ITC Limited

# Report of the Directors

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## Management Discussion and Analysis

For the Financial Year Ended 31st March, 2008

Your Directors submit their Report for the financial year ended 31st March, 2008.

### SOCIO-ECONOMIC ENVIRONMENT

India sustained its pre-eminent position as one of the fastest growing economies in the world in 2007/08. Despite the relative deceleration in several sectors, real GDP notched an impressive growth of 9%, as per revised estimates of the Central Statistical Organisation. India joined the ranks of the trillion dollar economies in the world, giving us yet another moment of national pride.

The Services sector, accounting for about 56% of GDP, emerged once again as a primary driver of economic growth. Led by a continued upswing in the trade, hotel, transport and communication sub-sectors, Services posted a remarkable growth of 10.8%. The Manufacturing sector was under pressure this year from a weaker growth in consumer durables, as well as a slowdown in cement and steel that consequently impacted the construction sector as well. Despite this setback, which knocked off 3.2% from the pace attained last year, manufacturing grew by 8.8%, reinforcing India's competitive strength in diverse sectors. The revised estimates indicate that the Agriculture sector has grown by a handsome 4.5%. While higher support prices and closely directed extension services have been the primary growth drivers, the challenge of sustaining such a growth level calls for focused attention to the sector, backed by substantial investments.

Domestic demand continued to fuel economic growth, driven by Investment demand, the fastest growing component. Strong private sector investment, buoyed by surging capital inflows, easier bank credit and reinvestment of profits, resulted in strengthening the build up of Gross Fixed Capital Formation, an important pre-requisite for sustaining high rates of economic growth. Private Consumption grew by 8.3%, supported by a steady growth in real wages and remittances.

While the economic scorecard continues to record encouraging numbers, a few fundamental challenges have emerged in certain sectors, causing concern. The surge in capital inflows contributed to a sharp appreciation of the Indian Rupee, particularly against the US Dollar. This triggered a multi-pronged impact affecting exports across the board, aggravating balance of trade and creating pressure on industry growth and margins. The basic viability of certain export-oriented industries, like textiles, was threatened, with reported job losses. The IT and BPO sectors faced pricing pressures, raising fears of cutbacks in potential employment.

A major concern during the year has been the sustained high inflationary trends. The Government initiated several policy measures to improve the supply side and ease the pressure on consumers and industry. Measures such as the duty free import of wheat and pulses, reduction or withdrawal of import duties on cement, steel and non-ferrous metals, ban on export of rice and wheat and prohibition of futures trading in certain commodities were implemented. While these interventions temporarily softened prices, the inflationary tendency persists in the face of global demand supply mismatches, especially in food grains, metals, fuel, etc. A natural fallout of the inflationary spiral has been a gradual erosion of consumer spends. Additionally, RBI's interventions on policy rates and liquidity, while justified in the current context, have however had an adverse impact on growth in rate-sensitive sectors. The steep increase in the price of oil and the recent depreciation of the Rupee are bound to further accentuate inflationary pressures with consequential repercussions on economic growth.

Currently, Agriculture contributes only 17.8% of GDP, despite engaging 52% of the total workforce. Structural weaknesses stemming from small land holdings, low productivity, falling levels of public investment and steady deterioration in public institutions that provide credit, inputs, research and extension services have resulted in this sector performing far below its potential. The Green Revolution that transformed productivity is well behind us now and it is time that a new

[ India joined the ranks of the trillion dollar economies in the world, giving us yet another moment of national pride. ]

movement is unleashed to usher in the next wave of agricultural development. Rural India remains overwhelmingly poor and the gap between urban and rural incomes is unfortunately widening with faster growth in urban-centric industries and the services sector.

The challenge of delivering stronger agricultural growth to boost the rural economy, reinforce food security and secure inclusiveness demands a multi-pronged approach to:

(a) Promote Public-Private and People Partnerships in rural India to enhance productivity, strengthen market linkages and create additional income avenues through efficient non-farm livelihoods;

(b) Enable consolidation of fragmented rural land parcels to permit the deployment of technology for improving agricultural productivity, given the future scenario of fewer people being dependent on agriculture as the single source of livelihood;

(c) Rapidly scale up rural infrastructure to eliminate wastages, ensure last mile connectivity and build efficiencies for adding value to agricultural produce;

(d) Promote engagement in rural services which can be employment intensive and remunerative;

(e) Facilitate R&D in agriculture and life sciences to support better horticultural and agricultural practices;

(f) Make available surplus land for industrial use, as a result of higher productivity in agriculture.

The opportunities arising out of a fast growing economy are yet to bring benefits to rural India due to lack of skills and education, rigidities in land and labour markets, poor infrastructure and absence of alternative livelihoods. In such a scenario, conversion of agricultural land for industrial use has met with concerted resistance and caused significant socio-political unrest. A more innovative approach can lead to the creation of inclusive models of growth that marry the traditional strengths of the farm sector to modern technology and markets, enabling more value creation and new employment opportunities.

Towards this, the 'Integrated Strategy for Promotion of Agri-business' approved by the Union Cabinet in June, 2007 is a positive step. With a view to trebling the size of the processed food sector, enhancing farmer incomes, generating employment opportunities and providing choice to consumers at affordable prices, the strategy document targets increasing the level of processing of perishables from 6% to 20%, value addition from 20% to 35% and share in global food trade from about 1.5% to 3%. Accordingly, the strategy document calls for: (a) Detailed mapping of the food cluster in the country; (b) Clusterisation of farming in the shape of contract farming or other formal / informal arrangements; (c) Strengthening backward & forward linkages and developing supply chains with cold storage facilities; (d) Establishment of Mega Food Parks in identified Small Scale Industries like horticulture, meat, dairy and marine products.

Your Company's e-Choupal network, created to source agricultural inputs directly from farmers, is totally compatible with the Government's strategy described above. The throughput of this value chain is growing rapidly as consumer franchise for your Company's branded food products get increasingly established. Entry into newer categories of food products will progressively increase sourcing through this channel in the years ahead. This is well poised to deliver long term shareholder value even as it increasingly contributes to the larger societal purpose.

The e-Choupal system has played an important role in catalysing rural transformation. The ITC 'Choupal Pradarshan Khet', a collaborative and paid agri extension service, aimed at enhancing farm productivity through adoption of best practices in agriculture, grew exponentially by 210% during the year covering 43,500 hectares. In the light of the encouraging response received from farmers, your Company intends to further scale-up this activity in the coming years. Your Company has also taken up a project jointly with the Government of Madhya Pradesh under the Agriculture Technology Management Agency (ATMA) initiative, wherein both classroom and on-field training would be provided to farmers by experts from various areas of agriculture including lead farmers. We are confident that these initiatives will contribute increasingly to build the competitiveness and productivity of India's agricultural sector.

India's growing economic clout is leading to a more proactive and meaningful global engagement, particularly in areas like global warming and climate change. It is today widely acknowledged that future generations will be more secure and economic growth more sustainable only if national and corporate strategies embrace the need to enhance

[ The ITC 'Choupal Pradarshan Khet', a collaborative and paid agri extension service, aimed at enhancing farm productivity through adoption of best practices in agriculture, grew exponentially by 210% during the year covering 43,500 hectares. ]

environmental and social capital. In line with this philosophy, your Company is proactively engaged in enlarging its contribution across the three dimensions of the 'triple bottom line' – economic, environmental and social – through a conscious strategy of investment and operations that enhances the competitiveness of the value chains we are engaged in.

Highlights of your Company's progress in the pursuit of the 'triple bottom line' objectives are discussed in the sections that follow.

## COMPANY PERFORMANCE

Your Company posted yet another year of impressive performance with healthy topline growth and high quality earnings testifying to the robustness of the corporate strategy of creating multiple drivers of growth. This performance is even more satisfying since it has been achieved despite the imposition of VAT on cigarettes, the incubation costs of the new FMCG businesses including the recently launched personal care portfolio, the upfront costs of rural marketing initiatives and the gestation costs of fresh investments in the paperboards and hotels businesses.

Gross Turnover for the year grew by 10.7% to Rs.21355.94 crores. Net Turnover at Rs.13947.53 crores grew by 14.7% driven by a robust 48.6% growth in the non-cigarette FMCG businesses, and a healthy performance by the Hotels and Paperboards, Paper & Packaging segments. The non-cigarette portfolio now accounts for 52.4% of the Company's Net Turnover. Pre-tax profits increased by 16.4% to Rs.4571.77 crores, while Post-tax profit at Rs.3120.10 crores registered a growth of 15.6%. Earnings Per Share for the year stands at Rs.8.29. Cash flows from Operations stood at Rs.4136 crores during the year.

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.3.50 per share (previous year: Rs.3.10 per share) for the year ended 31st March, 2008. The cash outflow in this regard will be Rs.1543.18 crores (previous year Rs.1364.50 crores) including Dividend Distribution Tax of Rs.224.17 crores (previous year Rs.198.21 crores). Your Board further recommends a transfer to General Reserve of Rs.1500 crores (previous year Rs.1250 crores). Consequently, your Board recommends leaving an unappropriated balance in the Profit and Loss Account of Rs.724.45 crores (previous year Rs.647.53 crores).

## PROFITS, DIVIDENDS AND RETENTION

(Rs. in Crores)

| | | 2008 | 2007 |
|---|---|---|---|
| a) | Profit Before Tax | 4571.77 | 3926.70 |
| b) | Income Tax | 1451.67 | 1226.73 |
| c) | Profit After Taxation | 3120.10 | 2699.97 |
| d) | Add : Profit brought forward from previous year | 647.53 | 562.06 |
| e) | Surplus available for Appropriation | **3767.63** | **3262.03** |
| f) | Transfer to General Reserve | 1500.00 | 1250.00 |
| g) | Proposed dividend for the financial year at the rate of Rs.3.50 per Ordinary Share of Re.1/- each (previous year : Rs.3.10 per Share) | 1319.01 | 1166.29 |
| | Income Tax on proposed dividend | 224.17 | 198.21 |
| h) | Retained profit carried forward to the following year | 724.45 | 647.53 |
| | | **3767.63** | **3262.03** |

## FOREIGN EXCHANGE EARNINGS

Your Company continues to view foreign exchange earnings as a priority. All businesses in the ITC portfolio are mandated to engage with overseas markets with a view to testing and demonstrating international competitiveness and seeking profitable opportunities for growth. The ITC Group's contribution to foreign exchange earnings over the last ten years amounted to nearly USD 3.2 billion, of which agri exports constituted 60%. Earnings from agri exports are an indicator of your Company's contribution to the rural economy through effectively linking small farmers with international markets.

During the financial year 2007/08, your Company, its subsidiaries and the ITC Welcomgroup hotel chain together earned Rs.2361 crores in foreign exchange. The direct foreign exchange earned by your Company amounting to Rs.2168 crores (Rs.2283 crores in 2006/07) was adversely impacted by restrictions imposed by the government during

[ The non-cigarette portfolio now accounts for 52.4% of the Company's Net Turnover. ]

the year on exports of major agri-commodities. Your Company's expenditure in foreign currency amounted to Rs.1159 crores, comprising purchase of raw materials, spares and other expenses at Rs.706 crores, and import of capital goods at Rs.453 crores.

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

## BUSINESS SEGMENTS

### A. FAST MOVING CONSUMER GOODS

#### FMCG – Cigarettes

The year under review witnessed an unprecedented increase in taxation on cigarettes. The combined impact of the increase in the rate of excise duty by more than 6% and imposition of VAT @ 12.5% ad-valorem – without a corresponding reduction of excise duties collected in lieu of State level sales tax – resulted in a total increase in tax incidence of about 30%.

It is deeply gratifying to report that not only did your Company meet the consequential challenges successfully, but also retained its leadership position in the market and improved its market standing in the consumer mind-space in key competitive markets across the country evidencing the resilience of its brands and the superiority of its competitive strategies. On the export front, your Company is pleased to report a volume growth of more than 16% over the previous year.

As reported last year, your Company uses a unique IT-enabled 'Six Sigma' based product development process. This product development process and the deep consumer insights nurtured by your Company were leveraged during the year under review for a series of key initiatives such as contemporary, internationalised packaging for 'India Kings' and 'Gold Flake Kings', multiple limited Edition Packs and flavour variants for 'Classic', etc. These initiatives have resulted in considerable fortification of your Company's strong position in the premium, value-plus segment of the market.

Your Company's pursuit of creating global standards across the value chain saw major investments in its manufacturing facilities. In addition to the induction of state-of-the-art high speed making and packing machines reported last year, significant investments were made during the year under review in upgrading technology across all the cigarette factories. These include modernisation of Primary Manufacturing in Munger, introduction of sophisticated material handling systems at Bengaluru and implementation of cutting edge Norwegian technology – Cold Plasma Odour Abatement Systems – at the Bengaluru and Saharanpur primary manufacturing departments. In fact, your Company is one of the first in the world to adopt this technology in tobacco-manufacturing.

The re-certification of the tobacco research laboratories under ISO / IEC 17025 Standards of the National Accreditation Board for Testing and Calibration Laboratories (NABL) has ensured continuing international recognition for your Company's R&D capabilities from the scientific and regulatory communities.

The focus on manufacturing excellence has resulted in your Company achieving the highest ever level of productivity in the year under review. The concurrent commitment to maintenance of impeccable Environment, Health and Safety (EHS) standards has borne fruit by way of lowest ever levels of power and water consumption per cigarette produced. Additionally, all the manufacturing facilities have achieved 100% solid waste recycling.

It is a matter of deep satisfaction that in recognition of its excellence in EHS standard, several awards were conferred on your Company during the year. All the 4 cigarette factories won the '5-Star rating' from the British Safety Council, UK. The Bengaluru, Saharanpur and Kidderpore factories won the 'Occupational Health and Safety Gold Medal Award' from the Royal Society for Prevention of Accidents (ROSPA), U.K. and the 'Greentech Gold Award for Excellence in Safety Management' from the Greentech Foundation, New Delhi. The Bengaluru, Kidderpore and Munger factories won the 'Greentech Gold Award for Excellence in Environment Management' from the Greentech Foundation, New Delhi. Additionally, the Bengaluru factory won the 'Safety Innovation Award' from the Institution of Engineers, New Delhi and the Munger factory won the 'Occupational Health and Safety Gold Award' from the ROSPA, U.K., the Winners Trophy – 'Safety Health and Environment Award', CII, Eastern Region, the 'National Award for Excellence in Water Management', CII and the 'Innovative Project Award for Energy Conservation Initiatives', CII, whilst the Kidderpore factory

[ The focus on manufacturing excellence has resulted in your Company achieving the highest ever level of productivity in the year under review. ]

won the 'Award for Outstanding Performance in Environment Health and Safety', CII, the 'Suraksha Puraskar Award' from The National Safety Council, Mumbai and the 'Golden Peacock Gold Award for Occupational Health and Safety' from Institute of Directors, New Delhi.

