Report of the Directors
&
Management Discussion and Analysis
For the Financial Year Ended 31st March, 2010

Your Directors submit their Report for the financial year ended 31st March, 2010.

SOCIO-ECONOMIC ENVIRONMENT

Following one of the deepest downturns in recent times, the global economy staged a smart recovery during 2009/10, especially in the latter half, driven by an extraordinary level of co-ordinated international action in the form of policy stimulus, monetary as well as fiscal. As per the International Monetary Fund (IMF), world output is estimated to grow by 4.2% in 2010 after a decline of 0.6% in 2009 with the emerging and developing economies – led by China and India – set to grow by 6.3% in 2010 against a modest 2.4% in 2009 and a sharp rebound by advanced economies with a growth in output estimated at 2.3% in 2010 against a decline of 3.2% in 2009. However, the pace and shape of recovery remains uncertain with concerns about the recovery losing momentum once the stimulus is withdrawn. Recent developments in Europe, with Greece, Spain and Portugal facing severe challenges in honouring their external debt obligations, have amplified such concerns. While high levels of unemployment and fiscal deficit and contraction of credit to productive sectors are the key concerns for advanced economies, developing economies are faced with the challenges emanating from high rates of inflation, sharp escalation in asset prices, exchange rate volatility and increased capital inflows.

The Indian economy entered 2009/10 against the backdrop of a significant slowdown in growth rate, with the GDP growing at just 6% during the second half of 2008/09. A delayed and severely sub-normal monsoon coupled with continued recession in the developed world for the better part of 2008/09 served to exacerbate the macroeconomic context. Yet, the economy staged a remarkable recovery to grow at 7.2% during the year, facilitated by policy stimulus and increased government spending. The enhanced allocations for social sector schemes like the National Rural Employment Guarantee Scheme (NREGS), higher spends on rural infrastructure creation, the implementation of the Sixth Pay Commission recommendations and the scheme of debt relief to farmers acted as powerful catalysts to induce a consumption-led recovery. Much of the growth was fuelled by the Industrial sector, with renewed momentum in Manufacturing – which grew by 8.9% during the year after eight consecutive quarters of decline in growth rates since 2007/08. While Agricultural output declined by 0.2%, the Services sector grew, although at a slower pace of 8.7% against 9.8% in 2008/09. The broad-based nature of the recovery, a faster pace of growth in investments after a marked decline in 2008/09, the sharp pick up in capital inflows and a resurgent stock market are some of the key positives that augur well for the economy.

The major concern during the year was the rising food inflation – especially in the second half. While the overall wholesale price index (WPI) based inflation was 9.9% on a year-on-year basis in March 2010, food inflation was as high as 16.6%, reflecting the severe adverse impact of a deficient monsoon. With persistent supply side pressures, inflation became more generalised towards the end of the year, with inflation in non-food manufactured products rising to 4.7% in March 2010 from (–) 0.4% in November 2009. While inflation is expected to moderate going forward, the trend of rising international commodity prices, particularly oil, and the revival of private consumption pose upside risks. This apprehension is reflected in RBI's view that *"the domestic balance of risks shifts from growth slowdown to inflation"*. Accordingly, a related challenge in the near to medium term would be the effective management of the burgeoning fiscal deficit.

[The Indian economy staged a remarkable recovery to grow at 7.2% during the year, facilitated by policy stimulus and increased government spending. A faster pace of growth in investments, the sharp pick up in capital inflows and a resurgent stock market are some of the key positives that augur well for the economy.]

Although consensus estimates point to a robust performance of the Indian economy in 2010/11, with the GDP growth estimated to be above 8%, it would still be well below the average of nearly 9% per annum achieved during the 4 years preceding the economic slowdown. As aforementioned, the combination of the threat of inflationary pressures and the inherent risks to global economic recovery poses a tough challenge to maintaining and stepping up the growth momentum to the desired double-digit level. With a fairly young population, skilled manpower, 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 a stable and sustained future growth. The economic impact of these strengths will get further augmented by the current and planned investments in infrastructure development.

High levels of sustained economic growth is a critical necessity for India to realize its oft quoted 'demographic dividend' through the creation of employment opportunities for the nearly 15 million people expected to enter the working age each year, the majority of whom would be from rural India. As observed in the Economic Survey 2009-10, *"...growth is necessary for eradicating poverty but is not a sufficient condition. In other words, policies for promoting growth need to be complemented with policies to ensure that more and more people join in the growth process and, further, that there are mechanisms in place to redistribute some of the gains to those who are unable to partake in the market process and, hence, get left behind"*. Equally, the manner of industrial growth continues to take an immeasurable toll of finite natural resources. Indeed, the key challenge for India is to sustain high rates of economic growth even while addressing the problems of inequitable income distribution and over-exploitation of environmental resources.

A comprehensive growth strategy for rural India, including the agricultural sector which continues to underperform, is necessary to address the serious issues relating to sustainability and inclusive growth. The government's focus on social sector programmes such as Bharat Nirman, NREGS, Sarva Shiksha Abhiyan, food security legislation and strategies to improve benefit delivery mechanisms have the potential to transform the Indian rural landscape. 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. Your Company's e-choupal network continues to provide the farming community with a host of value added services such as crop advisories, relevant weather information, price discovery and access to high quality agri-inputs apart from dis-intermediating the value chain. The throughput of this network, which is the foundation of your Company's agri-commodity sourcing value chain, is growing rapidly in sync with the expanding consumer franchise for your Company's branded packaged food products. Entry into newer categories of food products will progressively increase sourcing through this network in the ensuing years.

Similarly, your Company's unique and path-breaking 'Choupal Pradarshan Khet' (CPK) – a collaborative and paid extension service aimed at enhancing farm productivity with emphasis on adoption of agricultural best practices – is yet another demonstrated example of how private sector initiatives can complement State interventions to create significant value for the Indian farmer. During the year, the scope of the CPK initiative was expanded to include horticultural crops such as banana, brinjal, chilli, grape, orange, pomegranate etc. Activities under this initiative currently span six States with a total coverage of nearly 70,000 hectares.The CPK model is focused on building competencies at the farm gate level and will go a long way in enhancing the competitiveness of India's agricultural sector.

The growth agenda can become sustainable only if it includes in its wake strategies, both national and corporate, to enhance environmental and societal capital, thereby translating to development. In line with this philosophy, your Company is 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 entire value chains it is engaged in.

[ITC's path-breaking 'Choupal Pradarshan Khet' (CPK) aims to enhance farm productivity by emphasising agricultural best practices, and is an example of how private sector initiatives can complement State interventions to create significant value for the Indian farmer.]

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

COMPANY PERFORMANCE

Your Company posted yet another year of impressive performance with a healthy topline growth and high quality earnings, reflecting the robustness of its corporate strategy of creating multiple drivers of growth. This performance is stellar when viewed against the backdrop of the extremely challenging business context in which this was achieved, namely the unprecedented increase in excise duties on non-filter cigarettes in the preceding year, the arbitrary increases in VAT on cigarettes, steep decline in hotel revenues as a consequence of the Mumbai terrorist attack and the global economic slowdown, the incubation costs incurred by the new FMCG businesses, the impact of the significant investments made in augmenting distribution infrastructure and the gestation costs of the large investments in the hotels business.

Gross Turnover for the year grew by 13.5% to Rs. 26259.60 crores. Net Turnover at Rs. 18153.19 crores grew by 16.3% primarily driven by a 20.9% growth in the non-cigarette FMCG businesses, a 19.8% growth in the Cigarettes business and a 17.4% growth in the Paperboards, Paper & Packaging segment. Pre-tax profits increased by 24.7% to Rs. 6015.31 crores while Post-tax profits at Rs. 4061 crores registered a growth of 24.4%. Earnings Per Share for the year stands at Rs. 10.73 (previous year Rs. 8.66). Cash flows from Operations stood at Rs. 6620 crores during the year, compared to Rs. 4682 crores in the previous year.

Your Company will complete 100 years in August 2010. It is a matter of great pride to reflect on the enormous progress made by your Company over the years. Your Company today is the leading FMCG marketeer in India, the second largest Hotel chain, the clear market leader in the Indian Paperboard and Packaging industry and the country's foremost Agri-business player. Additionally, its wholly owned subsidiary is one of India's fastest growing Information Technology companies in the mid-tier segment.

Over the last fifteen years, your Company has created multiple drivers of growth by developing a portfolio of world-class businesses. During this period, your Company's Gross Turnover and Post-tax profits recorded an impressive compound growth of 12.4% and 21.7% per annum respectively. Profitability, as measured by Return on Capital Employed improved substantially from 28.4% to 41% during this period. Total Shareholder Returns, measured in terms of increase in market capitalisation and dividends, grew at a compound rate of 24.3% during this period, placing your Company amongst the foremost in the country in terms of efficiency of servicing financial capital. Your Company today is one of India's most admired and valuable corporations with a market capitalisation in excess of Rs. 100000 crores.

In celebration of your Company completing a century, your Directors are pleased to recommend a Special Centenary Dividend of Rs. 5.50 per share in addition to a dividend of Rs. 4.50 per share (previous year: Rs. 3.70) for the year ended 31st March, 2010.

Total cash outflow in this regard will be Rs. 4452.33 crores (previous year Rs. 1633.87 crores) including Dividend Distribution Tax of Rs. 634.15 crores (previous year Rs. 237.34 crores). Your Board further recommends a transfer to General Reserve of Rs. 406.10 crores (previous year Rs. 1500.00 crores). Consequently, your Board recommends leaving an unappropriated balance in the Profit and Loss Account of Rs. 61.31 crores (previous year Rs. 858.14 crores).

FOREIGN EXCHANGE EARNINGS

Your Company continues to view foreign exchange earnings as a priority. All businesses in the ITC portfolio are mandated to engage with overseas markets with a view to testing and demonstrating international competitiveness and seeking profitable opportunities for growth. The ITC group's contribution to foreign exchange earnings over the last ten years amounted to nearly USD 4.1 billion, of which agri exports constituted 60%. Earnings from agri exports are an indicator of your Company's contribution to the rural economy through effectively linking small farmers with international markets.

[Net Turnover grew by 16.3% primarily driven by a 20.9% growth in the non-cigarette FMCG businesses, a 19.8% growth in the Cigarettes business and a 17.4% growth in the Paperboards, Paper & Packaging segment.]

During the financial year 2009/10, your Company and its subsidiaries earned Rs. 3140 crores in foreign exchange. The direct foreign exchange earned by your Company amounted to Rs. 2355 crores (Rs. 2226 crores in 2008-09), powered by exports of major agri-commodities. Your Company's expenditure in foreign currency amounted to Rs. 1042 crores, comprising purchase of raw materials, spares and other expenses of Rs. 774 crores and import of capital goods at Rs. 268 crores. Details of foreign exchange earnings and outgo are provided in Schedule 19 to the Accounts.

PROFITS, DIVIDENDS AND RETENTION

(Rs. in Crores)

	2010	2009
a) Profit before Tax	6015.31	4825.74
b) Income Tax	1954.31	1562.15
c) Profit after Tax	4061.00	3263.59
d) Add: Profit brought forward from previous year	858.14	724.45
e) Surplus available for Appropriation	**4919.14**	**3988.04**
f) Transfer to General Reserve	406.10	1500.00
g) Proposed Dividend for the financial year at the rate of Rs. 4.50 per ordinary share of Re. 1/- each (previous year Rs. 3.70 per share)	1718.18	1396.53
h) Proposed Special Centenary Dividend of Rs. 5.50 per ordinary share of Re. 1/- each	2100.00	–
i) Income Tax on proposed dividends	634.15	237.34
j) Earlier year's provision no longer required	(0.60)	(3.97)
k) Retained Profit carried forward to the following year	61.31	858.14
	4919.14	**3988.04**

BUSINESS SEGMENTS

A. FAST MOVING CONSUMER GOODS

FMCG – Cigarettes

India is the third largest producer of tobacco in the world. It is estimated that more than 36 million people including farmers, farm workers, retailers etc. in the country depend upon tobacco for their livelihood. While the economic importance of tobacco has been acknowledged in several Government studies and reports, the cigarette industry in India has been contending with the twin challenges of discriminatory and punitive taxation and increased regulation for several years in succession.

Internationally, more than 90% of tobacco is consumed in the cigarette form, and accordingly tobacco taxation and regulation, in effect, means regulating and taxing cigarettes. However, in India only about 15% of tobacco is consumed in the cigarette form, whilst the remaining consumption is through other forms of tobacco products like bidi, khaini, gutkha, zarda and kimam. It is therefore clear that the spate of taxation and regulations targeted almost exclusively at the cigarette industry in India is influenced by trends that are relevant in the developed world, but have little connection with the realities of the Indian market. Such a punitive and discriminatory approach has resulted in the share of cigarettes in total tobacco consumption in India progressively declining from 23% in 1971/72 to only about 15% currently. In this context, a recap of developments in the past few years would be relevant.

On the taxation front, excise duty rates went up in excess of 6% in the Union Budget 2007 and cigarettes were brought under the ambit of Value Added Tax (VAT) at a rate of 12.5% on invoice price with effect from 1st April 2007, resulting in a total tax equivalent of a 30% increase in excise duties. Other tobacco products were either exempted from VAT or taxed at lower rates. Consequently, cigarette industry volumes came under serious pressure in FY08 as consumers migrated to alternate and lightly taxed forms of tobacco.

The Union Budget 2008 followed through with an unprecedented increase in excise duty of the order of 140% and 390% respectively on regular and micro-sized non-filter cigarettes. This exceptional hike in rates forced the organized cigarette industry to substantially vacate this category. The resultant void created the headroom for tax-evaded cigarettes to enter the market in a big way. These tax-evaded cigarettes sell in the market at prices that do not even cover the cost of taxes payable thereon. Such cigarettes, estimated to constitute more than 8% of the Indian market, not only deprive the legitimate industry of revenues and profits that it rightfully deserves but also deny the Exchequer of its fair share of taxes. It is imperative that the authorities strengthen enforcement to eliminate this fast growing illegal industry.

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The year under review saw several States departing from the consensus VAT rate of 12.5% and increase the rates of VAT on cigarettes from time to time. Certain States also levied entry tax on cigarettes in addition to VAT and some others increased the entry tax rate. Most States, like the Centre, largely targeted the cigarette sector. Consequently, tobacco consumption in the cigarette format suffered.

Further, as a result of such unilateral and arbitrary increases, the incidence of State and other Local taxes varied from 12.5% in some parts of India to as much as 25% in others. Such massive tax differentials between States led to trade diversion that not only compromised the industry's ability to service the market effectively but also resulted in sub-optimization of cigarette tax revenues to the State Exchequers. Drawing from international experience, it is apprehended that the illegitimate funds generated through trade diversion by criminal syndicates is being used to finance anti-social activities in the country.

