Report of the Directors

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Management Discussion and Analysis

For the Financial Year Ended 31st March, 2009

Your Directors submit their Report for the financial year ended 31st March, 2009.

SOCIO-ECONOMIC ENVIRONMENT

Fiscal 2008-09 commenced with the Indian economy sliding into a cyclical slowdown after a five year record of extraordinary growth. High oil prices and rising domestic inflation were a source of concern, as was the possibility of a worsening of the American financial crisis which had surfaced in 2007. The financial crisis exploded post September 2008 into a global phenomenon. Spreading quickly across Europe and Japan, it has already pushed most developed economies into a prolonged recession that could extend well beyond 2009. The failure of some of the biggest and most well-known financial institutions has led to risk aversion on a global scale, eroding confidence in financial markets and systems. Thanks to the concerted and timely response of governments across the world, a total meltdown of the global economy was avoided. There is still uncertainty on whether the recession has hit the bottom. Historic analysis seems to suggest that financial crises tend to be prolonged, especially if they are a result of asset market collapse.

In India, the cyclical downturn was aggravated by huge inflationary pressures in the economy in the first half of FY 2008-09. By the middle of the second Quarter of the year, inflation had reached an alarming level of 13%. While inflation in developed markets had also risen, the problem was particularly acute in emerging markets where food articles, which constitute a much larger portion of consumer price indices, had suffered a sharper rise in inflation. In the last Quarter of the financial year, inflation began to dissipate. A sharp decline was witnessed in the prices of commodities, including crude which dropped to a four year low of sub US $ 50 per barrel.

The two aggregate demand growth drivers, namely investment and private consumption have moderated in India. The sectoral growth drivers, i.e. manufacturing, agriculture, construction and communication have all experienced reduced growth rates. The Indian equity and foreign exchange markets were adversely impacted in the wake of withdrawal by the Foreign Institutional Investors (FIIs), triggered by their need for liquidity support in other markets. The money, debt and credit markets too were impacted. Thus, while the Indian banking sector remained largely unscathed by the global financial crisis, it could not escape a liquidity crisis, in turn impacting investment and consumption in the real economy. The government had no option but to introduce stimulus packages estimated at 2.9% of the GDP. Combined with the loan waivers and the hikes granted by the Sixth Pay Commission, the pump priming of the economy has worsened the fiscal deficit. The Reserve Bank of India on its part attempted to inject liquidity through a series of policy interventions. Unfortunately, despite enhanced liquidity, credit flow to kick-start the economy remains inadequate since the banking system continues to be risk averse in this weak economic environment. The RBI seems to be determined to not allow the increasing levels of Government borrowing to diminish the availability of credit for the private sector. Simultaneously, it is persuading the banking sector to pay heed to policy signals and reduce their lending rates to stimulate investments.

The latest World Economic Outlook brought out by the IMF expects global output to register a degrowth of 1.3% in 2009, its first fall in 60 years. Real GDP growth in advanced economies is likely to be a negative 4%. In emerging and developing economies, growth is likely to be sluggish at 1.6%, down from the 7-8% witnessed from 2004 onwards. World trade is expected to shrink by as much as 11%. Even though Governments across

[With a fairly young population, skilled manpower, rising savings and investment rates, a vibrant service sector, a potentially large source of domestic demand and the emergence of globally competitive firms, India has multiple growth drivers which hold out the promise of stable and sustained future growth.]

the world have pumped in billions of dollars of liquidity to ease credit flow and have undertaken tax cuts to stimulate demand, it is too early to predict the eventual outcome conclusively. India is bracketed with China and other emerging countries that are less likely to enter contraction on account of their large domestic economies, which continue to show buoyancy.

India is expected to clock a GDP growth of 6% in FY 2009-10. Against the backdrop of an improving macro environment, a 'green shoots' theory is emerging. While there are fragile signs of a pick-up, it is still too early to call it a recovery. Incremental data in India is veering towards the positive (cement shipments, port traffic, telecom subscribers, auto and retail sales, etc.). However, that is not the full story. Real estate and exports still remain deep in the red, adversely impacting employment. One of the key obstacles in the way of export recovery will be the recent tendency on the part of mature economies to resort to protectionism. While the members of the G-20 have pledged to work against protectionism, it remains to be seen whether they can deliver their promise in the face of political and social pressures in their home territories.

Relative to other emerging economies, the inherent strengths of India will help it better withstand the adverse effects of the global financial crisis and the aftermath of the downturn in developed countries. With a fairly young population, skilled manpower, a tradition of saving reflected in the rising savings and investment rates, a vibrant service sector, a potentially large source of domestic demand (particularly rural) and the emergence of globally competitive firms, India has multiple growth drivers which hold out the promise of stable and sustained future growth. These strengths will get further augmented by the planned investments in infrastructure development envisaged in the Eleventh Five Year Plan.

The impressive performance of the UPA in the recently concluded election augurs well for the country. It holds the promise of a stable government, continuity of policies and a rapid pace of reforms. Unfettered by the compulsions of coalition politics, the Congress party now has the mandate and the opportunity to boldly move forward with its reforms agenda, creating in the process, an enabling climate for a faster and wider economic recovery.

The challenge for India is to sustain high growth rates even while addressing the problems of inequitable income distribution and over exploitation of environmental resources. It is here that unique business models like the ones forged by your Company can supplement the efforts of the government in creating societal value and enhancing societal capital. It is an essential pre-requisite of rural development that markets are co-created with local communities and in a constructive public-private-people partnership. Your Company's e-Choupal network is a close replica of this model. It provides the farming community with value added services such as crop advisories, advance weather forecasts, output price discovery, direct communication tools and distribution of un-adulterated agri inputs. The footprint of this network is well established to source all requirements of your Company's Branded Packaged Foods business and is poised to grow in line with entry into newer categories.

Similarly, your Company's unique and path-breaking 'Choupal Pradarshan Khet' (CPK) initiative, a paid extension service aimed towards enhancing farm productivity with emphasis on adoption of agricultural best practices, continues to attract the interest of both farmers and partnering companies. The demonstration plots under CPK provide additional yield of 28% on an average as compared to control plots. This network is focused on building competencies at the farm gate level, which will go a long way in enhancing the competitiveness of India's agricultural sector and agri-based industry.

Notwithstanding the present global crisis, India's growing economic clout is leading to a more pro-active and meaningful global engagement, particularly in areas like global warming and climate change. It is today widely acknowledged that future economic growth will be more sustainable only if national and corporate strategies embrace the need to enhance environmental and social capital. In line with this philosophy, your Company is

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pro-actively engaged in enlarging its contribution across the three dimensions of the 'Triple Bottom Line' – economic, environmental and social – through a conscious strategy of investment and operations that enhances the competitiveness of the value chains we are engaged in to fulfill the consumer and societal demands of tomorrow.

Highlights of your Company's progress in the pursuit of the 'Triple Bottom Line' objectives are discussed in the sections that follow.

COMPANY PERFORMANCE

Your Company delivered another year of steady performance despite very difficult trading conditions, characterized by extremely volatile financial, commodity and consumer markets. The unprecedented increase in excise duties on non-filter cigarettes, coming close on the heels of the un-paralleled levy of VAT on cigarettes in the preceding year, posed exceptional challenges for the cigarettes business. Decline in hotel revenues consequent to the economic slowdown and the unfortunate terror strikes in Mumbai, the overhang of the impact of high commodity prices and high store rentals, the brand building costs of the new Personal Care portfolio and the significant investments in augmenting distribution infrastructure combined to exert intense pressure on the financial performance of the Company. Aggressive cost management measures were pursued across all businesses to enhance cost competitiveness and cushion the impact of the economic slowdown.

Gross Turnover for the year grew by 8.4% to Rs.23143.53 crores. Net Turnover at Rs.15388.11 crores grew by 10.3% driven by a robust 20% growth in the non-cigarette FMCG businesses and despite the subdued performance of the Hotels business. The non-cigarette portfolio accounted for 51% of the Company's Net Turnover. Pre-tax profits increased by 5.6% to Rs.4825.74 crores, while Post-tax profit at Rs.3263.59 crores registered a growth of 4.6%. Earnings Per Share for the year stood at Rs.8.66. Cash flows from Operations touched an all time high of Rs.4706 crores.

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.3.70 per share (previous year Rs.3.50 per share) for the year ended 31st March, 2009. The cash outflow in this regard will be Rs.1633.87 crores (previous year Rs.1543.18 crores) including Dividend Distribution Tax of Rs.237.34 crores (previous year Rs.224.17 crores). Your Board further recommends a transfer to General Reserve of Rs.1500 crores (previous year Rs.1500 crores). Consequently, your Board recommends leaving an unappropriated balance in the Profit and Loss Account of Rs.858.14 crores (previous year Rs.724.45 crores).

Your Company continues to view foreign exchange earnings as a priority. During the year, the direct foreign exchange earned by your Company amounted to Rs.2226 crores (Rs.2168 crores in 2007-08).

PROFITS, DIVIDENDS AND RETENTION

(Rs. in Crores)

	2009	2008
a) Profit before Tax	4825.74	4571.77
b) Income Tax	1562.15	1451.67
c) Profit after Tax	3263.59	3120.10
d) Add: Profit brought forward from previous year	724.45	647.53
e) Surplus available for Appropriation	**3988.04**	**3767.63**
f) Transfer to General Reserve	1500.00	1500.00
g) Proposed Dividend for the financial year at the rate of Rs. 3.70 per ordinary share of Re. 1/- each (previous year Rs. 3.50 per share)	1396.53	1319.01
Income Tax on proposed dividend	237.34	224.17
h) Earlier year's provision no longer required	(3.97)	–
i) Retained Profit carried forward to the following year	858.14	724.45
	3988.04	**3767.63**

[Net Turnover grew by 10.3%, driven by a robust 20% growth in the non-cigarette FMCG businesses.]

BUSINESS SEGMENTS

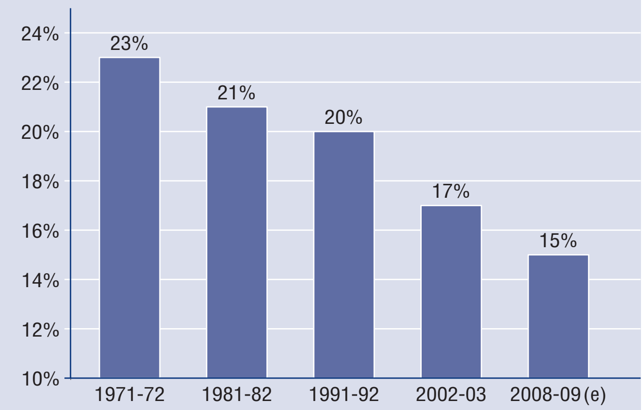
A. FAST MOVING CONSUMER GOODS

FMCG – Cigarettes

The cigarette industry in India continues to operate in an environment of rapidly escalating challenges, particularly in the areas of taxation and regulations. The spate of regulations, influenced by trends that are more relevant in developed markets, together with prolonged punitive taxation targeted exclusively at the cigarette industry, have stifled cigarette consumption in India in comparison with other forms of tobacco consumption.

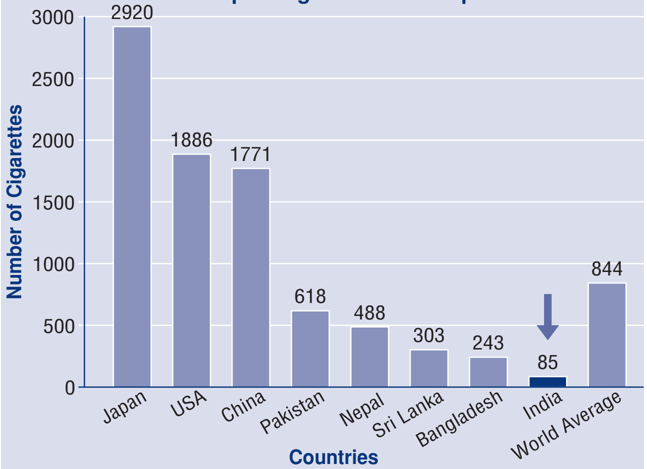
While the intent has been to reduce the aggregate consumption of tobacco, the discriminatory taxation and regulations on cigarettes has only served to constrict demand for cigarettes, even as the total consumption of tobacco in the country continues to grow. Unlike international markets, it is a serious misconception to equate tobacco consumption with cigarettes in India. On an average, cigarettes account for about 90% of tobacco consumption globally, with an even higher share of almost 100% in large markets like China. In sharp contrast, in India consumption of tobacco in cigarette form has steadily declined from 23% of total tobacco consumption in 1971/72 to less than 15% currently. That the structure of the tobacco industry in India has progressively become even more skewed over time, with the share of cigarettes declining, is evidenced by the chart given below.

Share of Cigarette in Total Tobacco Consumption



Being one of the smallest constituents of tobacco consumption in India, the per capita consumption of cigarettes is among the lowest in the world – just about 10% of the world average.

Per Capita Cigarette Consumption



This disparity in taxation on tobacco products compels consumers of cigarettes to contribute more than 85% of the total revenue collections from the tobacco industry, besides causing a progressive migration from cigarettes to other lower value forms of tobacco consumption. As a consequence, the share of cigarettes in total tobacco consumption has reduced, even though the aggregate tobacco consumption has increased over the years.

(Tobacco Consumption in million kgs)

Year	Cigarettes	Others	Total
1981-82	86	320	406
2008/09 (est)	74	421	495
Difference	–12	+101	+89

This situation has been further aggravated by the extraordinary increase in the rates of Central Excise Duty (CED) of the order of 140% and 390% respectively on regular and micro-sized non-filter cigarettes with effect from March 2008. This hike in rates, coming on the heels of a 30% equivalent increase in tax incidence due to the levy of VAT in April 2007, has forced the organised cigarette industry to substantially vacate this

In India, consumption of tobacco in cigarette form has steadily declined from 23% of total tobacco consumption in 1971/72 to less than 15% currently.

category. This, in turn, has caused a section of consumers to move to revenue-inefficient tobacco products, including smuggled and tax-evaded cigarettes, resulting in a sharp decline in volumes for the highly taxed legitimate sector of the cigarette industry.

The vacuum created by the exit of the popular low priced micros and plain non-filter cigarettes has been occupied by duty-evaded regular size filter cigarettes which are sold to consumers at Rs.10/- per packet of 10 cigarettes. These low priced tax-evaded illegal cigarettes are a growing threat to the legitimate industry, Government revenue, market stability and the social objective of regulating tobacco consumption. It is imperative that the authorities strengthen enforcement to eliminate this fast growing illegal industry. In addition, the Government could also consider the introduction of a new tax slab that would enable the legitimate industry to offer the consumer tax paid cigarettes at this price point.

The industry has been subjected to further stress with the implementation of smoking ban in public places. This will propel consumers to switch to inferior and revenue inefficient forms of non-smoking tobacco consumption. The objective of this regulation to protect against passive smoking can be well met by segregating space at public places, as is the practice internationally. It is apprehended that switching to cheaper tobacco products will have a significant adverse impact on the earnings of thousands of tobacco farmers, who gain the maximum realization from cultivating cigarette type tobaccos.

This adverse impact on the farmers will become further acute with the imposition of graphic health warnings on tobacco products, which will be more impactful on cigarettes than other forms of tobacco products due to design specifications. At the same time it will provide a fillip to the growth of the smuggled contraband trade as these cigarette packs will not carry the specified graphic warnings.

