100
Inspiring Years

Report of the Directors

&

Management Discussion and Analysis

For the Financial Year Ended 31st March, 2011

Your Directors submit their Report for the financial year ended 31st March, 2011.

SOCIO-ECONOMIC ENVIRONMENT

World output staged a smart recovery in 2010 growing by 5% during the year after a decline of 0.6% in 2009. While growth in the first half of the year stood at 5.25%, there was a marked deceleration in the second half which recorded a growth of 3.75%. Receding fears of a global depression in 2009 initially led to a lower rate of destocking by business and subsequently to a phase of rebuilding depleted inventories. This fostered a sharp rebound in industrial production and trade which lasted through the first half of 2010. Simultaneously, accommodative policies adopted by most governments, improvement in business confidence and financial conditions encouraged investments and helped arrest rising unemployment levels and boost consumption. Consequently, recovery has become more self-sustaining and the risk of a double-dip recession in advanced economies has abated. The recovery, however, is broadly moving at two speeds. While economic growth in the advanced economies remained modest at around 3% in 2010 after a decline of 3.4% in 2009, emerging and developing economies recorded robust growth in excess of 7% during the year – led primarily by China and India. According to the International Monetary Fund (IMF), world real GDP growth for 2011 is forecast at 4.4%, representing a modest slowdown from 2010 levels. Real GDP in the advanced economies is expected to grow by 2.5% while that in the emerging and developing economies is forecast to grow by 6.5%. However, downside risks to these estimates continue to outweigh the upsides. In the case of advanced economies, the key concerns revolve around weak sovereign balance sheets, the possibility of financial troubles in peripheral Euro area spreading to core Europe, high levels of unemployment, the continued weakness of the US real estate market and the lack of progress in formulating medium-term fiscal consolidation plans. In the emerging economies, key risks relate to overheating, asset price bubbles, rapid rise in inflationary pressures, spurt in commodity prices and the potential for boom-bust cycles could eventually result in a hard landing in these economies. With emerging markets accounting for 40% of global consumption and two-thirds of global growth, a slowdown in these economies could dent global recovery significantly.

Closer home, after growing at 8.0% in 2009/10, the Indian economy picked up further steam in 2010/11 recording a real GDP growth of 8.6% during the year. While the Agricultural sector posted an above-trend growth of 5.4% aided in part by a low base effect, Industry and Services grew by 8.1% and 9.6% respectively. After clocking an impressive growth of 8.9% in the first half of the year, the economy showed signs of moderation in the second half especially in capital goods production and investment spending. A good performance on the external front with exports growing by 37.5% even as imports grew by 21.6% during the year helped reduce the Current Account Deficit to approximately 2.5% of GDP from 2.8% in the previous year. The Centre's Fiscal Deficit for the year stood at 5.1% of GDP – a significant improvement from 6.4% recorded in 2009/10 – driven by buoyant tax collections and proceeds of the 3G spectrum auction. However, amongst these positives, the persistently high level of inflation in the economy despite good monsoons was a key cause for concern. The year-on-year headline WPI inflation started trending up from December 2009 through to April 2010 when it touched 11%. After remaining in double digits from April 2010 to July 2010, headline inflation moderated progressively to 7.5% in November 2010 before reversing the trend from December 2010 mainly due to supply bottlenecks in food items. Inflation levels remained elevated in the December 2010 to March 2011 period mainly on account of fuel, power and non-food manufacturing products. Thus, the inflationary pressures,

[India is expected to be the third largest economy by 2050. Studies indicate a near tripling of household disposable incomes and a burgeoning middle-class which will comprise over 40% of India's population. These trends augur well for the nation and could provide enormous opportunities for private enterprise and sustaining the growth trajectory.]

which emanated from food items clearly spilled over and became generalised, as the year progressed. The recent slowdown in Industrial growth, as reflected by the Index of Industrial Production (IIP) and data pertaining to the six core industries, is also a cause for concern.

According to the monetary policy statement released on May 3, 2011, RBI's baseline growth projection for the Indian economy is expected to slow down to 8% with year-end WPI inflation estimated at 6% with an upward bias. As the policy challenge shifts to taming inflation, the economy will have to contend with high interest rates which in turn could impact growth. Risks to global recovery as stated earlier, high commodity prices especially of oil - with Brent crude crossing USD 120 per barrel in April 2011 triggered by events in the MENA (Middle East and North Africa) region, elevated levels of inflation including in food prices, high subsidy burden arising out of high oil prices and commitments arising out of the proposed implementation of the National Food Security Bill pose the key downside risks to economic growth in the near term. In the medium to long term, India's economic growth engine is expected to be powered by multiple drivers such as the increasing momentum in the savings and investment rates (which should further improve with India's demographic dividend playing out in the ensuing years), a vibrant services sector, a large domestic demand base and the emergence of internationally competitive firms. The challenge of raising the growth bar to the desired double-digit levels, however, remains daunting and would require, inter-alia, significant improvement in agricultural productivity, step up in investments especially in physical and social infrastructure, skill development, achieving energy security, job creation and addressing the governance deficit. As captured in the Union Finance Minister's 2011 Budget speech, "...in the medium term perspective, our three priorities of sustaining a high growth trajectory; making development more inclusive; and improving our institutions, public delivery and governance practices, remain relevant."

India's rapid economic growth in recent years and the prospects of building further on this momentum in the medium to long-term has led it to command a new respect in the world order. According to recent studies India is expected to be the third largest economy by 2050. India's demographic trends indicate that the nation will add over 200 million people to the working age population over the next 20 years, more than any other country in the world. Several studies indicate a near tripling of household disposable incomes and a burgeoning middle-class which will comprise over 40% of India's population and grow ten-fold to touch 583 million people by 2025. These trends augur well for the nation and could provide enormous opportunities for private enterprise and sustaining the growth trajectory. Yet, with 17% of the world's population, 2.4% of global land mass, 4% of the world's freshwater resources and 1% of the world's forest resources, the pressure of economic growth on the country's natural capital will be enormous. Equally, the need to make economic growth more equitable and inclusive is compelling.

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, National Rural Employment Guarantee Scheme (NREGS), Sarva Shiksha Abhiyan, food security legislation and strategies to improve benefit delivery mechanisms have the potential to transform the Indian rural landscape. It is here that unique business models like the ones forged by your Company can supplement the efforts of the government in creating societal value and enhancing societal capital. It is an essential pre-requisite of rural development that markets are co-created with local communities and in a constructive public-private-people partnership.

Your Company's e-Choupal network is a close replica of this model. It provides the farming community with value-added services such as crop advisories, advance weather forecasts, output price discovery, direct communication tools and distribution of unadulterated agri inputs. The footprint of this network is well established to source most requirements of your Company's Branded Packaged Foods business and is poised to grow in line with entry into newer categories. Similarly, your Company's unique and path-breaking 'Choupal Pradarshan Khet' (CPK) initiative, a collaborative and paid extension service aimed towards enhancing farm productivity with emphasis

[Unique business models like the ITC e-Choupal can supplement the efforts of the government in creating societal value and enhancing societal capital. It is an essential pre-requisite of rural development that markets are co-created with local communities and in a constructive public-private-people partnership.]

on adoption of sustainable agricultural best practices, continues to attract the interest of both farmers and partnering companies. The demonstration plots under CPK have recorded significant productivity gains as compared to control plots. An estimated 40,000 farmers participated in this programme during the year.

In line with the national agenda of pursuing sustainable and inclusive growth, your Company is proactively engaged in enlarging its contribution across the three dimensions of the 'Triple Bottom Line' - economic, environmental and social - through investments and operations that foster the competitiveness of entire value chain that it is engaged in. In line with this philosophy, it is your Company's endeavour to embed larger societal goals in its various business models. Major initiatives in this direction include the e-Choupal network which is contributing to increasing rural incomes by providing a wide range of support services to the farming community, the Social and Farm Forestry programmes which create sustainable livelihoods among marginal farmers and poor tribals, adoption of environment friendly technologies including the increasing use of renewable sources of energy, recycling processes and creation of rainwater harvesting structures. Such initiatives have combined to make ITC the only Company in the world, of comparable size, to be 'carbon positive', 'water positive' and 'waste recycling positive'.

The following sections outline your Company's progress in pursuit of the 'Triple Bottom Line' objectives.

FINANCIAL PERFORMANCE

Your Company, in its Centenary Year, posted yet another year of stellar performance with an impressive topline growth and high quality earnings reflecting the robustness of its corporate strategy of creating multiple drivers of growth. This performance is particularly noteworthy when viewed against the backdrop of the extremely challenging business context in which this was achieved, namely, the steep increase in excise duties in the Union Budget 2010 coupled with the amplified impact of arbitrary increases in VAT on cigarettes, brand building and incubation costs of 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 16.5% to ₹ 30604.39 crores. Net Turnover at ₹ 21167.58 crores grew by 16.6% primarily driven by a 23.1% growth in the non-cigarette FMCG businesses, 22.9% growth in Agri business and 17.6% growth in the Hotels segment. Pre-tax profits increased by 20.8% to ₹ 7268.16 crores while Post-tax profits at ₹ 4987.61 crores registered a growth of 22.8%. Earnings Per Share for the year stands at ₹ 6.49 (previous year - adjusted for Bonus Issue - ₹ 5.34). Cash flows from Operations stood at ₹ 7460 crores compared to ₹ 6632 crores in the previous year.

Your Company completed 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 marketer 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, your Company's wholly owned subsidiary, ITC Infotech India Limited, is one of India's fast 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 compounded growth of 12.7% and 21.7% per annum respectively. Profitability, as measured by Return on Capital Employed improved substantially from 28.4% to 43.4% during this period. Total Shareholder Returns, measured in terms of increase in market capitalisation and dividends, grew at a compounded rate of 25.6% during this period, placing your Company amongst the foremost in the country in terms of efficiency of servicing financial capital. It is indeed a matter of pride that your Company was ranked, by The Boston Consulting Group, an international management consultancy firm, amongst the top 10 global consumer goods companies in terms of sustained shareholder value creation for the period 2005 - 2009. Your Company today is one of India's most admired and valuable corporations with a market capitalisation in excess of ₹ 140000 crores and has consistently been, over the last fifteen years, amongst the top 10 private sector companies in terms of market capitalisation.

[Net Turnover at ₹ 21167.58 crores grew by 16.6% primarily driven by a 23.1% growth in the non-cigarette FMCG businesses, 22.9% growth in Agri business and 17.6% growth in the Hotels segment.]

Last year, in celebration of your Company completing a 100 years, your Directors had recommended and you had approved a Special Centenary Dividend of ₹ 5.50 per share (adjusted for bonus issue - ₹ 2.75 per share) in addition to a Dividend of ₹ 4.50 per share (adjusted for bonus issue - ₹ 2.25 per share). Your Directors had also recommended and you had approved a 1:1 Bonus issue in the Centenary year. This year, on the occasion of your Company convening its milestone Hundredth Annual General Meeting, your Directors are pleased to recommend a Special Dividend of ₹ 1.65 per share (previous year – Nil) in addition to a Dividend of ₹ 2.80 per share (previous year - adjusted for bonus issue - ₹ 2.25) for the year ended 31st March, 2011.

Total cash outflow in this regard will be ₹ 4002.09 crores (previous year ₹ 4452.33 crores) including Dividend Distribution Tax of ₹ 558.62 crores (previous year ₹ 634.15 crores). Your Board further recommends a transfer to General Reserve of ₹ 498.76 crores (previous year ₹ 406.10 crores). Consequently, your Board recommends leaving an unappropriated balance in the Profit and Loss Account of ₹ 548.67 crores (previous year ₹ 61.31 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 4.5 billion, of which agri exports constituted 57%. Earnings from agri exports are an indicator of your Company's contribution to the rural economy through effectively linking small farmers with international markets.

During the financial year 2010/11, your Company and its subsidiaries earned ₹ 3123 crores in foreign exchange. The direct foreign exchange earned by your Company amounted to ₹ 2814 crores (₹ 2354 crores in 2009-10), powered by exports of major agri-commodities. Your Company's expenditure in foreign currency amounted to ₹ 1254 crores, comprising purchase of raw materials, spares and other expenses of ₹ 1028 crores and import of capital goods at ₹ 226 crores. Details of foreign exchange earnings and outgo are provided in Schedule 19 to the Accounts.

PROFITS, DIVIDENDS AND RETENTION

(₹ in Crores)

	2011	2010
a) Profit before Tax	7268.16	6015.31
b) Income Tax	2280.55	1954.31
c) Profit after Tax	4987.61	4061.00
d) Add: Profit brought forward from previous year	61.31	858.14
e) Surplus available for Appropriation	**5048.92**	**4919.14**
f) Transfer to General Reserve	498.76	406.10
g) Proposed Dividend for the financial year		
– Ordinary Dividend of ₹ 2.80 per ordinary share of ₹ 1/- each (previous year - adjusted for Bonus Issue - ₹ 2.25 per share)	2166.68	1718.18
– Special Centenary Dividend of Nil per ordinary share of ₹ 1/- each (previous year - adjusted for Bonus Issue - ₹ 2.75 per share)	–	2100.00
– Special Dividend of ₹ 1.65 per ordinary share of ₹ 1/- each (previous year - adjusted for Bonus Issue – Nil)	1276.79	–
h) Income Tax on proposed dividends	558.62	634.15
i) Earlier year's provision no longer required	(0.60)	(0.60)
j) Retained Profit carried forward to the following year	548.67	61.31
	5048.92	**4919.14**

BUSINESS SEGMENTS

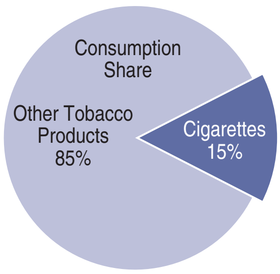
A. FAST MOVING CONSUMER GOODS

FMCG – Cigarettes

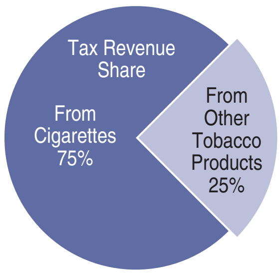
Disproportionate taxation coupled with a growing incidence of smuggling and illegal manufacture, continue to be the biggest challenge for the Indian cigarette industry.
In western countries, the belief is that loading the cigarette sector with high taxation would lead to a reduction in overall tobacco consumption. This approach, when followed in India, is flawed as it overlooks the critical fact that, in India, cigarettes constitute less than 15% of tobacco consumption whilst the larger proportion of tobacco consumption in the country is through other forms such as bidi, khaini, gutkha, zarda etc. These products, over and above being lightly taxed, also avoid substantial taxes by virtue of being products of the unorganised sector. Consequently, cigarettes, despite accounting for a minor

Disproportionate taxation coupled with a growing incidence of smuggling and illegal manufacture, continue to be the biggest challenge for the Indian cigarette industry.

portion of tobacco consumption, contribute more than 75% of taxes raised from the tobacco sector.