During the year, graphic statutory warnings on retail packages of tobacco and tobacco products were introduced and further restrictions on sale of tobacco products were notified. Such graphic warnings, which are more impactful on cigarettes than on other forms of tobacco by virtue of the design specifications, have placed cigarettes in a disadvantageous position.

Such regulations and others like the ban on smoking in public places together with the high incidence of tax on cigarettes encourage consumers to shift to cheaper and lightly taxed tobacco products. Consequently, whilst consumption of tobacco in the cigarette form is on the decline, the overall consumption of tobacco in the country continues to rise.

Tobacco Consumption (Million kg)

Year	Cigarettes	Non-Cigarette Forms	Total
1981/82	86	320	406
2008/09e	74	421	495
Difference	(–) 14%	(+) 32%	(+) 22%

Source : USDA; Tobacco Institute of India

Paradoxically, the social objective of control of tobacco consumption in the country gets defeated even as the revenue potential of tobacco sector as a whole is sub-optimised. It is relevant to note that every percentage point increase in the cigarette share of tobacco consumption would yield the government additional revenues of Rs. 650 crores annually in duties alone.

Despite having only a 15% share of consumption, cigarettes contribute more than 85% of the tax revenues from the tobacco sector. Taxes realized from every kilogram of tobacco consumed in the cigarette format are 35 times higher than those from other forms of tobacco products. In contrast, a country like China, given its equitable tax regime and a practical regulatory framework, is able to collect tax revenues from cigarettes that are 14 times higher than that in India despite the rate of tax being half of that of India. Clearly, there is a need to pursue a balanced agenda, which is equitable to all stakeholders, even as it progressively achieves the social objective of controlling tobacco consumption.

Notwithstanding these challenges, your Company retained its leadership position in the market and improved its standing in the consumer mind-space, attesting the salience and resilience of its brands. The stability in cigarette excise duties in 2009 resulted in the industry recovering some of the consumer franchise lost earlier.

The potential of the Indian market coupled with its economic outperformance in a year of global downturn is attracting global cigarette majors. They are seeking a direct play in the Indian market by incorporating majority-owned entities to carry on the business of wholesale trading operations in India involving sourcing, selling, distribution and marketing of cigarettes and other tobacco products. Even so, the incidence of smuggled cigarettes continues to be high.

During the year under review, the business effectively met such competitive challenges and improved its market standing through the delivery of superior consumer value based on a combination of deep consumer insights, contemporary product development and cutting-edge technology. Market interventions during the year included the launch of new variants of 'Gold Flake' and

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'Navy Cut Filter Kings' with innovative product features, limited edition packs of 'Classic' and launch of new brands like 'Flake Excel Filter' and 'Duke Filter'. The business also launched its premium line of hand-rolled cigars in select markets under the brand name 'Armenteros'. Manufactured exclusively for ITC by expert cigar rollers in the Dominican Republic, with the finest quality Cuban, Nicaraguan and Brazilian seed tobacco, the 'Armenteros' range is truly world-class and has been well received by the most discerning cigar aficionados in the country.

During the year, the business leveraged its existing industrial licence in Maharashtra to set up a cigarette factory at Ranjangaon, Pune. Production has commenced, enabling your Company to service proximal markets. The strategic initiative of upgrading primary and secondary technology platforms at the cigarette factories continued to be implemented. Further improvements in quality and productivity were achieved consequent to the induction of high speed cigarette making and packing machines across all factories. The 'Process Improvement Practices' initiative, using structured problem-solving methodologies such as 'Lean' and 'Six Sigma', contributed to sustainable improvements in key operating metrics and internal processes across all units.

In line with your Company's commitment to building sustainable environmental capital, the business is investing in wind farms in certain States to reduce dependence on conventional sources of energy. The cigarette factories continued to recycle 100% of the solid waste generated. They also maintained the highest standards of Environment Health and Safety (EHS) and won recognition by way of numerous awards. The Saharanpur factory won the 'CII National Award for Excellence in Energy Management' and the 'CII National Award for Excellence in Water Management'. The Munger factory was awarded the 1st prize for outstanding performance by CII Eastern Region for Safety, Health Environment (SHE) for 2009-10 as well as the 1st prize for outstanding performance by CII Eastern Region for Energy Conservation for 2009-10. The Kidderpore factory received the CII Eastern Region SHE Award for 2009-10. The Bengaluru factory was awarded the Safety Award in the Large-Scale Category as well as the Safety award for 'Best Boiler' by the Department of Factories, Boilers, Industrial Safety and Health, Government of Karnataka.

Pro-active interventions in employee-relations in all manufacturing units ensured an enabling operating climate. Long term agreements with unionised workforce continue to be leveraged to further improve shop floor productivity, flexibility and responsiveness. During the year under review, the long term agreement at the Saharanpur factory was successfully concluded.

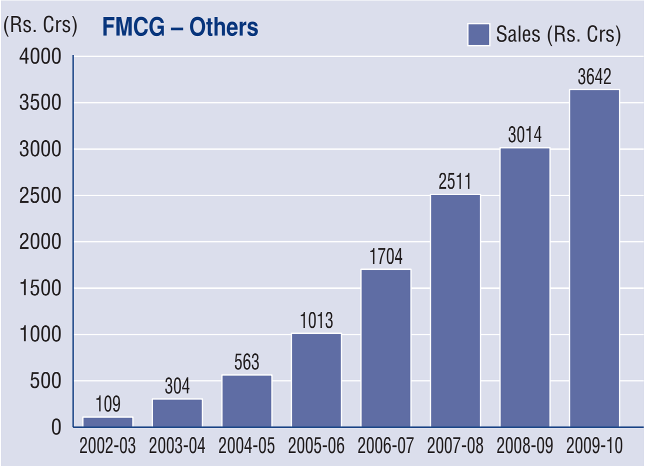
The year ahead will be challenging with continued discriminatory taxation, restrictive regulation and hardening competitive pressures. Cigarette excise duty rates have yet again been increased by about 17% in Budget 2010 and several States have further increased VAT and entry tax imposts in the recent round of budgets. While this is likely to put industry volumes under pressure, the newly created excise duty slab for medium-sized filter cigarettes may provide the legitimate industry a platform to combat the menace of illegal domestic cigarettes.

Your Company will continue to engage with policy makers for a balanced regulatory and fiscal framework for tobacco that addresses the genuine concerns of all stakeholders. The robustness of your Company's strategies and its execution excellence will enable it to sustain and enhance its leadership position.

FMCG – Others

It is your Company's strategic intent to secure long-term growth by synergising and blending the diverse pool of competencies residing in its various businesses to exploit emerging opportunities in the FMCG sector. Your Company's institutional strengths – deep understanding of the Indian consumer, strong trademarks, deep and wide distribution network, agri-sourcing skills, packaging know-how and cuisine expertise – continue to be effectively leveraged to rapidly grow the new FMCG businesses.

> Your Company has rapidly scaled up presence in its newer FMCG businesses. Segment revenues in FMCG (Others) clocked a CAGR of 38% in the last 5 years.



Your Company remains bullish on the prospects of the FMCG industry in India. According to a recent study by the Mckinsey Global Institute, it is estimated that India is set to climb from its position as the 12th largest consumer market today to become the world's fifth largest by 2025. Income levels are set to triple during this period with India's middle class (annual income ranging from Rs. 2 lakhs to Rs. 10 lakhs) increasing by about ten times its current size to around 583 million people. Favourable demographic trends – with nearly 15 million additions to the working age population every year for the next 10 years and a resultant low dependency ratio – will drive industry growth. Similarly, the trend of increasing urbanisation – with urban population expected to constitute around 44% of the population by 2035 as per United Nations Population Division (UNPD) from less than 30% presently – is expected to provide added fillip to the demand for branded consumer goods. Higher levels of consumer awareness, relatively low levels of per capita consumption and penetration and increased government spending on education are some of the other key factors that are expected to drive transformational change in the Indian FMCG industry.

Over the last few years, your Company has rapidly scaled up presence in its newer FMCG businesses comprising Branded Packaged Foods, Lifestyle Retailing, Education and Stationery products, Personal Care products, Safety Matches and Incense Sticks (Agarbatti) with Segment Revenues growing at an impressive compound annual growth rate of 38% during the last 5 years. Within a relatively short span of time, your Company has established several strong consumer brands including 'Sunfeast' and 'Aashirvaad' which are presently clocking annual sales in excess of Rs. 1000 crores each in terms of consumer spend. Segment Results reflect the gestation costs of these businesses largely comprising costs associated with brand building, product development, R&D and infrastructure creation. The year under review saw a 21% growth in Segment Revenues and a significant improvement in Segment Results which recorded a positive swing of Rs. 134 crores at the PBIT level.

Your Company's unwavering focus on quality, innovation and differentiation backed by deep consumer insights, world-class R&D and an efficient and responsive supply chain will further strengthen its leadership position in the Indian FMCG industry.

Highlights of progress in each category are set out below.

Branded Packaged Foods

The Branded Packaged Foods business continued to expand with sales growing 19% over the previous year. During the year, the business focused on enhancing consumer franchise through new product launches, heightened communication and increased levels of promotions. Value capture was improved through cost reductions across the supply chain and optimisation of capital deployment. A wide range of well-differentiated products, supported by significant investments in product development, innovation, manufacturing technology and unmatched distribution infrastructure have substantially enhanced the market standing and consumer franchise of your Company's brands. The quality of your Company's products continues to be 'best-in-class' and is seen as a benchmark in the industry across all segments.

During the year, the business was adversely impacted by historically high input commodity prices. Wheat, flour, dairy inputs and sugar witnessed sharp price hikes, with sugar prices registering an increase of nearly 150% over last year's levels. The impact of input cost increases was largely contained through a combination of smart sourcing and increased internal efficiencies, minimizing the 'cost-push' impact for consumers. Towards the close of the year commodity price inflation started showing

The Branded Packaged Foods Business will continue to leverage Research & Development to launch innovative and differentiated products across various platforms of taste, energy, health and wellness.

signs of levelling-off as a result of the government's proactive price-management actions, higher wheat output and easing off of sugar prices.

In the Staples category, sales of 'Aashirvaad' atta grew 21% and the brand sustained its leadership position with a market share of 56% among national branded players. The brand was further fortified during the year with the launch of 'Aashirvaad' multigrain atta for the health conscious consumer.

The Biscuit industry witnessed an impressive growth of around 14% during the year. Your Company's 'Sunfeast' brand continued to consolidate its position with an All India-Urban market share of 11%. The 'Sunfeast' range witnessed enrichment of its product-mix with higher sales of value-added products such as Marie, Special Creams and Cookies.

In the Confectionery category, 'Candyman' is the clear market leader in the hard boiled segment. 'mint-o GOL' was successfully launched during the year in the 'chews' category. The continued success of 'Toffichoo', 'Lacto' and 'Choco-Double Éclairs' provided further impetus to the overall growth of the Confectionery business. In the Ready-to-Eat segment, 'Sunfeast - Pasta Treat' has emerged as a unique product with a loyal consumer base. Research among trialists confirms encouraging consumer response and holds out the promise of this product emerging as a sizeable winner over the medium term.

In the Salty Snacks segment, 'Bingo!' penetrated new markets, gaining further consumer franchise. Word of mouth and clutter breaking advertisements improved brand salience. Product portfolio was further strengthened during the year with the launch of the 'Tedhe Medhe' and 'International Cream & Onion' variants.

The business is investing in manufacturing and distribution infrastructure to support larger scale in the wake of growing volumes. The business continued to focus on supply chain improvements to enhance product freshness, market servicing and margins.

Driven by an improving economy, the year ahead is expected to witness an accelerated growth of 15% in the Branded Packaged Foods category. Innovative brand building interventions will continue to be critical in driving sales and strengthening consumer and trade loyalty. Consumer activation beyond 'conventional' media and a 360 degree approach to engage customers at all touch points will be essential to developing a strong consumer franchise. Research and Development will continue to be leveraged to launch innovative and differentiated products across all segments under various platforms of taste, energy, health and wellness. Effective and cost-efficient servicing of target markets will be a key success factor. The business will continue to leverage your Company's sales and distribution network to achieve deep penetration, visibility, availability and competitive freshness for its products.

Lifestyle Retailing

During the year, your Company's Lifestyle Retailing business further consolidated and strengthened its position in the branded apparel market. 'Wills Lifestyle' is now an established premium lifestyle brand in the country and 'John Players' a leading fashion brand for the youth. Reviving consumer sentiments and the heightened interest in these two brands bode well for your Company's strategy of significantly ramping up its retail network with more stores in existing cities and penetration into new markets.

Wills Lifestyle's vibrant range with high fashion imagery, its growing consumer preference and its rich product mix are reflective of the strong market standing and consumer loyalty it enjoys. The brand is now available at 56 exclusive stores in 30 cities and in more than 150 'shop-in-shops' in leading departmental stores. Its premium imagery was further reinforced through its association with the 'Wills Lifestyle India Fashion Week', the country's most prestigious lifestyle event. Under the 'Ramp to Racks' initiative the brand has tied up with leading designers of the country such as Rohit Bal, Rohit Gandhi-Rahul Khanna, Rajesh Pratap Singh, JJ Valaya, Satya Paul and Ranna Gill to co-create the 'Wills Signature' range of designer-wear. This initiative has enhanced the brand's exclusive aura, strengthened its premiumness and deepened its aspirational dimension.

Wills Lifestyle is now available at 56 exclusive stores in 30 cities and in more than 150 'shop-in-shops' in leading departmental stores.

Leveraging synergies within the ITC Group, the business launched two 'Wills Lifestyle' boutique stores during the year at the ITC Royal Gardenia and the ITC Mughal hotels in Bengaluru and Agra respectively. The 'Essenza Di Wills' and 'Fiama Di Wills' range of personal care products continue to augment the lifestyle portfolio of the business, reinforcing synergies between fashion and beauty.

The customer privileges programme, 'Club Wills', comprising over 100,000 loyal and discerning members, notched up higher levels of visit frequency and transactions.

In the popular 'Youth' segment, 'John Players' marked a strong presence with its impactful imagery and vibrant product portfolio. Its new association with the well known film star, Ranbir Kapoor, was well received by consumers, further enhancing brand desirability. 'John Players' has a pan India presence in over 225 flagship stores and 1200 multi-brand outlets and departmental stores. The growing influence of digital and social networking space was effectively leveraged during the year to launch new initiatives, including innovative tie-ups with celebrities, to widen and deepen engagement with the youth community.

