

REPORT OF THE DIRECTORS & Management Discussion and Analysis

For the Financial Year Ended 31st March, 2005

Your Directors submit their Report for the financial year ended 31st March, 2005.

SOCIO-ECONOMIC ENVIRONMENT

Advance estimates of the Central Statistical Organisation (CSO) for 2004-05 indicate a real GDP growth of 6.9% – well above the expectations at the commencement of the year. This growth has been achieved despite a less than normal monsoon, decline in the kharif crop output, unprecedented rise in global oil prices and fears of degrowth in outsourced IT services from India. The decline in kharif foodgrains consequent to the shortfall in south west monsoon is expected to be offset by improved rabi output, which is estimated to exceed kharif production for the first time since 1950-51. The potentially inflationary impact of rising world crude prices has so far been ameliorated through a combination of agile fiscal policy and prudent monetary management. Growth in the Indian IT sector has continued unabated, with software export earnings touching USD 30 billion.

The smart upturn of 8.8% in the manufacturing sector led the growth momentum during the year, resulting in a growth of 8.1% in the Index of Industrial Production till February 2005. The double-digit growth of consumer non-durables is a healthy sign of recovery in this segment. Manufactured goods also led the nation's export effort for the year. In an environment where global GDP growth of 5% for 2004 was the highest in the last three decades, India's overall exports grew by 24% to touch USD 80 billion.

The above-the-trend GDP growth in the last two successive years were founded on a welcome growth in investments, led by the private sector. The investment rate of 26.3% of GDP in 2003-04 was the highest since the mid-nineties. This trend continued during 2004-05, with incremental credit-deposit ratio exceeding 100% for the first time in 15 years. A buoyant investment sentiment coupled with prospects of a normal monsoon in 2005 has led to widespread expectations of GDP growth in the region of 7% for 2005-06.

Economic growth does not necessarily translate to sustainable development. The manner of industrial growth so far has taken an immeasurable toll on finite natural resources, and yet left vast numbers

of people in poverty. On the one hand, depletion of biodiversity resources – soil, water, air – has increased the fragility of ecological balance manifold. On the other, the declining rate of growth of agriculture has led to the present situation where nearly 60% of India's population shares barely 22% of its output. Over 75% of those below the poverty line reside in rural India. Poverty manifests itself not only as material impoverishment but also in the lack of real opportunities for the poor to emerge from such a condition. Such fundamental deprivations of freedom suffered by individuals who are casualties of high morbidity and illiteracy affects their economic performance as well as their ability to seize opportunities offered by expanding markets. Growth agendas can become sustainable only if they include in their wake strategies to enhance ecological and social capital, thereby translating to development.

The promise of a 'New Deal' for rural India, the Government's 'Bharat Nirman' proposal involving an investment outlay of over Rs.174000 crores during the next 4 years (2005-2009) towards creating rural infrastructure, and the emphasis on effective delivery mechanisms represent key policy focus areas towards securing sustainable development. Such policy initiatives need to be supplemented with reforms in the agricultural sector, founded upon effective connectivity to markets, improved productivity of resources and enhanced value addition. A comprehensive growth strategy for rural India, including the agri sector, is necessary to address the serious issues relating to sustainability and to enlarge effective domestic demand by including those living at the margin in the process of market development.

Implementation of reforms has assumed even greater urgency in view of the escalating challenges to competitiveness of the various sectors of the economy. The recent slew of Free Trade Agreements at bilateral and regional levels and the consequent calibrated demolition of cross border tariffs would translate to opportunities only if the economy and its constituents can make a successful transition towards global competitiveness. Increasing domestic competitiveness, together with enlarged aggregate domestic demand, can then become the foundation for much higher levels of investment and employment. India's current investment rate of

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26.3% is well below that of China, which sustains a level of 45% of GDP. For India's oft quoted advantage of demographics to become a driver of growth, about 10 million new jobs need to be created annually over the next decade. Public-private partnerships in investment are critical to realise such outcomes, particularly in generating off-farm employment and absorbing displacement of labour inherent in agricultural reform.

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

COMPANY PERFORMANCE

Your Company posted yet another year of stellar performance, testifying to the robustness of the corporate strategy of pursuing multiple drivers of growth. The performance is even more heartening when viewed in the context of the challenging environment of the cigarette industry, impact of the absorption of incubation costs of the new business initiatives and the gestation cost of new investments in the hotels and paperboards businesses.

Gross Turnover for the year 2004-05 grew by 13% to Rs.13350 crores, driven by good topline growth across all businesses of your Company. Pre-tax profit (before exceptional items) increased by 15.3% to Rs.2673 crores, while Post-tax profit (before exceptional items) at Rs.1837 crores registered a growth of 15.3%. The financials for the year include Rs.692 crores representing net income from exceptional items, most of which relate to past litigation. Inclusive of these exceptional items net of tax, your Company's Profit after Tax stands at Rs.2191 crores.

Earnings Per Share (before exceptional items) for the year stands at Rs.73.74. Cash flows from Operations were Rs.2635 crores during the year. The financial results for the year ended 31st March,

2005 include those of the erstwhile ITC Hotels Limited and Ansal Hotels Limited which were amalgamated with your Company with effect from 1st April, 2004.

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.31.00 per share (previous year Rs.20.00 per share) for the year ended 31st March, 2005. The cash outflow in this regard will be Rs.881.70 crores (previous year Rs.560.10 crores) including Dividend Tax of Rs.108.45 crores (previous year Rs.64.74 crores). Your Board further recommends a transfer to General Reserve of Rs.1100 crores (previous year Rs.1000 crores). Consequently, your Board recommends leaving an unappropriated balance in the Profit and Loss Account of Rs.611.41 crores (previous year Rs.387.84 crores).

Proposed dividend for the financial year ended 31st March, 2005 includes dividend payable on the new Ordinary Shares of the Company, issued and allotted to the shareholders of erstwhile ITC Hotels Limited and Ansal Hotels Limited, which rank pari passu in all respects with the Ordinary Shares of the Company, in accordance with the Scheme of Amalgamation of ITC Hotels Limited and Ansal Hotels Limited with the Company.

PROFITS, DIVIDENDS AND RETENTION

	(Rs. in crores)	
	2005	2004
a) Profit Before Taxation and Exceptional Items	2673.07	2319.06
b) Income Tax	836.00	726.21
c) Profit After Taxation Before Exceptional Items	1837.07	1592.85
d) Exceptional Items (net of tax)	354.33	—
e) Profit After Tax	2191.40	1592.85
f) Add : Profit brought forward from previous year	387.84	343.88
g) Transfer from Hotel Foreign Exchange Earnings Reserve	15.14	4.00
Less : Transfer to Hotel Foreign Exchange Earnings Reserve	—	5.00
h) Surplus available for Appropriation	<u>2594.38</u>	<u>1935.73</u>

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	(Rs. in crores)	
	2005	2004
i) Transfer to Debenture Redemption Reserve	—	—
Less: Transfer from Debenture Redemption Reserve	—	10.94
j) Transfer to General Reserve	1100.00	1000.00
k) Proposed dividend for the financial year at the rate of Rs.31.00 per Ordinary Share (previous year Rs.20.00 per Ordinary Share)	773.25	495.36
Income Tax on proposed dividend (2005 – including Rs.1.27 crores for earlier years)	109.72	63.47
l) Retained profit carried forward to the following year	611.41	387.84
	<u>2594.38</u>	<u>1935.73</u>

FOREIGN EXCHANGE EARNINGS

Your Company continues to view foreign exchange earnings as a key priority. All businesses in the ITC portfolio are mandated to engage with overseas markets in a bid to test competitiveness and seek growth opportunities. The ITC Group's contribution to foreign exchange earnings over the last decade amounted to nearly USD 2.2 billion, of which agri exports accounted for about USD 1.6 billion. Earnings from agri exports is an indicator of your Company's contribution to the rural economy through effectively linking small farmers with international markets.

During the financial year 2004-05, your Company, its subsidiaries and the ITC Welcomgroup hotel chain together earned Rs.1378 crores in foreign exchange. Direct foreign exchange earned by your Company amounted to Rs.1269 crores. Your Company's expenditure in foreign currency amounted to Rs.655 crores, comprising purchase of raw materials, spares and other expenses at Rs. 531 crores, and import of capital goods at Rs.124 crores.

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

BUSINESS SEGMENTS

A. FAST MOVING CONSUMER GOODS (FMCG)

FMCG – Cigarettes

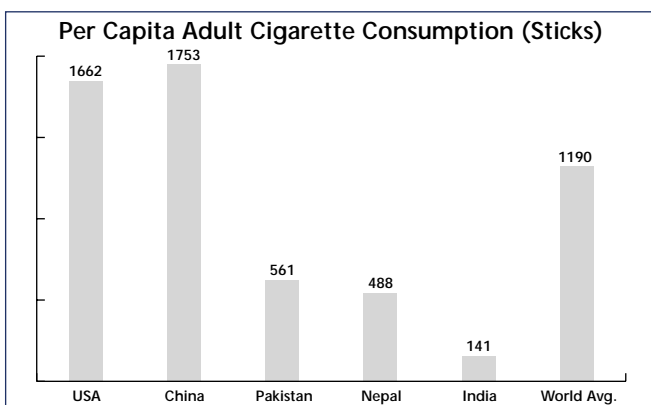
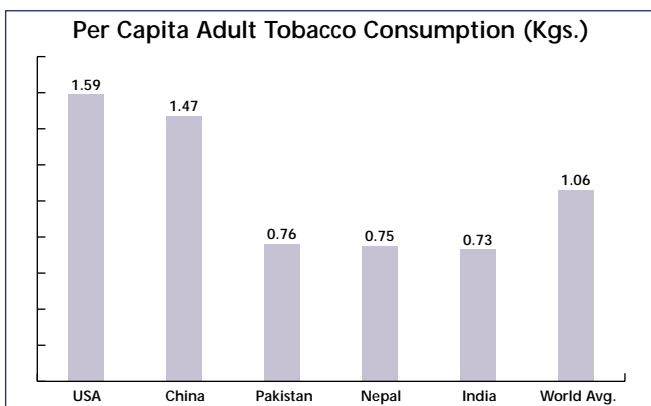
The year under review witnessed a number of landmark developments in the Indian cigarette industry. On the regulatory front, severe restrictions were imposed on the industry with respect to advertising, sale and consumption of tobacco products with the implementation of the "Cigarettes and Other Tobacco Products (Prohibition of Advertisement and Regulation of Trade and Commerce, Production, Supply and Distribution) Act, 2003" (COTPA) with effect from 1st May, 2004. Further, the Framework Convention on Tobacco Control, of which India is one of the first signatories, was ratified on 27th February, 2005. The industry and Company's stand on the unconstitutionality of State Luxury taxes on cigarettes was upheld by the Supreme Court. However, cigarettes continue to be subjected to a multiplicity of taxes at the Central and State levels. The industry believes that the levy of State-level taxes on cigarettes tantamounts to an infringement of the agreement between the Centre and the States reached at the National Development Council meeting of 1955 which substituted State-level taxes on cigarettes with Additional Excise Duty, levied by the Centre, but distributed amongst the States. In the context of Value Added Tax (VAT), the amendment to the Additional Excise Duty Act by the Finance Act 2003 cognises for the deleterious effect of cascading taxes by prescribing 'transaction value' as the basis for a 4% levy. In view of the highly taxed nature of the product, and the sensitivity to varying tax rates, ideally a single point levy on cigarettes through the existing specific duty mechanism of Central Excise would best serve the key canons of taxation, namely buoyancy, simplicity, certainty and efficiency in collection. Moreover, the intended objective behind VAT of creating a large unified market would only be realised if VAT replaces all other State-level taxes.

At the central level, after a relatively stable regime of taxation since February 2001, excise duty rates were hiked in March 2005, by as much as 10% for

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cigarettes and most other tobacco products. However, the increase in excise rates, sought to be justified on health grounds, excludes bidis, which outsell cigarettes more than 8 times. In view of the already existing high excise burden on cigarettes, this sharp increase in rates will significantly disadvantage cigarettes vis-à-vis other tobacco products. The operating landscape for cigarettes, therefore, continues to be one of ever increasing challenges.

Despite contributing more than 85% of tax revenues from tobacco, today cigarettes constitute only 14% of total tobacco consumed in the country, down from about 21% in 1981-82. In fact, as per latest available published data, while it is evident that on a per capita basis, annual adult tobacco consumption in India is close to 70% of the world average, cigarette consumption ranks amongst the lowest in the world.



Source: Based on Cigarette consumption data (2003) from "World Cigarettes", ERC Group Plc.

In India the taxes on cigarettes are about 30 times higher than those on other tobacco products, on a per kg basis. This heavy burden of tax has led to a progressive shift of tobacco consumption from

the cigarette form to other forms resulting in loss of opportunity to maximise revenue from the tobacco sector. As cigarettes become more and more expensive due to increasing levels of taxation, tobacco consumption migrates to cheaper and revenue inefficient tobacco products. Since the incidence of tax on other tobacco products like bidis, gutkas and chewing tobacco is much lower than that on cigarettes and since these are manufactured pre-dominantly in the unorganised sector, revenue collection from these products remains comparatively insignificant due to leakages and inefficiencies. Fiscal legislation, over time, has thus led to the unintended consequence of sub-optimisation of economic value per unit of tobacco consumption.

It is evident that high rates of taxes on cigarettes have neither imparted buoyancy to tax revenues from the tobacco sector nor curtailed overall consumption. **It is now a well established principle that sustainable tax buoyancy can be realised only by expanding the tax base.** This principle stands reinforced by the experience of China where, despite their per capita incomes being twice as much as India's, rates of taxes on cigarettes are much lower than those in India, resulting in the tobacco sector generating as much as 10 times the revenue collection from the Indian cigarette industry. Unfortunately, in India the tax policy has been focussed hitherto on the minority segment of tobacco, i.e., cigarettes. The inevitable consequence of this has been sub-optimal revenue generation from tobacco. **The need of the hour, therefore, is to reduce the difference in effective tax rates across classes of tobacco products in a manner that maximises contribution to the Exchequer from the tobacco sector even in a shrinking basket of overall tobacco consumption.** This need for expansion of the tax base has now also been acknowledged by the Central Government: **"Extend the ambit of tobacco product taxation, to hitherto untaxed or lightly taxed products such as beedis and chewed tobacco products, and bring their taxes on par with those on cigarettes...."** Source: "Report on Tobacco Control in India", Ministry of Health – 2004.

Widening the tax base through moderation in rates can arrest the shift in tobacco consumption to revenue inefficient products.

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If the consumption of tobacco in cigarette form were to be reinstated to even the 1981-82 levels of 21% of total tobacco consumption, it would translate to additional revenues in excess of Rs.4000 crores – resources critical for deployment in areas of national priority. Additionally, a growing demand for high quality cigarette type tobaccos will spur R&D investments in this sector which, in turn, will boost the export potential of tobacco. The multiplier effect of this would also favourably impact more than 36 million farmers, farm labour, tribals and marginal traders who depend on tobacco for their livelihood. This assumes critical significance in the context of an analysis of farmer earnings by the Central Tobacco Research Institute which shows that there are no economically viable alternative crops to tobacco. Moreover, this would also be in alignment with one of the stated priorities of the Common Minimum Programme of the Central Government – **“to enhance the welfare and well being of farmers, farm labour and workers ... and assure a secure future for their families in every respect”**. India is the third largest grower of tobacco in the world after Brazil and China. However, India’s tobacco exports languish at a mere 3% of global leaf trade estimated at USD 5.2 billion. This is largely due to the highly punitive tax regime on cigarettes over many years which has discouraged the development of a strong and stable domestic market for cigarette type tobaccos – a pre-requisite for increasing exports in a sustainable manner. A strong domestic market not only promotes growth of high quality and flavourful tobaccos but also largely insulates the farmer against the vagaries of international trade. A case in point is Brazil. As evident from the following table, while the two countries had comparable export volumes in 1970, Brazilian tobacco exports have leapfrogged over India, aided by a strong domestic cigarette market.