The high taxation regime on cigarettes, together with the other adverse circumstances discussed earlier in this section have resulted in shrinking the tax base without any beneficial impact on tobacco control and health. Your Company believes that the economic potential of tobacco can be maximised through moderation of taxes on tobacco, minimisation of discriminatory taxes between different classes of tobacco products and a regulatory framework that addresses the genuine concerns of all the stakeholders of the tobacco industry. The need, therefore, is for a balanced, non-discriminatory agenda on tobacco, both fiscal and regulatory. Your Company continues to engage with the policy-makers in this regard.

Despite these stressful circumstances, the Company's relentless efforts to create value through international quality products, significant investments in technology and product development and a strong portfolio of brands have resulted in migration of consumers to the filter segments. Some of the strategic initiatives of the year include the launch of Classic Verve in the king size filter segment and Navy Cut in the regular size filter segment, limited edition pack offerings for Gold Flake Kings and Classic and commemorative packs for most of the other filter brands. Your Company continues to maintain its leadership position in terms of market standing and share, despite upheavals in the market place.

Notwithstanding the logistical complexities thrown up by the sudden stoppage of manufacture of non-filter cigarettes coupled with the need to significantly ramp up the filter volumes, new productivity and quality records were established. Induction of new technology continued apace at all the manufacturing facilities. Ongoing investments in the primary manufacturing process at the Munger factory will standardise the technology platform across all facilities of your Company. Concurrently, the induction of additional high-speed makers and packers across the factories will lead to further improvements in quality and productivity. Additionally, sustainable improvements in key operating metrics and internal processes have been achieved by using leading edge structured problem solving techniques such as 'Lean Manufacturing' and 'Six Sigma'.

On the Environment, Health and Safety (EHS) front, your Company's cigarette factories continue to be 100% solid waste recycling units. They have also achieved

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further reduction in specific consumption of energy and water per cigarette produced. It is a matter of pride that all the cigarette factories have, yet again, been rated at the 5 star level by the British Safety Council for both 'Health and Safety Award' and 'Environment Audit Award' and have been awarded the RoSPA Gold Medal for 'Occupational Health and Safety'. Saharanpur factory was accorded the CII 'National Award for Excellence in Energy Management' while the CII 'National Award for Excellence in Water Management' was conferred on the Munger factory. Additionally, the Munger, Saharanpur and Bengaluru factories won the Golden Peacock Award for Occupational Health and Safety while the Kidderpore and Saharanpur factories won the Greentech Environment Excellence Gold Award. The Kidderpore factory was also awarded the Prashansa Patra Award by the National Safety Council and the CII Eastern Region Safety, Health and Environment Award.
The Munger factory won the CII Eastern Region Energy Conservation Award and the CII Eastern Region Safety, Health and Environment Award.

Whilst the menace of contraband and illegal domestic production coupled with the discriminatory tax framework are cause for concern, your Company is confident that the robustness of its strategies and the continuing trust of consumers and stakeholders will enable it to sustain and strengthen its leadership position.

FMCG – Others

It is well-known that the Indian economy is driven by domestic consumption and growth across all sectors, namely agriculture, industry and services. As a consequence of low per-capita income and wide disparities in income distribution, India has had very low penetration of consumer goods and services. However it is clear that the economy is changing, fundamentally triggered by far reaching changes in socio-economic variables. These variables (discussed below) will have significant impact on economic growth, savings rates, consumption patterns and product and services penetration.

In contrast to world trends, the mix of the Indian population is changing in favour of the working age group. The United Nations Population Division (UNPD) estimates that India's working age (15-64 years) population proportion, which was lowest at 55.3% in 1965, has increased steadily to reach 63% today. Going forward, the demographic transition is likely to be even sharper, with the proportion of working age population likely to reach 69% by 2035 – an increase of 0.23% every year. This demographic dividend will have a positive impact on India's average income levels and consumption patterns as allocation of incomes on staples will be supplemented by larger spends on discretionaries. The increase in affluence is likely to be quite remarkable over the next six years. It is estimated by the National Council of Applied Economic Research (NCAER) that the proportions of the two lowest income category households i.e. Low income households ($ 0-3000) and Aspirants ($ 3000-6000) will drop from 14.6% and 41% to 6.4% and 25% respectively. Effectively, by 2016, NCAER estimates that 68% of Indian households are likely to be middle class or high-income households. This change in income distribution will appreciably boost consumption of branded consumer goods.

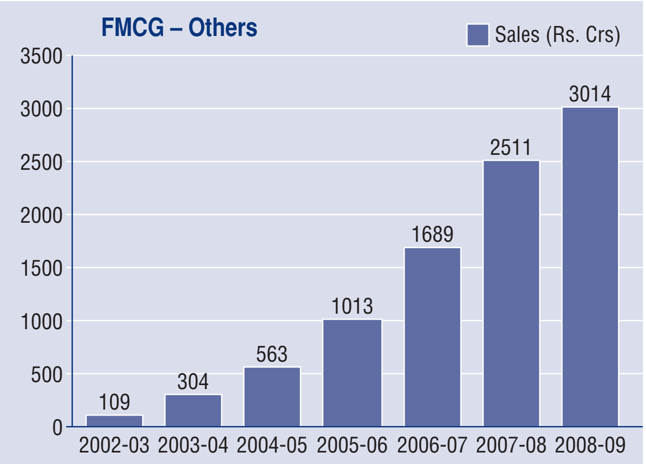
Similarly the pace of India's urbanisation is expected to be faster than that of the rest of the world. The mix of urban population is expected to increase from ~29% currently to ~44% by 2035 as per estimates of the UNPD. This will lead to increased nuclearisation of families and increase in the proportion of working women, which in turn will provide a fillip to the growth of branded consumer goods.

Given these positive fundamentals, your Company continued to rapidly scale up the new FMCG businesses comprising Branded Packaged Foods, Lifestyle Retailing, Education and Stationery Products, Safety Matches & Incense Sticks (Agarbattis) and Personal Care Products.

> Segment revenues in FMCG (Others) grew by 20% over last year and clocked a CAGR of 74% in the last 7 years.

As reported last year your Company continues to make significant investments in scaling up its Trade Marketing and Distribution infrastructure. Its strategic re-organisation during the year under review has begun to drive down transit times, thereby enhancing the competitive freshness of your Company's products. Superior channel management, backed by state-of-the-art technology solutions, and sustained investments in training and development of the frontline sales team have significantly enhanced your Company's competitive capabilities.

The Segment Report set out in Schedule 20 to the Accounts reflects the outcome of this rapid scaling up. While segment revenues grew by 20% over 2007-08 to touch Rs.3014 crores during the year, this segment has clocked a CAGR of 74% in revenues in the last seven years. 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. Margins during the year were impacted by the sharp increase in commodity prices and steep store rentals. Highlights of progress in each category are set out below.

Branded Packaged Foods

Notwithstanding tough trading conditions, the Branded Packaged Foods business continued to expand with sales growing 13% over the previous year. The range of offerings now comprises more than 170 distinct products under 6 brands. The Company's unflinching pursuit of providing benchmarked quality products backed by deep consumer insights has enabled it to build a significant market presence. During the year, the business was adversely impacted due to economic slowdown and the severe price increases across all input commodities. Having acquired appreciable scale in a relatively short span of time, the business is progressively focusing on driving consumer franchise, consolidating the portfolio in select high margin categories, improving market servicing and driving supply chain efficiencies.

In the Staples business, 'Aashirvaad' atta continued its leadership position with a market share of 54% among branded national players. 'Aashirvaad' Spices grew by 40%, leveraging the brand's strong association with superior quality and consistency.

The biscuits business continued on its growth trajectory with sales improving by 14%. Sunfeast with a current market share of ~10% is now clearly established as a credible third brand. The 'Sunfeast' range of biscuits witnessed continued enrichment in product mix with higher sales of value added products like Creams, Cookies, etc. The year however witnessed high input cost pressures in commodities like wheat flour, edible oil, skimmed milk powder, sugar and packaging materials. The business focused on supply chain efficiencies to enhance product freshness and improve logistic costs.

'Candyman' is now the established No.1 brand in its segment of hard boiled candies. During the year, the business saw the successful launch of Lacto and Toffichoo, which received enthusiastic response from consumers. Within the 'Ready To Eat' group, 'Sunfeast PastaTreat' has emerged as a unique product with a

[The range of offerings from the Branded Packaged Foods Business now comprise more than 170 distinct products under 6 brands.]

loyal consumer base. Research among trialists has thrown up very encouraging data, pointing to optimistic promise of future sales.

'Bingo!' penetrated further into newer markets, gaining customer franchise. The product portfolio was enhanced with the launch of the new format Hatke Jhatke. The wave shaped snack, with two exciting flavours - Funky Masala & Tomato Twist has been received positively by consumers. The finger snack segment led by Mad Angles continues to grow in strength. 'Bingo!'s' positioning as a youthful and innovative snack has got significantly reinforced. The 'Bingo!' marketing campaign has been impactful and effective with its high energy clutter breaking advertisements.

The Foods business is being supported with investments in manufacturing and distribution infrastructure capable of handling larger scale to derive benefits of growing business volumes as envisaged in the future. Supply chain logistics for competitive freshness and cost efficiencies is critical to this business. Till requisite scale is achieved, the business will have to bear a high cost base in the interim, as the benefits of distributed manufacture to service proximal markets are yet to be fully exploited. The business is building its competitiveness by scaling up whilst enhancing process and supply chain efficiencies.

The year ahead promises to be challenging for the business. Brand building will assume center stage to drive sales and enhance consumer recall. Innovative campaigns with high buzz factors, supported by focused consumer activation, will be essential for building strong consumer franchise and trade loyalty. Well researched and robust product development processes will be key for the launch of differentiated offerings across segments. The product platforms of taste, energy, health and wellness are expected to provide the next level momentum in sales growth.

Affordability will be a key determinant of the growth of the branded foods business in India. This objective can be achieved by removing excise duty on all food products and by standardizing the VAT rate at 4%. This will also be in line with international practice.

Lifestyle Retailing

The Lifestyle Retailing business has consolidated its market presence in the branded apparel market by establishing 'Wills Lifestyle' as the premier lifestyle brand in the country and 'John Players' as a leading fashion brand for the youth.

'Wills Lifestyle' continues to be a leader in the top end of the branded apparel market with a range that reflects high fashion imagery, aspirational aura and brand premiums in line with international trends. It has established product leadership through constant innovation in designs, styling, fabrics and finishes embellished with accessories. Sales grew by a robust 19% over the previous year. The high stature and premium imagery of 'Wills Lifestyle' brand was further reinforced through association with 'Wills Lifestyle India Fashion Week', the country's most prestigious lifestyle event. Under its 'Ramp to Racks' initiative the brand has exclusive tie ups with leading designers of the country such as Rohit Bal, Rohit Gandhi-Rahul Khanna, Rajesh Pratap Singh, JJ Valaya and Manish Arora to create Wills Signature range of designer-wear. This exclusive line has further enhanced the brand's premium imagery, investing it with a designer aura.

The customer privileges programme 'Club Wills', with over 60,000 loyal members comprising of premium and discerning customers, has led to higher visit frequency and transaction size.

The business has leveraged synergies within the ITC group to successfully launch a boutique store at the ITC Maurya. The 'Essenza Di Wills' and 'Fiama Di Wills' range of personal care products continue to augment the lifestyle portfolio. The brand received high recognition during the year when it was accredited a 'Superbrand' and declared the 'Most Fashion Forward Brand' at the India Fashion Awards. Wills Lifestyle is now available at 50 exclusive stores in 30 cities and in more than 150 'shop-in-shops' in leading departmental stores.

In the popular 'Youth' segment, the 'John Players' brand has established a strong presence in the mind of the consumer and has become a leading brand in the segment,

[Wills Lifestyle is now available at 50 exclusive stores in 30 cities and in more than 150 'shop-in-shops' in leading departmental stores.]

with youthful products such as denims, knits, suits, and jackets. However, the economic slowdown has impacted consumer sentiment and limited the growth in this mid-segment. 'John Players' has now established a strong pan India presence with over 200 Flagship Stores and 1300 Multi Brand Outlets. In the coming months its presence will be enhanced in Departmental Stores.

The business achieved a robust growth of 31% in exports despite tough economic conditions in the target US and European markets. The growth came on the back of improved product mix through the offer of high value embellished garments and addition of premium fashion customers. The business strengthened its existing customer engagement by offering design, product development and flexible manufacturing capabilities.

The business has responded effectively to the economic slowdown and weak consumer sentiment. Renegotiation of rentals and rationalization of unviable stores have helped improve store margins. Cost management actions and business process streamlining are being vigorously pursued to enhance retail and manufacturing productivity. Investments in Information Technology have enhanced real-time information visibility across segments leading to improvement in operational effectiveness. Investments are also being made in store design, visual merchandising and customer service to sustain the international shopping experience.

The business will continue to focus on increasing the fashion quotient of its offerings on the basis of deeper understanding of consumer preferences, enhanced operational effectiveness and world-class quality.

Education & Stationery Products

The Education & Stationery Products business registered an impressive sales growth of 60% over the previous year, underscoring the minimal impact of the economic slowdown on this buoyant sector. The growth was powered by brand 'Classmate' which continued to consolidate its leadership position in student notebooks.

Education is the foundation for a vibrant democracy, growth in productivity, income and employment opportunities. Presently, the country has about 300 million illiterate adults. The current enrolment rate for primary education is around 77 per cent and for secondary education about 60 per cent. The government has accorded top priority to resolving this national crisis, doubling the resource allocation from the current levels of ~4% of GNP. This impetus is bound to fuel demand for education products in the immediate future.

The market for notebooks in India is highly fragmented and dominated by regional and local players. These players have traditionally invested very little in quality up-gradation, brand building and distribution. With the advent of branded national players led by 'Classmate', there has been a marked improvement in product quality which has in turn fuelled demand from a growing section of discerning consumers.

The business has systematically invested in supporting small scale manufacturers through superior brand building, robust trade marketing initiatives, product development and efficient demand and supply side networks. Product superiority comes from leveraging your Company's world-class fibre line at Bhadrachalam which is India's first Ozone treated elemental chlorine free facility. Besides superior physical characteristics, the paper is environmentally friendly and amongst the 'greenest' in the Indian market. The 'Classmate' brand equity has been enhanced through imaginative point of sale communication, contemporary cover designs and trivia pages that seek to 'inspire young minds'. The coverage in this inspirational series includes relevant and contemporary topics such as Global warming, Climate change, National Leaders, Inventions, Incredible India etc. On the supply side, the business sourced notebooks from over 15 small scale manufacturers, 9 of whom are ISO 9001:2000 certified with the assistance of the business, a first for the stationery industry. The demand side saw a significant increase in the customer base resulting in market coverage going up from 2000 to 2600 markets.

> The Education & Stationery Products business registered an impressive sales growth of 60% over the previous year with a significant increase in the customer base resulting in market coverage going up from 2000 to 2600 markets.

During the year, the business launched a slew of new complementary categories under the 'Classmate' brand. These included Geometry Boxes, Children's Books, and Gel and Ball Pens. On the anvil are a range of scholastic products targeted at the 'Classmate' notebook consumer. With the expansion of categories under the 'Classmate' Brand, the business expects to consolidate the market standing of 'Classmate' as the most trusted student stationery brand.