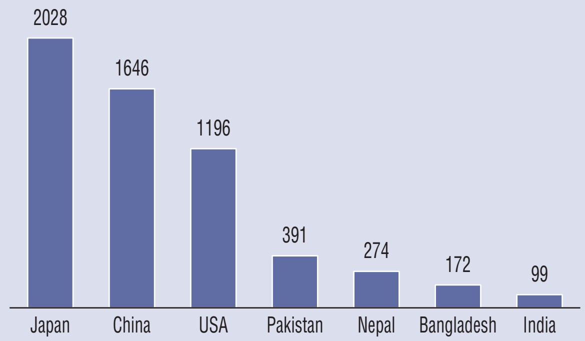
Consumption Share



Tax Revenue Share

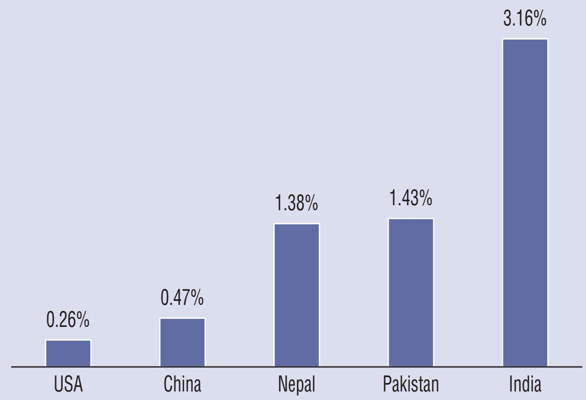
Latest research findings published in the Global Adult Tobacco Survey (GATS) - conducted under the stewardship of the Ministry of Health and Family Welfare, Government of India – show that cigarettes are the least popular form of tobacco consumption in India - only 5.7% of all adults smoke cigarettes while almost 35% adults consume tobacco. The low share of cigarettes is a clear reflection of the impact of prolonged high taxation in this sector. In fact, the disproportionate ‘tax to consumption’ ratio of cigarettes encourages mass migration of consumers to other forms of tobacco products that, by virtue of being lightly taxed, are much cheaper. In fact, per capita consumption of cigarettes in India is among the lowest in the world while tax per 1000 cigarettes as a percentage of per capita GDP is one of the highest, as is evident from the following:

Per capita consumption of Cigarettes - per annum



Source: The Tobacco Atlas – 3rd Edition

Tax per 1000 Cigarettes as a % of per capita GDP



Source:
“Tax per 1000 Cigarettes” – Industry estimates
“Tax” includes Excise Duty, VAT and Other State Taxes on Cigarettes
“per capita GDP” – http://en.wikipedia.org/wiki/list_of_countries_by_GDP_(nominal)_per_capita.

Disproportionate and high taxation on cigarettes has led to a dwindling of its share in total tobacco consumption from about 25% in the 1970s to about 15% currently. However, at the same time total tobacco consumption in the country has continued to grow by way of increased consumption of other revenue inefficient forms of tobacco. The high taxation of cigarettes has not only sub-optimised the revenue potential from the tobacco sector but has also failed to achieve the objective of reducing aggregate tobacco consumption in the country.

The problem of discriminatory central taxation on cigarettes was exacerbated during the year under review with many States increasing the rate of VAT on cigarettes from the revenue neutral rate of 12.5%. These rate increases by the States is completely against the basic tenets of VAT enshrined in the White Paper on VAT issued by the Empowered Committee of State Finance Ministers, wherein it is unequivocally stated – “...the multiplicity of rates in the existing structure will be done away with under the VAT system... Under 4% VAT rate category, there will be the largest number of goods (about 270), common for all States, the remaining commodities, common for all States, will fall under the general VAT rate of 12.5%.”

Latest research findings published in the Global Adult Tobacco Survey (GATS) show that cigarettes are the least popular form of tobacco consumption in India - only 5.7% of all adults smoke cigarettes while almost 35% adults consume tobacco. Per capita consumption of cigarettes in India is among the lowest in the world while tax per 1000 cigarettes as a percentage of per capita GDP is one of the highest.

Your Company has, during the year, repeatedly drawn the attention of policy-makers to the fact that:

- Sub-optimal taxation practices of States – like differential VAT rates – may well derail the implementation of GST with a unitary standard rate of tax across the Indian common market.
- Being highly taxed products, cigarettes are vulnerable to large scale smuggling.
- The differential rate of VAT across the States only encourages unscrupulous tax arbitrage.
- In line with international trends, the illegal trade in cigarettes results in funds flowing in to the coffers of criminal syndicates with consequential detrimental impact on civil society by way of heightened law and order problems.

In addition to the taxation challenge, the legitimate domestic industry is grappling with another complex problem – the burgeoning illegal trade in cigarettes which, according to recent independent international market studies, accounts for more than 16% of the total industry size. The high rates of Central Excise and VAT have helped fuel the menace of illegal trade in cigarettes. It is estimated that the illegal cigarette trade costs the Exchequer more than ₹ 3000 crores per annum in lost revenues apart from offering products of dubious and inferior quality to consumers. According to recent independent international market studies, India now ranks 6th globally in illicit cigarette trade with one of the highest growth rates - 58% over the period 2004 – 2009. Despite the rapid growth in illegal trade the rate of taxation on legitimate domestic cigarettes continues to grow. The rate of Central Excise Duty on cigarettes was increased by 17% effective March 2010 whilst several State governments increased the rate of VAT.

Your Company continues to engage with the authorities on this issue, highlighting the fact that punitive rates of tax and lack of tax harmonisation across States fuels the menace of illicit cigarette trade with consequential adverse impact on the legitimate industry. While there have been some reports of seizure of such illegal stocks by enforcement agencies, illicit cigarette units continue to mushroom and grow. Illegal cigarette trade has serious concerns for the country and needs to be reined in quickly through appropriate policy and enforcement attention. The effective and sustainable solution lies in eliminating the tax arbitrage that encourages these activities by ensuring harmonious and moderate tax rates on cigarettes.

The year under review also saw unprecedented activity including new brand launches by global cigarette companies trying to gain a foothold in India. The challenges in the market place were met by uncompromising and continuous value creation through innovative and differentiated products and investments in trade marketing and channel engagements. Your Company's continuing leadership position and market standing was nurtured by successfully fortifying the business and growing its portfolio of brands catering to diverse consumer preferences across segments.

'Innovation' across all areas of operation was the central theme around which enhanced market standing and competitive superiority was achieved. Inherent expertise in the areas of contemporary product development, cutting-edge technology and robust go-to-market processes, combined with your Company's deep consumer insights saw the launch of several new and exciting offers, in line with the strategy of continually meeting emerging consumer needs. 'Lucky Strike' was launched during the year, further enhancing your Company's position at the premium end of the cigarette industry. 'Classic' and 'Gold Flake' further strengthened their position through the launch of differentiated offers like 'Classic Menthol Rush', 'Gold Flake Sleek Line Kings' and 'Gold Flake Arctic Menthol'. 'Players Gold Leaf' and a variant of 'Gold Flake Premium Filter' were also launched during the year.

The year also saw your Company's premium line of hand-rolled cigars consolidating its position in the market. 'Armenteros', which is specially manufactured for your Company in the Dominican Republic, has already carved a niche for itself amongst discerning cigar aficionados, further reaffirming your Company's reputation of delivering fully against consumer expectations of top quality tobacco products.

During the year, the new cigarette factory set up at Ranjangaon scaled up operations to full capacity, enabling your Company to service the markets better.

India now ranks 6th globally in illicit cigarette trade with one of the highest growth rates - 58% over the period 2004 – 2009. It is estimated that the illegal cigarette trade costs the Exchequer more than ₹ 3000 crores per annum in lost revenues apart from offering products of dubious and inferior quality to consumers.

Your Company also continued the strategic initiatives of upgrading primary and secondary technology platforms and running continuous improvement programmes in the areas of operating efficiencies and quality at all cigarette factories. The 'Process Improvement Practices' initiative, using structured problem-solving methodologies such as 'Lean' and 'Six Sigma' have not only contributed to quality and productivity improvements but also resulted in improvements in operating metrics and internal processes across all the factories.

In line with your Company's commitment to building sustainable environmental capital, the business continues to invest in wind energy farms to increase usage of renewable sources of energy. Till date 14.7 Megawatt (MW) of wind energy farms have been commissioned in Karnataka and 6.3 MW of wind energy farms are in the process of being implemented in Maharashtra. Cigarette factories continue 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 Munger Factory was awarded the 'Prashansa Patra' Safety Award under the National Safety Council of India Safety Award Scheme – 2009 (Manufacturing Sector), Energy Efficient Unit under the CII National Energy Award 2010, Globe of Honour Award from the British Safety Council and Certificate of Appreciation at the CII Eastern Region Energy Conservation Award. The Bengaluru factory won the Energy Efficient Unit under the CII National Energy Award 2010, Globe of Honour Award from the British Safety Council, Most Innovative Environment Project Award and Most Useful Environment Project Award under the CII Environmental Best Practices Award 2011 and the Best Fuel Efficient Industrial Boiler Award from the Karnataka State Safety Institute. The Kidderpore factory won the Water Efficient Unit Award at the CII National Award for Excellence in Water Management 2011.

The punitive rates of taxation and the menace of illegal trade remain the most serious concerns for the cigarette industry. To serve the interests of all stakeholders of the industry your Company, as always, will continue to engage with policy makers on:

- Implementation of a balanced regulatory and fiscal framework for tobacco,
- Harmonisation of VAT rates across the States and
- Creation of a true Indian common market through implementation of GST with a unitary, standard rate of tax.

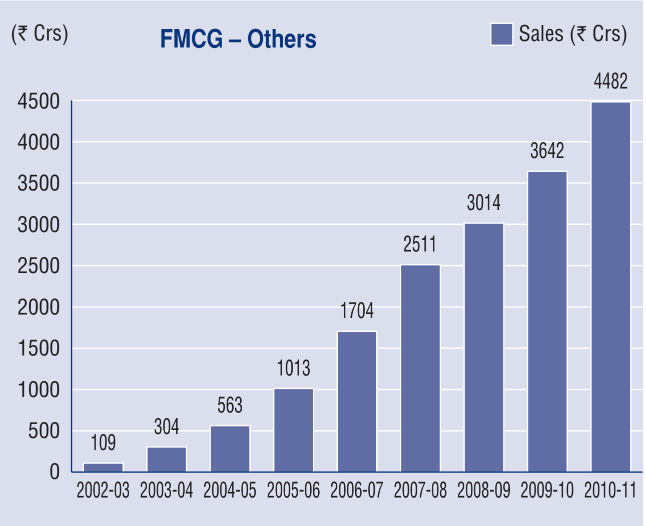
Despite the manifold challenges, your Company remains confident that the continuing support of consumers, coupled with the resilience of its brands, superior execution of competitive strategies, leveraging of its internationally benchmarked product quality and its ability to innovate will enable it to retain and reinforce its leadership position.

FMCG - Others

The Indian FMCG industry is estimated to be over ₹ 1,30,000 crores in size and accounts for 2.2% of the GDP of the country. The industry has tripled in size over the last 10 years and has grown at approximately 17% CAGR in the last 5 years, driven by robust macroeconomic conditions, rising income levels, increasing urbanisation and favourable demographic trends. These drivers are expected to continue to favourably impact the industry which is estimated to further triple in size in the next ten years to ₹ 4,00,000 crores by 2020 (Source: CII, FMCG Roadmap to 2020). Relatively low levels of per capita consumption of many FMCG products, the growing population of working women and increased government spending on education are some of the other key factors that augur well for the sector's growth prospects. According to a study by the consultancy firm Deloitte Touche Tohmatsu Limited 'Consumer 2020: Reading the signs', India will emerge as the world's fifth largest consumer market by 2025 providing significant opportunities in the FMCG space.

Given these positive fundamentals, your Company has been rapidly scaling-up its new FMCG businesses comprising Branded Packaged Foods, Personal Care Products, Education and Stationery Products, Lifestyle Retailing, Safety Matches and Incense Sticks (Agarbattis) with Segment Revenues growing at an impressive compound annual growth rate of 35% during the last 5 years.

> 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.



Within a relatively short span of time, your Company has established several strong consumer brands in the Indian FMCG market. 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 23% growth in Segment Revenues and a significant improvement in Segment Results which recorded a positive swing of ₹ 52 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

Your Company's Branded Packaged Foods business continued to expand rapidly with sales recording an impressive growth of 25% over the previous year. During the year, the business focused on enhancing consumer franchise through new product launches, heightened communication and increased levels of consumer activation. Value capture was improved through cost reductions across the supply chain and optimisation of working 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.

The year saw unprecedented inflation in food prices around the world. In India, food inflation had spiralled to an all time high of around 18% with commodities such as edible vegetable oils and dairy products witnessing close to 50% inflation owing to several global and India centric causes. The inflationary pressure on input costs was mitigated through a combination of smart sourcing, increased internal efficiencies and cost saving actions across the supply chain, thereby minimizing the cost burden on the consumer.

During the year, your Company launched 'Sunfeast Yippee!' noodles in the fast growing 'instant noodles' category in two exciting flavours. Extensive consumer research and product development were undertaken to incorporate consumer relevant differentiation and uniqueness in the offerings. This was further fortified by an effective communication campaign highlighting the product differentiators. 'Sunfeast Yippee!' has received an encouraging consumer response and holds out the promise of emerging as a sizeable winner.

In the Staples business, 'Aashirvaad' atta sustained its leadership position. 'Aashirvaad' multigrain atta, launched last year, was well received by consumers and is witnessing significant growth. Your Company also scaled up its presence in the branded Spices segment during the year with the launch of 'Aashirvaad' rasam and sambhar blended powders in target markets, leveraging the brand's market standing of superior and consistent quality.

In the Biscuits category, your Company's 'Sunfeast' brand recorded significant growth, especially in the value-added and premium end. The year witnessed the launch of a slew of products in new and exciting formats. Research on consumer preferences and understanding of regional palates were undertaken and led to the launch of differentiated milk cookies for consumers in target markets. The 'Sunfeast' range witnessed enrichment

[Your Company's Branded Packaged Foods business continued to expand rapidly with sales recording an impressive growth of 25% over the previous year.]

and premiumisation of its product mix with the re-launch of 'Dark Fantasy' and the introduction of premium 'Dark Fantasy Choco Fills' biscuits.

In the Confectionery category, 'Candyman' is the clear market leader in the hard boiled segment. Further, growth through flavour extensions continued with the launch of 'mint-O GOL' Orange which was very well received by consumers.

In the Savoury Snacks segment, 'Bingo!' demonstrated robust sales performance during the year and penetrated new markets, gaining further consumer franchise, driven by innovative product development and impactful, clutter breaking communication. The entire product portfolio ranging from Potato Chips to Finger Snacks continued to witness robust growth.

The business continues to invest in manufacturing and distribution infrastructure to support larger scale in the wake of growing volumes and exploit the benefits of distributed manufacture to service proximal markets. The business continued to focus on supply chain improvements to enhance market servicing and margins.

In the backdrop of a resilient economy, the year ahead is expected to witness robust growth in the Branded Packaged Foods category despite anticipated inflationary pressures. Product development and brand building will be critical to driving sales. Innovative interventions will continue to be essential for building strong consumer franchise. Well researched and robust product development processes will continue to be leveraged to launch innovative and differentiated products across all segments. With effective and cost-efficient servicing of target markets continuing to be a key success factor, the business will continue to leverage your Company's sales and distribution network to achieve deep penetration, visibility and availability for its products.