Leaf Tobacco Exports (Mln. Kgs.)		
Year	India	Brazil
1970	59	55
1990	71	188
2003	128	466

Source: Tobacco Institute of India

During the mid-seventies, Brazil, like India, had a huge market for a local variety of tobacco product

made with ‘*comum*’ grades, which, like bidi tobacco in India, had little export potential. Realising the untapped opportunity for revenue generation, the government worked in partnership with farmers and industry to increase the production of full-flavour, high quality cigarette type tobaccos. This has resulted in Brazil occupying the top spot in leaf tobacco exports today with revenues in excess of USD 1 billion – clearly an example that can be emulated successfully in India.

As reported in earlier years, high taxes on domestic cigarettes continue to fuel contraband trade. The high domestic tax rates in India provide huge arbitrage opportunities for illegal trade whereby contraband enjoys a grossly unfair advantage in both the originating and the destination economies through evasion of taxes. This is compounded by the liberal import of under-priced international brands into India at prices which are significantly lower than those prevailing for the same brands in duty free trade. Apart from the consequential loss of customs revenues, imports of foreign cigarette brands by some players compounds the menace of contraband by providing a legal cover to unscrupulous traders to pass off much larger quantities of smuggled cigarettes as legitimate imports. As a result, not only is contraband the fastest growing segment in the Indian market, it is also costing the exchequer about Rs.2000 crores annually by way of forsaken taxes and foreign exchange outflow. Your Company believes that in addition to stricter enforcement, the other effective ways to combat contraband are to (i) prohibit duty free sales, (ii) disallow cigarettes in personal baggage, (iii) closely regulate import of cigarettes by shifting it from OGL to ‘restricted’ items and impose specific rates of customs duty to stem under-valuation, and (iv) put in place legislation that addresses tobacco related issues holistically and equitably.

Unfortunately, contraband is often, unwittingly, encouraged by inadequate legislation. COTPA was introduced with effect from 1st May, 2004 and is being implemented in a phased manner. So far, the provisions of the Act dealing with severe restrictions on advertisement and communication in relation to cigarettes and other tobacco products have been notified. However, COTPA has not taken cognisance of issues addressed in the Framework Convention on Tobacco Control like prohibition of duty free sales, anti-smuggling labelling on packages etc.,

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resulting in an unfair advantage, albeit unintended, to the contraband trade.

Even after the implementation of COTPA, the imported brands, unlike domestic brands, continue to be advertised through satellite television channels and international promotions of events that are also telecast on Doordarshan (e.g. Formula I Racing). Consequently, imported brands and their contraband trade derive unjust benefit at the cost of domestic brands. Your Company genuinely believes that legislation on smoking and tobacco must be holistic, fair and equitable across all categories of tobacco and smoking products and, while addressing critical issues like reduction of the impact of usage of tobacco and smoking on the public, under-age tobacco consumption etc., must also ensure that domestic industry is not discriminated against and adult consumers are allowed to make informed choices about a legal product. Accordingly, your Company continues to make representations to the Government on relevant regulatory as well as taxation related legislation.

In a developing country like India where the livelihood of millions is linked to growing tobacco, a viable strategy is required to maximise the economic value per unit of tobacco even in a shrinking basket of overall tobacco consumption. This purpose can be achieved through a pragmatic and equitable taxation policy, anchored on expanding the tax base through moderation in tax rates. Such a tax policy can bring about calibrated and orderly change in this sector, even as it yields higher revenue for the Exchequer, enhances foreign exchange earnings through growing exports, increases farm incomes and reduces smuggling.

In spite of the extremely challenging operating environment, your Company continues to invest in developing its capabilities to world-class standards and consolidating its leadership position. In a reflection of the market standing of your Company's cigarettes business, its Gross Turnover crossed the Rs. 10000 crores milestone on the back of an overall volume growth of over 6%, achieving the highest ever market share in overall value terms and in the new and emerging segments of the industry, and a 45% growth in export volumes.

Sustained investments in capability enhancement have enabled extension of internationally contemporary packaging formats across a range of

brands in the full value segment, further reinforcing the association of your Company's products with world class standards. These include the launch of super premium brands in the unique Shoulder Box packaging style, roll out of the new Wave pack, and contemporary pack designs for major filter cigarette brands.

The deep consumer insights nurtured over time by your Company enabled many initiatives in process and product development during the year including enhancement of major brands through diverse product design tools cutting across the entire range of product technologies, including Tobacco, Filters and Cigarette Papers.

On the manufacturing side, your Company's relentless pursuit of operational excellence enabled attaining the highest ever levels of leaf tobacco and wrapping material utilisation and manufacturing efficiencies. Your Company's brands continued to be substantially ahead of competition as reflected by the internationally benchmarked Product Quality Rating Systems scores. In order to meet changing consumer preferences your Company continues to maintain world class manufacturing facilities and build capabilities to manage product variety and further improve quality. In this respect, key interventions during the year include induction of state-of-the-art cigarette making and packing machines; implementation of various systems to improve management of varietal complexity and development of in-house capability to manufacture intermediate products hitherto imported, resulting in improved product offerings and significant savings in cost and foreign exchange.

The global standards of Environmental Health and Safety policies practised at your Company's manufacturing facilities have been recognised in various international and domestic awards. **The manufacturing facilities at Bangalore, Kidderpore and Saharanpur won the Sword of Honour as well as the 5-Star Health and Safety Management Audit System Award from the British Safety Council. All production units won Royal Society for Prevention of Accidents (ROSPA) awards for Health and Safety. The Munger, Kidderpore and Saharanpur units also won the Greentech Foundation Award for excellence in environmental pollution control and safety. Additionally all production units of your Company**

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are now OHSAS: 18001 certified by Det Norske Veritas (DNV), Netherlands. The Kidderpore unit also won the CII 'Safety Award' while the Saharanpur factory won the CII 'Excellence in Water Management Award'.

As reported in earlier years, it is indeed a matter of deep satisfaction that your Company's brands account for three of the top five FMCG brands in the country. Your Company, with its strategy of delivering superior value to consumers through world class products, is well positioned to sustain its leadership position in the industry.

FMCG – Others

As explained in detail in last year's Report of the Directors, it is the strategic intent of your Company to secure long-term growth by synergising and blending the diverse pool of competencies residing in the various businesses to tap the emerging opportunities in the FMCG sector. Towards this end, your Company continued to make rapid progress during the year in scaling up the newer FMCG initiatives comprising Branded Packaged Foods, Lifestyle Retailing, Greeting, Gifting & Stationery and Safety Matches & Incense Sticks (agarbattis).

Your Company is of the view that the FMCG sector presents exciting long-term growth prospects. Despite the sluggish performance and pressure on margins witnessed in recent times, the underlying macro-economic trends point to a compelling opportunity. First of all, the per capita consumption and penetration levels of most FMCG categories are relatively low in India even when compared to other South Asian countries. For example, branded atta constitutes over 25% of total atta consumption in Pakistan (Source: CII-McKinsey FAIDA Report) against only about 5% in India. With India's per capita GDP set to cross the USD 1000 threshold within the next five years, disposable incomes are projected to grow rapidly and would in turn drive demand for consumer goods including FMCG. Secondly, the changing demographic profile of the country indicates an increasingly younger consuming class with around 54% of the population being below the age of 25 years. The size of the consuming class itself is also set to grow exponentially with around 6 million households expected to get added each year over the next 5 years. Thirdly, improving literacy levels, growing urbanisation trends,

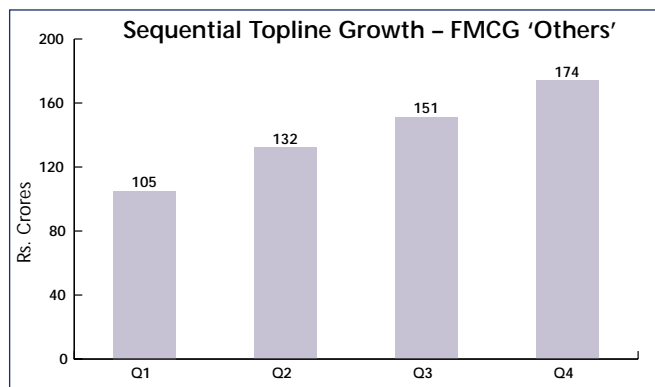
increasing population of working women, and increased media exposure are expected to fuel demand for value added consumer goods and lifestyle products. Fourthly, while there are nearly 3.6 million outlets in rural markets alone, there is no organised marketing and distribution of FMCG products in a vast majority of villages due to the prohibitively high cost of servicing the 'last mile'. This 'last mile' represents a significant opportunity for those who can defray logistics costs efficiently over multiple transactions.

During the year, your Company's market standing was significantly enhanced on the back of rapid expansion of product range across chosen categories, leveraging the ITC Group Research & Development Centre at Bangalore and the Master Design facility at Gurgaon. On the trade marketing and distribution front, your Company continues to occupy the pole position in terms of 'Customer Value Measurement'. It was once again voted as the most preferred supplier despite a proliferation in the number of product categories and SKUs. Your Company's trade marketing and sales management processes spanning multiple SKUs across diverse categories such as cigarettes, confectionery, staples, biscuits, salt, snack-food, conserves, cooking pastes and chutneys, ready meals and premium foods, gifting and stationery, matches and agarbattis are acknowledged as an industry benchmark. This trade marketing and distribution bandwidth was further enhanced during the year with greater penetration into groceries, modern format stores, strengthening of the stationery channel and improvement in service levels. The rural distribution initiative was also successfully scaled up during the year in Madhya Pradesh and Uttar Pradesh leveraging your Company's e-Choupal network. Your Company is well poised to take its FMCG initiatives to new highs on the back of this expanded trade marketing and distribution bandwidth.

Your Company is engaged in creating low cost demand fulfilment capability by upgrading the value chains embedded in its businesses. The business model envisages retaining critical elements of the value chain in-house while outsourcing manufacturing mainly to small and medium enterprises (SMEs). Company resources are directed towards strengthening the capability of these SMEs, thereby enhancing the competitiveness of the entire value chain.

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The Segment report set out in Schedule 20 to the Accounts reflects the rapid scaling up of operations. Segment Revenues grew by 85% over 2003-04 to Rs.563 crores. A snapshot of the sequential growth in the Segment Revenues is as illustrated below:



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

Branded Packaged Foods

Your Company rapidly scaled up the Branded Packaged Foods business during the year in the 4 chosen categories viz. Snack Foods, Staples, Confectionery and Ready-to-Eat. The year saw the launch of a number of differentiated and innovative products leveraging the in-house capability of the ITC Group Research & Development Centre at Bangalore. Significant progress was made in enhancing supply chain efficiencies, depth and width of distribution and achieving world class hygiene standards in the outsourced manufacturing process. Your Company's commitment to delivering superior and consistent quality products benchmarked to international standards would enable realising the goal of becoming the 'most trusted provider of food products in the Indian Market'.

The 'Aashirvaad' brand – comprising packaged Atta, Salt, Cooking Pastes and Ready-to-Eat meals – continued to gain increasing consumer franchise during the year. 'Aashirvaad' Atta established itself as the clear market leader amongst national branded players. Significant improvement in operating performance was achieved through a combination of efficient wheat sourcing leveraging

the e-Choupal network, driving down logistics costs and an enriched sales mix. Plans are on the anvil to extend the 'Aashirvaad' assurance of quality to Branded Spices in the ensuing year.

The year also marked the national rollout of 'Sunfeast' range of biscuits backed by a calibrated ramp up of the supply chain. The innovative products under this brand have garnered significant market standing in a short span of time and are being increasingly accepted by consumers as credible new alternatives to those of the traditional players in the industry. Your Company is engaged in scaling up the supply chain through distributed and outsourced manufacturing capacity to service market requirements in a cost-effective manner. Significant investments in brand building activities are also envisaged in the light of the heightened competitive activity in the industry. In keeping with your Company's philosophy of providing differentiated products to the consumer, 'Sunfeast' Pasta Treat, a whole wheat based non-fried product, was introduced as a healthy snacking option for children in 4 exciting flavours.

Product range in the Confectionery segment was expanded with the introduction of 'mint-o Fresh' deposited candies in two unique flavours – clove and eucalyptus – and 'Candyman' Eclairs at two convenient price points. In the Ready-to-Eat segment, product portfolio was expanded with the introduction of several offerings in the 'popular' range under the 'Aashirvaad ReadyMeals' banner. The range of offerings was also augmented with the launch of cooking pastes under the 'Aashirvaad' umbrella brand and Conserves & Chutneys under the flagship brand 'Kitchens of India' (KOI).

KOI has become synonymous with the finest packaged Indian food and the business is positioning itself to tap the opportunities in the rapidly growing domestic and exports market. Initial exports to Canada, Switzerland, UK and the USA have generated favourable consumer response.

Lifestyle Retailing

Your Company's Lifestyle Retailing business continues to strengthen its portfolio of offerings in both premium and popular segments of the branded apparel market.

In the premium segment, the 'Wills Lifestyle' apparel brand has established a strong market

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standing and loyalty among discerning consumers leveraging high fashion imagery and superior product quality and styling. Product availability was extended during the year by opening new stores in high potential malls and increasing presence in high profile Large Format Retailers in the country. Across its portfolio – ‘Wills Sport’, ‘Wills Clublife’, and the ‘Classic’ range – the brand is now recognised as offering an internationally contemporary, high fashion range.

In the popular segment, the ‘John Players’ brand further strengthened its position among its young male consumer base with its distinct “Comfort Dressing” proposition – which is fashionable and vibrant. The year witnessed expansion of the product range covering Denims, T-shirts, Shirts, Trousers, Cargos and Outerwear. Distribution reach was strengthened through increased availability in key Multi-Brand outlets as well as setting up new Exclusive Brand outlets. The brand is also available in the Canteen Service Department stores (CSD) of the Ministry of Defence – a first in the apparel industry.

Effective operating strategies enabled the business to shrink market response time resulting in a decrease in the obsolescence levels of finished goods. The state-of-the-art Master Facility in Gurgaon continues to engage in R&D activities to offer superior products to the consumer in terms of fit, construction and finishing of the garments, besides facilitating prototyping of designs. The business is engaged in addressing the challenge of gearing up the supply chain to cater to significantly higher scale of operations, in terms of both product range and outlet coverage. An industry specific ERP system was implemented during the year with a view to enhancing supply chain efficiencies and sharpening business analytics.

Dismantling of the quota regime is widely viewed as a positive discontinuity, which can result in India’s exports of apparel multiplying several fold over the next decade. Your Company is gearing up to tap the emerging growth opportunities and is in dialogue with several customers for sustainable long-term partnerships.

The business’ internationally benchmarked quality continues to earn industry recognition with ‘John Players’ winning the ‘Rising Star of the Year Brand’ at the Images Fashion Awards 2004.