Continuing weak economic conditions in the US and European markets adversely affected exports from the country during the year. The business leveraged this opportunity emerging from the downturn to strengthen its customer relationships by offering value added product development services and flexible manufacturing facilities.

In the face of the economic slowdown, the business responded with cost management actions, streamlining of processes and improved working capital management. Further, training interventions to improve frontline-staff productivity and initiatives to strengthen product development and design were implemented. Superior vendor collaboration enabled the business to introduce premium offerings and improve sourcing efficiencies. Investments in store design, visual merchandising and customer service are continuing to enhance the international quality shopping experience which has become synonymous with 'Wills Lifestyle'.

The business will continue to increase the fashion quotient of its offering on the basis of deeper consumer insights and deliver products benchmarked to world-class quality standards.

Education & Stationery Products

The Education & Stationery Products business registered an impressive sales growth of 40% over the previous year. This growth was powered by brand 'Classmate' which continued to consolidate its leadership position in student notebooks.

During the year, the business launched a slew of complementary stationery products under the 'Classmate' brand. These included gel & ball pens, mechanical & wood cased pencils and geometry boxes.

Youth icons Yuvraj Singh and Soha Ali Khan were signed on as brand ambassadors to endorse 'Classmate'. An impactful television commercial and a range of point of sale materials featuring these brand ambassadors were deployed during the 'back to school' season. These interventions have enhanced the level of consumer awareness of Classmate's growing product basket beyond its flagship category of notebooks.

The distribution footprint of the business has been enlarged significantly to cover 2,800 markets, over 1,000 wholesale dealers and 72,000 stationery retail outlets.

The 'Classmate' range of products continued to be outsourced from best-in-class vendors. Notebooks were sourced from small scale manufacturers, who have continuously improved their delivery and quality capability. A majority of them, with your Company's assistance are ISO 9001:2000 certified. Paper and recycled board are sourced from your Company's mills at Bhadrachalam and Kovai respectively. The paper used in Classmate notebooks leverages your Company's world-class fibre line at Bhadrachalam which is India's first ozone treated elemental chlorine free facility. Classmate notebooks continue to feature different aspects of sustainability as core themes, such as 'Global Warming', 'Save the Environment' and 'Save the Tiger', to name a few. These product values, which are contributing significantly to creating sustainability awareness among the country's

[The Education & Stationery Products business has enlarged its distribution footprint to cover 2,800 markets, over 1,000 wholesale dealers and 72,000 stationery retail outlets.]

younger population, have distinctly enhanced classmate's brand equity.

Every 'Classmate' notebook also carries a powerful social message that reflects your Company's commitment to improve the quality of primary education in rural India.

During the year the business took significant steps to promote 'Paperkraft', its executive and office supplies stationery brand. Working in tandem with your Company's Paperboards & Specialty Paper Division (PSPD), the business has positioned 'Paperkraft' as the finest green paper for business applications viz. copy-scan-print-fax. Paperkraft's green credentials are supported, among other factors, by your Company membership of the prestigious Global Forest & Trade Network, an international initiative of the WWF (World Wide Fund for Nature) and your Company's social forestry programme which has created a green cover of over 100,000 hectares by planting high yielding varieties of trees. Paperkraft's 'green' profile has begun to appeal to a number of corporate and other institutional consumers who are switching over to Paperkraft to symbolise their own commitment to reduce their carbon footprint.

The 'Paperkraft' range was enlarged during the year to include markers and highlighters in addition to new varieties of executive notebooks and notepads.

The Education & Stationery Products industry continues to grow on the back of massive government and private investments in the Education sector. The Government's flagship Sarva Shiksha Abhiyan programme coupled with the mid-day meals initiative is successfully enhancing enrolment and reducing dropouts at the primary school level. Efforts are also underway to improve the enrolment ratios at the secondary and tertiary levels. Progressive reforms will enable flow of private sector investments into capacity building and quality enhancement in education delivery. The recent enactment of the Right to Education Bill will further accelerate growth in the education and stationery supplies sectors. Your Company, with its widening high quality product range and excellent distribution infrastructure, is poised advantageously to respond to this opportunity.

Safety Matches

Your Company's Safety Matches business alongwith that of Wimco Ltd registered a top line growth of 10.8% over the previous year driven by continued consumer preference for its strong brand portfolio across all market segments. The business also increased its presence in international markets by growing its exports of value added products, particularly to Africa and the Middle East.

Domestic volumes continued to witness a decline during the year as a result of an increase in consumer prices effected in the previous year. Increased penetration in international markets helped shore up volumes. Your Company will continue to grow its presence in overseas markets, and improve its share in the home market through new product launches. Continued escalation in the prices of raw materials like wood, paperboard and key chemicals brought margins under pressure. However, the adverse impact of input cost increases was partly mitigated by a series of strategic cost management actions initiated by the business during the year.

Your Company continues to partner the small scale sector by sourcing a significant portion of its requirement from multiple units in this sector. Your Company is helping to improve the competitive ability of these units by providing technical inputs to strengthen their process capabilities.

Technology induction in manufacturing is crucial for the long term sustainability of this industry. A uniform taxation framework which provides a level playing field to all manufacturers is necessary to trigger the required investments for modernising this industry. Government policy should create this supportive environment to enable the industry to become globally competitive. Mordernisation will also create a safe working environment for the significant worker population engaged in this industry.

Incense sticks (Agarbattis)

The Agarbatti business recorded an impressive 55% growth during the year, driven by increasing

[In line with the Company's commitment to the 'Triple Bottom Line', the Agarbatti business provides livelihood opportunities to more than 8000 under-privileged women across India.]

consumer franchise for the 'Mangaldeep' brand combined with enhanced distribution reach and innovative consumer offerings. 'Mangaldeep' is currently the second largest national brand.

During the year the business launched a new variant, 'Fragrance of Temple', in Tamil Nadu, under the 'Mangaldeep' brand. This product, which delivers temple aroma, has received wide consumer acceptance. It will be progressively rolled out across India.

In line with your Company's commitment to the 'Triple Bottom Line', the Agarbatti business provides livelihood opportunities to more than 8000 under-privileged women through Self Help Groups, small scale entrepreneurs and NGOs across India. During the year, the business entered into partnerships with the Governments of Orissa, Assam and Tripura to set up sourcing centres which would create livelihood opportunities for rural women through agarbatti rolling.

Your Company continues to partner with small and medium enterprises to assist them in raising their process and quality standards.

Personal Care Products

India's Personal Care industry is estimated to have grown by around 12% during the year to about Rs. 29000 crores. This demand-led growth was driven by the increasing frequency of usage among all consumer segments and higher rural disposable incomes consequent to the government's initiatives like NREGS, farm loan waivers, increase in minimum support prices for agri-commodities etc. However, heightened competitive intensity and higher input costs adversely impacted industry margins.

Your Company's Personal Care business made significant strides during the year in gaining consumer franchise. The business continued to roll out product offerings under the 'Essenza Di Wills', 'Fiama Di Wills', 'Vivel Di Wills', 'Vivel', and 'Superia' brands across new geographies. It focused on enhancing consumer benefits by introducing new variants in the soaps and shampoos categories. The launch of 'Fiama Di Wills' Gel Bathing Bar augmented the premium portfolio. Besides being extremely well received by consumers, it was voted 'Product of the Year' in the soaps category based on a survey of over 30,000 Indian consumers by AC Nielsen. Brand 'Vivel' was further strengthened with the launch of the 'Milk Cream & Glycerine' bathing bar in the winter care segment, and 'Deo Spirit' in the freshness segment. Similarly, the 'Superia' soap portfolio saw the addition of 'Milky Glow' and 'Lemon Fresh' variants. It is estimated that 'Vivel' and 'Superia' soaps and shampoos have together been purchased by over 7 crore households so far (Source: IMRB Household Panel: February 2010) representing nearly 30% of aggregate Indian households.

The business continues to communicate with the consumer through multiple channels, including TV, digital social-networking, print / outdoor advertising, point of sale merchandising, trade schemes, one-on-one consumer interactions, etc. The business grew at a pace distinctly ahead of industry despite extreme competitive pressures from entrenched players. This was achieved through a judicious mix of attractive consumer offers, competitive pricing and deeper penetration into remote markets by leveraging the distribution network of your Company. The business has notched a volume market share of approximately 5% in soaps, and around 3.4% in shampoos, within a short span of 2 years. Currently, brands 'Vivel' and 'Superia' are each estimated to be more than Rs. 200 crores per annum in consumer spend.

Responding to the growing demand for its products, the business added capacity at its plant at Haridwar in Uttarakhand and commissioned a new plant at Manpura in Himachal Pradesh. Apart from the fiscal benefits that will accrue from such investments in tax-exempt zones, these facilities will provide a higher degree of flexibility in manufacturing and ensure the highest standards of product quality.

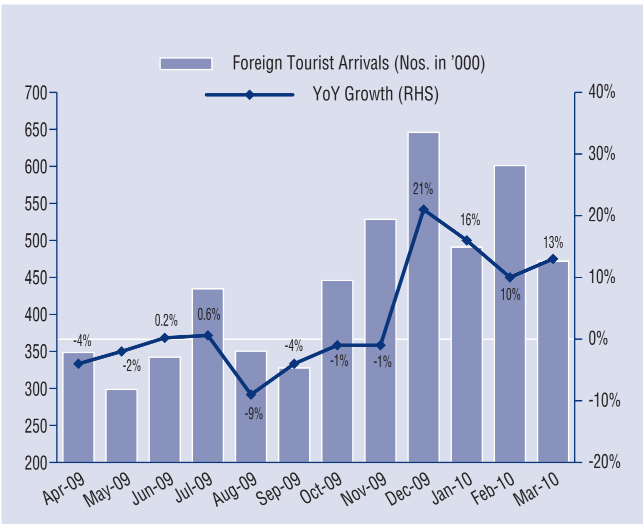
The business continues to invest in building a strong portfolio of brands and products through well-defined research and development strategies backed by the Company's dedicated and state-of-the-art R&D Centre. It is also continuously enhancing the quality of engagement with consumers through efficient deployment of media, direct contact and promotional activities across conventional and new age consumer connect avenues.

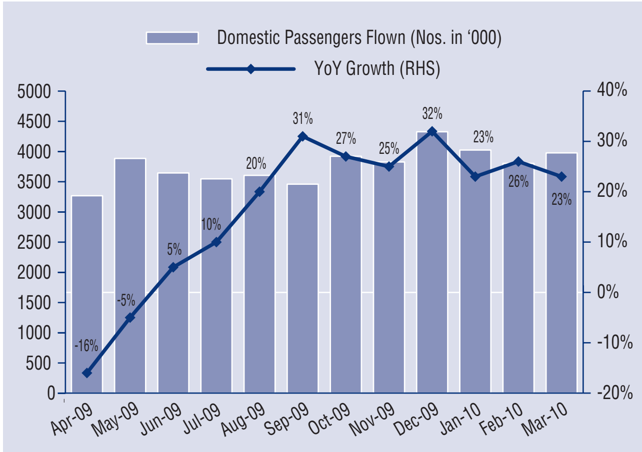
[The Personal Care Products business continued to roll out its product portfolio under the 'Essenza Di Wills', 'Fiama Di Wills', 'Vivel Di Wills', 'Vivel' and 'Superia' brands across new geographies. 'Fiama Di Wills' Gel Bathing Bar was voted 'Product of the Year' in the soaps category based on a survey of over 30,000 households by AC Nielsen.]

Your Company is focused on leveraging its institutional strengths in brand building, trade marketing and lifestyle retailing to rapidly grow the Personal Care business on the strength of its excellent product portfolio.

B. HOTELS

The aftermath of the terrorist attack in Mumbai in November 2008, the swine-flu pandemic and the general squeeze on corporate travel combined to adversely affect the performance of the Indian hotel industry during the year. The impact was particularly severe during the first half with occupancies and average room rates witnessing steep declines. The situation, however, improved during the second half aided by a strong showing by the Indian economy and the beginnings of a gradual recovery in major source markets like the USA and Europe. Reversing a declining trend after twelve consecutive months, foreign tourist arrivals started to increase from December 2009 clocking an average growth of 15% during the last four months of the year. Marked improvement has also been seen in domestic air travel. While the worst is clearly over, RevPar (Revenue per Available Room) levels remain more than 20% below the three year average preceding the downturn in 2008/09.





Given the adverse business environment, your Company's hotels business posted a 9% decline in Net Revenues during the year. Though Operating Profit (PBDIT) at Rs. 295 crores de-grew by 23% over the previous year, the business maintained its leadership position in terms of operating efficiency with a PBDIT to Net Revenues ratios of 35%. Net Revenues and PBDIT grew by 16% and 13% respectively during the last quarter of the fiscal year, reversing the declining trend witnessed in the first three quarters of the year.

Besides generating valuable foreign exchange, the tourism industry has a large economic multiplier impact contributing to significant employment creation, a dire need in the Indian context of achieving inclusive growth. However, despite India's enormous potential, its share in world travel and tourism remains extremely low. The country is not able to service even this relatively miniscule demand to full guest satisfaction due to demand-supply mismatch and infrastructural deficiencies. That India is grossly under-roomed is evident from the fact that some of the much smaller South-East Asian countries like Singapore, Malaysia and Thailand have much larger room capacities in the 5 Star/Luxury segment. The World Travel and Tourism Council (WTTC) estimates that the Indian travel and tourism industry will grow at 12% annually until 2019, requiring an additional 50,000 rooms over the next 2 to 3 years. Astronomical land prices remain a key hurdle in realizing this potential.

ITC Royal Gardenia, Bengaluru achieved the distinction of being the world's largest hotel and the first in Asia to receive the LEED Platinum Rating for green buildings – yet another expression of 'Responsible Luxury'.

Already, a number of projects announced earlier by hotel companies and real estate developers have reportedly been shelved.

However, given India's woefully inadequate room capacity and a weak additional supply outlook vis-à-vis the projected growth in demand, the longer term prospects for the industry remain robust.

Your Company now has over 100 hotels at more than 80 locations in India, operating under 4 brands – 'ITC Hotel' at the luxury end, 'WelcomHotel' in the 5 Star segment, 'Fortune' in the mid-market to upscale segment and 'WelcomHeritage' in the heritage leisure segment. In addition, the business has co-branding arrangements with two international brands – 'The Luxury Collection' and 'Sheraton' – franchised from the Starwood group. Together, these offerings make ITC-Welcomgroup the second largest hotel chain in India.

