



Economic Performance

ITC posted yet another year of impressive results testifying to the robustness of the corporate strategy of creating multiple drivers of growth. The performance is even more satisfying when viewed in the light of the challenging business environment of the cigarette industry, incubation costs of new FMCG business and the rural marketing initiatives and gestation costs of investments in the paperboards business. Gross Turnover for the year 2005-06 grew by 21.5% to Rs. 16,224 crores driven by good topline growth across all businesses of the Company. Pre-tax profit (before exceptional items) increased by 22.3% to Rs. 3,269 crores, while post-tax profit (before exceptional items) at Rs. 2,280 crores registered a growth of 24.1%. The ITC scrip gained 118% during the year outperforming the benchmark BSE Sensex by 44 percentage points.

Management Approach

Policy: The Company's commitment in the area of economic performance is encapsulated in its Vision statement, which is 'to sustain ITC's position as one of India's most valuable corporations through world-class performance, creating growing value for the Indian economy and the Company's stakeholders'. ITC's Mission is 'to enhance the wealth generating capability of the enterprise in a globalising environment delivering superior and sustainable stakeholder value'.

The Company's strategy is to ensure that each of its businesses is world-class and internationally competitive in the Indian global market in the first instance, and progressively in the offshore global markets.

ITC, as a premier 'Indian' enterprise, consciously exercises the strategic choice of contributing to and securing the competitiveness of the entire value chain of which it is a part. This philosophy has shaped the Company's approach to business into 'a commitment beyond the market'.

Goals and Performance: At the enterprise level the Company's goals include:

- Sustaining ITC's position as one of India's most valuable corporations
- Achieving leadership in each of the business segments within a reasonable time frame
- Achieving a Return on Capital Employed (ROCE) in excess of the Company's cost of capital, at all times

Amongst listed companies in the private sector, ITC ranked 4th in terms of Gross Turnover and 3rd in terms of pre-tax profits for the financial year ended 31st March 2006. The Company ranked 6th by market capitalisation amongst listed private sector companies in the country, as at 31st March 2006.

The Company has consistently achieved a ROCE well in excess of its cost of capital.

Of the Rs.10,325 crores of 'value added' by the Company during the financial year ended 31st March 2006, 74% represented Contribution to the Exchequer.

Please refer to the 'Report of the Directors and Management Discussion and Analysis' section of the Report and Accounts 2006 (available on itcportal.com) for a detailed discussion on the Company's market standing in each of the business segments.

Context: Please refer to the 'Report of the Directors and Management Discussion and Analysis' section of the Report and Accounts 2006 for a detailed discussion on the business environment, opportunities, key challenges, etc. pertaining to each of the Company's businesses (available at www.itcportal.com).

Economic Performance Indicators

(Rs. Crores)

	2004	2005	2006
Key Economic Indicators			
Gross Turnover	11815	13349	16224
Less: Excise Duty & Taxes on Sales of Products/Services	5345	5710	6434
Net Turnover	6470	7639	9790
Exports Turnover	977	1009	1413
Domestic Turnover	10838	12340	14811
Taxes Paid/Contribution to Exchequer	6134	6523	7677
Cost of Goods	2388	2770	3983
Consumption of Raw Materials & Stores and Spares	2118	2142	2823
a. Raw materials	2016	2024	2684
Imported	298	378	439
Indigenous	1718	1646	2245
b. Stores & Spares	102	118	139
Imported	37	35	43
Indigenous	65	83	96
Payroll Expenses	416	467	541
Interest paid on Debts & Borrowings	25	42	12
Dividend Paid (including Tax on Dividend)	559	882	1135
Retained Profits	1034	1310	1101
Community Investments	47	56	65

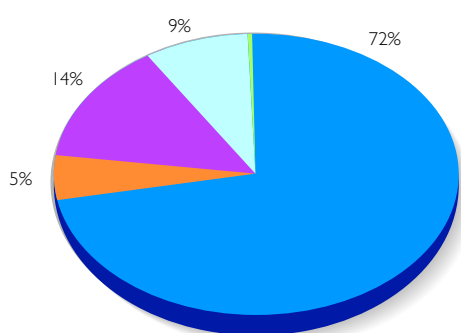
Analysis of Value-Added

(Rs. crores)