Greeting, Gifting and Stationery Business

The Greeting Cards Industry world-wide has been impacted by the growth of mobile communication technology and messaging services. Greeting card manufacturers are responding to this challenge by offering value added, keepsake products that differentiate paper cards from electronic substitutes. Despite challenging market conditions, brand ‘Expressions’ continued to grow its market share in the greeting cards segment to touch 25% in 2004-05, consolidating its position as the second largest player in the Indian market. The year saw the launch of ‘Expressions Regalia’ – a premium collection of greeting cards for the connoisseur. A slew of paper based greeting and gifting products under the ‘Regalia’ and ‘Paperkraft’ sub-brands will drive growth in the domestic market. In the stationery segment, the ‘Classmate’ brand of notebooks for students made rapid progress. Besides growing its retail presence, the business also executed customised orders for a number of leading schools. The ‘Classmate Young Authors Contest’ – a creative story writing competition was conducted across 2000 schools in 12 cities, making it a much sought after literary event in the school calendar.

Growing levels of literacy and improving quality consciousness are expected to drive demand for your Company’s ‘Paperkraft’ and ‘Classmate’ range of branded notebooks. Also, the implementation of VAT across the country is expected to provide a level playing field for branded players in the Rs.5000 crore writing & printing papers and notebooks market. Accordingly, the business plans to scale up the stationery business significantly on the back of a superior and differentiated product range and a strong distribution network.

During the year, the business was awarded the ISO 9001:2000 standard by M/s. Det Norske Veritas as a recognition of its quality products and processes.

Safety Matches and Incense Sticks

Your Company’s philosophy of creating shareholder value through serving society finds expression in the marketing of safety matches and incense sticks sourced from small scale and cottage sector units.

In the Safety Matches business, volumes were successfully ramped up during the year through

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continued focus on product quality, enhanced supply chain capabilities and distribution reach. The popular brand 'Aim' further consolidated its position as the single largest match brand in the country, significantly enhancing your Company's market standing. Buoyed by the strong growth in sales during the year, your Company is embarking on exports of value added products to discerning markets in Europe, Africa and the USA.

Your Company continues to support the competitiveness of the small scale and cottage sectors through induction of appropriate technology and best practices. All the 46 small scale and cottage units supplying high quality safety matches to your Company, continue to benefit through this support and are in turn able to provide better employment opportunities to workers in their respective areas of operation.

Your Company's incense sticks (Agarbatti) business completed the national rollout of products under the Mangaldeep brand during the year. Product portfolio was augmented through the introduction of region specific fragrances and price/pack combinations tailored to varying consumer needs. Mangaldeep is emerging as the only national brand in an industry dominated by multiple local brands.

In pursuance of its abiding social commitment, your Company expanded its collaboration with NGOs to train rural youth and economically disadvantaged women and thereby provide vocational opportunities. **Aided by your Company's process and technical inputs, one of its vendors was awarded the ISO 9001-2000 certification, earning the distinction of being the first ever Agarbatti unit in India to receive such accreditation.**

FMCG – Future Direction

Your Company seeks to aggressively scale up the FMCG initiatives over the next few years through a combination of synergistic collaboration by the various businesses in the portfolio, significant investments in brand building and further enhancement of supply chain and trade marketing and distribution capabilities. These interventions blended with a state-of-the-art information technology transaction backbone and the e-Choupal rural distribution network, provide the basis for a

low cost, broadband fulfilment capability for consumer products. Over the long term, these initiatives are expected to provide the basis for sustainable growth in shareholder value by establishing your Company as the leading FMCG player in the country.

B. HOTELS

The year 2004-05 marked the amalgamation of the erstwhile ITC Hotels Limited and Ansal Hotels Limited with your Company. The Scheme of Amalgamation was sanctioned by the Hon'ble High Court at Calcutta and the Hon'ble High Court of Delhi at New Delhi on 24th January, 2005 and 2nd February, 2005, respectively. Upon completion of requisite formalities, the Scheme became effective on 23rd March, 2005 and operative from 1st April, 2004. The amalgamation would facilitate better alignment of investment and incomes, besides promoting fiscal efficiencies, rationalising operating structures & costs and facilitating clear visibility of the totality of your Company's hotels business.

In consideration of the amalgamation, 12,12,747 fully paid-up Ordinary Shares of Rs.10/- each of your Company were issued and allotted on 9th May, 2005 to the members of erstwhile ITC Hotels and Ansal Hotels. The new Ordinary Shares rank pari passu with the existing Ordinary Shares of your Company. Consequent to issue of the aforesaid Shares, the Issued and Subscribed Share Capital of your Company increased from Rs.248.22 crores to Rs.249.43 crores. Your Directors take pleasure in welcoming the shareholders, employees and all other stakeholders of ITC Hotels and Ansal Hotels into the ITC family.

The hotel industry continued on its growth path during the year on the back of strong economic growth. Foreign tourist arrivals continued to be buoyant, registering a robust growth of 23.5% during the calendar year 2004 to touch 3.36 million. Consequently, foreign exchange earnings from the tourism sector touched Rs.21000 crores during 2004 representing a growth of 36% over the previous year. Besides earning valuable foreign exchange, the tourism industry has a large economic multiplier impact and provides significant employment opportunities. The potential of the tourism industry to contribute to India's economic growth is increasingly being recognised in several policy

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initiatives. These include the healthy increase of budgetary allocation for the Ministry of Tourism and a 55% increase in overseas promotion budget to Rs.140 crores for 2005-06. Adoption of the 'open skies' policy to augment airline capacity and the announcement of upgradation projects covering 30 airports across the country stand testimony to the Government's commitment to this sector. It is evident from macro-economic indicators that the tourism sector has huge growth potential and your Company, with its ability to sustain the impact of capital intensity through the strength of its balance sheet, is well poised to not only sustain its leadership position in the industry, but also to emerge as the largest hotel chain in the country over the next few years.

ITC Grand Central, your Company's second property in Mumbai was commissioned during the year, marking yet another significant step towards the strategic objective of establishing the ITC Welcomgroup chain in the super deluxe segment in key business locations. The hotel has become very popular in a short span of time with its architectural design receiving all round critical acclaim. The business also progressed a product upgradation programme during the year with a view to maintaining the contemporariness of your Company's properties. Key initiatives during the year include lobby and coffee shop renovation at the ITC Maurya Sheraton, New Delhi, renovation of guest rooms and suites in ITC Mughal Sheraton, Agra, ITC Windsor Manor Sheraton, Bangalore and ITC Grand Kakatiya Sheraton, Hyderabad. The business also implemented Six Sigma Quality initiatives in select areas at the ITC Maurya Sheraton, New Delhi with a view to further enhancing the service edge.

During 2004-05, your Company's hotels business posted impressive financial performance with Segment Revenues growing by 124% to touch Rs.577 crores driven by improved occupancies/realisations across properties and the impact of the amalgamation of ITC Hotels and Ansal Hotels. Gross Operating Profits (PBDIT) trebled over the previous year to touch Rs.200 crores during 2004-05, while Segment Results (PBIT) at Rs.141 crores grew more than 4 times over 2003-04, despite absorbing the gestation impact of its new properties and projects.

Buoyed by the impressive performance and the emerging opportunities in this industry as discussed herein, your Company is embarking on an aggressive investment led growth plan. Planning is already underway for your Company's proposed hotels at Bangalore and Chennai while a suitable location at Hyderabad is being identified. The amalgamated ITC Welcomgroup chain with its globally benchmarked levels of product and service excellence and superior hoteliering capabilities is well positioned to sustain industry leadership.

C. PAPERBOARDS, PAPER AND PACKAGING

The Paperboards, Specialty Paper and Packaging segment recorded strong growth during the year both in terms of sales and operating profits. As set out in the Segment Report annexed as Schedule 20 to the Accounts, Segment Revenue grew by 24.9% to touch Rs.1565 crores while Segment Results improved by 21.8% to Rs.280 crores. This strong performance is particularly heartening, as the same has been achieved despite pressure on margins arising from a steep increase in raw material prices and the costs associated with stabilisation of the Kovai unit and capacity expansion at the Bhadrachalam unit. The Segment generated strong operating cash flow of Rs.384 crores.

Paperboards & Specialty Papers

The year marked significant capacity augmentation in the recycled paperboards segment with the successful integration of the Kovai facility and the commissioning of the 75000 TPA paperboard machine at your Company's Bhadrachalam mill. Production during the year touched 308962 MT as compared to 234663 MT during the previous year while overall sales (including interdivisional sales) at 301034 MT grew by 30% over last year. In line with your Company's value led strategy, sales of Value Added Paperboard grades grew by 34% over last year to touch 90573 MT. Sales of Specialty Papers also registered strong growth driven by the décor and insulating segment.

The business recorded significant gains on the exports front with sales growing by 70% over 2003-04 to touch Rs.164 crores. Your Company's internationally benchmarked paperboards and specialty paper products now command a presence

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in several countries in Europe and the Afro-Asian region including Turkey, Greece, Bulgaria, Sri Lanka, Bangladesh, Malaysia, South Africa, UAE, UK and Iran. The full capacity utilisation of the pulp mill at your Company's facility at Bhadrachalam also enabled the conservation of foreign exchange in excess of Rs.200 crores.

The Indian paper and paperboards industry grew by nearly 7% during the year, substantially higher than the world average of 2%, driven by a strong growth in the economy, increasing sophistication of the Indian consumer and the emergence of packaging as a key driver of product differentiation. The Value Added Paperboards segment catering primarily to the packaging needs of the pharma, personal products and foods sectors, continued to grow at a substantially faster pace of 20%. Robust economic fundamentals, increased consumer spending and improvement in conversion technology are expected to drive per capita consumption of paper and paperboards from the current 5.6 kgs. per annum to progressively approximate the world average of over 50 kgs. per annum. The Indian industry is expected to witness heightened competitive activity in the ensuing years especially in light of most international majors viewing Asia including India as a key growth market. This coupled with the rise in input costs would call for increased focus on cost competitiveness. Your Company, with its integrated operations comprising the state-of-the-art Elemental Chlorine Free (ECF) pulp mill and paperboards manufacturing facilities, is uniquely positioned to tap the full growth potential of this industry.

Your Company continues to focus on the critical areas of pulp and energy, which are the two main components of product cost. Your Company's ECF pulp mill, the only one of its kind in the country, is a source of sustainable competitive advantage to the business. With increasing awareness of hygiene and safety among Indian consumers, industries like foods and pharmaceuticals are progressively switching to ECF pulp-based paperboards. Apart from contributing significantly towards upgrading the quality of value added products and facilitating market expansion, the mill reflects your Company's deep commitment of establishing globally benchmarked standards of environment

management in the industry. **Your Company's endeavours in this area earned recognition in the form of the 'Five Leaves' award from the Centre for Science and Environment, New Delhi which adjudged the Bhadrachalam mill to be the greenest paper mill in India. The Bhadrachalam unit was also awarded the Greentech Environment Excellence award by the Government of Andhra Pradesh.**

The business made significant progress during the year on the energy front with the commissioning of the 18 MW power block at the Bhadrachalam mill and the near completion of the 8 MW unit project at the Kovai plant. Currently, about 95% of the energy requirements of the business are being met out of captive generation. Your Company's expertise in this area is a source of distinct competitive advantage in this energy intensive industry. **Initiatives in energy management won industry recognition with the business winning the award for 'Excellence in National Energy Conservation (ENCON)' from CII for the fourth year in succession.**

Your Company has over the years leveraged the biotechnology capability of the Research Centre at the Bhadrachalam mill to make available high-yielding clones and seedlings of the desired pulp wood species to farmers. The quality of these clones and seedlings has been tested for effectiveness over the last 12 years. Your Company's plantation programme gained further momentum during the year with an additional coverage of 11500 hectares. With this, the programme now extends to over 29000 hectares with saplings planted to date exceeding the 100 million mark. The success achieved in developing Eucalyptus clones is being replicated in Subabul. The business expects to plant 3 lakh Subabul clones during 2005-06 and scale up exponentially thereafter in pursuit of the strategic objective of attaining self-sufficiency in fibre. Your Company is also actively collaborating with the Council for Scientific and Industrial Research (CSIR) to develop low lignin-high yield pulpwood species. Your Company's afforestation mission regenerates wastelands, enhances farm incomes and generates sustainable employment, carrying the potential to benefit 1.2 million people in remote tribal areas in the economic vicinity of the paperboard mill.

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Apart from the initiatives discussed herein, the business continued to focus on achieving higher levels of operational excellence towards enhancing competitiveness. Key interventions include Total Productive Maintenance towards minimisation of process losses and enhancement of quality and productivity; leveraging e-procurement systems and outsourced imported mixed waste sorting facilities for effective input cost and quality management; harnessing information technology to improve service levels to customers through enhanced responsiveness.

Your Company would continue to invest in research and development, cutting edge manufacturing systems and scale up the plantations programme with a view to securing long term growth.

Your Company with its enhanced capacity and competitive ability backed by a range of world class products and an all pervasive culture of innovation, is well poised to sustain its leadership position in India and establish itself as a major player in the Afro-Asian region.

Packaging and Printing

The Packaging and Printing business leveraged its recent investments in technology upgradation to expand its range of offerings to include a wider variety of contemporary packaging formats. This has enabled it to provide discernibly superior and innovative packaging solutions not only to your Company's cigarettes business but also to the FMCG and paperboards businesses. The enhanced packaging capability provided invaluable support towards introduction and rollout of several cigarette brands in bevelled edge, round corner and pillow packs while also enabling conservation of foreign exchange through import substitution.

The business won three India Stars, three Asia Stars and one World Star Award during the year for innovative packaging. Both the Munger and Tiruvottiyur units are certified to ISO 9000, 14000 and 18000. The Munger unit won the Royal Society for Prevention of Accidents (ROSPA) 'Gold Award' for Health and Safety, besides receiving the 'Sword of Honour' award from the British Safety Council and winning the Greentech

award for Environment management. The Tiruvottiyur unit received a 5 Star rating from the British Safety Council and achieved a Level 7 rating in the International Quality Rating System (IQRS) as audited by Det Norske Veritas.

D. AGRI BUSINESS

Cigarette Leaf Tobacco

Significant increase in crop size in Brazil and the Zimbabwe Frontline African (ZFA) countries namely, Zambia, Tanzania, Uganda and Malawi more than offset the decline in production in Zimbabwe resulting in the continued global over supply situation. The trend of mergers, acquisitions and privatisation continued during the year and is expected to result in re-alignment of sourcing strategies and enhanced negotiating power of international manufacturers and merchants. In a significant development, during the year the European Union announced measures to decouple subsidies of agricultural products including tobacco from actual production. This could lead to a substantial decline in production in these countries and present opportunities for low-cost tobacco producing countries including India. Continuing focus on pesticide residue levels and Non-Tobacco Related Matter (NTRM) necessitates compliance with globally benchmarked product integrity and traceability protocols. The trend of increasing use of blend adjuncts such as reconstituted tobacco and expanded tobacco continued to spur demand for low value by-products, exerting pressure on margins.

