REPORT OF THE DIRECTORS & Management Discussion and Analysis

For the Financial Year Ended 31st March, 2007

Your Directors submit their Report for the financial year ended 31st March, 2007.

SOCIO-ECONOMIC ENVIRONMENT

Advance estimates of the Central Statistical Organisation indicate a real GDP growth of 9.2% for 2006/07. The average growth rate over the past four years stands at 8.6%, making it the fastest pace of growth in India's history. While all three sectors of the economy recorded positive growth during 2006/07, the key driver was the industrial sector, which grew by an estimated 10%. Industrial growth was led by the manufacturing sector, which recorded an impressive increase of 11.3% bolstered by capital goods production, which grew by 17.7% over the previous year. The strong showing of the capital goods sector reflects the continuing momentum of the investment cycle. The Services sector posted a robust growth of 11.2% in line with the strong performance trend of the previous years. Agriculture sector recorded a relatively low growth of 2.7%.

The value of India's merchandise exports grew by 20.8% to touch USD 124.6 billion during the year. Exports clocked an impressive 21.6% growth for the first 8 months of the year but lost momentum thereafter due to a slowdown in the US economy and the appreciation of the Indian Rupee. India's trade deficit widened further to touch USD 56.7 billion, an increase of 40.6% over 2005/06, mainly on account of a sharp increase in the value of oil imports. However, net invisibles surplus on account of buoyant service exports helped ameliorate the impact on the current account. The overall position on external balances remains strong with foreign exchange reserves increasing by USD 47 billion during the year. The strong overall economic performance during the year was however accompanied by rising inflation. Several policy measures were announced in response, aimed at curtailing liquidity and improving supply side conditions. These included the increase in the repo rate and cash reserve ratio, duty free imports of wheat and pulses, and reduction in import duties on non-ferrous metals, cement, capital goods etc.

The strong investment momentum and high levels of business confidence justify the double-digit GDP growth aspirations set in the 11th Plan. High levels of economic growth are essential to realise the oft quoted demographic dividend through the creation of employment opportunities for the 9 to 10 million people expected to enter the job market annually, the majority of whom would be from rural India. However, economic growth does not necessarily translate to sustainable development. The manner of industrial growth so far has taken an immeasurable toll of finite natural resources, and yet left vast numbers of people in poverty. On the one hand, depletion of biodiversity resources – soil, water, air – has considerably increased the fragility of ecological balance. On the other hand, the declining rate of growth of agriculture has led to the present situation where nearly 60% of India's population shares less than 20% of its output. These dichotomies can be eliminated only if the challenges of inclusive growth, national competitiveness and environmental sustainability are addressed in an integrated fashion.

Over 75% of those below the poverty line reside in rural India. A comprehensive growth strategy for rural India, including the agricultural sector, is necessary to address the serious issues relating to sustainability and to enlarge effective domestic demand. Empowerment of the rural population has therefore assumed centrality in policy focus. Time bound programmes, such as Bharat Nirman, National Rural Employment Guarantee Scheme, Sarva Shiksha Abhiyan etc., and the emphasis on physical outcomes rather than on mere financial outlays, have the potential to contribute significantly to economic capacity creation at the grassroots and to create the right sentiment for enlarged participation of private entrepreneurship in the economic advancement of rural India.

In this context, your Company's pioneering e-Choupal initiative is a powerful illustration of linking business purpose with a larger societal cause. The e-Choupal leverages the power of the Internet to empower the small and marginal farmer with a host of services related to know-how, best practices, timely and relevant weather information, transparent discovery of prices and much more. This digital infrastructure is also increasingly being used for channelising services related to credit and insurance and can be extended to areas such as health,

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education and entertainment. It can also serve as a strong foundation for linking small and marginal farmers to the futures markets to facilitate farmer risk management. The access to e-Choupals, within walking distance from the farm gate, is supplemented through physical infrastructure – the ITC Choupal Saagar – which functions as a hub for a cluster of villages within tractorable distance. These made-to-design hubs also serve as warehouses, and as rural hypermarkets for a variety of goods. In effect, the e-Choupal infrastructure is potentially an efficient delivery channel for rural development and an instrument for converting village populations into vibrant economic organisations.

Growth agendas can become sustainable only if they include in their wake strategies to enhance ecological and social capital, thereby translating to development. In line with this philosophy, your Company is engaged in enlarging its contribution across all the three dimensions – economic, ecological and social – through investments in all its businesses and across the value chains, where feasible. Highlights of your Company's progress in pursuit of the 'triple bottom line' objectives are discussed in the sections that follow.

COMPANY PERFORMANCE

Your Company completed yet another year of strong performance with robust topline growth and high quality earnings. All business segments posted strong growth in revenues and enhanced their market standing, testifying to the robustness of the corporate strategy of creating multiple drivers of growth. This performance is even more satisfying when viewed in the light of the challenging business environment of the cigarette industry, incubation costs of the new FMCG businesses and the rural marketing initiatives and the gestation costs of fresh investments in the paperboards and hotels businesses.

Gross Turnover for the year grew by 20.2% to Rs. 19505 crores. Net Turnover at Rs. 12369 crores grew by 26.3% driven by the non-cigarette FMCG businesses, higher agri-business revenues and the continuing strong performance by the Hotels business. The non-cigarette portfolio grew by 37.6% during the year and now accounts for 52.3% of the Company's Net Turnover. Pre-tax profit increased by 20.1% to Rs. 3927 crores, while Post-tax profit at Rs. 2700 crores registered a growth of 20.8%. Earnings Per Share for the year stands at Rs. 7.19. Cash flows from Operations stood at Rs. 3402 crores during the year.

In order to strike a balance between the need to sustain strategic investments for a secure future and the annual expectation of shareholders for growing income, your Directors are pleased to recommend a dividend of Rs. 3.10 per share (previous year Rs. 2.65 per share) for the year ended 31st March, 2007. The cash outflow in this regard will be Rs. 1364.50 crores (previous year Rs. 1134.70 crores) including Dividend Tax of Rs. 198.21 crores (previous year Rs. 139.56 crores). Your Board further recommends a transfer to General Reserve of Rs. 1250 crores (previous year Rs. 1150 crores). Consequently, your Board recommends leaving an unappropriated balance in the Profit and Loss Account of Rs. 647.53 crores (previous year Rs. 562.06 crores).

PROFITS, DIVIDENDS AND RETENTION

(Rs. in crores)

	2007	2006
a) Profit Before Taxation and Exceptional Items	3926.70	3269.19
b) Income Tax	1226.73	988.82
c) Profit After Taxation Before Exceptional Items	2699.97	2280.37
d) Exceptional Items (net of tax)	—	(45.02)
e) Profit After Tax	2699.97	2235.35
f) Add : Profit brought forward from previous year	562.06	611.41
g) Surplus available for Appropriation	3262.03	2846.76
h) Transfer to General Reserve	1250.00	1150.00
i) Proposed dividend for the financial year at the rate of Rs. 3.10 per Ordinary Share of Re. 1/- each (previous year : Rs. 2.65 per Share)	1166.29	995.12
Income Tax on proposed dividend (2006 - including Rs. 0.02 crore for earlier years)	198.21	139.58
j) Retained profit carried forward to the following year	647.53	562.06
	3262.03	2846.76

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 with a view to testing international competitiveness and seeking growth opportunities. The ITC Group's contribution to foreign exchange earnings over the last ten years amounted to nearly USD 2.8 billion, of which agri exports constituted nearly 65%. Earnings from agri exports is an indicator of your Company's contribution to the rural economy through effectively linking small farmers with international markets.

During the financial year 2006/07, your Company, its subsidiaries and the ITC Welcomgroup hotel chain together earned Rs. 2444 crores in foreign exchange. Direct foreign exchange earned by your Company amounted to Rs. 2283 crores. Your Company's expenditure in foreign currency amounted to Rs. 1219 crores, comprising purchase of raw materials, spares and other expenses at Rs. 737 crores, and import of capital goods at Rs. 482 crores.

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

BUSINESS SEGMENTS

A. FAST MOVING CONSUMER GOODS

FMCG – Cigarettes

Your Company's uncompromising commitment to providing superior value to consumers through world-class products helped in sustaining its leadership position in the cigarette industry. The year also saw significant growth in exports, with sales increasing by nearly 60% over the previous year.

In line with your Company's mantra of continuous and consistent offering of value added world-class products to the Indian consumer, a unique IT-enabled 'Six Sigma' based product development process was implemented during the year. This strategic intervention enabled the launch of several key initiatives across the brand portfolio in terms of pack modernisation, limited edition offerings in different flavours and the introduction of 'Silk Cut' in the King Size and Regular Filter formats. The success of these initiatives is evidenced by the significant enhancement of your Company's market standing in the Premium categories and higher market shares in all segments in key competitive markets across the country. Strategies borne out of deep consumer insights nurtured by your Company and supported by substantial investments have resulted in three of your Company's brands featuring, once again, amongst the top 5 FMCG brands in India.

In keeping with the policy of maintaining global standards across the value chain, your Company continued to induct state-of-the-art and cutting-edge technology in its manufacturing facilities such as high speed cigarette making and packing machines, round corner/beveled edge packers and automatic filter feed systems. Capability augmentation like in-house expanded tobacco manufacture at the Bangalore facility has already started delivering considerable cost reduction and import substitution benefits. Your Company's tobacco research laboratories obtained the ISO/IEC 17025 Certification from the National Accreditation Board for Testing and Calibration Laboratories (NABL) earning international recognition for your Company's R&D capabilities from the scientific and regulatory communities.

The EHS initiatives of your Company continue to be acknowledged by international and national bodies. All the four production facilities have once again won the 'RoSPA Gold Award' conferred by the Royal Society for Prevention of Accidents as well as the 'Five Star Rating' by the British Safety Council. The Munger, Bangalore and Saharanpur units were awarded the 'Greentech Safety Gold Award', whilst the Bangalore and Saharanpur facilities also won the 'Sword of Honour' from the British Safety Council. The Kolkata, Bangalore and Munger units were conferred the 'Greentech Environment Excellence Award'. In addition, the Bangalore factory was honoured with the 'Platinum Standard for Outstanding Achievement in Safety Management' by the Greentech Foundation, 'Safety Innovation Award 2006' by the Institution of Engineers and the 'Unnatha Suraksha Puraskara' by the National Safety Council (Karnataka Chapter). The Munger factory won National Awards for Excellence in Water and Energy Management from CII, while the Kolkata unit was awarded the 'CII SHE Award' for Occupational Health and Safety by CII Eastern Region, the 'Environment Excellence Award' by the Indian Chamber of Commerce and West Bengal Pollution Control Board and the '1st National Security Today Award' for the Best Maintained Fire Safety System.

A major cause for concern, however, remains the severe taxation and regulatory milieu for cigarettes in India. Cigarettes continue to be discriminated against cheaper and revenue inefficient tobacco products like bidis and chewing tobaccos. Excise duty rates on cigarettes were increased for the second successive year. However, while duty rates on cigarettes went up in excess of 6% in the Union Budget 2007, the same were left unchanged in respect of most of the other tobacco products. Moreover, with effect from 1st April, 2007, cigarettes have been brought under the ambit of Value Added Tax (VAT) by the States at a rate of 12.5% on invoice price, without a reduction/set off in excise duties collected in lieu of State level sales tax. Such a move is against the opinion of Expert Committees on taxation which have, for more than a decade, repeatedly and consistently recommended the exclusion of cigarettes from ad-valorem duties in favour of a single-point specific excise duty structure.

Since taxes already constitute around 130% of the net realisation value of cigarettes, the combined impact of the 6% increase in excise duty and the imposition of 12.5% ad-valorem VAT is equivalent to a 33% increase in excise tax incidence on cigarettes – the highest ever increase that the industry has faced. Bidis, on the other hand, have been exempted from VAT by most States. An ad-valorem levy such as VAT on a highly taxed product like cigarettes can have grievous consequences on the livelihood of more than a million farmers and farm-workers. It is pertinent to note that studies conducted by the Central Tobacco Research Institute (CTRI) have established that the Indian flue cured Virginia tobacco farmer does not, as yet, have an alternative to a remunerative crop like tobacco.

Apart from the distressing impact on farmer livelihoods, such punitive ad-valorem taxes will also severely restrict the ability of manufacturers to offer world-class products to the Indian consumer.

As evidenced in the past, as cigarettes become more and more expensive due to increasing levels of taxation, tobacco consumption migrates to cheaper, revenue inefficient products like bidis and chewing tobaccos. This phenomenon sub-optimises the economic value per unit of tobacco consumption since the revenue yield from the other tobacco products is low and is declining in spite of an increase in consumption. This is borne out by the following:

Tobacco Consumption in Cigarette & Other Forms

(Million Kgs.)

Year	Cigarettes	Others	Total
1981/82	86 21%	320 79%	406
2005/06	76 15%	417 85%	493
Difference	**-10**	**+97**	**+87**

Source : USDA & Tobacco Institute of India

Excise Duty Collected from Tobacco Products in India

(Rs. Crore)

Product	2001/02	2002/03	2003/04	2004/05	2005/06	Cumulative Growth (%)
Cigarettes Growth	5342 –0.8%	5427 2%	5662 4%	6185 9%	7242 17%	**36%**
Other Tobacco Products Growth	1384 NA	1284 –7%	1152 –10%	1134 –2%	1134 —	**–18%**

Source : Answer to Rajya Sabha unstarred question no. 4242 dated May 3, 2005 and Tobacco Institute of India.

The difference in the effective tax rates between various classes of tobacco products needs to be reduced in a manner that maximises economic value and contribution to the Exchequer from the tobacco sector, even in a shrinking basket of overall tobacco consumption. As highlighted in the past, sustainable tax buoyancy can be realised only by expanding the tax base as evidenced 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 Chinese tobacco sector generating as much as ten times the revenue collection from the Indian cigarette industry.

Historically, highly taxed products like cigarettes are prone to smuggling by unscrupulous international players. It is apprehended that the tax arbitrage opportunity, which is already extremely attractive, will now be enhanced by the imposition of VAT, encouraging an even greater level of smuggling of cigarettes into India. Smuggled international brands already account for about 7% of the market and cost the exchequer approximately Rs.2000 crores by way of foregone taxes and foreign exchange outflow. This is bound to increase.

The scales are heavily tilted against the domestic cigarette industry on the regulatory front also. The provisions of the Cigarettes and Other Tobacco Products (Prohibition of Advertisement and Regulation of Trade and Commerce, Production, Supply and Distribution) Act, 2003, (COTPA), require that the packages of all tobacco products manufactured in the country must bear pictorial health warnings. Since the bulk of tobacco products, apart from cigarettes, are manufactured in the unorganised sector, the provisions of COTPA will, in effect, apply mainly to domestic cigarette manufacture. While smuggled stocks will, in any case, not bear such warnings, most other tobacco products could also escape these stringent legislative requirements. This will give a further fillip to the contraband market in India. While these provisions of COTPA were notified to be effective from 1st June, 2007, in response to representations from stakeholders in the industry, implementation has now been deferred to enable a Committee of Ministers to examine the issues arising from these provisions and make suitable recommendations to the Government. It is hoped that the Committee will take on board the views of all segments of the tobacco industry before framing its recommendations to ensure a fair and equitable legislative climate for all tobacco products.

India is the third largest tobacco producer in the world. Millions of people depend on this crop for their livelihood – directly and indirectly. The plight of farmers in 2000/01, when, for the first time in India's history a tobacco crop-holiday was declared, is still fresh in public memory. Thereafter, relative stability in taxation has helped the farmers regain some of the lost ground. Farmer realisations improved significantly last year alongwith considerable growth in exports of tobacco and tobacco products. As noted in the Report on Tobacco Control in India, Ministry of Health and Family Welfare, 2004 - "Tobacco occupies a prime place in the Indian economy on account of its considerable contribution to the agricultural, industrial and export sectors". Unfortunately, harsh fiscal legislation, over time, coupled with a discriminatory regulatory framework has led to the unintended consequence of sub-optimisation of the economic potential of this important crop.

While your Company continues to comply with the statutes in letter and in spirit, it is also engaged in dialogue with governmental agencies and policy-makers on an ongoing basis for formulation of equitable and inclusive tobacco control and taxation policies that address the interests and concerns of all stakeholders in an even-handed and sustainable manner.