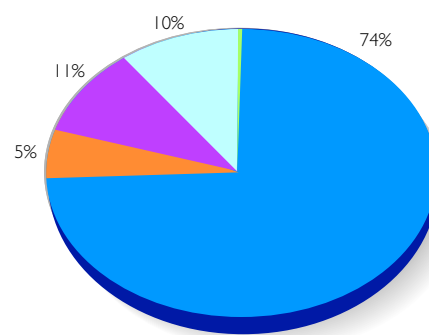
	2004-05	2005-06		
Gross Turnover	13349	16224		
Cost of Bought-Out Goods & Services	4233	5898		
Value-Added	9116	10326		
Percentage Share of Total Income	68%	64%		
Share of Value-Added				
Exchequer	6523	72%	7677	74%
Employees	467	5%	541	5%
Providers of Capital	2126	23%	2108	21%
• Retained Earnings	1310	14%	1101	11%
• Dividend	773	9%	995	10%
• Interest	43	0%*	12	0%*

* Rounded off to the nearest digit

Share of Value-Added 2004-2005



Share of Value-Added 2005-06



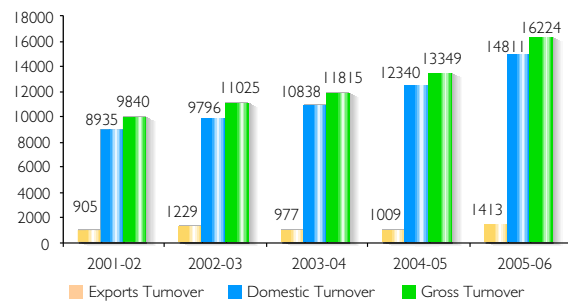
■ Exchequer
 ■ Employees
 ■ Providers of Capital: Retained Earnings
■ Providers of Capital: Dividend
 ■ Providers of Capital: Interest (less than 1%)

Putting Customers First

ITC ranks fourth in terms of gross sales in the Indian Private Sector in 2005-2006. Net Sales have grown at an impressive 18% CAGR over the last 5 years. The export turnover grew to Rs.1,413 crores. This signifies a CAGR of 12% over the last 5 years. All businesses in the ITC portfolio are mandated to engage with overseas market in a bid to test competitiveness and seek growth opportunities. The ITC group's contribution to foreign exchange earnings over the last 10 years amounted to nearly US \$ 2.5 billion, of which agri exports constituted 65%. Agri exports earnings are an indicator of ITC's contribution to rural economy through effectively linking the farmers with international markets.

The FMCG – Others segment recorded the highest growth in terms of sales. This segment includes sale of Foods (Atta, Ready-to-Eat Meals, Biscuits, Confectioneries), Garments Retailing, Greeting Cards, Stationery, Agarbatti and Matches. The demand for FMCG products would be driven by rising disposable incomes in the wake of robust growth in the Indian economy; the favourable demographic profile of the country; the relatively low levels of per capita consumption and penetration of these products even as compared to other South Asian countries; improving literacy levels; growing urbanisation trends and the increasing population of working women. ITC is uniquely positioned to tap the emerging opportunities of this sector by synergising and blending the diverse pool of competencies residing in its various businesses.

Turnover (Rs. crores)

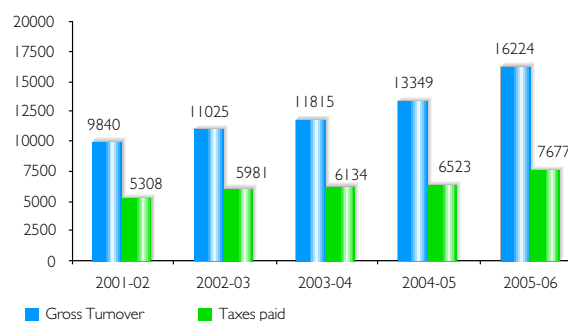


Product Category	(Rs. crores)		
	2004-05	2005-06	Growth (%)
FMCG – Cigarettes	10003	11330	13
FMCG – Others	562	1012	80
FMCG – Total	10565	12342	17
Hotels	573	777	36
Agri Business	1220	1955	60
Paperboards, Paper & Packaging	991	1150	16
Total	13349	16224	22