The over supply situation in the domestic markets continues unabated. With severe competitive pressures, both in overseas and domestic markets, balancing the twin objectives of sustaining remunerative returns to the tobacco farmer and remaining competitive in the market place constitutes a key challenge for your Company. Despite being one of the largest producers of tobacco in the world, India's share of world tobacco trade remains minuscule primarily due to the predominantly non-cigarette form of tobacco consumption in India. **A stable, fair and equitable cigarette taxation policy would be imperative to provide a strong domestic demand base to the Indian farmer, insulating him from the volatilities typically**

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associated with international markets, and be a key catalyst in realising the full economic potential of the tobacco sector in India.

Despite such a challenging business environment coupled with the appreciation of the Indian Rupee, your Company's tobacco exports grew by nearly 10% in value terms during the year. This was achieved on the back of substantial new business development through effective segmentation of customers and customised product and service offerings and simultaneously deepening relationships with existing customers. The business also continued to provide strategic sourcing support to your Company's cigarettes business.

Your Company continued to scale up its initiatives in the critical area of crop development and research during the year particularly towards the development of flavourful flue cured tobacco in Maharashtra and Northern Karnataka and superior filler style burley tobaccos in Orissa. The success of these trials could lead to significant opportunities to upgrade the quality of Indian tobaccos and drive business growth in the future. In the area of crop extension, your Company continued its pioneering work aimed at enhancing farm productivity and quality. Key initiatives in this regard include the successful introduction of model tobacco storages at the farm level, popularising the use of vermi-compost to improve soil health and reduce cultivation cost. Your Company is also actively collaborating with the Central Tobacco Research Institute (CTRI) to develop new varieties of seeds and hybrids.

Your Company's processing plant at Anaparti, which was modernised last year, achieved the targeted levels of production and product consistency while the facility at Chirala continues to be a global benchmark for green leaf threshing plants in terms of product quality, productivity and processing yields. **Both plants won the Greentech Foundation award – a recognition of your Company's commitment to highest standards of Environment, Health and Safety.**

The integrated end-to-end IT solution (ERP) implemented by the business has provided your Company with the capability of product traceability and enhanced operational efficiencies, both of which will significantly enhance the value proposition of the business to its customers.

Agri Commodities

During the year, your Company's agri commodity business turned in a robust performance with revenues touching Rs.1044 crores, further consolidating your Company's commitment to the agri value chain. The performance is particularly commendable in the light of the fact that it was achieved despite adverse market conditions, especially in the case of soya. The business registered substantial progress in most major commodities viz. rice, wheat, aqua and coffee while soya broke even, despite severe price disparities between the domestic and international markets, through a combination of efficient procurement, leveraging your Company's e-Choupal network, reducing crushing operations, increased bean trading in the domestic market and effective hedging of price risk in domestic commodity exchanges.

As discussed in previous years, the e-Choupal model operates within the unique structure of Indian agriculture by reaching out to farmers in the smallest of villages, which constitute the overwhelming majority of India's rural population. The network enables a quantum improvement in the cost and quality of extension services by providing customised inputs on best practices, weather etc. towards enhancement of farm productivity. Your Company is engaged in leveraging this unique infrastructure to create a significant two-way multi-dimensional channel which can efficiently carry products and services into and out of rural India, while recovering the associated costs through agri-sourcing led efficiencies.

Your Company continued to scale up the e-Choupal network during the year. This pioneering initiative comprising 5200 choupals, currently reaches out to over 3 million farmers in 31000 villages in the States of Madhya Pradesh, Uttar Pradesh, Rajasthan, Karnataka, Maharashtra, Andhra Pradesh and Kerala.

On the sourcing side, the network continues to be leveraged to deliver cost and quality led efficiencies. This is being increasingly reflected in your Company's branded atta business, in which cost effective procurement, coupled with sourcing of superior and consistent quality wheat, contributed

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significantly towards establishing the 'Aashirvaad' brand as the clear market leader amongst national branded players within a short span of time. The sourcing advantage of the e-Choupal network is planned to be increasingly leveraged to replicate this success in the case of your Company's 'Sunfeast' range of biscuits and snack foods.

During the year, your Company also leveraged its time-tested crop development and research expertise to foray into the Spices market. Several path-breaking initiatives including development of organic and value added spices have already been undertaken. These initiatives would serve to provide opportunities to farmers to diversify their crop portfolio while supporting the strategic plans of your Company's Foods business to become a leader in the Branded Spices market.

On the rural distribution front, pilots initiated in the previous years were ramped up towards attaining commercial scale. The throughput value of transactions through this channel during the year touched nearly Rs.50 crores, primarily in MP and UP comprising agri-inputs, FMCG products, vehicles, consumer durables, insurance products and other marketing services. Nearly 40 companies, both from the public and private sector, are already being served by the network. The rural distribution initiatives are planned to be progressively populated across the entire e-Choupal network in the ensuing years. Your Company plans to increase focus towards further enhancing the effectiveness of the e-Choupal network especially in the area of rural distribution, through a series of measures including imparting specialised training to sanchalaks, increasing reach to all catchment villages and activity building exercises to promote interaction and communication. A comprehensive network management system is also being deployed to effectively deal with the complexities and the geographical dimensions that this initiative entails. This will be supported by a focused performance management system which will enhance sanchalak effectiveness and productivity.

2004-05 also marked your Company's foray into rural retailing with the successful launch of the first rural hypermarket, christened 'Choupal

Sagar', in Sehore, Madhya Pradesh. This landmark infrastructure has set new benchmarks in shopping experience for rural consumers while also doubling up as a farmer facilitation centre providing unique facilities like training, soil testing, health clinic, cafeteria, bank and investment counter, fuel station etc. Store footfalls and sales are encouraging and in line with expectations. Your Company is engaged in scaling up the rural retailing initiative to establish another 30 stores in the next 12 to 18 months.

In respect of commodity trading, the business seeks to achieve a higher order of value capture by exploring opportunities to become sourcing partners for large and organised players, moving up the value chain through the exports of value added aqua, processed fruits, organic products and establishing long term relationships with the animal feed industry in respect of soya. This coupled with the rural marketing thrust and an expanded retail presence would provide enhanced depth and width to your Company's rural based business portfolio.

Developmental activities in the e-Choupal catchment areas were scaled up during the year, further reinforcing your Company's relationships with the rural community. In this respect, several initiatives are underway in areas such as water harvesting and livestock quality enhancement in several districts of Madhya Pradesh and Uttar Pradesh. The success of these initiatives will demonstrate the potential of the e-Choupal infrastructure as an effective delivery mechanism for upgrading social infrastructure.

Your Company continues to invest in strategic capability building towards world class execution of such a bold strategy encompassing myriad constituents. In this respect, customised training programmes are being deployed across the business towards enhancing trade marketing & distribution and rural retailing skills and strengthening organisation culture and values. A team performance management system has also been launched during the year to facilitate actualisation of targets. Risk management strategies are continuously being refined with the increasing scale and complexities of the business. The Risk Management framework has been strengthened further with the

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implementation of comprehensive standard operating procedures and fundamental internal control systems spanning all legs of the business. The ERP solution which is currently under development is expected to complement your Company's robust CRM and supply chain systems and thereby create a strong IT backbone to support physical fulfilment capability.

What began as an effort by your Company to re-engineer the supply chain in respect of commodity procurement is rapidly transforming into a highly efficient low cost fulfilment capability not only for ITC but also for those who wish to obtain the benefits of such a wide and deep marketing and distribution capability. This network carries the potential to catalyse rural transformation by enhancing productivity and incomes, even as it creates a source of sustainable shareholder value.

NOTES ON SUBSIDIARIES

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

Surya Nepal Pvt. Limited

The Nepalese GDP grew at 3.6% during the year ended 31st Ashad, 2061 against a growth of 2.3% in the previous year. Operating conditions continued to be challenging in view of insurgency and internal disturbances, which caused supply chain disruptions due to unprecedented blockades and bandhs as well as threats to key personnel involved in distribution.

On the 4th of August, 2004, the alleged Maoist aligned – All Nepal Federation of Trade Unions issued an ultimatum to a few companies in Nepal (including Surya Nepal Pvt. Ltd.) to cease operations for an indefinite period. Considering the far-reaching ramifications including security concerns, the company was compelled to suspend operations with effect from 17th August, 2004 till 16th September, 2004. It is a testimony to the quality of the company's leadership and human resources, that setbacks during this period were quickly recouped.

Despite difficult trading conditions as enumerated above, the company's strategies of proactively managing its supply chain, continuously adding value to brands together with consistently improving productivity has resulted in growth in Sales and Profit After Tax. For the twelve-month period ending 13th March, 2005, sales crossed Nepalese Rs.402 crores while Profit After Tax touched Nepalese Rs.42 crores.

In keeping with its endeavour to provide variety to consumers and thereby add value to brands, the company launched 'Shikhar Filter Kings' – the Lights variant of the largest selling King-sized cigarette in Nepal. Further, the 'Shikhar Select' brand was also launched in the internationally acceptable round edge pack. The superior value proposition of the company's brands enabled consolidation of leadership in the Nepalese market inspite of the entry of major international brands in the King-size segment.

In-house manufacture of filter rods continued during the year and further initiatives were undertaken to manufacture high porosity filters for Lights brands.

Exports of high-quality garments continued and till March 2005 the company had exported nearly 2.3 million pieces to India.

The company adopted a Corporate Governance Policy during the year based on the concepts of transparency, accountability, integrity and value creation.

During the year, the Shareholders of Surya Nepal approved a bonus issue of 5 shares for every share held resulting in increase in the paid-up share capital

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from Nepalese Rs.5.6 crores to Nepalese Rs.33.6 crores. The company declared a Dividend of Nepalese Rs.30 per equity share for the year ended 32nd Ashad, 2060 on the increased equity share capital.

Srinivasa Resorts Limited

Consequent to the amalgamation of ITC Hotels Limited with the Company, Srinivasa Resorts Limited – a subsidiary of ITC Hotels Limited, became a subsidiary of your Company.

During the financial year ended 31st March, 2005, the company recorded a turnover of Rs.53.66 crores (previous year – Rs.45.21 crores) and a profit before tax of Rs.18.38 crores (previous year – Rs.13.04 crores). Net profit stood at Rs.12.21 crores (previous year – Rs.8.31 crores) after providing for income tax of Rs.6.17 crores (previous year – Rs.4.73 crores).

The Board of Directors has recommended a dividend of Rs.1.50 per equity share for the year ended 31st March, 2005.

The company's hotel viz., "ITC Hotel Kakatiya Sheraton and Towers" maintained its leadership position in Hyderabad.

The company received the 'Water Conservation Award' during the year on the occasion of 'World Water Day' for significant water conservation and recycling of treated waste water. The award was given jointly by CII-Green Business Centre and the Hyderabad Metropolitan Water Supply and Sewerage Board.

Fortune Park Hotels Limited

Consequent to the amalgamation of ITC Hotels Limited with the Company, Fortune Park Hotels Limited – a wholly owned subsidiary of ITC Hotels Limited, became a wholly owned subsidiary of your Company.

During the financial year ended 31st March, 2005, the company recorded a turnover of Rs.311.00 lakhs (previous year – Rs.245.96 lakhs) and earned a net profit of Rs.69.35 lakhs (previous year – Rs.47.19 lakhs) after providing for income tax of Rs.40.70 lakhs (previous year – Rs.26.37 lakhs).

The Board of Directors of the company has recommended a dividend of Rs.1.50 per equity share for the year ended 31st March, 2005.

The company, which caters to the mid market segment, manages fourteen operating hotels. Another 5 hotels have signed up and are expected to become operational progressively.

The company won the Galileo Express Travel and Tourism Award for the year 2004-05 for the Best First Class Hotel Brand in the country in the mid-market segment.

Bay Islands Hotels Limited

Consequent to the amalgamation of ITC Hotels Limited with the Company, Bay Islands Hotels Limited – a wholly owned subsidiary of ITC Hotels Limited, became a wholly owned subsidiary of your Company.

During the year 2004-05 the company earned an income of Rs.44.21 lakhs (previous year – Rs.46.10 lakhs) and a net profit of Rs.24.91 lakhs (previous year – Rs.23.91 lakhs) after providing for income tax of Rs.14.10 lakhs (previous year – Rs.17.13 lakhs). The Board of Directors of the company recommended a dividend of Rs.20.00 per equity share of Rs.100/- each for the year ended 31st March, 2005.

Russell Credit Limited

During the year, the company earned a profit after tax of Rs.12.85 crores.

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

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BFIL Finance Limited

The company continues to focus its efforts towards recoveries through negotiated settlements including property settlements and pursuing legal cases against various defaulters. During the year the company realised Rs.312.50 lakhs against sale of property and Rs.396 lakhs against sale of shares. The collections were largely utilised for repayment of debts comprising inter corporate deposits, non-convertible debentures, bill rediscounting, fixed deposits, loans from financial institutions and banks. During the year, the company concluded negotiated settlements with State Bank of India, State Bank of Hyderabad, The Karur Vysya Bank and Vijaya Bank. In addition, a negotiated settlement was also concluded towards claims of a creditor against the company. As on 31st March, 2005, all external liabilities of the company have been settled.

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

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

Landbase India Limited

As reported last year, Landbase India Limited (Landbase) became a wholly owned subsidiary of your Company with effect from 26th May, 2004, consequent to the acquisition of the balance 30% shareholding in the company from the other shareholders.

As reported in the Report of the Directors in previous years, development of golf based resorts present attractive long-term prospects in view of their growing popularity the world over. Landbase's expertise in golf course management combined with service competencies of your Company's hotels business can be effectively leveraged to realise the growth potential in this segment.

ITC Infotech India Limited

Despite the controversy surrounding the subject of outsourcing, the year 2004-05 marked a growing acceptance of the global delivery model in the worldwide trade in IT services. With the ever increasing availability of international bandwidth and powerful workflow management software, it is now possible to disaggregate IT and other business processes, execute the sub-processes in multiple

centres around the world and re-assemble the same, in near-real time, at another location. This is driving vendors and customers to redefine the sources of value creation in this industry.

There is widespread acceptance of the benefits of offshore outsourcing based on the significantly favourable economics of total transaction cost. Leveraging the evolving dynamics of offshore outsourcing, Indian IT-ITES vendors have successfully executed the offshore delivery model to achieve sustained growth in service exports over the last several years and have established India as the most preferred offshore destination for global sourcing of services.

ITC Infotech India Limited, together with its wholly owned subsidiaries in the US and UK (ITC Infotech) has taken advantage of the opportunity and has grown to employ a one thousand strong team of software engineers. The business has obtained the BS7799 certification – an endorsement of the quality of its information security management and business continuity systems. The 'Fortune' magazine, in its recent edition, has featured ITC Infotech as a good example of a company which has gained from the outsourcing phenomenon. Likewise, in a survey conducted jointly by Managing Offshore and NeoIT, the business was rated as one of the top 100 viable global offshore service providers.

ITC Infotech has consolidated its market standing in the segments of Product Lifecycle Management and Customer Relationship Management, where it has gained recognition of industry analysts as a leading Tier 2 Indian vendor of software services. In the course of the year, the business entered the SAP, Engineering Design and Infrastructure Management spaces and acquired several marquee customers.

The consolidated financials of the ITC Infotech Group including its joint venture company, CLI3L e-Services Limited (CLI3L) reflect:

- (a) continued improvement in the performance of the IT services business, and a steady improvement in revenues from existing clients, leading to a robust topline growth, and
- (b) the success of CLI3L, the joint venture between the company and ClientLogic Operating Corporation, USA for IT enabled services (ITES).