The discriminatory taxation regime on cigarettes within the overall tobacco industry remains the biggest challenge faced by the domestic cigarette industry. The extremely high rates of excise duties coupled with VAT renders cigarettes unaffordable to the common man and drives the growing consumption of tobacco in the form of lightly taxed products like bidis, guthka, chewing tobacco, zarda, etc. The steep imposition of taxes increases the arbitrage opportunity not only for smugglers of international brands, but also for clandestine domestic players who produce and sell cheap cigarettes by evading Excise and VAT. It is estimated that consequent to the 30% equivalent increase in tax rates on cigarettes during the year under review, the volume of these illegal cigarettes has doubled from around 150 million per month to nearly 300 million per month.

The unprecedented increase in the rates of excise duties on non-filter cigarettes in the 2008 Union Budget will only further induce consumers to move to cheaper and revenue-inefficient tobacco products, including smuggled and tax evaded cigarettes.

Your Company believes that the economic potential of tobacco can be maximised through moderation of taxes on cigarettes, minimisation of discriminatory taxes between different classes of tobacco products and a regulatory framework that addresses the genuine concerns of all the stakeholders of the tobacco industry. This is borne by the experience of countries like Brazil and China where moderate taxes and pragmatic policies have combined to serve the twin objectives of tobacco control and Exchequer revenue. As the 3rd largest tobacco grower and the 2nd largest tobacco consumer in the world, India can also reap a rich economic harvest from tobacco even while implementing tobacco control policies. The need, however, is for a balanced agenda on tobacco, both fiscal and regulatory. Your Company continues to engage with the policy-makers in this regard.

As mentioned in earlier years, 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 filed a contempt petition in the Supreme Court claiming a sum of about Rs.323.25 crore towards luxury tax, and a further sum of about Rs.261.97 crore 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.

The year ahead is fraught with extreme uncertainties, since for the first time in the history of the industry, manufacturers will not be able to position viable offers for consumers of non-filter cigarettes in view of the massive increase in excise duty rates in this segment. This challenge coupled with the harsh regulatory climate presents a daunting operating environment that will, undoubtedly, test the resilience of all legitimate players in the industry. Your Company is, however, confident that the trust reposed on it by consumers together with its robust strategic initiatives – based on excellence in product quality and innovation in manufacturing and operations – will enable it to retain its leadership position in the market.

## FMCG – Others

In the short to medium term, over half of India's population will remain below the age of 25 and according to the United Nations, India's working age population (i.e. 15-64 year olds) is projected to surge by 150 million to a total of 854 million over the decade from 2005 to 2015. In 2020, the average Indian will be only 29 years old, compared with the average age of 37 in China and US, 45 in Western Europe and 48 in Japan. This 'demographic dividend' underlines India's growth story.

[ Your Company is uniquely positioned to tap the emerging opportunities in the FMCG sector by blending and synergising the diverse pool of competencies residing in its various businesses. ]

The spurt in India's per capita GDP to about Rs.32,000 is resulting in a rapidly growing middle class. According to one recent study by McKinsey and Co., India's middle class – defined as those with annual incomes between Rs.1.8 lacs and Rs.8.9 lacs – has increased to 13 million households or about 50 million people.

Further, as is well known, urbanisation increases with rising per capita GDP in a 'hockey stick' fashion with cities providing large economies of agglomeration for individual activity. If India's per capita GDP were to grow at a double-digit rate, as is being targeted by the government, over 40% of Indians could be living in cities in the next decade against the 30% living in urban areas today. (Source: World Bank and Lehman Bros)

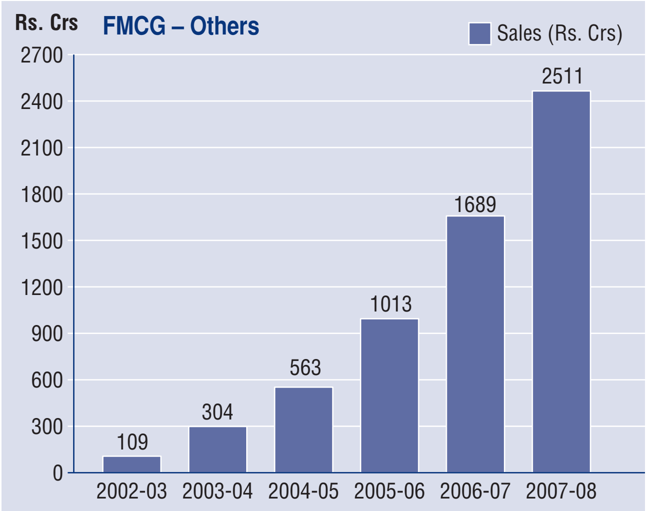
Your Company's bullishness on the future prospects of the FMCG industry is anchored on the interplay of demographic dividend, rising incomes and increasing urbanisation. The low penetration of many FMCG products and the growing population of working women also augur extremely well for the sector's growth. Your Company is uniquely positioned to tap the emerging opportunities in this sector by blending and synergising the diverse pool of competencies residing in its various businesses.

Accordingly, during the year under review, your Company continued to rapidly scale up the new FMCG businesses comprising Branded Packaged Foods, Lifestyle Retailing, Education and Stationery Products and Safety Matches & Incense Sticks (Agarbattis). Your Company's presence in this sector was further enhanced with the launch of a portfolio of Personal Care Products under a carefully designed brand architecture.

It is a matter of immense satisfaction that the Trade Marketing and Distribution initiatives of your Company continue to deliver high value. Your Directors are happy to report that the significant investments made in scaling up the Trade Marketing and Distribution infrastructure, backed by focused channel management, have substantially enhanced the market standing of your Company's FMCG products.

The Segment Report set out in Schedule 20 to the Accounts reflects the outcome of this rapid scaling up. Segment Revenues grew by 49% over 2006/07 to touch Rs.2511 crores during the year.

The table below illustrates the rapid growth of these businesses over the last few years:




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

The Branded Packaged Foods business continued to expand rapidly with sales growing by 57% over the previous year. The impressive scale up spanned all categories, attesting the market standing and consumer franchise of your Company's brands. Relentless focus on providing consumers well-differentiated best-in-class products, supported by significant investments in product development, innovation, manufacturing technology and unmatched distribution infrastructure have dramatically enhanced brand equity of this business. It is a matter of pride and satisfaction that both 'Aashirvaad' and 'Sunfeast' command consumer spends of nearly Rs.1,000 crore each in a short span of time.

Enthusiastic consumer response has enabled the 'Bingo!' range of potato chips and finger snack foods to acquire a double-digit market share within just one year of launch. Consumer acceptance of this order is rare and evidences your Company's ability to leverage its deep consumer insights, exploit the cuisine expertise of its Hotels Division and unleash its superior brand building capabilities.

[ The Branded Packaged Foods business continued to expand rapidly with sales growing by 57% over the previous year. ]

The 'Bingo!' launch received wide commendation for its width of portfolio and the high-energy clutter breaking marketing campaign. The business drew on the strong agri-sourcing linkages of your Company. It will progressively leverage its access to potato tuber technology arising out of the acquisition, during the year under review, of Technico Pty Ltd., Australia, by Russell Credit Ltd., a wholly owned subsidiary of your Company, to ensure security of supply and achieve critical buying efficiencies in cost and quality.

The biscuit category continued its growth momentum with sales growing by 53%. The 'Sunfeast' range of biscuits was further expanded with the launch of 'Coconut' and 'Nice' variants as well as 'Sunfeast Benne Vita' flaxseed biscuits, Special Edition of 'Sachin's Fitkit' multi grain biscuits and 'Golden Bakery' premium cookies. The excise relief accorded in the budget to low and mid-priced biscuits, consistent with the government's stated intention to promote the food processing industry, has given a fillip to the sector. It is hoped that the government would respond favourably to the industry's representation and extend the relief to the entire category.

In the staples category, 'Aashirvaad' further built on its leadership position with revenues growing by 43%. It continues to draw upon the agri sourcing strengths of your Company's e-Choupal network to gain competitive advantage by obtaining superior quality wheat at competitive costs. The business has successfully segmented the market through an expanded product range at appropriate price points. 'Aashirvaad Select' was positioned as a premium offering. 'Aashirvaad MP Chakki' atta was launched in target markets. 'Aashirvaad' spices grew by 49% leveraging the in-house agri-sourcing and crop development skills.

The confectionery category recorded robust sales with revenues growing by 40% over last year mainly driven by 'Deposited Mint' and 'Eclairs'. New variants in the 'Mint-o' and 'Candyman' range were launched during the year to expand consumer choice. A combination of effective distribution and aggressive trade marketing supported by a strong supply chain have helped the business to overtake incumbent market leaders and establish 'Candyman' and 'Mint-o' as the top brands in their respective segments.

In the Ready-to-Eat (RTE) group, 'Sunfeast PastaTreat' and 'Aashirvaad Instant Mixes' have grown by more than 100%. 'PastaTreat' has created a new category to address the snacking habits of urban consumers. Export of ambient stable products under the 'Kitchens of India' banner has shown a robust growth and is now well established in the US market for Ready-to-Eat Indian food. These products are already available in more than 4,500 stores across the US. They also enjoy a strong position in Canada.

During the year, the business received accolades from reputed organisations such as NDTV Profit, Business Standard, Business Today and Avaya Global Connect for a range of accomplishments: the successful launch of 'Bingo!', superior consumer relations and responsiveness, leadership in the foods sector and the best managed FMCG business in India.

The year ahead presents a unique challenge to the business in the shape of an unprecedented rise in commodity prices across the board, including wheat, vegetable oil, maize and skimmed milk powder. Coupled with the soaring fuel prices, the task of growing volumes without adversely impacting margins has been rendered extremely challenging. However, the economic growth momentum in the country is likely to lend support. Only a sustained supply side correction can ease inflationary pressures. In the interim, the Government should consider removal of Excise Duty and standardisation of the VAT rate at 4% for all food products to provide relief to the consumers and sustain growth in this sector.

## Lifestyle Retailing

Your Company's Lifestyle Retailing business continued to enjoy a high brand salience in the minds of consumers, both in the premium and popular segments of the branded apparel market. Domestic sales grew by 26% over the previous year, while exports registered a growth of 17%.

In the premium segment, 'Wills Lifestyle' continues to be a leader with a range that provides a classy expression of contemporary trends, styled and accessorised to give discerning customers the look of the season, in tune with the international fashion mood. The stature and premium imagery of the 'Wills Lifestyle' brand was further reinforced during the year through its association with the 'Wills Lifestyle India Fashion Week', the country's most prestigious lifestyle event. In a 'Ramp to Racks' initiative, the brand

[ Wills Lifestyle was rated amongst the top 5 Luxury brands in the country in a Global Luxury Survey conducted by TIME Magazine. ]

teamed up with the leading designers of the country to create the 'Wills Signature' range of designer-wear, which has been very well received by the consumers. The introduction of the 'Essenza Di Wills' and 'Fiama Di Wills' range of personal care products has helped augment the lifestyle portfolio. These products have met with encouraging response at the 'Wills Lifestyle' outlets. The business re-launched its customer privileges programme, 'Club Wills', by incorporating a Platinum category, which offers more personalised services to enhance the shopping experience. During the year the company also launched the new concept 'Wills Lifestyle' stores designed by a well known US based design firm specialising in retail.

The 'Wills Lifestyle' brands are now available nationwide in your Company's exclusive stores, as well as in leading departmental stores. The chain of 'Wills Lifestyle' stores offers a complete fashion wardrobe comprising 'Wills Classic' formal wear, 'Wills Sport' relaxed wear, and 'Wills Clublife' evening wear, along with accessories for both men and women. The soaring rental costs have hampered the pace of store expansion, as it has for the rest of the industry. The business is taking early positions in key malls and considering selective ownership of stores to mitigate the impact of rising rental costs and maintain its growth trajectory.

'Wills Lifestyle' was rated amongst the top 5 Luxury brands in the country in a Global Luxury Survey conducted by TIME Magazine. 'Wills Lifestyle' was also voted as the 'Retailer of the Year' in 'Fashion & Lifestyle' category at the Asia Retail Congress, 2008.

In the popular 'Youth' segment, 'John Players' delivered a strong performance, generating high buzz through its vibrant imagery, youthful product portfolio and association with youth icon, Hrithik Roshan. The brand has established a strong leadership presence in this segment. The vibrant portfolio comprising youthful products such as cargoes, denims, suits and jackets helped enhance brand appeal, while the 'Signature Line' a range of glamour wear incorporating the fashion preferences of the brand ambassador, gave the brand portfolio its edgy face. 'John Players' now enjoys a strong pan India presence. The business will continue to aggressively expand its retail presence.

During the year, the business launched its new brand 'Miss Players'. The brand, positioned to make a lively and playful statement, brings to the market trendy fashion wear for young women. It offers a vibrant wardrobe of cool casual-wear, exciting party-wear and chic work-wear. The well-known film actor Amrita Rao is the face of the brand. She brings life to the brand philosophy of 'playing it cool'. 'Miss Players' is now widely available in 'Miss Players' exclusive stores, select 'John Players' stores, leading large-format retail chains and key multi brand outlets across the country.

In the area of apparel exports, the growth in turnover was healthy despite the depreciation of the US dollar against the rupee. However, margins were under serious pressure. Nevertheless manufacturing capacities were augmented to offer a wider product portfolio, the existing customer base was consolidated and relationships established with potential high value customers.

The business leveraged the expertise of leading global consultants to strengthen its product design and engineering capability. New dedicated high quality supply sources were added to further support the robustness of the supply chain. The business also made significant investments in Information Technology to augment real time data visibility. These strategic initiatives will enable the business to substantially increase the fashion quotient of its product range, improve operational effectiveness and enhance customer intimacy.

## Education & Stationery Products

The Stationery business recorded an impressive sales growth of 72% over the previous year, positioning your Company as the largest marketer of notebooks in India. Its two flagship brands, namely 'Classmate' for the student community and 'Paperkraft' for the discerning working executives, have established a strong beachhead in the Indian stationery market in a short span of time. This success has clearly been achieved on the strength of quality and innovation, which have yielded a growing consumer franchise, particularly among students.

The market for notebooks in India is highly fragmented and dominated by regional and local players. There has been little investment in product quality, brand building and national distribution. The business has played a pioneering role in partnering over 15 small-scale units to upgrade their quality, delivery capability and business processes. 8 of these units were awarded the ISO 9001:2000 certificate, which is a first for the stationery industry. This accomplishment underscores the mutual benefits of a

The Stationery business recorded an impressive sales growth of 72% over the previous year, positioning your Company as the largest marketer of notebooks in India.

marketing partnership between a large marketing company and small scale manufacturers.