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

The year ahead, however, presents an extremely challenging operating ambience. In view of the bleak taxation and regulatory scenario for tobacco, exacerbated by debilitating discontinuities like VAT etc., it is quite likely that industry volumes will be under pressure. Your Company though is confident that its leadership position can be retained, even in a shrinking basket of tobacco consumption, by the vitality of its strategies and the continuing loyalty of its value seeking consumers.

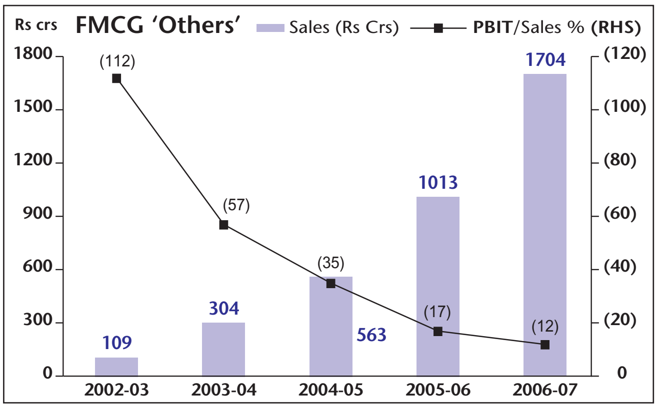
FMCG – Others

As discussed in detail in earlier years' 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 its various businesses to exploit emerging opportunities in the FMCG sector. Your Company remains bullish on the prospects of the FMCG sector. The key demand drivers for FMCG products in India include rising disposable incomes and a favourable demographic profile; the relatively low levels of per capita consumption and penetration of these products; growing urbanisation; growing population of working women and the increasing penetration of organised retail.

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

It is a matter of deep satisfaction to report that your Company continues to be the number one FMCG Company in the country in terms of distribution reach. Your Company services the largest number of markets and retail outlets in the FMCG sector across the country. This formidable distribution infrastructure is the result of strategic initiatives including deeper penetration into grocery and modern format stores, strengthening of the stationery channel and expansion of the e-Choupal based rural distribution model.

The Segment Report set out in Schedule 20 to the Accounts reflects the outcome of this rapid scaling up. Segment Revenues grew by 68% over 2005/06 to touch Rs. 1704 crores during the year. The table below illustrates the rapid growth of these businesses over the last few years:



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

Branded Packaged Foods

The Branded Packaged Foods business continued to expand rapidly with sales recording an impressive growth of 51% over the previous year. The range of offerings now comprises more than 150 distinct food products under six brands. Your Company's unwavering commitment to internationally benchmarked quality standards enabled it to further enhance the market standing of all its brands. In terms of consumer spend, 'Aashirvaad' and 'Sunfeast' have both become more than five hundred crore rupee brands within a short span of time.

The year marked your Company's foray into the fast growing Rs. 1900 crores organised Salty Snacks market with the launch of the Bingo! range of potato chips and finger snacks. The launch, initially comprising 16 highly innovative and differentiated flavours, is backed by extensive market research leading to crafting of products/variants customised for the Indian palate. Your Company is confident of redefining this category on the strength of its insightful understanding of consumers, a robust product development strategy bolstered by the culinary expertise residing in the Hotels business and a strong sales and distribution network. Your Company's strong farm linkages ensuring access to high quality and select grades of potatoes is a distinct source of sustainable competitive advantage.

Sales in the Biscuit category grew by 55% over the previous year. The 'Sunfeast' range stood further expanded with the launch of 'Sunfeast Special' biscuits in select markets in the fast growing mid-price creams segment and the extension of mid-price cookies to target markets. The year also saw the launch of three exciting variants in the premium creams segment and the FITKIT range of products endorsed by Sachin Tendulkar in two unique variants. On the manufacturing front, the business expanded its production capacity by adding facilities in two more locations. Product mix continued to improve driven by enhanced sales of value added products like Creams, Cookies etc. which aided, albeit only partially, in neutralising the impact of an unprecedented increase in input costs.

The Union Budget 2007 has withdrawn excise duties on biscuits with retail sales price not exceeding Rs. 100 per kg. However, since Biscuits form a good source of nutrition particularly for children, lower income groups and the rural population, it would be highly desirable to withdraw excise duties on the entire biscuits category, as has been done in respect of other food products such as noodles, traditional sweets, namkeens etc.

In the Staples category, 'Aashirvaad Atta' grew from strength to strength with impressive gains across regions. The brand now commands a 52% market share amongst national branded players and is the clear market leader in most major markets. 'Aashirvaad Select', the premium atta offering, which was extended to target markets during the year met with very good consumer response. Spices volumes were scaled up, leveraging the equity of the 'Aashirvaad' brand.

In the Confectionery category, 'Candyman' and 'Mint-o', registered strong growth with sales growing by nearly 51% over the pervious year driven by Eclairs, Cofitino and the new variants launched during the year viz. Natkhat Mango and Maha Mango. The business added incremental capacity during the year to meet the enhanced business volumes. Significant progress was made during the year in the area of new product development with a slew of products ready for launch going forward.

Product portfolio was further expanded in the Ready-to-Eat segment with the introduction of twelve new products in the domestic market under the 'Kitchens of India' (KOI) banner. Exports of KOI products were also scaled up during the year. The brand is now available in USA, UK, Switzerland, Canada, Australia and Germany. The availability of KOI products stood significantly enhanced in leading US retail chains such as Whole Foods, Kroger, Wild Oats etc. providing a strong platform for future growth. Product range in the Pasta segment was also augmented with the launch of 'Sunfeast Benne Vita' in four innovative variants.

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

Lifestyle Retailing

The market standing of the Lifestyle Retailing business stood significantly enhanced with an impressive 52% growth in sales during the year. Both the premium and the popular segments registered handsome growth. The export segment also grew significantly during the year.

In the premium segment, the business continued to expand consumer franchise with strong sales growth across its portfolio, viz. the 'Classic' range of formal wear, 'Wills Sport' relaxed wear and 'Wills Clublife' evening wear. The brand's association with high fashion and premium imagery stood reinforced with the resounding success of the 'Wills Lifestyle India Fashion Week' the country's most prestigious lifestyle event. As part of the 'Ramp to Racks' initiative, the business in collaboration with some of the leading designers of the country successfully introduced the 'Wills Signature' range of designer wear in select 'Wills Lifestyle Stores'. These product offerings have met with excellent response from discerning consumers. The 'Wills Lifestyle' range was further augmented during the year with the extension of 'Essenza Di Wills', an exclusive line of prestige fragrance and bath and body care products, to select 'Wills Lifestyle' stores. The products have met with very encouraging response from quality conscious consumers.

The business continued to post significant improvements in several operating indices such as average realisations, footfalls/conversion and sell through rates. The customer privileges programme saw a 66% increase in membership. Superior visual merchandising and world-class in-store services enhanced consumer experience, aiding substantial increase in customer loyalty. The 'Wills Lifestyle' range is currently available in over 200 locations through 'exclusive brand outlets' (EBOs) and 'shop-in-shops'. Plans are afoot to rapidly enhance the retail footprint primarily through opening new stores in identified upcoming malls.

In a clear recognition of its enhanced market standing, 'Wills Lifestyle' was named a 'Superbrand' by the Superbrand Council of India and honoured with the 'Retailer of the Year' award at the Idea Zee Fashion Awards.

In the popular 'Youth' segment, 'John Players' delivered a strong performance leveraging its youthful and fashionable product range and a significantly enhanced presence across target outlets. The celebrity association with style icon Hrithik Roshan created high buzz for the brand among its youthful target audience, mobilising high degree of trials and garnering enhanced consumer mind share. The launch of the 'signature line' of glamour wear incorporating the fashion preferences of the brand ambassador, gave the brand portfolio its edgy face. The brand continued to earn industry recognition winning the 'The Most Admired Fashion Campaign of the Year' at the Images Fashion Awards 2007.

'John Players' has now established a strong pan-India presence with availability at over 170 Flagship Stores and 1,700 Multi Brand Outlets. The number of 'exclusive brand outlets' in which the brand is available doubled during the year with a trebling of the associated retail space. The business is in the process of significantly scaling up retail presence primarily in high potential catchment malls.

The business continued to actively pursue opportunities in the Exports arena consolidating the existing customer base and establishing long-term partnerships with high potential customers. During the year under review, the business established an exclusive manufacturing arrangement with a state-of-the-art unit which, coupled with an expanded product portfolio, enabled a threefold increase in export turnover.

The business continues to focus on increasing the fashion quotient of its offerings and delivering world-class products. Towards this end, the business continues to invest in enhancing capability in the areas of design and product engineering. Recent investments in Information Technology are being effectively leveraged to obtain real time information visibility across segments with a view to improving operational effectiveness and customer intimacy.

Greeting, Gifting and Stationery Business

The Stationery business was significantly scaled up with sales doubling over the previous year. This growth was fuelled by the flagship brand 'Classmate', which has become India's leading and most widely distributed notebook brand in a relatively short span of time, garnering a share of 16% in the branded segment of the market.

'Classmate' offers school and college students a memorable writing experience with the superior 'Alfa Plus' paper used in these notebooks, custom manufactured at the Bhadrachalam Unit. 'Alfa Plus' is India's first Elemental Chlorine Free (ECF) paper with superior whiteness, brightness and smoothness characteristics compared to other writing and printing papers in the market.

During the year, the business enlarged the scale and scope of its 'Classmate Connect' school contact programme. The 'Classmate Young Author Contest 2006' covered 5,000 schools across 34 cities and reached out to 200,000 students, making it the largest literary event in the national school calendar. Associated events like the 'Classmate Young Artist Contest 2006' and panel discussions with eminent educationists were held in selected cities. In line with its 'Citizen First' philosophy your Company contributes Re. 1/- towards its rural development initiatives for every notebook sold.

During the year, a new designer range was unveiled under the premium stationery brand, 'Paperkraft', targeted at discerning executives and college students. The range is available at all leading modern format stationery stores.

The Greeting & Gifting segment continues to be impacted by mobile telephony and messaging services. However, 'Expressions' remains a leading brand in this value added segment. With the growing footprint of modern format retail, the business plans to enlarge its presence in the gifting segment.

During the year, the business outsourced its products from over twenty small-scale units across the country. The business remains committed to aiding small-scale units to enhance the quality of their products and delivery capability to meet the growing demand for its brands.

The Greeting, Gifting & Stationery Business continues to enjoy ISO 9001:2000 certification in recognition of its quality systems and processes. The logistics infrastructure was enhanced during the year to capture cost and distribution efficiencies.

Growing levels of literacy, favourable demographics, and increased budgetary allocation under the Government's 'Sarva Shiksha Abhiyan' programme augur well for the growth of branded notebooks. Accordingly, your Company plans to scale up the notebooks business significantly by offering a superior and differentiated product range, leveraging the investments in incremental paper manufacturing capacity currently underway and a strong distribution network.

Safety Matches

The Safety Matches business recorded robust growth during the year through continued focus on new product development, product quality and enhanced product availability. The business gained significantly during the year from synergy benefits accruing from the recent acquisition of Wimco Ltd. by Russell Credit Ltd., a wholly owned subsidiary of your Company. Synergies in the form of a stronger combined brand portfolio, rationalisation of sales & distribution, supply chain efficiencies, improved servicing of proximal markets, freight optimisation, greater access to better quality critical raw materials etc. have resulted in significantly enhanced market standing. The business continues to support the small-scale sector through technical and management inputs to improve their product quality and processes. Progress was made on the export front with initial shipments to certain African markets.

Implementation of a uniform taxation policy with a view to providing a level playing field to all manufacturers would enable investments towards modernising this industry. This would not only help the industry in improving its global competitiveness but also provide a safer working environment for the large number of people engaged in this industry.

Incense Sticks (Agarbattis)

Market standing of the 'Mangaldeep' brand of incense sticks (agarbattis) stood further strengthened with sales recording robust growth during the year driven by improved distribution reach and the launch of 11 new products (7 at regional level and 4 at national level). During the year, the 'Mangaldeep' brand was also exported to 11 countries including USA & South Africa. The business also commenced exports of incense sticks sourced from units in the small-scale and cottage sector leveraging the marketing services and large overseas presence of the Exim Bank of India.

In pursuance of its abiding social commitment, your Company continues to partner with small and medium enterprises to help them raise their quality and process standards. Six agarbatti manufacturing units have received ISO 9001:2000 certification till date, a pioneering effort in the incense sticks industry, aided by process and technical inputs from your Company. The support provided by the business also enabled one of its suppliers to obtain membership of the International Fair Trade Association, Netherlands. The business continued its collaboration with various NGOs in Bihar, Karnataka, Pondicherry and Tamil Nadu to provide vocational opportunities to rural youth and economically disadvantaged women in keeping with the Company's commitment to the 'triple bottom line'. Sourcing from Khadi & Village Industries Commission (KVIC) approved units continued during the year.

FMCG – Future Direction

Your Company seeks to aggressively scale up the FMCG initiatives and expand the portfolio including entry into the Home and Personal Care market. This is sought to be achieved through a combination of synergistic collaboration among the various businesses, significant investments in brand building and further enhancement of supply chain and sales & distribution capabilities. These interventions combined with your Company's state-of-the-art information technology transaction backbone and the e-Choupal rural distribution network, provide the basis for a low cost, broadband fulfilment capability for consumer products. Over the medium to long term, these initiatives are expected to provide the basis for sustainable growth in shareholder value by establishing your Company as the leading FMCG player in the country.

B. HOTELS

The hotel industry witnessed another year of robust growth aided by the continued strong performance of the Indian economy and the country's rising popularity as one of the world's most popular tourist destinations. Foreign tourist arrivals were buoyant, touching 4.43 million in 2006 representing a growth of 13% over the previous year. The strong growth trend has been sustained during the first quarter of 2007 with foreign tourist arrivals recording an impressive increase of 14.4% over the same period last year. Foreign exchange earnings from tourism are estimated to touch USD 6.86 billion during 2006/07 – an increase of 15.6%. Domestic tourist visits also posted a handsome growth of 10% approximately in 2006 to touch 420 million.

Besides generating valuable foreign exchange, the tourism industry has a large economic multiplier impact and provides significant employment opportunities. The contribution of the tourism sector in India is still relatively low when compared to China and some of the South-East Asian nations as illustrated by the following table:

	% Share of World Travel & Tourism Demand^	Travel & Tourism Economy as % of Total GDP	Travel & Tourism Economy Jobs as % of Total Employment
WORLD	**100.0**	**10.4**	**8.3**
China	6.2	12.2	9.4
India	**0.9**	**5.4**	**5.5**
Malaysia	0.5	13.3	11.4
Singapore	0.5	10.7	8.8
Thailand	0.7	14.9	11.3

^Travel & Tourism Demand => Economic activity
Source : The 2007 Travel & Tourism Economic Research of the World Travel & Tourism Council

As evident from the table above, India's share in the World Travel & Tourism demand remains extremely low. The country is not able to service even this miniscule share to full guest satisfaction due to demand-supply mismatch and infrastructural inadequacies. The number of approved hotel rooms in the country is estimated at 110,000 (including approved projects) of which around 30% is in the 5 Star/Luxury segment – a woefully inadequate capacity and lower than even some of the much smaller South-East Asian countries like Singapore, Malaysia and Thailand. It is estimated that India would need an additional 50,000 rooms in the next 2 to 3 years to cater to the projected tourist arrivals into the country.

The potential of the tourism industry to contribute to India's economic growth is increasingly being recognised in several policy initiatives. As per the 'Approach Paper of the 11th Five Year Plan', the tourism sector has the potential to generate 27 million additional jobs in the country during the Plan period. The launch of the 'Incredible India' campaign, increase of budgetary allocation for the Ministry of Tourism in recent years, adoption of the 'open skies' policy to augment airline capacity, increased focus on infrastructure including privatisation of the airports in New Delhi and Mumbai and the planned airport upgradation projects across the country augur well for the industry and would contribute to realising the full economic potential of the tourism sector. However, heightened demand for land at suitable locations especially from real estate players for multi-use development and the consequent steep escalation in prices remains a key concern for hotel companies wanting to set up greenfield projects.