Personal Care Products

Your Company's Personal Care Products business made significant strides in gaining consumer franchise during the year. The business continues to roll out its product offerings under the 'Essenza Di Wills', 'Fiama Di Wills', 'Vivel' and 'Superia' brands and is focused on addressing various consumer benefit segments with the introduction of new variants in the soaps and shampoos categories.

The business continues to receive accolades for its product innovation initiatives. Last year the 'Fiama Di Wills' gel bathing bar was voted the 'Product of the Year' in the soap category and this year three of its products, namely 'Fiama Di Wills Aqua Pulse' shower gel, 'Vivel Active Fair' skin cream and 'Vivel Deo Spirit' soap, have been voted 'Product of the Year' in the shower gel, fairness cream and soap categories respectively.

This year saw the successful introduction of 'Vivel Active Fair', your Company's newest foray into the growing fairness cream category. In a very short period of time, the brand has garnered a healthy market share in launch markets. 'Fiama Di Wills' with its new 'Aqua Pulse Bath Care' line of shower gel and bathing bar has augmented the brand franchise to men. The Men's range has been well received in launch markets. It is estimated that 'Vivel' and 'Superia' soaps and shampoos have together reached over 9.9 crore households so far (according to IMRB Household Panel: February 2011).

The business continues to focus on leveraging more effective ways of communicating with consumers through multiple channels, including TV, digital social-networking, print / outdoor advertising, point of sale merchandising and one-on-one consumer interactions. 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 innovative consumer offers and by leveraging the distribution network of your Company to reach consumers even in remote areas. This has helped the business garner significant market share in a short span of three years.

During the year, the manufacturing unit at Haridwar received certifications for ISO 9001:2008 (Quality Management System), ISO 14001 (Environment Management System) and OHSAS 18001 (Occupational Health & Safety Assessment System). To broad-base process excellence knowledge as well as lead improvement initiatives across the business, a program using 'Six Sigma' and 'Lean' methodologies was put in place and is contributing to the competitiveness of the business.

The Personal Care Product business continues to receive accolades for its product innovation initiatives. Last year the 'Fiama Di Wills' gel bathing bar was voted the 'Product of the Year' in the soap category and this year three of its products, namely 'Fiama Di Wills Aqua Pulse' shower gel, 'Vivel Active Fair' skin cream and 'Vivel Deo Spirit' soap, have been voted 'Product of the Year'.

Product innovation and quality continue to be focus areas and are expected to provide the requisite competitive advantage and impetus for growth in the near future. Investments have been made, over the past few years, on product development and research capabilities to support creation of new consumer-centric products with enhanced consumer benefits. These interventions will enable your Company to further strengthen its portfolio of value-added products.

The Personal Care industry in India continues to be on a long term growth path, with rising disposable incomes and changing consumer preference for enhanced personal grooming. Your Company is positioning itself to actively participate in the emerging growth opportunities in this sector.

Education & Stationery Products

The Education & Stationery Products business recorded an impressive sales growth powered by brand 'Classmate' which continued to consolidate its leadership position in student notebooks. Sales of non-paper categories registered an impressive growth of 100% indicating a growing consumer acceptance of 'Classmate' pens, pencils, mathematical instruments, erasers & sharpeners. The year also witnessed the launch of art stationery under the 'Classmate-Colour Crew' brand.

On the occasion of ITC's Centenary, your Company rolled out the 'Classmate Ideas for India Challenge' (CIIC) – a contest that provided a platform for India's youth to express their ideas for nation building. The event reached out to 25 lakh students across 30 cities and received nearly 60,000 entries that culminated in 11 national winners. Winning ideas covered potential solutions to India's health, education, water, energy and transportation problems. These interventions have enhanced the level of consumer awareness of Classmate's growing product basket beyond its flagship category of notebooks. Brand health indicators have shown a strong improvement across all markets. In addition, the distribution footprint of the business continues to grow.

The 'Classmate' range of notebooks continued to be sourced from small scale manufacturers, who have continuously improved their delivery and quality capabilities. A majority of them, with your Company's assistance, are ISO 9001:2008 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 younger generation, 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 Papers Division, 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's 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 nearly 1,14,000 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 commitment to reducing carbon footprint. The 'Paperkraft' range of executive notebooks was enriched with the launch of a 'Green Impression Series' which showcases your Company's sustainability performance.

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

[The Education & Stationery Products business recorded an impressive sales growth powered by brand 'Classmate' which continued to consolidate its leadership position in student notebooks.]

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 of Children to Free and Compulsory Education Act, 2009 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.

Lifestyle Retailing

During the year, your Company's Lifestyle Retailing business further strengthened its position in the branded apparel market. Leveraging the revival in consumer sentiment after a protracted period of sluggish demand post the global economic slowdown, the business undertook several initiatives to further fortify its brands, expand its retail reach and improve product and range vitality.

In the Premium segment, 'Wills Lifestyle', with its high fashion imagery, growing desirability and richer product mix, continues to enjoy strong market standing and consumer bonding. During the year, the brand reach was expanded to 73 exclusive stores in 40 cities and more than 150 'shop-in-shops' in leading departmental stores. This was further supported by significant improvements in product range, enhanced availability and impactful visibility resulting in impressive growth in volumes. During the year, the premium imagery of the brand was further reinforced through its association with the 'Wills Lifestyle India Fashion Week', the country's most prestigious lifestyle event. Under the business' 'Ramp to Racks' initiative, the brand has tied up with leading designers of the country such as Rohit Bal, Tarun Tahiliani, Rohit Gandhi-Rahul Khanna, Rajesh Pratap Singh, JJ Valaya, Satya Paul and Ranna Gill to exclusively co-create the 'Wills Signature' range of designer wear. This initiative has been very well received by consumers and has enhanced the brand's exclusive aura, strengthened its premium standing and deepened its aspirational dimension. Product equity and premiumness was further enhanced through several initiatives undertaken during the year. The 'Wills Classic' 'Luxuria' range of super-premium formals for men, finely crafted from luxurious cotton with high end trims and superior garmenting, was introduced during the year and received extremely encouraging response from consumers. The Women's range was further augmented by offerings in stylised formals, an extensive variety of trendy silhouettes and an international collection crafted by a leading Milan-based design house.

During the year, 'Wills Lifestyle' opened its first Men's luxury store in Chennai offering a comprehensive 'Formals' collection of shirts, trousers, suits & jackets and accessories aimed at the premium business consumer. The business added a 'Wills Lifestyle' boutique store in your Company's hotel, ITC Gardenia, Bengaluru, enhancing brand availability to high-end business and leisure travellers. This is in addition to the existing boutique stores in ITC Maurya, New Delhi and ITC Mughal, Agra.

The customer privileges programme 'Club Wills' comprising over 1,10,000 loyal and discerning members contributed significantly to sales. Social media was also leveraged effectively to engage with customers, enhancing 'word-of-mouth' and driving footfalls to stores.

In the popular segment, 'John Players' has established a strong pan India presence with over 280 Flagship Stores and 1,100 Multi Brand Outlets and Departmental Stores. During the year, the retail footprint was expanded significantly, with nearly 100 new stores being opened, increasing brand reach, penetrating more markets and acquiring new consumers. 'John Players' continues to have a strong presence and has become a leading brand in the segment, with new products such as denims, knits and jackets. The continued celebrity association with the popular film star, Ranbir Kapoor, was well received by consumers, further enhancing brand desirability.

During the year, the business received several industry recognitions, including 'Retailer of the year – Fashion & Lifestyle' and 'Best Retail Marketing Campaign of the Year' at the Asia Retail Congress 2011 and 'Winner – Customer & Brand Loyalty' at the Loyalty Awards 2011.

Rising cotton prices and the re-imposition of Excise Duty on branded apparel in this year's Union Budget will exert

[During the year, ITC's Lifestyle Retailing business received several industry recognitions, including 'Retailer of the year – Fashion & Lifestyle' and 'Best Retail Marketing Campaign of the Year' at the Asia Retail Congress 2011 and 'Winner – Customer & Brand Loyalty' at the Loyalty Awards 2011.]

inflationary pressure on costs in the coming year. However, the business has initiated a number of strategic cost management actions along with operational efficiency improvement measures to minimise its impact on consumers.

Improvements in business processes for creation of designs, including incorporation of regional preferences in product design for wider brand appeal and further strengthening of the supply chain led to better 'sell-thrus' and improved margins during the year. Retail productivity continues to be a key focus area, and the business undertook several initiatives to strengthen capabilities at the frontline through training, knowledge and skill inputs. Investments are also being made in store design, visual merchandising and customer service to enhance the international quality shopping experience that has become synonymous with 'Wills Lifestyle'.

The business will continue to increase the fashion quotient of its offerings on the basis of a deep understanding of consumer preferences, and delivering products benchmarked to world class quality standards.

Safety Matches

Your Company's Safety Matches business sustained its market standing through continued consumer preference for its strong brand portfolio across all market segments.

Domestic volumes were impacted during the year as a result of proliferation of cheaper low quality formats in the marketplace. Despite increased competition, your Company's flagship brand 'Aim', continued to grow. While steep escalations in the prices of raw materials like wood, paperboard and key chemicals subjected the industry to severe margin pressure during the year, the business mitigated some of the adverse impact through a series of strategic cost management and pricing initiatives.

Your Company continues to partner the small scale sector by sourcing a significant portion of its requirement from multiple units in this sector. This has helped improve the competitive ability of these units with your Company 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 and enabling it to become globally competitive.

Incense sticks (Agarbattis)

Market standing of your Company's 'Mangaldeep' brand of incense sticks was further strengthened during the year with sales recording an impressive growth of 54%, driven by increasing consumer franchise for the brand combined with enhanced distribution reach and innovative product offerings. 'Mangaldeep' is currently the second largest national brand. During the year the business launched a new variant in the premium category, 'Sarvatra' under the umbrella brand 'Mangaldeep'. This introduction has received wide consumer acceptance and is being rolled out across India.

The business continues to contribute to your Company's commitment to the 'Triple Bottom Line', by providing livelihood opportunities to more than 12,000 persons through small scale entrepreneurs, NGOs and Self Help Groups across India. This business initiative and the continuing partnerships with the governments of Orissa, Assam and Tripura for setting up sourcing centres are creating sustainable livelihood opportunities for rural women through Agarbatti rolling.

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

B. HOTELS

The year witnessed a gradual recovery for the Indian hotels industry after two successive years of decline aided by a gradual revival in source markets like the USA and Europe and the strong showing of the Indian economy. The buoyancy, however, was muted on account of several reasons including the run up to the elections in a number of States. Inbound travel fell short of projections even for large events like the Commonwealth Games.

The Agarbatti business continues to contribute to your Company's commitment to the 'Triple Bottom Line' by providing livelihood opportunities to more than 12,000 persons through small scale entrepreneurs, NGOs and Self Help Groups across India.

In the backdrop of this mixed business environment, your Company's Hotels business witnessed robust growth of 18% and 23% in Revenues and Pre-tax profits respectively, reversing the declining trend witnessed in the last 2 years. The business continues to maintain its leadership position in terms of its operating efficiency with a PBDIT to Net Revenues ratio of 36%.

Your Company's Hotels business continues to be rated amongst the fastest growing hospitality chains, with over 105 properties at more than 90 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 licensing and franchising arrangements for two international brands – 'The Luxury Collection' and 'Sheraton' from the Starwood Group. These offerings make your Company one of the leading hotel chains in India.

ITC Gardenia, launched last year, has rapidly established itself as the premier hotel in Bengaluru and delivered profits in its first full year of operations.

ITC Mughal, Agra has undergone a major refurbishment. The hotel now offers a richer ambience with the refurbishment of the public areas and the creation of a special new wing, the 'Khwab Mahal', featuring various categories of rooms, including two luxurious Presidential Suites. These suites offer private plunge pools and spa rooms, where special treatments from the hotel's award-winning spa can be experienced. ITC Mughal's award winning 'Kaya Kalp' – The Royal Spa, continues to attract attention and receive accolades from all over the world.

Food and beverage has been one of the business' main strengths over the years, regularly bringing accolades and awards from domestic and international media. Its restaurants 'Bukhara', 'Dum Pukht', 'Dakshin', 'Kebabs & Kurries', 'Pan Asian' and 'West View' are today well renowned and powerful cuisine brands. To this enviable collection, your Company debuted its first Japanese offering with the opening of the 'Edo' at ITC Gardenia. 'Edo' has earned rave reviews and many awards for its superlative quality of authentic Japanese food, ambience and informal dining style.

In pursuit of your Company's 'Triple Bottom Line' objectives, the business has increased investments in wind energy to provide clean power to its hotels in Bengaluru (ITC Windsor and ITC Gardenia) and Jaipur (WelcomHotel Rajputana). Further investments in wind energy are on the anvil. These are in addition to the wind energy investments made in the previous year for ITC Maratha in Mumbai.

Your Company's commitment to 'Responsible Luxury' has given it the unique distinction of being the only green hotel chain in India. ITC Maurya is now the first and the largest hotel in the world to receive the Leadership in Energy and Environment Design (LEED) Platinum rating for an existing building. In addition, ITC Maratha, ITC Grand Central, ITC Windsor, ITC Mughal, ITC Kakatiya and ITC Sonar have also successfully obtained the LEED Platinum rating. These together with ITC Gardenia, which achieved the LEED Platinum rating in the previous year, uniquely position your Company as the first hotel chain in the world to have all its premium luxury hotels rated at the highest LEED Platinum rating.

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 new super luxury properties at Chennai, Kolkata and at Classic Golf Resort near Gurgaon 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 four market segments.

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 63 with an aggregate room inventory of 4,915. The brand now has 38 operating hotels and 4 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 brand is now well established as a front-runner among the mid-market to upscale segment of hotels in India. The 'WelcomHeritage' brand continues to be India's most successful and largest chain of heritage hotels with 53 operating properties, spread across 18 States in India.

[With all ITC's premium luxury hotels successfully obtaining the LEED Platinum rating, your Company is uniquely positioned as the world's first hotel chain to achieve this distinction.]

Your Company's Hotels business, with its globally benchmarked levels of product and service excellence and customer centricity represented by its four brands, 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, Paper and Packaging segment recorded yet another year of steady growth in revenues and profits. Segment revenues grew by 13% over the previous year to touch ₹ 3667 crores. Segment results at ₹ 819 crores reflect a growth of 20%.

Paperboards & Specialty Papers

The global demand for paper & paperboard recovered strongly to post a growth of nearly 7% over the previous year driven by resurgence in demand in Western Europe, North America and growth in emerging Asian and Latin American economies.

The domestic paperboard industry also grew at about 8% aided by the strong showing of the Indian economy with value-added paperboard growing at a much faster rate. Though India has 17% of the world's population, it consumes only about 2% of global paper production. Per capita consumption is very low at only 9 kgs compared to a global level of 55 kgs. Going forward, the continued growth of the Indian economy coupled with favourable demographics, demand expansion in rural markets, rising demand for branded and packaged products supported by growth in organised retail and differentiated packaging, are expected to augur well for the paperboard industry. Aided by these facilitating drivers, value-added paperboard is expected to grow at a faster rate of around 15% within the overall paperboard industry growth of 8% over the next five years. FMCG, pharma, liquid packaging, apparel and consumer durables will continue to provide the overall impetus for accelerated growth in derived demand for paperboard. The growing potential of this industry is also attracting the attention of global players who are keenly looking at Asia as their next growth engine. While most majors have taken up large manufacturing positions in China, some of them are also exploring opportunities in other countries in Asia, including India.