In October 2009, your Company launched the ITC Royal Gardenia, a 292 room luxury offering in Bengaluru. It is the largest LEED (Leadership in Energy and Environmental Design) Platinum rated hotel in the world and the first in Asia to achieve this distinction. It was recognized as the 'Best New Launch in the Luxury Upscale Category' at the Hotel Investment Conference, South Asia. It has successfully occupied the niche position of 'Responsible Luxury' within a short span of time. In line with the strategy of maintaining the contemporariness of its properties, the business undertook several renovation programmes during the year. Key initiatives include addition of a new shopping arcade and room renovations at the ITC Mughal in Agra and a new 'Kaya Kalp' Spa at WelcomHotel Rajputana, Jaipur.

In view of the positive long term outlook for the Indian hotel industry, your Company continues to sustain its aggressive investment-led growth strategy. Construction activity of the new super luxury properties at Chennai and Kolkata are progressing satisfactorily. In addition, several new projects including joint ventures and management contracts are on the anvil to rapidly scale up the business across all the four market segments.

In pursuit of your Company's 'Triple Bottom Line' objectives, the business has invested in wind energy to provide clean power to its Mumbai property, the ITC Maratha. Additionally, solar energy is being used to produce steam at the ITC Maurya, New Delhi and the ITC Royal Gardenia, Bengaluru. These green initiatives are being replicated at other locations across the ITC Welcomgroup chain.

During the year, the 'Fortune' brand which caters to the mid-market to upscale segment, forged new alliances taking the total number of hotels in its fold to 59 with an aggregate room inventory of 4817. The brand now has 34 operating hotels. Four more hotels are slated to be commissioned during the course of the next financial year. The remaining 21 hotels are in various stages of development. The 'WelcomHeritage' brand has grown to 67 hotels, out of which 54 are operational and the remaining 13 are under development.

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

C. PAPERBOARDS, PAPER AND PACKAGING

The Paperboards, Specialty Paper and Packaging segment recorded robust growth in revenues and profits. Segment Revenues grew by 15% over the previous year to touch Rs. 3234 crores. Segment Results at Rs. 684 crores reflect a growth of 35%.

Paperboards & Specialty Papers

The Global Paper and Paperboards Industry is estimated to grow at 4% in the ensuing year after two consecutive years of slowdown. Asian markets (excluding Japan) are expected to grow at 9% per annum in the near term with China and India continuing to lead the growth.

The domestic Paperboards industry grew by about 7% in 2009-10 against 6% in the previous year and is expected to gain momentum and grow at around 9% per annum over the next 5 years. Value-added products are expected to grow at a higher rate of about 15% per annum during this period. A robust economy coupled with changing consumer preference for branded

> The state-of-the-art paper machine commissioned in 2008 operated to full capacity during the year, enabling your Company to make a significant entry into the Paper segment. ITC is the market leader in the Paperboards segment with a value market share of around 26%.

products with unique and sophisticated packaging is expected to drive increased demand for superior quality paperboards. The pharma, textiles, FMCG, modern retail and consumer electronics segments offer significant growth opportunities.

The domestic Paperboards market size is about 2 million tons per annum and is characterized by fragmented capacities, serviced by over 100 mills. Only a few mills have been able to deliver desired quality standards on a consistent basis. Your Company is the market leader in the Paperboards segment with a wide range of products, a value market share of about 26% and a significantly higher share of the fast-growing value added paperboards segment. In order to sustain its pre-eminent position in the Paperboards segment, the business plans to invest in a state-of-the-art machine which is expected to be operational by early 2012.

The Indian Paper Industry at 9 million tons per annum accounts for about 2% of the world's production of paper and paperboards. India is globally the fastest growing market for paper, with paper consumption estimated to touch 14 million tons by 2015-16. Growth in the 'Writing and Printing' paper industry in 2009-10 was about 6%. This segment is expected to grow at about 8% per annum during the next 5 years, with higher growth in the premium quality coated papers and branded copier paper categories at 12%. In the case of specialty papers, increased infrastructure spending and growth in construction will drive demand for quality décor and insulating grades.

The state-of-the-art new paper machine commissioned in 2008 operated to full capacity during the year, enabling your Company to make a significant entry into the Paper segment of the industry. The copier and writing paper produced by this machine has enabled higher order value capture on the back of the strong forward linkages with your Company's Education and Stationery Products business.

Your Company is the largest manufacturer of cigarette tissue in India and continues to be the market leader with a share of 65% of the domestic market. In the growing décor segment, your Company continues to record steady growth with a market share of 26%.

Total production of Paper and Paperboards during the year stood at 547,931 tons compared to 469,335 tons during the previous year. Overall sales, including internal transfers, grew by 19% to 549,181 tons, with the value added paperboards growing at a faster pace of 29%. Export turnover for the year grew by 38%. Currently, the business exports to more than 50 countries including UK, UAE, Turkey, Greece, Sri Lanka, Bangladesh, Iran and Nigeria.

Despite inflation in input costs and pricing pressures in the 'Writing and Printing' paper segment, the business posted a sterling performance driven by higher overall productivity, higher value capture through increased usage of in-house pulp, superior product mix and several cost management initiatives.

Over the years, your Company has pursued an aggressive clonal propagation strategy to address the twin challenges of securing long term supply of fibre and remaining cost competitive. This strategy makes available in-house developed high-yielding clones and seedlings of the desired pulp wood species together with extension services to farmers engaged in plantation of pulp wood on their marginal wastelands. The quality of these clones and seedlings, products of your Company's bio-technology based research programme, has been tested for its effectiveness over the last 14 years in more than 100,000 hectares of plantations, including 13,000 hectares planted during the year under review. Enhanced R&D activity has resulted in the development of high yielding 'Subabul' clones. Continued focus on clonal plantations in core areas is expected to yield significant competitive advantage in the years to come. Your Company's R&D is actively collaborating with several expert agencies to further leverage bio-technology to enhance both farm and manufacturing yields.

Your Company continues to represent to 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 that would inter alia promote public-private partnerships for the development of degraded forest lands would serve the multiple objectives of enhancing

Your Company became a member of the WWF Global Forest and Trade Network, the first Indian Company to have been so invited. ITC has also won the Forest Stewardship Council's 'Chain of Custody' certification, a global industry benchmark for sustainable development, for its units at Bhadrachalam and Kovai.

the competitiveness of the Indian paper and paperboards industry, creating sustainable livelihoods in rural India and enhancing the green cover.

Waste paper is a key source of fibre in the manufacture of recycled boards. Unfortunately, mobilization of waste paper in India has been very low at 14% as against 60% in developed countries. Your Company has launched a collaborative initiative, called 'WOW' (Wealth Out of Waste), for improving waste paper recycling. It has established an efficient collection and recycling chain, targeting large sources of aggregation such as schools, offices, residential colonies and apartments. During the year, the business sourced 18,000 tons of waste paper through this initiative.

In line with your Company's commitment to achieve yet another environmental milestone of being 'solid waste recycling positive', the Tribeni and Bhadrachalam units accomplished that goal during the year. The business has been able to achieve an overall positive solid waste recycling footprint by procuring and recycling over 125,000 tons of waste paper during the year. The business is also working on various Clean Development Mechanism (CDM) projects under the Kyoto Protocol to enable full realization of potential benefits in this area. Your Company's unique social forestry project has been the first of its kind in India to be registered with the United Nations Framework Convention on Climate Change (UNFCCC) as a CDM project. The net benefits from this project will be passed on to the partnering farming communities. In yet another of its sustainability initiatives, the business commissioned a 'green' boiler with a capacity of 90 tons per hour in its Bhadrachalam unit during the year. The 'green' boiler uses biomass sourced from wood and agricultural waste as fuel, yielding substantial cost reduction, apart from earning CERs (Certified Emission Reduction) under the CDM.

During the year your Company became a member of the WWF – World Wide Fund for Nature's Global Forest and Trade Network (WWF GFTN), the first Indian Company to have been so invited. The business also won the Forest Stewardship Council's (an organization established to promote the responsible management of the world's forests) 'Chain of Custody' certification (FSC-COC) for its units at Bhadrachalam (FSC-Mixed) and Kovai (FSC-Recycled). This certification is a global industry benchmark for sustainable development.

All units of the business have obtained the ISO 9001, ISO 14001 and OHSAS 18001 certification. The Bhadrachalam unit was awarded the 'Sword of Honour' by the British Safety Council. All four units got the '5 Star Rating' from the British Safety Council for the first time in the same year. Further, the Bhadrachalam unit received the '5 Star Audit Grading for Environment' in the very first audit.

The end-to-end ERP system was successfully implemented during the year. The system will provide real-time information for faster decision making and improved operational management.

Continuing inflation in the cost of domestic raw materials and imported pulp will exert pressure on industry profitability in the near term. Your Company, with an expanded and fully functional pulp mill and a well differentiated product portfolio is well positioned to mitigate the impact of these cost escalations.

The integrated nature of the business model-access to high-quality fibre from the economic vicinity of the Bhadrachalam mill, in-house pulp mill and state-of-the-art manufacturing facilities on the one hand and a robust forward linkage with the Education and Stationery Products business on the other – strategically positions your Company to further consolidate and enhance its leadership status in the Indian Paper and Paperboards industry.

Packaging and Printing

Your Company's Packaging and Printing business continues to make investments in world-class technology and skills to consolidate its position as the leading provider of high quality paperboard and flexibles packaging in the country. The business provides strategic sourcing support to your Company's cigarette and other FMCG businesses by ensuring security of supplies and sustaining international quality at competitive cost.

During the year under review, the business achieved substantial growth in its external trade and emerged as a leading supplier of value added packaging to the Consumer Electronics and FMCG segments. The

ITC's Packaging and Printing business won several national awards for excellence in printing, as well as the 'World Star' award for excellence in packaging. The Munger unit has been certified at Level 8 of the International Quality Rating System.

business continued to leverage the state-of-the-art flexible manufacturing facilities at Chennai and Haridwar to provide innovative packaging solutions to your Company's Branded Packaged Foods and Personal Care businesses. The in-house capability to deliver best-in-class packaging solutions is reducing time-to-market for new launches and is a source of competitive advantage for these businesses.

Capacities are being augmented at both the Chennai and Haridwar units to cater to the increased packaging requirements of your Company's FMCG businesses and to service the expanding universe of external customers. Your Company's full range of capabilities, riding on multiple packaging platforms, will enable the business to consolidate its strong position in the domestic market and build a growing franchise in the export markets.

The 14.1 megawatt wind energy farm, which was commissioned in 2008, is operating at optimum levels providing clean energy to the Chennai unit. This initiative, flowing from your Company's commitment to the 'Triple Bottom Line', obtained the UNFCCC registration under the Clean Development Mechanism of the Kyoto Protocol during the year, making it eligible for carbon credits.

The factories at Chennai, Munger and Haridwar maintained the highest standards in Environment, Health and Safety (EHS) and quality management during the year. The business won several national awards for excellence in printing, as well as the 'World Star' award for excellence in packaging. The Munger unit was certified at Level 8 of the International Quality Rating System (IQRS) as audited by Det Norske Veritas (DNV) during the year. This is the second such certification for the business with the Chennai unit having achieved the distinction of being the first unit in India to receive this rating in the year 2007. All the three units at Chennai, Munger and Haridwar received the '5 Star Rating' for safety from the British Safety Council.

With substantial investments in technology, well-honed quality systems and distributed and diversified manufacturing capability, the business is well poised to sustain its position as one of the foremost packaging houses in the country.

D. AGRI BUSINESS

Cigarette Leaf Tobacco

Triggered by increasing farm prices on the one hand and growth in the global Cigarette markets on the other, tobacco production continued to increase, largely driven by producers in Asia and Africa. While the four large international cigarette manufacturers and the Chinese monopoly were the key drivers of demand growth, China, India and Africa (Zimbabwe, Malawi, Tanzania, Zambia, Uganda, Kenya and Mozambique) were the main leaf tobacco supply regions. In India, driven by the unprecedented farm price increase during 2008 and an enhanced export demand, leaf tobacco production scaled a new peak during 2009 with all major flue-cured and burley crops registering an increase in acreage and productivity. Farm prices registered a further increase over the 2008 levels, making leaf tobacco one of the most remunerative crops for the farmer. However, enhanced production in China and increased availability of leaf tobacco in Africa are expected to stabilize the escalating demand and spiraling prices of the past few years. Burley and oriental tobaccos have moved into a moderate over supply situation with the revival of the crop in Malawi, Mozambique and other African nations.

In 2010, the global supply-demand situation is expected to sustain growing dependence of international blends on Indian tobaccos. With demand estimated to continue exceeding supply, Indian tobaccos are expected to retain customer preference. Since flavour is not a competitive strength of Indian tobacco, focussed attention to reliability, scalability, product integrity service and competitive pricing would be imperative to sustain and grow market share.

In addition to the development of the first series of Flue Cured Hybrids, your Company's concerted efforts during the year on varietal improvement resulted in the identification of two Advanced Breeding Lines for specific regions in Andhra Pradesh and Mysore. A new system

[Your Company strengthened its position as the foremost supplier of quality Indian tobaccos in the global market, achieving a record export growth of 86% over last year.]

of improved nursery management was designed to enhance seed use efficiency. It has resulted in the production of superior quality seedlings with an optimum use of crop production chemicals, besides conserving irrigation water. Appropriate agronomical practices were formulated to harness the potential of the newly developed varieties. Farmers benefited through significantly higher productivity coupled with desirable quality traits. Further, technical collaboration with international agencies in burley and oriental tobaccos helped in devising crop specific package of practices for the production of preferred styles. These pioneering R&D interventions augmented with dedicated crop development initiatives in different growth regions have ensured desirable levels of production, enabling the Indian farmer to move towards global standards in crop cultivation. Capitalising on your Company's R&D efforts on varietal improvement, the growing areas of Flue-Cured Virginia hybrids were substantially increased in collaboration with the Central Tobacco Research Institute and the Tobacco Board of India. In addition, chemistry and flavour benchmarked grades of tobacco have started yielding benefits in terms of product characteristics and financial returns.

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 86% over last year. Your Company is now ranked 6th among global leaf tobacco exporters.

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

On the domestic front, deepening challenges are manifesting in multiple ways. As explained in an earlier section of this Report, Indian cigarette manufacturers continue to face unilateral and arbitrary increases in excise duties, VAT and entry tax coupled with restrictive regulations and the menace of illegal domestic cigarettes. The combination of high taxation and harsh regulations, targeted almost exclusively at the cigarette industry, is putting serious pressure on consumers to migrate to alternate and lightly taxed tobacco products. Such a punitive and discriminatory approach to cigarette taxation and regulation will adversely impact domestic demand with severe consequences for tobacco farmers and all others who depend on the tobacco value chain for their livelihood. An equitable and balanced approach to cigarette taxation is imperative to de-risk the tobacco dependants from harsh consequences to their livelihoods.