During the year, the hotels business posted yet another impressive performance with segment revenues growing by 26% to touch Rs. 986 crores driven by better room rates, improved occupancies and food & beverage sales. Gross Operating Profit (PBDIT) grew 30% over the previous year to touch Rs. 412 crores during 2006/07, while segment results (PBIT) at Rs. 351 crores grew 36% over the previous year. These impressive results make your Company's hotels business the fastest growing among the major hotel chains in the country both in terms of revenues and profits. Additionally, the hotels business is a clear leader in terms of operating efficiency as measured by the ratio of PBDIT to Net Income.

The year also marked a significant development with ITC-Welcomgroup entering a new phase in its collaboration with Starwood Hotels & Resorts through a new franchise agreement. As per the agreement, ITC-Welcomgroup has an exclusive partnership with Starwood for use of its premium brand, the 'Luxury Collection', in India. The seven hotels which carry this premium brand are: ITC Maurya in Delhi, ITC Maratha in Mumbai, ITC Sonar in Kolkata, ITC Grand Central in Mumbai, ITC Windsor in Bangalore, ITC Kakatiya in Hyderabad and ITC Mughal in Agra. With this new tie-up, these ITC-Welcomgroup hotels have joined the list of exclusive properties world-wide that are part of Starwood's 'Luxury Collection'. Globally recognised as a unique brand, the 'Luxury Collection' consists of 60 premium properties spread across the globe. The 'Luxury Collection' brand philosophy of offering unique experiences indigenous to their destination complements ITC-Welcomgroup's own ethos of being rooted in the Indian tradition of warm, personalised hospitality. The arrangement has also rebranded WelcomHotel New Delhi as a 'Sheraton' property.

In line with the strategy of maintaining the contemporariness of its properties, the business completed several renovation/product upgradation programmes during the year. Key initiatives included renovation of guest rooms and suites at ITC Maurya, ITC Grand Kakatiya and a new health Spa at ITC Mughal Sheraton. The business also extended the coverage of the 'Six Sigma' Quality initiatives across a larger number of properties, people and processes with a view to further enhancing the service edge.

Buoyed by the impressive performance and the emerging opportunities in this industry, your Company has embarked on an aggressive investment led growth plan. Construction activity in respect of the new super-deluxe luxury hotel at Bangalore is progressing as per plans. Substantial progress has also been made in developing project plans and obtaining requisite approvals for a new property at Chennai.

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

C. PAPERBOARDS, PAPER AND PACKAGING

The Paperboards, Specialty Paper and Packaging segment recorded yet another year of strong performance. As set out in the Segment Report annexed as Schedule 20 to the Accounts, segment revenue grew by 11% to touch Rs. 2100 crores while segment results improved by 19% to Rs. 417 crores. The segment generated strong operating cash flow of Rs. 539 crores.

Paperboards & Specialty Papers

Production during the year touched 390,458 MT as compared to 365,819 MT in 2005/06. Sales of value added paperboards (VAP) grew by 15% over last year to touch 139,155 MT in line with the strategy of enriching the product mix. Growth in sales of Specialty Papers was driven mainly by the Decors segment. Apart from making further progress in reducing water and energy consumption, the business took rapid strides towards achieving 'zero solid waste' status.

During the year, the business won the prestigious 'IPMA Paper Mill of the Year' Award 2005/06.

Further, the Bhadrachalam mill continued to win industry recognition including the 'Greentech Environment Excellence Gold Award', the 'CII National Award for Excellence in Energy Management' 2006, the 'Best Innovative Project' award from CII and the 'CII National Award for Excellence in Water Management'. The units at Bollaram and Tribeni also won the 'Five Star' rating by the British Safety Council.

The size of the Indian paper and paperboards industry is estimated at 8.06 Million Tons Per Annum (MTPA) comprising Writing & Printing paper (2.44 MTPA), Newsprint (1.48 MTPA), Specialty papers (0.28 MTPA), Industrial paper (3.85 MTPA) of which the paperboards segment constitutes approximately 1.13 MTPA. (Source: CrisInfac)

The Indian paper and paperboards industry is estimated to have grown by approximately 7% during the year, well above the world average of 2%, driven by 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 approximately 20%. Robust economic fundamentals, increased consumer spending and improvement in conversion technology are expected to drive per capita consumption of paper and paperboard from the current 7 kgs. per annum to progressively approximate the world average of over 55 kgs. per annum.

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

Your Company is the clear market leader in the domestic paperboards market commanding a share of over 30% in value terms. Further, it is the only player in the premium value added paperboard segment with the significant advantage of integrated pulping operations. In respect of Specialty papers, the business is a major player in the Cigarette Tissue segment with a market share of 77% and is fast expanding its presence in the high growth Décor and Insulating grades segments.

As reported in last year's Report of the Directors, the business is progressing two major capacity augmentation projects comprising (a) a 90,000 TPA paperboard machine and (b) a 100,000 TPA paper machine for manufacturing uncoated paper including branded copier grades. The business made good progress in each of these areas and is confident of commissioning the machines as per project timelines i.e. in 2008/09. The possibility of setting up a greenfield project for foraying into the coated woodfree paper market is also being actively explored.

The business continues to focus on the critical areas of pulp and energy, which are the two main components of product cost. The state-of-the-art ECF pulp mill, the only one of its kind in the country, is a source of sustainable competitive advantage to the business. The superior quality of the ECF pulp has enabled expansion of the market for value added paperboards. With increasing awareness of hygiene and safety among Indian consumers, industries like foods and pharmaceuticals are progressively switching to ECF pulp-based paperboards. During the year, the business made substantial progress in respect of the pulp capacity expansion project. The new pulp mill, which would more than double existing capacity, is expected to come on stream during the second half of 2007/08.

Your Company's energy management expertise is a source of distinct competitive advantage in the Indian market. About 95% of the energy requirements of the production units are being met out of captive co-generation.

Your Company has over the years, leveraged its bio-technology capability to make available high-yielding eucalyptus and subabul clones and seedlings along with extension services to farmers engaged in plantation of pulp wood on their marginal wastelands. The quality of these clones and seedlings, developed in-house, has been tested for effectiveness over the last 12-13 years in nearly 65,000 hectares of plantations. During the year, the plantation programme was scaled up with the addition of 23,800 hectares under coverage, of which over 60% was in the command area of the Bhadrachalam mill. Plans are afoot towards scaling up plantation activity to touch the 100,000 hectares mark by the end of the decade. These enhanced levels of plantation activity would be critical to support the envisaged scale of operations going forward including the planned expansion of pulping capacity as mentioned earlier and be a source of sustainable competitive advantage in the years to come. Your Company is also actively collaborating with the Council for Scientific and Industrial Research (CSIR) to develop low-lignin high-yield pulpwood species.

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

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

The business made significant progress in its capacity expansion projects. The new facility at Haridwar was completed during the year, adding manufacturing capacity both in the paperboard cartons and flexibles segments. This state-of-the-art facility would enable the business to service the growing needs of your Company's Foods business and also facilitate cost-effective and efficient servicing of external customers. Investments in the Chennai unit towards enhanced packaging capabilities and superior technology were completed. These investments would support the growing requirements of the Cigarettes and other FMCG businesses and also provide high quality packaging to external customers.

The factories at Munger and Chennai maintained their high standards in Environment, Safety and Quality Management during the year. The Chennai Unit received the `Sword of Honour' from the British Safety Council and the National Safety Council (TN) Appreciation Award for Safety. The Munger Unit received the 'RoSPA Gold Award' and the 'Greentech Environment Excellence Award'.

The Chennai Unit, which has already achieved Level 7 of the International Quality Rating System (IQRS) as audited by Det Norske Veritas (DNV), is poised to progress to Level 8 in the coming year.

Given the growing need for high quality packaging, both in the cartons and flexibles segments, the investments made by the Business in capacity enhancement and capability building will be leveraged effectively to score rapid revenue growth.

D. AGRI BUSINESS

Cigarette Leaf Tobacco

The global production of Flue Cured tobaccos declined marginally during 2006 primarily due to lower crop size in China, Brazil and the European Union. While the overall oversupply situation in Flue Cured stocks partially eased, demand for flavourful styles remained strong. Production of Burley and Oriental tobaccos remained steady with continuing demand for superior filler and classical styles respectively.

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

Product integrity issues such as leaf chemistry, pesticide residue levels, Non-Tobacco Related Matter (NTRM) continue to be the focal point of customers necessitating 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.

Farm prices witnessed a firm increase of 24% during the year due to robust global demand for Indian tobaccos on the one hand and a less than commensurate increase in crop size, on the other. With severe competitive pressures, both in overseas and domestic markets, balancing the twin objectives of sustaining remunerative farmer returns and remaining competitive in the market place constitutes a key challenge for your Company. Accordingly, the business is focusing its efforts to develop high quality and high yielding hybrid seeds, which will improve the farm productivity thus ensuring higher returns for the farmer and competitive prices for the customer.

Leaf tobacco exports from India grew by 9% during 2006/07 sustaining the steady growth trend witnessed over the last few years. However, despite being one of the largest producers of tobacco in the world, India's share of global tobacco trade remains meagre at approximately 7%. As highlighted in previous years' Report of the Directors, a stable, fair and equitable cigarette taxation policy would be imperative to provide a strong domestic demand base to the Indian farmer, insulating him from the volatilities typically associated with international markets. Such a taxation policy would be the key catalyst in realising the full economic potential of the tobacco sector in India.

Despite the challenges, the business grew its tobacco exports by an impressive 21% by value to touch an all-time high. This sterling performance was achieved through a combination of focused business development efforts and customised product and service offerings to both existing and new customers. The business continued to provide strategic sourcing support to your Company's cigarette business.

The business made good progress in scaling up trials of flavourful flue cured tobaccos in identified locations in Maharashtra & Northern Karnataka and superior burley in Orissa. While the crop size grew exponentially in these areas, adverse weather conditions and an outbreak of viral diseases posed severe challenges in achieving the targeted levels of output. The business has already prepared a roadmap to overcome these challenges in the coming years. Further trials with new varieties of seeds and hybrids were conducted during the year in close collaboration with the Central Tobacco Research Institute (CTRI) which re-confirmed the potential for significant increase in farm yields besides a substantial improvement in leaf chemistry. In the area of crop extension, the business continued its pioneering work towards enhancing quality and farm productivity with a view to improving the competitiveness of Indian tobaccos in the global market.

On the processing front, capacity of the green leaf threshing plant at Anaparti was enhanced during the year in order to cater to the increasing volumes. The line at the leaf threshing plant at Chirala, which was upgraded in the previous year stabilised satisfactorily, delivering targeted results. Both the facilities at Anaparti and Chirala received the prestigious 'Sword of Honour' from British Safety Council for their outstanding track record in safety.

The Chirala unit has now received this award for a record 12th time – the highest in the world. Both the green leaf threshing plants achieved the highest ever plant uptime of 95%. Your Company's Research and Development facility at Rajahmundry received National Accreditation Board for Testing and Calibration Laboratories (NABL) certification for Organochlorine pesticide residue testing.

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

Agri Commodities

Your Company's pre-eminent position as one of India's leading corporates in the agri sector stood re-inforced with the agri commodities business registering a strong growth in revenues during the year under review. Efficient supply chain management coupled with a customer centric approach resulted in a growth of 51% in revenues which touched Rs. 2646 crores. The performance is particularly satisfying when viewed in the context of what was a challenging year which witnessed supply side constraints and imposition of stock control limits on several commodities.

Exports of agri commodities grew by 44.8% to touch Rs. 1094 crores while domestic sales grew by 55.7% to reach Rs. 1552 crores. The business registered substantial gains in all major commodities viz. soya, wheat, rice, coffee, spices, aqua and pulses. This impressive performance was achieved on the back of new customer acquisitions, increased presence in new markets and enhanced supply chain efficiencies. In line with its strategy of achieving a higher order of value capture, the business continued to focus on the value added segment adding several products to its basket of offerings. These include frozen foods, IQF (individually quick frozen) fruits, niche products like baby food quality purees and high brix pulp and organic purees. Going forward, the business seeks to focus on this segment and exploit the market opportunity for tropical fruits and fruit products, where India has a natural advantage of growing the complete range including the exotic varieties.

As stated in earlier years' Report of the Directors, it is the strategic intent of your Company to leverage the unique e-Choupal model to create a significant two-way multi-dimensional channel which can efficiently carry products and services into and out of rural India, while recovering the associated costs through agri-sourcing led efficiencies. Towards this objective, the e-Choupal network was further scaled up during the year while simultaneously focusing on enhancing its reach and productivity. The network currently comprises 6,400 choupals reaching out to over 3.5 million farmers in 38,500 villages in the states of Madhya Pradesh, Uttar Pradesh, Haryana, Uttaranchal, Rajasthan, Maharashtra, Karnataka, Andhra Pradesh and Kerala. It is a matter of pride and deep satisfaction that the pioneering e-Choupal initiative found special mention in the Economic Survey 2006/07 for its transformational impact on rural lives - a rare honour and perhaps the first for any private Company in the country.

On the sourcing side, the e-Choupal network continued to provide strategic sourcing support to your Company's branded packaged foods business through access to high quality, identity preserved wheat at competitive prices. Wheat procurement through the network nearly doubled over the previous year, leading to scale and quality advantage for 'Aashirvaad' atta, 'Sunfeast' biscuits and 'Sunfeast' pasta. During the year, the business effectively leveraged the e-Choupal network to source high quality wheat from Rajasthan and Haryana to mitigate the impact of a lower crop output in Uttar Pradesh and lower than expected quality of the Madhya Pradesh crop. Overall, commodity sourcing through the e-Choupal network touched nearly a million tons during 2006/07.

The rural distribution initiative also made good progress during the year, driven by enhanced productivity of the e-Choupal network. The channel transaction value touched Rs. 170 crores representing a growth of 70%, comprising distribution of products of nearly 100 companies, from both public and private sectors, in categories ranging from FMCG products, consumer durables, vehicles, agri inputs etc. The year also marked the launch of a unique paid extension service aimed towards enhancing farm productivity with emphasis on adoption of agricultural best practices.

Under this initiative, christened 'Choupal Pradarshan Khet', 15,000 field-level demonstrations were conducted during the year. The initiative has received overwhelming response from the farming community and is planned to be scaled up manifold in the coming year.

Marketing of Financial Services products is fast attaining critical mass. Business volumes in respect of insurance products increased three times during the year taking the e-Choupal network amongst the top five alternate channels of the Life Insurance Corporation of India. The network, within a short span of time, has emerged as a significant channel of distribution for weather insurance products and currently commands a market share of 10%. Customised solutions backed by a strong research base, effective communication, quick claim settlement, and farmers' trust in the network form the key elements of success of this initiative. The pilot launch of distribution of Kisan Credit Cards has also been successful, and the business is setting up processes and systems to enhance the service levels in line with the envisaged increase in business scale.

The Company continued to rapidly scale up the rural retailing initiative with 18 'Choupal Saagars' currently operational in the three states of Madhya Pradesh, Maharashtra and Uttar Pradesh. This landmark infrastructure, which has set new benchmarks in shopping experience for rural consumers also incorporates farmer facilitation centres providing facilities like training, soil testing, health clinic, cafeteria, banking and investment services, fuel station etc. Store operating indices viz. conversion rates, sales per square foot of space and average bill value recorded significant improvement during the year. Acquisition of suitable land however remains a key challenge. Your Company is engaged in scaling up the rural retailing initiative to establish a chain of 100 'Choupal Saagars' over the next three years.

During the year, the spices business was further expanded by entry into new markets and addition of new products such as cumin, fenugreek, fennel, dill seed, mustard etc. to its portfolio. The business also provided strategic sourcing support to your Company's branded foods business by supplying high quality spices at competitive prices. Recognising the growing importance of organic spices, your Company has undertaken pioneering developmental work in this area in specially identified zones. The business has mapped micro-zones for sourcing niche products such as high curcumin turmeric, aflatoxin-free chillies in different parts of the country including the North-East region.