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(Rs. Crores)

Consolidated Financials	Year ended 31/03/05	Year ended 31/03/04
Revenue	250.60	140.71
EBITDA	27.29	3.85
PAT	14.10	(3.48)

During the year under review, revenues of ITC Infotech India Limited grew by nearly Rs.51 crores to Rs.130 crores (previous year – Rs.79 crores). Notably at 65%, the growth in the current year is 3 points higher than that achieved in the previous fiscal. This revenue growth has been achieved with only a 53% increase in the cost base.

During the year under review, ITC Infotech Ltd, UK, a wholly owned subsidiary of the company, has turned in a robust performance and registered a turnover of GBP 13.58 million (previous year – GBP 7.75 million) and a net profit of GBP 1.09 million (previous year – GBP 0.33 million). ITC Infotech Ltd, UK declared a total dividend of 100% i.e. GBP 1.00 per Ordinary Share of GBP 1.00 each, aggregating GBP 685,815 for the financial year ended 31st March, 2005.

As stated in this Report last year, the company had invested USD 2.15 million in the equity share capital of ITC Infotech (USA), Inc. (I2A), a wholly owned subsidiary, in terms of an approval from the Reserve Bank of India to invest USD 2.5 million in the equity capital of I2A. During the year under review, the company invested the balance amount of USD 0.35 million in the equity share capital of I2A by subscribing to 3,500 Common Shares without par value for cash at USD 100 each. During the year, ITC Infotech (USA), Inc. registered a turnover of USD 4.92 million (previous year – USD 3.87 million) and a net loss of USD 0.49 million (previous year – USD 0.36 million).

CLI3L has rapidly expanded and consolidated its operations and has recorded a strong operating and financial performance during the year under review. The company now employs about 2200 agents and has a capacity of about 1400 seats. Revenues have multiplied almost 3 times to cross the Rs.100 crores milestone. Post-tax profit margins at 21%, were robust and compare favourably with the industry. These results reflect the growing customer confidence in the company's service delivery processes and the quality of its talent base and infrastructure.

Strong relationships, a global delivery footprint, diversity of services, effective management of scale and deep domain understanding would be the key differentiators in the highly competitive global outsourcing industry. The business will continue to focus on strategic capability building in these areas towards attaining superior market standing.

ITC Global Holdings Pte. Ltd.

Since 8th November, 1996, the Judicial Managers have been conducting the affairs of ITC Global under the authority of the High Court of Singapore.

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

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

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have, instead filed a Writ against the Company before the Singapore High Court claiming approximately USD 18.10 million from your Company. After obtaining suitable legal advice, your Company has filed an appropriate application for the dismissal of the Writ, which is pending.

The High Court of Singapore had ruled that “the Company (i.e. ITC Global) is not required to conduct any audit of the Company during the period of judicial management of the Company.” As a consequence of the aforesaid Order, as in the previous years, your Company is not in a position to consolidate the accounts of ITC Global and its subsidiaries for the year ended 31st December, 2004. In terms of the approval received from the Central Government granting exemption from the provisions of Section 212(1) of the Companies Act, 1956, your Company shall, as soon as the accounts of ITC Global are received, circulate the same to the Members of the Company.

NOTES ON JOINT VENTURES

ITC Filtrona Limited

ITC Filtrona Limited maintained its market leadership in the Indian cigarette filter industry with nearly 60% value share. Gross Sales for the year ended 31st December, 2004 at Rs.76.72 crores represented a growth of 11.2% over the previous year. Pre-tax Profit increased by 9.6% to Rs.7.28 crores. The Board of Directors of the Company recommended a dividend of 100% for the year against 50% in the previous year.

The company recorded significant growth in exports with volumes touching 416 million units during the year against 48 million in 2003-04. This includes 60 million units of specialty flavour filter rods.

The company continues to partner the Indian Cigarette industry by supporting product development through value additions and continuous improvements in product quality. The Company is progressing plans to invest in state-of-the-art product technologies with a view to providing unique solutions to the Cigarette industry. Technologically, the Company further strengthened its position by developing machinery, components and processes, which are model best practices in the Filtrona group.

King Maker Marketing

King Maker Marketing Inc. (KMM), a Company registered in the State of New York, USA, has provided a thrust to your Company's export initiatives in the US Tobacco and FMCG market. In addition, KMM provides Market Research Services giving short term and long term perspectives for future business directions.

In respect of the Tobacco Business, KMM is a signatory to the Master Settlement Agreement (MSA) and in accordance contributes to the escrow fund established under this Act. Trading conditions continue to be challenging with multinational companies resorting to higher discounts in order to counter unfair pricing by non-participating manufacturers, who do not contribute to the escrow fund. Despite this high level of competition, KMM registered a growth of 13% in Net Sales on an annualised basis, as compared to the previous year.

The consolidated accounts of your Company reflect the financial performance of KMM for a 14 month period ending 31st March, 2005, to enable alignment with your Company's financial year.

Maharaja Heritage Resorts Limited

Consequent to the amalgamation of ITC Hotels Limited with the Company, Maharaja Heritage Resorts Limited – a joint venture of ITC Hotels Limited and Marudhar Hotels Private Limited, became a joint venture of your Company.

Maharaja Heritage Resorts Limited currently has 35 properties operating under the “WelcomHeritage” brand.

REAL ESTATE

Your Company made significant progress during the year towards redeeming a major portion of the investments in real estate in the form of upfront settlement and future inflows secured against bank guarantees. Efforts are underway to redeem the balance investments progressively.

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

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that provides assurance on the efficiency of operations and security of assets.

Your Company's well established internal audit processes, both at business and corporate levels, continuously monitor the adequacy and effectiveness of the internal control environment across the various businesses and the status of compliance with operating systems, internal policies and regulatory requirements. It also assists in the formulation of major risk management policies. 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 also reviews the quality of planning and execution of all ongoing projects involving significant expenditure to ensure that project management controls are adequate to yield 'value for money'.

The Audit Committee of your Board met nine times during the year. It reviewed 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

The global hunt for talent at Indian campuses notwithstanding, your Company has successfully managed to attract, retain and nurture talent of the highest quality. This has been made possible by the challenging opportunities ITC offers: to work in globally benchmarked manufacturing facilities, to shape and create some of India's most valuable brands and to gain cross-functional and cross-business exposure in an enabling and empowering environment that at once nurtures and challenges their ability and creativity.

Your Company's human resource management systems and processes are designed to create a responsive, market-focused, customer-centric culture and enhance organisational vitality. Your Company's powerful strategy of energising and empowering its managers by building and nurturing a system of distributed leadership has paid rich dividends. Today, your Company's businesses are being managed by a team of world class leaders who inspire and sustain a culture of thought leadership, learning and innovation and excellence in execution.

It is your Company's belief that the competence and commitment of its people are the key drivers of competitive advantage. The collaborative spirit of partnership across all sections of employees has resulted in significant enhancement in quality and productivity.

Your Company's aspiration to create enduring value for society and the nation provides the motive force for its employees to enhance value creation for the shareholders on a sustainable basis. Your Company salutes the unstinting contribution and enterprise of its nearly 20,000 world class employees in realising the Company's vision.

SUSTAINABILITY – CONTRIBUTION TO THE TRIPLE BOTTOM LINE

Your Company's commitment to contribute to the development and regeneration of the nation's social and environmental infrastructure is growing in strength with every passing year.

In February 2005 your Company released its first comprehensive 'Sustainability Report' in accordance with internationally accepted Global Reporting Initiative guidelines. The report details the Company's economic, social and environmental performance geared towards creating sustainable value for all its stakeholders.

Your Company's uncompromising dedication to internationally benchmarked 'beyond compliance' performance has guaranteed that all its units remain far ahead of the field in safety, occupational health and environmental performance. **We report with immense pride that all manufacturing units of your Company have received OHSAS 18001 accreditation during the year, while all manufacturing units and large hotels have also been accredited with ISO 14001.** Both bear testimony to your Company's impeccable allegiance to safety, occupational health and environmental protection.

ITC retained its enviable position of a water-positive company for the third successive year, thanks to its water-harvesting efforts within its units and in several moisture-stressed districts of the country. The next target of your Company is to become a carbon-positive corporation. Significant energy conservation measures, use of environmentally superior fuels and carbon sequestration through large-scale agro-forestry programmes are all steps towards achieving this

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goal within the next couple of years. Your Company had sequestered half of all its carbon dioxide emissions by 2004-05. Finally, in response to the growing menace of large solid waste landfills degrading productive land and polluting aquifers, ITC has embarked on a unique initiative to either recycle all wastes from its operations within the Company or identify them as raw material for others. The strategic vision behind these policies and the dedication with which these are implemented by the employees have positioned your Company as a leader in this field. While a full listing of the certifications and awards is available elsewhere in this report, mention must be made of two significant achievements. One, your Company's mill at Bhadrachalam, the only producer of elemental chlorine free pulp and paperboards in the country, was declared the 'Greenest and environmentally most friendly' paper mill in India by no less an institution than the Centre for Science & Environment. Two, **the ITC Centre in Gurgaon has been certified as the largest platinum rated building in the world by the US Green Building Council – Leadership in Energy & Environmental Design (USGBC – LEED).**

The strides made in the social sector have been no less significant. Your Company is engaged in battling the scourge of endemic poverty and deprivation in some of the most arid and under-developed parts of the country where a large number of our farmers reside. The thrust of the Company's social sector investments, christened 'Mission Sunehra Kal', is in three areas: (a) natural resource management, which includes wasteland, watershed and agriculture development; (b) sustainable livelihoods, comprising genetic improvement in livestock and women's economic empowerment; and (c) community development, with focus on primary education and health and sanitation. Starting with projects in Karnataka and Andhra Pradesh in 2000-01, your Company's social development projects today are spread over the states of Andhra Pradesh, Karnataka, Tamil Nadu, Madhya Pradesh, Uttar Pradesh and Bihar.

Under the Social Forestry Programme for wasteland development, your Company has so far planted nearly 19 million saplings over 4,500 hectares in 224 villages, covering 6,400 poor households. The collaboration between ITC and the Government of Andhra Pradesh under the aegis

of the 'Velegu' programme was successfully initiated, paving the way for a great leap forward in the coming years. The year also witnessed the successful validation of the social farm forestry model of the Company. Poor tribal households which harvested their plantations supplied the raw material to your Company's paperboards business, earning, in the process, incomes they could not have dreamt of in their life times. Most importantly, all have deposited a proportion of their earning with the 'sanghas' to create village development funds.

The soil and moisture conservation programme, designed to assist our farmers in identified moisture-stressed districts, witnessed a sharp rise in its coverage during the year. To date, nearly 550 water-harvesting structures provide critical irrigation to about 8,000 hectares. As part of its policy to promote integrated water management solutions to Indian farmers, your Company did not stop merely at harvesting water. It has taken the next crucial step of ensuring efficient usage of water through interventions aimed at improving farm productivity, promoting group irrigation projects and demonstrating the use of sprinkler sets. Sustainable agricultural practices received a major boost with your Company's promotion of organic fertilisers through vermi-composting and 'Nadep' technology.

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 improvements of cattle through artificial insemination to produce high-yielding cross-bred progenies has been given special emphasis because it reaches out to the most impoverished and has the potential to pull them out of poverty. Cattle development centres already cover more than 600 villages, providing integrated animal husbandry services to more than 11,000 milch animals. The initiative for the economic empowerment of women is the second such programme that needs to be highlighted. Based on the belief that women, armed with extra income, are the best frontline development cadres, business opportunities are created for them for self-employment and sustainable incomes. More than 2,000 women entrepreneurs have been assisted so far.

In a befitting recognition of its contribution to the 'triple bottom line', your Company was awarded

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the prestigious Golden Peacock Global Award for Corporate Social Responsibility in emerging economies for 2005 by the World Council for Corporate Governance for the unique e-Choupal and social & farm forestry initiatives.

The advances made by your Company towards contributing to India's sustainable development goals have been enabled by your Company's partnerships with some of the globally renowned NGOs like Baif Development Research Foundation, Sewa-Bharat, Dhan Foundation, Srijan, Pratham and Janani, to name a few. These partnerships, which combine the best in class management practices of your Company with the development experience and mobilisation skills of the NGOs, will continue to bring innovative grass-roots solutions to some of India's most challenging problems of development.

TSUNAMI RELIEF

In keeping with its commitment to being 'Citizen First', your Company responded swiftly to the tsunami disaster by contributing Rs.3 crores to the Prime Minister's Relief Fund. This gesture was supplemented with a further contribution of your Company's products (160000 garments and 22000 Kgs. of biscuits and atta) as relief material for the tsunami victims in Tamil Nadu. In coastal Andhra Pradesh, your Company's relief efforts were directed at rebuilding fishing boats and providing food and drinking water to the affected population. Additionally, your Company channelised the contribution of one day's salary by its employees through appropriate NGOs.

R&D, QUALITY AND PRODUCT DEVELOPMENT

With the increasing complexity and specialisation of each business and the accelerating need for bringing new products speedily to the market place, it is necessary to place your Company's R&D and product development initiative on a higher platform. Therefore a group R&D organisation has been set up at Bangalore to comprehensively focus on R&D relevant to each of the businesses and simultaneously facilitate group synergy in these areas. State-of-the-art pilot plants, testing laboratories, simulation equipment, etc. form part of the group R&D

infrastructure, some of which have received ISO: 17025 accreditation.

Your Company's manufacturing units operate on recognised ISO quality systems, alongwith product quality rating systems. **In addition, the Hazard Analysis Critical Control Points (HACCP) certification has been implemented in 12 third party manufacturing facilities for sourcing products for the Foods business. Certification is underway for the balance facilities.**

'Six Sigma' Quality customer service initiatives have been introduced in our Hotels and Lifestyle Retailing businesses while focused Total Productive Maintenance (TPM) activities are being pursued in the Paperboards & Specialty Papers business.

Regardless of the product, process excellence is critical to sustainable competitive advantage. Accordingly, an international quality rating system (IQRS) for Business Excellence, which rates key processes against international benchmarks, has also been introduced in your Company's various businesses.

EXCISE

In the Report and Accounts of the last eighteen years, your Directors have mentioned that a Show Cause Notice dated 27th March, 1987 was issued to your Company for alleged evasion of Excise Duty during the period from 1st March, 1983 to 28th February, 1987. The Notice proposed to demand a total amount of Rs.803.78 crores from your Company and its contract manufacturers.

As reported in the previous Report and Accounts, the Commissioner of Central Excise, Delhi, by an Order dated 29th December, 1995, confirmed a differential excise duty demand of Rs.681.54 crores against your Company and of about Rs.118 crores on seven contract manufacturers of your Company. Besides, he also imposed penalties on your Company, its six ex-Directors and the contract manufacturers. On appeal, the Customs Excise and Gold (Control) Appellate Tribunal (CEGAT), by an order dated 4th September, 1998 set aside the quantification of the duty demand against your Company. It also set aside the duty demand on the contract manufacturers and the penalties imposed on your Company, the ex-Directors and the contract manufacturers. It, however, remanded the matter to the Commissioner for re-quantification of your

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Company's duty liability. As already reported, during the pendency of the appeals in the CEGAT, your Company made a pre-deposit of an aggregate amount of Rs.350 crores between 30th April, 1996 and 1st January, 1997, in terms of a stay order dated 15th March, 1996 passed by the CEGAT.