The business has systematically invested in product superiority, brand building and the creation of robust demand and supply side networks. These strategic initiatives have positioned 'Classmate' as the top notebook brand in India. The business has effectively leveraged your Company's world class paper manufacturing capability to impart unmatched quality to its product range. Apart from superior physical characterstics, the paper used in 'Classmate' notebooks is also environment friendly, being free from elemental chlorine.

The business has painstakingly built brand equity through innovative cover designs, trivia pages and impactful point of sales communication. Consumer preference and brand loyalty have been created by leveraging the power of your Company's 'Citizen First' philosophy by which a committed contribution is made to rural development for every Classmate notebook bought by the consumer.

During the year, the business enlarged the size and scale of its school contact programme, the 'Classmate Young Author & Artist Contest', which drew participation from over 5,000 schools and a million students across 34 cities. This has led to deeper engagements with all stakeholders viz. students, teachers and academicians. The distribution infrastructure was strengthened by expanding the network of specialist distributors and stockists to service 2,000 markets.

Buoyed by the success of 'Classmate', your Company plans to introduce a slew of complementary education & stationery products by further leveraging the investment in the new paper machine at the Paperboards & Specialty Papers Division. With the macro economic indicators for education being extremely positive, your Company's stationery brands are well poised to lend their equity to a wider assortment of products, which will exploit its demand and supply side capabilities.

During the year, the business launched 'Classmate Fun N Learn' children's books for the pre-school segment. These have been extremely well received and consequently distribution is being extended to more markets.

In view of the quantum growth opportunities presented by the education & stationery products market, your Company has decided to scale down its greeting cards business which has been adversely impacted by the rapid emergence of e-technology. Accordingly, your Board of Directors has approved re-naming the business as 'Education & Stationery Products Business'.

## Safety Matches

The brand portfolio of your Company combined with that of Wimco Ltd. continues to enjoy a strong consumer franchise in almost all markets in India. Continuous product development and new product introductions based on deep consumer insights have sustained the vitality of the business's brand portfolio. Consequently, growth has been driven by value added products, with the combined portfolio delivering a topline growth of 8%. In the continuing pursuit of this strategy, the business launched new value added offers such as 'Aim Mega' and 'Aim Metro' during the year. Driven by wide availability, these brands are steadily gaining market share.

The business continued to take advantage of the synergy benefits accruing from the acquisition of Wimco Ltd. two years ago by Russell Credit Ltd., a wholly owned subsidiary of your Company. The business strengthened its foothold in the international market by enhancing its presence in the key markets of Middle East and Africa. The business continues to source significantly from the small scale sector, working closely with these units to improve their competitive capability through the induction of technology and best practices.

The steep escalation in the cost of key input materials like wood and chemicals has subjected the industry to extreme financial pressures. Your Company has responded to this scenario with renewed focus on product development and operational efficiencies.

The long term sustainability of this industry hinges crucially on technology induction. Introduction of a uniform taxation policy aimed at providing a level playing field to all manufacturers would trigger investments towards modernisation of this industry. The Government should seriously consider creating such an enabling environment which will not only help the industry improve its global competitiveness, but will also provide a safer working environment for the large population of workers engaged in this industry.

[ The Safety Matches business continues to source significantly from the small scale sector, working closely with these units to improve their competitive capability through the induction of technology and best practices. ]

### Incense sticks (Agarbattis)

The Agarbatti business recorded an impressive 25% growth in revenues, primarily driven by increasing consumer franchise for the 'Mangaldeep' brand combined with improved distribution reach. 'Mangaldeep' is already the second largest national brand in the industry, riding on the success of two key sub-brands, namely 'Madhur 100' and 'Yantra'. Launched last year, 'Yantra' has received wide consumer acceptance on the strength of its unique fragrance which evokes a temple ambience. It is expected to become a national drive brand.

In line with the Company's commitment to the 'triple bottom line', the Agarbatti business indirectly provides livelihood opportunities to 5000 people. The business continues to work in conjunction with NGOs and Self Help Groups in Tripura, Bihar, Andhra Pradesh, Tamil Nadu etc., extending support to them by training village women in rolling agarbattis, thereby creating income streams for women from poor rural households. The business continues to collaborate with small and medium enterprises to harness the best of their entrepreneurial skills and raise their process and quality standards. Specific and well directed inputs from your Company have enabled 7 out of 10 agarbatti manufacturing units to receive ISO 9001 : 2000 certification.

In order to exploit other opportunities in the 'air care' segment, the business has commenced export of premium perfumed candles to the US. The business has also launched a range of premium aromatic candles in the Indian market under the brand 'Expressions'. Given the growing popularity of aroma therapy and the changing gifting habits in India, these products are expected to do well across segments.

### Personal Care Products

In line with your Company's stated strategy of aggressively scaling up the FMCG initiatives through portfolio expansion, the Personal Care business was commenced during the year with the launch of a range of shampoos, soaps, shower gels and conditioners under the brand names of 'Fiama Di Wills', 'Vivel Di Wills', 'Vivel' and 'Superia'. Anchored on meticulous consumer research, these products have been formulated to bring a unique blend of nature and science to discerning consumers. Each of these brands addresses an identified segment of the market with differentiated value benefits.

The initial market response to your Company's products under the 'Fiama Di Wills', 'Vivel Di Wills', 'Vivel' and 'Superia' brands has been encouraging. The range is being progressively extended nationally. The 'Di Wills' family, strongly endorsed by the 'Wills Lifestyle India Fashion Week', the country's premier fashion event, provides an opportunity for the business to engage with consumers at the luxury end. The business has unleashed an aggressive communication strategy with appropriate celebrity association. The combined quality of promise and performance is expected to speedily build an appreciable consumer franchise for these brands.

At a total size of Rs.20,000 crores, the Personal Care industry in India continues to grow at a healthy 10 - 12% per annum due to the interplay of economic, demographic and sociological factors discussed earlier in this report. The sector holds immense appeal for your Company on account of its scale and growth potential, given the low market penetration in these categories, other than soaps. A rapidly growing luxury segment adds to the appeal. This arena of opportunity fits well with your Company's established strengths in brand building, trade marketing and lifestyle retailing, all of which can be leveraged to build a successful business.

### B. HOTELS

The hotel industry witnessed yet another year of robust growth aided by India's economic momentum and its increasing attractiveness as a business and tourist destination. Foreign tourist arrivals were buoyant, touching 5 million in 2007, representing a growth of 12% over the previous year. Estimates of foreign exchange earnings from tourism of US Dollar 10 billion during 2007/08 reflect an increase of 32% over the previous year. Domestic tourism posted a handsome growth of about 20% in 2007 to touch 500 million travellers.

India has 27 properties on the World Heritage List, the second highest in Asia after China's 34. The World Travel and Tourism Council has, quite rightly, identified India as one of the world's foremost tourist growth centres in the coming decade. India's comparative cost advantage in specific niches such as medical and adventure tourism can significantly synergise and enhance the country's traditional tourism potential premised on its rich history and cultural heritage. Despite such enormous potential, India's share in the world travel & tourism demand remains extremely

[ The Agarbatti business continues to work in conjunction with NGOs and Self Help Groups in several states, extending support to them by training village women in rolling agarbattis, thereby creating income streams for women from poor rural households. ]

low. India's travel and tourism economy, as a share of GDP, is estimated at only 6.1% which is well below the world average of 9.9%.

India's tourism infrastructure including airport facilities, hotels and roads to tourist destinations, needs to be upgraded to international standards. The number of hotel rooms in India, including approved projects, is estimated at 110,000 of which, around 30% is in the 5 Star / Luxury segment – a woefully inadequate capacity, lower than even some of the much smaller South-East Asian countries like Singapore, Malaysia and Thailand. It is estimated that India would need an additional 50,000 rooms in the next 2 to 3 years to cater to the projected tourist arrivals into the country. However, the astronomical price of land remains the key hurdle in the realisation of this objective.

During the year under review, the hotels business performed well with revenues growing by 12% to touch Rs.1100 crores driven by better room rates and higher food & beverage sales. Gross Operating Profit (PBDIT) grew 15% over the previous year to touch Rs.475 crores, while segment results (PBIT) at Rs.411 crores grew by 17%. The results would have been even more impressive but for the adverse impact of the strengthening rupee in the first half of fiscal 2007/08. The business resorted to rupee billing from September 2007 onwards as an insurance against rupee appreciation. The business maintained its leadership in terms of operating efficiency as measured by the ratio of PBDIT to Net Income.

Consequent to the exclusive tie-up with its partner Starwood, 7 of ITC's finest properties were repositioned and associated with the premium 'Luxury Collection' franchise with effect from 15th May, 2007. Globally, only a limited number of exclusive properties carry the 'Luxury Collection' endorsement, offering unique experiences indigenous to their destination. In India, your Company's 'Luxury Collection' properties stand for the true essence of Indian hospitality. This exclusive franchise acknowledges ITC's leadership in the premium segment and positions it amongst the world's finest hotel chains.

ITC-Welcomgroup has emerged as the country's 2nd largest hotel chain offering a choice of over 90 hotels across 77 destinations in India under 4 different brand propositions - 'ITC Hotels', 'Welcom Hotel', 'Fortune' and 'Welcom Heritage' and 4 properties carrying the Sheraton franchise, aggregating to an inventory of 6,000 plus rooms. About half of this room inventory is at the premium end, owned between your Company and its subsidiaries. The balance consists of third party owned properties operating under the 'WelcomHotel', 'Fortune' and 'WelcomHeritage' brands.

Comprehensive renovation and product upgradation programmes were completed at 4 properties including the premium Towers Block at ITC Maurya, New Delhi. In keeping with the Company's strategy of maintaining the contemporariness and premium positioning of its properties, considerable investments will continue to be made in renovation and upgradation plans.

Buoyed by the continuing impressive performance of this sector, your Company, as reported last year, has embarked on an aggressive investment led growth strategy. Construction activity in respect of the super deluxe luxury hotel projects at Bengaluru and Chennai is progressing on schedule and several new projects entailing substantial investments are in various stages of implementation.

The ITC-Welcomgroup chain, with its globally benchmarked levels of product and service excellence and customer centricity is not only well positioned to sustain its leadership position in the industry, but is also poised 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 yet another year of steady growth in revenues and profits. Segment revenues grew by 13% over the previous year to touch Rs.2364 crores. Segment results at Rs.453 crores reflect a growth of 9%.

#### Paperboards & Specialty Papers

While the global paper & paperboard industry grew by about 2%, the industry in India witnessed a 9% growth during the year under review. The domestic paperboards industry, sized at 1.24 million TPA, is characterised by fragmented capacities, with over 100 mills servicing the market. The top five manufacturers account for over 45% of the domestic supplies. Your Company is the market leader and the only significant player in the premium value added paperboard segment with integrated pulping operations.

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

Driven by macro economic factors, the outlook for the industry in India remains positive on the demand side. The per capita consumption of paper and paperboard in India at 7 Kgs. is exceptionally low compared to the world average of about 55 Kgs. and the Chinese average of 45 Kgs. Sustained economic growth will progressively bridge this gap, resulting in a consequent surge in demand. Accelerated growth of the FMCG sector, driven by consumer spending, is expected to boost demand for sophisticated packaging for branded products. Your Company, with its high quality value added paperboards, is well poised to exploit this opportunity.

Production during the year touched 4,14,714 MT as compared to 3,90,458 MT in the previous year. Total sales increased to 4,03,063 MT from 3,85,005 MT, a volume growth of 5%. Sales of Value Added Paperboards grew by 15% driving revenue growth and market standing. Major planned upgrade programmes, involving complex rebuild and stabilisation of certain machines, adversely affected production volumes during the year.

The year witnessed a continuing trend of steep inflation in the cost of fuel and major raw materials. Globally, pulp and waste paper prices spiralled, mainly due to the widening demand supply gap. China, as the largest importer of input raw materials, influences the international prices of fibrous inputs. Uncompetitive cost structures have forced many North American and European mills to shut down operations, some of them permanently. Notwithstanding this high cost scenario, your Company succeeded in partially neutralising cost pressures by optimising opportunity buying and increasing sales realisations.

Addressing the challenge of securing the long-term supply of fibre at competitive prices is critical for the business. Given the downward trend in import duties on paperboards, cost competitiveness will be of vital importance. Your Company's operating strategies, centered on expanding pulp capacities, improving energy management and enhancing internal efficiencies, are robust enough to yield sustainable cost advantages.

Building on its pioneering 'Elemental Chlorine Free' bleaching process, the business has successfully commissioned a new pulp mill at its Bhadrachalam unit. The new line, which is in the process of stabilising, will enable the business to mitigate the impact of cost escalations in hardwood pulp. The new 'Ozone bleached' Pulp mill, the first of its kind in the country, meets world-class environmental standards – a testimony to your Company's commitment to the 'triple bottom line'. This differentiated capability will enable the business to expand the market for superior value added paper and boards on the strength of cost competitiveness.

As reported in previous years, the business has consistently pursued an aggressive clonal propagation strategy. It makes available high-yielding clones and seedlings of the desired pulp wood species to farmers engaged in plantation on their marginal wastelands. It also provides extension services to such farmers to improve productivity and output quality. The quality of these clones and seedlings, products of the biotechnology-based R&D programme of the business, has been tested for its effectiveness in more than 80,000 hectares of plantations, including 15,000 hectares planted during the year under review. The business continues to collaborate with the Council for Scientific and Industrial Research (CSIR) to leverage contemporary bio-technology applications to develop high yielding pulpwood species with low lignin content.

Your Company continues to represent to policy makers 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, which would inter alia promote public-private partnerships for the development of degraded forest lands, would go a long way in serving the twin objectives of securing wood supply for the domestic paper and paperboards industry and creating sustained livelihood providing economic activity in rural India.

Waste paper is a key input in the manufacture of recycled boards. Unfortunately, mobilisation of waste paper in India is very low at 14% compared to 60% in developed countries. The business has therefore commenced an initiative for efficient collection and recycling of waste paper, targeting large sources of aggregation such as schools, offices, residential colonies and apartment blocks. This initiative, widely appreciated, will contribute to a cleaner environment while enhancing the long term cost competitiveness of the business.

[ The new 'Ozone bleached' Pulp mill, the first of its kind in the country, meets world-class environmental standards – a testimony to your Company's commitment to the 'triple bottom line'. ]

The business is well on its course to achieve 'zero solid waste' discharge status, with the units at Tribeni and Kovai having already achieved 100% compliance, and the units at Bhadrachalam and Bollaram being very close to achieving the same. The business has initiated a slew of projects that qualify for carbon credit in terms of the Clean Development Mechanism (CDM) under the Kyoto Protocol.