The agri-inputs business witnessed significant growth during the year. The 'Wellgro' brand of organic manures is gaining acceptance amongst farmers in Andhra Pradesh, Karnataka, Madhya Pradesh and Uttar Pradesh. The product received an organic certification from Control Union, UK which will facilitate its usage in certified organic farming. The business also launched its first bio-fertiliser 'Wellgro Rhizobium' for use in the cultivation of Soyabean in Madhya Pradesh. The product has been well received by the farmers and plans are underway to scale up volumes and widen the range of products in this category. The business is also carrying out trials with Central Warehousing Corporation on usage of botanicals instead of toxic chemical pesticides against common storage pests. Your Company envisages huge potential for botanical pesticides, which effectively tackle the pest menace without the accompanying chemical residue related issues.

Given the growing demand for organic agri-inputs and your Company's farm linkages, the agri-inputs business is expected to grow to a significant size in the medium term.

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

Developmental activities under the umbrella of 'Sunehra Kal' in the e-Choupal catchment areas continues to be scaled up. These activities now reach out to 1,800 villages with almost 1 lakh beneficiaries in diverse areas such as water harvesting, livestock quality enhancement, improved agricultural practices and economic empowerment of women. The success of these initiatives demonstrates the potential of the e-Choupal infrastructure as an effective delivery mechanism for upgrading social infrastructure.

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

NOTES ON SUBSIDIARIES

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

In respect of ITC Global Holdings Pte. Ltd. ("ITC Global"), 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, your Company, as in the previous years, is not in a position to consolidate the accounts of ITC Global and its subsidiaries for the financial year ended 31st December, 2006 or to make available copies of the same for inspection by shareholders.

Surya Nepal Pvt. Limited

The challenging socio-political environment in Nepal continues to weigh down on the country's economic growth. The Nepalese GDP for the year ended 16th July, 2006 grew by 1.9% versus a growth rate of 2.7% in the previous year. While improved political stability augurs well for an economic revival, agitations by various ethnic groups leading to escalating protests and violence particularly in the Terai region remain a cause for concern.

In spite of the difficult operating conditions, the company's proactive supply chain management, commitment to delivering superior value to consumers and continuous focus on productivity improvement resulted in enhanced market standing and strong financial performance during the year. For the twelve-month period ended 14th March, 2007, sales grew by 19% to touch Nepalese Rs. 547 crores (net of VAT), while Profit After Tax touched Nepalese Rs. 69 crores representing a growth of 32% over the previous year. The company continues to be the single largest contributor to the Exchequer accounting for about 3.6% of aggregate government revenues.

The company's cigarette business continued to make satisfactory progress with investments directed to keep its trademarks contemporary, provide greater variety to consumers and consolidate its position in key product segments and channels. During the year, the company launched two new brands in the Regular Size filter segment: 'Shikhar Special Filter' at the premium end and 'Bijuli Filter' at the lower end of the spectrum. The modernised pack for the company's flagship brand 'Khukuri', launched during the year, was also well received by the consumers. During the year, the company's cigarette factory at Simra became the first unit in Nepal to receive SA 8000 Certification for Social Accountability.

In respect of the company's garments business, exports during the year increased substantially mainly on account of strong performance of your Company's Lifestyle Retailing business in India. The continued imposition of an Additional Customs Duty of 4% on all garment imports into India as per the Finance Act, 2006, continues to be a cause of concern, as it adversely impacts the competitiveness of exports from Nepal. The company continues to make representations to the appropriate authorities in this regard.

In the domestic market, 'John Players' continued to improve its leadership position in the branded apparel segment. In order to tap the large value for money segment of ready made apparel dominated by cheap Chinese imports, the company has recently launched a new brand – 'Springwood'. Test marketing results are encouraging and the brand is in the process of roll out nationally.

Based on an anticipated increase in export orders as well as the potential for increased sales, the company has invested in the construction of a new garment facility with enhanced capacity at Biratnagar. Planned migration of manufacture from the existing factory to the new facility will be executed over a period of time.

The company continues to be actively involved with various social development initiatives and was conferred the prestigious Nepal - India Chamber of Commerce & Industry Excellence Award during the year in recognition of its efforts in enhancing exports and improving productivity.

The company declared a dividend of Nepalese Rs. 70/- (net of tax) per equity share of Nepalese Rs. 100/- each for the year ended 32nd Ashad, 2063.

Srinivasa Resorts Limited

During the financial year ended 31st March, 2007, the company recorded net revenues of Rs. 77.62 crores (previous year Rs. 66.81 crores) and a Profit Before Tax of Rs. 31 crores (previous year Rs. 25.75 crores). Net Profit stood at Rs. 20.69 crores (previous year Rs. 17.66 crores) after providing for income tax of Rs. 10.31 crores (previous year Rs. 8.09 crores).

The Board of Directors of the company has recommended a dividend of Rs. 2/- per equity share of Rs. 10/- each for the year ended 31st March, 2007.

During the year, the company received the 'Environment Champion among large Hotels' award from the Federation of Hotel & Restaurant Associations of India and the 'Greentech Silver Safety' award in the services sector for outstanding achievement in safety management from the Greentech Foundation. The company was also awarded a 'Certificate of Appreciation' by the Energy Conservation Mission and the Institution of Engineers (India) for its efforts in the area of energy conservation.

Fortune Park Hotels Limited

During the financial year ended 31st March, 2007, the company recorded net revenues of Rs. 724.57 lakhs (previous year Rs. 457.92 lakhs) and earned a Net Profit of Rs. 138.26 lakhs (previous year Rs. 92.24 lakhs) after providing for income tax of Rs. 78.79 lakhs (previous year Rs. 56.33 lakhs).

The Board of Directors of the company has recommended a dividend of Rs. 3/- per equity share of Rs. 10/- each for the year ended 31st March, 2007.

The company, which caters to the mid range segment, signed up sixteen alliances during the year for hotel properties situated at various locations, taking the total number of properties under the 'Fortune' brand to thirty three, with a total room count of 2,652. Of these, eighteen are operating hotels whilst twelve hotels are slated to open during the course of the financial year 2007/08.

During the year, the company received the PATWA award at ITB Berlin for the 'Best First Class Hotel Chain in the Asia Pacific Region' and the Hospitality award for the 'Best First Class Hotel Chain, 2006'. The company's major thrust on brand promotion combined with focus on brand extensions has enabled 'Fortune Hotels' to maintain a premier position in the mid range segment.

Bay Islands Hotels Limited

During the year 2006/07, the company earned an income of Rs. 63.75 lakhs (previous year Rs. 33.93 lakhs) and a Net Profit of Rs. 41.38 lakhs (previous year Rs. 20.89 lakhs) after providing for income tax of Rs. 16.87 lakhs (previous year Rs. 7.22 lakhs).

The Board of Directors of the company has recommended a dividend of Rs. 30/- per equity share of Rs. 100/- each for the year ended 31st March, 2007.

King Maker Marketing

King Maker Marketing Inc. (KMM), a company registered in the State of New York, USA, became a subsidiary of your Company during the year. Your Company held 50.98% of the Share Capital of KMM as at 31st March, 2007. Subsequently, in May 2007, your Company acquired the balance shares of KMM thereby making it a wholly owned subsidiary of your Company. KMM's distribution capability has been the driving force behind your Company's success in the US market. In addition, KMM provides market research services relating to the US Tobacco and FMCG markets.

In respect of the tobacco business, KMM posted an increase of 22% in Net Sales over last year on the back of growth in existing brands as well as the launch of new brand 'Ace' during the year. Sales of Roll Your Own Tobaccos (RYO), manufactured by your Company, also recorded strong growth.

The year also witnessed significant improvement in operating profit margins leading to a 60% growth in Net Profit. The company improved its market share during the year and will continue to build on this growth trajectory.

Legislation to grant jurisdiction to the Federal Drug Administration (FDA) for Tobacco products was introduced in the US Congress this year. The impact of this development will be known only after the US Congress decides the final shape of the legislation which is expected to take effect over the next few years.

Russell Credit Limited

During the year, the company earned a Total Income of Rs. 36.02 crores and Profit After Tax of Rs. 29.39 crores.

In accordance with the Securities and Exchange Board of India (Delisting of Securities) Guidelines, 2003, the company acquired further equity shares in its subsidiary Wimco Ltd. (Wimco), tendered by the remaining shareholders of Wimco till 13th June, 2006 which marked the end of the stipulated 6 month period from the date of delisting of the Wimco's equity shares from NSE & BSE. Consequently, the shareholding of the company in Wimco has increased to 94.25%.

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 suits filed by an individual and two shareholders, in the High Courts of Delhi at New Delhi and Andhra Pradesh at Hyderabad, had earlier been dismissed by the respective High Courts.

BFIL Finance Limited

The company continues to focus its efforts on recoveries through negotiated settlements including property settlements. Legal cases against various defaulters are being pursued. Negotiated settlements during the year yielded collections aggregating Rs. 120.84 lakhs. As at 31st March, 2007, the company had no liabilities outside the ITC Group. The company will examine options for further business opportunities at the appropriate time.

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

Gold Flake Corporation Limited has paid a dividend of Rs. 3.13 per equity share of Rs. 10/- each for the year ended 31st March, 2007.

Wills Corporation Limited has paid a dividend of Rs. 2.05 per equity share of Rs. 10/- each for the year ended 31st March, 2007.

There were no major events to report with respect to the other companies.

Wimco Ltd.

The company achieved a complete turnaround during the year, the first full year of operations after its acquisition by Russell Credit Ltd. The company achieved a Profit Before Tax of Rs. 7.26 crores against a loss of Rs. 12.53 crores in the previous year. It is satisfying to note that this performance was delivered despite sharp increases in the cost of all critical raw materials during the year.

The key drivers of improved performance have been an increase in match volume by nearly 24%, improved capacity utilisation at all the four manufacturing plants, focus on cost management and synergy benefits in the area of sales & distribution and supply chain management. The Engineering division of the company has also turned in a satisfactory performance, with an increase in revenue by 33% and operating income by 43% over the previous year.

The company's subsidiary, Wimco Seedlings Ltd., stepped up its agro forestry business, recording a growth of nearly 100% in the development and sale of poplar ETPs (entire transplants) to farmers in North India. Apart from creating a long term sustainable supply of a critical raw material, the company's agro forestry activity is also helping in improving the green cover in the region.

Landbase India Limited

As reported in the Report of the Directors in previous years, golf based resorts present attractive long-term prospects in view of their growing popularity all over the world. The preparatory work towards developing a resort hotel at the Classic Golf Resort is in progress and to this end, relevant consultants were appointed during the year. Further, the company is also in the process of obtaining permissions from various authorities for the commencement of the Project. The company's expertise in golf course management combined with the project management and service competencies of your Company's hotels business can be effectively leveraged to realise the growth potential in this segment.

The Management of the company was compelled to declare a lockout at the Classic Golf Resort in October 2006 due to widespread violence by the workmen resulting in injury to two managers and damage to property. The company has taken all steps including seeking intervention of the Government authorities and the High Court to resolve all issues and expects to re-open the golf course and other facilities at the Classic Golf Resort at the earliest.

ITC Infotech India Limited

The outsourcing trend continued to strengthen during the year under review. Demographic trends and skill shortages in developed markets will only reinforce this trend going forward. Analysts predict that by 2010, the global outsourcing industry will cross USD 1 trillion. While alternative destinations are being explored to add multi-country delivery capability, India remains an integral part of any global IT sourcing strategy. Consequently, the business opportunity for Indian IT companies continues to gain momentum and scale.

The company, together with its subsidiaries in the US and UK (ITC Infotech), was successful in acquiring new customers in US and Europe, resulting in a healthy growth of 35% in Total Income. However, margins remained under pressure, primarily on account of escalating personnel costs and a higher proportion of onsite engagements. Further, the incremental revenues and margins from new customers commenced accruing primarily in the last quarter of the financial year and are therefore expected to gain momentum only in the next fiscal.

For the year under review:

(a) ITC Infotech India Limited registered a Total Income of Rs. 205.18 crores (previous year Rs. 162.34 crores) and a PAT of Rs. 20.67 crores (previous year Rs. 10.38 crores)

(b) ITC Infotech Ltd, UK, a wholly owned subsidiary of the company, registered a Turnover of GBP 16.81 million (previous year GBP 14.31 million) and a Net Profit of GBP 0.12 million (previous year GBP 0.40 million)

(c) ITC Infotech (USA), Inc. a wholly owned subsidiary of the company, registered Total Revenues of USD 9.31 million (previous year USD 6.51 million) and a Net Profit of USD 0.18 million (previous year USD 0.16 million)

In the course of the fiscal, ITC Infotech focused on the Nordic markets of Denmark, Finland, Sweden and Norway. A branch office has been set up at Copenhagen, Denmark to anchor the activities of customer acquisition and onsite coordination for this region. Early indicators of this initiative have been positive. A large bank and an airline company headquartered in the region, have already been added to the customer list. Two dedicated development centres have been set up at the Bangalore campus to service these clients.

Apart from expanding its sales force, ITC Infotech is exploring strategic alliances and partnerships to strengthen its presence in the US market. It is also evaluating opportunities for inorganic growth in the US.

REPORT OF THE DIRECTORS

The company restructured its organisation into three business clusters, each focused on specific business verticals and supported with technical capabilities aligned to the target vertical. This revised strategy of organisation is expected to sharpen focus and deepen domain depth, create domain-led offerings, and synergise business development and delivery efforts.

These interventions have resulted in a growing pipeline of business around testing, package implementation, engineering services and IT infrastructure services in the target verticals of Banking, Financial Services & Insurance, Travel, Hospitality & Transportation, Manufacturing and Consumer Packaged Goods & Retail. Recognition has followed with ITC Infotech Group being ranked amongst the 'Top 10 Specialty Application Development Providers' in the 2007 Global Services Listing. ITC Infotech has also been ranked in the "Leaders" category for the '2007 Global Outsourcing 100' by the International Association of Outsourcing Professionals.

Competent human resource is the key to success in creating a superior value proposition and meeting rising customer expectations. ITC Infotech has a talent base of a 1,900 strong team of software engineers, having grown its headcount by 50% during the year under review. The company continues to re-invigorate talent management processes and has embarked upon a focused training and development programme for its direct-from-campus recruits and is confident of leveraging this home-grown talent towards achieving superior results in the future.

In the ITES segment, CLI3L e-Services Limited (CLI3L), a joint venture company of ITC Infotech India Limited, posted a steady performance with Total Income at Rs. 124.43 crores (previous year Rs. 133.73 crores) with post-tax profits at Rs. 29.89 crores (previous year Rs. 32.86 crores). CLI3L declared a total dividend of 90% i.e. Rs. 9/- per share for the year under review (previous year 125% i.e. Rs. 12.50 per share). During the year, the name of the joint venture partner was changed from ClientLogic Operating Corporation, USA to Sitel Operating Corporation, USA. The shares of the company in CLI3L are now held by your Company in accordance with Article 16 of the Articles of Association of CLI3L.

Strong relationships, diversity of services, a global footprint, effective management of scale and deep domain understanding would be key differentiators in the global IT-ITES industry. The war for talent will intensify and the cost of talent will escalate. In this environment, strength in recruitment, training, engagement and retention of talent will be key determinants of an organisation's ability to leverage growing business opportunities in this arena.

ITC Global Holdings Pte. Ltd.

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

As stated in the previous years' Reports, the Judicial Managers of ITC Global had filed a Writ against your Company before the Singapore High Court claiming approximately USD 18.10 million. Based on legal advice, your Company filed an appropriate application for setting aside the said Writ. On 2nd March, 2006 the Assistant Registrar of the Singapore High Court set aside the service of Writ of Summons on the Company and some individuals. Subsequently, your Company received a set of papers purportedly sent by ITC Global including what appears to be a copy of the earlier Writ of Summons. Your Company has filed a fresh Motion in the Singapore High Court praying for setting aside the said Writ of Summons, which is pending.

NOTES ON JOINT VENTURES

ITC Filtrona Limited

The company maintained its market leadership in the Indian cigarette filter industry with nearly 60% of the domestic value share. Gross Sales for the year ended 31st December, 2006, at Rs. 93.57 crores represents a growth of 20.3% over the previous year. The company's export business saw a growth of nearly 60% in value. Pre-tax profits at Rs. 10.90 crores recorded a growth of 47.5% over last year. The Board of Directors of the company recommended a dividend of 80% for the year.