The business entered the office supplies segment with the launch of 'Paperkraft' Premium Business Paper in multiple grammage and pack size variants. 'Paperkraft' is a superior and environmentally friendly multi-purpose paper for print-copy-fax-scan applications. Multi-purpose paper is India's fastest growing paper products category. 'Paperkraft' is a physical manifestation of ITC's sustainability programme and leverages the 'Ozone Treated Elemental Chlorine Free' technology introduced in India for the first time by the Company's Paperboards, Specialty Papers & Packaging business. A proprietary chemical treatment renders it eco-friendly with a higher archival life. Importantly, 'Paperkraft', with its impressive green credentials enables customers to exercise their power to 'Go Green' and partner the Company's efforts to mitigate the adverse impact of climate change and create a positive environmental footprint.

During the year, the business went live with its ERP. This has enabled information visibility across the growing collaborative supply chain, resulting in timely and effective decision making.

With its two flagship brands 'Classmate' & 'Paperkraft' gaining widespread consumer acceptance, the business is well poised to grow significantly in the coming year.

Safety Matches

In the Safety matches business, the Company's brands along-with those of Wimco continued to enjoy strong consumer preference resulting in enhanced market standing. The portfolio approach adopted by the business addresses demands of individual markets at appropriate price points. Synergies from the earlier acquisition of Wimco by the Company's subsidiary Russell Credit Ltd are being fully realised to gain enhanced levels of flexibility in operations, resulting in supply chain efficiencies. The business has also increased its presence in the international markets through growing exports of value-added products, particularly to Africa and the Middle East.

Steep escalation in the cost of key input materials like wood, splints and many chemicals compelled your Company to increase consumer prices during the year, resulting in a temporary drop in volumes which are now on the way to recovery and stabilisation. Your Company continues to partner with the small scale sector by sourcing a significant portion of its requirement from multiple units in this sector and by working closely with them in augmenting their competitive ability by raising their quality and process standards.

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

Incense Sticks (Agarbattis)

Market standing of the Company's 'Mangaldeep' brand of incense sticks (Agarbattis) stood further strengthened with sales recording a robust growth of 20% over the previous year. The business focused on product differentiation and ensuring consistently superior quality products. During the year, the business launched hand rolled 'Durbar Battis' under the brand name 'Mangaldeep Durbar Gold' in coastal Andhra Pradesh. This introduction has received wide consumer acceptance.

> The Agarbatti business continues to contribute to the Company's commitment to the 'Triple Bottom Line' by providing livelihood opportunities to more than 5000 persons through small scale entrepreneurs and NGOs / Self Help Groups across India.

The business continues to contribute to the Company's commitment to the 'Triple Bottom Line' by providing livelihood opportunities to more than 5000 persons through small scale entrepreneurs and NGOs / Self Help Groups across India. This business initiative empowers women groups from poor rural households by creating sustainable livelihoods. Increased incomes in the hands of women go towards better education and health for their children, thus improving social infrastructure in the project areas. Your Company continues to partner with small and medium enterprises to bring out the best of their entrepreneurial skills and facilitate in raising their process and quality standards.

Personal Care Products

The year under review marked the first full year of the Company's presence in the Personal Care space. The business continued to roll out its product portfolio comprising Soaps, Shampoos, Shower Gels, etc. under the 'Fiama Di Wills', 'Vivel Di Wills', 'Vivel' and 'Superia' brands across the country. The launch of the 'Vivel Ultra Pro' Shampoo in the anti-dandruff segment has augmented the Vivel portfolio and widened the hair benefits offered to consumers. Consumer acceptance of the Company's products, as reflected in market research studies, has been gratifying. These brands address identified segments of the market with differentiated value offers.

The Personal Care industry continues to grow at around 12% per annum, and stands at around Rs.23000 crores. In the face of a global recession, it is commendable that the domestic industry has been able to post this growth. The intervention by the Government, by way of lower taxes, easier credit and interventions in the rural sector have helped protect demand. Prices of commodities such as palm oil and surfactants which had spurted to all time highs in the early part of the year, declined during the later half of the year, helping the industry to improve its profitability. The general consensus is that the price outlook for commodities will remain fairly subdued for the rest of 2009. As a result, there would be more opportunities to offer better value to consumers through promotional and other initiatives.

The business added manufacturing capacity at its owned tax-exempt unit at Haridwar and is in the process of undertaking further expansion in line with expected market requirements. These investments will provide advantages of superior quality, flexibility, responsiveness and intellectual property protection.

Investments continue to be made to build a strong portfolio of products and brands and to expand the consumer base. This includes creation of world-class products through well-defined research and development activities at the Company's dedicated R&D Centre, and increased engagement with consumers through efficient deployment of media, direct contact, and promotional activities across traditional as well as contemporary consumer connect avenues. The business is simultaneously focusing on leveraging the strengths in your Company's trade marketing and distribution capabilities to drive wider availability and visibility of its products.

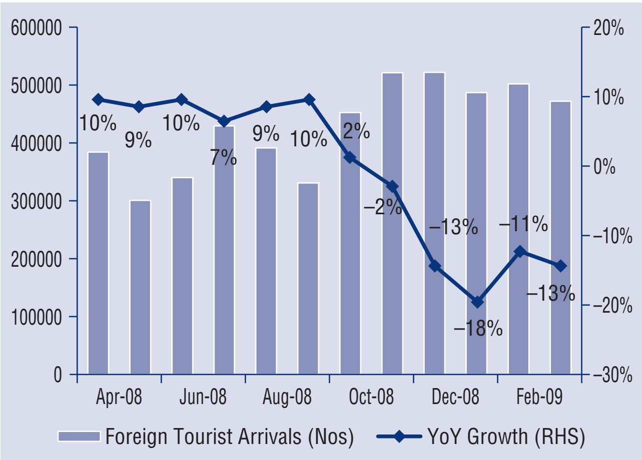
B. HOTELS

The strong growth witnessed by the Indian hospitality industry in the last few years was driven by increased business traffic and leisure travel in the wake of favourable economic conditions and higher order integration of India with the global economy. The premium segment which accounts for 60% of the hotel industry's revenues grew at an impressive 27% between 2003-04 and 2007-08. This growth momentum continued into the first half of this fiscal reflected in the growth of your Company's revenues by 14%. The effect of the economic slowdown started to impact from the middle of the year with clampdown on domestic corporate travel and steep reduction in international travel as a fallout of the global financial crisis. Lack of consumer confidence adversely

> The Personal Care Products business continued to roll out its product portfolio under the 'Fiama Di Wills', 'Vivel Di Wills', 'Vivel' and 'Superia' brands across the country. Consumer acceptance of the Company's products, as reflected in market research studies, has been gratifying.

impacted leisure travel as well. The situation worsened with the horrific terror strikes at Mumbai which triggered off negative travel advisories leading to sharp degrowth in occupancies and average room revenues. The political uncertainties of an election year added to the dire situation of the industry. This cyclical downturn impacted the hospitality industry, though the business has been able to demonstrate some resilience during this challenging period. However, the business continues to pursue an aggressive investment led growth strategy recognising the inadequate capacity and the longer term potential of this sector.

Foreign tourist arrivals slowed down in the second half of the year with y-on-y degrowth as shown in the graph below:



Given such adverse circumstances, your Company's hotels business posted a decline in revenues by 7%. Though Gross Operating Profit (PBDIT) degrew by 19% over the previous year at Rs.384 crores, the hotels business maintained its leadership in terms of operating efficiency as measured by the ratio of PBDIT to Net Income at 40%.

The longer term outlook for the industry however remains robust, given India's inadequate room capacity. A number of projects poised to enter the market have got delayed due to liquidity crunch, rising interest costs and uncertain business environment. Occupancies are expected to rise with economic revival by the end of financial year 2009-10. Your Company now has over 100 hotels across 80 locations in India, operating under 4 brands. These are 'ITC Hotel' at the top end, 'WelcomHotel' in the five star category, 'Fortune' in the mid market segment and 'WelcomHeritage' in the heritage leisure segment. In addition, the business has co-branding arrangement with two international brands 'The Luxury Collection' and 'Sheraton', franchised from Starwood. Together, these offerings make ITC-Welcomgroup the second largest hotel chain in India.

During the year the Fortune brand, which covers mid to mid upscale segments, experienced substantial growth. The brand now has 25 operating properties and another 27 properties are in different stages of project execution. The WelcomHeritage brand has now grown to 64 properties.

The recently launched '**Kaya Kalp - The Royal Spa**' at ITC Mughal, Agra has been adjudged the winner of Tatler's best spa by the London based Tatler Group. The Royal Spa, which is Asia's finest, reinforces the Company's philosophy of providing premium experiences for the discerning guest. The business also earned the distinction of being recognized as the best employer in Asia in the hospitality sector in a study conducted by the global human resources consulting and outsourcing firm – Hewitt Associates together with the Wall Street Journal and Dow Jones. This is a testimony to your Company's commitment to its people. In view of the positive long term outlook, the competitive strength of this business and the emerging opportunities in this industry, your Company has maintained its aggressive investment led growth plan. Construction activity in respect of the new super-deluxe luxury hotels at Bengaluru and Chennai is in full swing in line with their targeted opening dates.

The ITC-Welcomgroup chain, with its globally benchmarked levels of product and service excellence and customer centricity is well positioned to not only

Your Company now has over 100 hotels across 80 locations in India, operating under 4 brands – 'ITC Hotel' at the top end, 'WelcomHotel' in the five star category, 'Fortune' in the mid market segment and 'WelcomHeritage' in the heritage leisure segment.

sustain its leadership position in the industry, but also to emerge as the largest hotel chain in the country over the next few years.

C. PAPERBOARDS, PAPER AND PACKAGING

The Paperboards, Specialty Paper and Packaging segment recorded steady growth in revenues and profits. Segment revenues grew by 19% over the previous year to touch Rs.2822 crores. Segment results at Rs.509 crores reflect a growth of 12%.

Paperboards & Specialty Papers

The global Paper & Paperboards industry was adversely impacted by the economic slowdown. Annual growth dropped to 6% against 9% in the previous year. In the face of accumulating inventory levels, most international players resorted to price discounting, resulting in lower unit realisation. With recovery expected in the second half of 2009-10, the growth forecast for the industry for the next 5 years is estimated at a CAGR of 7%. Increasing demand in Asia is seen as the growth engine, with China and India clearly emerging as the markets of the future.

The domestic paper and paperboards industry has a capacity of 9 million tonnes per annum (TPA). The paperboards segment, with a capacity of 1.32 million TPA is characterized by fragmented capacities. More than 100 mills service this market, but very few are capable of delivering products of contemporary quality. Your Company is the market leader in the Paperboards segment with an output close to that of the next three players combined. The business enjoys a domestic market share of about 22% by volume and 28% by value. Given the strength of its integrated pulping operations, the business commands a high 77% market share in the premium value added paperboard segment. This segment is expected to grow annually by over 15% in the next few years, primarily driven by the need for product differentiation, increased competition in the end-user segment, growth in organized retailing and improvement in conversion technology.

The market for premium quality coated papers as well as the branded copier segment is witnessing steady growth. These segments are expected to grow at a CAGR of 9% and 15% respectively over the next 5 years. Your Company is also the sole manufacturer of cigarette tissue in the country, accounting for about 65% of the domestic cigarette tissue consumption. In the growing décor segment, your Company's products have a good market standing, though it faces steep competition from Chinese imports.

Total production of paper and paperboards during the year was 469335 MT compared to 414714 MT during the previous year. Overall sales, including internal transfers, increased to 462119 MT from 403063 MT, an impressive growth of 15%. The export turnover for the year remained stable despite adverse global market conditions in the second half of the year. The business currently exports to 58 countries including UK, UAE, Turkey, Greece, Sri Lanka, Bangladesh, Iran and Nigeria and plans to increasingly focus on the export of value added products to premium markets.

During the year, the business commissioned a new paper line at its Bhadrachalam unit with a capacity of 1 lac TPA at an investment of Rs.465 crores. This state-of-the-art paper machine will service the growing demand for international quality printing and writing paper. Copier and writing paper, produced by this machine, is clearly enabling higher order value capture based on the strong forward linkages with your Company's branded Education and Stationery business.

The per capita consumption of paper and paperboard in India is currently at 7 Kgs against a world average of 55 Kgs. and Chinese consumption of 45 Kgs. Given the positive outlook for the long term growth of the Indian economy, this is expected to grow significantly faster. Government schemes to promote education such as the Sarva Siksha Abhiyan, growth of the publishing industry, changing lifestyles and demographic profiles will fuel a faster rate of growth in the value added printing and writing paper segment. The Business is well positioned to tap this potential.

[Your Company is the market leader in the Paperboards segment with an output close to that of the next three players combined.]

Your Company is engaged in addressing the twin challenges of securing the long term fibre supply and remaining continuously cost competitive. It has, over the years, pursued an aggressive clonal propagation strategy, which makes available in-house developed high-yielding clones and seedlings of the desired pulp wood species together with extension services to farmers engaged in pulp wood plantation on their marginal wastelands. The quality of these clones and seedlings has been very well accepted by the farming community. This practice has been successfully adopted over the last 13 years in more than 90,000 hectares of plantations. During this year alone, 9,000 hectares were brought under this coverage. Enhanced R&D interventions have resulted in the development of high yielding Subabul clones. Your Company actively collaborates with the Council for Scientific and Industrial Research to develop low-lignin high yield pulpwood species based on biotechnology applications. This continued focus on expanding the coverage of high yielding clonal plantations in the economic vicinity of your Company's mill is expected to yield significant competitive advantage in the years to come. It has also contributed to your Company achieving the 'carbon positive' status for the fourth year in succession.

Your Company continues to represent to the policy makers to introduce appropriate amendments to the Forest Conservation Act, 1980 and related Rules to permit the industry to use degraded forest land for afforestation linked to the end-use of such wood. An enabling policy framework which would inter alia promote public-private partnerships 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 livelihoods in rural India.

Wastepaper is a key input in the manufacture of recycled boards. Unfortunately, mobilisation of wastepaper in India is very low at 14% compared to 60% in developed countries. Your Company, as the market leader in paperboards, has commenced a strategic initiative for wastepaper recycling, designated 'WOW' (Wealth Out of Waste). This intervention has established an efficient collection and recycling chain, targeting large sources of aggregation such as schools, offices, residential colonies and apartments. Apart from contributing to a cleaner environment, 'WOW' will be an important source of long term cost competitiveness for the industry. Even as it gets scaled up to a full blown process across multiple cities, this initiative is winning accolades from the Government, NGOs, public institutions and people at large.

Your Company, having pioneered environment friendly ECF bleaching in India, has taken further steps to enhance its eco-friendly operations. The new pulp mill with 'Ozone bleaching' technology commissioned in the last quarter of the previous year has now fully stabilized, substantially reducing the import of wood pulp and thereby enhancing the competitiveness of the business. The business has invested significantly in contemporary technologies for improving environmental standards of its manufacturing operations. Such investments deploy eco-friendly technologies ahead of legislation. Your Company would welcome policies that raise the environmental benchmarks and suitably reward those who achieve or exceed the parameters. The Government can play an active interventional role in bringing about such far reaching changes in the industry.

The business is rolling out Total Productive Maintenance (TPM) processes across all its units. These interventions are already generating substantial cost savings and productivity improvements. It has also commenced implementation of an end-to-end ERP system to support its large scale integrated operations.