The robust growth in the value added printing and writing paper segment in India presents an attractive opportunity, which the business plans to leverage by tapping your Company's institutional strengths in distribution. The Indian market is witnessing a robust growth in demand for fine printing paper, premium quality coated paper and branded copier paper. The business is at an advanced stage of commissioning a new paper machine at its Bhadrachalam unit with a capacity of 1 lac ton per annum, to service this demand effective middle of 2008 when this machine is expected to commence commercial production.

During the year, the British Safety Council awarded the 'Sword of Honour' to the Tribeni unit and the '5 Star Rating' to the Kovai and Bollaram units. The Bhadrachalam unit was recognised for 'Excellence in Energy Management' by CII. The Bhadrachalam and Kovai units were conferred with the 'National Award for excellence in Water Management 2007' by CII. The Bhadrachalam unit received recognition for practicing 'Cleaner Production Technology and Climate Change Mitigation Measures' from the Andhra Pradesh Pollution Control Board.

The business with its augmented capacity and capability, backed by the strength of its research and development team and an all-pervasive culture of innovation and excellence is well poised to become a major player in the Afro-Asian region.

### Packaging and Printing

The Packaging and Printing business of your Company continued to invest in world class technology and skills. It expanded its range of offerings to consolidate its position as a leading provider of high quality paperboard and flexibles packaging in the country. The business provided strategic support to your Company's cigarette and other FMCG businesses by ensuring security of supplies and sustaining international quality at competitive prices.

Deliveries from the flexibles and carton lines, commissioned at Haridwar and Chennai respectively during the year, are being scaled up to cater to the distinctive and innovative packaging requirements of your Company's Branded Packaged Foods and Personal Care businesses. The business also built up critical volumes in the supply of value added packaging to the consumer electronics industry from its Chennai facility.

The in-house capability to deliver best-in-class packaging has enabled your Company to crash time in the launch of new products by the Branded Foods and Personal Care businesses, while simultaneously contributing to significant enhancement of brand image. Capacities are being augmented further at both Haridwar and Chennai to cater to the increasing packaging requirements of your Company's FMCG businesses.

The business won several national awards for excellence in printing, as well as 'Star' awards from the Paper, Film and Foil Converters' Association (PFFCA). The Chennai unit was certified at Level 8 of the International Quality Rating System (IQRS) as audited by Det Norske Veritas (DNV), becoming the first in India to receive this rating. All three units, at Chennai, Munger and Haridwar, received the '5 Star Rating' for Safety from the British Safety Council. The Chennai Packaging unit was awarded the 'Appreciation Award for Safety' by the Government of Tamil Nadu for the second year in succession. The Munger unit received the 'Greentech Gold Award for Safety Management and Environmental Excellence' and the 'ROSPA Gold Award'.

With substantial investments in technology, quality management systems and manufacturing practices, the business is well poised for rapid growth.

## D. AGRI BUSINESS

### Cigarette Leaf Tobacco

Global production of burley and oriental tobaccos declined sharply in 2007 in Greece and the major producing countries of East Europe consequent to the decoupling of subsidies in the European Union. The constrained supply chain for such tobaccos increased farm and trade prices. The increase in the production of flue-cured tobaccos in Brazil, Zimbabwe, Argentina and the US was too moderate to mitigate the demand supply mismatch.

In India, the size of the tobacco crop has been increasing in the past four years despite rising labour and input costs, largely due to the fact that cigarette tobacco farmers have been consistently well remunerated. Global supply shortages have spurred demand for Indian tobaccos, considerably

[ The Chennai Packaging unit was certified at Level 8 of the International Quality Rating System (IQRS) as audited by Det Norske Veritas (DNV), becoming the first in India to receive this rating. ]

raising prices from their traditional lows. Resultantly, Indian farmers have been insulated from the bargaining power of large buyers in the wake of global consolidation, which has led to the top five cigarette majors (including China) controlling 85% of world cigarette production.

During the year under review, the business achieved a new high in tobacco exports for the 3rd consecutive year, and despite the sharp appreciation of the rupee, recorded a 21% increase in export revenues over the previous year. In volume terms, exports for the year grew at 27%. Your Company won the 'Golden Leaf Awards' in the TABEXPO 2007 held in Paris in the categories of 'Most Committed to Quality' and 'Most Impressive Public Service Initiative'. The business continued to provide strategic sourcing support to your Company's cigarette business.

The R&D teams of the business focused on development of desired styles of leaf and appropriate production practices for maximising productivity in the Flue Cured Virginia and Burley growing regions. Trials on Advanced Breeding Lines (ABL) and hybrid seeds continued during the year in close collaboration with the Central Tobacco Research Institute (CTRI). Results indicate the potential for increase in farm productivity. Micro irrigation trials conducted in nurseries yielded superior quality seedlings at a lower cost of production, besides conserving ground water to the tune of 30% to 40%.

The full benefits of the investments made in the modernisation of the plants at Chirala and Anaparti were realised during the year. In-house processing was maximised with significant improvement in asset utilisation. In view of the accelerated growth of the Mysore crop, your Company has decided to establish a green leaf processing plant at a location near Mysore. Land acquisition for this project is in progress.

Your company continues to focus on maintaining the highest safety standards in its factories. During the year, the Units at Anaparti and Chirala received the prestigious 'Sword of Honour' award from the British Safety Council. These Units also received the '5 star Rating' (Health, Safety & Environment) from the British Safety Council. The Chirala Unit also received the 'Safety Innovation Award' from the Institution of Engineers, New Delhi.

The global supply situation continues to be tight in 2008. Consequently, the demand for Indian tobaccos has increased considerably with sharp increases in the auction prices. In the absence of structural interventions to improve farm productivity and develop and scale up the right types of tobacco in alignment with demand, such short term opportunity as the present one would moderate quickly as other countries step up production to bridge the supply gap.

On the domestic front, fresh challenges have emerged. As explained in an earlier section of this Report, Indian cigarette manufacturers will not be able to position viable offers for consumers of non-filter cigarettes in view of the massive increase in excise duties in this segment. This will adversely impact domestic demand with severe consequences for tobacco farmers and all others who depend on the tobacco value chain for their livelihood. An equitable and balanced approach to cigarette taxation is needed to de-risk the tobacco dependants from such large taxation induced discontinuities.

In order to strengthen your Company's competitive standing, several R&D initiatives were launched including some that provide insight into genetic compositions in Flue Cured Virginia tobaccos. These initiatives will enable the business to align R&D inputs with customer requirements and other market opportunities.

Your Company with its strong R&D capability, modern processing facilities, crop development and extension expertise and deep understanding of customer and farmer needs is in a position to leverage opportunities and address challenges that lie ahead for the Indian leaf tobacco industry. The business will continue to extend strategic sourcing support to the cigarette business even as it sustains its leadership position as a major exporter of quality Indian tobaccos, thereby catalysing the multiplier impact of increased farmer incomes to benefit the rural economy.

## Agri Commodities

The year under review witnessed substantial turbulence in agri commodities trading. Rising crude prices and concerns over climate change are driving most countries to develop bio-fuels as alternatives. The shift to bio-fuel cultivation

Your Company with its strong R&D capability, modern processing facilities, crop development and extension expertise and deep understanding of customer and farmer needs is in a position to leverage opportunities and address challenges that lie ahead for the Indian leaf tobacco industry.

coupled with steadily increasing demand and all time low inventory levels resulted in a major spurt in commodity prices worldwide. In India, growing inflationary pressures compelled the Government to take drastic measures such as ban on exports, imports at nil duty, market intervention at subsidised prices and imposition of limits on inventory holding.

These challenging circumstances adversely impacted the performance of the business during the first half of the year. The business was left with no option but to liquidate its agri commodity inventories at prices lower than the remunerative procurement prices paid to the farmers through its e-Choupal network. The appreciating Rupee aggravated the situation. Subsequently, in the second half of the year, with the restoration of market dynamics in the agri sector, the business regained its growth momentum with a fine-tuned portfolio mix. As a result, your Company retained its position as a prime player in agri business, with strong performance in Soyabean trading driving revenues to a new high. The value added segment of frozen foods, IQF (individually quick frozen) fruits, niche products like baby food, quality purees, high brix pulp and organic purees registered a strong sales growth of 41% over last year. Such a performance revalidates your Company's strategy of focusing on the value added segment to capture better margins in products where India has a natural agro climatic advantage.

During the year, your Company's commodity trading operation was accredited with ISO 9001:2000 certification, testifying to the high quality process standards resident in the system. The business is progressively aligning its commodity portfolio with the sourcing needs of your Company's Foods business to generate higher order value from its agri procurement infrastructure.

The e-Choupal model continued to provide strategic competitive advantage to your Company's Foods business by enabling purchase of large quantities of identity preserved, high quality wheat at competitive prices. During the year the business commenced procurement of chipstock potatoes, one of the critical raw materials in the manufacture of the Company's 'Bingo!' brand of potato chips. A judicious blend of sourcing from different growth zones, and optimisation through in-season and off-season purchases helped in competitively meeting the requirement of chipstock potatoes despite a significant price increase in the wake of high demand and adverse growing conditions.

The acquisition of Technico, an Australian company with technology leadership in the production of early generation seed potatoes, helped your Company access a ready pipeline of new high-yielding varieties of chipstock potato seeds. In order to ensure uninterrupted supply of chipstock potato, the business proposes to undertake initiatives like varietal and regional crop development.

The horticulture pilot through 'Choupal Fresh' stores is progressing as per plans. The business intends to further strengthen its farmer linkages and its expertise in the management of perishables before scaling up this business.

The spices business was scaled up to provide supply chain support for the growing spice powder sales of your Company's Foods business. In order to ensure sustainable growth, the business is working closely with farmers, NGOs and Self Help Groups for developing a reliable farm-to-factory spices supply chain. Focus on special growing programs for organic spices and Integrated Pest Management (IPM) chillies have helped the business access premium export markets like Japan, US and the European Union. The business has entered into a unique tripartite agreement with the Spices Board and the State Government of Nagaland for developing the 'Naga Chilli' crop. The business is setting up a state-of-the-art spices grinding and sterilisation facility to support growth in the domestic and export markets. The business is well positioned to expand the product range to include value added products such as oleoresins.

The agri-inputs part of the business grew its topline by a handsome 49%. Its core product, 'Wellgro Soil', a neem-based organic manure, is gaining increasing acceptance amongst the farming community in Andhra Pradesh, Karnataka and Maharashtra. A mobile based Dealer Ordering System was deployed during the year to strengthen distribution. The business has developed a cost effective neem-based organic fertiliser, 'Wellgro Grains' for field crops. Initial results of large scale commercial trials on paddy crops have been very encouraging in terms of higher yields. Usage of Hybrids and BT seeds require application of specialty fertilisers. The business has launched a range of such fertilisers.

Your Company's rural servicing initiative under the 'Choupal Saagar' banner now encompasses 21 centres across 3 states. These centres continue to be a one-stop shop for

[ The Agri Commodities business is progressively aligning its commodity portfolio with the sourcing needs of your Company's Foods business to generate higher order value from its agri procurement infrastructure. ]

the farming community with a host of services like sourcing, training soil testing, cafeteria and health clinic being provided in the same complex. Apart from the doubling of turnover, the year witnessed improvement across the key performance drivers of footfalls, conversion, average realisation and product mix, with consequent expansion of margins. Acquisition of suitable land however remains a key challenge.

The throughput of the rural marketing businesses through the e-Choupal network experienced robust growth during the year. Channel productivity improved through focus on capability building of both internal staff and the extended organisation of Sanchalaks / Sanyojaks. Distribution of FMCG and Financial Services products through the network witnessed a growth of 36% and 335% respectively. The channel maintained its leadership in the distribution of life insurance and weather insurance products. The marketing of Kisan Credit Cards on behalf of State Bank of India was initiated in 4 States after a successful pilot. The channel, having earned the trust of customers, is now poised for a major expansion in the distribution of banking products.

## 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 those of the subsidiary companies. Further, the report and accounts of the subsidiary companies will also be available at the 'Shareholder Value' section of your Company's website www.itcportal.com, in a user friendly, downloadable format.

ITC Global Holdings Pte. Ltd., Singapore ('ITC Global') was placed under liquidation on 30th November, 2007 by the High Court of the Republic of Singapore vide its Order dated 30th November, 2007, on an application of the Judicial Managers of ITC Global. ITC Global has been under Judicial Management since 8th November, 1996. Consequently, your Company is not in a position to consolidate the accounts of ITC Global and its subsidiaries for the financial year ended 31st December, 2007 or to make available copies of the same for inspection by shareholders.

### Surya Nepal Pvt. Ltd.

The year under review has been a landmark year in the history of Nepal. After a prolonged period of political uncertainty and economic blockades, the twice postponed Constituent Assembly elections finally took place on 10th April, 2008, transitioning Nepal from a monarchy to a parliamentary republic. The resultant overwhelming victory gained by the Communist party of Nepal (Maoist) has hopefully ended the protracted civil war.

The disturbed socio-political environment reflected in a lower GDP growth of 2.3% for the year ended 16th July, 2007 against 3.1% in the previous year. However, with a politically settled democratic scenario, it is expected that the economy will be back on a growth trajectory during 2008/09.

Notwithstanding the challenging socio-political environment, the twelve-month period ended 13th March, 2008, witnessed Sales growth of 16% to Nepalese Rupees 637 crores (net of VAT), while Profit After Tax stood at Nepalese Rupees 92 crores representing an increase of 33% over the previous year. The company continues to be the single largest contributor to the Exchequer accounting for about 3.7% of total revenues of the Government of Nepal. During the year, labour unrest at the company's Simra factory resulted in a stoppage of operations for 20 days. A Terai blockade from 13th February, 2008 for 15 days worsened the pressure on the supply chain. Despite the difficult operating conditions, the company's proactive supply chain and inventory management minimised the impact of such disruptions.

The company's cigarette business continued to make satisfactory progress with focus on improving value share. New brands were launched to strengthen the portfolio, consolidating its position in key product segments and channels. During the year, the company launched 'Surya 24 CARAT Lights' and 'Kings' in an international bevel edge pack at the super-premium end of the market and 'Pilot Filter' at the lower end of the regular size filter segment. The new brands reflecting the well researched consumer insight have been well received by consumers. The cigarette factory at Simra was accredited with 'OHSAS 18001:1999 Certification'. The Employee's Housing Colony in Simra was accredited with 'OHSAS 18001:1999' and 'ISO 14001:2004' certification during the year.