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

Maharaja Heritage Resorts Limited

Maharaja Heritage Resorts Limited, a joint venture with Marudhar Hotels Private Limited, currently has 51 properties operating under the 'WelcomHeritage' brand.

During the year, for the second consecutive time, 'WelcomHeritage' received the 'Galileo-Express Award for Travel Tourism, 2006' for the best Heritage Hotels Chain in India.

RISK MANAGEMENT

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

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

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

AUDIT AND SYSTEMS

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

Well established and robust internal audit processes, both at business and corporate levels, continuously monitor the adequacy and effectiveness of the internal control environment across the Company and the status of compliance with operating systems, internal policies and regulatory requirements. In the networked IT environment of your Company, validation of IT security continues to receive focused attention of the internal audit team which includes IT specialists.

The Internal Audit function consisting of professionally qualified accountants, engineers and IT specialists, also reviews the quality of planning and execution of all ongoing projects involving significant expenditure to ensure that project management controls are adequate to yield 'value for money'.

REPORT OF THE DIRECTORS

It is a matter of satisfaction and reassurance that your Company's Internal Audit function is certified as complying to ISO 9001: 2000 quality standards in its processes.

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

HUMAN RESOURCE DEVELOPMENT

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

The strategy of organisation and its ongoing emphasis on building distributed leadership has ensured that each of your Company's businesses is managed by a team of competent and inspired leaders, capable of building a culture of learning, innovation and excellence. The enduring success of your Company rests on a culture that has been assiduously built and nurtured over the years. The uniqueness of the Company's culture is that it blends 'responsibility and accountability' with 'care and concern'. This ability to simultaneously appeal to the heart and the mind represents the cultural DNA of your Company.

The Company's ability to align employees with its shared vision and overarching purpose continues to facilitate the attraction and retention of quality talent in a buoyant market.

Your Company's commitment to building meaningful employee engagement was evident in the successful conclusion of long term agreements at its manufacturing units and hotel properties during the year. The collaborative spirit of partnership across all sections of employees has resulted in significant enhancement in quality and productivity, whilst enhancing the quality of life of its employees.

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

SUSTAINABILITY – CONTRIBUTION TO THE 'TRIPLE BOTTOM LINE'

Your Company continued to improve sustainability practices and achieve significant progress towards its vision of enlarging its contribution to Indian society across economic, ecological and social dimensions. Your Company's third Sustainability Report, unveiled in December 2006, details its achievements across the three dimensions of the 'triple bottom line'. This report, independently assured by PricewaterhouseCoopers, is the first Indian and one of the first 10 reports worldwide to be presented in accordance with the latest 'G3' revision of Global Reporting Initiative (GRI) guidelines. Your Company has followed the highest level 'A+' for reporting the 'triple bottom line' performance.

ITC, now a 'benchmarked' corporation for its strategies and achievements on Sustainable Development, had set up the 'CII-ITC Centre of Excellence for Sustainable Development' in January 2006. Since its inception, the Centre has made good progress in creating awareness, promoting thought leadership and building capacity amongst Indian enterprises in their quest for sustainable development. In April 2006, the Centre launched the first 'CII-ITC Sustainability Awards 2006' which recognised nine companies in their journey towards achieving excellence in 'triple bottom line' performance. The Centre, in partnership with Development Alternatives and the Ministry of Environment and Forests, Government of India, organised the first 'Sustainability Summit: Asia 2006' in December 2006. The event, that was attended by over 350 delegates from all over Asia, provided a platform to stimulate dialogue on the challenge of converging business goals with the imperatives of sustainable development to nurture environmental and social capital.

REPORT OF THE DIRECTORS

The Company continued its uncompromising dedication to maintaining the highest levels of safety, occupational health & environmental standards across all its units. Environment management systems at all manufacturing units and large hotels have been certified ISO 14001 compliant, while all manufacturing units have received OHSAS 18001 certification.

It is a matter of pride that your Company further improved its 'water positive' and 'carbon positive' status, and also made significant progress towards achieving 'zero solid waste' status through recycling of all solid wastes. Total recycling of waste in the businesses/units improved to 93% in 2006/07 from 78.7% in the previous year, with several business units achieving 100% recycling of all solid wastes. The overall waste recycling, in the last quarter of the 2006/07 improved to 96.2%.

Your Company, well aware of the 'climate change' implications of 'global warming' caused by excessive emissions of 'green house gases', progressed several initiatives during the year towards (a) minimising specific energy consumption in each of the businesses through benchmarking, energy audits and adoption of best practices (b) using renewable and environmental friendly sources of energy (c) Carbon Dioxide sequestration through large-scale plantations (farm & social forestry initiatives) and maximising tree plantation at all company sites and (d) utilising 'Clean Development Mechanisms' (CDM) under the Kyoto Protocol to identify opportunities, implement projects and register 'Certified Emission Reductions' (CERs). Your Company has already registered 6 projects under 'Clean Development Mechanism' of the Kyoto Protocol. The seventh project is awaiting registration with the CDM Executive Board. Other projects are in the pipeline.

As reported in earlier years, the Bhadrachalam mill is the only producer of 'Elemental Chlorine Free' (ECF) pulp and paperboards in the country while the 'ITC Green Centre' in Gurgaon is one of the largest Platinum rated buildings in the world by the US Green Building Council Certification for Leadership in Energy & Environmental Design (USGBC – LEED). Both bear testimony to your Company's dedicated and uncompromising pursuit of the 'triple bottom line'.

Your Company's strategic vision and commitment to the 'triple bottom line' and the dedication with which these measures are implemented by the employees have made it a benchmark enterprise in this field as evident from the number of prestigious awards and certifications received by it. (Please refer to the 'Awards and Accolades' section for a detailed list of recognitions).

Your Company continued to intensify its footprint in the social sector by expanding to newer districts during the year. It persevered with its proven strategy of concentrating on three main areas of interventions under 'Mission Sunehra Kal': (a) natural resource management, which includes wasteland, watershed and agriculture development (b) sustainable livelihoods, comprising genetic improvement in livestock and women's economic empowerment and (c) community development, with focus on primary education and health and sanitation. Your Company currently runs 54 social development projects in 43 districts spread over the states of Kerala, Andhra Pradesh, Karnataka, Tamil Nadu, Madhya Pradesh, Uttar Pradesh, Rajasthan, Orissa, West Bengal and Bihar.

Your Company's pioneering initiative of wasteland development through the Social Forestry Programme has so far promoted plantations covering 9,069 hectares in 380 villages reaching out to 10,510 poor households. The collaboration between ITC and the Government of AP for wasteland development under 'Indira Kranti Patham' was sustained during the year – 830 hectares of plantations were promoted through this public-private partnership. The households covered under the Social Forestry Programme continue to reap the benefits derived from plantations. Not only have their earnings per acre improved significantly, thanks to the sale of plantations, but most beneficiaries have ensured that the contribution to the Village Development Fund continues apace. Their own incomes have been invested wisely into productive assets to ensure a long-term virtuous cycle of development. In combination with the Company's Farm Forestry Programme, the total area under coverage stands at nearly 65,000 hectares providing over 28 million person days of employment among the disadvantaged.

REPORT OF THE DIRECTORS

The soil & moisture conservation programme, designed to assist our farmers in identified moisture-stressed districts, witnessed a sharp increase in its coverage during the year. To date, 1,531 water-harvesting structures provide critical irrigation to about 14,287 hectares. In all, the watershed development programme today covers 26,700 hectares. The year also saw another significant milestone with the signing of an agreement with the Government of Rajasthan for watershed development in the Bhilwara District of Rajasthan under a public-private partnership programme. The project will undertake soil and moisture conservation works on 5,000 hectares in five years.

In continuation of its policy of providing an integrated solution for promoting a sustainable water management regime, your Company lays equal emphasis on ensuring efficient usage of water through interventions aimed at improving farm productivity, promoting group irrigation projects and demonstrating the use of sprinkler sets. Sustainable agricultural practices have received a major boost with the promotion of more than 4,500 organic fertilisers units through vermi-composting and NADEP technologies during the year.

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. 77 cattle development centres already cover more than 1,500 villages, providing integrated animal husbandry services to nearly 55,000 milch animals during the year. The initiative for the economic empowerment of women also continued apace: to date, 10,232 women have been organised under 801 self-help groups (SHG) with total savings of Rs. 53 lakhs. More than 5,900 women were gainfully employed either through micro-enterprises or as self-employed through income generation loans.

The advances made towards contributing to India's sustainable development goals have been possible, in large measure, due to your Company's partnerships with some of the globally renowned NGOs like Baif Development Research Foundation, Sewa-Bharat, Dhan Foundation, Srijan, Pratham, Foundation for Ecological Security, Action for Social Advancement, Pradan, Myrada, etc. These partnerships, which bring together the best-in-class management practices of your Company, and the development experience and mobilisation skills of the NGOs, will continue to bring innovative grass-roots solutions to some of India's worst problems of development in the years to come.

R&D, QUALITY AND PRODUCT DEVELOPMENT

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

As reported in last year's Report of the Directors, ITC R&D is in the process of building a critical mass of scientific skills in identified core competencies. The year under review marked the establishment of the first R&D hub in Hyderabad with a focus on agri-sciences. This R&D facility, the first of its kind for your Company, will focus on multiple businesses built on a common set of core competencies. The initial set of core competency areas identified is: Plant Breeding and Genetics, Agronomy, Biotechnology, Molecular Biology and Silviculture. At present, the facility has 30 world-class scientists and efforts are on to induct top class talent with a view to creating 'Centres of Excellence' in the chosen areas. The ITC R&D Centre in Bangalore has also commenced its activities in developing unique products in Bio-pesticides and Bio-fertilisers and will continue to evaluate all new ideas.

The ITC R&D Centre will leverage relevant expertise available in India and overseas through a technical advisory committee. It will further supplement such efforts through collaborations. Several world-class institutions have been identified for this purpose. In this context, your Company has signed a Memorandum of Understanding (MoU) with the International Crop Research Institute for Semi Arid Tropics (ICRISAT) to pursue collaborative research.

Your Company has also commenced establishing a second R&D Centre in Bangalore to undertake research programs in key science areas to develop differentiated products in the Personal Care arena. In addition to this, investments are being progressed towards building a state-of-the-art Food Technology Centre that will house pilot plants, product development and analytical services.

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

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

EXCISE

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

As mentioned in the Report of the Directors for 1987 and thereafter, the Excise Department, during 1987 and 1988, again reopened some of the issues already settled by the Order of the DG, by issuing fresh Show Cause Notices in respect of the period upto 28th February, 1983. The Notices proposed to recover differential duties of Rs. 43.88 crores (for Munger factory), Rs. 143.22 crores (for Bangalore factory), Rs. 31.05 crores (for Kidderpore factory), Rs. 41.51 crores (for Parel factory) and Rs. 26.43 crores (for Saharanpur factory). As already reported, the Bangalore Show Cause Notice has been set aside, and the Department's appeal to the Supreme Court was disposed of as infructuous by the Supreme Court by its Order dated 6th March, 2003. As mentioned in last year's Report and Accounts, proceedings relating to the Parel Notices including the Show Cause Notice mentioned above ended in favour of your Company vide CESTAT order dated 18th June, 2004. The Department filed an appeal before the Supreme Court, which was dismissed by an order, dated 31st October, 2006. Likewise the proceedings relating to the Munger Show Cause Notice concluded in favour of your Company vide order dated 22nd May, 2006 of 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. So far as the Kidderpore factory is concerned all pre-March 1983 valuation disputes stand resolved in favour of your Company pursuant to the finalisation of the provisional assessments.

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

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

Although your Company in a spirit of settlement, paid the differential Excise Duty that arose out of the Order of the Director General as early as in March 1987, and although the Excise Department's aforesaid Demands had either been quashed or stayed, the Collectorates in Meerut, Patna and Bangalore, during the year 1995, filed criminal complaints in the Special Court for Economic Offences at Kanpur, Patna and Bangalore, charging your Company and some of its Directors and employees who were employed with your Company during the period 1975 to 1983 with offences under the Central Excises & Salt Act, 1944, purportedly on the basis of the Order of the Director General dated 10th April, 1986. Your Directors are advised that no prosecution would lie on the basis of the aforesaid Order of the Director General dated 10th April, 1986. As reported in the previous year Report and Accounts and even earlier, the criminal case in respect of Bangalore factory was quashed by the court and in the proceedings relating to Saharanpur factory, the Special Court in Kanpur, on applications filed by the individuals concerned, discharged them. In Patna, upon applications filed by the individuals against dismissal of similar petitions by the Special Court in Patna, the High Court has stayed all further proceedings before the Special Court.

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

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

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

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

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

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

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

REPORT OF THE DIRECTORS

TREASURY OPERATIONS

During the year, the Company's treasury operations continued to remain focused on proactively managing temporary surplus liquidity and foreign exchange exposures within a well-defined risk management framework.

Forex markets remained volatile with the Indian Rupee, which witnessed a two-way movement early in the year, giving into a continuously appreciating trend caused by strong capital inflows and interest rate increases by the Reserve Bank of India (RBI) to control inflationary pressures. The US Dollar weakened against most major currencies in the wake of a pause in interest rate hikes by the Federal Reserve and a continuing regime of interest rate increases followed by other major Central Banks.

Average forex exposures, comprising USD 135 million of imports and USD 150 million of exports, were effectively managed through judicious hedging including increased use of option structures, backed by close monitoring of market movements.

The deployment of temporary surplus liquidity continued to be guided by the twin objectives of capital protection and return optimisation. Given the rising interest rate scenario, most of the investments were made in liquid, floating rate and fixed maturity schemes of Debt Mutual Funds. However, the year-end tight liquidity condition in the money market provided an opportunity to deploy part of the portfolio in high yielding bank fixed deposits.

Commensurate with the large size of temporary surplus liquidity under management, treasury operations were supported by appropriate control mechanisms, including an independent check of 100% of the transactions by your Company's Internal Audit Function and implementation of a state-of-the-art Integrated Treasury Management System.

TAXATION

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

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

PUBLIC DEPOSITS

As at 31st March, 2007 your Company had unclaimed Fixed Deposits of Rs. 14.67 lakhs. No fresh/renewed deposits were accepted during the financial year. There was no failure to make repayments of Fixed Deposits on maturity and the interest due thereon in terms of the conditions of your Company's Schemes. Reminders have been sent to 115 persons, who did not claim repayment of their deposits, which had become due, amounting to Rs. 14.67 lakhs.

INVESTOR SERVICE CENTRE

The Investor Service Centre (ISC) of your Company, accredited with ISO 9001:2000 certification for its investor servicing, continues to provide effective service to the investors.

ISC, already benchmarked for its best-in-class investor servicing, consistently strives to cater to the increasing expectations of the investors by keeping its services contemporary and efficient, backed by state-of-the-art infrastructure and systems and an experienced team of professionals.

DIRECTORS

Mr. Serajul Haq Khan was appointed by the Board of Directors as Additional Non-Executive Director of your Company with effect from 30th October, 2006.

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. Khan 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 25th May, 2007 recommended for the approval of the Members the appointment of Mr. Khan as

Non-Executive Director of your Company, liable to retire by rotation, with effect from the date of the ensuing Annual General Meeting of the Company.

Mr. Pillappakkam Bahukutumbi Ramanujam and Mr. Charles Richard Green were re-appointed as Non-Executive Directors of your Company with effect from 30th July, 2002 and their present term will expire on 29th July, 2007. The Board of Directors of your Company at its meeting held on 25th May, 2007 recommended for the approval of the Members their re-appointment as Non-Executive Directors of your Company, liable to retire by rotation, with effect from 30th July, 2007.

Notices have been received from Members of the Company under Section 257 of the Companies Act, 1956 for the appointment / re-appointment of Mr. Khan, Mr. Ramanujam and Mr. Green as Directors. Appropriate resolutions seeking your approval to their appointment / re-appointment are appearing in the Notice convening the 96th Annual General Meeting of the Company.

In accordance with the provisions of Article 91 of the Articles of Association of the Company, Mr. Pillappakkam Bahukutumbi Ramanujam, Mr. Charles Richard Green, Mr. John Patrick Daly and Mr. Krishnamoorthy Vaidyanath 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

Under the 'Employee Stock Option Scheme' ('the Scheme') of the Company, 70,43,920 Ordinary Shares of Re. 1/- each, were issued and allotted during the year upon exercise of 7,04,392 Options. Such shares rank pari passu with the existing Ordinary Shares of your Company. Consequently, the Issued and Subscribed Share Capital of your Company, as on 31st March, 2007, stands increased to Rs. 3,76,22,22,780/- divided into 3,76,22,22,780 Ordinary Shares of Re. 1/- each.