The domestic paper industry is estimated at 10.3 million tonnes per annum, out of which paperboard demand is estimated to be 2.3 million tonnes per annum. Your Company, with its wide range of products in the paperboard segment, is the market leader with a value market share of 26% and a significantly higher share of the fast-growing value-added paperboard segment. To further consolidate its pre-eminent position in the paperboard segment, the business is in the process of investing in a state-of-the-art machine which is expected to be operational by early 2013.

The 'Writing and Printing' paper segment, estimated at 3.3 million tonnes grew by 7% in 2010-11. Your Company's state-of-the-art paper machine is being currently optimally utilised to meet the demand for high quality copier and writing paper, leveraging the strong forward linkages with your Company's Education and Stationery Products business. The growth in the value-added writing and printing paper segment will continue to be fuelled by initiatives like Sarva Shiksha Abhiyan, together with increasing literacy levels, changing demographic profiles and GDP growth. This segment is expected to grow at around 8% per annum during the next 5 years, with higher growth expected in the Copier paper and Fine paper categories at 16%.

Specialty papers, with an estimated market size of 4 lakh tonnes, is expected to grow at 9% over the next 5 years, with increased spends on infrastructure and construction driving demand for quality décor and insulating grades. 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 maintained its market share of 26%.

In consonance with your Company's value proposition of delivering sustainable value to all its stakeholders, the business participated in the 'Check Your Paper' rating system developed by WWF - World Wide Fund for Nature's Global Forest and Trade Network, which evaluates paper and paperboard on parameters such as Forest, Climate and Water performance and awards star ratings and an overall score. During the year, two grades of paperboard manufactured by your Company were submitted for evaluation and received 4 and 5 star ratings and scores which are comparable to those achieved by global paperboard majors. Your Company

[The continued growth of the Indian economy coupled with favourable demographics, demand expansion in rural markets, rising demand for branded and packaged products supported by growth in organised retail and differentiated packaging, are expected to augur well for the paperboard industry.]

has commenced this initiative with recycled board grades and will gradually include more paper and paperboard products. In addition, the business improved its service delivery to its customers through shortened order servicing timelines. It also facilitated customers in the usage of your Company's Forestry Stewardship Certified boards. During the year a number of new paperboard applications have been successfully developed for the communication, entertainment and packaging industries.

Your Company continued with its aggressive clonal propagation strategy with the distribution of over 54 million saplings to farmers during the year. Research on clonal development has resulted in the introduction of topography specific, high yielding and disease resistant clones. This initiative, besides securing the long term supply of fibre at competitive costs, also assists in generating farm incomes through utilisation of marginal wastelands. Enhanced R&D activity has resulted in the development of high yielding eucalyptus and 'subabul' clones and your Company's 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 for enhancing both farm and manufacturing yields. In the last 15 years, your Company's bio-technology based research initiatives have resulted in the planting of nearly 487 million saplings which are currently sown in nearly 1,14,000 hectares of plantations, including around 12,000 hectares planted during the year under review. These pioneering initiatives have generated over 51 million person days of employment opportunities over this period for small farmers and poor tribals.

Agro-forestry has an important role to play in developing countries like India, both for food and wood security and conservation of the environment. During the year under review, your Company facilitated the introduction of agro forestry models which incorporate inter-cropping practices where eucalyptus trees are grown on the same land as agricultural crops, in Andhra Pradesh and Madhya Pradesh. By integrating tree growing with crop production, the problems of poor agricultural production, worsening wood shortages and environmental degradation can be addressed simultaneously. Furthermore, inter-cropping technologies/practices also help to take pressure off the remaining natural forests and to increase the diversity of vegetation on existing farms.

Your Company continues to represent to policy makers the need to introduce appropriate amendments to the Forest (Conservation) Act, 1980 and related Rules to permit industry to use degraded forest land for afforestation linked to the end-use of such wood. An enabling policy framework that encourages public-private partnerships for the development of degraded forest lands would serve the multiple objectives of enhancing the competitiveness of the Indian paper and paperboard industry, creating sustainable livelihoods in rural India and contributing to the national objective of enhancing the country's green cover.

Your Company's collaborative initiative called 'Wealth out of Waste' (WOW) continues to promote and facilitate waste paper recycling, another major environmental objective to conserve scarce resources. This initiative has now been extended to 6 cities in Southern India scaling up significantly from the 2 cities where this programme was launched earlier. Existing processes and systems in the areas of collection, sorting and recycling were further strengthened to improve the overall efficacy of the initiative. A first-of-its-kind 'National Recycling Day' was initiated to build awareness and increase involvement amongst target consumers. Celebrated on the 1st of July 2010 at Hyderabad, this event attracted large participation from school children as well as government and corporate bodies. With a growing base, the business is also in the process of enhancing its capability to handle larger volumes of recycled waste.

Your Company has invested significantly in the deployment of contemporary technologies including environment-friendly Elemental Chlorine-Free (ECF) and Ozone bleaching for pulp thereby improving environmental standards of its manufacturing operations. Such investments are expected to provide customers with a sophisticated product, way ahead of legislation, creating new dimensions in environmental stewardship.

In the last 15 years, your Company's bio-technology based research initiatives have resulted in the planting of nearly 487 million saplings which are currently sown in nearly 1,14,000 hectares of plantations. These pioneering initiatives have generated over 51 million person days of employment opportunities over this period for small farmers and poor tribals.

The Industry would welcome policies that lay down environmental benchmarks in tune with other industries such as automotives etc. and suitably reward those who achieve or exceed such parameters.

While all manufacturing units have already achieved near 100% solid waste recycling by its usage for making products like lime, fly ash bricks, grey boards, egg trays etc., the procurement and recycling of over 1,19,000 tonnes of waste paper during the year has further consolidated the business' overall positive solid waste recycling footprint. In addition, your Company is also working on various Clean Development Mechanism (CDM) projects under the Kyoto Protocol to enable full realisation 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.

The Bhadrachalam and Tribeni units were awarded the 'Sword of Honour' by the British Safety Council. All manufacturing units of the business received the '5 Star Rating' from the British Safety Council for the third successive year. The Bhadrachalam unit also won the 'Most Innovative Project on Environment Best Practices' Award 2011 from CII, Indian Paper Manufacturers Association (IPMA) - Paper Mill of the year 2010 award and SIEMENS - Ecovatives award 2011. The Kovai unit won the CII - National award for Excellence in Energy Management 2010.

After having laid a strong foundation in implementing Total Productive Maintenance (TPM) at its units in Bhadrachalam and Bollaram, the programme has now been extended to Tribeni and Kovai units. This is expected to further improve operational excellence and profitability.

During the year, the industry faced enormous challenges on account of steep hike in costs of key domestic raw materials, coal and imported pulp. This hike in input costs, coupled with the large additions to capacity in the industry, adversely impacted overall industry profitability. It is expected that continuing inflation in the cost of domestic raw materials and imported pulp will continue to impact industry profitability in the near term. Your Company with its unwavering focus on quality, cost consciousness, integrated operations, customer service and ability to create new market segments is well placed 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 paperboard industry.

Packaging and Printing

Your Company's Packaging and Printing business continues to invest in 'best-in-class' technology and skills to provide the most contemporary and superior value delivery in paper, paperboard and flexible packaging. The business continued to provide strategic support to your Company's FMCG businesses by ensuring security of supplies in addition to sustaining international quality at competitive cost.

During the year, business from external trade grew significantly, driven by growth in volumes from existing customers as well as an enlargement of its customer base. Your Company continues to be a leading supplier of value-added packaging to the Consumer Electronics and FMCG segments.

The further consolidation of the business' operations in the flexibles packaging segment at its state-of-the-art manufacturing facilities at Chennai and Haridwar continued to provide innovative packaging solutions to your Company's FMCG businesses. This in-house capability has enabled your Company to facilitate quicker turnarounds of designs, pack changes and reduced product launch timelines, thereby providing a source of competitive advantage in the market place.

The business is augmenting capability and capacity at its Haridwar plant to cater to the increased packaging requirements of your Company's FMCG business and external trade customers based in the northern region.

The business won several national awards for excellence in packaging solutions and also won 20 'India Star'

[Your Company's Packaging and Printing business continues to invest in 'best-in-class' technology and skills to provide the most contemporary and superior value delivery in paper, paperboard and flexible packaging.]

awards in printing in several categories instituted by the Indian Institute of Packaging for excellence in packaging during the year.

The 14.1 MW wind energy farm, which was commissioned in 2008, continued operating at optimum levels providing clean energy to the Chennai unit. The initiative flowing from your Company's commitment to the 'Triple Bottom Line', is now a certified project under the Clean Development Mechanism of the Kyoto Protocol under the auspices of the United Nations Framework Convention on Climate Change and is generating carbon credits and contributing to the reduction in your Company's carbon footprint.

The factories at Chennai, Munger and Haridwar continued to maintain their highest standards in Environment, Health and Safety (EHS) and quality management during the year. The Chennai unit was awarded the British Safety Council 'Globe of Honour' for Environment Management. The unit was also awarded 'National Water Management' Award 2010 by CII for being an excellent water efficient unit. During the year, Chennai and Munger units were also certified for ISO 9001:2008, ISO 14001:2004 Quality Management System and have been re-certified for OHSAS 18001:2007 Occupational Health and Safety Management System. 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 world class technology, best-in-class quality management systems, multiple locations and diversified packaging solutions portfolio, the business is well poised to continue servicing all the requirements of your Company's FMCG businesses and to rapidly grow its external trade.

D. AGRI BUSINESS

Cigarette Leaf Tobacco

Against a backdrop of a decline in global leaf production in key regions over the past two to three years and low inventory pipeline with international cigarette majors, the current year saw global leaf production grow by 4% with countries like Zimbabwe, Malawi, Tanzania, India and Brazil driving overall supply. On the demand side, the year witnessed global cigarette production remaining flat, primarily as a result of the slow and tentative recovery in the advanced economies, as well as the growth in illicit trade triggered by excessive taxation. This dramatically altered the demand-supply scenario during the year. In India, leaf tobacco crop grew by 14% in 2010 supported by a favourable price trend.

With global cigarette production tempered and record crop sizes projected in key tobacco growing countries like Brazil, Zimbabwe, Malawi and European Union, it is expected that global leaf demand would be benign in the near term. A correction in this cycle is expected in the medium term with the anticipated revival of the global economy coupled with growing consumption in Asian and African countries. In the Indian market, it has been seen that the consumption of other non cigarette forms of tobacco, particularly chewing tobacco, is growing at a much faster rate.

Despite these adverse conditions, your Company was able to sustain the demand for Indian tobacco through focused strategies based on delivering superior value to the customer, variety offerings in the burley and oriental segment through collaborative and customised programs and an enlarged customer base. The business is exploring market opportunities in the growing smokeless tobacco segment through customised offerings. While flavour has not been a source of competitive strength for Indian tobaccos, focused attention to reliability, scalability, product integrity, service and competitive pricing would continue to be the imperatives to sustain and grow market share.

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

Your Company's pioneering R&D efforts on varietal improvements in leaf tobacco was further fortified with the development of various burley and oriental type tobaccos. These initiatives such as improved nursery management designed for higher efficiencies in seed use, optimised usage of crop production chemicals and other agronomic practices are improving the potential of the newly developed varieties. These efforts are not only helping to secure global demand for Indian leaf tobacco, but also in improving the socio-economic status of the small/tribal farmers and providing enhanced value to global customers. Vertical growth to achieve enhanced

[Your Company with its unmatched R&D capability, state-of-the-art facilities, unique crop development and extension expertise, deep understanding of customer and farmer needs, is well poised to leverage emerging opportunities for Indian leaf tobacco.]

productivity continues to be the focus area of research and crop development initiatives. Similarly, substantial progress has been made to strengthen the pipeline of new hybrid combinations for deployment in the growth zones. 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. Significant milestones were achieved towards the development of a new curing regime in tobacco and further experimental trials are underway to bring forth a unique product portfolio.

Your Company continues to focus on maintaining the highest quality and safety standards in all its units. During the year, the Chirala unit won the 'Globe of Honour' award from the British Safety Council for best environmental practices and the 'Best Management Award' from the Government of Andhra Pradesh for industrial relations & employee welfare. The Anaparti unit won the Gold Medal and Silver Medal awards for Quality Circles in competitions held by 'Quality Circle Forum of India' at regional level competitions and 'Distinguished Awards' at National level competitions. Total Cost Management Maturity Model Level 3 from CII for Total Cost Management was awarded to both the Chirala and Anaparti units.

In order to service the growing demand for leaf tobacco, your Company is in the process of commissioning additional capacities in Karnataka. The business is in the process of reorganising the supply chain to address the ever increasing complexity of the leaf supply chain from a strategic cost management perspective.

Your Company with its unmatched R&D capability, state-of-the-art facilities, unique crop development and extension expertise, deep understanding of customer and farmer needs, is well poised to leverage emerging opportunities for Indian leaf tobacco and sustain its position as a world class leaf tobacco organisation.

Other Agri Commodities

Global trade grew by 12% on the strength of robust growth witnessed in developing and emerging economies as also on account of the fiscal stimulus provided by advanced nations. This has been achieved despite the sluggish post recession recovery in the world economy, reduced availability of credit and trade volumes which are still ruling below the pre-recession levels in countries severely affected by the financial crisis. Food grain production in the country is expected to touch 232 million tonnes representing a growth of 6.4% over the previous year. Despite this impressive growth, food inflation continued to be high and a cause of worry. Consequently, the ban on export of some key commodities like wheat, rice and sugar continued during the year.

A decline in global soya bean production led by a sharp drop in Argentina resulted in good demand for Indian soya bean and soya meal in the international markets. Aided by good monsoons in the crop growing regions, Indian soya crop output registered an increase over last year. Your Company, a leading player in the Indian soya bean market, was able to benefit from this opportunity and record significant increase in business size and profits. The agri-business model has been reoriented to focus on providing comprehensive assistance to customers on all aspects of commodity sourcing viz. procurement, inventory, logistics and costs. The target customer segments comprise brand owners, private labels, food processors and exporters. The new model has enabled your Company to deliver relatively risk free returns even as the markets remained volatile. Your Company proposes to further strengthen this model to scale up business in the future.

Your Company continued to source identity preserved, specific high quality wheat through its e-Choupal channel for its Foods business. The initiative of procuring a part of its wheat requirement directly at the processing plants on a 'just-in-time' basis was scaled up during the year. This yielded significant reduction in freight, warehousing and other operational costs without diluting its stringent quality norms.

In sourcing chip stock potato for its 'Bingo!' potato chips business, your Company continued its initiative of

> New initiatives launched will progressively transform the e-Choupal network into an all-weather venture – relatively de-risked from regulatory uncertainties and market volatility – even as it continues to provide strategic sourcing support to your Company's Foods business as well as to serve as an efficient intervention model for rural development.

sourcing locally grown potatoes (closer to manufacturing units) in order to provide encouragement to local farmers and to minimise logistics costs. During the year, 57% of the consumption at your Company's Haridwar processing plant was sourced locally. Trials on development of new varieties and new areas continued during the year.