The company's garments business continued to fulfil export orders for the 'Wills Lifestyle' and 'John Players' range of apparel from the Lifestyle Retailing Business of your Company. The continued imposition of Additional Customs Duty of 4% on all garment imports into India is a cause of concern for the company. The company continues to make representations to the appropriate authorities in this regard and is hopeful that this issue will be redressed soon. The company's state-of-the-art garment manufacturing facility at Biratnagar is expected to commence production shortly.

In the domestic market, 'John Players' has consolidated its position in the branded apparel segment. 'Springwood', the company's mass-market brand, which offers an alternative to low price imports from China and South East Asia, was successfully launched across the country. Sales and consumer response have been extremely encouraging.

The company remains committed to its role as a responsible corporate citizen. As part of its commitment to promote Sports and Tourism in the country under the Surya Nepal Khelparyatan initiative, the company in association with the Nepal Tourism Board sponsored the country's most premier professional Golf tournament – the 'Surya Nepal Masters'. The company also sponsored the 'Surya Nepal 9th SAARC Golf Championship', which was held for the first time in Nepal under the aegis of the Nepal Golf Association. During the year, the company was conferred with the prestigious 'Federation of Nepalese Chambers of Commerce and Industry National Excellence Award' in recognition of the highest standards achieved in professional management.

The company declared a Dividend of Nepalese Rs.120/- per equity share of Nepalese Rs.100/- each for the year ended 32nd Ashad, 2064.

### Srinivasa Resorts Ltd.

During the financial year ended 31st March, 2008, the company recorded net revenues of Rs.68.97 crores (previous year – Rs.77.62 crores) and a Profit Before Tax of Rs.21.57 crores (previous year – Rs.31 crores). Net Profit stood at Rs.14.41 crores (previous year – Rs.20.69 crores) after providing for income tax of Rs.7.16 crores (previous year – Rs.10.31 crores).

In order to sustain contemporariness and bolster the premium positioning of the hotel, 38 guest rooms were renovated during the year under review. The non availability of these rooms, coupled with the additional supply of new hotel rooms in Hyderabad, adversely impacted the occupancy of the hotel, leading to a temporary drop in revenues and profitability.

The Board of Directors of the company has recommended a dividend of Rs.2/- per equity share of Rs.10/- each for the year ended 31st March, 2008.

### Fortune Park Hotels Ltd.

During the financial year ended 31st March, 2008, the company recorded net revenues of Rs.1019.85 lacs (previous year – Rs.724.57 lacs) and earned a Net Profit of Rs.157.54 lacs (previous year – Rs.138.26 lacs) after providing for income tax of Rs.94.35 lacs (previous year – Rs.78.79 lacs).

The Board of Directors of the company has recommended a dividend of Rs.4/- per equity share of Rs.10/- each for the year ended 31st March, 2008.

The company, which caters to the mid range to upscale segment, signed up nine alliances during the year for hotel properties situated at various locations, taking the total number of properties under the 'Fortune' brand to 42, with a total room count of 3,281. Of these, 23 are operating hotels, while 5 hotels are slated to be commissioned during the course of the financial year 2008/09. The company seeks to be a dominant player in the mid / upper scale segment, providing quality services that would position 'Fortune' as the premier 'value' brand in the Indian hospitality sector.

### Bay Islands Hotels Ltd.

During the year 2007/08, the company earned an income of Rs.83.16 lacs (previous year – Rs.63.75 lacs) and a Net Profit of Rs.54.14 lacs (previous year – Rs.41.38 lacs) after providing for income tax of Rs.23.60 lacs (previous year – Rs.16.87 lacs).

The Board of Directors of the company has recommended a dividend of Rs.40/- per equity share of Rs.100/- each for the year ended 31st March, 2008.

### King Maker Marketing

King Maker Marketing Inc. (KMM), a company registered in the State of New York, USA, became a wholly-owned subsidiary of your Company in May 2007. During the year KMM expanded its distribution capability to facilitate your Company's export initiatives in the US Tobacco market. It continues to provide to your Company market research services relating to the US Tobacco and FMCG markets.

The year witnessed an increase in the customer base by nearly a third, leading to an equivalent increase in Net Sales over last year, despite falling industry volumes. Growth was driven by the strong performance of 'Ace' launched in 2006 and increase in the sales of Roll Your Own Tobaccos (RYO).

Operating profit margins were adversely impacted by the higher manufacturing costs of Low Ignition Propensity Cigarettes (LIP) whose share in the product mix is progressively increasing in the wake of more States legislating LIP as mandatory. Profitability was also eroded by higher Master Settlement Agreement (MSA) contributions resulting from KMM's higher relative tobacco market share.

As reported last year, legislation to grant jurisdiction to the Federal Drug Administration (FDA) for Tobacco products is pending before the US Congress. The final shape of the legislation and its impact are likely to be known only in the coming year.

### Russell Credit Ltd.

During the year, the company earned a total income of Rs.90 crores and a Profit After Tax of Rs.86 crores. The company paid a dividend of 11.6% aggregating Rs.75 crores for the year ended 31st March 2008.

In line with its objective of making long-term investments in areas of strategic interest for the ITC Group, the company acquired the entire shareholding of Technico Pty Ltd., Australia (Technico) on 17th August, 2007. Upon such acquisition, Technico and its subsidiaries Technico ISC Pty Ltd., Australia; Technico Asia Holdings Pty Ltd., Australia; Technico Technologies Inc, Canada; Technico Group America Inc, USA; Technico Horticultural (Kunming) Co. Ltd., China and Chambal Agritech Ltd., India have become subsidiaries of the company. The US subsidiary has since been wound up.

The wholly owned subsidiaries of Wimco Ltd. namely Wimco Boards Ltd. and Wimco Seedlings Ltd. have amalgamated with the parent company with effect from 1st April, 2007. Consequent to such amalgamation, the shareholding of the company in Wimco Ltd. has increased from 94.25% to 96.82%.

In order to consolidate strategic investments and streamline the investment operations, 3 associate companies namely Newdeal Finance and Investment Ltd., Megatop Financial Services and Leasing Ltd. and Peninsular Investments Ltd. amalgamated with the company with effect from 1st April, 2007.

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 Ltd., 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 suits 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 on recoveries through negotiated settlements, including property settlements. Legal cases against various defaulters are being pursued. During the year, some negotiated settlements were concluded and the company effected collections aggregating Rs.144 lacs. As at 31st March 2008, the company had no liabilities outside the ITC Group.
The company plans to intensify its efforts for collection of dues through negotiated settlements in the coming year. The company will examine options for further business 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.

### Wimco Limited

The company achieved a turnover of Rs.220.71 crores during the year recording a growth of 14% over the previous year. The match business grew by 10% to Rs.201.68 crores and the Engineering business grew by 33 % to Rs.13.18 crores during the year. Net profit of the company stood at Rs.6.33 crores.

The agro forestry activity of the company witnessed appreciable expansion. 2.5 million high quality ETPs (Entire transplants or saplings) were sold to farmers in North India. Apart from creating a long term sustainable supply of a critical raw material, the agro forestry mission of the company is directly contributing to improving the green cover in the region.

The scheme of amalgamation of subsidiary companies, Wimco Boards Ltd (WBL) and Wimco Seedlings Ltd. (WSL) with the company has been sanctioned by the Hon'ble High Court of Bombay Judicature and the order of the High Court has been filed with the Registrar of Companies, thereby making the scheme effective from 22nd February, 2008, although operative from 1st April, 2007 and accordingly, WBL and WSL have been dissolved without winding up with effect from 22nd February, 2008.

### Landbase India Limited

Landbase India Ltd. (Landbase) owns and operates 'The Classic Golf Resort', a Jack Nicklaus Signature Course, 45 kms from Delhi. As reported in previous years, golf based resorts present attractive long-term prospects in view of their growing popularity all over the world. The company proposes to set up a destination luxury golf resort. The preparatory work towards developing a resort hotel at the Classic Golf Resort is at an advanced stage. Consultants were appointed during the year. Permissions required for the commencement of the project are awaited from the concerned authorities.

In accordance with the directions of the Haryana Government, the lockout declared in October 2006 at the Classic Golf Resort was lifted in August 2007. Subsequently, the company settled the disputes with the workmen under the supervision of the Labour Department of Haryana in January 2008 and simultaneously reopened the golf course. Operations at the Classic Golf Resort have resumed since then.

### ITC Infotech India Limited

The underlying drivers of the long term trend towards outsourcing remain unimpaired. Nevertheless, the global outsourcing market, dominated by the US, is expected to take a slight pause consequent to the slowdown in the US economy and the fallouts of the sub-prime crisis. In mainland Europe and the Nordics, the shortage of skills continued to drive outsourcing. The Asia Pacific, India and Middle East markets remained on the growth track.

India continued to be the dominant location for offshore based IT services, despite the growing challenge from certain locations in East Europe, Latin America and closer home from the Philippines. Indian companies operating in this sector have grown on the strength of their ability to scale up, quality of talent and maturity of processes, all of which will remain sources of competitive advantage in the foreseeable future. However, the cost advantage of Indian companies in the IT services space was considerably eroded by the spiralling wage increases in the last few years, worsened by the sharp appreciation of the Rupee during the year under review. Consequently, growth and profitability were under pressure for a large number of industry players.

In these circumstances, the encouraging results achieved by the company during the year under review are a matter of satisfaction. The company, together with its subsidiaries in the US and UK successfully acquired over 25 new customers in the US and Europe and posted a 47% increase in total income.

Customer acquisition was driven by the development of new capabilities, differentiated offerings and pioneering solutions. The focus on the Nordic markets of Denmark, Finland, Sweden and Norway; and the opening of branches at Finland and Norway during the year in addition to the Denmark branch yielded excellent results and accounted for a significant portion of the revenue growth.

Consequently, the underlying profitability, adjusted for the profit on sale of investments of Rs.36 crores recorded in the previous year, improved significantly.

For the year under review:

(a) ITC Infotech India Ltd. registered a total income of Rs.263.95 crores (previous year Rs.205.18 crores) and a PAT of Rs.6.91 crores (previous year Rs.20.67 crores).

(b) ITC Infotech Ltd., UK, a wholly owned subsidiary of the company, registered a Turnover of GBP 17.87 million (previous year GBP 16.81 million) and a Net Profit of GBP 0.29 million (previous year GBP 0.12 million).

(c) ITC Infotech (USA), Inc., a wholly owned subsidiary of the company, registered total revenues of USD 18.09 million (previous year USD 9.31 million) and a Net Profit of USD 0.43 million (previous year Net Profit USD 0.18 million).

As reported last year, the company had restructured its organisation into 3 business clusters each focused on specific business verticals and supported with technical capabilities aligned to the target vertical. This strategy of organisation has clearly yielded results, especially in capability building, 'go to market' strategy formulation, aggressive customer acquisition and building a global delivery model.

In a survey conducted by Global Services in association with neoIT, the company was placed among the Top 100 service providers across four continents, in terms of operations, service offerings, client relationships and human capital. The company has been ranked in the 'Leaders Category for 2008 Global Outsourcing 100' by the International Association of Outsourcing Professionals (IAOP) for the second year in a row. The customer satisfaction survey carried out on behalf of the company clearly points to an increasing trend of satisfied customers.

In the course of the year, the company added a new vertical, Media and Entertainment, to the existing collection of verticals, namely Banking, Financial Services & Insurance, Travel, Hospitality & Transportation, Manufacturing and Consumer Packaged Goods & Retail. The company has built up a sizable funnel across incumbent verticals. In line with your Company's focus on the 'triple bottom line', the company has devised a holistic approach to deliver value to its customers through greener solutions including those aimed at increasing efficiency of clients' data centres.

The company is further strengthening its sales organisation with the opening of an office in Sweden to enhance its presence in the Nordic region. It continues to focus on deepening its capabilities to move up the value chain. It will also aggressively pursue inorganic growth opportunities to rapidly scale up its operations.

The company has reinforced its holistic approach to talent management, significantly focusing on training, development, engagement and retention of talent. It is constantly strategising to strengthen the value proposition for its employees. The company has recently migrated to a higher version of its ERP system to improve resource management and drive operational excellence.

The government's decision to extend tax holiday for export oriented Software Technology Parks of India (STPI) by one year till March 2010, is a favourable and supportive development.

In the light of its stronger customer relationships, deeper capabilities, differentiated offerings and solutions and greater sales bandwidth and wider geographic presence, the company is optimistic about its rapid future growth.

In the ITES segment, CLI3L e-Services Ltd. (CLI3L), a joint venture company of ITC Infotech India Ltd. and Sitel Operating Corporation, USA posted a total income of Rs.107.02 crores (previous year Rs.124.43 crores) with post tax profits of Rs.16.44 crores (previous year Rs.29.89 crores). The company has decided to exit from the Joint Venture and exercise its Put Options in a staggered manner under the Shareholders Agreement dated 28th May, 2003. As reported last year, your Company, in accordance with Article 16 of the Articles of Association of CLI3L, now holds the shares of the company in CLI3L and these shares shall be sold in line with the company's decision.

### Technico Pty Limited

As stated in the earlier part of this Report, Russell Credit Ltd. acquired the entire shareholding in Technico Pty Ltd. (Technico), Australia effective 17th August, 2007. The principal activities of the company are anchored on the ownership of a unique horticulture technology and its downstream implementation and commercialisation. The company owns the proprietary 'TECHNITUBER®' technology for potatoes and has commercialised it through its wholly owned subsidiaries in different geographies, namely: Chambal Agritech Ltd., India; Technico Asia Holdings Pty Ltd., Australia (TAHL); Technico ISC Pty Ltd., Australia; Technico Horticultural (Kunming) Co. Ltd., China (100% subsidiary of TAHL); and Technico Technologies Inc. Canada. The company is also engaged in the marketing of 'TECHNITUBER®' seeds to global customers from the production facilities of its subsidiaries in India and China.

The acquisition of Technico Pty Ltd. will bring strong synergies to the potato value chain, enhancing farmer capabilities through access to high quality seeds and internationally benchmarked best practices in agronomy. Technico's leadership in the production of early generation seed potatoes will create significant value for your Company's Foods business by bringing distinctive product and quality advantages to the 'Bingo!' brand of potato chips.

Acquisition of Technico will also support your Company's abiding philosophy of contributing to the development of the agriculture-based rural economy and secure the competitiveness of the value chains created through its Agri and Foods businesses.