Details of the Options granted up to 31st March, 2007, and other disclosures as required under Clause 12 of the Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999, are set out in the Annexure to this Report.

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

The Members of the Company approved during the year, by means of Postal Ballot, offer and issue of shares up to five per cent of the Issued and Subscribed Share Capital as on 31st March, 2006, under a new Employee Stock Option Scheme for the employees and Directors of your Company, and also for the employees including Managing/ Wholetime Directors of subsidiary companies. The new Scheme came into effect from 25th May, 2007.

DIRECTORS' RESPONSIBILITY STATEMENT

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

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

b) selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of your Company at the end of the financial year and of the profit of your Company for that period;

c) taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of your Company and for preventing and detecting fraud and other irregularities; and

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

REPORT OF THE DIRECTORS

CONSOLIDATED FINANCIAL STATEMENTS

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

OTHER INFORMATION

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

FORWARD-LOOKING STATEMENTS

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

CONCLUSION

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

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

25th May, 2007 On behalf of the Board
Virginia House
37 J L Nehru Road
Kolkata 700071 Y.C. DEVESHWAR *Chairman*
India K. VAIDYANATH *Director*

ANNEXURE TO THE REPORT OF THE DIRECTORS

Statement as at 31st March, 2007, pursuant to Clause 12 (Disclosure in the Directors' Report) of the Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999.

		2001	2002	2003	2004	2005	2006	Total
a)	Total Number of Options granted / allocated* :	3,39,119	6,27,070	11,82,616	11,43,195	14,48,071	60,95,625	1,08,35,696
b)	(i) Pricing Formula :	The Pricing Formula, as approved by the Shareholders of the Company, is the closing price of the Company's share on the National Stock Exchange of India Limited ('the NSE') on the date of grant, or such price which is no lower than the average price of the Company's share in the six months preceding the date of grant based on the daily closing price on the NSE, or the 'Market Price' as defined from time to time under the Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999, as determined by the Compensation Committee.						
	(ii) Exercise Price / Adjusted Exercise Price** : per Option, as applicable (Rs.) (Each Option represents 10 Ordinary Shares of Re. 1/- each)	779.95	617.90	679.90/ 453.27	880.45/ 586.97	1,531.65/ 1,021.10	1,814.00	—
c)	Total number of Options vested :	30,50,769						
d)	Total number of Options exercised :	23,26,416						
e)	Total number of Ordinary Shares arising as a result of exercise of Options :	2,32,64,160 Ordinary Shares of Re. 1/- each.						
f)	Total number of Options lapsed :	6,47,353						
g)	Variation of terms of Options :	Nil						
h)	Money realised by exercise of Options :	Rs. 156.86 crores						
i)	Total number of Options in force :	78,61,927						
j)	Details of Options granted to :	As provided below –						

I. Senior managerial personnel

	Name	Designation	No. of Options granted during the financial year
1.	Y. C. Deveshwar	Executive Chairman	1,50,000
2.	S. S. H. Rehman	Executive Director	75,000
3.	A. Singh	Executive Director	75,000
4.	K. Vaidyanath	Executive Director	75,000
5.	S. B. Mathur	Non-Executive Director	10,000 @
6.	P. B. Ramanujam	Non-Executive Director	10,000 @
7.	B. Sen	Non-Executive Director	10,000
8.	Ram S. Tarneja	Non-Executive Director	10,000
9.	B. Vijayaraghavan	Non-Executive Director	10,000
10.	S. M. Ahmad	Executive Vice President – Marketing, ITD	15,000
11.	N. Anand	Divisional Chief Executive, HD	22,500
12.	P. Banerjea	Executive Vice President, Risk Management & Strategic Initiatives	15,000

ITC Limited

	Name	Designation	No. of Options granted during the financial year
	13. S. Basu	Executive Vice President, Internal Audit	15,000
	14. S. Chandrasekhar	Senior Executive Vice President – Projects, Growth and Development, HD	15,000
	15. B. B. Chatterjee	Executive Vice President & Company Secretary	15,000
	16. P. Chatterjee	Executive Vice President & Corporate Financial Controller	15,000
	17. C. Dar	Divisional Chief Executive, LRBD	15,000
	18. P. V. Dhobale	Divisional Chief Executive, PSPD	22,500
	19. K. N. Grant	Divisional Chief Executive, ITD	31,250
	20. R. G. Jacob	Group Head, Corporate Quality, R & D and Product Development	22,500
	21. B. N. Malhotra	Executive Vice President – Projects, Agri Business	15,000
	22. R. S. Naware	Divisional Chief Executive, FD	22,500
	23. A. Nayak	Executive Vice President, Corporate Human Resources	22,500
	24. A. R. Noronha	Vice President – Projects, HD	10,625
	25. T. V. Ramaswamy	Executive Vice President – Technical & HR, ITD	15,000
	26. S. Janardhana Reddy	Divisional Chief Executive, Agri Business (Leaf Tobacco)	15,000
	27. S. C. Rustagi	Executive Vice President, Corporate EHS	15,000
	28. S. K. Singh	Executive Vice President – Manufacturing, PSPD	15,000
	29. S. Sivakumar	Divisional Chief Executive, Agri Business	22,500
	30. R. Srinivasan	Head, Paper & Packaging Group	31,250
	31. K. S. Suresh	General Counsel	15,000
	32. P. K. Talwar	Executive Vice President – Finance, PSPD	15,000
	33. R. Tandon	Executive Vice President – Finance & MIS, ITD	15,000
	34. K. S. Vaidyanathan	Senior Vice President, Corporate Affairs	22,500
	35. P. K. Verma	Executive Vice President – Operations, HD	15,000
	II. Any other employee who received a grant in any one year of Options amounting to 5% or more of the Options granted during that year. :	None	
	III. Identified employees who were granted Options during any one year, equal to or exceeding 1% of the issued capital (excluding outstanding warrants and conversions) of the Company at the time of grant. :	None	
k)	Diluted Earnings Per Share (EPS) pursuant to issue of Ordinary Shares on exercise of Options calculated in accordance with Accounting Standard (AS) 20 'Earnings Per Share'. :	Rs. 7.16	

l)	(i) Method of calculation of employee compensation cost.	:	The employee compensation cost has been calculated using the intrinsic value method of accounting to account for Options issued under the ITC Employee Stock Option Scheme. The stock-based compensation cost as per the intrinsic value method for the financial year 2006-07 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. 148.26 crores
	(iii) The impact of this difference on profits and on EPS of the Company.	:	The effect on the net income and earnings per share, had the fair value method been adopted, is presented below: **Net Income** — **Rs. in Crores** As reported — 2,699.97 *Add*: Intrinsic Value Compensation Cost — Nil *Less*: Fair Value Compensation Cost (Black Scholes model) — 148.26 **Adjusted Net Income** — 2,551.71 **Earnings Per Share** — **Basic (Rs.)** — **Diluted (Rs.)** As reported — 7.19 — 7.16 As adjusted — 6.79 — 6.77
m)	Weighted average exercise prices and weighted average fair values of Options granted for Options whose exercise price either equals or exceeds or is less than the market price of the stock.	:	Weighted average exercise price per Option : Rs. 1,814.00 Weighted average fair value per Option : Rs. 468.97
n)	A description of the method and significant assumptions used during the year to estimate the fair values of Options.	:	The fair value of each Option is estimated using the Black Scholes Option Pricing model after applying the following key assumptions on a weighted average basis: (i) Risk-free interest rate — 6.56% (ii) Expected life — 3.55 years (iii) Expected volatility — 28.73% (iv) Expected dividends — 2.38% (v) The price of the underlying share in market at the time of Option grant — Rs. 1,831.36

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

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

@ *Not accepted.*

Expansion of abbreviations used:

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

On behalf of the Board

Y.C. DEVESHWAR *Chairman*

Kolkata, 25th May, 2007

K. VAIDYANATH *Director*

ANNEXURE TO THE REPORT OF THE DIRECTORS

FOR THE FINANCIAL YEAR ENDED 31ST MARCH, 2007

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

Name	Age	Designation/ Nature of Duties	Gross Remuneration (Rs.)	Net Remuneration (Rs.)	Qualifications	Experience (Years)	Date of Commencement of Employment	Previous Employment/ Position Held
1	2	3	4	5	6	7	8	9
Employed throughout the year and in receipt of remuneration aggregating Rs. 24,00,000/- or more per annum.								
Ahmad S M	53	Executive V.P., Marketing (ITD)	48,30,325	18,91,805	M.A.	30	06.03.1980	ANZ Grindlays Bank, Plc., Mgmt. Trainee
Ahmed Riaz	51	Div. Fin. Controller (HD)	33,76,776	15,49,425	B.Com., F.C.S., A.I.C.W.A., A.C.I.S. (UK)	27	23.01.1986	@
Anand Gautam	49	V.P., Operations, Support & Quality (HD)	33,71,512	13,83,000	B.A. (Hons.)	27	16.03.1994	@
Anand Nakul	50	Div. Chief Executive (HD)	59,58,747	20,06,163	B.A. (Hons.)	27	01.12.1979	@
Awasty Raveesh	51	General Manager, T & RA (ITD)	27,59,396	11,30,582	M.A., M.B.A.	25	01.02.2004	Zee Telefilms Ltd., CEO (Siticable & DTH)
Balaji L N	45	Services on Loan to Subsidiary Co.	34,14,833	13,65,614	B.Com., F.C.A.	22	17.06.1985	Nil
Balakrishnan S	40	Divisional Manager - FMCG Projects (ITD)	25,20,234	10,39,742	B.E.	20	01.09.1987	Nil
Banerjea P	54	Executive V.P., Risk Management	35,86,794	16,74,874	B.Sc., M.Sc., F.C.A., F.I.C.W.A.	27	01.10.1982	Shaw Wallace & Co. Ltd., Financial Accountant
Banerjee Subhatosh	60	Sr. Legal Advisor	25,63,167	10,09,799	B.A. (Hons.), M.A., LL.B.	38	01.08.1985	Smith Stanistreet Pharm. Ltd., Law Officer
Basu S	55	Executive V.P., Internal Audit	36,19,139	15,52,715	A.C.A., F.C.A. (Eng. & Wales)	37	02.01.1978	Whinney Murray & Co., London, Audit Asst.
Batra Rakesh	43	Services on Loan to Subsidiary Co.	29,06,221	11,40,536	B.Com. (Hons.), F.C.A.	21	01.09.1986	Nil
Bhalla A	57	V.P., Quality, Learning & Six Sigma (HD)	30,94,896	13,12,810	Dip. in H.M.C.T.	34	16.08.1989	@
Bhandari R	45	Area Manager - East & Gr. Manager ITC Sonar (HD)	34,79,860	15,30,622	B.Com. (Hons.), Dipl. in Hotel Mgmt.	21	01.04.2002	@
Bhatnagar M S	55	V.P., Growth & Development (HD)	36,02,291	14,88,340	B.Sc., M.B.A.	33	01.01.1975	@
Bhattacharjee Arijit	43	General Manager, Information Systems (HD)	24,82,800	11,70,681	B.E. (Industrial & Production)	18	09.07.2001	@
Biddappa K C	54	V.P., Marketing and R&D (AB, LT)	30,00,888	10,86,902	B.Sc. (Ag.)	29	06.02.1978	Nil
Bose Kamal	47	V.P., Buying & Merchandising (LRBD)	25,02,069	10,41,353	B.A. (Hons.), P.G.D.M.	27	16.01.1995	ITC BPL Ltd., Regional Mgr., Mktg.
Chakrawarti A	49	Services on Loan to Subsidiary Co.	26,50,150	12,80,062	B.Com. (Hons.), A.C.A.	27	01.10.1990	@
Chand A	42	V.P., Marketing & Retail Operations (LRBD)	37,77,956	14,88,107	B.A., M.B.A.	19	01.06.1988	Godfrey Philips (I) Ltd., Mktg. Exec.
Chander V	51	Controller - ITC Hotels & ITC Maurya (HD)	24,15,167	11,21,471	M.Com., M.B.A.	31	09.01.1976	@
Chandrasekhar S	54	Sr. Executive V.P. - Proj., Growth & Development (HD)	43,19,568	17,23,054	B.Sc., F.C.A.	29	01.01.1978	@
Chandrasekharan L C (Dr)	52	Chief Scientist, Research & Technology Innovation	61,30,019	37,27,140	Ph.D.	25	01.10.2005	G.E. India, Director, Mfg. Engg.
Chatterjee B B	54	Executive V.P. & Company Secretary	45,61,028	22,56,169	B.Com. (Hons.), F.C.A., F.C.S., LL.B.	29	16.05.1983	Wacsgen, Deputy Mgr.
Chatterjee P	57	Executive V.P. & Corporate Financial Controller	46,20,037	18,24,826	B.Com. (Hons.), F.C.A.	35	16.09.1974	Macneill & Barry Ltd., Accountant
Dar C	51	Divisional Chief Executive (LRBD)	43,20,923	17,96,976	B.Tech. (Hons.), P.G.D.M.	28	01.05.1981	Tata Eng. & Loco. Co., Shift Supvr.
Das C S	51	SBU Chief Executive (GGSB)	34,02,083	13,56,814	B. Tech. (Hons.), M.B.A.	27	15.04.1980	Larsen & Toubro Ltd., Trainee
Desai G D	56	Sr. Executive Chef, ITC Maratha (HD)	27,92,174	13,05,685	Dip. In Hotel Mgmt. & Catering Tech.	31	03.06.1982	@
Deveshwar Y C	60	Executive Chairman	4,02,50,309	1,70,70,641	B.Tech. (Mech.)	38	11.02.1994	Air India Ltd., Chairman & M.D.
Dhalewadikar S V (Dr)	53	Chief Scientist (ITD)	34,14,618	13,95,841	B.Sc., M.Sc., Ph.D.	25	03.03.2003	Hindustan Lever Ltd., Development Mngr.
Dhawan S S	57	V.P., Welcomhotels (HD)	27,36,674	11,58,927	Dip. In Tourism Mgmt. (Vienna)	36	18.05.1978	@
Dhobale P V	51	Divisional Chief Executive (PSPD)	59,36,294	20,19,581	B.Tech. (Chem.)	30	01.07.1977	Nil
Dutt S	52	General Manager - Commercial (HD)	26,19,724	10,74,879	B.Com., A.C.A., A.C.S.	28	15.05.1980	@
Dutta Saradindu	47	General Manager, Corporate Accounts	28,97,218	10,78,535	B.Com (Hons.), M.Com., A.C.A.	25	01.12.1982	Organon (I) Ltd., Trainee Accounts