Contributing to the National Exchequer

ITC's contribution to the exchequer is significant in terms of payment of excise duties, income tax and other rates and taxes. The share of ITC's contribution to the exchequer constitutes nearly 74% of its Value Added. In terms of Direct Taxes, the Company's contribution to the exchequer is amongst the top three companies in the private sector in India and in Indirect Taxes in relation to excise payments it accounts for more than 5% of the country's total excise collection.

Turnover & Taxes Paid (Rs. crores)



Rewarding Shareholders

The Company has been making dividend payments consistently over the past several years and its dividend payment reflects the striking of a balance between the need to sustain strategic investments for a secured future and the annual expectation of shareholders for growing income. The Company continues to retain profits at a level of upwards of the Rs. 1,000 crore mark. Total Shareholder Returns measured in terms of increase in market capitalisation and dividends grew at a compound rate of 30% per annum during the period 1995-96 to 2005-06, placing ITC among the foremost in the country in terms of efficiency of serving financial capital. ITC was ranked 6th amongst listed private sector companies in terms of market

	2002	2003	2004	2005	2006
Dividend Paid* (Rs. Crores)	334	419	559	882	1135
Dividend Per Share** (Rs.)	0.90	1.00	1.33	2.07	2.65

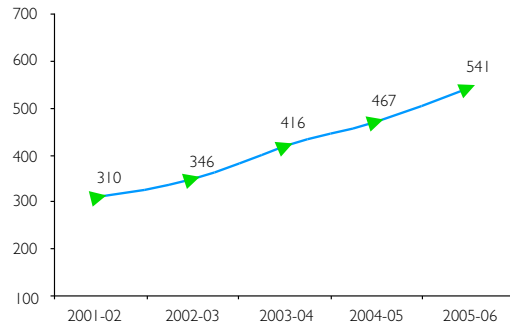
* Includes dividend distribution tax

** Includes adjustment for 1:10 Stock Split and 1:2 Bonus Issue

Nurturing Talent

ITC continues to attract and retain talent of the highest quality. It ensures that employees retain a cutting edge by nurturing and mobilising individual potential and providing a challenging and exciting environment. The emphasis on offering people opportunities for cross-functional and cross-business exposure nurtures and challenges their ability and creativity. The enabling and empowering work environment propels them to deliver high performance. ITC's human resource management systems and processes aim to create a responsive, customer-centric and market-focused culture that enhances organisational capability and vitality, so that each business is internationally competitive and equipped to exploit emerging market opportunities.

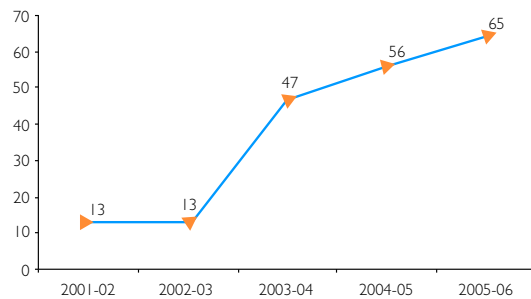
Payroll Costs (Rs. crores)



Citizen First

ITC continuously strives to be 'Citizen First', attaching critical importance to its responsibility to contribute to the 'Triple Bottom Line', namely, augmentation of economic, ecological and social capital. This commitment finds expression in the Company's sustainable development philosophy, which recognises the need to not only preserve but also enrich precious environmental resources while providing a safe and healthy workplace for its employees. ITC's social development initiatives harmonise the Company's endeavour to create shareholder value with making a substantial contribution to society.

Community Investments (Rs. crores)





Climate Change & its Financial Implications

India is a vast country covering 3.28 million sq km, occupying nearly 2.4% of the world's geographical area. The country is endowed with varied soils, climate, biodiversity and ecological regimes.