For the year under review:

a) Technico Pty Ltd., Australia registered a PAT of Australian Dollar (A$) 4.59 million (previous year loss of A$ 1.27 million) after writing back the provision of A$ 4.69 million created in earlier years towards diminution in value of its investments in its Indian subsidiary, Chambal Agritech Ltd.

b) Technico Asia Holdings Pty Ltd., Australia did not engage in any activity, other than holding the entire shareholding of Technico Horticultural (Kunming) Co. Ltd., China. The company had no earnings or costs.

c) Technico ISC Pty Ltd., Australia continued to be dormant during the year.

d) Technico Technologies Inc., Canada registered sales of Canadian Dollar (C$) 0.18 million (previous year C$ 0.10 million) and posted a net loss of C$ 0.28 million (previous year C$ 0.25 million).

e) Chambal Agritech Ltd., India registered a turnover of Rs.30.84 crores (previous year Rs.21.68 crores) and a Profit After Tax of Rs.6.15 crores (previous year Rs.3.08 cores). The Company's field seed program has been successfully demonstrated in the Indian market. The company has developed a robust contract farming network backed by a specialist team.

For the year ended 31st December, 2007 – Technico Horticultural (Kunming) Co. Ltd., China registered a turnover of Chinese Yuan (CNY) 14.31 million (previous year CNY 14.18 million) and posted a net profit of CNY 0.82 million (previous year CNY 2.16 million).

### ITC Global Holdings Pte. Ltd.

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

As stated in the previous years' Reports, the Judicial Managers of Global had filed a Writ against your Company in November 2002 before the Singapore High Court claiming approximately USD 18.10 million. Based on legal advice, your Company filed an appropriate application for setting aside the said Writ. On 2nd March 2006 the Assistant Registrar of the Singapore High Court set aside the service of writ of summons on the Company and some individuals. Subsequently in November 2006, your Company received a set of papers purportedly sent by Global including what appeared to be a copy of the earlier Writ of Summons. Your Company filed a fresh Motion in the Singapore High Court praying for setting aside the said Writ of Summons, which was upheld by the Assistant Registrar of the Singapore Court on 13th August 2007. Global has since filed an Appeal against this Order, which is awaiting hearing.

Meanwhile, pursuant to the application of the Judicial Managers, the Singapore Court on 30th November, 2007 ordered the winding up of Global, appointed a liquidator and discharged the Judicial Managers.

## NOTES ON JOINT VENTURES

### ITC Filtrona Limited

The company completed yet another year of sustained good performance and maintained its market leadership in the Indian cigarette filter industry with a 60% value share. Gross Sales for the year ended 31st December, 2007 at Rs.97.09 crores represents a growth of 3.8% over the previous year. Pre-tax Profit increased by 8.7% to Rs.11.84 crores. The Board of Directors of the company recommended a dividend of 80% for the year, in line with that of the previous year.

While quality continues to be its prime focus, innovation and support to customers for product development has resulted in the company attaining the status of a preferred supplier. In a clear demonstration of this position, the company secured an export order for 370 million filter rods from the Taiwan Monopoly. The company is in the process of acquiring new machinery to augment production capacities and upgrade existing technology. Its superior productivity standards and operating parameters have enabled the company to rank among the best operating units in the Filtrona Group.

### Maharaja Heritage Resorts Limited

Maharaja Heritage Resorts Ltd., a joint venture of your Company with Marudhar Hotels Private Ltd., currently operates 51 properties under the 'WelcomHeritage' brand. 6 more properties are under development.

During the year, for the third consecutive time, 'WelcomHeritage' received the 'Galileo-Express Award for Travel Tourism, 2007' for the Best Heritage Hotels Chain in India.

## 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 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 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 may 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. All businesses have confirmed that relevant business risks have been identified, assessed, evaluated and appropriate mitigation systems implemented.

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.

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 consisting 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'.

Your Company's Internal Audit function is certified as complying to ISO 9001: 2000 quality standards in its processes.

The Audit Committee of your Board met 8 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

Your Company's multi-business context poses unique challenges to the human resource function. Over the years, the Company has fashioned human resource management systems and processes, which aim to create a responsive, customer-centric and market-focused culture that enhances organisational capability and vitality. These systems and processes, operating in an enabling and empowering work environment, support winning performance.

The competitive context has made Talent Management a strategic priority. Your Company's unique employee value proposition backed by strong corporate equity has enabled attraction and retention of quality talent in a buoyant market. Your Company's conscious strategy of developing and supporting distributed leadership has ensured that each of your Company's businesses are managed by a team of competent and passionate leaders, capable of enhancing your Company's standing in the competitive market.
The enduring success of your Company rests on a unique culture that blends 'accountability' with 'care and concern'. This ability to simultaneously appeal to the heart and the mind represents the cultural DNA of your Company.

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 its manufacturing units and hotel properties, and the smooth start of operations at greenfield locations.

The collaborative spirit of partnership across all sections of employees and their sense of ownership and commitment has sustained the culture of excellence, learning and readiness to change. The collective dedication of over 22,000 employees is helping your Company deliver superior customer and shareholder value.

Your Company's employees have a defining role in significantly accelerating its growth and transformation, thereby enhancing its position as one of India's most valuable corporations. Your Company salutes the unflinching commitment of its dedicated team of employees.

## SUSTAINABILITY – CONTRIBUTION TO THE 'TRIPLE BOTTOM LINE'

Your Company's triple bottom line performance continued to improve across all the three dimensions, namely economic, environmental and social.

The Company's 4th Sustainability Report, published during the year under review, details the 'triple bottom line' performance and achievements of your Company in accordance with 'G3', the latest guidelines of Global Reporting Initiative (GRI). This report, independently assured by PricewaterhouseCoopers, conforms to the highest level 'A+' for reporting Sustainability performance. Your Company's 5th Sustainability Report covering the year 2007-08 is already in the process of publication and will be independently assured by Ernst & Young.

It is a matter of pride that your Company's Sustainability Report received two Readers' Choice Awards from GRI at the GRI International Conference, held in Amsterdam in May 2008. The Report has received the 3rd 'Overall Award' amongst Non OECD large company reports.

Your Company, the only one in the world with positive footprints in the 3 serious global environmental concerns, has further improved its 'water positive' and 'carbon positive' status. The Company, in 2007/08 not only recycled nearly 99% of all the solid wastes, but also used 1,63,245 tonnes of external waste paper as raw material in its paperboards units, thereby achieving the 3rd positive environmental footprint.

Your Company's strategies to become 'carbon positive' have yielded rewards through significant savings in energy costs. Seven Clean Development Mechanism (CDM) projects of the Company have been accepted by the CDM Executive Board set up under the 'Kyoto Protocols'.
A number of additional projects are in different stages of CDM registration.

The Bhadrachalam mill continues to be the only producer of 'Elemental Chlorine Free' (ECF) pulp and paperboards in India. The 'ITC Green Centre' in Gurgaon, certified by the US Green Building Council for Leadership in Energy & Environmental Design (USGBC–LEED) as the largest commercial 'Platinum Rated' building in the world when it was commissioned, continues to provide inspiration to the 'green buildings' movement in India.

Your Company continued its uncompromising dedication to maintaining the highest levels of safety, occupational health and environmental standards across all its units. Environment management systems at all manufacturing units and large hotels have been certified 'ISO 14001' compliant, while all manufacturing units have received 'OHSAS 18001' certification. These and several other certifications and awards, stated elsewhere in the Report, bear testimony to your Company's dedicated and uncompromising pursuit of the Triple Bottom Line.

The 'CII-ITC Centre of Excellence for Sustainable Development', set up by your Company and CII in 2006, has achieved significant milestones in creating awareness, promoting thought leadership and building capacity amongst Indian enterprises in the quest for sustainable development. The Centre gave away the 2nd 'CII-ITC Sustainability Awards' in December 2007, promoting role models in the Indian industry to catalyse superior sustainable performance. The Centre conducted the '1st Business Leaders Programme' in association with the Indian Institute of Management, Bangalore. Professor Stuart Hart from Cornell University, John Elkington from 'SustainAbility' and other senior leaders and experts in Sustainability helped 30 CEOs and senior managers from various Indian companies in appreciating the challenges and opportunities in sustainable development, inspiring them to start the virtuous cycle of sustainable development in their own organisations. The Centre's 2nd Sustainability Summit: Asia 2007 was held in New Delhi in association with Development Alternatives. The Summit, attended by more than 400 leaders from industries, NGOs and Government was supported by the Australian Government, Sustainability, World Wildlife Fund (WWF) & UN Environment Program. The Summit provided a platform for debate to foster partnerships for further actions on a number of important issues e.g. food security, linking farmers to markets, sustainable construction, responsible mining, sustainable financing and fostering inclusive growth.

Your Company deepened its imprint on the social sector by expanding to newer districts during the year. It continued with its proven 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 women's economic empowerment and genetic improvement in livestock; and (c) community development, with focus on primary education and health and sanitation. Your Company is currently running social development projects in 47 districts spread over the states of Andhra Pradesh, Bihar, Kerala, Karnataka, Maharashtra, Madhya Pradesh, Orissa, Rajasthan, Tamil Nadu, Uttar Pradesh and West Bengal.

Your Company's pioneering initiative of wasteland development through the Social Forestry programme has so far promoted plantations over 11,969 hectares in 406 villages, covering 13,492 poor households. The collaboration between ITC and the Government of Andhra Pradesh for wasteland development under 'Indira Kranthi Patham' continued during the year – 1,180 hectares of plantations were promoted through this public-private partnership taking the total to 2,972 hectares. The households covered under the Social Forestry programme continue to reap the benefits derived from cut plantations. Total income gained so far is Rs.4.36 crores from 903 hectares. Not only have their earnings per acre improved significantly from the sale of plantations, most beneficiaries have also ensured that the contribution to the Village Development Fund continues apace, which has grown to nearly Rs.68 lacs. Thus, their own incomes have been invested wisely into productive assets to ensure a long-term virtuous cycle of development.

Your Company's Social Forestry and Farm Forestry programmes have together promoted plantations over a total area of 80,000 hectares todate.

The Soil & Moisture Conservation programme, designed to assist farmers in identified moisture-stressed districts, witnessed a rise in its coverage during the year. 648 water-bodies were created this year taking the total to 2,178 water-harvesting structures. These structures provide critical irrigation security to about 18,483 hectares. Active participation of our stakeholders has ensured sustainable long-term maintenance of these structures. Additionally, 16,496 hectares have also been treated for erosion resulting in preservation of precious topsoil for agriculture. In total, the watershed development programme today covers 34,979 hectares. During the year under review, your Company entered into a partnership with NABARD in Andhra Pradesh, Bihar and Madhya Pradesh. Together, these projects will cover soil and moisture conservation work on 17,500 hectares under a 5 year programme. Direct employment created by these interventions till date was 5.36 lac person-days. Todate, 686 active Water User Groups (WUGs) with over 33,000 members actively manage water distribution and collection of charges.

In continuation of its policy of providing an integrated solution for promoting a sustainable water management regime, your Company lays equal emphasis on ensuring efficient usage of water through interventions aimed at improving farm productivity, promoting group irrigation projects and demonstrating the use of agricultural equipments including sprinkler sets. During 2007/08, 153 group irrigation projects were initiated and sprinkler sets benefiting 369 farmers were installed.

Sustainable agricultural practices received a major boost during the year with the promotion of 3,368 organic fertiliser units through vermi-composting and NADEP technologies. Farmers have tested various varieties of paddy, gram and wheat in 1,288 field demonstrations leading to participative selection of higher productive strains.

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 crossbred progenies has been given special emphasis because it reaches out to the most impoverished and has the potential to pull them out of poverty. 95 cattle development centres already cover more than 1,900 villages providing artificial insemination to more than 80,000 milch animals. Integrated animal husbandry services were provided to nearly 48,000 milch animals during the year. These included addressing the needs of problem breeders, vaccines, feed additives and awareness drives. The initiative for the economic empowerment of women also continued apace: todate, 13,981 women have been organised under 972 self-help groups (SHG) with total savings of Rs.97.7 lacs. More than 9,900 women were gainfully employed either in micro-enterprises or through self-employment with the support of income generation loans.

Your Company's social sector footprint can be seen at a glance in the following chart:

| Intervention Areas | Unit of Measurement | 2007-08 (Cumulative Achievement) |
|---|---|---|
| **Total Districts Covered** | **Number** | **47** |
| **Social and Farm Forestry** | **Hectare** | **80000** |
| **Soil and Moisture Conservation Programme** | **Hectare** | **34979** |
| **Sustainable Agricultural Practices** | | |
| Organic Fertiliser Units | Number | 12706 |
| **Sustainable Livelihoods Initiative** | | |
| Cattle Development Centres | Number | 95 |
| Animal Husbandry Services | Milch Animals | 128056 |
| **Economic Employment of Women** | | |
| SHG Members | Persons | 13981 |
| Women Entreprenuers | Persons | 9900 |
| **Primary Education** | | |
| Beneficiaries | Children | 128000 |
| **Health and Sanitation** | | |
| Low Cost Sanitary Units | Number | 2563 |

The advances made towards contributing to India's sustainable development goals have been possible, in large measure, to your Company's partnerships with some of the globally renowned NGOs like BAIF Development Research Foundation, Dhan, FES, MYRADA, Pratham, SEWA, SRIJAN and WOTR etc. These partnerships, which bring together the best in class management practices of your Company and the development experience and mobilisation skills of these NGOs, have demonstrated that it is possible to create innovative grass-roots solutions to some of India's complex problems of development.

## R&D, QUALITY AND PRODUCT DEVELOPMENT

In today's dynamic business environment, innovation through a sustained process of Research & Development (R&D) is a critical growth driver. R&D will need to focus on the development and speedy commercialisation of globally competitive products, processes and technologies. Your Company pursues an R&D strategy premised on best-in-class benchmark research processes to secure sustainable and long-term competitiveness for all its businesses. Its priorities are focused on projects with high research content and high impact.

Over the last several years, your Company has assembled a pool of world-class scientists focused on plant breeding and genetics, agronomy, biotechnology, molecular biology and silviculture. At its state-of-the-art Food Technology Centre, your Company's R&D strategies have been progressed to leverage the potential of convergence between agricultural science, food science and the scientific dimensions of its personal care portfolio. Your Company's R&D continues to collaborate with other centres of excellence, and currently leverages expertise from University of Agricultural Science, Bangalore; Indian Institute of Science, Bangalore; CSIOR, Australia and CSIR, South Africa.

The Hotels Business continued to implement the 'Six Sigma Quality Process' supported by trained teams of black / green belts. The Paperboards, Paper & Packaging Businesses have put in place 'Total Productive Maintenance' (TPM) techniques to create and sustain international quality standards in their products and processes.

All manufacturing units of your Company have ISO quality certification. Almost all contract manufacturing units in the Foods Business and all large hotels have food safety and quality systems certified by the accredited 'third party' in accordance with 'Hazard Analysis Critical Control Points' (HACCP) standards. Additionally, the quality of all FMCG products of your Company is regularly monitored through 'Product Quality Ratings Systems' (PQRS).

The Leaf Tobacco and Printing & Packaging Businesses of your Company have achieved world-class ratings in the 'International Quality Rating Systems' (IQRS) for business excellence in which key processes are rated against international benchmarks and certified by accredited 'third party' independent assurance providers.