Your Company continues to focus on maintaining the highest quality and safety standards in the factories. During the year, the Anaparti unit upgraded its Quality Management System from ISO 9001:2000 to ISO 9001:2008. Both the Chirala and Anaparti units upgraded Social Accountability Management System from SA 8000:2001 to SA 8000:2008. The Chirala unit also upgraded its Occupational Health and Safety Assessment Series (OHSAS) from the 1999 standard to the 2007 standard.

In order to meet the increasing requirement for processing capacity, the business is in the process of establishing a green leaf processing plant near Mysore.

Your Company, with its outstanding R&D capability, unique crop development and extension expertise, contemporary 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

Global agricultural commodity prices were soft and benign for most part of the year in the wake of a recessionary overhang. In India however, a poor monsoon during 2009 led to an 8% fall in agricultural production with food grain output falling by about 10%. Food inflation, which touched a high of 20% in December 2009, emerged as a key concern in macro-economic management. Domestic prices of all agricultural produce continued their upward trend. This led to the Government of India extending the ban on export of rice and wheat. Stock control limits on most agri commodities imposed earlier continued through the year in several States.

A good soya crop in the US and Argentina led to lower prices for soya meal in the international markets. However, an erratic monsoon in India resulted in below-normal soya output and consequent higher farm prices. Price disparity between the global and Indian

> ITC continues to train farmers to deploy organic farming techniques, 'Good Agriculture Practices' and product traceability systems through demonstration plots and extension services designed to help them obtain international organic certification.

markets rendered Indian soya meal uncompetitive, adversely affecting your Company's soya meal exports. In order to insulate the business from such volatile price cycles, your Company piloted an 'agri commodity sourcing services model' which provides its customers an integrated offer comprising sourcing advantage, credit and stock and risk management services. This model, apart from being relatively risk free, is designed to provide consistent returns even in a volatile market scenario. The model, which was well received by customers, is being scaled up.

During the year, the business introduced several new products and continued to acquire new customers in the value-added processed fruits segment. This strategy helped the business to partially mitigate the impact of recession in its key export markets. Special focus was initiated on expanding supplies of value-added products to the domestic market as well. Your Company continued its initiative of developing a robust supply chain for production and marketing of organic fruits with farmers across various States in the country. Farmers are being trained to deploy organic farming techniques, 'Good Agriculture Practices' (Global GAP) and product traceability systems through demonstration plots and extension services designed to help them obtain international organic certification.

The business continued to source identity preserved specific grades of high quality wheat through the e-Choupal network for your Company's Branded Packaged Foods business. Significant cost and quality advantages were achieved through sourcing across geographies based on price optimisation and by just-in-time direct procurement at the processing units. In sourcing chip stock potato for your Company's 'Bingo!' brand of potato chips, the business scaled up sourcing of locally grown potatoes (closer to the manufacturing units) in order to support local farmers and minimise logistics costs. Significant progress was made on this front during the year, with over 50% of the potato requirements for the Haridwar plant being sourced locally. The business also carried out successful trials on new varieties of potato with longer storage life in Madhya Pradesh and Gujarat to secure a cost effective alternative to expensive off-season buy. Synergies with Technico Agri Sciences Ltd, a step-down subsidiary of your Company, continued to be leveraged in the form of access to high quality seeds and internationally benchmarked agronomy practices.

Your Company's neem-based organic manures such as 'Wellgro Soil', 'Wellgro Grains' and 'Wellgro Crops' continue to gain wide acceptance amongst the farming community and corporate houses engaged in contract farming. These products were endorsed by Control Union (European agency for certifying organic status) as organic inputs under stringent quality specifications of the National Program on Organic Production (NPOP). During the year, the business introduced a new organic manure – 'Wellgro Crops' in liquid form for horticultural crops like chillies, tomato, banana, citrus fruits and leafy vegetables – which has been well received by the farming community in Andhra Pradesh and Karnataka. 'Wellgro Crops' has been empanelled under the National Horticulture Mission as part of the Organic Farming and Integrated Nutrient and Pest Management programs. During the year, the business strengthened its supply chain in Maharashtra, Karnataka, Andhra Pradesh and Gujarat for improved market reach and service to larger sections of the farming community. Your Company has tied up with several agricultural research organisations for taking up field trials on major crops and for propagating Integrated Nutrient and Pest Management practices. Your Company has also taken up intensive R&D activities to develop crop and market specific eco-friendly inputs based on biological and natural products.

With growing concerns relating to food safety and product integrity, there is an increasing demand for suppliers with 'end-to-end' capabilities and complete custody of the supply chain, supported by appropriate technology and quality, and augmented with traceability management systems to provide the required product assurance. Your Company seeks to harness this opportunity by building the business model on the strength of customized products and services with requisite crop development, state-of-the-art infrastructure and tailor-made processes to garner an increasing share of the fast growing domestic

[Your Company's neem-based organic manures such as 'Wellgro Soil', 'Wellgro Grains' and 'Wellgro Crops' continue to gain wide acceptance. These products were endorsed by the European Agency Control Union as organic inputs under stringent quality specifications of the National Program on Organic Production.]

and export markets. During the past four years, apart from providing support to the 'Aashirvaad' range of spices, the business has gained considerable market standing amongst large domestic and export customers as a supplier of assured quality with customized processes and infrastructure. The business continues to leverage differentiation and customization for enhanced value capture by targeting sales to large food and industrial users of spices, medicinal and aromatic plants and their derivatives.

Despite a very poor monsoon which adversely affected the country's farm sector credit off-take, your Company actively pursued its initiative of marketing Kisan Credit Cards on behalf of the State Bank of India. The quantum of farmer loans facilitated by the channel grew 29% during the year. Credit camps organised by the business to help farmers improve the awareness of a seemingly complex product like Kisan Credit Card drew all round appreciation from farmers and other stakeholders. This increased awareness and continuous communication at the field level significantly improved the quality of documentation and helped achieve a substantial reduction in rejection of applications and improved turnaround times.

In the rural retailing initiative, several innovative activities were undertaken during the year to enhance engagement with rural consumers including a sales incentive scheme for village lead farmers (Sanchalaks), discount coupons and lucky draws for farmer-customers and re-designed store layouts for improved product visibility. These interventions have resulted in a positive consumer response with sales of FMCG, Apparel and Grocery categories increasing by 24% over the previous year.

Distribution of FMCG products in the rural markets through the e-Choupal network gained traction with throughput during the year recording an impressive increase of 44%. Plans are on the anvil to expand distribution reach of this initiative to more than 50,000 villages over the next 12 months.

Following the semi-urbanisation of some of the top-tier villages, rural youth from these areas now prefer urban jobs to agriculture and farm employment. Recognising the potential opportunity for the e-Choupal model in this space, the business, in alliance with Monster India – an online career and recruitment firm – launched a web portal christened 'rozgarduniya.com' during the year. This portal will enable job seekers in rural areas to apply for jobs through e-Choupals. The launch has met with very encouraging response and is being scaled up.

Your Company has been selected to be part of a consortium by the UK Department for International Development (DFID) to work on 'Poorest States Inclusive Growth Programme' (PSIG). The programme aims to enable the poor in the rural areas of identified backward states in India to contribute to and benefit from economic growth. The programme, which will also be driven through your Company's e-Choupal network, plans to achieve this objective by expanding access to markets and finance for poor communities, creating sustainable small-scale business models, promoting efficient and sustainable financial intermediation channels and establishing community owned institutions. The programme, which is currently undergoing a detailed pre-implementation review, will be rolled out over the next 6 years.

All these initiatives will progressively transform the e-Choupal model into an all-weather venture – relatively de-risked from regulatory uncertainties and market volatility – even as it continues to serve as an effective intervention model for rural development.

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'), a subsidiary of your Company, was under Judicial Management since 8th November, 1996 till 30th November, 2007. On an application of the Judicial Managers of ITC Global, the High Court of the Republic of Singapore on 30th November, 2007 ordered winding up of ITC Global, appointed a Liquidator and discharged the Judicial Managers. 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, 2009 or to make available copies of the same for inspection by shareholders.

Surya Nepal Pvt. Ltd.

During the year under review the political environment in Nepal remained volatile with changes in the composition of the ruling coalition and rising tensions within and amongst political parties. The proposed new Constitution stayed unwritten, and social, economic and political disruptions continued to take place from time to time. However, in spite of the political uncertainty, Nepal remained relatively sheltered from the impact of the global recession, with the economy registering a GDP growth of 3.8% for the financial year ending mid July 2009. The GDP growth forecast for 2009-10 stands at 3.5%.

Notwithstanding the challenging socio-political environment, the company's growth and performance continued on an upward trajectory. In the twelve-month period ended 13th March 2010, the company's sales grew by 30% to Nepalese Rupees 1005 crores (net of VAT). Profit After Tax at Nepalese Rupees 181 crores represents an increase of 25% over the previous year. The company's sales (net of VAT) accounts for almost 1% of Nepal's GDP, while its contribution to the Exchequer accounts for about 3% of the total revenues of the Government of Nepal. The company continues to retain its status as the single largest private sector contributor to the Exchequer.

The company's cigarette business continued to make good progress and maintained its leadership position with focus on the premium end of the market, capturing a larger value share. The 'Surya' trademark is the undisputed value leader in the premium segment, capturing consumer franchise in the face of competing international brands. 'Khukuri', the largest selling trademark of the company showed healthy growth. 'Pilot', a brand launched two years ago in the regular-size filter segment, continues to garner significant share.

On the manufacturing front, the company invested in new technology packing lines to sustain superior and consistent product quality, and made sustainable improvements in supply chain and inventory management. Energy conservation measures were further reinforced.

Despite the agro-climatic challenges of growing tobacco in Nepal, the company's continuous guidance to tobacco farmers from the stage of seed development to crop harvesting and provision of customized extension services helped enhance productivity and quality. Efforts are underway to further improve the quality of domestic grades. Encouraged by these interventions, farmers have increased the acreage under leaf cultivation.

During the year under review, the garments export business was adversely impacted by increased import taxes in India from July 2009, depreciation of the US Dollar vis-à-vis the Nepalese Rupee and disruptions in the supply chain owing to frequent strikes and blockades. However, in spite of these challenges, the company leveraged its new, state-of-the-art garment manufacturing facility at Biratnagar to meet export orders for the 'Wills Lifestyle' and 'John Players' range of apparel as well as to support the company's foray into new export markets, especially in the European Union (EU) and the United States (US). The recent removal in February 2010, of Additional Customs Duty of 4% on all garment imports into India, will also provide further impetus to the business in coming years.

In the domestic garments market, 'John Players' and 'Miss Players' have become leaders in the branded apparel segment with a strong presence in the minds of consumers. 'Springwood', the company's mass market brand positioned as an alternative to low priced imports from China and South East Asia, has grown and further consolidated its position in the 'value for money' segment.

In the Matches business, which the company entered two years ago, the sales of its brand 'Tir' grew 80% and further strengthened its strong consumer franchise.

The company continued to remain committed to its role as a responsible corporate citizen and promoted sports and tourism in the country under the 'Surya Nepal Khelparyatan' programme. During the year, the company sponsored the 'Surya Nepal Masters' which is the country's top professional golf tournament and the 'Surya Nepal Golf Tour' which is Nepal's first professional golf tour.

The company declared a dividend of Nepalese Rupees 98/- per equity share of Nepalese Rupees 100/- each for the year ended 31st Ashad 2066.

ITC Infotech India Limited

During the year under review, the global economic downturn continued to impact IT spends in target markets resulting in reduced budgets, cost cutting initiatives, longer decision making cycles and pricing pressures from existing customers. Overall, this meant a relatively low growth rate for the Indian IT services industry which responded by tightening cost structures, crafting new, low-cost solutions for customers and seeking new growth markets.

Despite the severe challenges resulting from such adverse market conditions, the company grew total income for the year by 8% and significantly improved its profitability. New customer acquisitions and renewed thrust on scaling up existing engagements in target industry domains, solution areas and focus technologies were critical to achieving this performance.

For the year under review:

(a) ITC Infotech India Ltd. registered an Income of Rs. 377.71 crores (previous year Rs. 349.72 crores) and a Profit After Tax of Rs. 34.01 crores (previous year Rs. 3.04 crores);

(b) ITC Infotech Limited, UK, (I2B) a wholly owned subsidiary of the company, registered a Turnover of GBP 19.44 million (previous year GBP 20.61 million) and a Net Profit of GBP 0.69 million (previous year GBP 1.02 million).

(c) ITC Infotech (USA), Inc., (I2A) a wholly owned subsidiary of the company, together with its wholly owned subsidiary Pyxis Solutions LLC, registered Total Revenues of US$ 30.99 million (previous year US$ 33.05 million) and a Net Profit of US$ 0.08 million (previous year Net Profit US$ 1.82 million).

Although, as mentioned earlier, the Industry was adversely impacted by reduced IT spending in most parts of the world as well as the threat of 'protectionism' in some target markets, there was an improvement in business sentiment towards the end of 2009-10, reflecting in a stronger sales pipeline for the Indian IT services industry. Most governments view the IT sector as an important engine of economic growth and many are taking measures to stimulate sector output as a means of accelerating economic recovery.

The company leveraged this opportunity to maintain its strong pace of new customer acquisitions. The company added new marquee customers to its portfolio across Americas, Europe and India and made significant forays into Latin America and Western Europe. In line with its strategy of being closer to the customer, the company, during the year, opened branch offices in South Africa and the Netherlands.

The company continues to invest in building strong and differentiated capabilities in its target markets. Some of these capabilities include customer loyalty solutions for airlines, hospitality and retail industries, tailored solutions for the chemical, printing and packaging industries based on the SAP platform and incubating new solutions for the pharmaceutical industry. Oracle has partnered with ITC Infotech to establish an 'Oracle Industry Solution Center of Excellence', a strong validation of the company's domain and technical capabilities in certain key industry verticals. The company's strategic relationship with Parametric Technology Corporation enables it to provide highly specialized global support to organizations in managing their product lifecycle processes.

Capitalising on the emerging market for low cost solutions, the company invested in building technology solutions for its customers on a pay-per-use mode. The company has also developed significant expertise in open source solutions that enables its customers to integrate and present business information from existing disparate sources in a seamless manner, at relatively lower costs.

The company's focus on building deep and differentiated capabilities is being increasingly validated and recognized by global analyst firms. The company has been featured for the fourth year in a row in the 'Leader's Category' for the 2010 Global Outsourcing 100 by the International Association of Outsourcing Professional (IAOP) and has also been recognized as being amongst the top 20 Industry leaders focused on the consumer goods and retail industry. The company continues to be featured in the Global Services 100 list for the fifth year in a row.