India is a party to the United Nations Framework Convention on Climate Change (UNFCCC) and the Government of India attaches great importance to climate change issues and is, therefore, seriously concerned with the possible impacts of climate change, such as: water stress and reduction in the availability of freshwater; threat to agriculture and food security, since agriculture is largely monsoon dependent; threats to biodiversity with adverse implications for forest-dependent communities; adverse impact on natural ecosystems; adverse impact of sea-level rise on coastal agriculture and settlements; impact on human health due to the increase in vector and water-borne diseases; increased energy requirements and impact on climate-sensitive industry and infrastructure.

ITC Strategy and Action Plans

ITC has adopted a very proactive approach and has constituted a Carbon Committee which, among others, consists of two Executive Vice-Presidents, one each from the Finance and Environment, Health & Safety departments. The Carbon Committee proactively participates in global forums; studies emerging trends to identify various risks/threats and opportunities from climate change; formulates strategy and supports businesses in evaluation and mitigation measures. The Carbon Committee is also reviewing the India – specific climate change impacts to implement various adoption measures relevant to ITC

businesses.

The Company is seriously tackling Green House Gas emissions and related energy use issues. Not only has the Company achieved significant reduction in specific energy consumption, it uses significantly large amounts of environmentally neutral bio-fuels and has already created nearly 41,000 hectares of plantations – thereby sequestering more CO₂ than its operations emit. This makes the Company 'Carbon Positive'. With ITC committed to reducing specific energy consumption further and expand its plantation activities to 100,000 hectares in the next few years, the extent of CO₂ sequestration will be even more noteworthy.

India, as a Non-Annexure I country, does not have any GHG emission reduction targets in the first commitment period up to 2012. However, being part of the United Nations Framework Convention on Climate Change (UNFCCC), India is committed to improving its sustainability index and participating in the use of the Clean Development Mechanisms (CDM) under the Kyoto Protocols.

ITC's businesses/units are, therefore, actively engaged in reducing Green House Gases emission and a number of CDM projects are in various stages of development. Seven projects have already been sent for registration with the CDM Executive Board. The sale of Certified Emission Reductions obtained from these CDM projects will provide financial incentive and motivation to enlarge ITC's contribution to this important global concern.

Pension Obligations

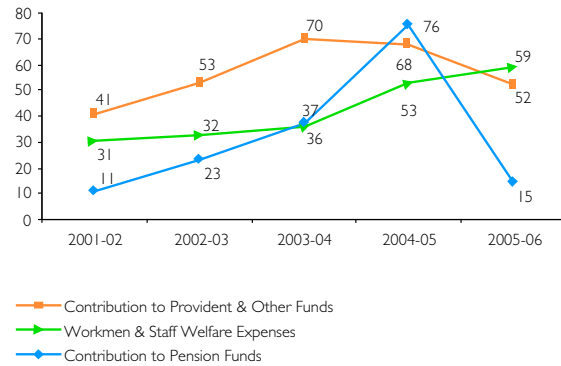
The Company administers various funds in respect of Employees' Retirement Benefit Schemes through duly constituted and approved independent trusts.

Provident Fund and Family Pension contributions in respect of unionised staff, in accordance with statutes, are deposited with the Government.

The pension plan obligations covers all permanent employees of the Company, both in management and unionised levels.

The Company carries out actuarial valuation annually and based on such valuation, if required, the defined benefit plans are funded fully. The funds are sustained at all times, at a level necessary, to meet any commitment for superannuation. The contribution is made entirely by the Company.

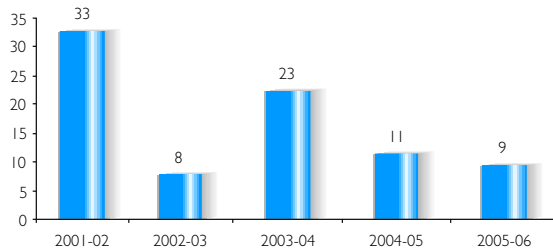
Company's Contribution (Rs. crores)



Financial Assistance from Government

The Central as well as State Governments support initiatives in a number of priority sectors. ITC benefits from some of the applicable government schemes. The Paperboards and Specialty Papers business, under the liberalised state incentive scheme of the Governments of Andhra Pradesh and Tamil Nadu, enjoys incentives such as deferment of sales tax for setting up a new unit or modernisation/expansion/diversification of existing units in the State.