India is the world's largest producer, consumer and exporter of spices. Exports of spices from India have been growing at 16% and the domestic market for branded spice powders is growing at 11%. With the growing concerns of food safety and product integrity, there is an increasing demand for suppliers with 'end-to-end' capabilities having complete custody of the supply chain, supported by appropriate technology to deliver quality and augmented with traceability management systems to provide the required product assurance. Your Company seeks to harness this opportunity by building a business model based on customised products and services with requisite crop development, state-of-the-art infrastructure and tailor made products and processes to garner an increasing share of the fast growing domestic and export market. In the last five years, the spices business, apart from providing support to the 'Aashirvaad' range of spice powders has gained considerable market standing amongst large domestic and export customers as a supplier of assured quality with customised processes and infrastructure, with a significantly high level of 'source credibility'.

Your Company's initiative of marketing Kisan Credit Cards on behalf of the State Bank of India continued to receive encouraging response from the farmers. Credit camps were organised by your Company to help farmers improve awareness of Kisan Credit Cards, and were received enthusiastically by the farming community. This increased awareness and continuous communication at the field level, significantly improved the quality of documentation, lowered application rejection levels while improving turnaround times.

The rural retailing business of your Company continued to make good progress by registering an overall increase in sales by 87% facilitated by expansion of product range, introduction of reputed brands of apparel, footwear and other products at affordable prices and quicker product replenishment. The 'Kisan Vikas Yojana', a unique customer loyalty scheme designed to cater to the requirements of the farmers was received very well by the farming community. The range of agri-inputs was expanded to include products and brands specifically to meet local requirements. This resulted in a 90% increase in sales of agri-inputs. Your Company also organised mass consumer awareness programmes - 'Choupal Mahotsav' in the premises of the stores, which comprise of product / brand familiarisation, product demonstration and entertainment. Based on the considerable interest evinced by customers towards this programme, as evident in the enhanced footfalls at your Company's stores, plans are afoot to scale up the programme in the coming years.

Last year, your Company launched an initiative to strengthen and expand the distribution reach of its e-Choupal network for FMCG products in the rural markets. The year saw throughputs increasing by more than 40%. Based on the learnings over the last few years, your Company now proposes to synchronise its rural marketing and rural distribution businesses. Towards this end, your Company has piloted convergence programmes engaging a large number of rural consumers. These convergence programmes which are called 'Choupal Haats', focus on product awareness, demonstration and brand marketing and targets higher availability of quality FMCG products in rural retail outlets.

Last year, your Company had launched an employment portal 'Rozgarduniya.com' in alliance with Monster India – an online career and recruitment firm, to assist the rural youth in finding jobs in the non-agricultural sector. During the year, the initiative was extended across several locations and a large number of rural youth were registered for employment search. The portal also partnered many companies who are potential employers. Your Company has definite plans to increase the number of partners, geographical reach and sectors under this portal.

Your Company has piloted a 'Market Based Partnership for Health' programme in alliance with United States Agency for International Development (USAID) and other partners. The pilot, which has been launched in Gonda and Chandauli districts of Uttar Pradesh focuses on improvement of maternal and child health and general hygiene and thereby reducing mortality rates. Under the programme, several village health workers have been trained. These village health workers will create awareness among the rural womenfolk and will market products from partnering companies which address health and hygiene issues. In the year ahead, your Company plans to focus on market activation through these convergence platforms, awareness creation through village level contacts by village health workers and making the products available at the villages.
These initiatives will progressively transform the

e-Choupal network into an all-weather venture – relatively de-risked from regulatory uncertainties and market volatility – even as it continues to provide strategic sourcing support to your Company's Foods business as well as to serve as an efficient 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. In view of the general exemption granted by the Ministry of Corporate Affairs, the report and accounts of subsidiary companies are not required to be attached to your Company's Accounts. Shareholders desirous of obtaining the report and 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 downloadable format.

ITC Global Holdings Pte. Limited, Singapore ('ITC Global'), a subsidiary of your Company, was under Judicial Management from 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, 2010 or to make available copies of the same for inspection by shareholders.

Surya Nepal Private Limited

The unsettled political environment in Nepal continued through the year under review. After several months of functioning under a caretaker Prime Minister, a coalition government assumed charge but the absence of consensus amongst coalition partners stalled the formation of a full cabinet.

Social, economic and political disruptions continued to take place from time to time. Workers of several companies in Nepal, including those at the company's factories, went on strike on 27th March, 2011, demanding inter-alia, 100% increase in wages. While the factories have since resumed normal operations, negotiations involving various unions, the Government of Nepal and industry continue. While GDP growth for the financial year ending mid July 2011 is estimated at 3.5%, such tensions coupled with the political uncertainties have restrained the economy from performing at a higher level.

Amidst the challenging operating environment, the company maintained its growth trajectory during the year under review. In the twelve-month period ended 14th March, 2011 (30th Falgun 2067), the company recorded a 25% growth in sales with Gross Turnover (net of VAT) increasing to Nepalese Rupees (NRs.) 1256 crores from NRs. 1005 crores in the previous year. Profit After Tax at NRs. 237 crores increased by 31% over the previous year. The company retains its status as the single largest private sector contributor to the exchequer accounting for about 3.5% of the total revenues of the Government of Nepal.

The company consolidated its leadership position in the cigarette market through its investments in product development and quality. Despite the agro-climatic challenges of growing tobacco in Nepal, the company's continuous engagement with tobacco farmers from the stage of seed development to crop harvesting have helped in enhancing productivity and quality at the farm level, thereby enhancing returns to the farmers. Encouraged by the interventions of the company, farmers have sharply stepped up the acreage under tobacco cultivation. Efforts are underway to further improve the quality of the domestic grades of tobacco.

On the manufacturing front, the company continued to invest in new technology cigarette making and packing lines, additional infrastructure and development of human talent to sustain superior and consistent product quality and augment capacity. Energy conservation measures were further reinforced. Construction of a second cigarette factory near Pokhara has commenced and will position the company well for servicing consumer demand for its products over the longer term.

The garments export business, while continuing to service orders for the 'John Players' and 'Wills Lifestyle' range of apparels, strengthened its forays into new export markets and increased such export volumes significantly over the previous year.

In the domestic garments market, 'John Players' continued to retain its leadership status in the branded apparel segment while 'Springwood', the company's mass market brand, positioned as an alternative to low price imports from China and South East Asia, has further consolidated its position in the 'value for money' segment.

In the Safety Matches business, the company's brand 'Tir', has established a strong consumer franchise within a few years of its launch.

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, in collaboration with Nepal Tourism Board.

The company declared a dividend of NRs. 90/- per equity share of NRs. 100/- each for the year ended 16th July, 2010 (32nd Ashad 2067).

ITC Infotech India Limited

While global Information Technology (IT) spends in hardware and software improved in 2010, growth in IT Services was relatively moderate. Further, in the US, although the recessionary conditions eased towards the latter part of the financial year, client budgets continued to be tightly monitored. These trends reflect the continuing uncertainty during the economic recovery. Surveys by global analysts suggest that IT services are expected to grow during the next 24 months on the back of increased IT spends on implementation of software application systems and infrastructural support.

Despite the sluggish market conditions, the company grew total income for the year by 13%. During the year, the business focused on building differentiated capability and in strengthening its sales and technical delivery teams. Although these investments, predominantly in manpower, impacted margins for the year, it has at the same time strengthened its capability platform for future growth.

For the year under review:

(a) ITC Infotech India Limited registered an Income of ₹ 426.42 crores (previous year ₹ 377.71 crores) and a Profit After Tax of ₹ 7.46 crores (previous year ₹ 34.01 crores);

(b) ITC Infotech Limited, UK, (I2B) a wholly owned subsidiary of the company, registered a Turnover of GBP 22.22 million (previous year GBP 19.44 million) and a Net Profit of GBP 1.03 million (previous year GBP 0.69 million).

(c) ITC Infotech (USA), Inc., (I2A) a wholly owned subsidiary of the company, together with its wholly owned subsidiary Pyxis Solution LLC, registered Total Revenues of US$ 38.43 million (previous year US$ 30.99 million) and a Net Profit of US$ 0.01 million (previous year US$ 0.08 million).

In line with its focus on continuously providing quality deliverables to its customers, the company's delivery processes have been certified at a maturity Level 3 of the Software Engineering Institute's (SEI) Capability Maturity Model Integration (CMMI) framework. The company continues to invest in improving program management processes to ensure the highest levels of quality in technical delivery.

As mentioned earlier, the company also continues to invest in building differentiated capabilities. Some of these capabilities include solutions in the areas of 'customer loyalty', end-to-end transformational services in IT outsourcing and Global Reporting Initiative (GRI) based sustainability reporting. Further, the company has maintained its partnerships with the world's leading Independent Software Vendors (ISVs) in building niche solutions to address white spaces and joint go-to-market initiatives. ITC Infotech India has been ranked 26th in the Leader's Category for the 2011 Global Outsourcing 100 by the International Association of Outsourcing Professionals (IAOP). This is the fifth consecutive year that the company has featured in this prestigious list.

The partner co-innovation strategy and the focused strategy of launching solutions which demonstrate value to clients in addressing some of their critical business challenges such as effective client relationship management and lowering the cost of operations, have yielded encouraging results and led to the acquisition of several marquee, high potential clients and a growing funnel of prospects. During the year, the company has renewed its focus on India and the larger Asia-Pacific region and this has already resulted in significant traction in acquiring new customers, particularly in India. Market focus has also been extended to specific regions in Western Europe.

Based on a survey commissioned through a reputed external agency, existing customers of the company have given satisfaction scores which are amongst the highest in the industry.

On the talent front, as expected, there has been a build-up of pressure on availability of quality talent. The company has addressed this through a process of growing and nurturing talent internally through continuous employee engagement and training programs.

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 Limited

During the year, the company registered an Income of ₹ 27.72 crores and a Profit After Tax of ₹ 19.97 crores.

As stated in earlier Reports, a petition was filed by an individual in the High Court at Calcutta, seeking an injunction against the company's Counter Offer to the shareholders of VST Industries Limited, made in accordance with the Securities and Exchange Board of India (Substantial Acquisition of Shares & Takeovers) Regulation, 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 ₹ 192 crores during the year and posted a net loss for the year of ₹ 59.65 crores against ₹ 16.24 crores loss in the previous year, primarily as a result of one-time separation costs (₹ 37 crores) and steep increases in input costs.

During the year under review, margins in the Matches business continued to remain under pressure due to a very sharp escalation in the prices of raw materials, primarily wood, splints, paperboard and key chemicals. Several measures were taken to rationalise costs and improve margins in this highly competitive category.

Availability of critical raw materials 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 saplings to farmers in northern India. Apart from creating a long term sustainable supply of a critical raw material, the company's initiative of creating sustainable and meaningful linkages across the farmer community is helping to create employment and livelihood and in improving the green cover in the region.

The continuing differentials in taxation between the mechanised and non-mechanised sectors have forced the company to evaluate alternatives to arrive at a viable business model. As a first step, a voluntary separation scheme was effected at Chennai and Ambernath factories, during the year, to enable better leveraging of the underlying asset base.

The Engineering business of the company continued to be supported by steady orders with the improving investment climate. 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.

The initiatives taken by the company during the year to restructure its operations are expected to yield positive results in the years to come.

Srinivasa Resorts Limited

During the financial year ended 31st March, 2011, the company recorded an Income of ₹ 56.04 crores (previous year ₹ 54.57 crores) and a Profit Before Tax of ₹ 12.85 crores (previous year ₹ 14.11 crores). Profit After Tax stood at ₹ 9.26 crores (previous year ₹ 9.62 crores) after providing for income tax of ₹ 3.59 crores (previous year ₹ 4.49 crores).

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

The hotel received the 'Times Food Guide' awards for 'Kebabs & Kurries' and 'Dakshin'- with both being rated the best restaurants in their respective categories.

The Board of Directors of the company has recommended a dividend of ₹ 2/- per equity share of ₹ 10/- each for the year ended 31st March, 2011.

Fortune Park Hotels Limited

During the financial year ended 31st March, 2011, the company recorded an Income of ₹ 18.01 crores (previous year ₹ 14.92 crores) and earned a Profit After Tax of ₹ 4.12 crores (previous year ₹ 2.13 crores) after providing for income tax of ₹ 1.90 crores (previous year ₹ 1.20 crores).

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 63, with a total room count of 4,915. Of these, 38 properties are operating hotels. Additionally, 4 hotels are slated to be commissioned during the course of the financial year 2011-12. The remaining 21 hotel projects are under various stages of development. The company seeks to be a leading 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 ₹ 7/- per equity share of ₹ 10/- each for the year ended 31st March, 2011.

Bay Islands Hotels Limited

During the year 2010-11, the company earned an Income of ₹ 1.12 crores (previous year ₹ 1.01 crores) and Profit After Tax of ₹ 0.76 crores (previous year ₹ 0.68 crores) after providing for income tax of ₹ 0.30 crores (previous year ₹ 0.27 crores).

The Board of Directors of the company has recommended a dividend of ₹ 50/- per equity share of ₹ 100/- each for the year ended 31st March, 2011.

Landbase India Limited

Landbase India Limited owns and operates the Classic Golf Resort, a Jack Nicklaus Signature Course, near Gurgaon. 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 under construction and the project is progressing as per schedule.

During the year, the company issued and allotted to ITC Limited, 25,00,000 Redeemable Preference Shares of ₹ 100/- each for cash at par, aggregating ₹ 25 crores. The proceeds from the Preference Share issue are being utilised by the company for the construction of the destination luxury resort.

Technico Pty Limited

The company continued to focus on the commercialisation of its 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.

During the year under review, Technico's leadership in the production of early generation seed potatoes and strong agronomy skills have been leveraged by your Company's Branded Packaged Foods business for its chip stock sourcing operations for the 'Bingo!' brand of potato chips as well as by the Other Agri Commodities business in servicing the seed potato requirements of its farmer base in key States.

For the year under review:

a) Technico Pty Limited, Australia registered a Turnover of Australian Dollar (A$) 1.58 million (previous year: A$ 1.95 million) and a Net Profit of A$ 0.10 million (previous year: A$ 0.71 million). Sales and Post-tax profits for the year under review were adversely affected by the appreciation in the Australian Dollar versus the US Dollar, which is the invoicing currency for the company.

b) Technico Agri Sciences Limited, India registered a Turnover of ₹ 47.65 crores (previous year: ₹ 54.31 crores) and a Profit After Tax of ₹ 7.02 crores (previous year: ₹ 14.02 crores). During the year under review, a record potato crop drove down table potato prices. Consequently, sales realisation during the year for seed potatoes were also lower compared to the prices achieved in the previous financial year. While this resulted in lower Post-tax profits relative to the previous year, the company was successful in wiping-out its accumulated losses and looks forward to the future with confidence.

c) Technico ISC Pty Limited, a dormant entity since its incorporation, was voluntarily deregistered on 3rd November, 2010.

d) Technico Asia Holdings Pty Limited, Australia, Technico Technologies Inc., Canada and Technico Horticultural (Kunming) Co. Limited, China
   - There were no major events to report with respect to the above companies.

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, marketing research and business development services related to the US Market for FMCG and other products.