The company continues to focus on enhancing its internal systems and processes in order to continuously improve the quality of its services to customers and has established a centre of excellence for project management. The company has been ISO 9001:2008 certified by DNV.

The company continues to invest in building its talent pool and improving its delivery and support processes to build resource capabilities and improve efficiencies. According to a recent NASSCOM industry estimate, talent shortfall will continue over the next few years leading to increasing pressure on talent availability. The company continues to sharpen its focus on growing and nurturing talent internally through continuous employee engagement and training programs. On the basis of the company's practice of empowering employees, being aligned to international human rights norms and national labour laws, the company was certified SA 8000:2008 by DNV.

With strategies in place to expand to new markets, a portfolio of differentiated solutions, the ability to provide superior customer care and excellence in delivery through project management capabilities, knowledge management, solution accelerators and a robust quality system, the company is poised to achieve rapid growth.

Russell Credit Ltd.

During the year, the company registered an income of Rs. 51.81 crores and a Profit After Tax of Rs. 41.93 crores. Investments aggregating Rs. 387.31 crores held by the company in Agro Tech Foods Limited, VST Industries Limited, EIH Limited and Hotel Leelaventure Limited were sold to your Company at their respective book values.

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.

Wimco Limited

The company achieved a Turnover of Rs. 216 crores, registering a growth of 19% over the previous year on account of higher unit realization in the Matches business and an improved performance in the Engineering and Agro Forestry businesses of the company. However, in spite of the growth in sales and realizations, the company posted a net loss for the year of Rs. 16.24 crores against a net profit of Rs. 1.12 crores in the previous year, primarily as a result of steep increases in input costs.

During the year under review, margins in the Matches business were under pressure due to a very sharp escalation in the prices of raw materials, primarily wood, splints, paperboard and key chemicals. A contemporary match manufacturing line was installed at the Kolkata unit during the year for improved efficiencies and better quality. This technology has been fully absorbed and is working satisfactorily. Several other measures were also taken to rationalize costs and improve margins in this highly competitive category.

The Engineering business of the company registered a growth of 25% over the previous year as the investment climate improved towards the second half of the year with customers confirming orders for packaging machines. This business is poised for further growth through new customer acquisitions, both in the domestic and overseas markets. The business plans to leverage new and improved product designs to offer superior packaging solutions to customers.

Availability of critical raw material like wood at competitive prices is crucial for the success of this industry. The Agro Forestry business of the company is taking steps towards this end by supplying high quality poplar ETPs (Entire Transplant) to farmers in North India. The supply of ETPs during the year at 4.5 million registered a growth of 28% over the previous year. This initiative not only creates a long-term sustainable source of supply of a critical raw material, but also directly creates employment and livelihood and improves the green cover in the region.

Srinivasa Resorts Limited

During the financial year ended 31st March, 2010, the company recorded an income of Rs. 54.57 crores (previous year – Rs. 62.27 crores) and a Profit Before Tax of Rs. 14.11 crores (previous year – Rs. 18.53 crores). Profit After Tax stood at Rs. 9.62 crores (previous year – Rs. 12.66 crores) after providing for income tax of Rs. 4.49 crores (previous year – Rs. 5.87 crores).

The financial performance of the company's hotel at Hyderabad, ITC Kakatiya, was adversely impacted by the continuing economic slowdown and the political instability in the State resulting from the Telengana agitation. The hotel initiated various measures to contain costs and improve profitability without compromising on the quality of superior guest experience.

Despite the adverse market conditions, the company continues to make investments in maintaining the contemporariness of its hotel property. The hotel received the 'Greentech Environment Excellence Award' from the Greentech Foundation and the 'Golden Peacock' Award for its outstanding achievement in Environment Management. The hotel also received the 'Times Food Guide' best restaurant award for 'Kebabs & Kurries' and 'Dakshin', and the best pub award for 'Dublin'.

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, 2010.

Fortune Park Hotels Ltd.

During the financial year ended 31st March, 2010, the company recorded an income of Rs. 1492 lakhs (previous year Rs. 1290 lakhs) and earned a Profit After Tax of Rs. 213 lakhs (previous year Rs. 143 lakhs) after providing for income tax of Rs. 120 lakhs (previous year Rs. 89 lakhs).

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 59, with a total room count of 4817. Of these, 34 properties are operating hotels. Another 4 hotels are slated to be commissioned during the course of the financial year 2010-11. The remaining 21 hotel projects are under various stages of development. The company seeks to be a dominant player in the mid market to upscale segment, providing quality products and 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. 6/- per equity share of Rs. 10/- each for the year ended 31st March, 2010.

Bay Islands Hotels Limited

During the year 2009-10, the company earned an income of Rs. 101.08 lakhs (previous year Rs. 96.75 lakhs) and Profit After Tax of Rs. 67.94 lakhs (previous year Rs. 63.85 lakhs) after providing for income tax of Rs. 26.69 lakhs (previous year Rs. 26.99 lakhs).

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, 2010.

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 work towards creating a destination luxury resort hotel at the Classic Golf Resort is now at an advanced stage of development. Permissions required for the commencement of the project are in place and the work is likely to commence in the ensuing financial year.

During the year, the company increased its Authorised Share Capital from Rs. 10 crores (One crore equity shares of Rs. 10/- each) to Rs. 200 crores comprising Equity Share Capital of Rs. 50 crores (Five crore equity shares of Rs. 10/- each) and Preference Share Capital of Rs. 150 crores (One crore Fifty lakhs preference shares of Rs. 100/- each). During the year, the company issued and allotted to ITC Limited, (i)1,01,00,000 Redeemable Preference Shares of Rs. 100/- each for cash at par, aggregating Rs. 101 crores and (ii) 4,60,00,000 Equity Shares of Rs. 10/- each for cash at par on 'Rights Basis' aggregating Rs. 46 crores. The proceeds from the Preference Share and Rights issues were utilized by the company during the year to repay to your Company the outstanding loans and advances aggregating to Rs.145.14 crores.

Technico Pty Limited

The company continued to focus on the commercialisation of its proprietary TECHNITUBER® technology and subsequent field multiplication of seed potatoes 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. Operating results of the company and its subsidiaries as a whole reflect significant improvement over the previous year.

During the year under review, Technico's leadership in the production of early generation seed potatoes and strong agronomy skills has been leveraged by your Company's Branded Packaged Foods business in its chip stock sourcing operations for the 'Bingo!' brand of potato chips as well as by the Agri Commodities business in servicing the seed potato requirements of its farmer base in key states. The resultant higher sales, together with improved pricing and margins under conducive market conditions enabled the Indian subsidiary of the company to double its revenues and grow its profits fourfold.

For the year under review:

a) Technico Pty Ltd., Australia registered a Turnover of Australian Dollar (A$) 1.95 million (previous year: Nil) and a Net Profit of A$ 0.71 million (previous year: loss of A$ 0.39 million). During the year the company revised its business model and engaged in sale of TECHNITUBER® seeds produced by its operating subsidiaries in India and China instead of engaging in fee based marketing of such seeds to its customers. The consequential improvement in margins together with cost control measures resulted in superior operating performance. The company has also reversed, to the extent of A$ 0.51 million, the previous write down of its investment in its wholly owned subsidiary Technico Asia Holdings Pty Ltd., Australia consistent with the reversal of previous write downs by the said Australian company of its investment in its Chinese subsidiary.

b) Technico Asia Holdings Pty Ltd., Australia did not engage in any activity during the year, other than holding the entire shareholding of Technico Horticultural (Kunming) Co. Ltd., China. During the year, the company earned a Net Profit of A$ 0.51 million [2009 : Nil] representing a reversal of the previous write down of its investment in its subsidiary, Technico Horticultural (Kunming) Co. Ltd., China so as to reflect this investment at the net book value of the underlying assets of the Chinese company.

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

d) Technico Technologies Inc., Canada registered a Turnover of Canadian Dollar (C$) 0.12 million (previous year: C$ 0.16 million) and posted a Net Loss of C$ 0.11 million (previous year: Net Profit of C$ 0.54 million). It may be recalled that the previous year's results included a onetime gain of C$ 0.73 million by way of financial grant provided by the government of the province of New Brunswick, Canada.

e) Technico Agri Sciences Limited, India registered a Turnover of Rs. 54.31crores (previous year: Rs. 27.66 crores) and a Profit After Tax of Rs. 14.02 crores (previous year: Rs. 3.02 crores) driven by the growth in sales volumes of its high quality early generation seed potatoes from 26,292 tons to 35,079 tons and higher price realisations and margins.

f) For the year ended 31st December, 2009, Technico Horticultural (Kunming) Co. Ltd., China registered a Turnover of Chinese Yuan (CNY) 4.26 million (previous year: CNY 11.68 million) and posted a Net Loss of CNY 1.70 million (previous year: Net Loss of CNY 2.86 million). The results of the Chinese company for the period 1st April 2009 to 31st March 2010, which is incorporated in the Consolidated Financial Statements of your Company, reflect a Turnover of CNY 6.07 million (previous year: CNY 11.63 million) and a Net Profit of CNY 1.15 million (previous year: Net Loss of CNY 1.66 million). The business continues to focus on export of TECHNITUBER® seeds.

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 and business development services related to the US market for Tobacco and other FMCG products.

During the year under review, KMM faced a challenging operating environment with steep Federal Tobacco Tax increases for cigarettes and Roll Your Own (RYO) tobaccos taking effect from April 1, 2009 followed by tax increases in several states. Further, in June 2009, the US Congress granted jurisdiction to the Food and Drug Administration (FDA) for Tobacco products.

The sharp increase in taxes not only resulted in a rapid decline in Cigarette industry volumes but also fueled a significant rise in illicit sales and drove the majors further into the discount segment in which the company operates. Consequently, the company's pricing power was adversely affected. The RYO segment of the Industry was decimated and rendered irrelevant. As a result, KMM's tobacco business witnessed a muted revenue growth of 3% over the previous year.

Pressure on margins increased with trade preference for the costlier 'Low Ignition Propensity' (LIP) cigarettes, even where State laws did not mandate it. This, together with the rapid shift in consumer preference to hard packs from soft packs and the sharp decline in the RYO business, led to inventory obsolescence. The newly introduced FDA User Fee and further investments in infrastructure and business development for the garments operations set up in New York in the previous year added to the cost base. Consequently Post-tax profits have declined by 92% over the previous year.

The operating environment of the company is likely to remain challenging in the coming year. The various requirements of the FDA, which trigger progressively over the next three years, will, in 2010, require the company to make packaging changes and product ingredient disclosures. The company will continue to review the regulatory and market environment to craft its strategies and calibrate its initiatives in the US market.

ITC Global Holdings Pte. Ltd.

The Judicial Managers had been conducting the affairs of ITC Global Holdings Pte. Ltd., ("Global") since 8th November, 1996 under the authority of the High Court of Singapore. 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. Thereafter on 14th December, 2009, your Company received a binder purportedly sent by Global including what appeared to be a copy of the same earlier Writ of Summons. Based on legal advice, your Company has again filed a Motion in the Singapore High Court praying for setting aside the said Writ of Summons, which is pending.

BFIL Finance Limited

The company continues to focus its efforts on recoveries through negotiated settlements including property settlements and pursuit of legal cases against various defaulters. During the year some negotiated settlements were concluded and the company effected collections aggregating Rs. 50 lakhs. The company had no external liabilities outside the ITC Group. The company will examine options for further business opportunities at the appropriate time.

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

The issued and paid-up capital of Greenacre Holdings Limited was increased by Rs. 9 crores, which was subscribed to by the holding company Russell Credit Limited.

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

NOTES ON JOINT VENTURES

ITC Filtrona Limited

ITC Filtrona Limited delivered another year of robust business growth with Gross Sales at Rs. 135 crores growing by 19% over the previous year. However, pricing pressure, higher input costs and adverse forex rates impacted margins. Pre-tax profit for the year at Rs. 15.1 crores represents a growth of 3% over the previous year. The Board of Directors of the company recommended a dividend of Rs. 9 per Equity share of Rs. 10/- each for the year ended 31st December, 2009.

The company continued to pursue its quality initiatives during the year and towards this end upgraded its filter making machine, further consolidating its market leadership and technological edge over competition. The company's continuing focus on product and process quality and innovative product development further strengthened its partnerships with Indian cigarette manufactures and reinforced its status as their preferred supplier.

Maharaja Heritage Resorts Limited

Maharaja Heritage Resorts Limited, a joint venture of your Company with Jodhana Heritage Resorts Pvt. Ltd., currently operates 54 properties under the 'WelcomHeritage' brand and continues to grow with another 13 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 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 employees rose to the challenges posed by the rapidly changing global economic landscape. Strongly aligned with the Company's Vision, they are committed to sustaining your Company's position as one of India's most admired and valuable corporations.

Your Company's unique employee value proposition backed by its strong corporate equity has enabled it to attract and retain quality talent. During the year under review, your Company made significant investments in developing talent across the organization, from frontline managers to business leadership.

Your Company's human resource management systems and processes are geared towards creating a responsive, customer-centric and market-focused culture that enhances organizational capability and vitality, so that each business is internationally competitive and equipped to leverage emerging market opportunities. The strategy of organisation, particularly its ongoing emphasis on developing and supporting distributed leadership, has ensured that each of your Company's businesses are managed by a team of competent, passionate and inspiring leaders, capable of building an organisation hinged on a culture of learning, innovation and world-class execution.

Your Company believes that alignment of all employees to a shared vision and purpose is vital for winning in the market place. It also recognizes the mutuality of interests with key stakeholders and is committed to building harmonious employee relations. The collaborative spirit across all sections of employees has resulted in significant enhancement in quality and productivity. During the year under review, long-term agreements were successfully concluded at several of the manufacturing units and hotel properties. Smooth commencement of operations at greenfield locations were ensured.

In an increasingly competitive environment, the collective dedication of nearly 24,000 employees is enabling delivery of superior and sustainable stakeholder value. In its Centenary Year, your Company salutes the unflinching commitment of its dedicated team of employees, both past and present.

SUSTAINABILITY – CONTRIBUTION TO THE 'TRIPLE BOTTOM LINE'

Worldwide there is an increasing realisation that societal challenges arising out of poverty, environmental degradation and climate change pose an unprecedented threat to the future sustainability of businesses across the globe. Your Company draws satisfaction from the fact that, foreseeing these challenges, it has vigorously pursued for more than a decade now a conscious strategy to align its businesses to serve a larger societal purpose. Unique business models have been crafted to synergistically deliver economic, environmental and social value. It is indeed a matter of pride that your Company's 'Triple Bottom Line' achievements are today acknowledged globally as exemplars in Sustainability and Corporate Citizenship.