Pursuant to the CEGAT's order dated 4th September, 1998, further appeals were filed in the Supreme Court by your Company and the Excise Department. At the stage of admission of the appeals, the Supreme Court, by an order dated 15th January, 1999 admitted your Company's appeal and the Department's appeal in respect of the issue of duty liability and penalty against your Company. The Court also admitted the Department's appeal in respect of the contract manufacturers, but limited it to the question of duty liability, if any, for a period of six months preceding the Show Cause Notice. The Court, however, dismissed the Department's appeal challenging the quashing of penalties imposed on the ex-Directors.

As reported in the Report and Accounts last year, the hearing on the appeals in the Supreme Court concluded in December 2003. By its judgement dated 10th September, 2004 the Supreme Court allowed your Company's appeal and dismissed the Excise Department's appeal. Soon thereafter, following this judgement, the Court also dismissed the Department's appeal in respect of the contract manufacturers. In March 2005, the Supreme Court also dismissed the Department's petitions for review.

After the Supreme Court pronounced the above judgement, the Government was required to return to your Company the amount of Rs.350 crores that was earlier deposited in compliance with the CEGAT's order dated 15th March, 1996. However, on 25th January, 2005 the President promulgated the Central Excise Laws (Amendment and Validation) Ordinance, 2005. The Ordinance retrospectively amended the definition of "sale price" as occurring in the relevant Excise notifications and, notwithstanding the other relevant provisions of the Central Excise Act, provided for the collection of any amount that may be due on the basis of the amended definition. Citing the Ordinance, the jurisdictional Excise authorities refused to return the deposit amount of Rs.350 crores, and demanded further amounts as mentioned in the Show Cause Notice / the Commissioner's order. Such demands were also made on the contract manufacturers.

Your Company, faced with this extraordinary situation, represented to the Government that the Ordinance worked unjust hardship on the Company, and requested that it be withdrawn. It was pointed out in the representations, that the Supreme Court judgement in favour of the Company was not given on any technical question, the Company did not unjustly benefit from the judgement, the demand for Rs.803 crores was confiscatory in that it resulted in the total excise duty for that period exceeding even the Company's total sales realisation, the demand was several times more than the net worth of the company during the relevant time, and it was also several times more than the combined profit-before-tax of about Rs.140 crores during that four-year period.

Subsequent to your Company's representations for the withdrawal of the Ordinance, followed by discussions with the Government, on 4th April, 2005 a Deed of Settlement was executed between your Company, represented by the Chairman, and the President of India, represented by the Secretary, Department of Revenue, Ministry of Finance. By this Deed of Settlement, your Company has waived its claim for the return of the deposit amount of Rs.350 crores, and the Government has agreed that the issue of any duty liability of your Company or its contract manufacturers pursuant to the Show Cause Notice dated 27th March, 1987 stands settled and closed. Meanwhile, the Commissioner of Central Excise, Delhi, had been assigned the responsibility of deciding on your Company's and the contract manufacturers' liability under the Show Cause Notice in light of the Ordinance. The Commissioner, by an order dated 5th April, 2005, took notice of the Deed of Settlement and closed the proceedings. It may be noted that the Ordinance lapsed on 8th April, 2005, and was not replaced by an enactment of Parliament.

A few days before the CEGAT passed its Order on 4th September, 1998 the Excise Department filed criminal complaints on 30th August, 1998 in the Economic Offences Courts at Meerut, Bangalore, Mumbai, Patna and Kolkata against the Company and the six ex-Directors on the basis of Order of the CCE, Delhi dated 29th December, 1995. These prosecutions are being contested by your Company and the individuals.

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On applications moved by the ex-Directors, the proceedings before the Bangalore, Kolkata and Meerut Courts have been stayed by the High Court of Karnataka, the Calcutta High Court and the Allahabad High Court respectively. By an Order dated 13th April, 2005, the High Court of Karnataka allowed the applications filed by the ex-Directors for quashing the criminal proceedings pending before the Economic Offences Court, Bangalore.

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

Rs.8.29 crores under the DG's Order was dropped by the Commissioner of Central Excise, Patna vide his Order dated 20th September, 2001.

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

As mentioned in the 1997 Report of the Directors, the Commissioner of Central Excise, Delhi, passed orders directing the Departmental Authorities to finalise the assessments in respect of Bangalore, Parel and Munger factories for the pre-March 1983 period. On an Appeal filed by your Company against an Order of the Commissioner, rejecting the Company's contentions on the issue of maintainability, the CEGAT, Chennai, by its judgement dated 13th January, 2000 upheld the contention of your Company and set aside the Bangalore Show Cause Notice for Rs.143.22 crores with the direction, inter alia, that the allegations made therein should be considered while finalising the assessments in respect of the Bangalore factory, which has been your Company's contention all along. Though the Department filed an Appeal in Supreme Court against the Order of the CEGAT, Chennai and the same was pending, pursuant to the order of the CEGAT Chennai, the Assistant Commissioner, Central Excise, Bangalore, by his Order dated 26th July, 2001 demanded a differential duty of about Rs.583 crores for the cigarettes cleared from the Bangalore factory during the period 1st October, 1975 to 28th February, 1983 and this demand also took into account the effect of the DG's order which culminated in the Order dated 22nd November, 1999 passed by the CCE (Appeal), Bangalore. On an appeal filed by your Company, the Commissioner (Appeals), by an Order dated 30th August, 2002, set aside the said Order and

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Demand dated 26th July, 2001. On requantification in accordance with the said Appellate order, the Department has determined that your Company has made excess duty payment of Rs.3.76 crores. The Department's Appeal against the Order dated 13th January, 2000 passed by the CEGAT, Chennai was dismissed by the Supreme Court by its Order dated 6th March, 2003 as infructuous. The Department filed another appeal after a delay of 677 days before CESTAT, Bangalore against the order of the Commissioner (Appeals) dated 30th August, 2002. This appeal of the Department was dismissed by the CESTAT by an order dated 2nd February, 2005 on grounds of delay.

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

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

equivalent amount already paid by your Company pursuant to the DG's Order. By the said Order, a penalty of Rs.5 lakhs was imposed on your Company. The Company filed an Appeal before the CEGAT, Mumbai (subsequently transferred to the CESTAT, Delhi) against the said Order dated 30th September, 1999, and this appeal was allowed by the CESTAT, New Delhi by a judgement dated 18th June, 2004 which disposed certain other appeals as mentioned below.

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

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

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above, the Department has now filed a belated appeal against the order dated 18th June, 2004 of CESTAT, before the Supreme Court, which is pending.

With respect to cigarettes and smoking mixtures cleared from the Munger factory, proceedings for finalisation pursuant to remand resulted in the Deputy Commissioner's Orders dated 29th August, 2002 and 8th October, 2002 demanding Rs.13.09 crores and Rs.1.73 crores respectively and was confirmed by the Commissioner (Appeals), Patna vide his orders dated 22nd December, 2004, against which the Company has preferred appeals before CESTAT, Kolkata, which is pending.

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

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

Although your Company in a spirit of settlement, paid the differential Excise Duty that arose out of the Order of the Director General as early as in March 1987, and although the Excise Department's aforesaid Demands had either been quashed or stayed, the Collectorates in Meerut, Patna and Bangalore, during the year 1995, filed criminal complaints in the Special Court for Economic Offences at Kanpur, Patna and Bangalore, charging your Company and some of its Directors and employees who were employed with your Company during the period 1975 to 1983 with offences under the Central Excise & Salt Act, 1944, purportedly on the basis of the Order of the Director General dated 10th April, 1986. Your Directors are advised that no prosecution would lie on the basis of the aforesaid Order of the Director General dated 10th April, 1986. In fact, the Special Court in Kanpur, which initially took cognisance of the complaints, subsequently, on applications filed by the individuals concerned, discharged them. Similar applications were filed by the individuals in the Special Court in Patna, have been dismissed by the Special Court on 20th November, 2004 and appropriate

applications are being filed before the High Court of Patna, challenging the said order. On applications moved by the individuals concerned, the Karnataka High Court, by its Order dated 31st August, 2001 quashed the complaint in so far as the said individuals are concerned. Following the Order passed by the Karnataka High Court, the Magistrate has quashed the Complaint by his Order dated 28th September, 2001. The Supreme Court has since dismissed an appeal filed by the Department against the order of the Karnataka High Court dated 31st August, 2001.

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

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

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

You are aware that your Company had secured from the District Court of New Jersey, 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 Report of the Directors, though the Company has written off the exports dues in foreign exchange from the Chitalias with the approval of the Reserve Bank of India, your Company continues with its recovery efforts in the Indian suit against the Chitalia associates. The suit is in progress.

In the proceedings initiated by the Enforcement Directorate, pursuant to the Company's request for return of non-relied documents in possession of the Enforcement Directorate, the Directorate is presently in the process of returning non-seized non-relied documents. Meanwhile, in respect of some of the

REPORT OF THE DIRECTORS

show cause memoranda issued by the Directorate, after hearing arguments on behalf of the Company, the appropriate authority has passed orders in favour of the Company, and dropped those memoranda.

Meanwhile, the prosecutions launched by the Enforcement Directorate against the Company has been stayed by the Calcutta High Court.

TREASURY OPERATIONS

During the year, your Company's treasury operations were focused on management of the temporary surplus liquidity and proactively managing its foreign exchange exposures. These activities were undertaken within a well defined risk management framework. Given the volatility of the Rupee-Dollar parity during the year, the average forex exposure in excess of USD 150 million was optimally managed through judicious hedging based on close monitoring of market movements. In line with the Board directive, the temporary surplus liquidity was managed effectively to achieve the twin objectives of capital protection and optimisation of returns. As a result, this liquidity was deployed mainly in debt mutual funds and tax free bonds. In view of the prevailing interest rate scenario during the year, investments were made mostly in liquid and short term debt schemes of Mutual Funds. Commensurate with the large size of liquidity under management, treasury operations were backed by appropriate control mechanisms, including an independent check of 100% of the transactions by your Company's Internal Audit function.

TAXATION

As mentioned in the Report of the Directors of earlier years, the Company had obtained stay orders from the Hon'ble Calcutta High Court in respect of the notices served by the Income Tax Department 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 notices from the Income Tax Department 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. This status also remains unchanged.

PUBLIC DEPOSITS

As at 31st March, 2005, your Company had Fixed Deposits of Rs.28.62 lakhs. No fresh / renewal of deposits were accepted during the financial year. There was no failure to make repayments of Fixed Deposits on maturity and the interest due thereon in terms of the conditions of your Company's Schemes. Reminders have been sent to 243 persons, who did not claim repayment of their deposits, which had become due, amounting to Rs.28.62 lakhs.

INVESTOR SERVICE CENTRE

The Investor Service Centre of your Company, manned by a dedicated team of professionals, continuously strives to improve its high quality services through constant upgradation of its infrastructure and systems.

Your Company is now among the few companies in the country to have obtained the coveted Quality Management System Certification ISO 9001: 2000 for its investor servicing. This certification testifies to the exemplary standards that your Company's Investor Service Centre has achieved in complying with statutory and regulatory requirements and redressing investor grievances.

DELISTING OF ORDINARY SHARES FROM MADRAS STOCK EXCHANGE

Pursuant to the approval of the Members at the 92nd Annual General Meeting held on 25th July, 2003, the Ordinary Shares of your Company were delisted from the Madras Stock Exchange during the year. As reported last year, the Company's Ordinary Shares were also delisted from Stock Exchanges at Ahmedabad, Bangalore, Cochin, Delhi, Hyderabad, Kanpur and Pune.

The Company's Shares continue to remain listed on the National Stock Exchange, Stock Exchange – Mumbai and the Calcutta Stock Exchange.

DIRECTORS

Mr. John Benedict Stevens resigned as Non-Executive Director of your Company with effect from 21st January, 2005.

Your Directors would like to record their appreciation of the services rendered by Mr. Stevens.

REPORT OF THE DIRECTORS

Mr. John Patrick Daly was appointed by the Board of Directors as Additional Non-Executive Director of your Company with effect from 21st January, 2005.

By virtue of the provisions of Article 96 of the Articles of Association of the Company and Section 260 of the Companies Act, 1956, Mr. Daly will vacate office at the ensuing Annual General Meeting of your Company and has filed his consent to act as Director of the Company, if appointed. The Board of Directors of your Company at its meeting held on 27th May, 2005, recommended for the approval of the Members, the appointment of Mr. Daly as Non-Executive Director of your Company, liable to retire by rotation, for a period not exceeding five years from the date of the ensuing Annual General Meeting of the Company.

Mr. Krishnamoorthy Vaidyanath was appointed as Director and also Wholetime Director of your Company from 17th January, 2001, and his present term of appointment will expire on 16th January, 2006. The Board of Directors of your Company at its meeting held on 27th May, 2005 recommended for the approval of the Members, the re-appointment of Mr. Vaidyanath as Director, liable to retire by rotation, and also as Wholetime Director of the Company for a further period not exceeding five years from 17th January, 2006.

Notices have been received from Members of the Company under Section 257 of the Companies Act, 1956 for the appointment / re-appointment of Mr. Daly and Mr. Vaidyanath as Directors. Appropriate resolutions seeking your approval to their appointment / re-appointment are appearing in the Notice convening the 94th Annual General Meeting of the Company.

In accordance with the provisions of Article 91 of the Articles of Association of the Company, Messrs. Pillappakkam Bahukutumbi Ramanujam, Charles Richard Green, Krishnamoorthy Vaidyanath and Yesh Pall Gupta will retire by rotation at the ensuing Annual General Meeting of your Company and, being eligible, offer themselves for re-election. Your Board of Directors has recommended their re-election.

AUDITORS

The Auditors, Messrs. A. F. Ferguson & Co., retire at the ensuing Annual General Meeting and, being

eligible, offer themselves for re-appointment. Since not less than 25% of the subscribed Share Capital of your Company is held collectively by Public Financial Institutions, the re-appointment of Auditors is being proposed as a Special Resolution in accordance with Section 224A of the Companies Act, 1956.

EMPLOYEE STOCK OPTION SCHEME

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

Pursuant to the Scheme, 8,57,208 Options were granted during the year to the eligible employees of your Company and those of the Company's subsidiary companies. During the year, 5,42,478 Options were exercised and equivalent number of Ordinary Shares were issued and allotted under the Scheme. The Company's Auditors, Messrs. A. F. Ferguson & Co., have certified that the Scheme has been implemented in accordance with the Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 and the resolutions passed by the Members in this regard.

Details of the Options granted up to 31st March, 2005 are set out in the Annexure to this Report, as required under Clause 12 of the Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999.

DIRECTORS' RESPONSIBILITY STATEMENT

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

- a) followed in the preparation of the Annual Accounts, the applicable accounting standards with proper explanation relating to material departures if any;
- b) selected such accounting policies and applied them consistently and made judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of

REPORT OF THE DIRECTORS

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

OTHER INFORMATION

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

FORWARD-LOOKING STATEMENTS

This Report contains forward-looking statements that involve risks and uncertainties. When used in this Report, the words “anticipate”, “believe”, “estimate”, “expect”, “intend”, “will” and other similar expressions as they relate to your Company and / or its businesses are intended to identify such forward-looking statements. Your Company

undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise. Actual results, performances or achievements could differ materially from those expressed or implied in such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements that speak only as of their dates. This Report should be read in conjunction with the financial statements included herein and the notes thereto.