The business contributed to your Company's endeavour to achieve yet another environmental milestone of being 'solid waste recycling positive' with its Tribeni and Kovai units accomplishing that goal. While Bhadrachalam and Bollaram units are close to a similar achievement,

[The Executive Board for Clean Development Mechanism under the United Nations Framework Convention on Climate Change has accepted ITC's Social Forestry programme as a registered project. This recognition of a large scale forestry project is the first of its kind in India and second in the world after China.]

the business has been able to achieve an overall positive solid waste recycling footprint by procuring and recycling over 125,000 tonnes of waste paper. The business is also actively leveraging the Clean Development Mechanism (CDM) opportunities under the Kyoto Protocol. During the year, the business earned Rs.10 crores through the sale of Certified Emission Reduction (CERs). CDM projects in the pipeline include installation of a 90 tph green boiler at the Bhadrachalam unit at an investment of Rs.86 crores. The boiler will use biomass as fuel and substantially reduce the usage of conventional fuel. The internally generated wood waste, arising out of chipping and de-barking operations, will be used as an input in this eco friendly boiler, bringing substantial cost reduction and also yielding a significant quantum of CERs under the CDM.

During the year, the Tribeni unit was awarded the ‘Sword of Honour’ by the British Safety Council. The Bhadrachalam unit received ‘5 Star Rating’ from the British Safety Council. Both the Bhadrachalam and Tribeni units were conferred the ‘Excellence in Energy Management’ award by CII. These units were also conferred the ‘National Award for excellence in Water Management 2007’ by CII. All units of the business have received the ISO 9001, ISO 14001 and OHSAS 18001 certifications.

In the context of weak global demand, discounted Chinese products are threatening to impact the domestic market significantly and have the potential to force closure of the weaker paper and paperboard manufacturers. In view of this threat of cheap imports, the Industry has sought an increase in the import duty rates from 10% to 50% through the Safeguard Duty mechanism, which is WTO compliant. These higher rates of duties can be progressively brought down in a calibrated manner as the incidence of ‘dumping’ diminishes.

Recent strategic interventions including significant investments in capacity and capability enhancement and continuous improvement in internal efficiencies through contemporary TPM processes have positioned your Company in a full state of readiness to leverage the growth opportunities in the Indian market.

Packaging and Printing

The business continued its investment in world-class technology to provide cost effective and superior packaging solutions to a wide range of business and industry including the Company’s Cigarette and other FMCG businesses. The broad spectrum capability profile of the business across the carton and flexible segments has clearly established its position as one of India’s foremost packaging houses.

The business made significant progress in capacity addition during the year by scaling up its Flexible manufacturing facility at Haridwar to cater to the distinct packaging needs of your Company’s branded Foods and Personal Care businesses. Investments in the backward integrated manufacturing of key raw materials for Flexibles have ensured competitiveness in catering to the needs of key customers. The business is driving substantial growth in its external trade by winning the trust and confidence of key customers in the consumer electronics and FMCG industries. The full range of capabilities riding on multiple packaging platforms will enable the business to strengthen its position in the domestic and international market.

During the year, the business invested Rs.90 crores in wind energy generation to meet the requirement of its Chennai unit. This 14 megawatt facility is a clean energy initiative, flowing from the Company’s commitment to the Triple Bottom Line. The generation, which will be eligible for carbon credits under the CDM of the Kyoto Protocol, will result in substantial cost savings, even while enhancing the Company’s positive environmental footprint.

During the year, the business won the prestigious BMJ Golden Leaf Award from the international publication ‘Tobacco Reporter’ in the category ‘most committed to

[Your Company has achieved yet another environmental milestone of being ‘solid waste recycling positive’.]

quality'. It also received several India Star National awards, awards from the Indian Printing Packaging and Allied Machinery Manufacturers' Association (IPAMA), awards from the Printers Film and Foil Converters' Association for excellence in Packaging and the Capexil Special Exports Award for Exports.

With its investments in world-class technology, multi-location units and a diversified product portfolio, the business is fully poised to service all the requirements of your Company's Cigarette and other FMCG businesses and to rapidly grow its external trade, including exports.

D. AGRI BUSINESS

Cigarette Leaf Tobacco

During the year, the demand surge to replenish depleting inventory levels coupled with supply constraints led to rapid escalation of global tobacco prices. Decline in production was witnessed in China and Europe. The other major producing countries were unable to bridge the supply gap. Apart from major international cigarette manufacturers, regional manufacturers from the Asia-Pacific region also sourced incremental volumes from India. The demand surge led to increased exports from India and enhanced farm as well as trade prices. The Indian cigarette tobacco production continued to grow in the face of increasing farm prices, making it one of the most remunerative commercial crops. However, issues of labour and fertilizer shortage and the absence of pragmatic production policies continue to be a threat for future growth.

In 2009, the global supply-demand situation is expected to approach near equilibrium due to incremental production in key tobacco producing geographies. However, sustained focus on crop quality and productivity coupled with favourable policy initiatives and focused marketing strategies can help India retain its position as a preferred destination for key buyers.

Leveraging the growing demand for the Indian crop, your Company further cemented its position as the foremost supplier of quality Indian tobaccos in the global market, achieving a record export growth of 51% over last year. Your Company won the 'First Best Performance in Export of Un-manufactured tobacco (Manufacturer category)' from the Tobacco Board of India for the 5th consecutive year. This stellar performance was achieved through a robust combination of new business development and customised product and service offerings to both existing and new customers. Though India's share in the global tobacco trade has increased from 7% to 10% in the last 4 years, its share continues to be small despite being one of the largest producers of tobacco in the world. As highlighted in last year's 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 to insulate him from the volatilities of international markets. Such a taxation policy would be the key catalyst in realising the full economic potential of the tobacco sector in India.

The business continued to provide strategic sourcing support to your Company's cigarette business.

Your Company's pioneering R&D efforts on varietal improvement have resulted in the successful development of Flue Cured Virginia hybrids for the first time in India. The overwhelming response during farm trials from the tobacco growers for these hybrids stands testimony to the virtues of higher productivity and superior quality traits. Your Company seeks to propagate the new hybrids in collaboration with the Central Tobacco Research Institute and the Tobacco Board of India. Additionally, an innovative process for pelleting of tobacco seed has been designed and developed in-house, paving the way for efficiency in seed utilization and deployment of Tray Nursery system for improved productivity. Introduction of Burley and Oriental tobaccos into new areas of Andhra Pradesh and Orissa has not only helped improve the socio-economic status of small/tribal farmers, but has also improved the product offering to discerning global buyers. These successes provide impetus to your Company to continue its pioneering work in enhancing quality and farm productivity to improve the competitiveness of Indian tobaccos.

During the year, the Quality Control laboratories at the Anaparti and Chirala tobacco processing units were accredited by National Accreditation Board for Testing and Calibration Laboratories (NABL) in the field of Chemical Testing. Chirala and Anaparti units achieved Level 4 (Highest Level) in Social Responsibility in Tobacco Production (SRTP) audit. The Chirala unit won the Greentech Environment Excellence Gold Award in Manufacturing Sector from Greentech Foundation, New Delhi.

Your Company continues to focus on maintaining the highest safety standards in the factories. During the year, the Anaparti and Chirala units received the prestigious 'Sword of Honour' from the British Safety Council (the 14th consecutive 'Sword of Honour' for Chirala). The Chirala unit also won the Five Star rating (Safety & Environment) from the British Safety Council.

In order to meet the increasing requirements for additional tobacco processing capacities, your Company will set up a green leaf processing plant near Mysore for which acquisition of 102 acres of land has been completed. Your Company with its outstanding R&D capability, unique crop development and extension expertise, modern processing facilities, and deep understanding of customer and farmer needs is poised to leverage the emerging opportunities for the Indian leaf tobacco industry.

Agri Commodities

The peak commodity prices witnessed in the global market during the previous year (2007-08) continued well into the first half of this year before declining in the second half owing to the global economic recession. Reduction in crude oil prices due to weak global demand coupled with a shift from production of bio-fuel to food grains and oil seeds contributed to the decline in commodity prices. In India however, the ban on export of rice and higher support prices for wheat, despite a record bumper crop ensured continued buoyancy in food grain prices. Stock control limits continued to be imposed for most part of the year. Edible oil prices, however, witnessed sharp declines with the Government of India scrapping import duties on edible oils, particularly on palm oil as an anti-inflationary measure. In the wake of Government interventions such as ban on exports, market actions at subsidized prices and continued imposition of stock controls, your Company exited several commodities in which trading had become extremely risky. Accordingly, the existing e-Choupal network was restructured by aligning it to the continuing portfolio of commodities.

In line with its strategy of operating in high value segments, the business continued its focus on processed fruit pulp, frozen foods, organic purees, spices and other niche products and expanded its reach by acquiring customers in the demanding Japanese market. Backward linkages were strengthened to provide assurance of full traceability of its products. Eleven vendor farms supplying high quality fruits were awarded Global GAP (Good Agricultural Practices) certification.

Your Company continued to source identity preserved, specific high quality wheat through its e-Choupal channel for your Company's branded Foods business. Strategic cost and quality advantages were realized by multi-sourcing across geographies based on price optimisation. Significant operational improvements were achieved to bring down freight, warehousing and other logistics costs. In sourcing chipstock potato for your Company's 'Bingo!' potato chips, new varieties of potatoes with longer storage life were deployed, optimising season and off-season buy to deliver significant cost advantage. Last year's acquisition of potato seed company, Technico has brought strong synergies to the potato based value chain, enhancing farmer capabilities through access to high quality seeds and internationally benchmarked practices in agronomy. The business is actively working on progressively increasing the share of locally sourced potatoes (closer to manufacturing plants) to lower freight costs.

Fifty new e-Choupals were launched in Tamil Nadu supported by the Tamil version of echoupal.com with over 250 web pages. Your Company's expertise in the agri sector is now available to farmers in Tamil Nadu, giving them an opportunity to leverage the power of information technology. They will also have access to high quality extension services which will help increase the productivity of crops such as paddy.

During the year, your Company extended its collaboration with the Government of Madhya Pradesh under the Agriculture Technology Management Agency (ATMA) project. This programme aims at providing live training to farmers on scientific agricultural practices for selected crops. Both classroom and on-field training were provided to the farmers by experts from various areas of agriculture. Encouraged by its success in MP, where 190 farmer schools have already been opened to impart training, the project was extended to the State of Rajasthan by setting up 49 farmer schools. During the year, your Company introduced a novel concept of evaluating the soil organic carbon status at farm level through Soil Organic Carbon Kits developed by Acharya NG Ranga Agricultural University, Hyderabad. Your Company is in the process of taking up R&D activities to develop crop and market specific eco-friendly inputs based on biological and natural products.

The agri-inputs part of the business grew its topline by a robust 28%. The neem-based Organic manures, Wellgro Soil and Wellgro Crops have gained wide acceptance amongst the farming community and corporate houses engaged in contract farming. These products have won the confidence of customers for their superior efficacy and integrity. They are endorsed by Control Union (European agency for certifying organic status) as Organic inputs under the stringent quality specifications of EEC 2092-91 Annex II. During the year, the business introduced a new organic manure, 'Wellgro Grains', in pelleted form for food crops such as Rice, Wheat, Maize and Sugarcane. This product has quickly acquired acceptance among the farming community in the states of Andhra Pradesh, Karnataka and Uttar Pradesh. Your Company's product 'Wellgro Crops' has been empanelled under the National Horticulture Mission as part of the Organic Farming and Integrated Nutrient & Pest Management programs.

During the year, the business provided strategic sourcing support to your Company's growing 'Aashirvaad' brand of spices. It also made rapid strides in the export of spices to 'value markets' such as Japan, USA and the European Union, growing export revenues by 46%. In an endeavour to provide quality differentiation across the value chain, the business has developed a reliable farm-to-factory spices supply chain, guaranteeing superior specifications and quality attributes. Additionally, the commissioning of the state-of-the-art grinding cum sterilization facility has imparted a new dimension to quality. The future focus would be on strengthening farm interventions and developing value added products to garner a larger share of growth in the spices and derivatives markets.

Marketing of Kisan Credit Cards on behalf of the State Bank of India continued to receive a very positive response from the farmers. The quantum of farmer loans facilitated by your Company grew by 31%. This was achieved despite slower loan sanctions during the crucial kharif season in the wake of the farm loan waiver scheme announced by the Government of India. Four tele-caller centres were established during the year to assist rural customers with appropriate solutions to their financial needs.

Your Company's rural retailing initiative was expanded further with the addition of three more Choupal Saagar malls during the year, taking the coverage to 24 rural malls across three states. With retail sales growing by 34% over the previous year, these unique infrastructure points continue to be one-stop shops for the farming community with a host of services like sourcing, training, soil testing, cafeteria and health clinic. The creation of a distribution centre in Madhya Pradesh has facilitated reduction in inventory levels and improved margins of the retail stores in the state.

Distribution of FMCG products in the rural markets through the e-Choupal network gained traction with the addition of your Company's personal care products to the portfolio. These products have been well received by the rural community. The e-Choupals will continue to supplement the efforts of the regular trade marketing channels.

The long term success of the e-Choupal network will depend on the capabilities of the extended organization of Sanchalaks and Samyojaks, and the ability of the internal staff to translate leadership skills and process knowledge into execution excellence. Considerable management attention is being directed to build this foundation to serve as a future source of competitive advantage.

NOTES ON SUBSIDIARIES

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

ITC Global Holdings Pte. Ltd., Singapore ('ITC Global') was placed under liquidation on 30th November, 2007 by the High Court of the Republic of Singapore vide its Order dated 30th November, 2007, on an application of the Judicial Managers of ITC Global. ITC Global has been under Judicial Management since 8th November, 1996. Consequently, your Company is not in a position to consolidate the accounts of ITC Global and its subsidiaries for the financial year ended 31st December, 2008 or to make available copies of the same for inspection by shareholders.

Surya Nepal Pvt. Ltd.

The year under review saw Nepal undergo momentous political transformation after a decade of civil unrest. Constituent Assembly elections were held in April 2008. The President and Prime Minister were elected, and a coalition government was formed. The new Parliament formally declared Nepal a 'federal, democratic republic' in May 2008. The coalition government, led by Communist Party of Nepal Maoist {CPN (Maoist)} under the leadership of its Chairman, Pushpa Kamal Dahal as the Prime Minister faces a very challenging agenda. Although CPN (Maoist) won an overwhelming majority in the April 2008 elections, they are faced with the task of establishing over time greater political legitimacy on the basis of demonstrated good governance. An interim constitution agreed on 15th January, 2007 presently serves as the framework for governance.

Amidst the political upheaval, the economy registered a GDP growth of 5.3% in the financial year ended mid July 2008, up from 2.3% in the previous year. However, recognizing the combined impact of long standing structural weaknesses and labour unrest, the revised GDP forecast for the next financial year 2008-09 stands at 3.5%.

Despite the challenging socio-economic and political scenario, the company's growth continues on an upward trajectory. In the twelve-month period ended 13th March 2009, the company's sales grew 21% to Nepalese Rupees 772 crores (Net of VAT). Profit after tax at Nepalese Rupees 144 crores represents an increase of 58% over last year. The company's Sales (Net of VAT) accounts for almost 1% of the country's GDP, while the company's contribution to the Exchequer accounts for about 4% of total revenues of the Government of Nepal. The company continues to retain its status as the single largest contributor to the Government Exchequer.

During the year, the company signed a Long Term Agreement for 3 years with the Workers' Union of the Simra factory. Frequent strikes and blockades continued in the Terai region worsening the pressure on the supply chain. Despite the difficult operating conditions, the company's pro-active resource and supply chain management minimized the impact of such disruptions, enabling achievement of both volume and value growth in Cigarettes.