Your Company continues to sustain its unique position as the only company in the world of its size to be carbon positive, water positive and solid waste recycling positive. The pioneering and farsighted initiatives taken by your Company in these areas have helped achieve significant cost savings, even as they have contributed to preserving the environment. They are also in remarkable alignment with the Government of India's recently issued National Climate Change Action Plan.

Your Company's 6th Sustainability Report, published during the year in accordance with the stringent G3 guidelines of the Global Reporting Initiative, details its steadfast progress across all dimensions of the 'Triple Bottom Line'. The 7th Sustainability Report covering the year 2009-10 is in the process of publication and will continue to be independently assured by Ernst & Young.

Accelerated climate change is already a reality, evidence of which is clearly noticeable. Your Company, with its pioneering commitment to combating global warming, has integrated low carbon intensity practices with business strategies, including energy conservation and efficiency, increasing use of renewable energy and sequestering carbon through large-scale forestry projects on wastelands. This resolve to pursue sustainability objectives is enabling your Company to significantly augment scarce natural and societal resources.
Your Company's Social and Farm Forestry initiatives have greened over 100,000 hectares and its Integrated Watershed Programmes contribute to irrigating over 50,000 hectares of water-stressed land. In the process, your Company has contributed progressively to creating significant sustainable livelihoods.

Leveraging market-based mechanisms for mitigating the impact of climate change, your Company has registered 8 projects with the United Nations Framework Convention on Climate Change under the Clean Development Mechanism (CDM). These projects have started earning carbon credits. In addition, several other CDM projects are at various stages of registration. Your Company is well positioned to take advantage of opportunities that are expected to emerge in the future as market based mechanisms are introduced globally to encourage low carbon growth strategies.

Recognising the carbon intensity of fossil fuel based energy, your Company has progressively made investments in renewable energy. During the year, a 6MW wind power project was commissioned in Maharashtra. This adds to the renewable energy capacity of the Company augmented earlier with the commissioning of the 14.1MW wind power project in Tamil Nadu in September 2008. These investments and several other efforts initiated by the Paperboards, Paper and Packaging Business ensure that 31% of your Company's total energy requirements are met from renewable sources, thereby drastically reducing your Company's carbon footprint.

As stated earlier in this report, ITC Royal Gardenia, the recently launched super deluxe hotel in Bengaluru has been certified by the US Green Building Council for Leadership in Energy & Environmental Design (USGBC – LEED) as a 'Platinum Rated' building. This makes it the largest hotel in the world to receive such a certification and the first in Asia. The certification acknowledges conformity to the highest green standards of design, construction and operations. All buildings of your Company to be constructed in the future will strive to conform to the green and sustainability requirements envisaged in the Government of India's National Mission on Sustainable Habitats comprising the National Action Plan on Climate Change.

Your Company's 'WOW – Wealth Out of Waste' programme is creating considerable awareness among the public on the benefits of the 'Reduce-Reuse-Recycle' process. It has received rich accolades from the Government, NGOs, commercial institutions and the public at large. Winning international appreciation, this initiative was conferred the 'Papyrus Award' by the Bureau of International Recycling (BIR), in recognition of its services and contribution to the recycling industry. Apart from creating employment opportunities and heightened civic responsibility, the 'WOW' initiative is serving to preserve and protect the environment, improve civic amenities, public health and hygiene. Your Company benefits from the generation of sustainable raw material at competitive prices, while conserving scarce environmental resources.

All businesses of your Company are mandated to achieve 100% solid waste recycling. The manufacturing and hotel businesses recycled 99.8% of the solid waste generated. The Paperboard and Specialty Paper business not only recycled 99.9% of the waste generated by its operations, but also recycled an additional 125,931 Tons of externally sourced waste paper, thereby adding to its positive environmental footprint.

Your Company continued with its commitment to ensure a healthy and safe workplace for its own employees as well as those of the service providers, including guests and visitors, by maintaining the highest levels of safety and occupational health 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. Numerous certifications and awards, both national and international, have endorsed these standards and practices, bearing 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" continues to make useful contributions to business and industry across the country. Set up by your Company and the apex national chamber CII in 2006 it has enhanced its operations to meet the core objectives of creating awareness, promoting thought leadership and building capacity amongst Indian enterprises in their quest for sustainable solutions. The "CII-ITC Sustainability Awards" instituted to honour excellence in sustainability performance have recognized a large number of leading Indian companies and provided encouragement to many others. It is heartening that the number of aspirants for the Award is steadily increasing year on year.

The CII-ITC Centre's flagship annual event 'Sustainability Summit: Asia', convened to stimulate dialogue, share experiences, and engage with experts and policy makers, continues to attract delegates and dignitaries from all over Asia. The CII-ITC Centre has been designated as a learning service partner for Global Reporting Initiative (GRI) in India and has been accredited by them to offer advanced training programmes on the GRI framework. In its overall role to build capacity for sustainable performance, a number of projects have been initiated including the International Register of Certificated Auditors, accredited 'Certified Sustainability Assurance Practitioner' training course and facilitation of voluntary disclosure of greenhouse gas emissions under the Carbon Disclosure Project, London.

[Recognising the carbon intensity of fossil fuel based energy, your Company has progressively made investments in renewable energy. Nearly 31% of ITC's total energy consumption is met from renewable sources.]

Your Company continued to enlarge its footprint during the year in the social sector by expanding and deepening its coverage in the project areas. It stayed with its proven strategy of concentrating on three main areas of interventions under Mission Sunehra Kal: (a) natural resource management, which includes wasteland, watershed and agriculture development; (b) sustainable livelihoods, comprising women's economic empowerment and genetic improvement in livestock; and (c) community development, with focus on primary education and health and sanitation. Your Company is currently running social development projects in 51 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 of wasteland development through the Social Forestry Programme has so far promoted plantations over 16,442 hectares in 480 villages, covering 19,376 poor households. The households covered under the Social Forestry Programme continue to reap the benefits derived from cut plantations. The total income gained to date is nearly Rs. 12 crores from 2,700 hectares. Not only have their earnings per acre improved significantly as a result of the sale of plantations, but most beneficiaries have also ensured that the contribution to the Village Development Fund continues apace, which has grown to nearly Rs. 94 lakhs. In addition, their own incomes have been invested wisely into productive assets to ensure a long-term virtuous cycle of development.

The Soil and Moisture conservation programme, designed to assist farmers in identified moisture-stressed districts, witnessed a further increase in its coverage during the year. 278 water-bodies were created during the year taking the total to 2,813 water-harvesting structures. These structures provide critical irrigation security to about 22,993 hectares. In addition, 28,301 hectares of land has also been treated for erosion resulting in preservation of precious topsoil for agriculture. In total, the watershed development programme today covers 51,294 hectares. In addition to several collaborations finalised with NABARD last year, your Company also signed public-private-partnership MoUs with the Governments of Rajasthan and Maharashtra for implementation of watershed programmes. As a result of these fresh MoUs, the total area targeted under various partnerships increased to 83,000 hectares.

Active participation of the stakeholders has ensured sustainable long-term maintenance of these structures. Direct employment created on such physical activities for the landless and marginal farmers is around 13.79 lakh person days of work till date. Presently 1,153 active Water User Groups with more than 28,000 members play an important role in ensuring water distribution and collection of charges. This has been further facilitated by the creation of a corpus fund for maintenance.

In continuation of its policy to provide an integrated solution for promoting sustainable water management, your Company has focused on interventions that ensure efficient usage of water aimed at improving farm productivity, promoting group irrigation projects and demonstrating the use of agricultural implements including sprinkler sets. During 2009-10, 79 group irrigation projects covering 298 farmers were installed.

Sustainable Agricultural Practices were continued with the promotion of 230 organic fertiliser units through vermi-composting and NADEP technologies during the year. Several varieties of paddy, gram and wheat have been tested in 474 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 improvements of cattle through artificial insemination to produce high-yielding crossbred progenies has been given special emphasis because it reaches out to the most impoverished and has the potential to pull them out of poverty. Forty cattle development centres were established during the year taking the cumulative total to 161 covering more than 2,400 villages and providing 1.31 lakhs artificial inseminations during the year. Integrated animal husbandry services, provided to more than 38,600 milch animals during the year, included addressing needs of problem breeders, vaccines, feed additives and awareness drives.

The initiative towards Economic Empowerment of Women also continued apace: to date, 14,278 women have been organised under 1,035 self-help groups (SHG) with total savings of Rs. 179 lakhs. Overall, more than 29,000 women were gainfully employed either through micro-enterprises or encouraged to be self-employed though 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 like 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 some of India's most challenging problems of development.

R&D, QUALITY AND PRODUCT DEVELOPMENT

Innovation across every element of the business value chain through a sustained process of Research and Development (R&D) is a key imperative in today's competitive context. This assumes critical significance for your Company since its competitive landscape is marked with world-class companies with strong R&D focus. Your Company's R&D strategy is anchored on the development and speedy commercialisation of globally competitive products, processes and technologies through best-in-class research interventions backed by world-class infrastructure.

Over the past few years, your Company has assembled a pool of world-class scientists focused on plant breeding and genetics, agronomy, biotechnology, molecular biology and silviculture.

During the year under review, the Biosciences R&D hub identified key research areas to develop new concepts of product development for your Company's Branded Packaged Foods and Personal Care businesses. Discipline-wise core competency teams were formed to enable delivery of comprehensive results to your Company's businesses.

The Agrisciences R&D hub continues to evaluate and introduce several germplasm lines of tobacco and eucalyptus that are targeted at increasing the genetic and trait diversities in these crops. These germplasm lines will in turn strengthen the research programmes for developing new varieties with higher yields and better quality. Your Company's R&D continues to collaborate with several world-class organisations and currently leverages expertise from University of Agricultural Science, Bangalore; Indian Institute of Science, Bangalore; CSIRO, Australia and CSIR, South Africa. These collaborations, which cover both tobacco and eucalyptus, are designed to provide fundamental insights into several technical aspects of plant breeding and genetics of these species. Similar world-class collaborations in respect of the Biosciences hub are also being identified.

During the year, the Hotels business incorporated 'Lean' practices in its business processes in addition to the continuing implementation of 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 Paperboards, Paper & Packaging businesses have implemented the 'Total Productive Maintenance' (TPM) techniques 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

As mentioned in the previous year's Report of the Directors, the demand for Rs. 27.58 crores made by Central Excise Department, Bangalore, in respect of a period prior to March 1983, 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 mentioned in the Report of the Directors for 1987 and thereafter, the Excise Department, during 1987 and 1988, re-opened some of the issues already settled, by issuing fresh Show Cause Notices in respect of the period upto 28th February, 1983. 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, the Delhi High Court, by an order dated 30th October, 2009 quashed the Show Cause Notice.

With respect to the Munger factory, proceedings for finalisation of assessments for the period prior to March 1983 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 were confirmed by the Commissioner (Appeals), Patna vide his orders dated 22nd December, 2004, against which your Company has preferred appeals before CESTAT, Kolkata, which are pending. Your Company has made pre-deposits of Rs. 2 crores and

Rs. 0.55 crores against the aforesaid demands at the stage when its appeals were pending before Commissioner (Appeals), Patna.

Although your Company in a spirit of settlement, paid the differential Excise Duty that arose out of an Order of the Director General dated 10th April, 1986, 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 the 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 Demands 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 PROCEEDINGS INITIATED 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 export 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.

The year under review was characterised by low interest rates and high liquidity in the monetary system with intermittent volatility due to elections and concerns around a sub-normal monsoon. Despite low interest rates, your Company continued to improve its treasury performance within the ambit of strong risk management processes.

The deployment of temporary surplus liquidity during the year remained guided by the twin objectives of capital protection and return optimisation. The timely investments in bank fixed deposits and long-dated fixed maturity plans at the beginning of the year coupled with purchase of tax-free bonds and deep discount bonds issued by high quality Public Financial Institutions helped enhance yield. The portfolio mix during the year was continuously rebalanced in line with the changing risk / return scenario. Your 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 Indian Rupee appreciated gradually during the year, on the strength of FII inflows. In a scenario where the US Dollar was under continuous pressure, your Company adopted an appropriate forex management strategy, including use of plain vanilla options to manage volatility. However, it refrained from entering into any exotic derivative structures.

As in earlier years, commensurate with the large size of the temporary surplus liquidity under management, treasury operations continue to be supported by appropriate control mechanisms, including an independent check of 100% of 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 stated in the Report of the Directors of earlier years, in respect of similar Income Tax notices for re-opening the past assessments for the period 1st April, 1990 to 31st March, 1993, the Honourable Calcutta High Court had admitted the Writ Petitions and ordered that no final assessment orders be passed without the leave of the Court. This status also remains unchanged.

PUBLIC DEPOSITS

Your Company's Public Deposit Scheme closed in the year 2000. As at 31st March, 2010, 5 deposit holders had not claimed fixed deposits amounting to Rs. 0.55 lakhs. Reminders have been sent to these deposit holders by the Fixed Deposit Service Centre of your Company.

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

INVESTOR SERVICE CENTRE

The Investor Service Centre (ISC) of your Company continues to provide best-in-class investor services to meet the increasing expectations of the investors.

During the year, the ISO Quality Management System Certification for ISC for investor servicing was upgraded from ISO 9001:2000 to ISO 9001:2008. Messrs. Det Norske Veritas accorded ISC a Level 5 rating, the highest possible level, for its systems and processes. These accreditations stand testimony to the effective systems your Company has in place for investor servicing, complaint redressal and regulatory compliance.

In the Shareholder Satisfaction Survey conducted during the year, investors expressed a high degree of satisfaction with the services provided by ISC.

DIRECTORS

Mr. Anup Singh, Wholetime Director, retired from the Company after 42 years of service, with effect from close of business on 21st March, 2010 on completion of his term. The Board of Directors (the 'Board') at its meeting held on 19th March, 2010, appointed Mr. Singh as Additional Wholetime Director of your Company with effect from 22nd March, 2010 till the date of the ensuing Annual General Meeting ('AGM'). This has given the Company the opportunity to continue to draw upon Mr. Singh's knowledge and experience during the period of his appointment and will also enable him to participate in the landmark AGM ushering completion of 100 years of your Company. Your Directors would like to record their appreciation of the services rendered by Mr. Singh.

Mr. Kurush Noshir Grant was appointed by the Board as Additional Wholetime Director of your Company with effect from 20th March, 2010.