CONCLUSION

Your Company’s Board and employees are inspired by their vision of sustaining ITC’s position as one of India’s most valuable companies, creating enduring value for all stakeholders, including the shareholders and the Indian society. The realisation of this vision is anchored on your Company’s decidedly difficult strategy of creating multiple drivers of growth to sustain superior value creation over the short, medium and long terms. Each business within the portfolio is continuously engaged in upgrading strategic capability to effectively address the challenge of growth in the fast globalising Indian market, and over time in world markets. 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.

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

27th May, 2005
Virginia House
37 J L Nehru Road
Kolkata 700071
India

On behalf of the Board
Y.C.DEVESHWAR *Chairman*
K. VAIDYANATH *Director*

ANNEXURE TO THE REPORT OF THE DIRECTORS

Statement as at 31st March, 2005, 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) Options granted : 28,22,512 Options granted till 31st March, 2005, as follows:
- 8,57,208 Options granted in 2004, for the financial year 2003-2004, at an Exercise Price of Rs.880.45 per Option.
 - 9,99,115 Options granted in 2003, for the financial year 2002-03, at an Exercise Price of Rs.679.90 per Option.
 - 6,27,070 Options granted in 2002, for the financial year 2001-02, at an Exercise Price of Rs.617.90 per Option.
 - 3,39,119 Options granted in 2001, for the financial year 2000-01, at an Exercise Price of Rs.779.95 per Option.
- b) Pricing formula : Options have been granted at the closing market price of the Ordinary Shares of the Company on the National Stock Exchange of India Limited, on the date of grant of Options.
- c) Options vested : 9,48,902
- d) Options exercised : 7,09,443
- e) Total number of Ordinary Shares arising as a result of exercise of Options : 7,09,443
- f) Options lapsed : 1,74,459
- g) Variation of terms of Options : Nil
- h) Money realised by exercise of Options : Rs.48.53 crores
- i) Total number of Options in force : 19,38,610
- j) i. Details of Options granted to senior managerial personnel : As provided below

	Name	Designation	No. of Options granted during the financial year
1.	Y. C. Deveshwar	Chairman & Wholetime Director	40,888
2.	S. S. H. Rehman	Wholetime Director	19,421
3.	A. Singh	Wholetime Director	19,421
4.	K. Vaidyanath	Wholetime Director	15,333
5.	Y. P. Gupta	Non-Executive Director	6,814
6.	Ajeet Prasad	Non-Executive Director	6,814
7.	P. B. Ramanujam	Non-Executive Director	6,814
8.	B. Sen	Non-Executive Director	6,814
9.	Ram S. Tarneja	Non-Executive Director	6,814
10.	B. Vijayaraghavan	Non-Executive Director	6,814
11.	K. S. Vaidyanathan	Senior Vice President, Corporate Affairs	8,177
12.	A. Nayak	Executive Vice President, Corporate Human Resources	8,177
13.	R. Srinivasan	Divisional Chief Executive, PPD	8,177
14.	R. G. Jacob	Group Head, Research & Development	8,177
15.	B. B. Chatterjee	Executive Vice President & Company Secretary	4,906
16.	S. K. Ahluwalia	Vice President – Quality: Product Development & Housekeeping, HD	2,839
17.	S. M. Ahmad	Executive Vice President – Marketing, ITD	4,419
18.	M. R. Ahmed	Divisional Financial Controller, HD	2,839
19.	N. Anand	Divisional Chief Executive, HD	3,975
20.	L. N. Balaji	General Manager, Corporate Strategic Planning	3,032
21.	P. Banerjee	Executive Vice President – Finance & MIS, ITD	3,953
22.	S. Basu	Executive Vice President, Internal Audit	3,850
23.	M. Bhatnagar	Vice President – Finance, HD	2,839

Name	Designation	No. of Options granted during the financial year	
24.	K. C. Biddappa	Vice President – Marketing & R&D, ILTD	2,687
25.	A. Chand	General Manager – Marketing & Retail Operations, LRBD	3,338
26.	P. Chatterjee	Executive Vice President & Corporate Financial Controller	4,436
27.	C. Dar	Divisional Chief Executive, LRBD	4,293
28.	H. M. Dar	General Manager – Trade Marketing & Distribution, ITD	3,087
29.	C. S. Das	SBU Chief Executive, GGSB	3,160
30.	S. V. Dhalewadikar	Chief Scientist, ITD	3,066
31.	S. S. Dhawan	Vice President, HD	2,839
32.	P. Dhobale	Divisional Chief Executive, PSPD	4,415
33.	S. Dutta	General Manager, Corporate Accounts	2,494
34.	M. Ganesan	Vice President – Finance, ILTD	2,831
35.	D. Ganesh	General Manager, Product Development, ITD	3,537
36.	R. Gopal	SBU Chief Executive, Matches	2,431
37.	K. N. Grant	Divisional Chief Executive, ITD	8,177
38.	P. Gupta	General Manager, Corporate Taxation	3,569
39.	H. M. Jha	General Manager, Corporate Human Resources	2,839
40.	S. Kaul	General Manager – New Business Development, ITD	2,309
41.	S. Keshava	General Manager – Marketing (TQM), ITD	3,305
42.	S. Kumar	Vice President – HD	2,839
43.	N. Lakshminarayanan	Divisional Risk Officer, IBD	3,050
44.	B. N. Malhotra	Executive Vice President, Projects	4,272
45.	H. Malik	General Manager – Marketing, FD	2,945
46.	K. T. R. Nambiar	Vice President – Finance, PSPD	2,360
47.	R. S. Naware	Divisional Chief Executive, FD	4,681
48.	A. R. Noronha	Vice President – Technical, Projects & EHS, HD	2,839
49.	R. Parasuram	Vice President – Finance, ITD	3,444
50.	A. Pathak	General Manager – Finance, FD	3,621
51.	K. T. Prasad	General Manager – Human Resources, IBD	2,668
52.	N.V.S.S.V. Prasad	Vice President – Processing & Technology, ILTD	2,996
53.	K. V. Raghavaiah	General Manager, Corporate Human Resources	3,704
54.	A. K. Rajput	Vice President, Corporate Affairs	3,066
55.	G. M. K. Raju	SBU Chief Executive, PPB	2,942
56.	T. V. Ramaswamy	Executive Vice President – Technical & HR, ITD	4,559
57.	S. Rangrass	General Manager – Operations, ITD	3,746
58.	A. K. Rao	General Manager – Research & Development	3,204
59.	S. Janardhana Reddy	Divisional Chief Executive, ILTD	4,210
60.	S. C. Rustagi	Executive Vice President, Corporate EHS	3,666
61.	P. Sanyal	Vice President – Tribeni Operations, PSPD	2,126
62.	C. V. Sarma	General Manager – Finance, IBD	3,192
63.	S. C. Sekhar	Senior Executive Vice President, HD	3,407
64.	P. Sengupta	Vice President – Finance & MIS, LRBD	2,751
65.	K. Singh	General Manager – Snack Foods, FD	2,831
66.	S. K. Singh	Executive Vice President – Manufacturing, PSPD	3,598
67.	S. Sivakumar	Divisional Chief Executive, Agri Business	4,203
68.	R. Sridhar	General Manager – Human Resource, ITD	3,597
69.	B. Sumant	General Manager, FD	3,160
70.	K. S. Suresh	Company Solicitor	4,088
71.	P. K. Talwar	Executive Vice President – Finance, PSPD	3,598
72.	R. Tandon	Executive Vice President, Corporate Finance	4,117
73.	S. R. Tulasi	Vice President – Human Resources, PSPD	1,899
74.	S. Tyagi	General Manager – Retail Marketing, IBD	2,428
75.	S. H. Venkatramani	Head of Corporate Communications	2,504
76.	P. K. Verma	Executive Vice President, HD	2,839
77.	S. Wanchoo	General Manager – Brands, ITD	2,973

- ii. Any other employee who received a grant in : None
any one year of Options amounting to 5% or
more of the Options granted during that year.

- 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. 87.70
- l) (i) Method of calculation of employee compensation cost : The Company has calculated the employee compensation cost using the intrinsic value method of accounting to account for Options issued under the ITC Employee Stock Option Scheme. The stock-based compensation cost as per the intrinsic value method for the financial year 2004-05 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. 8.91 crores.
- (iii) The impact of this difference on profits and on EPS of the Company. : The effect of adopting the fair value method on the net income and earnings per share is presented below:
- | | |
|--|---------------------------------------|
| Net Income | Rs. in crores |
| As reported | 2191.40 |
| Add: Intrinsic Value Compensation Cost | Nil |
| Less: Fair Value Compensation Cost (Black Scholes model) | 8.91 |
| Adjusted Net Income | 2182.49 |
| Earning Per Share | Basic (Rs.) Diluted (Rs.) |
| - As reported | 87.97 87.70 |
| - As adjusted | 87.61 87.34 |
- 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. : The Company has granted Options at price which equals the market price of the Company's share on the date of grant.
- Weighted average exercise price : Rs.880.45
Weighted average fair value : Rs.219.43
- (In respect of Options granted during the year)
- n) A description of the method and significant assumptions used during the year to estimate the fair values of options. : The fair value of each Option is estimated using the Black Scholes Option Pricing model after applying the following key assumptions:
- | | |
|---|------------|
| (i) Risk-free interest rate | 4.89% |
| (ii) expected life | 2.63 years |
| (iii) expected volatility | 31.17% |
| (iv) expected dividend yield | 2.16% |
| (v) the price of the underlying share in market at the time of option grant | Rs.880.45 |

Expansion of abbreviations used:

ITD	- India Tobacco Division
ILTD	- Indian Leaf Tobacco Development Division
IBD	- International Business Division
HD	- Hotels Division
PSPD	- Paperboards & Specialty Papers Division
PPD	- Packaging & Printing Division
LRBD	- Lifestyle Retailing Business Division
FD	- Foods Division
PPB	- Packaging & Printing SBU
GGSB	- Greeting, Gifting & Stationery Business

On behalf of the Board

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

Kolkata, 27th May, 2005

ANNEXURE TO THE REPORT OF THE DIRECTORS

FOR THE FINANCIAL YEAR ENDED 31ST MARCH, 2005

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

Name	Age	Designation/ Nature of Duties	Gross Remuneration (Rs.)	Net Remuneration (Rs.)	Qualifications	Experi- ence (Years)	Date of Commence- ment of Employment	Previous Employment/ Position Held
1	2	3	4	5	6	7	8	9
Employed throughout the year and in receipt of remuneration aggregating Rs, 24,00,000/- or more per annum.								
Ahmad S.M.	51	Exec.V.P., Marketing (ITD)	34,24,948	15,10,490	M.A.	28	06.03.1980	ANZ Grindlays Bank, Plc.
Anand N.	48	Div. Chief Exec. (HD)	41,14,273	17,23,927	B.A. (Hons)	25	01.12.1979	Nil *
Banerjee P.	52	Exec.V.P., Finance & MIS (ITD)	26,14,712	11,66,309	B.Sc., M.Sc., F.C.A., F.I.C.W.A.	25	01.10.1982	Shaw Wallace & Co. Ltd., Financial Accountant
Basu S.	53	Exec.V.P., Internal Audit	26,03,620	10,81,259	A.C.A., F.C.A. (Eng. & Wales)	35	02.01.1978	Whinney Murray & Co., London, Audit Asst.
Bhandari R.	43	G.M., Sonar Bangla Sheraton (HD)	26,50,392	10,41,516	B.Com (Hons), Dipl. in Hotel Mgmt.	19	01.04.2002	Oberoi Grand, General Mgr.
Chand A.	40	G.M., Marketing & Retail Operations (LRBD)	25,57,878	11,46,330	B.A., M.B.A.	17	01.06.1988	Godfrey Philips (I) Ltd., Mktg. Exec.
Chandrasekhar S.	52	Sr. Exec. V.P. - Proj., Growth & Development (HD)	29,63,307	12,82,891	B.Sc., F.C.A.	27	01.01.1978	Nil *
Chatterjee B.B.	52	Exec. V.P. & Co. Secretary	34,50,367	16,35,114	B.Com.(Hons.), F.C.A., F.C.S., LL.B.	27	16.05.1983	Wacsge, Deputy Mgr.
Chatterjee P.	55	Exec.V.P. & Corporate Financial Controller	30,02,252	12,89,209	B.Com.(Hons.), F.C.A.	33	16.09.1974	Macneill & Barry Ltd., Accountant.
Dar C.	49	Div. Chief Exec. (LRBD)	31,61,072	14,30,062	B.Tech.(Hons.), P.G.D.M.	26	01.05.1981	Tata Eng. & Loco. Co., Shift Supvr.
Deveshwar Y.C.	58	Executive Chairman	2,17,21,855	98,86,525	B.Tech. (Mech)	36	11.02.1994	Air India Ltd., Chairman & M.D.
Dhalewadikar S. V.(Dr)	51	Chief Scientist, (ITD)	25,37,339	10,53,215	B.Sc., M. Sc., Ph.D	23	03.03.2003	Hindustan Lever Ltd., Development Mngr
Dhobale P.V.	49	Div. Chief Exec. (PSPD)	32,68,379	14,08,376	B.Tech. (Chem.)	28	01.07.1977	Nil
Fonseka N.	41	Exec. Pastry Chef, Maurya Sheraton (HD)	52,17,936	52,17,936	Dipl. In Hot Mgmt., Dipl. in Sugar Craft	23	15.06.2002	Pastry Chef. Sun Intl. Resorts, Mauritius
Ganesh D.	55	General Manager, Product Development (ITD)	25,21,074	10,85,095	B.E., D.M.S., Memb. Inst of Standards Engrs.	32	19.11.1979	Metal Box (I) Ltd., Foreman
Grant K.N.	47	Div. Chief Exec. (ITD)	50,75,691	20,45,562	B.A.(Hons.), M.B.A.	26	02.06.1980	DCM Ltd., Mgmt. Trainee
Gupta P.	48	G.M., Corporate Taxation	24,84,814	12,80,866	B.Com.(Hons.), A.C.A., D.M.A.(I.C.A.)	25	15.02.1989	Hindustan Lever Ltd., Group Audit Mgr.
Jacob R.G.	59	Group Head, Research & Development	50,31,603	20,48,034	B.Tech.	38	15.09.1967	Nil
Janardhana Reddy S.	56	Div. Chief Exec. (ILTD)	29,28,917	12,25,809	B.Sc.	32	27.12.1972	Nil
Kumar M.	52	V.P., Corporate Affairs	25,15,329	8,11,090	M.Com, LL.B.	24	01.04.1981	Nil
Lall U.	54	Services on Loan to Tobacco Institute of India	30,65,483	13,00,591	B.A.(Hons.)	33	03.01.1972	PARCO, Officer on Spl. Duty
Malhotra B.N.	59	Exec. V.P., Projects	28,73,032	12,31,773	B.Tech., M.Tech., P.G. Dip in Soil Mec.	33	17.03.1975	ITDC., Asst. Engr.
Malik H.	38	G. M. Marketing (FD)	27,02,057	10,51,361	B.A., M.B.A	16	01.06.1989	Nil
Marchetti B.	51	Chef - Italian Cuisine Maurya Sheraton (HD)	41,53,057	41,53,057	Specl. In Italian Cuisine	35	25.09.2001	Marchetti's Latin Restaurant
Mukerji A.K.	46	Services on Loan to Subsidiary Co.	27,89,056	12,40,821	B.Com.(Hons.), A.C.A.	23	01.11.1982	Gupta Chowdhury & Ghose, Jr. Officer