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
Dwivedi Praveen	46	Business Manager - Logistics (ITD)	34,28,239	11,91,799	B.Com. (Hons), M.Com.	22	01.06.1985	Nil
Favre Gilles	35	Executive Pastry Chef - ITC Maurya (HD)	46,73,836	25,22,260	HACCP Training Johnson & Wales University, Certificate in Pastry, Confectionary, Chocolates & Ice Cream	16	17.03.2006	Sheraton GrandeWalkerhill Hotel & Casino, Seoul
Gadhok M S	48	General Manager - RTE (FD)	27,53,092	10,66,451	B.Tech., M.B.A.	27	01.06.1980	Nil
Ganesan M	44	V.P., Finance & MIS (AB, LT)	32,21,049	12,39,732	B.Com., A.C.A., A.C.S.	21	01.03.1986	Nil
Ganesh D	57	General Manager, Haridwar Complex (ITD)	36,70,544	14,31,537	B.E., D.M.S., Memb. Inst. of Standards Engrs.	34	19.11.1979	Metal Box (I) Ltd., Foreman
Ganeshkumar S	39	General Manager - Staples (FD)	28,74,720	11,29,628	B.E.	15	14.12.1991	Nil
Ghadiali J	50	General Manager, ITC Park Sheraton (HD)	24,75,519	10,64,398	Dip. in H.M.C.T.	26	01.02.1981	@
Gill Manjit Singh	56	Corporate Leader Quality - Food Production (HD)	28,52,370	13,02,615	Dip. in Hotel Mgmt., Catering & Nutrition	33	24.12.1993	@
Gooptu T K	56	Administrator, Salaries & Retirement Funds	24,98,846	9,59,716	B.Com. (Hons.), LL.B., M.I.M.A.	35	15.11.1991	Brooke Bond (I) Ltd., Accountant, Welfare Funds
Gopal Rajeev	46	SBU Chief Executive (Matches)	33,29,052	13,35,880	B.E. (Hons.)	24	01.11.1982	Nil
Grant K N	49	Divisional Chief Executive (ITD)	91,96,335	32,34,443	B.A. (Hons.), M.B.A.	28	02.06.1980	DCM Ltd., Mgmt. Trainee
Gupta P	50	General Manager, Corporate Taxation	33,41,577	17,44,710	B.Com. (Hons.), A.C.A., D.M.A.(I.C.A.)	27	15.02.1989	Hindustan Lever Ltd., Group Audit Manager
Haksar Dipak	49	V. P. - ITC Hotels and General Manager ITC Maurya (HD)	34,72,537	15,13,480	B.Com. (Hons.)	29	01.09.1977	@
Hariharan B	44	V.P., Sales & Marketing (HD)	31,51,209	14,44,931	B.A., P.G. Dip. in International Mgmt.	22	10.08.1987	@
Jacob R G	61	Group Head, Corporate Quality, R & D and Product Development	82,29,610	27,93,533	B.Tech.	40	15.09.1967	Nil
Janardhana Reddy S	58	Divisional Chief Executive (AB, LT)	45,55,257	17,55,741	B.Sc. (Ag.)	34	27.12.1972	Nil
Katre V	57	Services on Loan to Subsidiary Co.	32,02,387	13,95,874	M.A.	34	01.11.1979	@
Kaul Sandeep	40	General Manager, FMCG Projects (ITD)	31,71,557	12,88,651	B.E., P.G.D.M.	17	01.06.1990	Nil
Kavarana D	51	General Manager, ITC Maratha (HD)	27,17,160	14,42,306	B.Com. (Hons.), Dip. in Hotel Mgmt. & Nutrition	29	01.08.1978	@
Keshava S	48	General Manager - Marketing, TQM (ITD)	32,17,418	12,34,561	B.Com. (Hons.)	27	03.10.1989	SAS Chemicals Pvt. Ltd., Director
Kumar Atul	43	Services on Loan to Associate Co.	24,42,224	11,59,363	B.Com. (Hons.), F.C.A.	19	01.06.1988	@
Kumar M	54	V. P., Corporate Affairs	26,93,619	10,44,120	M.Com., LL.B.	26	01.04.1981	Nil
Kumar Suresh	49	Services on Loan to Subsidiary Co.	33,54,500	14,23,382	B.Sc.	27	01.12.1979	@
Lall U	56	Services on Loan to Tobacco Institute of India	47,13,958	17,92,544	B.A.(Hons.)	35	03.01.1972	PARCO, Officer on Spl. Duty
Malhotra B N	61	Executive V.P., Projects (AB)	42,44,668	16,32,171	B.Tech., M.Tech., P.G. Dip. in Soil Mec.	35	17.03.1975	ITDC, Asst. Engr.
Malik Anil	54	General Manager, ITC Grand Central (HD)	26,35,436	11,40,869	Dip. in H.M.C.T.	34	01.07.1977	@
Malik Hemant	40	General Manager, Marketing (FD)	38,80,179	14,00,266	B.A., M.B.A.	18	01.06.1989	Nil
Mathur R P	59	General Manager, Corporate Human Resources	28,91,140	10,57,596	B.E., M.M.S.	36	03.05.1971	Nil
Mathur Rakesh	55	President, WelcomHeritage Hotels (HD)	33,96,059	14,24,305	B.A. (Eco.), Dip in H.M.C.T.	32	16.06.2004	@
Misra P K	57	District Manager - North (ITD)	25,69,334	10,91,530	B.Sc., LL.B.	35	11.10.1971	
Mukerji Arup K	48	Head of Corporate Finance	36,53,420	16,44,138	B.Com. (Hons.), A.C.A.	25	01.11.1982	Gupta Chowdhury & Ghose, Jr. Officer
Mukherjee P	45	Audit Manager	26,54,365	11,33,907	B.Com. (Hons.), A.C.S., A.C.A.	20	01.09.1987	Khanna & Annadhana Ch. Accnts., Asst. Audit
Mukherjee Soumitra (Dr)	41	Senior Specialist (ITD)	24,78,492	9,73,734	B.Sc., M.Sc., Ph.D., Post Doctorate	12	16.03.1998	ICI India Ltd., Manager QA
Nambiar K T R	56	General Manager, Strategic Initiatives (Finance)	24,74,317	9,90,682	B.Sc., A.C.A.	31	15.05.1978	A.F. Ferguson & Co., Audit Asst.
Naware R S	57	Divisional Chief Executive (FD)	66,10,659	20,48,347	B.Tech., M.M.S.	34	01.07.1974	Otis Elevator Co. (P) Ltd., Mgmt. Trainee

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

Name	Age	Designation/ Nature of Duties	Gross Remuneration (Rs.)	Net Remuneration (Rs.)	Qualifications	Experi-ence (Years)	Date of Commence-ment of Employment	Previous Employment/ Position Held
1	2	3	4	5	6	7	8	9
Nayak Anand	55	Executive V.P., Corporate Human Resources	77,25,057	31,44,477	B.Sc., P.G.D.I.R.	34	14.05.1973	Nil
Noronha A R	53	V.P., Projects (HD)	39,40,746	16,72,714	B.E. (Elec.)	29	01.05.1978	@
Parasuram R	48	V.P., Finance (PSPD)	34,57,148	14,09,804	B.Com. (Hons.)., A.C.A.	25	15.09.1982	Nil
Pathak Arun	47	V.P., Finance, IT, Procurement & Logistics (FD)	39,47,565	14,66,337	B.Com. (Hons.)., F.C.A.	24	20.06.1983	Nil
Philipose P S	56	General Manager, Special Projects	27,68,557	10,58,682	B.Sc. (Hons.), M.B.A.	35	01.01.1995	VST Industries Ltd., G.M. Mktg. & Sales
Poddar A K	46	Branch Manager - Bangalore Factory (ITD)	27,49,166	10,36,621	B. Tech.	25	02.11.1982	Hindustan Petroleum, Mgmt. Trainee
Prasad K T	51	V.P., Human Resources (AB)	31,27,287	13,61,142	M.A. (P.M., I.R. & L.W.) P.G. Dip. Sp. P.L.M.	27	01.06.1999	ITC Agro Tech., G.M. (HR)
Puri R	54	Services on Loan to Subsidiary Co.	29,33,485	12,23,711	B.Com. (Hons.), A.C.A.	29	16.01.1979	B.M. Chatrath, Audit Sr.
Quing Liang Xiao	45	Chinese Chef, ITC Maratha (HD)	40,60,312	19,63,844	Cooking School of Beijing Tourism, Specialised in Chinese Cooking	24	16.04.1999	The Great Wall Sheraton, Beijing
Rai R K	44	V.P., Exports (AB)	30,74,587	13,63,681	B.A. (Mktg.), P.G.D. in Export & Imports	24	16.08.1990	Britannia Industries Ltd., Commercial Officer
Rajasekharan V M	48	SBU Chief Executive (Agarbattis)	26,20,317	10,38,321	B.E.	27	01.06.1986	MM Rubber Co. Ltd., Sales Manager
Rajesh V L	39	General Manager - Confectionery (FD)	30,77,263	12,06,338	B.Sc., M.B.A.	17	01.06.1990	Nil
Rajiv Mohan D V R	41	General Manager, Exports (AB, LT)	26,92,727	11,39,020	B.Com., M.B.A.	19	22.08.1988	Nil
Rajput A K	51	V.P., Corporate Affairs	33,59,842	13,46,092	B.Com., M.B.A.	31	10.04.1976	Nil
Raju G M K	49	SBU Chief Executive (PPB)	34,42,976	13,24,492	B. Tech.	27	13.06.1980	Nil
Ramakrishna S	52	Head - Processing & Technology (AB, LT)	24,93,104	10,38,336	B.E.	28	12.11.1980	Sirsilks, Maintenance Engg.
Ramaswamy T V	55	Executive V.P., Technical & Human Resources (ITD)	48,35,219	18,52,525	B.E., M.M.S.	33	01.07.1974	Nil
Rangrass S	46	General Manager, Operations (ITD)	39,81,261	15,45,223	B.Tech.	25	01.07.1982	Nil
Rao A Anand	48	General Manager - ITC Windsor (HD)	26,83,452	11,92,729	Dip. in Hotel Mgmt. & Catering Tech.	26	04.04.1981	@
Rao A K	56	General Manager, Special Projects	31,38,504	11,14,761	B. Tech. (Hons.)	35	15.05.1972	Nil
Rao M Balachandra	57	Manager, Audit & Training	26,06,434	9,65,073	B.Com. (Hons.), P.G.D.B.M.	33	08.05.1974	Nil
Rastogi Mukul	39	V.P., Human Resources (LRBD)	27,36,103	11,64,803	B.A., M.A.	18	01.06.1989	Nil
Reddy K Venkateshwar	41	General Manager, R & D - Staples (FD)	27,85,711	15,96,871	B. Tech.	18	01.08.2001	Cargill India Pvt. Ltd., Production Mgr.
Rehman S S H	63	Executive Director	1,89,39,896	83,92,988	Graduate, Indian Army	43	21.11.1997	@
Rellin Ranjan K	52	V.P., Renovation & Refurbishing (HD)	31,43,008	14,00,237	B. Arch., M.I.A. (Columbia) M.S.U.P (N.Y.)	30	01.02.1986	@
Rustagi S C	58	Executive V.P., Corporate EHS	39,76,907	18,77,285	B.Sc., P.G.D. (Engg.)	35	10.02.1983	Sriram Fertilisers & Chemicals, Mech. Engr.
Sarma C V	45	V.P., Finance (AB)	31,92,224	14,76,953	B.Com., A.I.C.W.A., A.C.A., A.C.S., P.G.D.M.	19	03.05.1993	J Loyalka & Co., Sr. Asst. (Audit)
Sathya D	51	General Manager, R & D - Confectionery (FD)	26,98,425	15,32,124	B.Sc., M.Sc.	26	24.06.2002	Nutrine Confectionary Co. Ltd., G.M. - Q & R
Sebastian K J	53	Unit Financial Controller, ITC Maratha (HD)	25,11,254	11,06,289	B.Com., A.C.A.	31	01.10.1986	@
Sengupta P	49	V.P., Finance & MIS (LRBD)	31,17,840	13,23,373	B.Sc. (Hons.), A.C.A.	25	01.07.1987	Indian Aluminium Co. Ltd., Finance Officer
Senguttuvan R	45	General Manager, Works (PPB)	26,36,664	10,66,971	B.E, P.G.D.M.	21	27.05.1991	Asian Paints Ltd., Purchase Exec.
Sharma Anil	48	V.P., Human Resources (HD)	26,86,749	12,38,896	M.A. in Prsnl. Mgmt. & I.R.	24	06.11.1985	@
Singh A	62	Executive Director	1,84,09,672	76,54,632	B.Tech. (Hons.)	39	01.03.1968	Nil
Singh Kavinder	42	General Manager - Biscuits (FD)	39,66,717	13,83,027	B.Tech.	21	14.02.1992	Asian Paints Ltd., Plant Engg. Exec.
Singh S K	50	Executive V.P., Manufacturing (PSPD)	41,12,259	17,56,534	B.Tech. (Chem.)	30	21.06.1977	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
Sivakumar S	46	Divisional Chief Executive (AB)	51,78,040	22,16,070	B.Sc., P.G. Dip. in Rural Mgmt.	24	18.09.1989	Gujarat Co-op Oil Seeds Growers' Fed. Ltd., Mgr. Mktg.
Sridhar R	48	General Manager, Human Resources (ITD)	35,50,032	13,80,064	B.Sc., P.G. Dip. in P.M. & I.R.	25	01.06.1982	Nil
Srinivasan R	55	Head, Paper & Packaging Group	91,29,983	32,98,170	B.Tech. (Hons.)	33	10.09.1974	Nil
Srinivasan Ravi	50	Manager - Training & Development, Corporate Human Resources	24,63,194	9,85,689	B.Com. (Hons.), P.G.D.P.M. & I.R.	27	01.07.1988	Punjab Agro Industries Corp. Ltd., Mgr., Manpower Development
Stephanos K G	42	Divisional Finance Manager - Business Systems (ITD)	24,99,530	9,91,671	B.Com. (Hons.), C.A.	19	01.07.1988	Price WaterHouse & Co., Jr. Officer
Sule Sandeep	41	Head of FMCG Sales (ITD)	25,43,118	10,54,820	B.Com. (Hons.), M.I.B.	17	16.07.1990	Bayer India Ltd., Mgmnt. Trainee
Sumant B	43	General Manager - Snacks (FD)	36,97,994	13,83,823	B.E.	21	20.01.1986	Nil
Sundaram A S	40	Associate General Counsel	24,16,001	11,64,439	B.L., M.L.	18	20.10.1997	Maxworth Home Ltd., Mgr., Legal
Suresh K S	47	General Counsel	50,84,901	20,80,360	B.A., B.L., P.G.D.P.M., I.R. & L.W.	24	01.09.1990	Chambers of Sri C.S. Venkata Subramaniam, Advocate
Suresh Karanam N	54	Senior Specialist (ITD)	32,63,424	12,84,139	B.Sc., M.Sc.	32	01.03.1977	Flavours & Essence Pvt. Ltd., Flavour Technologist
Talwar P K	59	Executive V.P., Finance (PSPD)	38,08,482	15,59,354	B.Sc., F.C.A.	35	26.06.1989	Nagarjuna Hire Purchase Ltd., President
Tandan S	47	General Manager - Project Finance (HD)	26,57,124	11,62,627	B.A. (Hons.), A.C.A.	24	01.10.1985	@
Tandon A K	56	Sr. Legal Advisor	31,97,655	13,90,082	B.Sc., LL.B., F.C.S.	32	01.09.1982	@
Tandon R	53	Executive V.P., Finance & MIS (ITD)	44,90,426	17,50,133	B.Sc., A.C.A.	29	01.01.1987	Triveni Handlooms Ltd., Finance Mgr. & Secy.
Tyagi Shailender	48	V.P., Marketing (AB)	30,62,457	13,38,865	B.Sc., M.Sc., Dip. in Mktg. Mgmt.	25	01.02.1982	Nil
Vaidyanath K	57	Executive Director	1,52,51,428	63,65,171	B.Com. (Hons.), M.B.A.	34	16.01.1976	Shriram Refrigeration Industries Ltd., Mgmt. Trainee
Vaidyanathan K S	67	Senior V.P., Corporate Affairs	83,41,206	31,13,277	B.Com. (Hons.)	44	08.10.1982	T.V.S. Southern Roadways Ltd., Resident Mgr.
Vandrevala Shashi	57	V.P., Public Relations (HD)	26,22,948	14,92,978	M.A. (Hons.)	29	07.04.1994	@
Venkateswaran Krishnan (Dr)	47	Chief Scientist, FMCG Projects (ITD)	40,48,768	17,07,341	B.Sc., M.Sc., Ph.D.	22	05.05.2005	Hindustan Lever Ltd., Head - Skin, Cleansing & Care
Verma P K	60	Executive V.P. - Operations (HD)	44,41,212	18,80,632	B.Sc.(Chem. Tech.), M.B.A. Dip. in Hotel Mgmt.	35	31.01.1986	@
Vinayaka H C	43	General Manager - Technical & EHS (HD)	25,33,710	11,12,922	B.E. (Mechanical)	19	23.05.2001	@
Virmani Manoj	50	General Manager - Six Sigma (HD)	26,01,567	12,08,989	Dip. in Hotel Mgmt. & Catering Tech. P.G.D.B.M.	30	01.07.1982	@
Wahi Raghupati	52	General Manager, Finance - Fortune Park Hotels (HD)	28,05,135	12,87,166	B.A. (Hons.), P.G. Dip. in Business Mgmt.	31	28.05.1976	@
Wanchoo Siddarth	46	General Manager, Brands (ITD)	34,19,461	13,47,377	B.Com. (Hons.)	25	19.10.1981	Nil
Wariah Dalbir Singh	40	General Manager, R & D - Snacks (FD)	25,53,330	12,26,753	B.E.	17	05.04.2005	Pepsico India Holdings Pvt. Ltd., G.M.
Employed for a part of the year and in receipt of remuneration aggregating Rs. 2,00,000/- or more per month.								
Ahluwalia S K (Late)	56	V.P., Quality, Product Development & Housekeeping (HD)	34,91,719	17,51,249	B.Com., Dip. in Hotel Mgmt. & Nutrition L.H.C.I.M.A. (UK)	36	07.07.1975	@
Arif Nazeeb	45	V.P., Corporate Communications	14,12,156	6,30,270	B.A. (Hons.), M.A.	21	01.09.2006	Indian Chamber of Commerce, Secretary General
Chakraborty Kanchan	48	General Manager, Technology & Engineering - Biscuits (FD)	27,52,939	16,74,068	B.E.	27	21.04.2006	Britania Industries Ltd., Co. Engg. Services Mgr.
Fonseka Nalin	43	Executive Pastry Chef, ITC Maurya (HD)	16,19,939	8,12,755	Dip. in Hotel Mgmt., Dip. in Sugar Craft	25	15.06.2002	Sun Intl. Resorts, Mauritius, Pastry Chef
Jha H M	60	General Manager, Corporate Human Resources	17,47,232	9,23,515	B.A. (Hons.), P.G.D.P.M. & I.R.	36	12.01.1978	@
Kalauny Mathura Dutt	60	Research Manager (ITD)	20,46,127	10,38,553	B.Sc. (Hons.)	41	02.01.1967	Emsons Pharmaceuticals Pvt. Ltd., Asst. Chemist