## EXCISE

For 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, which order was confirmed by the CEGAT, Chennai vide its Order dated 18th December, 2003. The department has filed an appeal before the 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, which order was set aside by the CEGAT by its Order dated 2nd August, 2002 and the Department's appeal against this order was dismissed by the Supreme Court on 18th July, 2007. 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). As already reported, the proceedings relating to the Bangalore, Parel and Munger Show Cause Notices stand concluded in favour of your Company. As regards the Show Cause Notice in respect of the Saharanpur factory, your Company has filed a writ petition in the Delhi High Court, which is pending. So far as the Kidderpore factory is concerned all pre-March 1983 valuation disputes stand resolved in favour of your Company pursuant to the finalisation of the provisional assessments.

With respect to the Munger factory, proceedings for finalisation of assessments 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 for clearances of cigarettes and smoking mixtures respectively which was confirmed by the Commissioner (Appeals), Patna vide his orders dated 22nd December, 2004, against which your Company has preferred appeals before CESTAT, Kolkata, which are 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.

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. As reported in the previous year Report and Accounts and even earlier, the criminal case in respect of Bangalore factory was quashed by the court and in the proceedings relating to Saharanpur factory, the Special Court in Kanpur, on applications filed by the individuals concerned, discharged them. In Patna, upon applications filed by the individuals against dismissal of similar petitions by the Special Court in Patna, the High Court has stayed all further proceedings before the Special Court.

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 (iv) in the Schedules to the Accounts and Note 19 (iii) 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, U.S.A, a decree for USD 12.19 million together with interest and costs against Suresh and Devang Chitalia of U.S.A. 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, the return of non-relied documents in possession of the Enforcement Directorate, pursuant to the request of your Company, is in progress. 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.

The prosecutions launched by the Enforcement Directorate are pending.

## TREASURY OPERATIONS

During the year, the Company's treasury operations continued to remain focused on proactively managing temporary surplus liquidity and foreign exchange exposures within the well defined risk management framework. The implementation of a state-of-the-art Integrated Treasury Management System has brought efficiencies to Treasury operations, enabling better cash management and monitoring of exposures on a real time basis.

The year under review was marked by a rise in volatility in all markets, including bonds, Government Securities, equities, foreign exchange etc. As markets started factoring the effects of the US sub-prime crisis, risk aversion became the dominant mood in global financial markets, resulting in pressures on liquidity. Although local markets also experienced higher volatility, RBI and SEBI were proactive in their regulation of the markets. Despite the volatility, your Company continued to improve its treasury performance due to its strong risk management processes and proactive monitoring of positions.

The deployment of temporary surpluses of the Company continued to be guided by the twin objectives of capital protection and return optimisation. In view of the range bound interest rate scenario, investments were made in liquid plus, floating rate, fixed maturity plans, short term funds and income schemes of Debt Mutual Funds. Deployments in long dated fixed deposits / fixed maturity plans were tailored in accordance with the capex and working capital needs of the Company.

In the foreign exchange markets, the Rupee appreciated sharply, threatening the competitiveness of Indian exports. However, due to RBI and Government intervention, the Rupee stabilised bringing much needed relief to exporters. In a scenario, where the US Dollar was under continuous pressure, the Company adopted an appropriate forex management strategy, including the use of simple options to manage the heightened volatility. However, it refrained from entering into any exotic derivative structure.

In view of the Rupee's sharp rise during the first half of the year, RBI allowed subvention on export credit for certain eligible products. The Company availed the benefit of lower cost finance to reduce the cost of working capital for its exporting businesses.

As in earlier years, commensurate with the large size of temporary surplus liquidity under management, treasury operations were supported by appropriate control mechanism, 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 Hon'ble 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 Hon'ble Calcutta High Court had admitted the Writ Petitions and ordered that no final assessment orders be passed without the leave of the Court. The status also remains unchanged.

## PUBLIC DEPOSITS

Your Company's Public Deposit Scheme closed in the year 2000. As at 31st March 2008, 42 deposit holders had not claimed fixed deposits amounting to Rs.6.09 lacs. Reminders have been sent to these deposit holders by the Fixed Deposit Service Centre of your Company.

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 erstwhile Schemes.

## INVESTOR SERVICE CENTRE

The Investor Service Centre (ISC) of your Company continues to provide high quality service through its trained and dedicated team of professionals supported by state-of-the-art infrastructure and systems.

ISC received the Quality Management System Certification ISO 9001:2000 in the year 2005 for a period of three years. This certification, which has been renewed during the year for a further period of three years, stands testimony to the exemplary standards that your Company's ISC has achieved in investor servicing.

## DIRECTORS

Mr. Dinesh Kumar Mehrotra, who represented the Specified Undertaking of the Unit Trust of India ('SUUTI'), Mr. Sunil Behari Mathur, who represented the Life Insurance Corporation of India ('LIC'), and Mr. Pillappakkam Bahukutumbi Ramanujam, who represented the General Insurance Corporation of India and its erstwhile subsidiaries, resigned as Non-Executive Directors of your Company with effect from 27th July, 2007, consequent upon withdrawal of their representation by the respective Institutions. Mr. Charles Richard Green ceased to be a Non-Executive Director of your Company with effect from close of business on 31st March, 2008, consequent upon completion of his term.

Your Directors would like to record their appreciation of the services rendered by Messrs. Mehrotra, Mathur, Ramanujam and Green.

Mr. Anil Baijal and Mr. Dinesh Kumar Mehrotra were appointed by the Board of Directors (the 'Board') as Additional Non-Executive Directors of your Company with effect from 27th July, 2007, as representative of SUUTI and LIC, respectively. Dr. Ravinder Kumar Kaul was appointed by the Board as Additional Non-Executive Director of your Company with effect from 7th August, 2007 as representative of the General Insurers' (Public Sector) Association of India.

Mr. Sunil Behari Mathur and Mr. Pillappakkam Bahukutumbi Ramanujam were appointed by the Board as Additional Non-Executive Directors of your Company with effect from 27th July, 2007. Mr. Hugo Geoffrey Powell was appointed by the Board as Additional Non-Executive Director of your Company with effect from 7th May, 2008.

By virtue of the provisions of Article 96 of the Articles of Association of the Company and Section 260 of the Companies Act, 1956, Messrs. Baijal, Mehrotra, Mathur, Ramanujam, Powell and Dr. Kaul will vacate office at the ensuing Annual General Meeting of your Company and have filed their consents to act as Directors of the Company, if appointed. Your Board at its meeting held on 23rd May, 2008 recommended for the approval of the Members the appointment of Messrs. Baijal, Mehrotra, Mathur, Ramanujam, Powell and Dr. Kaul as Non-Executive Directors of your Company, liable to retire by rotation, with effect from the date of the ensuing Annual General Meeting of the Company.

Dr. Basudeb Sen and Mr. Balakrishnan Vijayaraghavan were re-appointed as Non-Executive Directors of your Company with effect from 27th August, 2003 and their present term will expire on 26th August, 2008. Your Board at its meeting held on 23rd May, 2008 recommended for the approval of the Members their re-appointment as Non-Executive Directors of your Company, liable to retire by rotation, with effect from 27th August, 2008.

Notices have been received from Members of the Company under Section 257 of the Companies Act, 1956 for the appointment / re-appointment of Messrs. Baijal, Mehrotra, Mathur, Ramanujam, Powell, Vijayaraghavan, Dr. Kaul and Dr. Sen as Directors. Appropriate resolutions seeking your approval to their appointment / re-appointment are appearing in the Notice convening the 97th 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. The Board 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.

## EMPLOYEE STOCK OPTION SCHEME

Under the Company's Employee Stock Option Scheme, 63,87,270 Ordinary Shares of Re.1/- each, were issued and allotted during the year upon exercise of 6,38,727 Options; such shares rank pari passu with the existing Ordinary Shares of your Company. Consequently, the Issued and Subscribed Share Capital of your Company, as on 31st March, 2008, stands increased to Rs. 3,76,86,10,050/- divided into 3,76,86,10,050 Ordinary Shares of Re.1/- each.

Details of the Options granted up to 31st March, 2008, 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 Company's Employee Stock Option Schemes have 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 judgments 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.

There were 205 employees who were employed throughout the year and were in receipt of remuneration aggregating Rs.24 lakhs or more or were employed for part of the year and were in receipt of remuneration aggregating Rs.2 lakhs per month or more during the financial year ended 31st March, 2008. None of the said employees is a relative of any Director of the Company. The information required under Section 217(2A) of the Companies Act, 1956 and the Rules thereunder, in respect of the aforesaid employees, is provided in the Annexure forming part of this Report. In terms of Section 219(1)(b)(iv) of the Act, the Report and Accounts are being sent to the Members excluding the aforesaid Annexure. The Annexure is available for inspection by Members at the Registered Office of the Company during business hours on working days up to the date of the ensuing Annual General Meeting, and if any Member is interested in obtaining a copy thereof such Member may write to the Company Secretary whereupon a copy would be sent.

## 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 the Company and/or its businesses are intended to identify such forward-looking statements. The 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. Effective management of diversity enhances your Company’s adaptive capability and provides the intrinsic ability to effectively manage business risk. 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.

Inspired by this Vision, driven by Values and powered by internal Vitality, your Directors look forward to the future with confidence.

3rd June, 2008 — On behalf of the Board
Virginia House
37 J L Nehru Road
Kolkata 700071 — Y. C. DEVESHWAR *Chairman*
India — K. VAIDYANATH *Director*

ITC Limited

# Annexure to the Report of the Directors

Statement as at 31st March, 2008, 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.

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| a) | Total number of Options granted / allocated*: | **ITC Employee Stock Option Scheme** | | | | | | |
| | | **2001** | **2002** | **2003** | **2004** | **2005** | **2006** | **Total** |
| | | 3,39,119 | 6,27,070 | 11,82,616 | 11,43,195 | 14,48,071 | 60,95,625 | 1,08,35,696 |
| | | **ITC Employee Stock Option Scheme - 2006** | | | | | | |
| | | **2007** | | | | | | |
| | | 55,77,343 | | | | | | 55,77,343 |
| | | **Total** | | | | | | **1,64,13,039** |

| | | |
|---|---|---|
| b) | (i) Pricing Formula : | The Pricing Formula, as approved by the Shareholders of the Company, shall be such price which is no lower than the closing price of the Company's share on the National Stock Exchange of India Limited ('the NSE') on the date of grant, or the average price of the Company's share in the six months preceding the date of grant based on the daily closing price on the NSE, or the 'Market Price' as defined from time to time under the Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999, as determined by the Compensation Committee. |

| (ii) Exercise Price / Adjusted Exercise Price** : per Option, as applicable (Rs.) (Each Option represents 10 Ordinary Shares of Re.1/- each) | **ITC Employee Stock Option Scheme** | | | | | |
|---|---|---|---|---|---|---|
| | **2001** | **2002** | **2003** | **2004** | **2005** | **2006** |
| | 779.95 | 617.90 | 679.90 / 453.27 | 880.45 / 586.97 | 1,531.65 / 1,021.10 | 1,814.00 |
| | **ITC Employee Stock Option Scheme - 2006** | | | | | |
| | **2007** | | | | | |
| | 1661.00 | | | | | |

| | | **ITC Employee Stock Option Scheme** | **ITC Employee Stock Option Scheme - 2006** | **Total** |
|---|---|---|---|---|
| c) | Total number of Options vested : | 56,53,609 | 6,625 | 56,60,234 |
| d) | Total number of Options exercised : | 29,65,143 | Nil | 29,65,143 |
| e) | Total number of Ordinary Shares of Re.1/- each arising as a result of exercise of Options : | 2,96,51,430 | Nil | 2,96,51,430 |
| f) | Total number of Options lapsed : | 10,37,410 | 4,98,100 | 15,35,510 |
| g) | Variation of terms of Options : | Nil | | |
| h) | Money realised by exercise of Options (Rs. in Crore) : | 201.49 | Nil | 201.49 |
| i) | Total number of Options in force : | 68,33,143 | 50,79,243 | 1,19,12,386 |
| 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 | 1,35,000 |
| 2. | S. S. H. Rehman | Executive Director | 67,500 |
| 3. | A. Singh | Executive Director | 67,500 |
| 4. | K. Vaidyanath | Executive Director | 67,500 |
| 5. | S. H. Khan | Non-Executive Director | 9,000 |
| 6. | B. Sen | Non-Executive Director | 9,000 |
| 7. | Ram S. Tarneja | Non-Executive Director | 9,000 |
| 8. | B. Vijayaraghavan | Non-Executive Director | 9,000 |
| 9. | S. M. Ahmad | Executive Vice President, Marketing, ITD | 13,500 |
| 10. | N. Anand | Divisional Chief Executive, HD | 20,250 |

| | Name | Designation | No. of Options granted during the financial year |
|---|---|---|---|
| | 11. P. Banerjea | Executive Vice President, Risk Management & Strategic Initiatives | 13,500 |
| | 12. S. Basu | Executive Vice President, Internal Audit | 12,000 |
| | 13. S. Chandrasekhar | Senior Executive Vice President, Projects, Growth & Development, HD | 12,000 |
| | 14. B. B. Chatterjee | Executive Vice President & Company Secretary | 13,500 |
| | 15. P. Chatterjee | Chief Financial Officer | 12,000 |
| | 16. C. Dar | Divisional Chief Executive, LRBD | 12,000 |
| | 17. P. V. Dhobale | Divisional Chief Executive, PSPD | 20,250 |
| | 18. K. N. Grant | Divisional Chief Executive, ITD | 28,125 |
| | 19. R. G. Jacob | Group Head, Corporate Quality, R & D and Product Development | 20,250 |
| | 20. U. Lall | Services on Loan to Tobacco Institute of India | 13,500 |
| | 21. R. S. Naware | Divisional Chief Executive, FD | 20,250 |
| | 22. A. Nayak | Executive Vice President, Corporate Human Resources | 20,250 |
| | 23. A. R. Noronha | Executive Vice President, Technical, Projects & EHS, HD | 13,500 |
| | 24. S. Puri | Services on Loan to Subsidiary Company | 13,500 |
| | 25. T. V. Ramaswamy | Executive Vice President, Technical & Human Resources, ITD | 13,500 |
| | 26. S. Janardhana Reddy | Divisional Chief Executive, ABD-ILTD | 13,500 |
| | 27. S. C. Rustagi | Executive Vice President, Corporate EHS | 13,500 |
| | 28. S. K. Singh | Executive Vice President, Manufacturing, PSPD | 12,000 |
| | 29. S. Sivakumar | Divisional Chief Executive, ABD | 20,250 |
| | 30. R. Srinivasan | Head, Paper and Packaging Group | 28,125 |
| | 31. K. S. Suresh | General Counsel | 13,500 |
| | 32. R. Tandon | Executive Vice President, Finance & MIS, ITD | 13,500 |
| | 33. P. K. Verma | Executive Vice President, Operations, HD | 13,500 |
| | 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. 8.25 | |