The company successfully met the challenge of rising input prices, including manpower costs, by focusing on the premium end of the market and capturing a larger value share. 'Surya 24 Carat' and 'Surya Classic', the new brands launched last year in the super premium segment grew satisfactorily, capturing consumer franchise in the face of competing international brands. 'Pilot', the brand launched last year in the regular size filter segment, has captured significant volume and value share. As part of its commitment to sustain superior and consistent product quality, the company made further investments in upgrading process and packaging technology in the cigarettes business.

The company's domestic leaf operations in the Terai region, created to develop a sustainable and competitive source of supply for the cigarette business, grew in volume by almost 100% and will account for almost 15% of next year's leaf consumption. The company's continuous guidance to the farmers from the stage of seed development to crop harvesting led to improved productivity and quality at farm level which in turn ensured a better return to the farmers. This intervention has increased the farmer base and the acreage under leaf cultivation.

The new state-of-the-art garment manufacturing facility of the company at Biratnagar became operational this year. This has reinforced the company's capacity to cater to the domestic demand and also meet export orders for the 'Wills Lifestyle' and 'John Players' range of apparel. The company also made a foray into apparel exports to third countries, particularly the European Union (EU) and the United States (US), notching up a turnover of Nepalese Rupees 8.6 crores. With the company's increasing focus on third country exports and the encouraging response from these markets, the company is hopeful that the expected gradual revival of the global economy and consequent increase in consumption led demand will lead to increased export sales of the company's products to the EU & US markets.

In the domestic garments market, 'John Players' and 'Miss Players' consolidated their position in the branded apparel segment. 'Springwood', the company's mass market brand, has delivered a 53% volume increase over last year and is being rolled out to more markets. Positioned as an alternative to low priced imports from China and South East Asia, the Brand has so far shown satisfactory consumer response in the low priced 'value for money' segment.

The company entered the Matches business last year with its brand 'Tir', which is being rolled out nationally. On the back of extremely encouraging market response, the business clocked sales of Nepalese Rupees 5 crores.

The company continues to remain committed to its role as a responsible corporate citizen. As part of its commitment to promote Sports and Tourism, the company sponsored the country's most premier professional Golf Tournament – the 'Surya Nepal Masters'.

During the year, the Authorised Share Capital of the company was increased from Nepalese Rupees 100 crores to Nepalese Rupees 650 crores and bonus shares, in the ratio of 5 shares for every 1 share held, were allotted. The company declared a dividend of Nepalese Rupees 260/- per equity share of Nepalese Rupees 100/- each for the year ended 31st Ashad, 2065.

Srinivasa Resorts Limited

During the financial year ended 31st March, 2009, the company recorded income of Rs.62.27 crores (previous year Rs.69.08 crores) and a Profit Before Tax of Rs.18.53 crores (previous year Rs.21.57 crores). Net Profit stood at Rs.12.66 crores (previous year Rs.14.41 crores) after providing for income tax of Rs.5.87 crores (previous year Rs.7.16 crores).

The financial performance of the company's hotel, ITC Kakatiya, was adversely impacted due to the economic slowdown and the aftermath terrorist attacks in Mumbai. The hotel has initiated various measures to contain costs and improve profitability without compromising on the quality of its superior guest experience.

Despite the slowdown, the company continues to make investments in maintaining the contemporariness of its hotel property. During the year under review, a luxury Spa was commissioned at the hotel, to meet the wellness needs of its discerning guests. The hotel received the 'Greentech Gold Award' from the Greentech Foundation for its outstanding achievement in Environment Management. The hotel also received the ISO 14001 : 2004 re-certification.

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, 2009.

Fortune Park Hotels Ltd.

During the financial year ended 31st March, 2009, the company recorded income of Rs.1290.47 lacs (previous year Rs.1019.85 lacs) and earned a Net Profit of Rs.143.37 lacs (previous year Rs.157.54 lacs) after providing for income tax of Rs.89.33 lacs (previous year Rs.94.35 lacs).

The company, which caters to the 'mid market to upscale' segment, forged new alliances during the year taking the total number of properties under the 'Fortune' brand to 52, with a total room count of 4235. Of these, 25 properties are operating hotels. Another 6 hotels are slated to be commissioned during the course of the financial year 2009-10. The remaining 21 hotel projects are under various stages of development. The company seeks to be a dominant player in the mid/upper scale segment, providing quality services that would position 'Fortune' as the premier 'value' brand in the Indian hospitality sector.

The Board of Directors of the company has recommended a dividend of Rs.5/- per equity share of Rs.10/- each for the year ended 31st March, 2009.

Bay Islands Hotels Limited

During the year 2008-09, the company earned an income of Rs.96.75 lacs (previous year Rs.83.16 lacs) and a Net Profit of Rs.63.85 lacs (previous year Rs.54.14 lacs) after providing for income tax of Rs.26.99 lacs (previous year Rs.23.60 lacs).

The Board of Directors of the company has recommended a dividend of Rs.50/- per equity share of Rs.100/- each for the year ended 31st March, 2009.

King Maker Marketing Inc.

King Maker Marketing Inc. (KMM) is a wholly owned subsidiary of your Company registered in the State of New Jersey, USA. It is engaged in the distribution of your Company's tobacco products in the US market. It also provides your Company market research services related to the US markets for Tobacco and other FMCG products.

During the year under review KMM expanded its distribution infrastructure considerably to leverage your Company's initiatives to significantly grow its exports to the US. KMM has also set up operations in the garments district of New York City to develop and nurture the US customer base for your Company's apparels and accessories. This business is projected to generate revenues from next year.

The company's tobacco business witnessed a strong revenue growth during the year. Whilst unit sales of both Cigarettes and Roll Your Own (RYO) tobacco grew in double digits (11% and 23% respectively), sales revenue grew by 22% based on strong price realisations.

Despite higher marketing expenditure to support the expanded distribution base and the legislation-induced higher cost of Low Ignition Propensity (LIP) cigarettes, post tax profits grew by about 10%.

The coming year will be extremely challenging with the steep increase in Federal Tobacco tax for cigarettes and RYO tobaccos taking effect from April 1, 2009. This is expected to substantially impact the company's sales and fuel growth of illicit trade. The legislation to grant jurisdiction to the Food and Drug Administration (FDA) for Tobacco products, pending before the US Congress, is likely to become law in the coming year. The final shape of the legislation and its impact on the company remains a source of concern that will need to be addressed going forward.

Russell Credit Ltd.

During the year, the company earned a total income of Rs.33.40 crores and Profit After Tax of Rs.26.65 crores. The company paid dividend of 6.18% aggregating Rs.40 crores for the year ended 31st March, 2009.

As stated in earlier Reports, a petition was filed by an individual in the High Court at Calcutta, seeking an injunction against the company's Counter Offer to the shareholders of VST Industries Ltd., made in accordance with the Securities and Exchange Board of India (Substantial Acquisition of Shares & Takeovers) Regulations, 1997, as a competitive bid, pursuant to a Public Offer made by an Acquirer, which closed on 13th June, 2001. The High Court at Calcutta, while refusing to grant such an injunction, instructed that the acquisition of shares pursuant to the Counter Offer by the company and the other Acquirer, would be subject to the final Order of the High Court, which is still awaited. Similar suits filed by an individual and two shareholders of VST, 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. It is actively engaged in pursuing legal action against various defaulters. During the year some negotiated settlements were concluded and the company effected collections aggregating Rs.91.88 lakhs. The company has no external liabilities outside the ITC Group. The company is closely monitoring developments in the NBFC sector and will examine options for further opportunities at the appropriate time.

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

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

Gold Flake Corporation Limited paid dividend of 31.25% aggregating Rs.5 crores for the year ended 31st March, 2009.

Wimco Limited

The company's turnover which stood at Rs.181 crores registered a degrowth of 8.6% mainly due to loss of volumes in the matches business in the wake of the increase in consumer price effected to compensate for the steep increases in input costs. Given the early signs of recovery, this volume loss is expected to be temporary. The net profit for the year stood at Rs.1.12 crores. The Chennai and Bareilly units of the company witnessed industrial relations problems during the year, but these were resolved amicably. The Engineering business faced a tough environment during the year as many customers postponed their investment plans on the back of the economic slowdown in their respective industries. The Agro Forestry business of the company witnessed an appreciable expansion. The high yielding ETP (Entire Trans Plant) sales to farmers in North India showed a growth of 28% to 3.2 Million ETPs. Apart from creating a source of long term sustainable supply of a critical raw material, the Agro Forestry mission of the company is directly contributing to improving the green cover in the region.

Landbase India Limited

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

ITC Infotech India Limited

During the year under review, the global economic downturn considerably dented the IT industry's optimism borne over years of a virtuous economic cycle. The developments in the US, commencing with the sub-prime crisis last year, have had far reaching ramifications for businesses across the globe, putting the Indian IT industry under severe pressure.

Despite the challenges created by adverse market conditions, the company delivered another year of good performance with total income growing by 33%. Accelerated customer acquisition and renewed thrust on scaling up existing account engagements formed the foundation of the company's growth strategy. ITC Infotech continued to focus on gaining competitive advantage and strengthening market standing by developing deep and differentiated capabilities in specific industry domains, solution areas and focus technologies.

In line with its inorganic growth strategy aimed at deepening capabilities, ITC Infotech (USA), Inc., a wholly owned subsidiary of the company, acquired Pyxis Solutions, LLC, a New York based limited liability company and a leading Testing and Quality Assurance player in the BFSI (Banking & Financial Services Industry) segment in the US. This strategic acquisition, an important milestone, further consolidated your company's position in North America. Synergies between the two companies will create large opportunities for cross selling by leveraging their existing customer relationships.

For the year under review:

(a) ITC Infotech India Ltd. registered a total income of Rs.349.72 crores (previous year Rs.262.72 crores) and a PAT of Rs.3.04 crores (previous year Rs.6.91 crores); your Company invested a further sum of Rs.60 crores in the equity share capital of the company by subscribing to 6,00,00,000 Equity Shares of Rs.10/- each for cash at par.

(b) ITC Infotech Limited, UK, a wholly owned subsidiary of the company, registered a Turnover of GBP 20.61 million (previous year GBP 17.87 million) and a Net Profit of GBP 1.02 million (previous year GBP 0.29 million).

(c) ITC Infotech (USA), Inc., a wholly owned subsidiary of the company (I2A), registered Total Revenues of US$ 26.17 million (previous year US$ 18.09 million) and a Net Profit of US$ 1.05 million (previous year US$ 0.43 million). ITC Infotech India invested a further sum of US$ 13.5 million in the equity share capital of I2A by subscribing to 135,000 Common Shares without par value for cash at US$ 100 per share.

(d) Pyxis Solutions, LLC, a wholly owned subsidiary of ITC Infotech (USA) Inc. (I2A), registered, for the fifteen month period ended 31st March, 2009, Total Revenues of US$ 14.17 million (previous year - 12 months - US$ 14.46 million) and a Net Profit of US$ 0.19 million (previous year - 12 months - US$ 2.51 million); I2A made a capital contribution of US$ 2.5 million into the company in terms of the Membership Interest Purchase Agreement dated 1st August, 2008 entered into between erstwhile owners of the company, I2A, and the company.

While the economic slowdown has led to reduced IT budgets, it is expected to lead to an increase in offshore outsourcing in the future. According to a recent Forrester report, a large number of firms are interested in ramping up, piloting or actively tracking new developments in offshore outsourcing. Currently, only about 9% of the organizations, globally, have leveraged off-shoring.

The company intends to leverage this opportunity by offering a compelling value proposition, demonstrating leadership in the chosen industry domains and deepening capabilities to offer accelerated off-shoring benefits. Capability building will thus continue to be a critical component of the company's growth strategy and will be further aligned with customer needs of reduction in the total cost of ownership through quick off shoring as well as optimization of operations.

The company continued to focus on offering business solutions and during the year under review a number of such solutions were launched which included a suite of mobility solutions geared to address critical processes like CRM, direct store delivery (DSD) and route accounting across the consumer goods and life sciences segments in partnership with a renowned Singapore based entity. It has also entered into a partnership with a leading Digital Asset Management company to provide services around the Digital Asset Management platform.

During the year under review, the company was certified by SAP as a global provider of application management services. The company received this certification after successful completion of an audit process that included capability assessment of more than 300 aspects, spanning across multiple facets of SAP® solutions.

Customer interface processes have been strengthened with the creation of a Large Account Management team which will enhance relationship touch points besides providing a greater thrust to identification of opportunities within the customer organization. Geographical presence was strengthened with the opening of a branch in Sweden.

The company was placed among the Top 100 service providers across four continents, in terms of operations, service offerings, client relationships and human capital, in a survey conducted by Global Services and neoIT. ITC Infotech ranked eighth among the 'Top 10 Indian outsourcing companies', in the 2008 Global Outsourcing 100 survey conducted by the International Association of Outsourcing Professionals (IAOP).

The company was also ranked fourth among mid-tier infrastructure vendors globally and featured among the top ITO 'Infrastructure Vendors' in the 2008 Black Book of Outsourcing where the Brown Wilson Group had evaluated leading global outsourcing service providers across 18 operational excellence key performance indicators based on the perspective of client experience. The Black Book of Outsourcing 2008 Green Report placed the company among one of the top twenty green vendors who have delivered on the triple bottom line milestones of economic gains, environmental stewardship and social improvements.

Your company is committed towards sustainability and has signed the CII code on Ecological Sustainable Growth. The objective of the mission is to promote and champion sustainable growth in the Indian industry, without compromising on high and accelerated growth. CII will partner and work with signatory companies in realizing the objectives of the mission.

With geographic diversity, focus on select industry domains, a strong sales pipeline built last year and differentiated value proposition backed by delivery excellence, the company is optimistic in meeting its deliverables in what will be a difficult year ahead.

Technico Pty Limited

During the year under review, the company continued to focus on its proprietary TECHNITUBER® technology for Potato Seeds, particularly on its downstream implementation and commercialisation. The company operates in several global markets on commercialisation of such technology and subsequent field multiplication through its wholly owned subsidiaries in different geographies. The company is also engaged in the marketing of 'TECHNITUBER®' seeds to global customers from the production facilities of its subsidiaries in India, China and Canada.

During the year the company brought considerable synergistic benefits to your Company's potato chips business under the 'Bingo!' brand. The company's proven supply chain of high quality Potato seed and its strong agronomy skills provided strong support to the 'Bingo!' chipstock sourcing team. Technico's leadership in the production of early generation seed potatoes will create significant value for your Company's Foods business by bringing distinctive product and quality advantages to the 'Bingo!' brand of potato chips.

For the year under review:

a) Technico Pty Ltd., Australia registered a net loss of Australian Dollar (A$) 0.39 million (previous year profit of A$ 4.59 million) The previous year's profit included an element of one time write back of a provision of A$ 4.69 million created in earlier years towards diminution in value of its investments in its Indian subsidiary, Technico Agri Sciences Limited (formerly known as Chambal Agritech Ltd).