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

Name	Age	Designation/ Nature of Duties	Gross Remuneration (Rs.)	Net Remuneration (Rs.)	Qualifications	Experience (Years)	Date of Commencement of Employment	Previous Employment/ Position Held
1	2	3	4	5	6	7	8	9
Khan Salamat Ali	58	Asst. Manager - Production (ITD)	7,62,370	5,83,927	——	38	12.03.1968	Nil
Kundu Rajatendra	37	Factory Head - FMCG Projects (ITD)	16,85,286	8,40,600	B.Tech. (Hons.), Mech. Engg.	10	27.07.2006	PZ Cussons, Chief Engineer
Lakshminarayanan N	56	V.P., Corporate Projects	35,26,809	19,25,279	B.Com. (Hons.), F.C.A	32	19.06.1978	Coromandel Leathers (P) Ltd., Chief Accounts Officer
Lamba Mandeep Singh	44	President, Fortune Park Hotels (HD)	5,53,146	3,36,619	Dip. in Hotel Mgmt. & Catering Tech.	22	10.05.2004	@
Marangattil Joseph	60	Branch Manager (ITD)	9,92,474	6,90,264	B.Sc., B.Ed., P.G.D.P.M.	26	01.11.1982	Rajico Intl., General Manager
Mohideen G Sultan	52	Executive Chef - ITC Windsor (HD)	6,41,000	4,17,217	B.Sc., Dip. in Hotel Mgmt. & Catering Tech.	22	15.05.1995	@
Muralidharan Menon M	49	Safety Manager	8,96,169	4,92,657	B.E. (Mech.)	22	15.09.1984	@
Narang Anuj	35	Manager, Raw Materials Procurement (FD)	2,22,649	1,62,892	B.Com., M.B.A.	11	01.11.2002	Orion Commodities & Services Pvt. Ltd., Mgr. Bus. Dev.
Prasad N V S S V	60	V.P., Processing & Technical (AB, LT)	23,95,917	12,38,719	M.Tech., F.I.E.	35	19.01.1972	Nil
Puri Anil Mohan	54	Chief Engineer - Fortune Park Hotels (HD)	10,13,532	5,42,261	Graduate in Marine Engg.	31	01.11.2001	@
Puri Sanjiv	44	Services on Loan to Subsidiary Co.	32,98,470	17,42,205	B.Tech.	22	20.01.1986	TELCO Ltd., Trainee
Radhakrishnan C	60	Trader (AB)	6,33,421	5,30,121	B.Com.	40	03.05.1989	Vijaya Flexible Con. (P) Ltd., Purchase Exec.
Raghavaiah K V	60	General Manager - Corporate Human Resources	18,68,580	10,14,220	B.A., P.G.D.P.M., I.R. & L.L.	41	01.09.1985	Coromandel Fertilisers Ltd., Asst. Mgr. (Pers. & I.R.)
Rajaram N S (Late)	56	Asst. Engineer (PPD)	6,22,624	4,12,639	Dip. in Marine Engg.	40	08.04.1980	Savera Hotels, Chief Engg.
Rao K Nageswara	58	Leaf Manager (AB, LT)	8,06,675	5,73,806	M.A. (Pscy.)	32	01.12.1973	Nil
Reddi P Bapi	60	Asst. Manager - Technical (AB, LT)	7,97,918	5,81,917	L.M.E.	41	02.12.1965	Nil
Seth Anil	49	V.P., Finance (ITD)	30,39,178	13,52,900	B.A. (Hons.), A.C.A., P.G.D.B.M.	24	01.11.1982	Nil
Sharma Navin (Dr)	45	Chief Scientist	19,23,184	12,18,512	B.Sc., M.Sc., Ph.D.	18	14.08.2006	Hindustan Lever Ltd., Principal Scientist
Shome P K	60	Divisional Manager, IT Projects (ITD)	18,62,921	9,01,172	B.E., P.G.D.I.E.	36	01.10.1974	Ralli Wolf, Jr. Industrial Engg.
Sundara John S (Late)	55	NSM Groc. Focus Products (ITD)	13,00,965	7,24,991	M.A. (Litt.)	31	01.11.1974	Nil
Upadhaya B (Late)	58	Asst. Manager Production - (ITD)	5,03,832	4,48,027	D.M.E.	39	17.01.1967	Nil
Verma Sanjay	48	Services on Loan to Subsidiary Co.	21,09,286	11,11,991	B.E.	25	01.11.1981	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
AB	:	Agri Business
"AB, LT"	:	Agri Business, Leaf Tobacco
FD	:	Foods Division
HD	:	Hotels Division

Notes :

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

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

Kolkata, 25th May, 2007

ANNEXURE TO THE REPORT OF THE DIRECTORS

CONSERVATION OF ENERGY

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

a) Energy conservation measures taken :

In line with the Company's declared commitment towards conservation of natural resources, all business units have continued with their efforts to improve energy usage efficiencies. Some of the measures adopted are:

i) Cold Plasma Odour Abatement System in place of wet scrubber, resulting in savings on energy and water in the cigarette manufacturing factory at Bangalore.

ii) Replacement of roulette type feeders by energy efficient band feeders for cut tobacco in cigarette factories.

iii) Upgradation of boilers in leaf processing plants.

iv) Installation of electronic governors in steam turbine generating set at Bhadrachalam paperboards factory.

v) Boiler waste heat recovery and de-aerator in Tribeni paper factory.

vi) Replacement of old compressors with higher efficiency sets in Kovai paperboards factory.

vii) Revamping of boiler feed water system in Bollaram factory.

viii) Use of energy efficient light fittings, light emitting diodes and automation of lighting controls in various hotels and factories.

ix) Replacement of existing air-conditioning equipment with higher efficiency systems in various hotels and factories.

x) Usage of ceramic blankets in place of mineral wool for improved insulation in biscuit ovens.

xi) Replacement of electric boilers by direct-fired HSD (high speed diesel) boilers in LRBD Master Facility.

xii) Common measures adopted across most business units:
- Replacement of existing pumps with higher efficiency sets.
- Installation of variable speed drives.
- Automation of lighting controls.
- Improving upon reactive power compensation.
- Use of Solar energy for hot water generation and outside area illumination.

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

i) Installation of Rotary UPS (Uninterrupted Power Supply) system in Munger cigarette factory.

ii) Replacement of existing boilers with higher efficiency sets in Chirala leaf processing plant.

iii) Waste heat recovery from main dissolving tanks in Bhadrachalam paperboards factory.

iv) Modifications in paper machine 3 condensate recovery system and upgradation of paper machine 4 steam system, in Tribeni paper factory.

v) Installation of variable frequency drives for condensate extraction/cooling water circulation pumps in Kovai paperboards factory.

vi) Installation of PNG (Piped Natural Gas) fuelled generator sets and PNG fired calendar and tumbler drier machines in hotel laundries.

vii) Installation of thermal wheels for pre cooling inlet air of Treated Fresh Air and Air Handling Units, in hotels.

viii) Improvements to reduce heat gain/cooling losses from building envelops in hotels.

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

Energy conservation measures initiated across the Company's businesses have resulted in significant saving, which has helped partially offset the inflationary trend in fuel/electricity costs. Business wise specific energy consumption figures indicate very competitive performance. The energy conservation initiatives have also enabled the Company earn a large number of Certified Emission Reductions (CERs) from the UNFCCC (United Nations Framework Convention on Climate Change) under the Kyoto Protocol's Clean Development Mechanism.

A) POWER AND FUEL CONSUMPTION

	For the Year ended 31st March, 2007	For the Year ended 31st March, 2006
Relating to Paperboards & Paper		
1. Electricity (Excluding Consumption in Colony)		
a) Purchased		
Units (KwH in Lakhs)	**240**	380
Total Amount (Rs. in Lakhs)	**1417**	1995
Rate / Unit (Rs.)	**5.91**	5.25
b) Own Generation		
i) Through Diesel Generation Unit (KwH in Lakhs)	**4**	10
Units per Litre of Diesel Oil	**3.06**	3.03
Cost / Unit (Rs.)	**11.26**	9.73
ii) Through Steam Turbine/Generator		
Units (KwH in Lakhs)	**3231**	3244
Units per Kg. of Coal	**1.85**	1.82
Cost / Unit (Rs.) {considering all fuel types}	**1.64**	1.59

	For the year ended 31st March, 2007			For the year ended 31st March, 2006		
	Process	**Power**	**Total**	Process	Power	Total
2. **Coal** (Specify Quantity & Where Used)						
(Grades 'C' ROM & 'F' ROM)						
Quantity (M.T.)	**216284**	**174837**	**391121**	198793	178396	377189
Total Cost (Rs. in Lakhs)			**7104**			7072
Average Rate (Rs. per M.T.)			**1816.50**			1874.79
3. **Furnace Oil** Quantity (KL)			**8756**			8683
Total Amount (Rs. in Lakhs)			**1437**			1339
Average Rate (Rs. / KL)			**16416.56**			15417.87

	For the year ended 31st March, 2007			For the year ended 31st March, 2006		
	Process	Power	Total	Process	Power	Total
4. **Others / Internal Generation**						
(De-oiled Bran & Saw Dust, etc.)						
Quantity (M.T.)			**73073**			64073
Total (Rs. in Lakhs)			**1165**			839
Rate / Unit (Rs.)			**1594.42**			1309.76
(LP Gas)						
Quantity (M.T.)			**964**			874
Total (Rs. in Lakhs)			**325**			275
Rate / Unit (Rs.)			**33679.35**			31454.01

B) CONSUMPTION PER UNIT OF PRODUCTION

	For the Year ended 31st March, 2007	For the Year ended 31st March, 2006
Products (Paper in M.T.)	**415064**	399337
Electricity (KwH)	**1006**	1016
Coal C/F Grades (M.T.)	**0.52**	0.50
Furnace Oil (Litre)	**21**	22
Others – De-oiled Bran /Saw Dust / LP Gas etc	**0.111**	0.124

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) Evaluation and enhancement of flavour characteristics in tobacco.

ii) Use of beneficial microorganisms for the development of bio fertilizers and bio pesticides.

iii) Mechanical drying of spices by using desiccant based dehumidification technology.

iv) Development of low lignin trees.

v) Development of hybrids of high yielding Bhadrachalam clones with other eucalyptus species having superior fibre properties.

vi) Development of flexible laminates for different food packaging.

vii) Development of UV inks and varnishes.

viii) Precision analysis of products in Food Business.

ix) Process optimisation for product development in Food Business.

x) Improvement of colour lustre and durability in garments through standardized dyeing applications using modified reactive and vat colours.

xi) Enhance colour durability of knitted products using vat dyeing.

xii) Dry process methods for special finishes on denim and non-denim garments.

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

i) Provided the necessary inputs for product development.

ii) Uses of region specific microorganisms have resulted in 15% higher yields for soyabean.

iii) Independence from vagaries of nature resulting in quality consistency and lower losses.

iv) Reduction in energy and chemical inputs required for lignin separation.

v) Improvement in pulp quality.

vi) In-house value capturing.

vii) Enhanced product characterisation.

viii) Capability to design standardised products and processes such that manufacturing can be carried out at multiple locations within predefined tolerances.

ix) Benchmark products against competition.

x) Permitted offering of 'best in class' products to the customer.

xi) Created products with higher durability of colour against repeated laundering & regular wear and tear.

xii) Permitted enhancement of product portfolio in casual lines of Wills Sport & John Players denims and also reduction in chemicals/enzyme cost for stone wash process.

3. Future Plan of Action:

i) Development of environment friendly packaging.

ii) Improvements in manufacturability and flavour amplitude of tobaccos.

iii) Development of in-house poly film manufacturing.

iv) Development of in line manufacturing of coupon inserts.

v) Development of hybrid tobacco plants with resistance against biotic and abiotic stress factors.

vi) Identification, isolation and mutation of crop & location specific virulent microbe strains for use as bio fertilizers.

vii) Development of tobacco based organic soil enricher.

viii) Research on genetic improvement of Eucalyptus, Subabul, Bamboo and other pulpwood species.

	For the Year ended 31st March, 2007
4. Expenditure on R & D :	**(Rs. in Lakhs)**
i) Capital	**1561**
ii) Recurring	**3530**
iii) Total	**5091**
iv) Total R & D Expenditure as a % of	
- Gross Turnover	**0.26**
- Net Turnover	**0.41**

Technology Absorption, Adoption and Innovation

i) New technology 12000/9000 cpm makers and 600/300 cpm packers inducted in cigarette factories.

ii) New tobacco recovery system, replacing earlier wet type cigarette slitters.

iii) Rotomec 9 colour printing press for meeting flexible packaging requirements of ITC Foods business and other external business.

iv) Simco automatic solvent handling system in printing and packaging factories.

v) Renzmann washing and distilling system for solvents & inks in printing and packaging factories.

vi) Replacement of existing head boxes in paper machines with modern hydraulic boxes.

vii) Installation of Infra Red heaters to improve coating structure on paperboard.

viii) Optimisation of turbo drain recovery in paper machines for improving retention of titanium dioxide.

ix) Imported machinery for new product lines of potato chips and extruded snacks.

x) Floor access control in hotels through key card system.

Benefits Derived

i) Improved productivity.

ii) Reduction in wastages.

iii) Ability to meet packaging requirements of new ITC businesses in-house and also cater to the growing external business.

iv) Improved quality and reduced wastage.

v) Increased recycling and reduction in occupational & environmental hazards.

vi) Improved product quality.

vii) Greater consistency & uniformity in coatings.

viii) Cost reduction.

ix) Introduction of new product lines.

x) Improved security for hotel guests.

On behalf of the Board

Y. C. DEVESHWAR *Chairman*
Kolkata, 25th May, 2007 K. VAIDYANATH *Director*

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

CERTIFICATE

To the Shareholders
ITC Limited

We have examined the compliance of conditions of Corporate Governance by ITC Limited for the year ended on 31st March, 2007, as stipulated in clause 49 of the Listing Agreement of the said company with stock exchanges in India.

The compliance of conditions of Corporate Governance is the responsibility of the management. Our examination was limited to procedures and implementation thereof, adopted by the company for ensuring the compliance of the condition of Corporate Governance. It is neither an audit nor an expression of opinion on the financial statements of the company.

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

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

For A. F. FERGUSON & Co.
Chartered Accountants

M. S. DHARMADHIKARI
Kolkata, May 25, 2007 *Partner*