabelle range of exquisitely crafted luxury gift packs with interesting personalisation options received encouraging response from discerning consumers in the festive gifting season.

The **Personal Care Products Business** continues to focus on product mix enrichment and augmenting its product portfolio. The ‘Engage On’ range of pocket perfumes recorded robust growth on the back of its unique value proposition combining convenience and affordability. The Engage portfolio stood expanded during the quarter with the launch of ‘Engage On+’ premium perfumes for women. The Fiama shower gel range and the recently launched Vivel Lotus Oil soap continue to garner impressive traction with consumers. During the quarter, the Business also launched moisturising skin cream under the recently acquired ‘Charmis’ brand.

The Business continued to leverage innovative brand campaigns and social media platforms to deepen consumer engagement. In line with its brand credo - ‘Ab Samjhauta Nahin’, Vivel teamed up with Ms. Srishti Bakshi, the ‘UN Women Empower Champion for Change 2017’, in her journey to raise awareness on safety for women and women’s rights.

The Company made steady progress during the quarter towards setting up state-of-the-art owned integrated consumer goods manufacturing facilities at Panchla (West Bengal) and Kapurthala (Punjab). These facilities are expected to commence operations in phases, beginning the ensuing quarter. Currently, over 20 projects are underway and in various stages of development – from land acquisition/site development to construction of buildings and other infrastructure.

Cigarettes

Pressure on the legal cigarette industry escalated significantly during the quarter on account of the steep increase in tax incidence under the GST regime and additional burden on the Business due to GST transition costs. The legal cigarette industry, already reeling under the cumulative impact of steep increase in taxation over the last 5 years and intense regulatory pressures, was further impacted by the sharp upward revision in GST Compensation Cess announced by the GST Council at its meeting on 17th July, 2017.

While the intention of the Government was to correct an apparent anomaly in cigarette taxation under the new tax regime announced earlier on account of the removal of the cascading effect of Excise Duty which existed in the pre GST regime, the upward revision resulted in significantly higher tax incidence on cigarettes compared to the pre GST scenario which is not in keeping with the fundamental principle of revenue neutrality. In fact, the combined impact of increase in Excise

Duty announced by the Union Budget 2017 and the revision in GST Compensation Cess as aforestated resulted in an incremental tax burden of over 20% on the Company. It is pertinent to note that the cumulative growth in tax incidence on cigarettes, after cognising for the latest increase in Cess rates, stands at a staggering 202% since 2011-12, i.e. the last 6 years.

Further, the Cigarette Business had to contend with additional costs associated with the transition to GST due to non-availability of Additional Duty Surcharge credit on transition stocks and the unanticipated revision of GST Compensation Cess w.e.f. 18th July 2017 which impacted pipeline stocks.

It is apprehended that the sharp increase in tax incidence on cigarettes will further increase the huge tax arbitrage available to unscrupulous players and provide a fillip to smuggling syndicates. This will severely undermine the legal cigarette industry and adversely impact tobacco farmers and the revenue objective of the Government. According to an independent study conducted by Euromonitor International, India is today the 4th largest market for illegal cigarettes in the world. It is estimated that almost 68% of the tobacco consumed in the country remains outside the tax net on account of evasion.** The proliferation of these tax-evaded products has resulted in significant losses to the Exchequer, in excess of Rs. 9000 crores per annum according to an independent study conducted by the Federation of Indian Chambers of Commerce and Industry (FICCI).

As reported earlier, the significant decline in legal cigarette volumes and the consequent reduction in the utilisation of Indian Flue-cured Virginia (FCV) tobacco has adversely impacted the livelihoods of over 45 million tobacco farmers, farm workers and others dependent on the tobacco sector. Besides, the soft demand for Indian FCV tobacco has prompted consecutive reductions in the authorised tobacco crop size in 2015-16 and 2016-17. This, in turn, has also led to lower exports of tobacco. In fact, since 2013-14, the annual earnings of tobacco farming community has shrunk by more than Rs. 1,500 crores due to drop in offtake of tobacco for the manufacture of domestic legal cigarettes.

Although legal cigarettes account for only about 11% of total tobacco consumption in the country, they contribute more than 87% of tax revenue from the tobacco sector. The other types of tobacco products contribute barely 13% of tax revenue from the tobacco sector despite accounting for 89% of total tobacco consumption.