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

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

d) Technico Technologies Inc., Canada registered sales of Canadian Dollar (C$) 0.16 million (previous year C$ 0.18 million) and posted a net profit of C$ 0.54 million (previous year loss of C$ 0.28 million). The Province of New Brunswick which has been a strong supporter of this project has repaid loans of C$ 0.93 million owed by the company to the Royal Bank of Canada in consideration of C$ 0.20 million in Class A preferred shares issued by the company. The resulting gain of C$ 0.73 million represents government assistance to the project.

e) Technico Agri Sciences Limited (formerly known as Chambal Agritech Ltd.), India registered a turnover of Rs.27.66 crores (previous year Rs.30.84 crores) and a Profit After Tax of Rs.3.02 crores (previous year Rs.6.15 crores). The performance during the year was impacted by a significant reduction in the average sale realisation for seed potatoes owing to a record potato production and the resultant glut in the market. However, volumes grew handsomely by 80% from 14,581 MT to 26,292 MT.

f) For the year ended 31st December, 2008 – Technico Horticultural (Kunming) Co. Ltd., China registered a turnover of Chinese Yuan (CNY) 11.68 million (previous year CNY 14.31 million) and posted a net loss of CNY 2.86 million (previous year profit of CNY 0.82 million) as the company exited the field seed program to focus exclusively on Technituber® Seed exports.

ITC Global Holdings Pte. Ltd.

The Judicial Managers have been conducting the affairs of ITC Global Holdings Pte. Ltd. ('Global') since 8th November, 1996 under the authority of the High Court of Singapore. As already reported, pursuant to the application of the Judicial Managers, the Singapore Court on 30th November, 2007 ordered the winding up of Global, appointed a liquidator and discharged the Judicial Managers.

As stated in the previous years' Reports, the Judicial Managers of Global had filed a Writ against your Company in November 2002 before the Singapore High Court claiming approximately USD 18.10 million. Based on legal advice, your Company filed an appropriate application for setting aside the said Writ. On 2nd March, 2006, the Assistant Registrar of the Singapore High Court set aside the service of Writ of Summons on the Company and some individuals. Subsequently in November 2006, your Company received a set of papers purportedly sent by Global including what appeared to be a copy of the earlier Writ of Summons. Your Company filed a fresh Motion in the Singapore High Court praying for setting aside the said Writ of Summons, which was upheld by the Assistant Registrar of the Singapore Court on 13th August, 2007. Global filed an Appeal against this Order before the High Court of Singapore, which on 30th January, 2009, set aside the order giving leave to Global to serve the Writ out of Singapore against the Company and also dismissed the said appeal.

NOTES ON JOINT VENTURES

ITC Filtrona Limited

ITC Filtrona concluded another year of robust business performance with Gross sales at Rs.114 crores growing by 17% over the previous year. Pre-tax profit stood at Rs.14.7 crores, an increase of 24% over the previous year.

ITC Filtrona continued to maintain its market leadership in the Indian cigarette filter industry with 60% value share. The Board of Directors of the company recommended a dividend of 90% for the year against 80% in the previous year.

During the year, the company augmented production capacity by 20% and invested in technology upgradation and improvement of infrastructure. The company's relentless focus in enhancing product and process quality and supporting product development has strengthened its partnerships with the Indian cigarette manufacturers, further reinforcing its status as their preferred supplier.

Maharaja Heritage Resorts Limited

During the year under review, Marudhar Hotels Pvt. Ltd., the joint venture partner of your Company in Maharaja Heritage Resorts Ltd., transferred its entire 50% shareholding in the company, to its group company Jodhana Heritage Resorts Pvt. Ltd. (Jodhana) in accordance with the provisions of the shareholders agreement.

During the year, the company issued and allotted 1,80,000 equity shares of Rs.100/- each at par on 'Rights' basis in the ratio of 1:1. Your Company renounced its offer to subscribe for 90,000 equity shares of Rs.100/- each, arising out of the said Rights Issue, in favour of Russell Credit Limited, a wholly owned subsidiary of your Company.

The company's footprint, which currently operates 52 properties under the 'WelcomHeritage' brand continues to grow with 12 properties under development.

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.

— The Corporate Risk Management Cell works with the businesses to identify and establish the respective risk profiles. The risk profiles include both strategic risks and operational risks.

— A combination of centrally issued policies and divisionally-evolved procedures brings robustness to the process of ensuring business risks are effectively addressed.

— Appropriate structures have been put in place to proactively monitor and manage 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 strategic planning and performance management ensures realization of business objectives based on effective strategy implementation. The annual planning exercise requires all businesses to clearly identify their top risks and set out a mitigation plan with agreed timelines and accountability. Businesses have confirmed that all relevant risks have been identified, assessed, evaluated and appropriate mitigation systems implemented.

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

AUDIT AND SYSTEMS

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

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

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

Your Company's Internal Audit function is certified as complying to ISO 9001:2008 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 most valuable asset, it's human resource, confronted the economic shocks and rapid changes in the business environment over the past year with resolve and determination to ensure that every business of your Company continued to enhance value creation. Your Company's employees have played a defining role in accelerating its growth and transformation, thereby enabling it to retain its position as one of India's most valuable corporations.

Your Company's human resource management systems and processes are geared towards creating a responsive, customer-centric and market-focused culture that enhances organisational vitality and delivers winning performance. The uniqueness of your Company's culture is that it blends 'responsibility and accountability' with 'care and concern' in a harmonious manner. The ability to appeal to both the heart and the mind constitutes the cultural DNA of your Company.

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 and innovation and excellence in execution. Your Company's holistic approach to human resource management ensured the active engagement of employees in providing innovative solutions to improve systems and processes, focused on productivity, cost, quality, and delivery. Your Company continued to invest substantially in learning and development. This is best reflected in the fact that over five lac person hours were spent on formal learning and development, supplemented with on-the-job learning, e-learning and coaching.

Affirming its philosophy of mutuality of interests and a commitment to fostering healthy relationships with key stakeholders, your Company, during the year under review, concluded long term agreements at several of its manufacturing units and hotel properties.

It is the collective spirit of partnership across all sections of employees and their sense of ownership and commitment that has helped deliver superior customer and shareholder value. Your Company salutes the unflinching commitment of its dedicated team of employees.

SUSTAINABILITY – CONTRIBUTION TO THE 'TRIPLE BOTTOM LINE'

Inspired by a larger societal purpose, it has been your Company's endeavour to achieve higher levels of Triple Bottom Line performance as its contribution to creating an inclusive and sustainable future for India. It is indeed a matter of pride that your Company is today acknowledged as an exemplar in Sustainability and Corporate Citizenship.

In order to provide strategic direction to this aspiration, your Company has constituted a Board Committee for Sustainability. The Committee, comprising of the Chairman and some Non-Executive Directors, will review and monitor the Company's sustainability practices. Details of the role of this Committee are provided in the Report on Corporate Governance.

The Company's 5th Sustainability Report, published during the year, conforms to the highest level 'A+' for reporting Sustainability performance. Independently assured by M/s Ernst & Young, the report encapsulates the triple bottom line performance and achievements of the Company in accordance with the stringent 'G3' guidelines of the Global Reporting Initiative (GRI).

Your Company's 'Carbon Positive', 'Water Positive' and 'Solid Waste Recycling Positive' status gives it the distinction of being the only Company in the world with positive footprints in the three major global environmental concerns.

The resolve to pursue sustainability objectives has enabled your Company to significantly augment natural and scarce resources. ITC's Social and Farm Forestry initiative has greened over 90,000 hectares and its Integrated Watershed Programmes contribute to irrigating nearly 44,000 hectares of water-stressed land. In the process, your Company contributed progressively to creating significant sustainable livelihoods.

During the year, several of the Company's units joined their peers in achieving nearly 100% solid waste recycling. The manufacturing and hotel businesses recycled 98.8% of the solid wastes generated. The Paper business recycled 98.7% of the wastes in its operations, and in addition, recycled 125,337 tonnes of waste paper, thereby turning this environmental footprint also positive.

Your Company's 'WOW – Wealth out of Waste' programme continues to make significant progress. It has created considerable awareness among the public on the benefits of the 'Reduce-Reuse-Recycle' process. The WOW initiative has been acclaimed by Municipal Authorities, Environmental Agencies and others as a unique effort with multiple benefits to society. Apart from preserving and protecting the environment, improving civic amenities, as well as public health and hygiene, it also generates sustainable raw material for paper and other industries at competitive prices, thereby helping conserve scarce environmental resources. The total waste paper collected though this programme amounted to 6000 tonnes during the year. The WOW initiative has also been able to contribute to the creation of employment opportunities and a heightened spirit of civic responsibility.

The irreversible consequences of unmitigated climate change are of concern to businesses worldwide. Your Company has adopted decisive strategies to combat global warming and move towards an adaptation and mitigation framework through a multidimensional approach that includes energy conservation and efficiency, increased use of renewable energy sources, and large scale clonal propagation for plantations. Your Company has registered 7 Clean Development Mechanism projects that have already earned carbon credits. A number of other CDM projects are in various stages of the registration process. ITC Hotel The Sonar is today the only hotel in the world to earn carbon credits. The United Nations Environment Program (UNEP) has highlighted in its Report on 'Sustainable Buildings & Construction Initiative' that *"as of May 2008, only six projects out of the more than 3000 projects in CDM pipeline are related to energy efficiency in buildings. Within these six projects, only one, 'ITC Hotel The Sonar', is generating certified emission reduction (CERs)"*. This mention of international repute gives your Company immense encouragement.

Your Company is committed to technology upgradation that not only builds competitiveness but also enhances its positive environmental footprint. The Bhadrachalam mill, already a pioneer in the manufacture of 'Elemental Chlorine Free' (ECF) pulp and paperboards in India, has now moved even further ahead with the implementation of 'Ozone bleaching' technology – giving your Company yet another 'first in India', much ahead of regulations in this sector and bringing with it significant reduction in the environmental load.

Providing leadership in positive environmental action, the 'ITC Green Centre' in Gurgaon, certified by the US Green Building Council for Leadership in Energy & Environmental Design (USGBC – LEED) is one of the first largest commercial 'Platinum Rated' buildings in the world and continues to provide inspiration to the 'greener buildings' movement in India.

Your Company continued with its commitment to ensure a healthy and safe workplace for all by maintaining the highest levels of safety, occupational health and environmental standards across all its units. The Environment, Occupational Health and Safety Management Systems in all manufacturing units and hotels conform to the requirements of the International Standards Organisation and are certified by independent, accredited third parties. These along with several other certifications and awards, stated elsewhere in the report, bear testimony to your Company's commitment to augmenting economic, environmental and social capital for the nation.

The 'CII – ITC Centre of Excellence for Sustainable Development', set up by your Company and CII in 2006, to create awareness, promote thought leadership and build capacity amongst Indian enterprises in their quest for Sustainable solutions, made useful contributions to business and industry across the country. The 'CII – ITC Sustainability Awards', instituted to recognize exemplars, have recognized a large number of leading Indian companies and provided encouragement to many others including the growing number of aspirants for the Award. The Centre's flagship annual event 'Sustainability Summit: Asia' provides an important platform to stimulate dialogue, share experiences, engage with experts and policy makers to arrive at policy recommendations and strategies to help meet the emerging sustainability challenges facing business. Over 400 delegates from all over Asia attended the 2008 Summit in Delhi. The Centre's annual 'Business Leaders Programme', led by Prof Stuart Hart, in partnership with Cornell

University has been very successful in providing thought leadership and strategic skills to senior business executives from a cross section of business and industry.

Your Company continued to enlarge 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 women's economic empowerment and genetic improvement in livestock; and (c) community development, with focus on primary education and health and sanitation. Your Company is currently spearheading social development projects in 50 districts spread over the states of Andhra Pradesh, Kerala, Karnataka, Tamil Nadu, Orissa, West Bengal, Bihar, Uttar Pradesh, Maharashtra, Madhya Pradesh and Rajasthan.

Your Company's pioneering initiative in rejuvenating wastelands through the Social Forestry Programme has so far promoted plantations in over 14360 hectares in 454 villages, covering 16061 poor households. The collaboration between ITC and the Government of Andhra Pradesh for wasteland development, under Indira Kranti Patham, touched new milestones during the year, with this public-private partnership adding 624 hectares of plantations, taking the total to 3,596 hectares. The beneficiary households covered under the Social Forestry Programme continue to gain significantly from cut plantations. Total income generated to date is Rs.774 lakhs from harvesting wood on 1,894 hectares. In addition to improving their earnings per acre, most beneficiaries have also ensured that the contribution to the Village Development Fund continues apace, with a growing fund of nearly Rs.78 lakhs as of date. In addition, their own incomes have been invested wisely in productive assets to ensure a long-term virtuous cycle of development.

The Soil & Moisture Conservation programme initiatied by your Company to assist farmers in identified moisture-stressed districts recorded a futher increase in coverage during the year. This year, 357 large and small water harvesting structures were created taking the cumulative total to 2,535 structures todate. These structures provide critical irrigation security to nearly 21,492 hectares.

In addition, 22,349 hectares of land has also been treated for erosion resulting in preservation of precious topsoil for agriculture. In total, the integrated watershed development programme today covers 43,841 hectares. Your Company's successful initiatives in this sector have also led to several partnerships with State Governments and other Government agencies. In addition to several collaborative projects with NABARD, your Company has also signed public-private-partnership MoUs with the Governments of Rajasthan and Maharashtra for implementing watershed programmes in the districts of Bhilwara and Jalna respectively.

It is encouraging that the beneficiary stakeholders are actively participating in ensuring sustainable long-term maintenance of these structures. Direct employment created on such physical activities is around 8.96 lakh person-days till date. Presently 540 active Water User Groups, with nearly 12,000 members, play an important role in ensuring water distribution and collection of charges.

To ensure the provision of integrated solutions for promoting sustainable water management systems, your Company adopts a multidimensional approach which includes efficient water usage through interventions aimed at improving farm productivity, promotion of group irrigation projects and demonstration of agricultural implements including sprinkler sets. During 2008-09, 65 group irrigation projects and sprinkler sets covering 299 farmers were installed.

Sustainable agricultural practices, promoted by your Company under Mission Sunehra Kal, received a major boost with the promotion of 550 Organic Fertiliser Units through vermi-composting and NADEP technologies during the year. Several varieties of paddy, gram and wheat have been tested in 898 field demonstrations leading to participative selection of higher productive strains by farmers.

The Sustainable Livelihoods initiative of your Company strives to create alternative employment for surplus labour and decrease pressure on arable land by promoting non-farm incomes. Among many such activities, the programme for genetic improvement of cattle, through artificial insemination to produce high-yielding crossbred progenies, has been given special emphasis not only because it reaches out to the most impoverished, but more so because it has the potential to create significant non-farm incomes for the poorest. Till date, 121 cattle development centres cover more than 2,400 villages providing artificial insemination to more than 1 lakh milch animals. Integrated animal husbandry services, including vaccines, feed additives and awareness drives were also provided to nearly 43,000 milch animals during the year. The initiative for the Economic Empowerment of Women also continued apace. To date, 18,032 women have been organised under 1,296 self-help groups (SHG) with total savings of Rs.135 lakhs. Overall, 22,685 women were gainfully employed either through micro-enterprises or encouraged to be self-employed through income generation loans.

The advances made towards contributing to India's sustainable development goals have been possible, in large measure, to your Company's partnerships with several globally renowned NGOs including BAIF Development Research Foundation, Dhan, FES, MYRADA, Pratham, SEWA, SRIJAN, and WOTR. These partnerships, which synergise the best in class management practices of your Company with the development experience and mobilisation skills of the NGOs, will continue to bring innovative grass-roots solutions to constructively address some of India's most challenging problems of development in the years to come.

R&D, QUALITY AND PRODUCT DEVELOPMENT

In the current competitive business environment, innovation and process improvement clearly aligned with business strategy through quality Research and Development (R&D) is the key driver of break-through growth. This assumes critical significance since your Company's competitive landscape is marked with world-class companies with a strong R&D focus. In this context, your Company pursues an R&D strategy premised on best-in-class benchmark research processes backed by world-class infrastructure to secure sustainable and long-term competitiveness for all its businesses.