Mr. Anil Baijal, who represented the Specified Undertaking of the Unit Trust of India ('SUUTI') and Dr. Ravinder

Kumar Kaul, who represented the General Insurers' (Public Sector) Association of India ('GIPSA'), ceased to be Non- Executive Directors of your Company with effect from 27th August, 2009 and 19th March, 2010, respectively, consequent upon withdrawal of their representation by the respective Institutions. Your Directors would also like to record their appreciation of the services rendered by Mr. Baijal and Dr. Kaul.

Mr. Anil Baijal was appointed by the Board as Additional Non-Executive Director of your Company with effect from 22nd January, 2010. Mr. Shilabhadra Banerjee and Mr. Angara Venkata Girija Kumar were also appointed by the Board as Additional Non-Executive Directors of your Company with effect from 4th February, 2010 and 19th March, 2010, as representative of SUUTI and GIPSA, respectively.

By virtue of the provisions of Article 96 of the Articles of Association of the Company and Section 260 of the Companies Act, 1956, Messrs. Singh, Grant, Baijal, Banerjee and Girija Kumar will vacate office at the ensuing AGM of your Company.

Your Board at its meeting held on 19th March, 2010 recommended for the approval of the Members the appointment of Mr. Grant as Wholetime Director of your Company, liable to retire by rotation, with effect from 20th March, 2010 for a period of three years. Your Board at its meeting held on 21st May, 2010 also recommended for the approval of the Members the appointment of Messrs. Baijal, Banerjee and Girija Kumar as Non-Executive Directors of your Company, liable to retire by rotation, with effect from the date of the ensuing AGM of the Company.

Notices have been received from Members of the Company under Section 257 of the Companies Act, 1956 for the appointment of Messrs. Grant, Baijal, Banerjee and Girija Kumar as Directors, who have filed their consents to act as such Directors of the Company, if appointed.

Appropriate resolutions seeking your approval to the appointments of Messrs. Singh, Grant, Baijal, Banerjee and Girija Kumar are appearing in the Notice convening the 99th AGM of the Company.

In accordance with the provisions of Article 91 of the Articles of Association of the Company, Mr. Dinesh Kumar Mehrotra, Mr. Sunil Behari Mathur and Mr. Pillappakkam Bahukutumbi Ramanujam 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. Deloitte Haskins & Sells, retire at the ensuing AGM and, being eligible, offer themselves for re-appointment. Since not less than 25% of the subscribed Share Capital of your Company is held collectively by Public Financial Institutions, the re-appointment of Auditors is being proposed as a Special Resolution in accordance with Section 224A of the Companies Act, 1956.

EMPLOYEE STOCK OPTION SCHEME

Under the Company's Employee Stock Option Schemes, 4,37,77,230 Ordinary Shares of Re. 1/- each, were issued and allotted during the year upon exercise of 43,77,723 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, 2010 stands increased to Rs. 3,81,81,76,790/- divided into 3,81,81,76,790 Ordinary Shares of Re. 1/- each.

Details of the Options granted up to 31st March, 2010, 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. Deloitte Haskins & Sells, 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 judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of your Company at the end of the financial year and of the profit of your Company for that period;

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

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

CONSOLIDATED FINANCIAL STATEMENTS

In accordance with Accounting Standard 21 – Consolidated Financial Statements, ITC Group Accounts form part of this Report & Accounts. These Group Accounts also incorporate the Accounting Standard 23 – Accounting for Investments in Associates in Consolidated Financial Statements and Accounting Standard 27 – Financial Reporting of Interests in Joint Ventures as notified under the Companies (Accounting Standards) Rules, 2006. 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 total number of employees as on 31st March, 2010 stood at 23,473.

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

There were no changes to the Company's significant Accounting Policies.

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 308 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, 2010. 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 between 11.00 a.m. and 1.00 p.m. 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 admired and valuable companies through world-class performance, creating enduring value for all stakeholders, including the shareholders and the Indian society. Each business within the portfolio is continuously engaged in upgrading strategic capability to effectively address the challenge of growth in an increasingly competitive market scenario. Effective management of diversity enhances your Company's adaptive capability and provides the intrinsic ability to effectively manage business risk. The vision of enlarging your Company's contribution to the Indian economy is manifest in the creation of unique business models that foster international competitiveness of not only its businesses but also of the entire value chain of which it is a part.

In the Centenary Year of your Company, your Directors and employees continue to be inspired by this Vision. Driven by Values and powered by internal Vitality, the entire ITC family stands committed to creating an even brighter future for all stakeholders.

21st May, 2010
Virginia House
37 J L Nehru Road
Kolkata 700071
India

On behalf of the Board

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

100 Inspiring Years
1910-2010

Annexure to the Report of the Directors

Statement as at 31st March, 2010, 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		2009		
		55,77,343		59,69,437		43,46,161		1,58,92,941
		Total						2,67,28,637

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	2009
1661.00	1896.00	2180.00

		ITC Employee Stock Option Scheme (i)	ITC Employee Stock Option Scheme - 2006 (ii)	Total (i) + (ii)
c)	Total number of Options vested :	98,63,675	45,97,217	1,44,60,892
d)	Total number of Options exercised :	72,57,893	6,63,924	79,21,817
e)	Total number of Ordinary Shares of Re.1/- each : arising as a result of exercise of Options	7,25,78,930	66,39,240	7,92,18,170
f)	Total number of Options lapsed :	13,02,726	14,94,299	27,97,025
g)	Variation of terms of Options :	Nil		
h)	Money realised by exercise of Options : (Rs. in Crores)	854.04	112.93	966.97

i)	Total number of Options in force	:	22,75,077	1,37,34,718	1,60,09,795
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	24	S. Kaul	9,775
2	K. N. Grant	28,125	25	U. Lall	12,000
3	A. Singh	67,500	26	A. K. Mukerji	13,800
4	K. Vaidyanath	67,500	27	A. Nayak	20,250
5	S. H. Khan	10,000	28	A. R. Noronha	13,800
6	S. B. Mathur	10,000	29	H. Malik	9,775
7	P. B. Ramanujam	10,000	30	R. Parasuram	13,800
8	H. G. Powell	10,000	31	A. Pathak	9,775
9	A. Ruys	10,000	32	S. Puri	13,800
10	B. Sen	6,146	33	A. Rajput	13,800
11	B. Vijayaraghavan	6,146	34	T. V. Ramaswamy	20,250
12	S. M. Ahmad	12,000	35	R. Rai	13,800
13	N. Anand	20,250	36	S. Rangrass	9,775
14	P. Banerjea	9,000	37	S. Janardhana Reddy	13,800
15	S. Basu	12,000	38	S. K. Singh	13,800
16	M. S. Bhatnagar	9,775	39	S. Sivakumar	20,250
17	S. Chandrasekhar	12,000	40	R. Sridhar	8,500
18	A. Chand	8,500	41	R. Srinivasan	28,125
19	B. B. Chatterjee	13,800	42	B. Sumant	9,775
20	C. Dar	13,800	43	K. S. Suresh	13,800
21	C. S. Das	9,775	44	R. Tandon	13,800
22	P. V. Dhobale	20,250	45	P. K. Verma	12,000
23	D. Haksar	13,800			

	(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. 10.62

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 2009-10 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. 314.24 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		4,061.00
Add: Intrinsic Value Compensation Cost		Nil
Less: Fair Value Compensation Cost (Black Scholes model)		314.24
Adjusted Profit		3,746.76
Earnings Per Share	**Basic (Rs.)**	**Diluted (Rs.)**
As reported	10.73	10.62
As adjusted	9.90	9.79

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. 2,180.00 Weighted average fair value per Option : Rs. 817.97
n)	A description of the method and significant assumptions used during the year to estimate the fair values of Options.	:	The fair value of each Option is estimated using the Black Scholes Option Pricing model after applying the following key assumptions on a weighted average basis:

(i)	Risk-free interest rate	6.29%
(ii)	Expected life	4.6 years
(iii)	Expected volatility	35.66%
(iv)	Expected dividends	1.90%
(v)	The price of the underlying shares in market at the time of Option grant	Rs. 2,297.50

** 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, 21st May, 2010

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 energy usage efficiency. Various key parameters such as specific energy consumption (energy consumed per unit of production) and specific energy costs were constantly tracked to monitor efforts made. Some of the measures adopted by the Company were:

I. Optimisation of energy required for cooling through load reduction, installation of 'green' chillers and implementation of advanced heat load management systems.

II. Reduction in fuel consumption at various production plants by optimisation of production batches, recovery of waste heat and reduction of pipeline losses in steam circuits.

III. Improvement in heat load management through mixer redesign and modification to chill water circuits.

IV. Installation of Wind Turbine generators, harnessing solar energy using solar paraboloid and parabolic concentrators and 'green' boiler using bio-mass residue in place of fossil fuel.

V. Installation of Advanced Process Controllers for process optimization in boilers, turbo-generators and fibre-lines.

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

I. Wind power projects.

II. Replacement of existing air-cooled with water-cooled chiller.

III. Use of renewable energy for furnace oil pre-heating, thermo-compressor for driers, improved burner for boiler and energy efficient compressor.

IV. Installation of energy saving transformer for lighting circuit, closed loop control for HVAC system and demand based control through variable frequency drives for Dust Recovery and Chiller systems.

V. Installation of solar photovoltaic cell, translucent roofing sheets and solar concentrators.

VI. Installation of Intelligent Flow Controllers for optimization of compressed air system.

VII. Installation of online oxygen control systems to reduce excess air in flue gas for improved efficiency of boilers.

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 and reduction of the Company's carbon footprint. The Company has 8 registered CDM projects. Efforts to generate further Certified Emission Reductions (CERs) under the Kyoto Protocol's Clean Development Mechanism (CDM) continue and several other CDM projects are expected to be registered soon with the UNFCCC (United Nations Framework Convention on Climate Change).

A) POWER AND FUEL CONSUMPTION

Relating to Paperboards & Paper

	For the Year ended 31st March, 2010	For the Year ended 31st March, 2009
1. Electricity (Excluding Consumption in Colony)		
a) Purchased Units (KwH in Lakhs)	**254**	399
Total Amount (Rs. in Lakhs)	**1459**	1965
Rate / Unit (Rs.)	**5.74**	4.92
b) Own Generation		
i) Through Diesel Generator Units (KwH in Lakhs)	**17**	9
Units / Litre of Diesel Oil	**2.98**	2.99
Cost / Unit (Rs.)	**10.91**	11.74
ii) Through Steam Turbine / Generator Units (KwH in Lakhs)	**3899**	3469
Units / Kg. of Coal	**1.62**	1.25
Cost / Unit (Rs.) {considering all fuel types}	**2.57**	2.98

	For the Year ended 31st March, 2010			For the Year ended 31st March, 2009		
	Process	**Power**	**Total**	Process	Power	Total
2. Coal (Specify Quantity & Where Used) B/C/D/E/F Grades Coal Used Coal						
Quantity (MT)	**365811**	**240950**	**606761**	260625	277646	538272
Total Cost (Rs. in Lakhs)			**11539**			12221
Average Rate (Rs. per MT)			**1901.66**			2270.36
3. Furnace Oil						
Quantity (KL)			**16049**			13607
Total Amount (Rs. in Lakhs)			**4228**			3455
Average Rate (Rs. / KL)			**26344.76**			25393.46
4. Others/Internal Generation De Oiled Bran & Saw Dust etc.						
Quantity (MT)			**96784**			89969
Total (Rs. in Lakhs)			**2079**			1680
Rate / Unit (Rs.)			**2148.49**			1867.21
LP Gas						
Quantity (MT)			**1112**			1029
Total (Rs. in Lakhs)			**452**			480
Rate / Unit (Rs.)			**40613.60**			46580.18

B) CONSUMPTION PER UNIT OF PRODUCTION

	For the Year ended 31st March, 2010	For the Year ended 31st March, 2009
Products (Paper in MT)	**587624**	506734
Electricity (KwH)	**1024**	1087
Coal C/F Grade (MT)	**0.67**	0.51
Furnace Oil (Litre)	**34**	27
Others - De Oiled Rice Bran / Saw Dust / Raw Lignite / LP Gas, etc. (MT)	**0.101**	0.104

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 analytical capabilities, new product development and cost management.

II. Development of food grade paper, premium printing papers and coated papers and paperboards with high strength and better aesthetics.

III. Development of site specific and disease resistant clones of Eucalyptus, Casuarina and Subabul trees.

IV. Control of eucalyptus gall insect (leptocybe invasa) in association with the National Bureau of Agriculturally Important Insects (NBAII, ICAR), Bangalore.

V. Development of new grades of decorative laminates and modification of existing products benchmarked to global standards.

VI. Development of liquid organic formulations utilizing plant based components compatible with the 'Integrated Pest Management' strategies of field and commercial crops.

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

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

b) Meeting the statutory requirements of US EPA and FDA in respect of food grade paper.

c) High survival and growth of clonal plantations of Eucalyptus, Casuarina and Subabul resulting in increased productivity of wood biomass and higher returns to farmers.

d) Development and evaluation of a new botanical formulation with neem based active ingredients for use against stored product pests.

3. **Future Plan of Action:**

I. Design of secondary packaging automation for creams and cookies to improve throughputs.

II. Continuing research on improvement of pulp yield of Eucalyptus, Casuarina, Subabul and other pulp wood trees.

III. Development of eucalyptus gall wasp management protocol and breeding of wasp insect resistant eucalyptus trees.

IV. Design and development of modified curing methods, optimal use of solar energy and evaluation of alternative fuel options for curing tobacco.

V. Evaluation of potential Biorational combinations for control of crop specific pests.

	For the year ended 31st March, 2010
4. Expenditure on R&D :	**(Rs. in Lakhs)**
i) Capital	874.98
ii) Recurring	7708.34
iii) **Total**	**8783.32**
iv) Total R&D Expenditure as a % of	
– Gross Turnover	0.33%
– Net Turnover	0.47%

Technology Absorption, Adoption and Innovation

I. Induction of contemporary making and packing technologies across multiple speed platforms for Cigarette business.

II. Establishment of wind farms in Karnataka and Maharashtra.

III. Continuous improvement projects towards reducing cycle time and enhancing manufacturing productivity.

IV. Innovations in manufacturing and engineering technologies through indigenous interventions.

V. Establishment of remote command and control centre through installation of IP based security surveillance system in the Hotels Business.

VI. Installation of Vapour Explosive Detectors and X-ray baggage machines in all Hotels.

Benefits Derived

I. World-class quality and differentiated products.

II. Improved productivity.

III. Conservation of fuel and reduced emissions.

IV. Enhanced guest security.

V. Reduction in carbon foot print.

On behalf of the Board

Kolkata — Y. C. DEVESHWAR *Chairman*
21st May, 2010 — K. VAIDYANATH *Director*