Unfortunately, the taxation policy of the country is largely cigarette-centric and based on western models of tobacco taxation. This policy is not suitable for India since duty-paid cigarettes account for only about 11% of tobacco consumption in the country as compared to the global average of more than 90%. The Company continues to engage with policy makers for a tobacco taxation policy that is non-discriminatory, helps combat the problem of illegal cigarettes and addresses the issues of all stakeholders, particularly the tobacco farmers, the Exchequer and consumers. Such a policy will not only help maximisation of the revenue potential of tobacco even in a shrinking basket of tobacco consumption but also address the tobacco control and health objectives of the Government.

Despite the extremely challenging operating environment, the Company sustained its leadership position in the industry through relentless focus on delivering world-class products, continuous innovation & value addition and best-in-class execution.

Hotels

During the quarter, Room revenue grew at a healthy pace on account of increase in ARRs. However, Food & Beverage revenue growth was impacted by highway liquor ban which prevailed for a significant part of the quarter.

While Segment Results improved as compared to the corresponding quarter in the previous year, the same remained muted due to the challenging business context as aforestated and gestation costs of the recently commissioned ITC Grand Bharat, Gurgaon. Renovation work at ITC Maurya and ITC Maratha also weighed on overall performance.

The Business commissioned WelcomHotel Coimbatore on 1st October '17 and made **steady progress during the quarter in the construction of ITC Hotels at Hyderabad, Kolkata & Ahmedabad and WelcomHotels in Guntur and Bhubaneswar.**

Agri Business

The Business provides strategic sourcing support to the Company's Cigarette business and leverages its deep rural linkages to source superior quality wheat, spices and fruit pulp at competitive prices for the Branded Packaged Foods Businesses. The Business continues to leverage the e-Choupal network to source superior quality wheat at competitive cost and deliver substantial savings to the system through efficient logistics management and other cost-optimisation initiatives.

The performance of the Agri Business Segment during the quarter was impacted by shortage of leaf tobacco in Andhra Pradesh due to lower crop output on account of drought in 2016 & adverse crop quality, relative strength of the Indian Rupee vis-à-vis currencies of competing origins and limited trading opportunities in other agri-commodities.

Paperboards, Paper & Packaging

Paperboards, Paper & Packaging Segment Results registered a robust growth of 18% driven by richer product mix and structural cost saving initiatives. Improvement in profitability was also aided by benign input costs. Growth in Segment Revenue, however, remained muted on account of subdued demand environment prevailing in the FMCG and legal Cigarette industry, surplus capacity in the domestic industry alongwith zero duty imports under Free Trade Agreement with ASEAN countries and cheap imports from China.

Capacity utilisation of India's first Bleached Chemical Thermo Mechanical Pulp mill (BCTMP), recently commissioned by the Business, was progressively ramped up thereby reducing dependence on imported pulp. Capacity expansion projects in the Value Added Paperboard and Décor segments are also making satisfactory progress.

The Packaging Business strengthened its capabilities as a one-stop-shop for packaging solutions with the addition of a rigid box and a flexo corrugation line. These lines will enable expanding business especially in Consumer Electronics, Footwear, Fresh Fruits & Ready-to-Shelf segments.

Contribution to Sustainable Development

The Company's Social Investments Programme aims to address the challenges arising out of poverty, environmental degradation and climate change through a range of activities with the overarching objective of creating sustainable sources of livelihood for stakeholders.

The footprint of the Company's Social Investments Programme can be viewed at a glance in the following chart:

Intervention Areas	Unit of Measurement	Cumulative till date
Social and Farm Forestry Soil and Moisture Conservation Programme	Lakh Acre Lakh Acre	**6.62** **8.36**
Sustainable Agricultural Practices Compost Units	 Number	 **36,027**
Sustainable Livelihoods Initiative Cattle Development Centres Animal Husbandry Services	 Number Artificial Inseminations (in lakhs)	 **228** **21.03**
Economic Empowerment of Women Ultra Poor Women covered Self Help Group Members Livelihoods created	 Number Number Number	 **13,800** **36,100** **54,732**
Primary Education Children covered	 Number (in lakhs)	 **5.48**
Health and Sanitation Low Cost Sanitary Units Households covered under Solid Waste Management	 Number Number	 **27,770** **65,577**
Vocational Training Students Enrolled	 Number	 **49,639**

The Board of Directors, at its meeting in Bengaluru on 27th October 2017, approved the financial results for the quarter ended 30th September 2017, which are enclosed.

Notes:

* Gross Sales Value includes GST, GST Compensation Cess, Service Tax, VAT, Luxury Tax etc., as applicable for the reported periods.
** Report on the impact of current tax framework on the tobacco sector in India and suggestions for its improvements - 2014, by ASSOCHAM and KPMG.