Your Company consolidated its R&D operations in Hyderabad by relocating to the Genome Valley of Andhra Pradesh situated at Shamirpet. The centre is equipped with state-of-the-art equipment for carrying out research in frontier areas of Genomics and Proteomics to secure proprietary technologies for its businesses in Agriculture, Foods and Personal Care.

During the year, your Company's scientists developed two technologies for applications in the Agri and Paperboard, Paper & Packaging businesses. One of them is a replacement of the conventional nursery management practices by a novel technology that ensures significant time reduction in raising Eucalyptus saplings while increasing the survival rate of the saplings at the nursery. This new nursery management technique, which is being scaled up for large-scale implementation will improve the quality of fibre supply chain in the Paper and Paperboard business. It has also identified strains of beneficial micro organism, which has produced promising results when tested on turmeric plants to protect the crop against fungal diseases. The strain is now being taken up by the Company's Agri-inputs team for further development of a commercial product.

Your Company's R&D Centre has introduced several germplasm lines of tobacco and eucalyptus to increase the genetic diversities in these crops, which in turn will strengthen the research programs for developing new varieties with higher yields and better quality.

The University of Agricultural Sciences (UAS), Bengaluru has recognized your Company's R&D Centre by signing a Memorandum of Understanding (MOU) with your Company. The MOU will help in collaborating with the University in the frontier areas of agriculture. In addition, the ITC R&D Centre will be recognized as an Institution for conducting research for thesis requirements of the postgraduate and Ph.D degrees of UAS. The R&D Centre's scientists will gain recognition as Post Graduate Teachers/Guides/Advisory Committee members for teaching and guiding students working for M.Sc and Ph.D degrees. In pursuit of its mission to take 'Biosciences R&D' to a higher platform, the R&D Centre is creating new capabilities which will eventually enable your Company's Agri, Foods and Personal Care businesses to launch next generation products.

The Hotels business continued to implement the 'Six Sigma Quality Process' supported by trained teams of black / green belts. The attempt is to create superior customer value through a service excellence framework. The Paperboard, Paper & Packaging businesses have implemented the Total Productive Maintenance (TPM) technique in all their units, resulting in substantial cost savings and productivity improvements.

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

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. As already reported, the proceedings relating to the Saharanpur and Munger demands stand concluded in favour of your Company.

As mentioned in the Report of the Directors for 1987 and thereafter, the Excise Department, during 1987 and 1988, again re-opened some of the issues already settled by the Order of the DG, by issuing fresh Show Cause Notices in respect of the period upto 28th February, 1983. The Notices proposed to recover differential duties of Rs.43.88 crores (for Munger factory), Rs.143.22 crores (for Bangalore factory), Rs.31.05 crores (for Kidderpore factory), Rs.41.51 crores (for Parel factory) and Rs.26.43 crores (for Saharanpur factory). As already reported, the proceedings relating to the Bangalore, Kidderpore, Parel and Munger Show Cause Notices stand concluded in favour of your Company. As regards the Show Cause Notice in respect of the Saharanpur factory, your Company has filed a writ petition in the Delhi High Court, which is pending.

With respect to the Munger factory, proceedings for finalisation of assessments resulted in the Deputy Commissioner's Orders dated 29th August, 2002 and 8th October, 2002 demanding Rs.13.09 crores and Rs.1.73 crores for clearances of cigarettes and smoking mixtures respectively which was confirmed by the Commissioner (Appeals), Patna vide his orders dated 22nd December, 2004, against which your Company has preferred appeals before CESTAT, Kolkata, which are pending. Your Company, has made pre-deposits of Rs.2 crores and Rs.0.55 crore against the 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 earlier reported, the criminal case in respect of Bangalore factory was quashed by the court and in the proceedings relating to Saharanpur factory, the Special Court in Kanpur, on applications filed by the individuals concerned, discharged them. In Patna, upon applications filed by the individuals against dismissal of similar petitions by the Special Court in Patna, the High Court has stayed all further proceedings before the Special Court.

In all the above instances, your Directors are of the view that your Company has a strong case and the Show Cause, the Demand Notices and the Complaints are not sustainable. Since your Company is contesting the above cases and contending that the Show Cause, the Demand Notices and the Complaints are not sustainable, it does not accept any liability in this behalf. Your attention is drawn to the Note 19(iv) in the Schedules to the Accounts and Note 19 (iii) in the Schedules to the Consolidated Financial Statements.

LUXURY TAX

As mentioned in earlier years, the Hon'ble 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.

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

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

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

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

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

TREASURY OPERATIONS

During the year, your Company's treasury operations continued to remain focused on proactive management of temporary surplus liquidity and foreign exchange exposures within a well defined risk management framework. Despite the increased volatility and risk aversion in the financial markets, your Company continued to improve its treasury performance on the back of its strong risk management processes.

The deployment of temporary surplus liquidity remained guided by the twin objectives of capital protection and return optimisation. Investments were made in Liquid Plus, Floating Rate, Income funds and Fixed Maturity Plans of Debt Mutual Funds. The portfolio mix continued to be rebalanced appropriately during the year in line with the changing interest rate scenario. Further, by the year end, in line with expectations of lower interest rates, the portfolio was rebalanced with exposures in long dated Fixed Maturity Plans and Bank Fixed Deposits. The Company's risk management processes ensured that all deployments were made with proper evaluation of underlying risk while remaining focused on capturing market opportunities.

In the foreign exchange market, the Rupee depreciated sharply, on the back of FII outflows. In a scenario, where Rupee was under continuous pressure, the Company adopted an appropriate forex management strategy, including use of simple options to manage heightened volatility. However, it refrained from entering into any exotic derivative structure.

The Company availed the benefit of cheaper export credit to reduce the cost of working capital for its exporting businesses.

As in earlier years, commensurate with the large size of the 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.

TAXATION

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

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

PUBLIC DEPOSITS

Your Company's Public Deposit Scheme closed in the year 2000. As at 31st March 2009, 17 deposit holders had not claimed fixed deposits amounting to Rs.2.42 lacs. Reminders have been sent to these deposit holders by the Fixed Deposit Service Centre of your Company.

There was no failure to make repayments of Fixed Deposits on maturity and the interest due thereon in terms of the conditions of your Company's erstwhile Schemes.

INVESTOR SERVICE CENTRE

The Investor Service Centre (ISC) of your Company, accredited with ISO 9001:2000 certification, is focused on improving the standards it has set in providing quality investor services. ISC has a trained and dedicated team of professionals supported by contemporary infrastructure and systems.

The 'Investor Relations' section in your Company's corporate website serves as a user friendly online reference for investors in respect of share related matters.

DIRECTORS

Mr. Sahibzada Syed Habib-ur-Rehman, Wholetime Director, retired from the services of the Company with effect from close of business on 20th March, 2009, on completion of his term.

Dr. Ram S. Tarneja ceased to be Non-Executive Director of the Company with effect from close of business on 26th August, 2008, on completion of his term. Mr. John Patrick Daly resigned as Non-Executive Director of the Company effective 8th January, 2009.

Your Directors would like to record their appreciation of the services rendered by Messrs. Rehman, Daly and Dr. Tarneja.

Mr. Anthony Ruys was appointed by the Board of Directors (the 'Board') as Additional Non-Executive Director of your Company with effect from 20th January, 2009.

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. Ruys will vacate office at the ensuing Annual General Meeting ('AGM') of your Company and has filed his consent to act as Director of the Company, if appointed. Your Board at its meeting held on 22nd May, 2009 recommended for the approval of the Members the appointment of Mr. Ruys as Non-Executive Director of your Company, liable to retire by rotation, with effect from the date of the ensuing AGM of the Company.

Notice has been received from a Member of the Company under Section 257 of the Companies Act, 1956 for the appointment of Mr. Ruys as Director. Appropriate resolution seeking your approval to his appointment is appearing in the Notice convening the 98th AGM of the Company.

In accordance with the provisions of Article 91 of the Articles of Association of the Company, Mr. Anup Singh, Mr. Krishnamoorthy Vaidyanath, Mr. Serajul Haq Khan and Mr. Anil Baijal will retire by rotation at the ensuing AGM of the Company and, being eligible, offer themselves for re-election. The Board has recommended their re-election.

AUDITORS

The Company's Auditors, Messrs. A. F. Ferguson & Co., Chartered Accountants, who retire at the ensuing AGM, have expressed that they would not like to offer themselves for re-appointment as Auditors of the Company.

In accordance with your Company's corporate governance policy of periodically rotating its statutory Auditors, your Board, on the advice of the Audit Committee, has recommended the appointment of Messrs. Deloitte Haskins & Sells, Chartered Accountants, as Auditors of the Company from the conclusion of the ensuing AGM. Messrs. Deloitte Haskins & Sells have confirmed their eligibility under Section 224 of the Companies Act, 1956 for appointment as Auditors of the Company.

Since not less than 25% of the subscribed Share Capital of your Company is held collectively by Public Financial Institutions, the appointment of Messrs. Deloitte Haskins & Sells as Auditors is being proposed as a Special Resolution in accordance with Section 224A of the Companies Act, 1956. Appropriate resolution seeking your approval to their appointment is appearing in the Notice convening the 98th AGM of the Company.

EMPLOYEE STOCK OPTION SCHEME

Under the Company's Employee Stock Option Schemes, 57,89,510 Ordinary Shares of Re.1/- each, were issued and allotted during the year upon exercise of 5,78,951 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 at 31st March, 2009 stands increased to Rs.3,77,43,99,560/- divided into 3,77,43,99,560 Ordinary Shares of Re.1/- each.

Details of the Options granted up to 31st March, 2009, 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 (the 'SEBI Guidelines') are set out in the Annexure to this Report.

The Company's Auditors, Messrs. A. F. Ferguson & Co., have certified that the Company's Employee Stock Option Schemes have been implemented in accordance with the SEBI Guidelines and the resolutions passed by the Members in this regard.

DIRECTORS' RESPONSIBILITY STATEMENT

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

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

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

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

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

CONSOLIDATED FINANCIAL STATEMENTS

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

OTHER INFORMATION

The certificate of the Auditors, Messrs. A. F. Ferguson & Co. confirming compliance of conditions of Corporate Governance as stipulated under Clause 49 of the Listing Agreement with the Stock Exchanges in India, is annexed.

Particulars as required under Section 217(1)(e) of the Companies Act, 1956 relating to Conservation of Energy and Technology Absorption are also provided in the Annexure to this Report.

There were 316 employees who were employed throughout the year and were in receipt of remuneration aggregating Rs.24 lakhs or more or were employed for part of the year and were in receipt of remuneration aggregating Rs.2 lakhs per month or more during the financial year ended 31st March, 2009. The information required under Section 217(2A) of the Companies Act, 1956 and the Rules thereunder, in respect of the aforesaid employees, is provided in the Annexure forming part of this Report. In terms of Section 219(1)(b)(iv) of the Act, the Report and Accounts are being sent to the Members excluding the aforesaid Annexure. The Annexure is available for inspection by Members at the Registered Office of the Company during business hours on working days up to the date of the ensuing AGM, and if any Member is interested in obtaining a copy thereof such Member may write to the Company Secretary whereupon a copy would be sent.

FORWARD-LOOKING STATEMENTS

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

CONCLUSION

Your Company’s Board and employees are inspired by their vision of sustaining ITC’s position as one of India’s most valuable companies through world-class performance, creating enduring value for all stakeholders, including the shareholders and the Indian society. Your Company has created multiple drivers of growth by developing a portfolio of world class businesses which have synergised to deliver ‘Total Shareholder Returns’ at a CAGR of 23% over the 13 year period from 1996 to 2009. 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 of 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.

22nd May, 2009
Virginia House
37 J L Nehru Road
Kolkata 700071
India

On behalf of the Board

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

Annexure to the Report of the Directors

Statement as at 31st March, 2009, pursuant to Clause 12 (Disclosure in the Directors' Report) of the Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999.

a) Total number of Options granted / allocated*:

ITC Employee Stock Option Scheme						
2001	**2002**	**2003**	**2004**	**2005**	**2006**	**Total**
3,39,119	6,27,070	11,82,616	11,43,195	14,48,071	60,95,625	1,08,35,696

ITC Employee Stock Option Scheme - 2006		
2007	**2008**	
55,77,343	59,69,437	1,15,46,780
		2,23,82,476

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

(ii) Exercise Price / Adjusted Exercise Price** : per Option, as applicable (Rs.) (Each Option represents 10 Ordinary Shares of Re.1/- each)

ITC Employee Stock Option Scheme					
2001	**2002**	**2003**	**2004**	**2005**	**2006**
779.95	617.90	679.90 / 453.27	880.45 / 586.97	1,531.65 / 1,021.10	1,814.00

ITC Employee Stock Option Scheme - 2006	
2007	**2008**
1661.00	1896.00

		ITC Employee Stock Option Scheme (i)	**ITC Employee Stock Option Scheme - 2006 (ii)**	**Total (i) + (ii)**
c)	Total number of Options vested :	77,97,649	15,23,826	93,21,475
d)	Total number of Options exercised :	35,35,341	8,753	35,44,094
e)	Total number of Ordinary Shares of Re.1/- each : arising as a result of exercise of Options	3,53,53,410	87,530	3,54,40,940
f)	Total number of Options lapsed :	12,22,391	11,68,476	23,90,867
g)	Variation of terms of Options :	Nil		
h)	Money realised by exercise of Options : (Rs. in Crores)	244.78	1.45	246.23

i)	Total number of Options in force	:	60,77,964	1,03,69,551	1,64,47,515
j)	Details of Options granted to (i) Senior managerial personnel	:	As provided below -		

Sl. No.	Name	No. of Options granted during the financial year	Sl. No.	Name	No. of Options granted during the financial year
1	Y. C. Deveshwar	1,35,000	20	R. G. Jacob	20,250
2	A. Singh	67,500	21	U. Lall	13,800
3	K. Vaidyanath	67,500	22	A. K. Mukerji	8,500
4	S. H. Khan	10,000	23	R. S. Naware	10,125
5	S. B. Mathur	10,000	24	A. Nayak	20,250
6	P. B. Ramanujam	10,000	25	A. R. Noronha	13,800
7	B. Sen	10,000	26	R. Parasuram	8,500
8	B. Vijayaraghavan	10,000	27	S. Puri	13,800
9	S. M. Ahmad	6,750	28	A. Rajput	13,800
10	N. Anand	20,250	29	T. V. Ramaswamy	13,800
11	P. Banerjea	9,000	30	S. Janardhana Reddy	13,800
12	S. Basu	12,000	31	S. C. Rustagi	13,800
13	S. Chandrasekhar	12,000	32	S. K. Singh	12,000
14	B. B. Chatterjee	13,800	33	S. Sivakumar	20,250
15	P. Chatterjee	12,000	34	R. Srinivasan	28,125
16	C. Dar	13,800	35	K. S. Suresh	13,800
17	P. V. Dhobale	20,250	36	R. Tandon	13,800
18	K. N. Grant	28,125	37	P. K. Verma	12,000
19	D. Haksar	9,775	—		