During the year under review, KMM continued to face a challenging operating environment, post the Federal Excise Tax increases of the previous year, which resulted in a decline of cigarette volumes and the end of the Roll Your Own (RYO) industry segment. In the year under review, the Food and Drug Administration (FDA) initiated cigarette packing changes in June 2010 and most States adopted the costlier Low Ignition Propensity (LIP) cigarette law. Discontinuation of RYO coupled with regulatory changes viz., changes in LIP cigarette law, inter-alia, resulted in inventory obsolescence. The company used this occasion to rationalise its product offers, while focusing on developing its brands.

The year also saw the large multinational cigarette companies operating in the US, investing in the discount segment in which the company operates. Growth of Pipe tobaccos as a substitute for RYO, cigarette manufacturing machine at retail, presence of flavoured little cigars akin to cigarettes, discount cigarettes manufactured in Native American reservations and illicit trade, all challenged the company's ability to drive volume upturns. Consequently, revenues declined by 32% over the previous year. However, improved productivity and cost saving actions enabled improved profitability.

The FDA is expected to announce several new initiatives in the next two years to regulate product standards and packaging of cigarette products. The company will continue to review the regulatory and market environment for tobacco, to fine-tune its strategies in the US Market.

ITC Global Holdings Pte. Limited

The Judicial Managers had been conducting the affairs of ITC Global Holdings Pte. Limited ('Global') from 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 your 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 your 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 again filed a Motion in the Singapore High Court praying for setting aside the said Writ of Summons. On 18th November, 2010, the Assistant Registrar of the Singapore High Court passed an order dismissing your Company's motion to set aside the Writ of Summons. Your Company has filed an appeal in the Singapore High Court against the Assistant Registrar's decision.

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. The company has 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

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

NOTES ON JOINT VENTURES

ITC Filtrona Limited

Gross sales for the year ended 31st December, 2010 at ₹ 139 crores represents a growth of 3% over the previous year. Pre-tax profits at ₹ 12.1 crores was adversely impacted by high input costs and pricing pressures.

The company continued its modernisation programme aimed at upgrading its filter making machines to sustain the company's technological edge over competition and to further consolidate its position as the market leader. In addition, the company plans to augment its capacity to address future market potential. While striking a balance between the need to sustain investments for growth and the shareholder's expectation for growing income, the Directors of the company have recommended a dividend of ₹ 9/- per Equity share of ₹ 10/- each for the year ended 31st December, 2010.

While quality continues to be its prime focus, innovation and support to customers for product development has resulted in the company attaining the status of a preferred supplier.

Maharaja Heritage Resorts Limited

Maharaja Heritage Resorts Limited, a joint venture of your Company with Jodhana Heritage Resorts Pvt. Limited, currently operates 53 heritage properties under the 'WelcomHeritage' brand and continues to grow, with additional 14 properties under development.

Espirit Hotels Private Limited

During the year, your Company entered into a joint venture towards developing a luxury hotel complex at Begumpet, Hyderabad. Under the terms of the Joint Venture Agreement, your Company acquired 26% equity stake in the joint venture company, Espirit Hotels Pvt. Ltd. (EHPL) and will, inter-alia, provide hotel management services to EHPL under an Operating Services Agreement upon commissioning of the hotel.

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 establish and monitor the specific profiles including both strategic risks and operational risks. The process includes the prioritisation of risks, selection of appropriate mitigation strategies and periodic reviews of the progress on the management of 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 your 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 realisation 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 your 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 your 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 with 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 your Company's risk management policies and systems. It also engaged in overseeing financial disclosures.

HUMAN RESOURCE DEVELOPMENT

The human resource philosophy and strategy of your Company has been designed to attract and retain the best talent on offer. In practice it creates and nurtures workplace challenges that keep employees engaged, motivated and innovative. This talent has, through strong alignment with your Company's vision, successfully built and sustained your Company's standing as one of India's most admired and valuable corporations despite unrelenting competitive pressures.

Your Company has conscientiously fostered a culture that rewards continuous learning, collaboration and development across the organisation to be future-ready and meet the challenges posed by ever-changing market realities. Employees are your Company's most valuable assets and your Company's processes are designed to empower employees and support creative approaches in order to create enduring value. Your Company's unflagging commitment to investing in talent development ensures performance and achievement of the highest order.

Your Company's human resource management systems and processes aim to enhance organisational capability and vitality, so that each business is world class and equipped to seize emerging market opportunities. The strategy of organisation and its ongoing emphasis on developing and nurturing 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 a future-ready organisation through continuous learning, innovation and world class execution.

Your Company's unswerving belief in the mutuality of interests of key stakeholders binds all employees to a shared vision and purpose, thus providing it with the vital force for winning in the market place. During the year under review, your Company successfully concluded long-term agreements at several of its manufacturing units and hotel properties, strengthening the collaborative spirit across all sections of employees. Continuous investment in contemporary management practices and manufacturing systems has resulted in significant enhancement in quality and productivity.

Your Company's employees will relentlessly strive to deliver world class performance, innovate newer and better ways of doing things, uphold human dignity and foster team spirit and discharge their role as 'trustees' of all stakeholders with true faith and allegiance. Over 24,000 of your Company's employees have collectively envisioned the next hundred years with commitment to realising your Company's vision of creating enduring value for your Company and for the country.

SUSTAINABILITY – CONTRIBUTION TO THE 'TRIPLE BOTTOM LINE'

The societal challenges arising out of widespread poverty and alarming degradation of the environment, exacerbated now by the spectre of climate change, continue to be major threats for the future sustainability of the economy and indeed the nation. It is critically important for all organs of society to recognise these challenges and align its forces to find innovative solutions to ensure a secure, sustainable and equitable future. Your Company has achieved wide acclaim and significant business advantage by foreseeing these challenges and crafting sustainable and inclusive growth strategies that are in consonance with a larger societal purpose. Your Company's 'Triple Bottom Line' philosophy of creating value that encompasses the economic, environmental and social dimension summarises this approach and has indeed made your Company a global exemplar of Corporate Citizenship.

Your Company's environmental leadership is manifest in the unique position it has achieved as the only company in the world, of comparable size, to be 'carbon positive', 'water positive' and 'waste recycling positive'. These path-breaking initiatives taken by your Company have not only helped in demonstrating its leadership in responsible corporate stewardship, but have also enabled significant cost savings and nurtured the creation of environmental and societal capital, transforming the lives of many living at the margin. Your Company's sustainability initiatives are in line with the Prime Minister's vision for corporate participation in ensuring sustainable economic development with equity and are also in full alignment with the Government of India's National Action Plan on Climate Change.

Your Company's 7th Sustainability Report published during the year and independently assured by Ernst & Young is in accordance with the Global Reporting Initiative G3 Guidelines and at the highest A+ level. The report, ranked 7th globally in 'best carbon disclosure' by the Corporate Responsibility Reporting Awards, details your Company's progress across all dimensions of the 'Triple Bottom Line'. The 8th Sustainability Report covering the sustainability performance during the year 2010-11 is in the process of publication and will continue to be independently assured by Ernst & Young.

Your Company has pro-actively pursued a low carbon growth strategy that addresses climate change mitigation and adaptation through several innovative and pioneering initiatives. This integrated strategy encompasses large scale afforestation initiatives for carbon sequestration, increasing use of renewable energy in its operations, continuous efforts towards energy conservation and efficiency, establishment of inspirational green buildings, extensive watershed development programmes and promotion of sustainable agricultural practices amongst farming communities. This is manifest in your Company's Social and Farm Forestry programme that covers nearly 1,14,000 hectares, its Integrated Watershed Development programmes that spans nearly 65,000 hectares of water-stressed land, as well as initiatives under the credo of 'Responsible Luxury' of your Company's Hotels business which is today the world's greenest hotel chain, with all luxury hotels being LEED Platinum rated. In the process, your Company has significantly added to the environmental and social capital of the nation.

Your Company has actively participated in market-based mechanisms for mitigating the impact of climate change under Clean Development Mechanism (CDM) developed by the United Nations Framework Convention on Climate Change (UNFCCC). Eight CDM projects are presently registered with the UNFCCC and many of them have already started earning carbon credits. In addition, a number of new CDM projects are also at various stages of registration. Furthermore, your Company is also positioned to take advantage of other opportunities in voluntary carbon markets and India specific schemes on the anvil, such as the Perform, Achieve and Trade (PAT) promoted by the Government of India.

Your Company's focus on carbon reduction is also reflected in its commitment to reduce its dependence on fossil fuel based energy. Towards this, your Company has progressively made investments in renewable resources of energy. In addition to the 20.1 MW wind energy capacity set-up earlier, a 90 tonnes per hour biomass fired boiler has also been in operation for over a year. Reinforcing this capacity, your Company has now installed a 21 MW wind energy unit in Karnataka and a 2.5 MW unit in Rajasthan. These investments and better utilisation of biomass in the Paperboards and Specialty Papers business ensure that 35.3% of your Company's total energy requirements come from renewable sources.

Recognising that more than half of India's districts are acutely water stressed, your Company has developed several water conservation initiatives to enhance its positive water footprint. These include adopting the best available technologies and benchmarked practices to achieve zero effluent discharges, enhance rainwater harvesting both within units and in socially relevant areas as well as provide treated wastewater for irrigation as an alternate option for farmers in water stressed areas. All these initiatives have resulted in the creation of rainwater harvesting potential which is over two times the net water consumption of your Company.

Continuing in the low carbon growth path, your Company has been at the forefront of establishing iconic green buildings certified to the highest levels of energy efficiency and environmental design. A journey that began with the ITC Green Centre in Gurgaon (the largest

> Your Company's leadership in sustainability is manifest in the unique position it has achieved as the only Company in the world, of comparable size, to be 'carbon positive', 'water positive' and 'solid waste recycling positive'. ITC's businesses create sustainable livelihoods for over 5 million people.

LEED - Leadership in Energy and Environment Design - Platinum rated office space in the world in 2004) and the ITC Gardenia in Bengaluru (the World's largest LEED Platinum rated hotel), has now inspired the implementation of validated green/sustainability standards in existing hotels and factories. As a testament to these efforts, during the year under review, ITC Maurya in New Delhi became the first LEED Platinum rated hotel worldwide in the existing building category, followed closely by ITC Grand Central, ITC Maratha, ITC Windsor, ITC Mughal, ITC Sonar and ITC Kakatiya, all of whom received the LEED Platinum rating from the US Green Building Council (USGBC). This remarkable achievement makes your Company the greenest hospitality chain in the world.

Your Company's 'WOW – Wealth Out of Waste' programme has been instrumental in creating awareness amongst the public on the benefits of the 'Reduce-Reuse-Recycle' approach. The waste recycling initiatives implemented by the programme have contributed significantly to the protection of the environment, as well as in improving civic amenities, public health and hygiene. This initiative has received several accolades from the government, NGOs, commercial institutions and the public at large, including the prestigious 'Papyrus Award' from the Bureau of International Recycling (BIR). Your Company benefits from the generation of sustainable raw material sources at competitive prices, while conserving precious environmental resources and also generating considerable livelihood opportunities.

All units of your Company are mandated to achieve total recycling of solid waste generated by their operations. The Paperboards and Specialty Papers business, which accounts for more than 91% of total waste generated in your Company, has recycled over 99% of the total waste generated by its operations. This business has also recycled an additional 1,19,002 tonnes of externally sourced waste paper, thereby reinforcing your Company's waste recycling positive status for the 4th consecutive year.

Your Company continued with its commitment towards ensuring a safe and healthy workplace for all employees, guests and visitors, by maintaining the highest levels of safety and occupational health standards. All units of your Company have best-in-class infrastructure, competent resources and state-of-art fire detection and protection measures. The Environment, Occupational Health and Safety Management Systems in all manufacturing units and hotels conform to the best international standards. Overall accident statistics show a continual improvement trend which has been reaffirmed by several national & international safety awards and certifications.

The 'CII – ITC Centre of Excellence for Sustainable Development', set up by your Company and the apex national chamber CII in 2006, continues its endeavours to promote sustainable business practices amongst corporates across the country. It has enhanced its activities to meet the core objectives of creating awareness, promoting thought leadership and building capacity amongst Indian enterprises in their quest for sustainable growth solutions. The 'CII – ITC Sustainability Awards', instituted to recognise excellence in sustainability performance, have honoured 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 is today playing a major role in engaging with policy makers to create an environment that encourages the adoption of sustainable business practices. The Centre is a consulting partner in several policy interventions such as Green Guidelines for Public Procurement, Low Carbon Expert Group of the Planning Commission, National Innovation Council, Ministry of Corporate Affairs on CSR policy and is also represented on the Board of the Central Pollution Control Board and other bodies. During the year, the Centre introduced three new service lines in the areas of stakeholder engagement, climate change strategies and training of sustainability assurance professionals. It is the only certified trainer for sustainability assurance professionals in South-East and South Asia.

In pursuit of your Company's commitment to the Triple Bottom Line, your Company's Social Investments strategy continues to be driven by the needs and concerns of two important stakeholders - the rural communities with whom your Company's Agri business has forged a long and enduring partnership and the communities (both rural and urban) residing in close proximity of your Company's manufacturing units. The Social Investments Programme aims to address certain key challenges that these stakeholders face in terms of livelihoods. For rural India, the major challenge is that of a deteriorating agri-production base that is likely to worsen, due to the adverse impacts of climate change. For households around the units, the challenge is that of providing the necessary social infrastructure to enable a decent quality of life.

Your Company addresses these challenges through a range of activities with the overarching objective of creating sustainable sources of livelihood for the stakeholders: (a) For rural communities, the attempt is to diversify farming systems by broad-basing the farm and off-farm based livelihoods portfolio of the poor. This is sought to be achieved through an integrated approach that includes the development of wastelands, watersheds, agriculture and milch animals. (b) In the catchment habitations of manufacturing units, your Company's focus is on nurturing and developing social capital to create a level playing field in the market for relevant and contemporary skills and to compete with the demands for higher productivity. This is being achieved through the promotion of gender-centric economic empowerment programmes for women, enhancing the quality of primary education and improving health and sanitation conditions focusing on the mother and child.

The footprints of your Company's Social Investments Programme has spread to 51 districts in the States of Andhra Pradesh, Bihar, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Orissa, Rajasthan, Tamil Nadu, Haryana, Uttar Pradesh and West Bengal.

Your Company's pioneering Social and Farm Forestry initiative covers nearly 1,14,000 hectares today and is aligned to your Company's pulpwood supply chain which creates a sustainable source of raw material for your Company and also meets the energy requirements of rural households. Within this, the Social Forestry Programme covers 19,820 hectares in 541 villages, impacting 24,382 poor households.

The coverage of your Company's Soil and Moisture Conservation programme, designed to assist farmers in identified moisture-stressed districts, increased by another 13,204 hectares. 416 water-bodies were created during the year. The total area covered under the watershed programme cumulatively stands at 64,498 hectares. A significant achievement this year was the partnerships forged with a number of State governments for implementing watershed programmes. Agreements have been signed with the governments of Maharashtra, Rajasthan and Madhya Pradesh to bring 92,000 hectares under soil and moisture conservation over the next five years.

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. The programme for improvement 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 enable them to live with social and economic dignity. 49 Cattle Development Centres were established during the year, taking the total to 210 centres, which provided 1.67 lakh artificial inseminations during the year.