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

Name	Age	Designation/ Nature of Duties	Gross Remuneration (Rs.)	Net Remuneration (Rs.)	Qualifications	Experi- ence (Years)	Date of Commence- ment of Employment	Previous Employment/ Position Held
1	2	3	4	5	6	7	8	9
Naware R.S.	55	Div. Chief Exec. (FD)	43,91,861	15,78,861	B.Tech., M.M.S.	32	01.07.1974	Otis Elevator Co. (P) Ltd., Mgmt. Trainee
Nayak A.	53	Exec. V.P., Corporate Human Resources	51,38,897	22,99,602	B.Sc., P.G.D.I.R.	32	14.05.1973	Nil
Noronha A. R.	51	V.P., Tech., Proj. & EHS (HD)	24,14,583	9,97,264	B.E. (Elec)	27	01.05.1978	Nil *
Parasuram R.	46	V.P., Finance (ITD)	26,11,178	10,45,913	B.Com.(Hons.), A.C.A.	23	15.09.1982	Nil
Pathak A.	45	G.M., Finance (FD)	30,28,008	11,79,383	B.Com.(Hons.), F.C.A.	22	20.06.1983	Nil
Quing L. X.	43	Chinese Chef - Grand Maratha Sheraton (HD)	49,55,976	49,55,976	Spl. In Chin. Cooking, Cooking School of Beijing Tourism	22	16.04.1999	The Great Wall Sheraton, Beijing
Raghavaiah K.V.	58	G.M., Corporate Human Resources	26,87,939	11,86,899	B.A., P.G.D.P.M., I.R. & L.L.	39	01.09.1985	Coromandel Fertilisers Ltd., Asst. Mgr. (Pers. & Ind. Relations).
Rai R.K.	42	Senior Trader (IBD)	26,40,261	11,66,863	B.A.(Mktg.), P.G.D in Export & Imports	22	16.08.1990	Britannia Industries Ltd., Commercial Officer
Rajput A. K.	49	V.P., Corporate Affairs	25,23,390	10,14,822	B.Com., M.B.A.	29	10.04.1976	Nil
Raju G. M. K.	47	SBU Chief Executive, PPB	24,21,655	9,31,054	B. Tech	25	13.06.1980	Nil
Ramaswamy T.V.	53	Exec. V.P., Technical & H.R. (ITD)	34,09,771	14,70,491	B.E., M.M.S.	31	01.07.1974	Nil
Rangrass S.	44	G.M., Operations (ITD)	28,82,153	12,15,087	B.Tech.	23	01.07.1982	Nil
Rehman S.S.H.	61	Executive Director	1,09,28,594	46,30,017	Graduate, Indian Army	41	21.11.1997	ITC Hotels Ltd., Managing Director
Rustagi S. C.	56	Executive V.P., Corp EHS	27,07,580	11,83,233	B.Sc., P.G.D.(Engg)	33	10.02.1983	Sriram Fertilisers & Chemicals, Mech. Engineer
Sarma C. V.	43	G.M., Finance (IBD)	24,36,201	10,42,119	B.Com, A.I.C.W.A, A.C.A, A.C.S., P.G.D.M.	17	03.05.1993	Nil
Singh A.	60	Executive Director	1,04,17,046	45,44,227	B.Tech.(Hons.)	37	01.03.1968	Nil
Singh S.K.	48	Exec. V.P., Mftg. (PSPD)	28,56,355	11,52,715	B.Tech. (Chem)	28	26.06.1977	Nil
Sivakumar S.	44	Div. Chief Exec. , Agri Business	37,54,856	17,98,345	B.Sc., P.G. Dipl. In Rural Mgmt.	22	18.09.1989	Gujarat Co-op Oil Seeds Growers' Fed. Ltd., Mgr. Mkt.
Sridhar R.	46	G.M., HR (ITD)	24,45,916	10,25,451	B.Sc., P.G. Dipl. in P.M. & IR	23	01.06.1982	Nil
Srinivasan R.	53	Div. Chief Exec. (PPD)	50,57,066	20,83,821	B.Tech.(Hons.)	31	10.09.1974	Nil
Sumant B.	41	G.M. (FD)	25,71,657	10,75,366	B.E.	19	20.01.1986	Nil
Suresh K.S.	45	Company Solicitor	32,92,698	14,50,053	B.A., B.L., P.G.D.P.M., I.R. & L.W.	22	01.09.1990	Chambers of Sri C.S. Venkata Subramaniam, Advocate
Talwar P.K.	57	Exec. V.P., Finance (PSPD)	26,57,889	11,11,412	B.Sc., F.C.A.	33	26.06.1989	Nagarjuna Hire Purchase Ltd., President
Tandon R.	51	Exec. V.P., Corporate Finance	30,36,712	13,43,842	B.Sc., A.C.A.	27	01.01.1987	Triveni Handlooms Ltd., Finance Mgr. & Secy.
Vaidyanath K.	55	Executive Director	81,20,915	36,54,439	B.Com.(Hons.), M.B.A.	32	16.01.1976	Shriram Refrigeration Industries Ltd., Mgmt. Trainee
Vaidyanathan K.S.	65	Sr. V.P., Corporate Affairs	56,26,327	24,43,513	B.Com. (Hons.)	42	08.10.1982	T.V.S. Southern Roadways Ltd., Resident Mgr.
Verma P. K.	58	Exec. V.P., Operations (HD)	29,44,691	11,80,627	B.Sc. (Chem Tech), M.B.A. Dipl. in Hotel Mgmt.	33	31.01.1986	Oberoi Hotels, Exec. Asst. Mgr.
Verma S.	46	Services on Loan to Subsidiary Co.	25,62,337	12,31,532	B.E.	23	01.11.1981	Nil

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

Name	Age	Designation/ Nature of Duties	Gross Remuneration (Rs.)	Net Remuneration (Rs.)	Qualifications	Experi- ence (Years)	Date of Commence- ment of Employment	Previous Employment/ Position Held
1	2	3	4	5	6	7	8	9
Employed for a part of the year and in receipt of remuneration aggregating Rs. 2,00,000/- or more per month.								
Abouzaki S.	63	Manager, Lebanese Restnt, Maurya Sheraton (HD)	28,44,211	28,44,211	High School, Lebanon	35	20.12.2001	Maroush Restaurants
Bandopadhyay S.	40	Head of Corp. Treasury	25,47,955	14,09,576	B.Com (Hons), I.C.W.A A.C.A	19	17.05.1989	ICI (I) Ltd., Asst. Mgr Accounts
Choudhury K.	34	Mgr., Manpower Systems Development	2,23,225	1,78,169	B.A, M.A., PG Dip. In P.M.	8	01.06.1996	Nil
De Ashish	55	Vice President (PSPD)	20,67,761	6,94,114	B.Sc. (Chem), PGD - Pulp & Paper Tech	25	01.05.1979	Ballarpur Industries Ltd., V.P.- Operations
Dong D. J.	34	Chinese Chef - Sonar Bangla Sheraton (HD)	12,00,993	12,00,993	Spl. In Chin. Cooking, Cooking School of Beijing Tourism	13	24.11.2004	Sheraton Jumeirah Beach Resort & Tower, Dubai
George A.	58	Exec. Housekeeper (HD)	3,17,130	2,23,530	M.Sc. (Home Science)	24	15.05.1980	Hotel Centaur, Mumbai. Asst. Housekeeper
Mathew C.	36	Exec. Chef - Sonar Bangla Sheraton (HD)	22,10,699	22,10,699	Comml. Cookery Trade Course, Pastry Cooking	13	14.08.2000	Shangri La Hotel, Bangkok - Exec. Chef
Mukherjee S. N.	53	Chief Mgr., Materials (PSPD)	3,70,845	3,56,652	B.E. (Hons), P.G.D.M.,	30	24.06.1976	India Paper Pulp Co. Ltd., Chemical Engineer Trainee
Sarkar A. C.	64	Exec. V.P., Industry Affairs	12,59,499	8,33,554	B.A (Hons)	44	01.12.1960	Hindustan Steel Ltd., Graduate Apprentice
Suresh M.	43	Dist. Manager (ITD)	8,68,001	5,02,210	B.Com (Hons), Dip in Bus Mgmt., Dip in Sales & Mktg. Mgmt., PG Dip in PSIM	22	05.09.1990	Nil

Abbreviations denote :

ITD	:	India Tobacco Division
PPD	:	Packaging & Printing Division
PSPD	:	Paperboards & Specialty Papers Division
PPB	:	Packaging & Printing SBU
LRBD	:	Lifestyle Retailing Business Division
IBD	:	International Business Division
ILTD	:	Indian Leaf Tobacco Development Division
FD	:	Foods Division
HD	:	Hotels Division

* Previously employed with ITC Hotels Ltd., which has since merged with the Company with effect from March 23, 2005

Notes :

- Gross remuneration comprises salary, allowances, medical reimbursement, leave travel assistance, Company's contribution to provident, pension and gratuity funds, monetary value of other perquisites computed on the basis of the Income-tax Act and Rules, leave encashment and performance bonus, where applicable. With respect to those employed for a part of the year, such remuneration also includes leave encashment upon separation.
- Net remuneration comprises cash income less : a) income tax and surcharge deducted at source.
b) manager's own contribution to Provident Fund.
- All appointments are/were contractual in accordance with terms and conditions as per Company rules.
- None of the above employees is a relative of any Director of the Company.

On behalf of the Board

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

Kolkata, 27th May, 2005

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) (a) Quality evaluation process & criteria of raw materials & manufactured product for atta, biscuits and confectionery items.
- ii) (a) Development of paper for specific end use application.
(b) Waste Disposal in paper factories.
(c) Development of high yielding Eucalyptus species having superior fibre characteristics.
- iii) (a) Development of pre-printed cork tipping paper of international quality.
(b) Development of indigenous tools & dyes for Shoulder Box pack manufacturing.
(c) Development of indigenous printing machine for spot ultra violet treatment.
(d) Development of indigenous waste ejection unit in ATN Roto machine.
- iv) (a) Identification of new growth zone in India through scientifically validated exploratory trials for the production of premium quality flavourful tobacco.
(b) Introduction of varietal changes and tailor made agronomical package of practices in the Burley tobacco growing areas of Andhra Pradesh.
(c) Introduction of new formulations of Neem based agri-inputs.
(d) Trials on Fertigation in the Northern Light Soil regions of Andhra Pradesh.

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

- i) (a) Quality evaluation of finished products and raw materials, thereby setting standards for the Quality Testing Process for outsourced products and permitting benchmarking for comparative evaluation of ITC products vis-à-vis competition.
- ii) (a) Entered new market segments.
(b) Meeting fibre needs indigenously and reducing imports.
(c) Improvement in pulp quality through hybrids.
- iii) (a) Import substitution.
(b) Export of Shoulder Box packets.
(c) Import substitution and meeting customer requirements of high gloss packaging.
(d) Reduction in waste and development of indigenous equipment at lower cost.
- iv) (a) Production of internationally sought after flavourful flue-cured tobacco with which India will be in a position to offer full range of quality cigarette tobaccos.
(b) Production of internationally benchmarkable quality tobaccos in addition to increase in yield by about 20% in the new Burley tobacco growing areas.

- (c) Improved crop vigour and productivity in addition to keeping the Pesticide Residue Levels under control.
- (d) Established the potential for the production of superior styles of tobacco with improved ripeness and flavour characteristics, in addition to reducing water consumption by 30-40%.

3. Future Plan of Action :

- i) (a) Identify factors for the improvement of manufacturability and flavour amplitude in Indian tobaccos.
(b) Networking with Universities for applied research projects.
(c) Implementation of HACCP at all atta, biscuits & confectionery plants.
(d) Roll out of new range of differentiated food products of international quality.
- ii) (a) Continue research on genetic improvement of Eucalyptus, Subabul, Bamboo and other pulpwood species.
(b) Development of paperboards for specific end-use applications.
(c) Improvement of product / process efficiencies in paper factories.
(d) Usage of agri waste for steam generation in paper factories.
- iii) (a) Development of Flexible Structure for different Food Packaging.
(b) Development of UV Inks & Varnishes for in-line manufacture.
(c) Development of Cylinder Manufacturing.
(d) Development of Adhesives.
- iv) (a) Scaling up of Crop Development initiatives to produce significant volumes of flavourful FCV style tobaccos in the new areas.
(b) Creation of a holistic organic platform for tobacco and other agri products.
(c) Collaborative experimental trials with lead Research Institutes on the identified Advanced Breeding lines and Hybrids in micro zones so as to introduce them in a phased manner.
(d) Design and development of Paletted seeds for large-scale introduction of Hybrids.
(e) Introduction of a robust scientific approach to develop organic Agri-inputs.

For the year ended
31st March, 2005
(Rs. in Lakhs)

4. Expenditure on R&D :

i) Capital	1177
ii) Recurring	2505
iii) Total	<u>3682</u>
iv) Total R&D Expenditure as a % of :	
- Gross Turnover	0.28
- Net Turnover	0.48

Technology Absorption, Adoption and Innovation

- i) Introduction of Wave Pack in cigarette factories.
- ii) New Technology for Primary Processing in cigarette factories.
- iii) Use of counter pressure retort hot water spray technology for eliminating all micro-organisms in food factories. Also auto pouch-filling machine for elimination of manual intervention at critical points of the packaging process, installed.
- iv) Upgradation of the surveillance system through digital video recorders in hotels.
- v) Floor Access control in elevator for selected floors in hotels.
- vi) Installed on-line dryer screen cleaning system, which has eliminated hickies and coating flakes problem at the manufacturing stage of paperboards.
- vii) Installed web-cleaning system during slitting, which has resulted in reduction of dusting and fluff accumulation problem in paper manufacturing.
- viii) Development of new colour grades for laminating industries.
- ix) Heidelberg offset machine with 6 printing colour and 2 coating decks alongwith UV drying facility, under commissioning.
- x) Technotrans blanket wash recycling system installed to permit solvent recycling.

- iii) Product improvement.
- iv) Consistent product quality and the highest safety and hygiene standards.
- v) Ensuring higher security standards.
- vi) Ensuring state-of-the-art connectivity.
- vii) Cost Reduction
 - (a) Reduced usage of soft wood pulp in value added products.
 - (b) Improved productivity / runnability of machines with higher fibre & filler retention levels.
- viii) Product Development
 - (a) Introduction of new variant of "Cyber XL Pac".
 - (b) Introduction of "Safire XL Pac".
 - (c) Introduction of gypsum base board in lower grammage.
 - (d) Development of Wax Match tissue.
- ix) Introduction of new laminating grades (import substitution products).
- x) Additional offset printing capacity to handle increase in packaging business.
- xi) Environment friendly technology resulting in recycling of blanket wash solution which otherwise constitutes a hazardous waste.

Benefits Derived

- i) Manufacture International Quality Products.
- ii) Increase Efficiencies through adoption of best practices in processing.

On behalf of the Board

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

Kolkata, 27th May, 2005

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

CERTIFICATE

To the Shareholders

We have examined the compliance of conditions of Corporate Governance by ITC Limited for the year ended on 31st March, 2005, 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 statement of the company.

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

We state that in respect of investor grievances received during the year ended 31st March, 2005, no investor grievances are pending against the company as per the records maintained by the company and presented to the Investor Services Committee.

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

For A. F. FERGUSON & CO.
Chartered Accountants

M. S. DHARMADHIKARI
Partner

Kolkata, May 27, 2005