ITC Limited

| | | | |
|---|---|---|---|
| l) | (i) Method of calculation of employee compensation cost. | : | The employee compensation cost has been calculated using the intrinsic value method of accounting for Options issued under the Company's Employee Stock Option Schemes. The employee compensation cost as per the intrinsic value method for the financial year 2007-08 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. 216.91 crores |
| | (iii) The impact of this difference on profits and on EPS of the Company. | : | The effect on the net income and earnings per share, had the fair value method been adopted, is presented below:<br>**Net Income** — **Rs. in Crores**<br>As reported — 3,120.10<br>*Add:* Intrinsic Value Compensation Cost — Nil<br>*Less:* Fair Value Compensation Cost (Black Scholes model) — 216.91<br>**Adjusted Net Income** — 2,903.19<br>**Earnings Per Share** — **Basic (Rs.)** — **Diluted (Rs.)**<br>As reported — 8.29 — 8.25<br>As adjusted — 7.71 — 7.67 |
| 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. | : | Weighted average exercise price per Option : Rs. 1,661.00<br>Weighted average fair value per Option : Rs. 541.93 |
| 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 on a weighted average basis:<br>(i) Risk-free interest rate — 8.13%<br>(ii) Expected life — 4.6 years<br>(iii) Expected volatility — 29.88%<br>(iv) Expected dividends — 2.19%<br>(v) The price of the underlying share in market at the time of Option grant — Rs.1,668.00 |

** Bonus Options were allocated during 2005-06 on unvested Options in the same ratio as Bonus Shares (i.e. in the ratio of 1 Bonus Share for every 2 Ordinary Shares), in accordance with the ITC Employee Stock Option Scheme read with the Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999.*

***As adjusted on allocation of Bonus Options.*

Expansion of abbreviations used:

| | | |
|---|---|---|
| ITD | - | India Tobacco Division |
| HD | - | Hotels Division |
| PSPD | - | Paperboards & Specialty Papers Division |
| ABD | - | Agri Business Division |
| ABD - ILTD | - | Agri Business Division - Indian Leaf Tobacco Development |
| LRBD | - | Lifestyle Retailing Business Division |
| FD | - | Foods Division |

On behalf of the Board

Y. C. DEVESHWAR *Chairman*

K. VAIDYANATH *Director*

Kolkata, 3rd June, 2008

# 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 business units have continued to focus on improving their energy usage efficiencies, in line with the Company's declared commitment towards sustainable growth. Some of the measures adopted were:

i) Replacing existing wet scrubber with Cold Plasma Odor Abatement System in Saharanpur cigarette manufacturing unit.

ii) Installing a Rotary Uninterrupted Power Supply System in Munger cigarette manufacturing unit and thereby optimise standby DG (Diesel Generator) set operation.

iii) Installing spray Humidifiers in place of conventional humidifiers in Munger cigarette manufacturing unit.

iv) Redesigning process flow arrangements in Anaparti tobacco leaf-threshing unit to eliminate five air lift transport stages, using innovative piggyback transport arrangement.

v) Substitution of electrical heating system by oil fired steam heating system for the intermediate ingredient preparation in biscuit manufacturing units, leading to reduction of specific energy consumption.

vi) Upgrading and optimising steam, condensate and cooling water systems at Bhadrachalam, Tribeni & Kovai paperboards / paper factories.

vii) Replacement of centralised compressed air system with decentralised automated system in Tribeni specialty paper unit.

viii) Replacement of existing chillers with higher efficiency chillers in Bollaram paperboard-coating factory.

ix) Replacement of old DG set by a Natural Gas fired electrical generating set having waste heat recovery boiler in ITC Maurya, New Delhi.

x) Upgrading electrical grid supply voltage from 11 kV to 33 kV to obtain more reliable power supply thereby avoiding diesel generator running costs in Tiruvottiyur packaging & printing factory.

xi) Some of the common measures adopted in many business units include :

- Installation of higher efficiency screw chillers in place of existing chillers.
- Installing higher efficiency Air Handling Units (AHU) with enthalpy control in place of existing AHUs'.
- Replacement of existing fans and motors with higher efficiency units.
- Replacement of old boilers with higher efficiency boilers.
- Replacement of reciprocating air compressors sets with screw air compressors.
- Replacement of incandescent lamps with high efficiency discharge lamps / CFLs (Compact Fluorescent lamps).
- Use of variable speed drives for various applications.
- Installation of 'energy saver' on lighting circuits.
- Installation of thermostatic controllers for cooling towers.
- Installation of solar hot water and lighting systems.

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

i) New advanced cigarette making and packing technologies leading to lower specific energy consumption.

ii) Replacement of pulsating grate boiler by a higher efficiency boiler in Anaparti tobacco leaf-threshing plant.

iii) Use of RF (Radio Frequency) driers in biscuit manufacturing units.

iv) Installation of mini turbine to utilise vent steam in Bhadrachalam pulp & paperboards factory.

v) Replacement of inefficient vacuum pumps by energy efficient vacuum pumps in Bhadrachalam pulp & paperboards factory.

vi) Vacuum system upgradation for a paper machine in Tribeni specialty paper factory.

vii) Use of solar pumps, lighting & water heating system in Bollaram paperboard-coating factory.

viii) Ozone based washing system in hotel laundries.

ix) Natural gas fired calendar machine and tumble dryers for hotel laundries.

x) Use of solar energy for steam and hot water generation in different hotels.

xi) Further adoption of LED (Light Emitting Diodes) and HID (High Intensity Discharge) lamps together with greater automation of lighting controls using sensors and detectors in different hotels.

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

The continued focus on energy conservation and preservation of natural resources has helped alleviate the pressures of higher fuel costs and poorer quality coal grades.

**A) POWER AND FUEL CONSUMPTION**

| | For the Year ended 31st March, 2008 | For the Year ended 31st March, 2007 |
|---|---|---|
| **Relating to Paperboards & Paper** | | |
| **1. Electricity (Excluding Consumption in Colony)** | | |
| a) Purchased Units (KwH in Lacs) | **275** | 240 |
| Total Amount (Rs. in Lacs) | **1647** | 1417 |
| Rate / Unit (Rs.) | **5.99** | 5.91 |
| b) Own Generation | | |
| i) Through Diesel Generation | | |
| Units (KwH in Lacs) | **27** | 4 |
| Units / Litre of Diesel Oil | **2.92** | 3.06 |
| Cost / Unit (Rs.) | **11.74** | 11.26 |
| ii) Through Steam Turbine / Generator Units (KwH in Lacs) | **3428** | 3231 |
| Units / Kg. of Coal | **1.58** | 1.85 |
| Cost / Unit (Rs.) {considering all fuel types} | **1.99** | 1.64 |

| | For the Year ended 31st March, 2008 | | | For the Year ended 31st March, 2007 | | |
|---|---|---|---|---|---|---|
| | **Process** | **Power** | **Total** | Process | Power | Total |
| **2. Coal** (Specify Quantity & Where Used) (Grades 'C' ROM & 'F' ROM) | | | | | | |
| Quantity (M.T.) | **233519** | **217433** | **450953** | 216284 | 174837 | 391121 |
| Total Cost (Rs. in Lacs) | | | **8835** | | | 7104 |
| Average Rate (Rs. per M.T.) | | | **1959.17** | | | 1816.50 |
| **3. Furnace Oil** | | | | | | |
| Quantity (KL) | | | **9621** | | | 8756 |
| Total Amount (Rs. in Lacs) | | | **1871** | | | 1437 |
| Average Rate (Rs. / KL) | | | **19448.25** | | | 16416.56 |
| **4. Others/Internal Generation** (De Oiled Bran & Saw Dust, etc.) | | | | | | |
| Quantity (M.T.) | | | **95885** | | | 73073 |
| Total (Rs. in Lacs) | | | **1594** | | | 1165 |
| Rate / Unit (Rs.) | | | **1662.96** | | | 1594.42 |
| (LP Gas) | | | | | | |
| Quantity (M.T.) | | | **1164** | | | 964 |
| Total (Rs. in Lacs) | | | **450** | | | 325 |
| Rate / Unit (Rs.) | | | **38628.68** | | | 33679.35 |

**B) CONSUMPTION PER UNIT OF PRODUCTION**

| | For the Year ended 31st March, 2008 | For the Year ended 31st March, 2007 |
|---|---|---|
| Products (Paper in M.T.) | **441479** | 415064 |
| Electricity (KwH) | **1010** | 1006 |
| Coal 'C/F' Grade (M.T.) | **0.53** | 0.52 |
| Furnace Oil (Litre) | **22** | 21 |
| Others - De Oiled Bran / Saw Dust / LP Gas, etc. (M.T.) | **0.134** | 0.111 |

*Note: Higher consumption due to non-availability of superior grade of coal and higher production of 'Value Added' grades*

## 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) Research projects on taste and flavour enhancement and improving tobacco manufacturing processes.

ii) Development, testing and specification setting of cigarette packaging materials.

iii) Physical, chemical and low ignition propensity analysis for tobacco, cigarettes and packaging.

iv) Developments to improve productivity and leaf styles in the flue cured Virginia and Burley growth regions.

v) Development of superior tobacco Hybrids and Varieties.

vi) Development of portfolio of agriculturally beneficial micro-organisms and other biological / natural agricultural inputs.

vii) Development of drought and pest resistant hybrids of high yielding 'Bhadrachalam' clones.

viii) Development of cultivation practices for subabul.

ix) Development of low lignin content trees.

x) Development of special lightweight titanium dioxide loaded printing paper for high quality printing applications.

xi) Development of in-house Poly Film Manufacturing.

xii) Development of special Flexible Pouches.

xiii) Development of in-house Silk Screen Printing process on cartons.

xiv) Research on rheological properties of starches.

xv) Oil analysis & shelf life studies to develop food products with higher shelf life.

xvi) Development of analytical tools and protocols for food volatiles, flavours, spices, vitamins, nutritional labeling, microbial safety and textural analysis.

xvii) Development of surface value addition and innovative wash techniques for new flat knit range.

xviii) Development to achieve metallic finish on garments.

xix) Development of premium corduroy fabric, with minimum to zero pile movement.

**2. Benefits derived as a result of the above R&D:**

i) Enhanced capability to meet customer expectations and regulatory requirements, both in India & abroad.

ii) Achieving cost reduction and import substitution.

iii) Better quality control on cigarettes & packaging materials.

iv) Significantly higher yields from new hybrid tobacco lines.

v) Superior quality tobacco seedlings at lower cost of production and 30-40% reduction in water demand.

vi) Development of cost effective neem based formulation and other bio-pesticides.

vii) Enhanced fibre production and better pulp quality leading to reduced costs.

viii) Significant increase in subabul productivity.

ix) Reduction in environmental load and pulping costs.

x) Improved market share as well as value capture.

xi) Cost savings and greater control over quality in providing flexible packaging solutions.

xii) Meeting the packaging requirements of 'ready-to-eat' foods segment.

xiii) Meeting new packaging requirements, such as for 'Fiama Di Wills'.

xiv) The high precision chemical, physical, microbial and sensory analyses of constituents and food products have enabled optimisation of processes / products and deliver consistent quality and superior products to our customers. It has also permitted quantitative benchmarking.

xv) Ability to provide new value proposition to customers in knitwear.

xvi) Incorporation of metallic gold and silver finish in 'John Players' signature line.

xvii) Aero finish corduroys with 'no shading' performance for premium formal wear.

**3. Future Plan of Action:**

i) Use of environmental friendly materials for cigarette packaging.

ii) Work with academic institutions on corroborative research projects such as development of high performance cigarette filters.

iii) Develop understanding of genetic control and pathways, for accumulation of flavour compounds in flue cured Virginia tobacco.

iv) Evaluation of second series of tobacco hybrids and advanced breeding lines for region specific deployment.

v) Carry out potassium uptake studies in traditional black soils for possible enhancement in tobacco leaf quality traits.

vi) Development of superior strains of bio-fertiliser and bio-pesticides for offering differentiated products with enhanced shelf life.

vii) Evaluation of bio molecules and naturalytes as an extended product portfolio against target pests.

viii) Continue research on improvement of eucalyptus, subabul, bamboo and other pulp wood species.

ix) Develop in house metalising capability of films for flexible packaging.

x) Development of extrusion lamination process for packaging applications.

| | For the year ended 31st March, 2008 (Rs. in Lacs) |
|---|---|
| **4. Expenditure on R & D :** | |
| i) Capital | 6471.53 |
| ii) Recurring | 4661.25 |
| iii) **Total** | **11132.78** |
| iv) Total R & D Expenditure as a % of | |
| – Gross Turnover | 0.52 |
| – Net Turnover | 0.80 |

**Technology Absorption, Adoption and Innovation**

i) Hard link ups between cigarette makers and packers across different speed platforms.
ii) Cold plasma odour abatement system in cigarette factories.
iii) Mechanised cut tobacco handling system for tobacco despatches to contract manufacturers.
iv) Ozone bleaching technology for pulp bleaching.
v) Installation of super batch digesters in paper pulping process.
vi) Installation of complete flexible packaging line including blown film line, laminating machines, etc.
vii) Offset printing and carton line with Mitsubishi 6 colour offset printing machine, hot foil stamping with indexing facility, etc.
viii) Energy efficient PNG (Piped Natural Gas) fired boilers for hotel steam and hot water requirements. Use of gas engine generator sets for hotel stand by power requirements.
ix) Organic solid waste converter for food wastes in hotels.

**Benefits Derived**

i) Improved productivity and reduced wastes.
ii) More effective odour control and higher energy and water efficiencies.
iii) Reduced wastes and improved quality control.
iv) Very low AOX (Adsorbable Organic Halides) levels in effluents.
v) Reduced consumption of chemicals and greater retention of fibre strength.
vi) In-house capability to provide complete solutions in flexible packaging.
vii) Meeting packaging requirements of corrugated board box for new market segment.
viii) Reduction in energy costs and lower $CO_2$ emissions.
ix) Value creation by converting food waste to fertiliser.

On behalf of the Board

Y. C. DEVESHWAR *Chairman*
Kolkata, 3rd June, 2008 K. VAIDYANATH *Director*

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CERTIFICATE OF COMPLIANCE FROM AUDITORS AS STIPULATED UNDER CLAUSE 49 OF THE LISTING AGREEMENT WITH 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, 2008, 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 explantations 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*
Membership No. 30802

Kolkata, May 23, 2008