With the objective of improving the quality of life of people living in the proximity of the manufacturing units, the Women's Empowerment Programme covered 15,068 women through 1,314 self-help groups (SHG) with total savings of ₹ 206 lakhs. More than 37,000 women were gainfully employed either through micro-enterprises or assisted with loans to pursue income generating activities. Over 2,47,000 children have been covered under the Supplementary Education Programme till date, through the 2,523 Supplementary Learning Centres. Infrastructural support has been provided to 741 government schools till date.

The advances made towards contributing to India's sustainable development goals have been possible, in large measure, to your Company's partnerships with some globally renowned NGOs like BAIF Institute for Rural Development, DHAN Foundation, Foundation for Ecological Security (FES), Mysore Resettlement and Development Agency (MYRADA), Pratham, Self Employed Women Association (SEWA), Self Reliant Initiatives through Joint Actions (SRIJAN) and Watershed Organisation Trust (WOTR). These partnerships, which bring together the best-in-class management practices of your Company and the development experience and mobilisation skills of NGOs, will continue to provide innovative grassroot solutions to some of India's worst problems of development in the years to come.

R&D, QUALITY AND PRODUCT DEVELOPMENT

Your Company, over the years, has invested significantly in its Research & Development (R&D) programme to develop a unique source of sustainable competitive advantage by leveraging contemporary advances in several relevant areas of science and technology and blending the same with classical concepts of product development.

This challenging task of creating a culture of science-led product innovation in your Company was carefully addressed by appropriately identifying the required set of core competency areas of science such as Plant Breeding and Genetics, Agronomy, Microbiology, Cell Biology, Genomics, Proteomics, Silviculture and several disciplines of Chemistry. Presently, your Company's R&D Centre is staffed with world class scientists and equipped with state-of-the-art equipment for carrying out research and securing proprietary technologies for your Company's businesses.

Your Company's Agrisciences R&D team continued its efforts in evaluating and introducing several germplasm lines of tobacco and eucalyptus to increase the genetic and trait diversities in these crops, which in turn will strengthen the research programs for developing new varieties with higher yields, better quality and other relevant traits for its businesses. Several research collaborations have been initiated with globally recognised Centres of Excellence to fast track its journey towards 'proof of concepts'. These collaborations cover both Tobacco and Eucalyptus and are designed in a manner whereby your Company will gain fundamental insights to several technical aspects of plant breeding and genetics of these species. This will accelerate efforts in creating future generations of these crops with greater genetic and trait diversities, which indigenous crops currently lack, thereby supporting your Company's businesses. These outcomes have the potential of making a meaningful contribution to the nation as well.

Your Company's Biosciences R&D team continued to pursue strategies to leverage the potential of convergence amongst agricultural science, food science and the scientific dimensions of its personal care products portfolio. During the year under review, the R&D team continued to progress several long-term research platforms, which over time, will form the basis for launching new and competitively superior products.

Your Company's R&D strategy is anchored on a clear vision and road map and is supported by a well-crafted Intellectual Property strategy. With scale, speed, science and sustainability considerations, your Company's R&D is poised to deliver long term competitive advantage and play a leading role in creating significant business impact.

Pursuing your Company's relentless commitment to quality, each business is mandated to continuously innovate on processes and systems to deliver superior competitive capabilities. During the year, your Company's Hotels business extended its 'Lean' practices programme to cover more business processes, in addition to the continuing implementation of the 'Six Sigma Quality Process' supported by trained teams of black and green belts. This will further enhance capability to create superior customer value through a service excellence framework. The Paperboards, Paper & Packaging business have implemented the 'Total Productive Maintenance' (TPM) techniques in all 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 hotels have stringent food safety and quality systems certified by an 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 ₹ 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.

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 ₹ 13.09 crores and ₹ 1.73 crores for clearances of cigarettes and smoking mixtures respectively. These 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 ₹ 2 crores and ₹ 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. In the proceedings relating to Saharanpur and Munger factories, the individuals concerned have been discharged.

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 your Company in this regard. However, the State of Andhra Pradesh has filed a contempt petition in the Supreme Court claiming a sum of about ₹ 323.25 crores towards luxury tax, and a further sum of about ₹ 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 your 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, USA, a decree for US$ 12.19 million together with interest and costs against Suresh and Devang Chitalia of USA 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 your 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 your Company, the appropriate authority has passed orders in favour of your Company, and dropped those memoranda.

Meanwhile, some of the prosecutions launched by the Enforcement Directorate have been quashed by the Calcutta High Court while others 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 rising interest rates and tight liquidity conditions in the monetary system. Against the backdrop of high inflation and the consequent policy rate increases by the Central Bank, interest rates hardened across maturities. In the environment of rising interest rates, your Company by appropriately managing portfolio duration continued to improve its treasury performance within the ambit of strong risk management processes.

All investment decisions in deployment of temporary surplus liquidity continued to be guided by the tenets of Safety, Liquidity and Return. During the year, timely positioning of the portfolio in shorter maturity assets like Liquid Mutual Funds, Fixed Maturity Plans and Bank Fixed Deposits enabled your Company to take advantage of rising interest rates and enhancing yields. The portfolio mix was constantly 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 with intermittent volatility. In a scenario where the US Dollar was under pressure, your Company adopted an appropriate forex management strategy, including use of foreign exchange forward contracts and plain vanilla options to manage volatility and reduce risks/costs. However, it refrained from entering into any exotic derivative structures.

As in earlier years, commensurate with the 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, your 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 Hon'ble Calcutta High Court had admitted the Writ Petitions and ordered that no final assessment orders be passed without the leave of the Court. This status also remains unchanged.

PUBLIC DEPOSITS

Your Company's Public Deposit Scheme closed in the year 2000. As at 31st March, 2011, there were no deposits due for repayment except in respect of 2 deposit holders for ₹ 0.20 lakhs which have been withheld on the directives received from government agencies.

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

During the year, the ISO 9001:2008 Quality Management System Certification for investor servicing by Investor Service Centre (ISC) was renewed by Messrs. Det Norske Veritas (DNV) for a further period of three years. DNV also accorded Level 5 rating to ISC, the highest possible rating level, for the second consecutive year, for its systems and processes, which stands testimony to the exemplary standards of investor servicing practices by the ISC.

ISC continues to operate with an experienced team of professionals backed by state-of-the-art infrastructure and systems focused towards meeting the increasing expectations of investors and regulatory authorities.

DIRECTORS

Mr. Krishnamoorthy Vaidyanath, Wholetime Director, retired from your Company after 35 years of service, with effect from close of business on 2nd January, 2011 on completion of his term. Your Directors would like to record their appreciation of the services rendered by Mr. Vaidyanath. The Board of Directors (the 'Board') at its meeting held on 22nd December, 2010, appointed Mr. Vaidyanath as Non-Executive Director of your Company with effect from 3rd January, 2011 to draw upon his knowledge and vast experience.

Mr. Anup Singh ceased to be Additional Wholetime Director on 23rd July, 2010, the date of the last Annual General Meeting (AGM) of your Company.

Mr. Nakul Anand and Mr. Pradeep Vasant Dhobale were appointed by the Board at its meeting held on 22nd December, 2010, as Additional Wholetime Directors of your Company with effect from 3rd January, 2011.

By virtue of the provisions of Article 96 of the Articles of Association of your Company and Section 260 of the Companies Act, 1956, Messrs. Vaidyanath, Anand and Dhobale will vacate office at the ensuing AGM of your Company.

Your Board at its meeting held on 20th May, 2011, recommended for the approval of the Members the appointment of Messrs. Anand and Dhobale as Directors, liable to retire by rotation, and also as Wholetime Directors of your Company for a period of three years from 3rd January, 2011. Your Board at the said meeting also recommended for the approval of the Members the appointment of Mr. Vaidyanath as Non-Executive Director of your Company, liable to retire by rotation, with effect from the date of the ensuing AGM of your Company.

Your Board at its meeting held on 20th May, 2011 recommended for the approval of the Members the re-appointment of Mr. Yogesh Chander Deveshwar as a Director, not liable to retire by rotation, and also as Wholetime Director and Chairman of your Company, for a period of five years from 5th February, 2012.

Notices have been received from Members of your Company under Section 257 of the Companies Act, 1956 for the appointments / re-appointment of Messrs. Anand, Dhobale, Vaidyanath and Deveshwar, who have filed their consents to act as Directors of your Company, if appointed.

Appropriate resolutions seeking your approval to their appointments / re-appointment are appearing in the Notice convening the 100th AGM of your Company.

In accordance with the provisions of Article 91 of the Articles of Association of your Company, Mr. Hugo Geoffrey Powell, Dr. Basudeb Sen, Mr. Balakrishnan Vijayaraghavan and Mr. Serajul Haq Khan will retire by rotation at the ensuing AGM of your Company and, being eligible, offer themselves for re-election. The Board has recommended their re-election.

CHANGES IN SHARE CAPITAL

During the year, the following changes were effected in the Share Capital of your Company:-

(i) Increase in Authorised Share Capital

The Authorised Share Capital of your Company was increased from ₹ 500 crores to ₹ 1000 crores divided into 1000,00,00,000 Ordinary Shares of ₹ 1/- each, with effect from 23rd July, 2010.

(ii) Issue of Bonus Shares

382,67,01,530 Ordinary Shares of ₹ 1/- each, fully paid-up, were issued as Bonus Shares, in the ratio of 1 (One) Bonus Share for every existing 1 (One) Ordinary Share of ₹ 1/- each held on 4th August, 2010, being the Record Date fixed for the purpose. The Bonus Shares were allotted on 6th August, 2010.

(iii) Issue of Shares under the ITC Employee Stock Option Schemes

9,32,65,960 Ordinary Shares of ₹ 1/- each, fully paid-up, were issued and allotted during the year upon exercise of 93,26,596 Options under your Company's Employee Stock Option Schemes.

Consequently, the Issued and Subscribed Share Capital of your Company, as on 31st March, 2011, stands increased to ₹ 773,81,44,280/- divided into 773,81,44,280 Ordinary Shares of ₹ 1/- each.

The new Ordinary Shares issued during the year rank pari passu with the existing Ordinary Shares of your Company.

AUDITORS

Your 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

Details of the Options granted up to 31st March, 2011, 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.

Your Company's Auditors, Messrs. Deloitte Haskins & Sells, have certified that your 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, 2011 stood at 24,027.

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 your 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 31 employees, who were employed throughout the year and were in receipt of remuneration aggregating ₹ 60 lakhs or more or were employed for part of the year and were in receipt of remuneration aggregating ₹ 5 lakhs per month or more during the financial year ended 31st March, 2011. 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.

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 the Vision of sustaining your Company'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.

Inspired by this Vision, driven by Values and powered by internal Vitality, your Directors and employees look forward to the future with confidence and stand committed to creating an even brighter future for all stakeholders.

20th May, 2011 — On behalf of the Board
Virginia House
37 J L Nehru Road
Kolkata 700071 — Y. C. DEVESHWAR *Chairman*
India — P. V. DHOBALE *Director*

Annexure to the Report of the Directors

Statement as at 31st March, 2011, 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.

Sl. No.	Year of Grant	No. of Options Granted (i)	No. of Bonus Options Allocated* (ii)	Total (i) + (ii)	Exercise Price per Option (₹)	Adjusted Exercise Price per Option (₹)**
(A)	**ITC Employee Stock Option Scheme**					
	2001	3,39,119	–	3,39,119	779.95	–
	2002	6,27,070	–	6,27,070	617.90	–
	2003	9,99,115	1,83,501	11,82,616	679.90	453.27
	2004	8,57,208	2,85,987	11,43,195	880.45	586.97
	2005	9,72,433	4,75,638	14,48,071	1,531.65	1,021.10
	2006	60,95,625	18,30,137	79,25,762	1,814.00	907.00
	Total	**98,90,570**	**27,75,263**	**1,26,65,833**	**–**	**–**
	ITC Employee Stock Option Scheme - 2006					
	2007	55,77,343	38,29,364	94,06,707	1,661.00	830.50
	2008	59,69,437	51,30,034	1,10,99,471	1,896.00	948.00
	2009	43,46,161	42,69,672	86,15,833	2,180.00	1,090.00
	2010	42,30,600	42,21,225	84,51,825	2,923.50	1,461.75
	Total	**2,01,23,541**	**1,74,50,295**	**3,75,73,836**	**–**	**–**

* *Bonus Options were allocated in 2005-06 and 2010-11 in the same ratio as Bonus Shares issued (i.e. in the ratio of 1 Bonus Share for every 2 Ordinary Shares & in the ratio of 1 Bonus Share for every 1 Ordinary Share, respectively) in accordance with the ITC Employee Stock Option Schemes 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.*

(B)	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.

		ITC Employee Stock Option Scheme (i)	ITC Employee Stock Option Scheme - 2006 (ii)	Total (i) + (ii)
(C)	Total number of Options vested :	1,16,93,812	1,74,82,469	2,91,76,281
(D)	Total number of Options exercised : (Each Option represents 10 Ordinary Shares of ₹ 1/- each)	1,11,69,757	60,78,656	1,72,48,413
(E)	Total number of Ordinary Shares of ₹ 1/- each arising as a result of exercise of Options :	11,16,97,570	6,07,86,560	17,24,84,130
(F)	Total number of Options lapsed :	13,33,225	18,97,251	32,30,476
(G)	Variation of terms of Options :	Nil		
(H)	Money realised by exercise of Options :	₹ 1247.48 crores	₹ 623.31 crores	₹ 1870.79 crores
(I)	Total number of Options in force :	1,62,851	2,95,97,929	2,97,60,780

(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	13,750
2	N. Anand^	20,000	25	U. Lall	11,500
3	P. V. Dhobale^	20,000	26	H. Malik	13,750
4	K. N. Grant	67,500	27	A. K. Mukerji	13,750
5	A. Baijal	10,000	28	A. Nayak	20,000
6	S. H. Khan	10,000	29	A. R. Noronha	13,750
7	S. B. Mathur	10,000	30	R. Parasuram	13,750
8	H. G. Powell	10,000	31	A. Pathak	13,750
9	P. B. Ramanujam	10,000	32	S. Puri	20,000
10	A. Ruys	10,000	33	R. Rai	13,750
11	K. Vaidyanath@	67,500	34	V. L. Rajesh	9,725
12	S. M. Ahmad	11,500	35	A. Rajput	20,000
13	N. Arif	15,000	36	T. V. Ramaswamy	20,000
14	P. Banerjea	8,625	37	S. Rangrass	13,750
15	S. Basu	13,750	38	S. Janardhana Reddy	13,750
16	M. S. Bhatnagar	13,750	39	R. Senguttuvan	9,725
17	A. Chand	13,750	40	S. K. Singh	13,750
18	S. Chandrasekhar	11,500	41	S. Sivakumar	20,000
19	L. C. Chandrasekharan	15,000	42	R. Sridhar	13,750
20	B. B. Chatterjee	20,000	43	B. Sumant	13,750
21	C. Dar	20,000	44	K. S. Suresh	20,000
22	C. S. Das	13,750	45	R. Tandon	20,000
23	D. Haksar	13,750			

 # Bonus Options were also allocated consequent to the Bonus Share issue in 2010-11.
^ Options granted prior to appointment as Executive Director.
@ Options granted when he was Executive Director.