	(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 pursuant to issue of Ordinary Shares on exercise of Options calculated in accordance with Accounting Standard (AS) 20 'Earnings Per Share'.	:	Rs. 8.64

l)	(i) Method of calculation of employee compensation cost. :	The employee compensation cost has been calculated using the intrinsic value method of accounting for Options issued under the Company's Employee Stock Option Schemes. The employee compensation cost as per the intrinsic value method for the financial year 2008-09 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. 261.73 crores
	(iii) The impact of this difference on profits and on Earnings Per Share of the Company. :	The effect on the profits and earnings per share, had the fair value method been adopted, is presented below: **Profit After Tax** — **Rs. in Crores** As reported — 3,263.59 *Add:* Intrinsic Value Compensation Cost — Nil *Less:* Fair Value Compensation Cost (Black Scholes model) — 261.73 **Adjusted Profit** — 3,001.86 **Earnings Per Share** — **Basic (Rs.)** — **Diluted (Rs.)** As reported — 8.66 — 8.64 As adjusted — 7.96 — 7.95
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. 1,896.00 Weighted average fair value per Option : Rs. 689.16
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 — 9.15% (ii) Expected life — 4.6 years (iii) Expected volatility — 33.33% (iv) Expected dividends — 1.92% (v) The price of the underlying share in market at the time of Option grant — Rs.1,883.00

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

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

On behalf of the Board

Y. C. DEVESHWAR *Chairman*

Kolkata, 22nd May, 2009 — K. VAIDYANATH *Director*

Annexure to the Report of the Directors

CONSERVATION OF ENERGY

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

a) Energy conservation measures taken:

All business units continued their efforts to improve upon energy usage efficiencies. Various key parameters such as specific energy consumption (energy consumed per unit of production) and specific energy costs are constantly tracked. Some of the measures adopted were:

i) Microprocessor based step control & air booster for compressed air system and use of steam and piezo electric humidifiers in place of conventional humidifiers in cigarette factories.

ii) Installation of new energy efficient boiler in Anaparti tobacco leaf-threshing unit.

iii) Automation of paper machine No.5 HT refiners and addition of power factor improvement capacitors at load centres to reduce cable losses in the Bhadrachalam paperboards factory.

iv) Replacement of old chiller with a new high efficiency unit and multiple air compressors with single high efficiency set in the Bollaram paperboard-coating factory.

v) Ozone injection in washer extractors of laundry to reduce detergent & hot water consumption and installation of heat pipes in treated fresh air units to control humidity in various hotels.

vi) Installation of dissolved oxygen sensors and VFD (Variable Frequency Drive) regulated blowers in aeration tank of effluent treatment plant in the Pune Foods factory.

vii) Installation of air pre heaters on potato chips line to utilize stack heat in the Haridwar foods factory.

viii) Commissioning of 14.1 MW wind energy power plant to eliminate carbon dioxide emissions and reduce energy costs for the Tiruvottiyur Packaging and Printing factory.

ix) In addition, the following common measures continue to be implemented across most business units:

- Replacement of inefficient lighting systems with higher efficiency systems incorporating Light Emitting Diodes, T5/T8 fluorescent lamps with electronic chokes and Compact Fluorescent Lamps.
- Replacement of existing motors with high efficiency motors.
- Use of wind driven, turbo roof top ventilators.
- Use of solar energy for hot water and outside area illumination.
- Use of variable speed drivers for various applications.

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

i) Setting up of a wind energy plant and replacement of existing air-cooled chillers with water-cooled chillers in the Bengaluru cigarette manufacturing unit.

ii) Installation of biomass fired boiler using plantation and agricultural residues at the Bhadrachalam paperboards factory. This is expected to replace 70% of coal consumption.

iii) Installation of solar pumps in effluent treatment plant in the Bollaram paperboard-coating factory.

iv) Installation of Solar concentrators for hot water / steam generation in ITC Maurya, New Delhi.

v) Setting up of wind energy plants in different states by various hotels.

vi) Third party energy audits and implementation of energy conservation measures in various business units.

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

The continued focus on energy conservation measures across the Company has resulted in significant savings in energy costs. Apart from offsetting rising energy prices, these measures have also contributed to reducing the Company's carbon footprint. The Company has already registered seven CDM projects. Efforts to generate further Certified Emission Reduction (CERs) under the Kyoto Protocol's Clean Development Mechanism continue and a few more projects are expected to be registered soon with the UNFCCC (United Nations Framework Convention on Climate Change).

A) POWER AND FUEL CONSUMPTION

	For the Year ended 31st March, 2009	For the Year ended 31st March, 2008
Relating to Paperboards & Paper		
1. Electricity (Excluding Consumption in Colony)		
a) Purchased Units (KwH in Lacs)	**399**	275
Total Amount (Rs. in Lacs)	**1965**	1647
Rate / Unit (Rs.)	**4.92**	5.99
b) Own Generation		
i) Through Diesel Generation Units (KwH in Lacs)	**9**	27
Units / Litre of Diesel Oil	**2.99**	2.92
Cost / Unit (Rs.)	**11.74**	11.74
ii) Through Steam Turbine / Generator Units (KwH in Lacs)	**3469**	3428
Units / Kg. of Coal	**1.25**	1.58
Cost / Unit (Rs.) {considering all fuel types}	**2.98**	1.99

	For the Year ended 31st March, 2009			For the Year ended 31st March, 2008		
	Process	**Power**	**Total**	Process	Power	Total
2. Coal (Specify Quantity & Where Used) (Grades C ROM & F ROM)						
Quantity (M.T.)	**260625**	**277646**	**538272**	233519	217433	450953
Total Cost (Rs. in Lacs)			**12221**			8835
Average Rate (Rs. per M.T.)			**2270.36**			1959.17
3. Furnace Oil						
Quantity (KL)			**13607**			9621
Total Amount (Rs. in Lacs)			**3455**			1871
Average Rate (Rs. / KL)			**25393.46**			19448.25
4. Others/Internal Generation						
(De Oiled Bran & Saw Dust, etc.)						
Quantity (M.T.)			**89969**			95885
Total (Rs. in Lacs)			**1680**			1594
Rate / Unit (Rs.)			**1867.21**			1662.96
(LP Gas)						
Quantity (M.T.)			**1029**			1164
Total (Rs. in Lacs)			**480**			450
Rate / Unit (Rs.)			**46580.18**			38628.68

B) CONSUMPTION PER UNIT OF PRODUCTION

	For the Year ended 31st March, 2009	For the Year ended 31st March, 2008
Products (Paper in M.T.)	**506734**	441479
Electricity (KwH)	**1087**	1010
Coal C/F Grade (M.T.)	**0.51**	0.53
Furnace Oil (Litre)	**27**	22
Others - De Oiled Bran / Saw Dust / LP Gas, etc. (M.T.)	**0.104**	0.134

Note: Higher specific energy consumption is due to product mix change and increased pulp production.

TECHNOLOGY ABSORPTION

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

Research & Development

1. **Specific areas in which R&D was carried out by the Company:**

   i) Research projects on taste and flavour enhancement, meeting regulatory requirements, enhancing tobacco manufacturing capabilities and cost management.

   ii) Support on chemical, physical and sensory analysis for cigarette Research and Product Development projects.

   iii) Analytical support for development, testing and specification setting of cigarette packaging materials and formats.

iv) The QA Department absorbed technology and carried out applied Research and Development as follows:

a) Textural Analysis with added capability such as new probes enabling textural analysis of certain specific and crucial food samples (cereal grains, pulses and snacks).

b) Inclusion of new Microbiological parameters in the work list of Foods Technology Centre.

v) Installation of New infrastructure in Quality Assurance laboratories at Food Technology Centre, which will maintain wet chemistry, microbiology, sensory evaluation, instrumentation, research and state-of-art material & chemical stores. This new infrastructure will help in building higher analytical capability for the Foods business including all applicable EHS norms.

vi) Research carried out on surface value addition and innovative wash techniques in Knits Range of 'Wills Lifestyle' Signature collection.

vii) Development of Linen fabric in extremely fine counts of 80's & 100's.

viii) Reengineered fabrics used in garments through benchmarking of quality of fibres, processes etc.

ix) Anthropometric study carried out amongst targeted Wills Lifestyle customers to give a better Feel & Fit to women customers.

x) Development of site specific clones of Eucalyptus, Casuarina and Subabul through multi-location field trials.

xi) Development of intra and inter-specific hybrids of Eucalyptus.

xii) Project undertaken to control Eucalyptus gall insect (Leptocybe invasa) in collaboration with Project Directorate of Biological Control, Bengaluru.

xiii) Development of Paperboard meant for Digital Printing.

xiv) Development of board for Cold Beverage cup stock market globally.

xv) Development of region specific varietal options and design of crop production practices in the Flue Cured Virginia, Burley and Oriental regions for enhancing productivity and specific quality traits.

xvi) Development of Seed Pelletisation and Nursery Management technologies for optimizing the usage of Hybrid seed for large-scale adoption.

xvii) Adoption of Bio Consortia approach towards offering Integrated Crop Protection options and sustainable farming practices.

xviii) Development of neem based bio formulations to meet crop specific pest management requirements.

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

i) International acceptance of the results for key tests under ISO 17025 accreditation and in collaborative studies.

ii) Cost reduction, import substitution, safer environment and strategic resource management.

iii) Development of distinguishing print techniques, embellishments in 'Wills Lifestyle' Signature line providing a distinct value proposition to customers.

iv) Indigenous development of linen at a competitive cost resulting in import substitution.

v) Achievement of maximum value add at different price points through fabric reengineering.

vi) High survival and growth of clonal plantations of Eucalyptus, Casuarina and Subabul leading to increase in productivity of wood biomass and higher returns to farmers. Creating supply source of quality fiber indigenously thereby reducing reliance on imports.

vii) Identification of high yielding clones (23 site specific Eucalyptus clones) suitable for refractory sites with alkaline soils.

viii) Carbon sequestration from plantations reducing Green House Gases thereby mitigating climate change.

ix) Improved quality of board for Cold Beverage cup stock for export markets.

x) Improvement in productivity of Tobacco crop with superior grade out turn.

xi) Enhancing the probability of germination with the successful standardization of Seed Pelletisation process along-with the design of necessary techniques to efficiently handle pelletised seeds.

ITC Limited

Development of CMS hybrids, Pelleting technologies and contemporary nursery practices will enable Indian tobacco farmers opportunities to adopt globally competitive high yielding varieties and production practices.

xii) Collaborations with leading merchant organization dealing with Oriental tobacco and lead customer specializing in Burley tobaccos are facilitating large scale agronomy trials resulting in higher productivity with desirable leaf styles catering to the domestic and export markets.

xiii) Standardization of Wellgro Emulsifier Concentrate – a botanical formulation is enabling offer of unique properties with wide spectrum pest tolerance and growth enhancing qualities.

3. Future Plan of Action:

i) Progress the identified projects on taste and flavour, manufacturability and cost management in cigarettes business.

ii) Increase usage of environment friendly materials.

iii) Network with universities and external experts including vendors on research projects e.g. collaborative study on improvement of processing of stems, collaborative study on development of high performance filters, etc.

iv) Enhance the scope of the ISO 17025 accreditation by adding related parameters.

v) Design Modification in last zone of the oven for improved thermal efficiency in biscuit manufacturing. Evaluation of alternate fuels for ovens.

vi) Use of renewable carbon neutral fuel (producer gas) for thermal applications.

vii) Integration of Radio Frequency based drying technology with Baking oven to enhance the biscuit plant capacity.

viii) Substitution of steam heated fryer with LPG direct fired fryer in snacks manufacturing line.

ix) Research on genetic improvement of Eucalyptus, Casuarina and Subabul and other pulp wood trees.

x) Breed Wasp insect resistant Eucalyptus trees and develop Eucalyptus Gall wasp management protocol thereby improving fibre productivity.

xi) Institute Six sigma initiative and advance process control for reduction of variability in porosity of cigarette paper.

xii) Develop value added paperboard products for various FMCG industry applications.

xiii) Conduct studies on the genetic mechanisms of flavour traits in FCV tobaccos, and Integrated Crop Management practices in Burley and Oriental tobaccos.

xiv) Develop alternative curing regimes and fuels to optimize the use of natural resources.

xv) Develop Botanical formulations with natural ingredients to provide crop specific formulations for enhancing productivity and safer options for crop protection.

xvi) Understand and isolate bio molecules for the development of effective and differentiated products against target pests.

xvii) Enhance the efficacy of Wellgro series of botanicals with fortified consortia of micro-organisms offering unique products with multifold farm benefits.

4. Expenditure on R&D :	**For the year ended 31st March, 2009 (Rs. in Lacs)**
i) Capital	5441.89
ii) Recurring	6407.67
iii) **Total**	**11849.56**
iv) Total R&D Expenditure as a % of	
– Gross Turnover	0.51
– Net Turnover	0.77

Technology Absorption, Adoption and Innovation

i) Contemporary making and packing technologies across multiple speed platforms.

ii) Hard link ups between makers and packers across multiple speed platforms.

iii) New primary equipments like dryers, feed lines, product silos and other conveying equipments.

iv) Augmentation of Waste Water treatment with MBR (Membrane Bio Reactor) technology.

v) Installation of comprehensive Security Surveillance system for safety of guests at ITC Hotels.

vi) Installation of Organic Waste converter at ITC Hotels.

vii) State of the art room control systems including Structural Cablings for all guest rooms with fibre backbone for internet and data.

viii) Energy efficient, eco friendly Green chillers.

ix) Modification of approach flow, installation of new Head Box, new shake unit and new pope reel in fine paper making machine for improving product quality of cigarette paper.

x) Installation of new Head Box, third press and new shake unit in fine paper making machine for improving product quality of writing printing grades.

xi) Installation of Cast Poly Propylene (CPP) line.

xii) Bobst Asitrade in-line Corrugating and Laminating line installed / commissioned.

xiii) Installation of Heidelberg offset printing presses.

xiv) Installation of Shoulder Box packaging line.

xv) Installation of Flexible Printing and converting line with value added features / capabilities of lamination, slitter-rewinder, solvent dosing system and tandem extrusion.

xvi) Installation of additional Equipment on Carton line consisting of Off Line UV Coating Machine and Busch Pile Turner.

xvii) Installation of Frozen plant for different product lines with features of Automatic filling, Sealing and Cartoning capabilities.

xviii) Installation of continuous hard and soft candy manufacturing line and commissioning of high speed éclairs manufacturing plant.

Benefits Derived

i) International Quality Products.

ii) Improved productivity and reduced wastes.

iii) Improved productivity of primary manufacturing and tobacco yields.

iv) Improved quality of treated waste water enabling increased recycling, which in turn will reduce fresh water intake.

v) Augmentation of guest security and enhanced guest experience.

vi) Conversion of food waste to manure – a step towards zero waste discharge.

vii) Conservation of fuel leading to reduce emissions and a positive environmental footprint.

viii) Improved product quality and productivity of cigarette tissue paper.

ix) Augmented paper range and improved product quality.

x) In-house capacity to produce CPP film for flexible packaging requirements and a step towards cost reduction / product development / backward integration.

xi) Capability to meet packaging requirements for corrugated board box applications such as mobile phones packaging.

xii) Cost efficient increase in offset printing capacity.

xiii) Additional Shoulder box manufacturing capacity with higher productivity levels.

xiv) Tandem Extrusion line will enhance the product range by enabling Extrusion Packaging for Snacks and Lami Tubes.

xv) Improved productivity as addition of UV Coater will reduce multiple pass on main printing machine.

xvi) Enhanced capacity to augment frozen business with improved productivity.

xvii) Increased throughput of confectionery products.

On behalf of the Board

Y. C. DEVESHWAR *Chairman*

Kolkata, 22nd May, 2009 K. VAIDYANATH *Director*