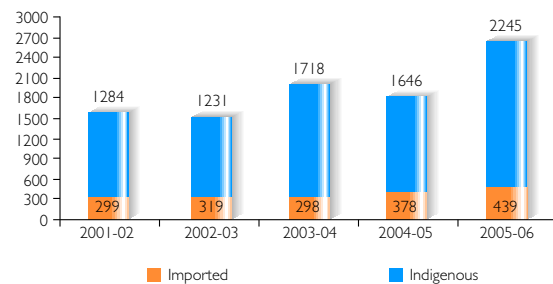
Subsidies Received (Rs. crores)



Locally Based Suppliers

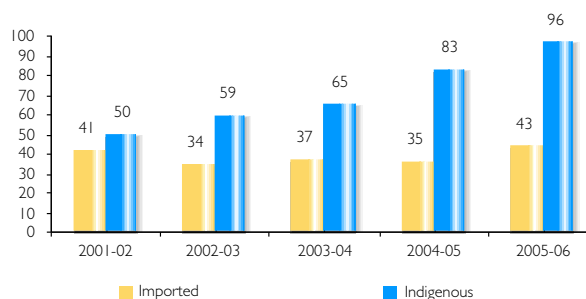
The considerable size and wide geographic dispersion of ITC's operations necessitates working with an array of suppliers. To ensure sustainable competitiveness, all the businesses have state-of-the-art facilities and use the most contemporary technologies to ensure that the customer gets the best quality and value. Specialised production machinery is sourced globally, including from reputed Indian manufacturers. Top class machinery for utilities like boilers, gensets, air-conditioners, refrigerators, electrical and electronic systems are sourced from Indian or India-based suppliers. Competent Indian contractors carry out the construction of new factories, hotels and implementation of large-scale technology upgrades.

Raw Materials Consumed (Rs. crores)



A very significant proportion (around 84%) of raw materials used by ITC businesses are indigenous and most of it is agriculture based. Apart from value of raw materials, stores and spares are consumed in the normal course of manufacture. Indigenous stores and spares comprise nearly 70% of total consumption in terms of value.

Stores & Spares Consumed (Rs. crores)



Local Hiring and Senior Management

ITC believes that its mission to create enduring value for all stakeholders can only be actualised by the dedication and commitment of its people. ITC inducts quality talent from premier campuses across the country. The selection process is objective and robust. A range of selection tools are used. These include assessment centres, group tasks and in-depth personal interviews.

New employees are assigned to various businesses of the Company and are expected to be competent enough to work in any part of the country.

Local employment in the workforce is encouraged in manufacturing and hotels and primarily depends on the availability of requisite skills.

Infrastructure Investments & Services

ITC's multipronged social sector investments are further complemented by its endeavour to create enduring symbols of excellence, be it in the field of culture or sustainable development.

ITC Sangeet Research Academy

ITC established the ITC Sangeet Research Academy to preserve and promote Indian cultural heritage. ITC-SRA plays a major role in reviving and nurturing India's rich heritage of Hindustani classical music. It has created a residential learning centre in Kolkata which captures the mood and ambience of the traditional gurukul. Details of this unique institution have been provided elsewhere in this Report (please visit www.itcsra.org).

CII-ITC Centre of Excellence for Sustainable Development

ITC along with Confederation of Indian Industry launched 'CII – ITC Centre of Excellence for Sustainable Development' on January 18, 2006. This centre aims to create a conducive, enabling climate for Indian businesses to pursue sustainability goals. It will seek to create awareness, promote thought leadership and build capacity to achieve sustainability across a broad spectrum of issues (for further details visit www.cii-sustainability.org or www.sustainabledevelopment.in).