(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'.	:	₹ 6.41
(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 2010-11 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.	:	₹ 338.40 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:
(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 : ₹ 1,461.75 *(Adjusted for Bonus Share Issue 1:1)* Weighted average fair value per Option : ₹ 436.17
(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:

(L)(iii) — effect of fair value method:

Profit After Tax		**₹ in Crores**
As reported		4987.61
Add: Intrinsic Value Compensation Cost		Nil
Less: Fair Value Compensation Cost (Black Scholes model)		338.40
Adjusted Profit		4649.21
Earnings Per Share	**Basic (₹)**	**Diluted (₹)**
As reported	6.49	6.41
As adjusted	6.05	5.97

(N) — key assumptions:

(i)	Risk-free interest rate	6.91%
(ii)	Expected life	3.19 years
(iii)	Expected volatility	34.98%
(iv)	Expected dividends	1.97%
(v)	The price of the underlying shares in market at the time of Option grant *(Adjusted for Bonus Share Issue 1:1)*	₹ 1,488.50

On behalf of the Board

Y. C. DEVESHWAR *Chairman*

Kolkata, 20th May, 2011

P. V. DHOBALE *Director*

100 Inspiring Years

Annexure to the Report of the Directors
For the Financial Year Ended 31st March, 2011

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

Name	Age	Designation/ Nature of Duties	Gross Remuneration (₹)	Net Remuneration (₹)	Qualifications	Experi-ence (Years)	Date of Commence-ment of Employment	Previous Employment/ Position Held
1	2	3	4	5	6	7	8	9
Employed throughout the year and in receipt of remuneration aggregating ₹ 60,00,000/- or more per annum.								
Ahmad S M	57	Executive V.P. - Marketing (ITD)	68,58,292	33,52,091	M.A.	34	06.03.1980	ANZ Grindlays Bank Plc., Mgmt. Trainee
Anand Nakul	54	Executive Director	1,20,16,461	47,60,618	B.A. (Hons.)	31	01.12.1979	@
Chandrasekhar S	58	Services on Loan to Subsidiary Co.	60,65,958	30,02,419	B.Sc., F.C.A.	33	01.01.1978	@
Chandrasekharan L C (Dr.)	56	Chief Scientist - Research & Technology Innovation (Corp. R & D)	81,34,344	53,32,409	Ph.D.	29	01.10.2005	G.E. India, Director, Mfg. Engg.
Chatterjee B B	58	Executive V.P. & Company Secretary	74,35,678	42,55,172	B.Com. (Hons.), F.C.A., F.C.S., LL.B.	33	16.05.1983	Wacsgen, Deputy Mgr.
Dar C	55	Divisional Chief Executive - FD	83,39,246	39,18,620	B.Tech. (Hons.), P.G.D.M.	32	01.05.1981	Tata Eng. & Loco. Co., Shift Supvr.
Deveshwar Y C	64	Executive Chairman	9,59,81,297	4,72,90,589	B.Tech. (Mech.)	42	11.02.1994	Air India Ltd., Chairman & M.D.
Dhobale P V	55	Executive Director	1,04,43,973	47,75,687	B.Tech. (Chem.)	34	01.07.1977	#
Grant K N	53	Executive Director	1,29,06,201	54,69,991	B.A. (Hons.), M.B.A.	32	02.06.1980	DCM Ltd., Mgmt. Trainee
Janardhana Reddy S	62	Executive V. P. - Corporate Affairs	62,75,407	32,45,478	B.Sc. (Ag.)	38	27.12.1972	Nil
Lall U	60	Services on Loan to Tobacco Institute of India	65,87,289	32,75,565	B.A. (Hons.)	39	03.01.1972	PARCO, Officer on Spl. Duty
Malik Hemant	44	Head of TM & D (ITD)	60,06,720	29,17,717	B.A., M.B.A	22	01.06.1989	Nil
Mukerji Arup K	52	Corporate Financial Controller	62,86,166	31,29,604	B.Com. (Hons.), A.C.A.	29	01.11.1982	Gupta Chowdhury & Ghose, Jr. Officer
Nayak Anand	59	Executive V.P. - Corporate Human Resources	1,02,29,193	55,03,138	B.Sc., P.G.D.I.R.	38	14.05.1973	Nil
Pathak Arun	51	Executive V.P. - Finance (HD)	70,40,454	30,50,004	B.Com. (Hons.), F.C.A.	28	20.06.1983	Nil
Puri Sanjiv	48	Divisional Chief Executive - ITD	97,50,881	36,23,714	B.Tech.	26	20.01.1986	TELCO Ltd., Trainee
Rajput A K	55	Senior V.P. - Corporate Affairs	77,48,288	37,10,510	B.Com., M.B.A.	35	10.04.1976	Nil
Ramaswamy T V	59	Group Head - R & D, Projects, EHS	84,83,504	40,37,494	B.E., M.M.S.	37	01.07.1974	Nil
Rangrass S	50	Divisional Chief Executive - ABD - ILTD	64,42,273	28,49,451	B. Tech.	29	01.07.1982	Nil
Singh S K	54	Divisional Chief Executive - PSPD	61,34,426	30,18,074	B.Tech. (Chem.),	34	21.06.1977	#
Sivakumar S	50	Divisional Chief Executive - ABD	89,37,539	48,31,464	B.Sc., P.G. Dip. in Rural Mgmt.	28	18.09.1989	Gujarat Co-op Oil Seeds Growers' Fed. Ltd., Mgr. Mktg.
Suresh K S	51	General Counsel	83,28,864	39,86,237	B.A., B.L., P.G.D.P.M., I.R. & L.W.	28	01.09.1990	Chambers of Sri C.S. Venkata Subramaniam, Advocate
Tandon R	57	Chief Financial Officer	83,79,691	39,50,117	B.Sc., F.C.A.	33	01.01.1987	Triveni Handlooms Ltd., Finance Mgr. & Secy.
Employed for a part of the year and in receipt of remuneration aggregating ₹ 5,00,000/- or more per month.								
Gooptu T K	60	Sr. Administrator - Salaries & Retirement Funds	32,83,142	15,21,920	B.Com. (Hons.), LL.B., M.I.M.A.	39	15.11.1991	Brooke Bond (I) Ltd., Accountant, Welfare Funds
Madhok M K	57	Assistant General Counsel	5,82,220	4,77,232	B.A.(Hons.), LL.B., L.L.M.C., P.G. Dip. in H.R.M.	33	07.12.1998	Indian Navy, Dy. Director
Singh A	66	Executive Director	2,60,35,912	1,28,05,054	B. Tech. (Hons.)	43	01.03.1968	Nil
Singh L B	53	Services on Loan to Subsidiary Company	10,03,779	6,78,805	B.A. (Hons.), M.A.	30	01.07.1982	Mayo College, Teacher
Srinivasan R	59	Not Assigned - Employment Ceased w.e.f. 30th April, 2010	59,67,031	33,39,038	B.Tech. (Hons.)	37	10.09.1974	DCM Usha Sales, Mgmt. Trainee
Tandon A K	60	Sr. Legal Advisor	47,57,385	25,97,897	B.Sc., LL.B., F.C.S.	36	01.09.1982	@

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

Name	Age	Designation/ Nature of Duties	Gross Remuneration (₹)	Net Remuneration (₹)	Qualifications	Experi-ence (Years)	Date of Commence-ment of Employment	Previous Employment/ Position Held
1	2	3	4	5	6	7	8	9
Vaidyanath K	61	Executive Director	4,05,28,418	2,07,00,851	B.Com.(Hons.), M.B.A.	38	16.01.1976	Shriram Refrigeration Industries Ltd., Mgmt. Trainee
Verma P K	64	Sr. Exec. V.P.- Hotels Operations (HD)	39,53,653	22,10,167	B.Sc.(Chem. Tech.), M.B.A., Dip. in Hotel Mgmt.	39	31.01.1986	@

Abbreviations denote :

ITD	:	India Tobacco Division
PSPD	:	Paperboards & Specialty Papers Division
ABD	:	Agri Business Division
ABD - ILTD	:	Agri Business, Leaf Tobacco
FD	:	Foods Division
HD	:	Hotels Division

@ Previously employed with ITC Hotels Ltd. which was merged with the Company on March 23, 2005

Previously employed with ITC Bhadrachalam Paperboards Ltd. which was merged with the Company on March 13, 2002

Notes :

1. Remuneration includes salary, performance bonus, allowances & other benefits / applicable perquisites except contribution to the approved Group Pension under the defined benefit scheme and Gratuity Funds and provisions for leave encashment which are actuarially determined on an overall Company basis. The term ‘remuneration’ has the meaning assigned to it in Section 198 of the Companies Act, 1956.
2. Net remuneration comprises cash income less : a) income tax & education cess deducted at source.
   b) manager’s own contribution to Provident Fund.
3. All appointments are/were contractual in accordance with terms and conditions as per Company rules.
4. None of the above employees is a relative of any Director of the Company .

On behalf of the Board

Y. C. DEVESHWAR *Chairman*

P. V. DHOBALE *Director*

Kolkata, 20th May, 2011

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 and increase contributions from renewable sources of energy. Various key performance indicators like specific energy (energy consumed per unit of production), specific energy costs and renewable energy contributions were continuously tracked to monitor alignment with the Company's overall carbon strategy. Innovative ways and new technologies were constantly explored to bring about alignment with the Government of India's National Action Plan on Climate Change. Some of the measures adopted across the Company were:

I. Optimisation in energy consumption by replacing air-cooled chillers with higher efficiency water-cooled chillers, installing high efficiency burners in existing boilers and improved waste heat recovery.

II. Improvement in energy usage efficiency in lighting systems by installation of automated lighting controls & sensors, changing over to higher efficiency lighting solutions such as Light Emitting Diodes and increased daylight harvesting.

III. Obtaining LEED (Leadership in Energy and Environment Design) Platinum rating from US Green Building Council (USGBC) in the Existing Building (EB) category, as part of a holistic approach towards sustainability, for ITC Maurya, ITC Maratha, ITC Grand Central, ITC Sonar, ITC Mughal and ITC Windsor. This has helped achieve significant energy savings.

IV. Installation of renewable energy sources like wind turbine generators and harnessing solar energy through thermal & photovoltaic systems.

V. Appropriate fuel switching measures from furnace oil to piped natural gas and producer gas across different business units.

VI. Retrofitting measures and replacement of motors, pumps, boilers, air compressors, cooling towers and transformers by high-energy efficiency sets across different business units.

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

I. Renewable sources such as wind turbines and micro hydel projects.

II. Process improvements across different factories and installation of more energy efficient technologies.

III. Solar pre-heating arrangement for boiler feed water and furnace oil at different factories.

IV. Replacement of pumps, motors, compressors, blowers etc. with higher efficiency sets.

V. Installation of capacitor sets to improve power factor of electrical system.

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 holistic approach towards energy costs reduction by focusing on specific energy costs and increasing investments on renewable energy options have resulted in significant energy cost savings for the Company. The various process improvements brought about by retrofitting and implementation of newer and better technologies have also resulted in more efficient processes. Continuing focus on sustainable business practices have led to several units of the Company such as ITC Windsor, ITC Gardenia, ITC Maratha, Welcomhotel Rajputana, ITC InfoTech Park Bengaluru, ITC R&D Bengaluru and Printing & Packaging Business unit at Tiruvottiyur Chennai, meeting most of their energy requirements from renewable sources. Wherever feasible, less carbon intensive fuels are also being adopted to deal with the concerns of climate change and a continual system of periodic energy audits ensures that all energy conservation opportunities are realised. The Company has also 8 registered CDM (Clean Development Mechanism) projects under UNFCCC (United Nations Framework Convention on Climate Change) which have generated significant amount of Certified Emission Reductions (CERs) during the year.

A) POWER AND FUEL CONSUMPTION

Relating to Paperboards & Paper

	For the Year ended 31st March, 2011	For the Year ended 31st March, 2010
1. Electricity (Excluding Consumption in Colony)		
a) Purchased Units (KwH in Lakhs)	**230**	254
Total Amount (₹ in Lakhs)	**1714**	1459
Rate/Unit (₹)	**7.47**	5.74
b) Own Generation		
i) Through Diesel Generator Units (KwH in Lakhs)	**6**	17
Units/Litre of Diesel Oil	**3.03**	2.98
Cost/Unit (₹)	**12.60**	10.91
ii) Through Steam Turbine/ Generator Units (KwH in Lakhs)	**4115**	3899
Units/Kg. of Coal	**1.45**	1.62
Cost/Unit (₹) {considering all fuel types}	**2.76**	2.57

	For the Year ended 31st March, 2011			For the Year ended 31st March, 2010		
	Process	**Power**	**Total**	Process	Power	Total
2. Coal (Specify Quantity & Where Used) B/C/D/E/F Grades Coal Used Coal Quantity (MT)	**398260**	**284708**	**682968**	365811	240950	606761
Total Cost (₹ in Lakhs)			**13809**			11539
Average Rate (₹ per MT)			**2021.96**			1901.66
3. Furnace Oil						
Quantity (KL)			**11947**			16049
Total Amount (₹ in Lakhs)			**3548**			4228
Average Rate (₹ per KL)			**29696.22**			26344.76
4. Others/Internal Generation De Oiled Bran & Saw Dust etc.						
Quantity (MT)			**118118**			96784
Total (₹ in Lakhs)			**2402**			2079
Rate/Unit (₹)			**2033.97**			2148.49
LP Gas						
Quantity (MT)			**1100**			1112
Total (₹ in Lakhs)			**516**			452
Rate/Unit (₹)			**46880.34**			40613.60

B) CONSUMPTION PER UNIT OF PRODUCTION

	For the Year ended 31st March, 2011	For the Year ended 31st March, 2010
Products (Paper in MT)	**602099**	587624
Electricity (KwH)	**1036**	1024
Coal C/F Grade (MT)	**0.71**	0.67
Furnace Oil (Litre)	**30**	34
Others - De Oiled Rice Bran/ Saw Dust/Raw Lignite/ LP Gas, etc. (MT)	**0.100**	0.101

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 for enhancing analytical capabilities, new product development and cost management.

II. Development of eco-friendly paper, food grade paper, premium printing papers and coated papers and paperboards with high strength and better print 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, CSIR), Bengaluru.

V. Development of new grades of digital printing paperboards and modification of existing products benchmarked to global standards.

VI. Development of botanical formulations compatible with the 'Integrated Pest Management' strategies of field and commercial crops.

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

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

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

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

   IV. 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. Reduction in Specific fuel consumption and reduction in carbon footprint.

   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. Enhance packaging through increased use of eco-friendly materials.

	For the year ended 31st March, 2011
4. Expenditure on R&D :	**(₹ in Lakhs)**
i) Capital	2482.00
ii) Recurring	9023.87
iii) **Total**	**11505.87**
iv) Total R&D Expenditure as a % of	
– Gross Turnover	0.38%
– Net Turnover	0.54%

Technology Absorption, Adoption and Innovation

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

II. Establishment of wind energy farms in Karnataka and Rajasthan.

III. Continuous improvement projects towards reducing process variability, cycle time and wastages while enhancing manufacturing productivity.

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

V. Operating state-of-the-art printing and conversion equipment for packaging.

Benefits Derived

I. World class quality and differentiated products.

II. Improved productivity and process control.

III. Conservation of fuel and reduced emissions.

IV. Enhanced state-of-the-art capacity.

V. Reduction in carbon foot print.

On behalf of the Board

Kolkata | Y. C. DEVESHWAR *Chairman*
20th May, 2011 | P. V. DHOBALE *Director*